ECONOMIC BULLETIN

March 2007

Bank of Albania

If you use data from this publication, you are requested to cite the source.
Published by: Bank of Albania, Sheshi "Skënderbej", Nr.1, Tirana, Albania
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Printed by: Bank of Albania Printing House
Printed in: 360 copies

C O N T E N T S

T A B L E S

C H A R T S

Quarterly review of the Albanian economy over the first quarter of 2007

Information on international reserves and foreign currency liquidity template

Albanian price developments in comparison with Greece and Italy. What about convergence?

QUARTERLY REVIEW OF THE ALBANIAN ECONOMY OVER THE FIRST QUARTER OF 2007

1 GOVERNOR'S SPEECH

The performance of the Albanian economy over the last years has been characterized by the maintenance of relatively high growth rates, remaining within a stable macroeconomic framework. The private sector of economy was supported by the expansion of financial intermediation and by the gradual progress in the structural environment of economy. Monetary conditions have favoured the economic growth, by providing low interest rates, exchange rate stability and financial sources to the economy. Meanwhile, the public sector development has been oriented by the need for continuous fiscal consolidation, aiming at the same time, the enhancement of service quality. The same tendencies have been also confirmed over the first quarter of 2007.

Domestic demand was the main driver of economic growth over the end of 2006 and the first quarter of 2007. The indicators of production activity for the last quarter of 2006 indicate a higher growth compared to the previous quarters. The annual real growth of about 5 per cent is now supported by reliable statistics and by consistent background developments in all sectors of economy. Starting from November 2006, the Bank of Albania has been pursuing a neutral monetary policy, while the inflationary pressures, both from the internal and external environment, have been prudently monitored and kept under control over the first quarter.

Consumer prices over the last quarter of 2006 and the first quarter of 2007 were relatively stable. Annual inflation rate in March marked 2.7 per cent, while the first quarter of the present year recorded an average annual rate of 2.8 per cent, being close to the Bank of Albania target. The main factors to have influenced on the consumer prices performance over this period were the import prices and the developments in the international oil market in particular, administered prices-side pressures and the depreciation trend of domestic currency to the euro.

Preliminary data for the first quarter of the present year suggest that the economic growth rate remains high. The improved employment indicators, the increase of exports and imports and the substantial growth of credit provide evidence for a high domestic demand, despite the problems deriving from the difficult situation in the production and use of energy.

Economic enterprises output over the last quarter of 2006 is assessed to have been high. The annual growth rate of sales recorded 23 per cent over the last quarter, while in annual terms, the sales to economy were about

16 per cent higher than in 2005. The sales' performance suggests that the sectors of construction, trade and industry have been the main driving force of economic growth. Sales in construction, over the last quarter of 2006, were about 50 per cent higher than the same period the previous year. However, the annual growth of construction enterprises' sales was somehow lower than the three previous years'. Trade and other services continue to record considerable sales' growth rates, providing evidence for a sound domestic demand and for an ever-increasing quality. The limited supply of domestic energy over the last quarter of 2006 and the first quarter of 2007, was offset by the substantial increase of import over the period. The unfavourable weather conditions, and the regional energy restraints were assessed to have led to this critical situation, adding to the difficulties in the KESH management.

Fiscal indicators' trend over the first quarter of 2007 was dissimilar to the trend observed over the last quarter the previous year. While over the last quarter of 2006 there was considerable concentration of spending, the first quarter of the present year ended in a surplus of about ALL 5 billion. The recurrence of a similar scenario to that of 2006, reflected in the concentration of spending in the second half or the last quarter of the year, may result in added inflationary pressures in the short and medium run.

External sector developments over the first two months of 2007 provided evidence for both current and trade deficit deepening, while the imports and exports of goods have recorded an annual growth of 24 and 26 per cent, respectively. The structure of imports and exports, by use of commodity groups, has provided positive signals. Over the first two months, there has been an increase in the imports of raw materials used in production, while the share of re-exports to the total volume of exports has dropped compared to the previous years.

Monetary conditions over the first quarter of the present year were characterized by the further growth of money supply in economy, being in line with the real demand of economy for monetary assets. The projection within the objective and the overall assessment of the expected inflation performance by consumers were reflected in the maintenance of the core inflation rate unchanged at 5.5 per cent.

The Bank of Albania monetary policy, over the first quarter of the present year, was oriented towards the management of liquidity conditions through its operations in the open market. In January, the relatively high liquidity level in the interbank market exerted pressure on the deposits' and securities' market interest rates. There was an increase of liquidity as a result of the return of currency outside banks to the system. Under these conditions, the monetary operations consisted in the withdrawal of about ALL 6 billion, through the maturity of reverse repos of one- and three-month maturity term. These operations aimed at maintaining the interbank liquidity interest rate close to the core rate and at transmitting monetary policy signals to the rates of longer maturity term in the deposits' and loans' market.

In conclusion, the most recent economic and monetary developments suggest that the overall environment remains favourable for the economic growth in the long run. However, the yet subtle perspective of energy, the rapid growth of credit and its impact on domestic demand and trade balance deficit, as well as the implications of the tightening monetary policy cycle in the Euro area to the domestic financial conditions, remain potential risk factors for the macroeconomic stability in the country. The Bank of Albania, a committed institution to maintaining macroeconomic and financial stability in the country, is monitoring these indicators prudently, in order to take necessary preventive measures timely.

2 WORLD ECONOMY

The world economy development rate continued to be considerably high over the first months of 2007. The US housing market negative developments have affected the slowdown in the economic growth rate, while the oil price fall and the propitious financial conditions have limited the second round effects and have eased the inflationary pressures. The first months of 2007 confirmed stable economic growth in the Euro area, though this growth may not reach to the levels recorded in 2006. The economies of China and India continue to be outstanding among developing economies, recording high expansion rates.

According to estimates, the world economic growth for 2007 is expected to be about 4.9 per cent or 0.5 percentage points less than the previous year. The main factors, which may potentially pose risk to the development of world economy, relate to the US housing market situation, with supply-side pressures on inflation rate and with the prospective developments in the oil market. Global imbalances may also impede the economic growth in many countries. US current deficit continues to be high, while oil exporting countries and many Asian ones record considerable trade surpluses. The slowdown of the US economic growth has affected the lessening of these balances, though the differences remain considerably high.

Table 1 Some main economic indicators in annual terms (in percentage)

	GDP annual growth, Q4	Unemployment rate	CPI, February
USA	+3.1	4.4 (March)	2.4
Euro area	+3.3	7.3 (February)	1.8
Germany	+3.7	7.1 (February)	1.9
France	+2.5	8.8 (February)	1.2
Italy	+2.8	6.5 (December)	2.1
Japan	+1.7 (Q2-2006)	4.0 (February)	- 0.2

Source: Eurostat; Bureau of Economic Research; Bureau of Labour Statistics; ECB, Report for December

ECONOMIC DEVELOPMENTS IN THE EURO AREA

The positive developments in the Euro area economic activity over 2006 are assessed to be present in 2007, as well. The increase in the value added tax rate in Germany on January 1, 2007 and the tightening fiscal and monetary

policy being pursued throughout the Euro area are expected to provide their effects on the growth rate reduction by about 0.3 percentage points. However, as a result of the constant progress in the labour market conditions, of the favourable financing conditions and the enhancement in businesses efficiency, domestic demand, which is the driver of the Euro area economic growth, will remain at high levels. The oil price fall has been affecting the fluctuation in the inflation rates around the target set by the European Central Bank since the last months of 2006. Over the recent months, the core inflation rate has risen, reflecting at large the increase of the VAT in Germany. Under the conditions when the Euro area economy is assessed to have reached close to its potential, and in the presence of inflationary pressures, the European Central Bank has started to gradually tighten its monetary policy. In its meeting in March, the European Central Bank raised interest rates by 0.25 percentage points with the headline rate at 3.75 per cent.

On 1 January 2007, Bulgaria and Romania joined the European Union and Slovenia became part of the Euro area, by adopting the common currency. The European Union currently has 27 member states and the Euro area consists of 13 member states. Given that the economic share of the new member states is less than the old EU members', the macroeconomic statistical features in both the European Union and the Euro area, are not expected to change considerably.

ECONOMIC DEVELOPMENTS IN THE UNITED STATES OF AMERICA

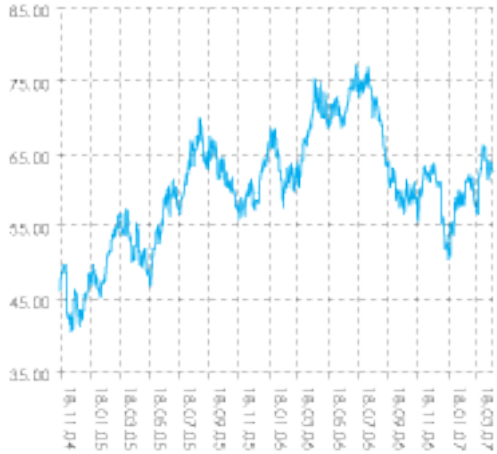
The growth rate of the American economy has considerably slowed down following the end of the first quarter of 2006. Last year economic growth was significantly affected by the difficulties encountered in the housing market and by the fall in residents and businesses' investments. The improvement of rentability indicators and of business financial situation in the following months is expected to bring about the growth of private investment. The fall in investments was offset by the high level of consumer spending and trade, supported by the positive performance of the labour market and the oil price fall. The latter has also impacted the decrease of inflationary pressures. However, the core inflation remains beyond the band set by the central bank (Federal Reserve). FOMC[1] maintained the core interest rate unchanged since June last year. Meanwhile, the pursue of monetary policy has been headed by the concerns related to inflation developments and by the consideration to stop the economic growth slowdown.

OIL PRICE PERFORMANCE

Following August 2006, when it peaked the trading price, oil price fluctuated around USD 60 per barrel. However, since the beginning of February 2007, oil price performance is displaying an upward trend, which is a result of the change in the balance between oil supply and demand. The decrease of temperatures in the Northern Hemisphere over the last months, the positive assessments for the world economic performance and the oil price fall over the second half of 2006 have affected the global growth

demand for oil. On the other hand, oil production has fallen following the entry into force of decisions on the decrease of production in OPEC member countries, while production in non-member countries was lower than projected. According to some statements made by many OPEC member countries, the organization will attempt to keep the oil price above 50 USD per barrel and possibly, close to USD 60.

Chart 1 Price performance of one crude oil barrel (in USD)



Source: Bloomberg, April 2007

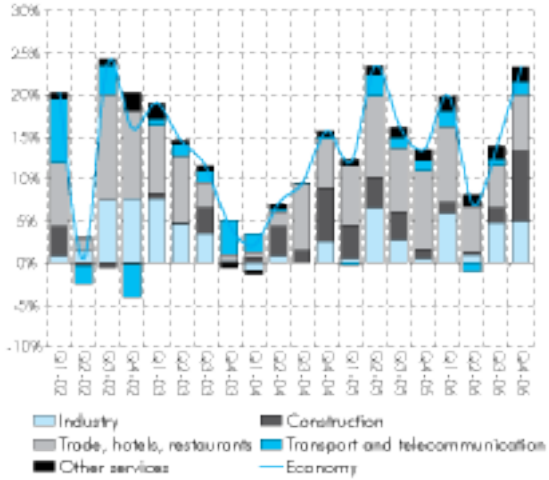
3 ALBANIAN ECONOMY

3.1 PRODUCTION BY SECTORS

The last quarter of 2006 is assessed to have recorded considerable economic growth, comparable with the highest annual growth rates marked over the last four years. The sales' annual growth rate in the last quarter was 23 per cent, while in annual terms, the sales to economy were about 16 per cent higher than those of 2005. The sales' performance suggests that the sectors of construction, trade and industry have been the main driving force of economic growth.

According to the sales index, the sectors of economy have recorded different annual growth rates over the last five years. Services have been characterized by a higher average growth rate than other sectors', while the growth of sales in transportation and telecommunication has been considered more moderate.

Chart 2 Contribution of sectors to the annual growth of sales to economy (in percentage points)



Source: INSTAT and Bank of Albania estimates, March 2007

	2002	2003	2004	2005	2006	Average
Industry	18	14	3	10	17	12
Construction	3	7	24	20	21	15
Trade, hotels and restaurants	19	10	10	19	14	14
Transportation and telecommunication	4	19	6	11	7	9
Other services	21	10	5	23	33	19
Sales to economy	15	12	9	16	16	14

Source: INSTAT and Bank of Albania estimates, March 2007

Table 2 Annual growth of sales by sectors (in percentage)

Throughout 2006, there was an upward trend in the annual rates of sales volume in industry. In the last quarter of 2006, sales grew by about 22.8 per cent, compared with the same period the previous year. This figure makes up the highest rate of sales recorded in the last six years. Sales in the sub-sector of extracting industry doubled compared with the previous year. The

same performance was present in sub-branches of heavy industry, such as in refining, metallurgy and metal manufacturing, which are closely related to extracting industry. These sub-branches recorded high growth rates compared with the previous year. Processing industry grew stable by about 28.5 per cent. A positive contribution to this performance was also provided by the high growth rates in the sub-branches of light industry. Meanwhile, the sub-sector of energy, water and gas recorded almost the same sale rate as in the previous year.

Table 3 Performance of industry for Q4 2006 (in percentage)

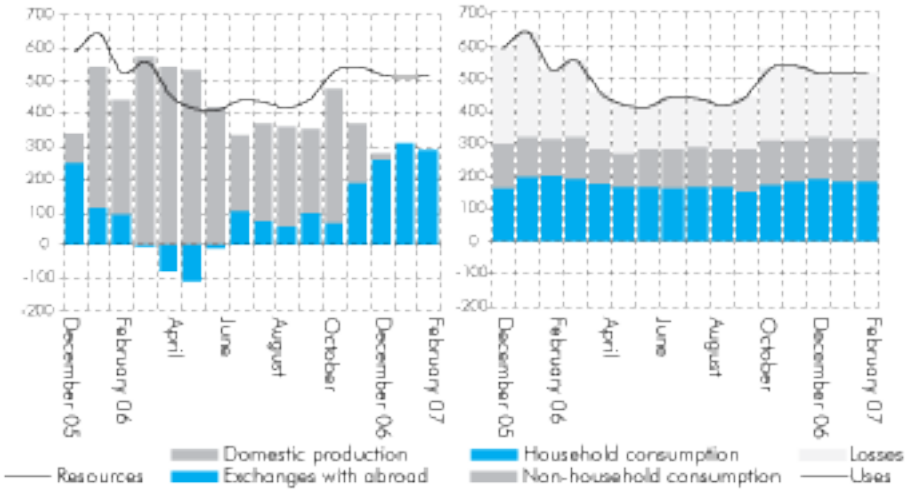
	Share to total (in percentage)	Sales '06/Sales '05 (in percentage)	Sales Q4 '06/Q3 '06 (in percentage)
Total industry	100	22.8	1.9
Extracting industry	9.0	48.5	8.0
Processing industry	70.4	28.5	0.2
Energy, water and gas	20.6	0.1	5.6

Source: INSTAT, Sales index, March 2007

Domestic production of energy fell considerably in the first quarter of 2007. Compared with the first quarter of the previous year, energy production halved, causing various operators in economy to be faced with shortages in energy supply. The overwhelming decrease in the production of energy was offset by the increase of its import over this quarter, which quadruplicated compared with the previous year and quarter. In total, the import of energy surpassed domestic production. The unfavourable weather conditions and the energy restraints in the region were assessed to be the main causes of this situation, adding to the difficulties in the KESH administration.

The losses continued to be high over the first quarter of 2007. The ratio of losses to the supplied energy resulted in about 40 per cent. There has been an increase in losses over this quarter, as a result of the invoiced consumption, adding to the aggravation of KESH's financial situation.

Chart 3 Energy sources and uses, by consistuent items in GWH



Source: Albanian Electro-Energy Corporation, April 2007

Sales in construction over the last quarter of 2006 were about 50 per cent higher than the same period the previous year, and about 60 per cent higher than the previous quarter. The annual growth of construction nominal sales was about 15 per cent, being somewhat lower than the annual growth of the previous three years. This figure provides evidence that the real growth rate of construction remains comparable with that of the previous years. Cement production over 2006 was almost the same as in 2005, while the quantity of cement used in construction over the last quarter was higher than over the last quarters of the two previous years. The performance of construction permits indicators on the approved permits for new constructions over 2006 provides evidence that demand in construction remains in similar levels with the previous years.

Chart 4 Annual growth of sales in trade, transportation and telecommunication (in percentage)

Source: INSTAT and Bank of Albania estimates

According to the sales index, retail and wholesale trade recorded an annual growth of about 14 per cent. Over the last two years, the sales' annual growth rates have been stable fluctuating around 10 and 20 per cent. The contribution of trade sales to the annual growth rate of total sales to the economy was about 50 per cent for the entire period. The sales of transportation and telecommunication enterprises share about 10 per cent of total sales. The sales performance in this sector over the last two quarters of 2006 provides evidence for their revitalization following the slowdown in the second quarter. Railway transportation of goods and oil recorded the lowest growth rate over the last quarter. However, the volume of loading and unloading operations in the country's harbours and the railway and automotive transportation of passengers reached over the same quarter the highest level of the year, providing positive signals for an increase of domestic demand in economy. This phenomenon has been generally present in the fourth quarters of the last years.

Table 4 Indicators of rail, sea and road transportation

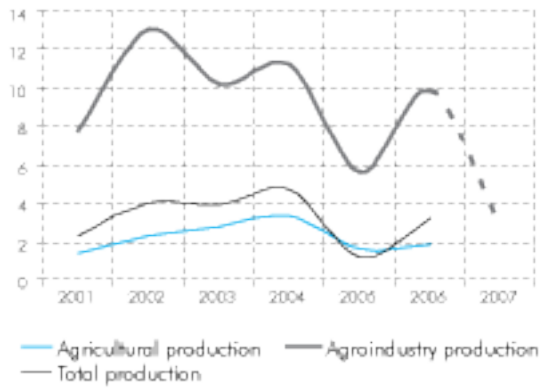
Activity	Unit	Q4-05	Q1-06	Q2-06	Q3-06	Q4-06
Rail transportation of goods	Thousand tones	101	115	129	127	79
Oil transportation	Thousand tones	66	86	86	88	74
Loading and unloading volume	Thousand tones	1,178	921	1,139	1,201	1,206
Passengers transportation -Rail	Thousand passengers	364	370	442	491	356
--Automotive (urban –public sector)		5,519	5,021	5,442	4,740	6,096

Source: INSTAT, Quarterly Statistical Bulletin, No. 4, 2006

Other services' sales continued to record high growth rates in the last quarter of 2006. Financial intermediation, real estates, scientific research and other professional activities services generated about 80 per cent of total sales of other services.

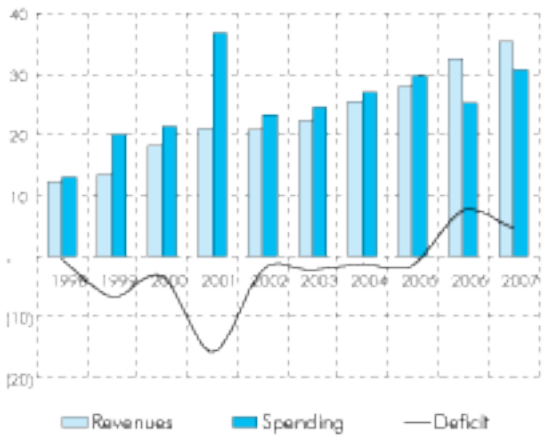
The very limited statistical information on agriculture for the first quarter of 2007 does not allow the analysis of its contribution to the performance of

Chart 5 Annual change of total agricultural production by sectors, in percentage*



Source: Ministry of Agriculture, Food and Consumer Protection, April 2007
Note: The data on agro industry for 2007 refer to the projections of the Ministry of Agriculture, Food and Consumer Protection.

Chart 6 Main fiscal indicators for January 1998 – February 2007 (in billions of ALL)



Source: Ministry of Finance, March 2007

economy. According to the most recent estimates, there have been no developments in the planted area with agricultural products over the first quarter of 2007, compared with the same period the previous year. The projected increase in the production of plants is expected to be pursued through a higher agricultural output. As far as farming is concerned, the output growth by the end of 2007 is projected to be achieved through the enlargement of farms and the increase of the output. Agricultural experts assess that the low mechanism level of agricultural processes and the considerable fragmentation of farming areas are the main causes to impede the development in agriculture.

The sub-branch of agro industry is expected to have a lower growth rate over 2007, compared with the previous year. The projections for lower investments in agro industry over the present year are assessed to mostly condition the performance of this sub-branch.

3.2 FISCAL SECTOR

There have been positive developments in the performance of public finances main indicators over January and February 2007. The data of the Ministry of Finance suggest for satisfactory performance in collecting income and carrying out spending within the projected levels. As a result, the fiscal balance for the first two months of the present year resulted in about ALL 4.7 billion of surplus.

Budget revenue over the first two months of 2007 provided evidence for the constant active efforts of tax administration in collecting income. As a result, their level compared with the same period the previous year resulted in about 8.1 per cent. Among all income categories, value added tax and tax on personal income recorded the highest annual growth rates by 23.8 and 27.4 per cent, respectively. Customs administration activity has been assessed as very effective, considering that more revenues than projected were allocated in the state budget. The fall by about 15.8 per cent of income from local government may be associated with the downward performance rate of local administration, which for this reference period may have been engaged in the election process.

Budget spending totalled ALL 30.7 billion, accounting for about 10 per cent of total spending projected for 2007. Despite this fact, budget spending were higher than the same period the previous year, recording a positive growth rate of about 21.5 per cent. The annual growth of both current and capital spending

contributed to attaining these positive rates. Current spending were about 10.8 per cent higher than the previous year, while capital spending almost tripled.

Domestic financing is ever-increasingly playing a crucial role in covering capital spending. Although the latter has grown satisfactorily over the last months, it is yet too soon to assess their distribution over time, since the structure of their carrying out is to a large extent, established by the implementation of individual projects and the priorities set by the Government. The Bank of Albania has been repeatedly supporting the idea that a more harmonized structure of budget spending at the beginning of the year would reduce their possible concentration at end-year. Their uniform distribution would consequently, control the inflationary pressures in economy in the medium run.

Fiscal deficit, for January to February 2007 had the same performance observed over the last years, being lower than the projected level. As a result, fiscal balance for this period resulted with ALL 4.7 billion of surplus, being the second year in succession, where the budget financial outcome ends in a surplus. It is assessed that the surplus is a positive signal for further reducing the cost of public debt.

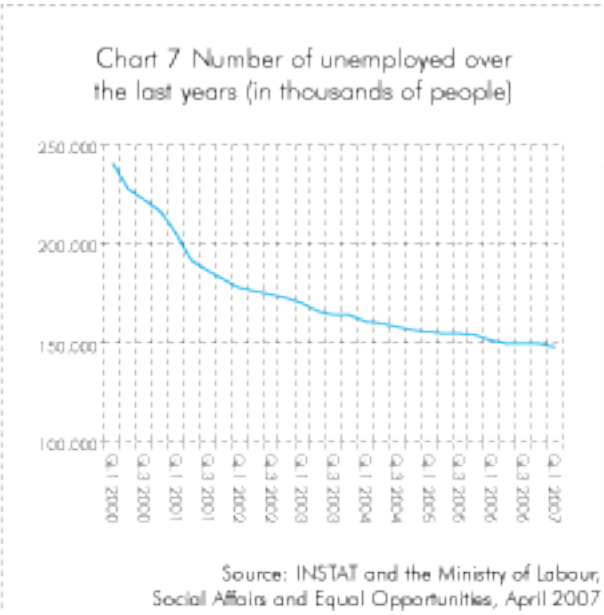
3.3 LABOUR AND WAGES MARKET

The last quarter of 2006 recorded improved labour indicators. On one hand, reform in the public sector continued to drop the number of employed, while there is evidence that the private non-agricultural sector has drawn part of the unused labour capacity. The implementation of the Government's policy, which aims to reduce small-business taxes and to strengthen the controls undertaken by public administration, has pressed the process of employed registration, tightening the circle of the informal labour market. Starting from the second semester of 2006, the number of employed, along with the jobseekers registration process in the employment offices, has increased. As of end 2006, the number of employed increased by about 4000 people compared with the previous quarter, while last year it was recorded an increase of 1000 people. Labour forces over 2006 increased by more than 1600 people, shifting from the last years' tendency when this indicator underwent constant decrease. As a result of the above dynamics of labour market indicators, unemployment rate recorded a relatively stable rate of about 13.9 per cent.

Table 5 Labour market indicators (in thousands of people)

	2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total labour force	1,087.0	1,086.0	1,086.0	1,086.0	1,082.9	1,081.3	1,084.1	1,084.5
A. Total employed	931.0	931.0	931.2	932.0	931.0	931.3	934.4	935.1
i) in the public sector	176	175.6	175.6	175.0	174.0	172.1	170.5	169.0
ii) in private non-agricultural sector	213.0	213.4	213.6	215.0	215.0	217.1	221.9	224.1
iii) in private agricultural sector	542.0	542.0	542.0	542.0	542.0	542.0	542.0	542.0
B. Unemployment								
i) Total unemployed	156.0	155.0	154.8	154.0	151.8	150.1	149.7	149.5
ii) Unemployment rate (in percentage)	14.3	14.3	14.2	14.2	14.0	13.9	13.8	13.9

Source: INSTAT, Conjucture, October-December 2006



January and February 2007 continued to record positive trends of labour market indicators. The number of unemployed fell and the number of jobseekers registered in the employment offices increased considerably. Compared with December 2006, as of end February this year, the number of unemployed fell by about 1860 people. According to the most recent data provided by the Ministry of Labour, Social Affairs and Equal Opportunities, at end February, the number of people recorded in the employment offices as unemployed was 147.930 people. Assuming an unchanged labour force, since the end of December last year, this figure may be translated into a potential decrease of the unemployment rate by 0.2 per cent.

The average salary in the public sector rose by 7.5 per cent on average over 2006, compared with the previous year. The most significant salary rise was evidenced in the last quarter of 2006. It is assessed that the annual rise of salaries for 2006, though higher than the annual rise of the previous year, has not caused added supply-side inflationary pressures in economy, being within the Government's programme.

3.4 EXTERNAL SECTOR OF ECONOMY

According to the balance of payments preliminary data, the deficit on trade in goods services for the first two months of 2007 was about EUR 290 million or about 23 per cent higher than the same period the previous year. Compared with December 2006, the 12-month accumulated balance[2] was higher for both January and February. The higher growth of imports than exports has affected the continuous deepening of trade deficit. The inflows generated by exports over the first two months of the year covered about 28 per cent of spending for the purchase of foreign goods.

Table 6 Balance of trade in goods for December 2006 – February 2007 (in millions of EUR)

	2006		2007	2007			
	December	January	February	Jan-Feb	December	January	February
Monthly flow							Annual change
Balance	-189	-140	-152	-292	0.06	0.23	0.23
Exports	55	54	62	116	0.20	0.17	0.35
Imports	244	194	213	407	0.09	0.22	0.26
12-month accumulated balance							
Balance	-1,780	-1,807	-1,835				
Exports	631	582	655				
Imports	2,411	2,201	2,490				

Source: Bank of Albania, March 2007

Over the first two months of the year, the annual growth rate of imports and exports of goods was considerably high. Exports grew by 26 per cent and imports by 24 per cent.

Compared with the first two months of 2006 were exported more industrial goods used as raw material in the production process. The exports of this item over these two months totalled about EUR 40 million, while the highest growth was recorded in copper, aluminium and ores. Re-exports continue to be concentrated in textiles and footwear items. For the first two months of the present year, these two groups generated above 50 per cent of total income from the export of goods.

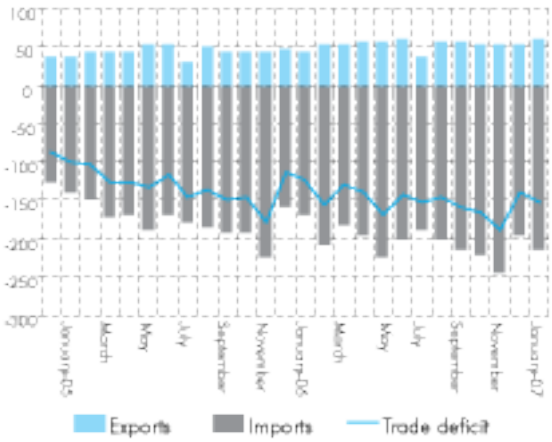


Chart 8 Trade balance performance for January 2005 – February 2007 (in millions of EUR)

Source: Bank of Albania, March 2007

The structure of imports by groups of use is more balanced than that of exports. Except for industrial commodity groups' category, which has provided a considerable contribution to the annual growth of imports, the other categories provided a moderate and even contribution. The business demand for raw material and other products required in the production process, has shared the largest part of demand for import goods. Over the first two months of the present year were imported more fuels, live animals, cast-iron, aluminium and various types of industrial products compared with the same period the previous year.

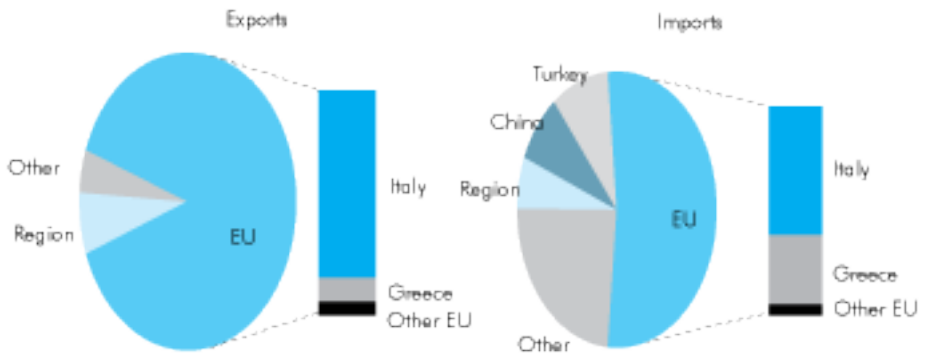
Table 7 Groups of exports and imports by final consumption (in millions of EUR)

	2007 January-February	2006 January-February	Contribution to total value growth
Exports			
Foodstuffs and beverages	4.6	3.4	1.4%
Industrial goods	37.9	24.6	17.5%
Means of transportation	0.2	0.1	0.2%
Capital goods	4.3	3.8	0.5%
(Non-food) consumer goods	63.0	55.1	7.8%
Imports			
Foodstuffs and beverages	41.5	37.5	1.1%
Industrial goods	206.7	160.0	14.8%
Means of transportation	26.8	20.6	2.0%
Capital goods	61.4	54.2	2.0%
(Non-food) consumer goods	50.6	43.5	2.0%

Source: Bank of Albania, March 2007

The geographical structure of foreign trade did not undergo significant changes over the first months of 2007. European Union countries remain Albania's main trade partners, while the largest share of transactions are carried out with Italy and Greece. Over the last years, the trade relations with other regional countries, with Turkey and China have further intensified.

Chart 9 Exports and imports by countries of origin and destination (in percentage to total)



Source: Bank of Albania, March 2007

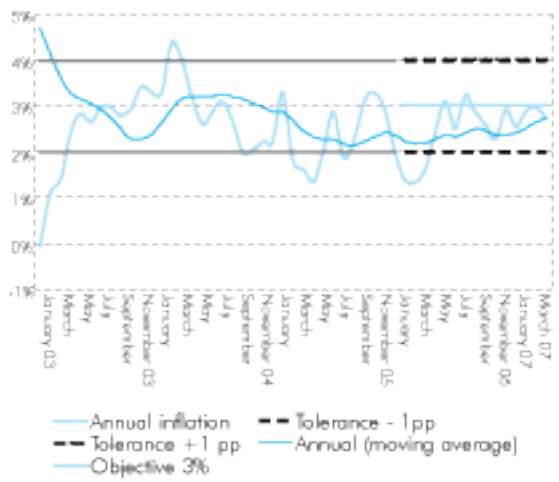
4 DEVELOPMENTS IN CONSUMER PRICES

4.1 INFLATION AND MACROECONOMIC ENVIRONMENT

Annual inflation rate in March 2007 marked 2.7 per cent, while the first quarter of the present year resulted in an average annual rate of 2.8 per cent. Over the first quarter of 2007, annual inflation displayed a stable trend and close to the projected target of the Bank of Albania.

The monetary policy decision-making process has prudently considered the influence of both supply- and demand-side factors, aiming at maintaining their balances. Despite the low inflation figures, the inflationary pressures in economy have displayed signs of increase over the first quarter of 2007. This was a result of the added supply-side pressures, originating outside the Albanian economy. In more concrete terms, the presence of the upward import prices trend, the intensified depreciating rates of domestic currency to the European one and the high volatility in the international market oil price have all increased the share of these factors' influence on inflation.

Chart 10 Annual inflation (in percentage)



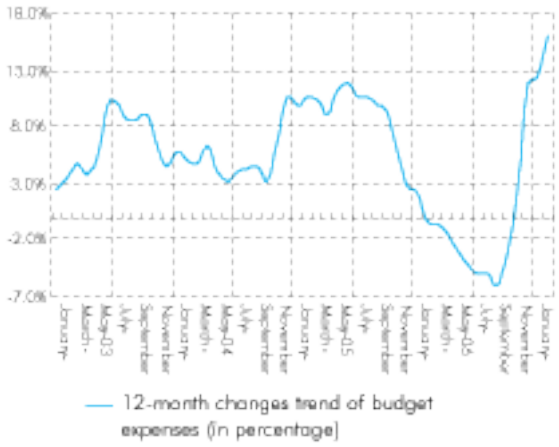
Source: Bank of Albania, 2007

Nonetheless, the controlled developments in both monetary and fiscal policy and the satisfactory rates of domestic demand indicators are assessed to have mitigated the inflationary pressures in economy.

Monetary conditions and monetary policy, over the first quarter of 2007, have sustained the efforts to put the supply-side inflationary pressures under control. Over December 2006 – March 2007, the monetary policy stance was a neutral one. The stable trend, over the first quarter of 2007, of 12-month real interest rates provides evidence for a more complete transmission of monetary policy decisions to the bank and interbank market operators. As a result, the level of liquidity in the market has been duly managed. In response to the expectations for an increasing demand for money by both private and public sector, in the first months of 2007 there were higher annual growth rates of money supply than the previous year. Credit rates continued to be high, but stable. Opposite to the abovementioned trends, the downward annual rates of currency outside banks ratio to money supply to 22.6 per cent, provide evidence for the ever-increasing presence of the banking system in the country's economic activity. The monetary conditions framework and the presence of Government's moderate demand for liquidity provided safe settings for keeping the inflationary pressures over the first quarter of 2006 under control.

Fiscal conditions, over the first quarter of 2007, contributed to the control of inflationary pressures, caused by the concentration of budget spending at end year. The satisfactory performance in collecting income and the restrained budget spending caused the public finances to result in a surplus of about ALL 4.7 billion for January and February 2007. However, over the reference period, were carried out only 10 per cent of spending projected in the state budget for the coming year. Though it is yet too soon to make assessments, the above figure suggests that it is quite probable to have a recurrent last year's structural profile in spending. Through this signal, the Bank of Albania draws attention for a more even distribution of budget spending over the rest of the year. Such a development would mitigate the supply-side inflationary pressures.

Chart 11 12-month changes trend of budget expenses (in percentage)

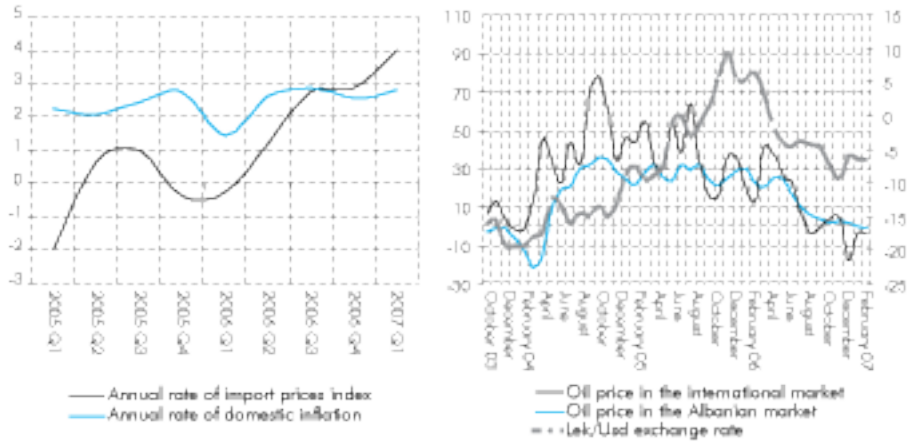


Source: Ministry of Finance, April 2007

Domestic demand, over the last quarter of 2006 and the first months of 2007 has displayed positive developments in some of its most key indicators. The considerable annual growth of the volume of sales to economy (23 per cent), of imports and exports (24 and 26 per cent), of fuels consumption and vehicles import have sustained the stable inflation developments. According to the Bank of Albania periodical analyses, the available capacities operating in economy have, with no constraints, coped with the growth rates of domestic demand over the last quarter of the previous year. In view of the abovementioned assessments, the production costs of goods and services have not risen, being reflected in the constant performance of the respective prices. This analysis further supports the data of production price index. Its upward annual rates trend was quite moderate at end 2006.

The performance of import price index, oil price and the exchange rate have added to the presence of supply-side inflationary pressures at the beginning of the present year. The annual rate of Import Price Index (IPI) displayed an evident upward trend over the first quarter of 2007. Although the annual rates of Harmonized Consumer Price Index (HCPI) in Albania's main trading partners were stable over the first months of the year, particular HCPI aggregates have recorded high growth rates, especially in the Euro area and Greece. Moreover, the inflationary pressures originating from outside our economy were further influenced by the unfavourable performance of ALL/EUR exchange rate.

Chart 12 Annual rate of CPI and IPI quarterly change (in percentage), annual change of oil prices in the country and abroad (left-hand, in percentage) and of the exchange rate (right-hand, in percentage)



Source: INSTAT, CPI and Bank of Albania estimates

Table 8 Inflation annual rates in Italy, Greece and the Euro area (in percentage)

	Q4-06*	January-07*	February-07*	March -07*	Q1-07*
Greece**	3.2	3	3	2.8	2.9
Italy**	2.0	1.9	2.1	2.1	2.0
Euro area (25 countries)**	2.0	2.1	2.1	2.2	2.1

Source: CPI - INSTAT, March 2007; http://epp.eurostat.ec.europa.eu Notes: (*) The quarterly figures are the average of monthly figures; (**) The data refer to the inflation measured by the Harmonized Consumer Prices Index (HCPI).

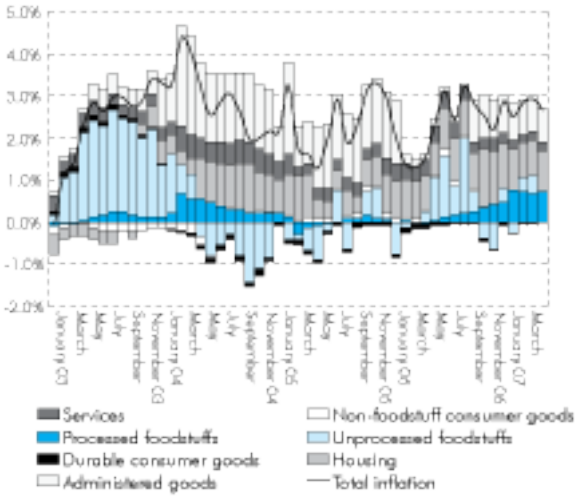
The depreciating annual rates of the lek against the euro intensified over December 2006 – March 2007, causing the imports to increase their cost further. The rising oil price in the international market was modestly transmitted to the domestic market, which was favoured by the constant appreciation of domestic currency to the US dollar. As a result, the volatilities in the annual oil prices changes in the domestic market were more smoothed out than in the international one. For that reason, they did not trigger volatilities in this category prices.

4.2 INFLATION BY CATEGORIES AND FACTORS' INFLUENCE

The impact of various macroeconomic environment factors on inflation rates will be more specifically evidenced in a more detailed analysis of

consumer prices performance by categories based on their economic function. Under the pressure of both domestic and external factors, almost all basket groups recorded positive growth rates. The annual price changes in "Processed foodstuffs", "Housing" and "Administered goods", constituted above 86 per cent of average annual rate of total inflation for this quarter.

Chart 13 Contribution of main groups to annual inflation (in percentage points)



Source: Bank of Albania, 2007

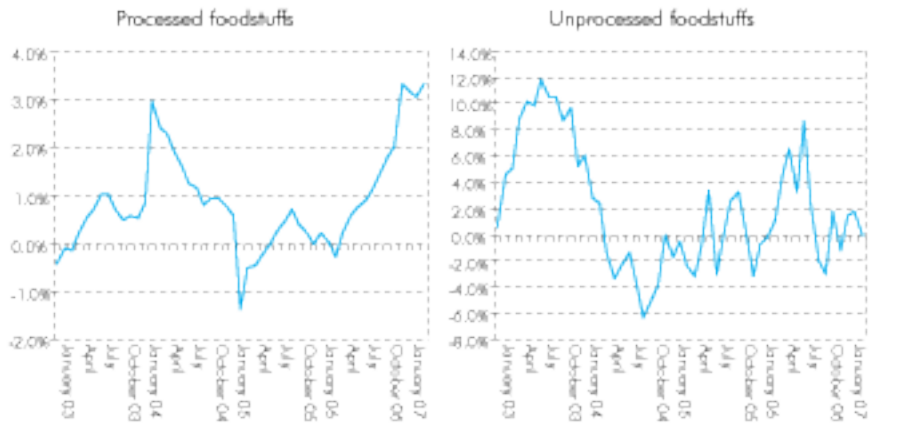
Annual inflation of "Processed foodstuffs", recorded the highest rate in March 2007, reaching about 3.3 per cent. For the first quarter of 2007, this rate fluctuated around 3 per cent. Starting from May 2006, this item's annual inflation rate had an upward trend. The high inflation stemmed from administrative factors, such as the rise of excise duty on tobacco in September 2006. In addition, the high prices of tobacco and alcoholic beverages abroad[3], combined with the depreciation of the lek to the euro[4], transmitted increased inflationary pressures on the country's inflation.

Table 9 Inflation annual rates by main groups

	Alcoholic beverages and Tobacco annual inflation (%)			Foodstuffs and non-alcoholic beverages annual inflation (%)		
	Albania	Italy	Greece	Albania	Italy	Greece
March '06	1.8	6.7	3.3	0.2	1.0	2.1
June '06	1.6	6.6	4.9	0.8	1.3	3.5
September '06	11.4	6.4	6.7	1.9	2.5	4.7
December '06	12.0	6.4	10.7	0.5	2.7	4.3
March '07	12.2	5.7	10.8	-0.5	2.4	2.7

Source: ISTAT; website http://www.istat.it; National Statistical Service of Greece; website: http:/ www.statistics.gr; INSTAT, CPI, March 2007

Chart 14 Annual inflation rates of "Processed foodstuffs" and "Unprocessed foodstuffs"



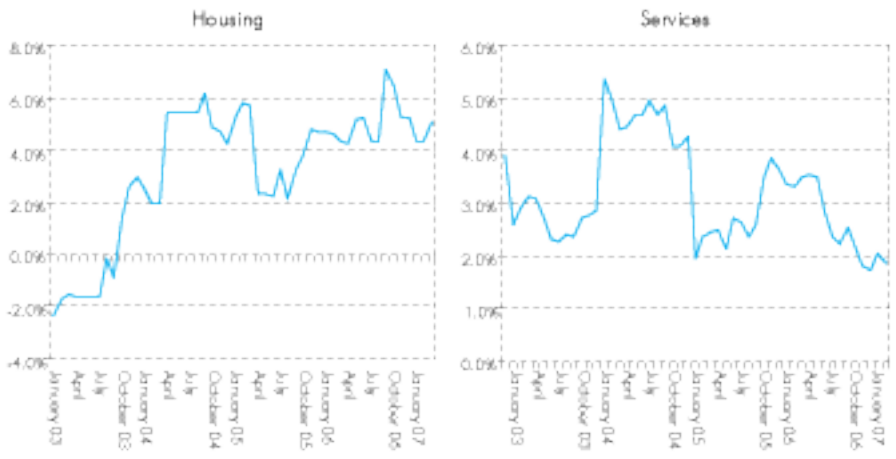
Source: INSTAT and Bank of Albania estimates

Annual inflation rate of "Unprocessed foodstuffs" increased over the first two months (1.5 and 1.8 per cent), while in March it did not undergo any changes. This item is mainly characterized by the high fluctuation in fruit and vegetables prices.

Annual inflation rate of "Housing", remained unchanged in the last two months of 2007 at 4.3 per cent, and increased to 5.1 per cent in March 2007. This item's annual inflation has been recording high rates since the beginning of 2004, reflecting the fluctuations in rent and imputed rent prices. The price of rent has manifested the growth of domestic demand resulting from the domestic migration of people to urban areas and the energy price change. The increase of this item's inflation in March 2007 may have derived from the information for a rise in real estates tax.

Annual inflation rate of "Services" recorded a moderate annual increase over the first quarter of 2007. At end quarter, this item's annual inflation stood at 1.9 per cent. Over the last two months, transportation prices have risen, determining this item's prices trend. Meanwhile, the prices of hotel and restaurants services have been rising by about 2 per cent a year. The increasing domestic demand for higher services quality in hotels and restaurants and the use of import goods as crucial components in these services have had an impact on maintaining a non-falling trend of this item's prices at about 2 per cent.

Chart 15 Annual inflation rates of "Housing" and "Services"

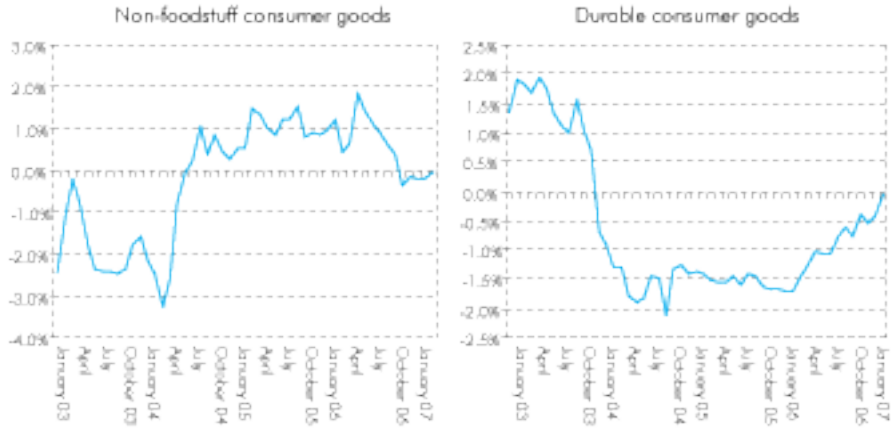


Source: INSTAT and Bank of Albania estimates

"Non-foodstuff consumer goods" and "Durable consumer goods" have recorded negative annual inflation rates over the period. This phenomenon has been present for several years in durable consumer goods prices, which is assessed to have been influenced by a number of factors. The exchanging nature of these goods in the international market makes them subjects of international competition and globalization. The favourable exchange rate

developments of the lek to the usd caused the lek import prices of these goods to drop. On the other hand, the prices of "Non-foodstuff consumer goods" almost made no contribution to the annual inflation rate over the first quarter of 2007.

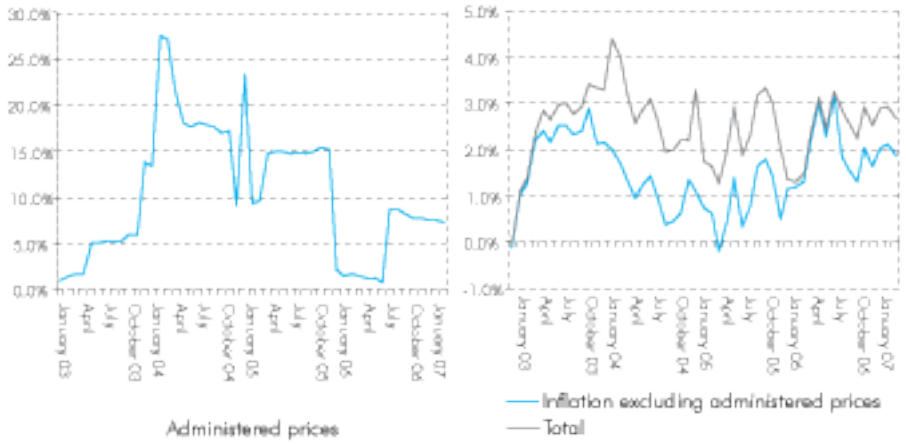
Chart 16 Annual inflation rates of "Non-foodstuff consumer goods" and "Durable consumer goods"



Source: INSTAT and Bank of Albania estimates

Annual inflation of "Administered prices" continued to record high rates, sharing one third of average inflation for the period. Administered prices fluctuated around 7-8 per cent over August 2006 and March 2007, following the last rise of energy price by 14 per cent. The annual rate increase by 0.5 percentage points relative to the previous quarter came as a result of the drop in health services tariffs. The reforms in medicaments reimbursement have been also assessed to have had an impact. Meanwhile, since October 2006, telecommunication prices have continued to fall by about 2.5 per cent in annual terms.

Chart 17 Annual inflation of "Administered prices" and annual inflation excluding administered prices



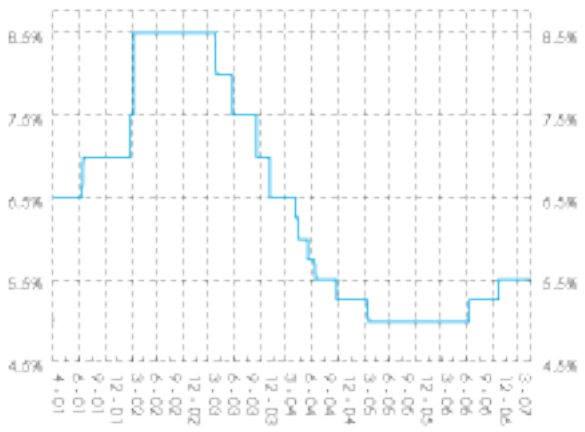
Source: INSTAT and Bank of Albania estimates

5 MONETARY DEVELOPMENTS AND FINANCIAL MARKETS

5.1 MONETARY POLICY OF THE BANK OF ALBANIA

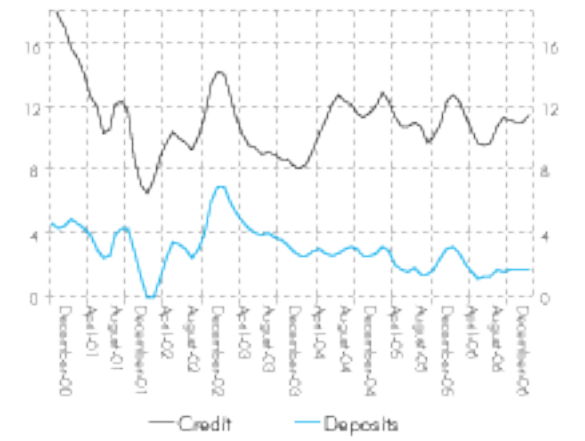
Monetary conditions over the first quarter of the present year were characterized by the further growth of money supply in economy, being in line with the real demand of economy for monetary assets. The inflation rate for the first quarter of 2006 averaged 2.8 per cent, while the financial markets interest rates have reflected the rise of the core rate in November. The projection within the objective and the overall assessment of the expected inflation performance by consumers were reflected in the maintenance of the core interest rate unchanged at 5.5 per cent. However, the Bank of Albania observes that the current and expected rates of money growth in economy poses risks to the inflation rate performance in the medium run.

Chart 18 Core interest rate performance



Source: Bank of Albania

Chart 19 Changes in the interest rates following the core interest rate raise by 0.25 percentage points



Source: Bank of Albania

The Bank of Albania monetary policy, over the first quarter of the present year, was oriented towards the management of liquidity conditions through its operations in the open market. In January, the relatively high liquidity level in the interbank market exerted pressure on the deposits' and securities' market interest rates. There was an increase of liquidity as a result of the return of currency outside banks to the system. Under these conditions, the monetary operations consisted in the withdrawal of about ALL 6 billion, through the maturity of reverse repos of one and three-month maturity term.

In March, the Bank of Albania withdrew about ALL 2.5 billion of liquidity through the Treasury bills outright purchase. In the short run, the level of liquidity was managed through one-week repos. These operations aimed at maintaining the interbank liquidity interest rate close to the core rate and at transmitting monetary policy signals to the rates of longer maturity term in the deposits' and loans' market.

The interest rates' equilibrium in the Government securities' market was quite responsive to the lower Government demand relative to December and to the high level of liquidity in the system over the first quarter. The management of liquidity in February and March 2007 aimed to reduce the securities interest rates fluctuations. Meanwhile, the Bank of Albania was not present in the exchange market over the first quarter of 2007. The developments in this market provide evidence for depreciating trends of the lek to the main currencies basket of trade.

The Bank of Albania monetary operations allowed the realization of its quantitative objective, the net foreign assets, within the parameters aiming monetary stability. The net foreign reserve level of the Bank of Albania was about USD 129 million above the objective.

Table 10 Realization of the Bank of Albania quantitative objectives[5]

	March '06	September '06	December '06	January '07	February '07	March '07*
Net International Reserve of the Bank of Albania (in millions of USD)						
Objective	1,117	1,252	1,268	1,259	1,251	1,243
Current	1,202	1,296	1,394	1,397	1,398	1,372
Difference (C-Obj)	85	44	126.8	137.5	146.6	129.0
Net Domestic Assets of the Bank of Albania (in billions of ALL)						
Objective	85.0	82.9	86.9	87.4	87.9	88.4
Current	61.9	71.2	73.2	67.0	67.2	71.2
Difference (C-Obj)	-23.1	-11.7	-13.7	-20.4	-20.6	-17.2
Net Domestic Credit to the Government (in billions of ALL)						
Objective	325.8	335.8	342.4	334.7	335.9	338.5
Current	311.8	307.4	330.5	334.4	335.2	--
Difference (C-Obj)	-14.0	-28.5	-11.9	-0.3	-0.7	--

**Operative data*
Source: Bank of Albania

5.2 MONEY SUPPLY

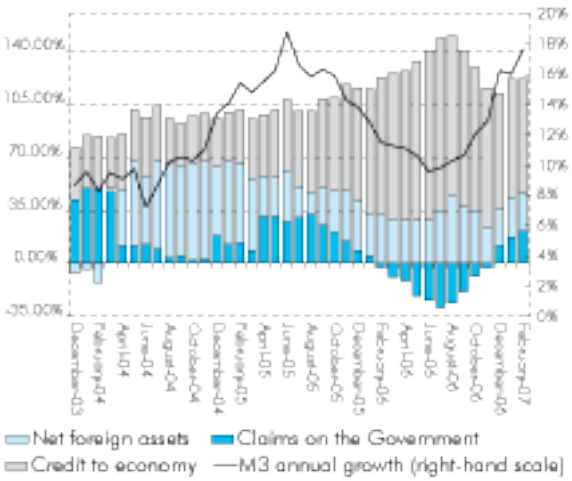
Money supply, over December to February, maintained the upward trend displayed since mid-2006, reaching an annual growth of 17.9 per cent at end February. Supply-side developments in broad money were supported by the increase of time deposits level by ALL 29.8 billion.

From the demand viewpoint, money supply growth was mainly urged by the increase of net domestic assets of the banking system. Credit to economy was among the main components of this monetary indicator, providing the main influence on monetary expansion. The annual change of credit to economy in February accounts for 76 per cent of money supply annual change.

Currency outside banks reduced by 5.3 per cent in February, compared with December, reflecting as such the historical tendency of the return of currency to the banking system after the end-year. In addition to the seasonal factor, this development provides evidence for the reduction of cash in our domestic economy and for the enhancement of public trust in the banking system.

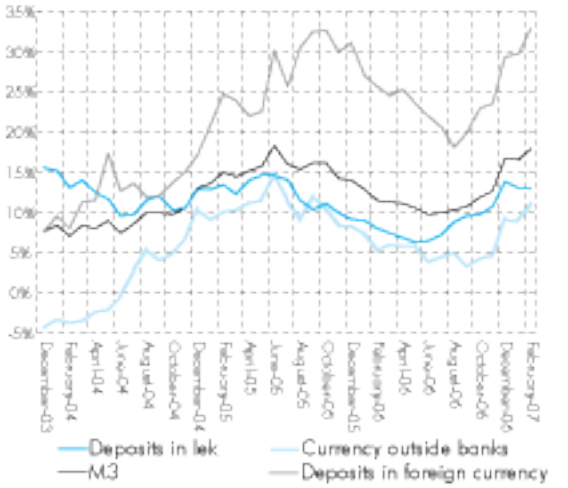
The return of currency outside banks to the banking system was reflected in the increase of ALL deposits by 1.9 per cent, at end 2006. In terms of time structure, ALL time deposits grew by 6 per cent, while demand deposits reduced by 9.8 per cent.

Chart 20 Contribution of demand factors to M3 (annual changes)



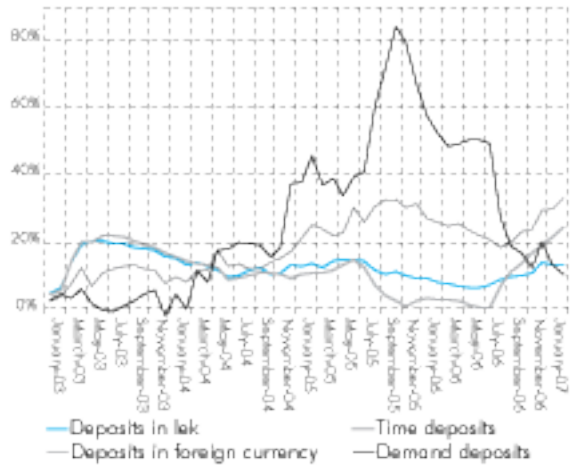
Source: Bank of Albania

Chart 21 Annual growth rates of money supply and its constituents



Source: Bank of Albania

Chart 22 Deposits performance (in annual terms)



Source: Bank of Albania

As a result of the reduction of currency outside banks and ALL demand deposits, M1 monetary aggregate reduced by 6.9 per cent compared with December 2006. Being the most liquid component of money supply, this aggregate is assessed to bring about changes in consumer demand. Its performance over the first two months of the year is considered to have mitigated the inflationary pressures.

Deposits in foreign currency had the most rapid growth rate among the monetary aggregates. By time structure, time deposits in foreign currency increased by 12.5 per cent, while demand ones reduced by 4 per cent compared to the end-year 2006. Remittances and the reduction of the interest spread between ALL and foreign currency time deposits are the main factors to have influenced on the increase of time deposits in foreign currency.

Table 11 Monetary indicators (in billions of ALL)

	February 2007	2-month change		Annual change	
		Absolute	Percentage	Absolute	Percentage
Currency outside banks	154.5	-8.7	-5.3%	15.4	11.1
Total deposits	529.8	18.8	3.7%	88.7	20.1
- ALL deposits	320.3	5.8	1.9%	37.0	13.0
- Foreign currency deposits	209.5	12.9	6.6%	51.7	32.8
M1	230.5	-17.0	-6.9%	11.4	5.2
M2	474.9	-2.9	-0.6%	52.4	12.4
M3	684.3	10.0	1.5%	104.1	17.9
Monetary base	212.0	-5.6	-2.6%	23.1	12.2

Source: Bank of Albania

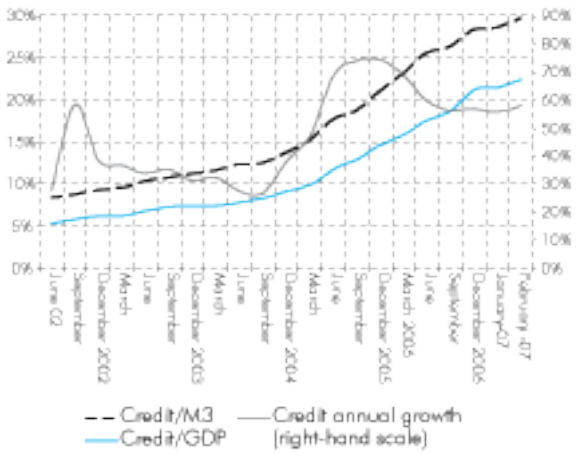
5.3 MONEY DEMAND

5.3.1 Credit to economy

Credit to economy grew under stable rates over the first two months of 2007, amounting to ALL 203.5 billion at end February and accounting for 22.4 per cent

of the GDP. Following the successive drops over most of 2006, the first months of 2007 provide evidence for a stable annual growth rate, with a slight growth trend to 57.9 per cent, in February. This was mostly a consequence of the increasing contribution of short-term loans, foreign currency loans and of business loans. In relation to broad money, outstanding credit accounted for 29.7 per cent, increasing sharply by 1.3 percentage points compared with December 2006. The rapid growth of credit remains a source of inflationary pressures in the medium term.

Chart 23 Outstanding credit performance as a share to M3 and GDP (in percentage)



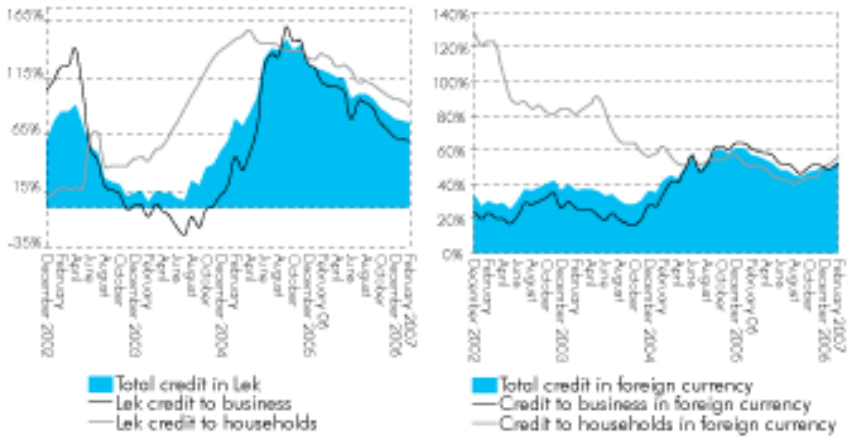
Source: Bank of Albania

The positive credit performance affected its substantial share growth to the banking system assets and deposits to 32.1 per cent and 38.4 per cent, respectively. For the first two months of 2007, outstanding credit to economy grew by ALL 12.3 billion or twice as much than over the same period the previous year. The high monthly growth in August by ALL 9.3 billion holds the main share, providing evidence for a shifted performance for this period of the year. New credit extended over these two months was ALL 22.6 billion or 30 per cent more than the previous year. Credit structure in the first quarter of the year shifted to credit in foreign currency and credit to business. As of end February, credit in foreign currency and credit to business shared 71.7 per cent and 66.2 per cent of credit portfolio. Their annual growth rates display upward tendency.

Box: Performance of credit indicators

Credit in lek grew by 2.3 billion. Meanwhile, annual growth slowed down, reaching 74.2 per cent in February. Annual contribution of ALL credit to total has been dropping since last summer, bringing about the slight decrease in the share of ALL credit portfolio to total to 28.3 per cent. The growth of ALL outstanding credit in lek has been similarly bolstered by households and businesses.

Chart 1 Annual growth rate performance of credit by currency

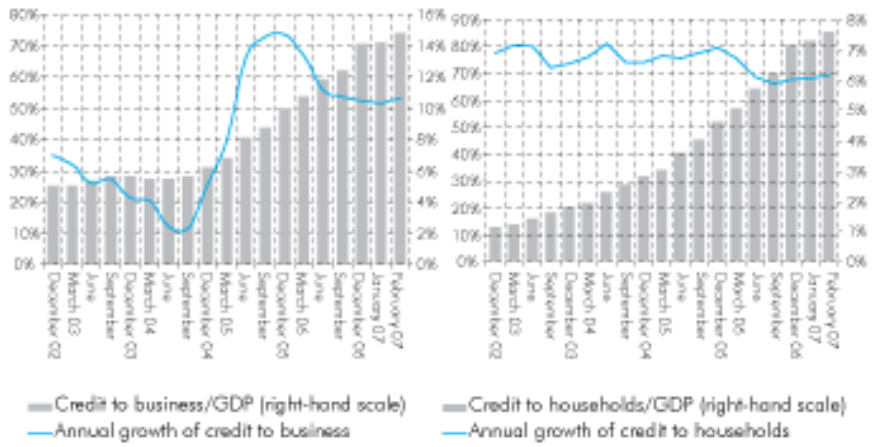


Source: Bank of Albania

Credit in foreign currency dominated outstanding credit performance, contributing by more than 67.4 per cent to credit portfolio annual growth. Following the moderate drop in January, the annual growth rate of credit in foreign currency returned to the upward trend and reached 52.9 per cent from 49.5 in December 2006. The increase of credit extended to business shored credit portfolio in foreign currency further up.

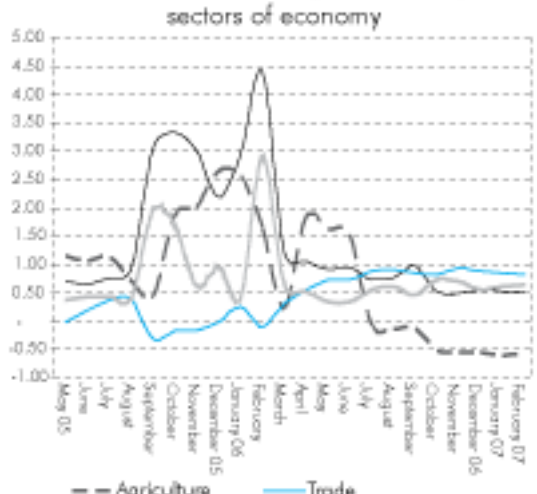
In annual terms, credit to households had the same growth rates over the first months of 2007 as in December 2006, growing by 69 per cent and sharing 33.8 per cent of credit portfolio. As a share to GDP, in February it accounted for 8 per cent. The portfolio of credit to households is dominated by the constant growth of credit extended for real estates purchase purposes. Over the recent years, the higher demand for apartments has led to the sharp growth of real estates loans, which in February accounted for 62 per cent of households' portfolio. The share of consumer loan to total loan portfolio remained unchanged at 8.3 per cent over the first two months of 2007, dropping compared to December last year when it shared 9.1 per cent.

Chart 2 Performance of outstanding credit by type of consumer



Source: Bank of Albania

Chart 3 Loan index growth rate by sectors of economy



Source: Bank of Albania

Business loans as of end February accounted for 15 per cent of the GDP. Its annual growth rates reached to 53.3 per cent in February, reflecting growth compared with December. Loans for covering businesses' short-term needs for liquidity and investment in machinery and equipment made the main contribution to the growth of this type of loan. Loans for investment in machinery and equipment share 35.1 per cent of business loans. Business loans for the purchase of real estates also have a considerable share in business loans portfolio, accounting for 23 per cent. The continuous price rise in business environments and business demands for expanding their activities or reconstructing their existing buildings are the main factors to have led to such a performance.

The analysis of sectoral distribution of business loans portfolio points out that trade sector is extended most of the banking system loans. This sector's loan growth

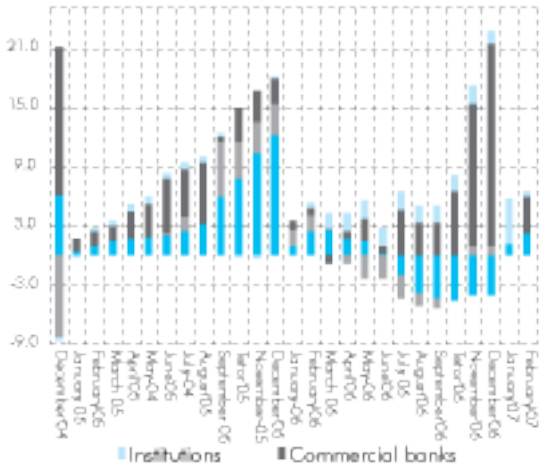
rates remained almost unchanged over the first two months of 2007, at 83 per cent. As in December, financial intermediation loan's portfolio grew in February. It mainly comprises loans banks extend to their leasing companies. Construction and processing industry maintained the same share in loans portfolio by 12.6 and 14.2 per cent, respectively. The difficult situation agriculture is going through still keeps it away from the banking system attention and interest. Agriculture loans account for less than 1 per cent of loans portfolio.

5.3.2 Government financing

As commonly occurs, Government demand for money was moderate in January and February, as a result of the positive fiscal balance. Government demand for the period was covered by domestic financing, which amounted to ALL 4.6 billion. The issue of Government bonds of 2, 3 and 5-year maturity share most of the financing, by ALL 3.4, 2.9 and 4.0 billion, respectively. The issue of Treasury bills was also part of domestic financing. The matured amounted exceeded the issued amount, bringing about the dropping of Treasury bills portfolio by ALL 3.8 billion. Over the first quarter of 2007, households and institutions increased their Treasury bills portfolio by ALL 2.2 and 0.6 billion, while commercial banks dropped it by ALL 6.7 billion. In this way, commercial banks responded to the shift in Government debt structure to the long one (Government bonds). At end 2004, Treasury bills accounted for 97.2 per cent of total domestic debt, while at end 2006, this share dropped to 87.9 per cent.

In February, the Government invested the excess liquidity provided by the long-term debt to commercial banks, in the form of reverse repos amonting to ALL 2 billion. At end February, the Government's deposit held with the Bank of Albania levelled ALL 6 billion. The performance of the Government's demand for monetary assets is in line with the developments observed over 2006.

Chart 24 Developments in gross financing of budget deficit (in billions of ALL)

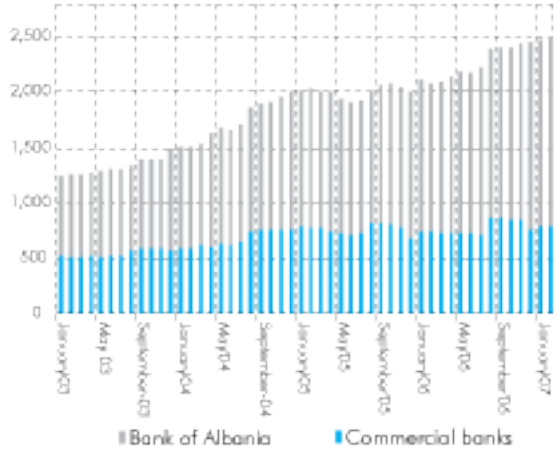


Source: Bank of Albania

5.3.3 Net foreign assets

The foreign currency component of demand for money grew over the first two months of the present year. Commercial banks increased their net foreign assets by USD 32 million in January and February, pushed by the higher foreign deposits than foreign loans. The developments in the Bank of Albania net foreign reserve have increased the banking system net foreign assets. The Bank of Albania net foreign reserve grew by USD 17.7 million, as a result of foreign disbursements and the purchases with the Ministry of Finance. In total, the banking

Chart 25 Net foreign assets of the banking system (in millions of USD)



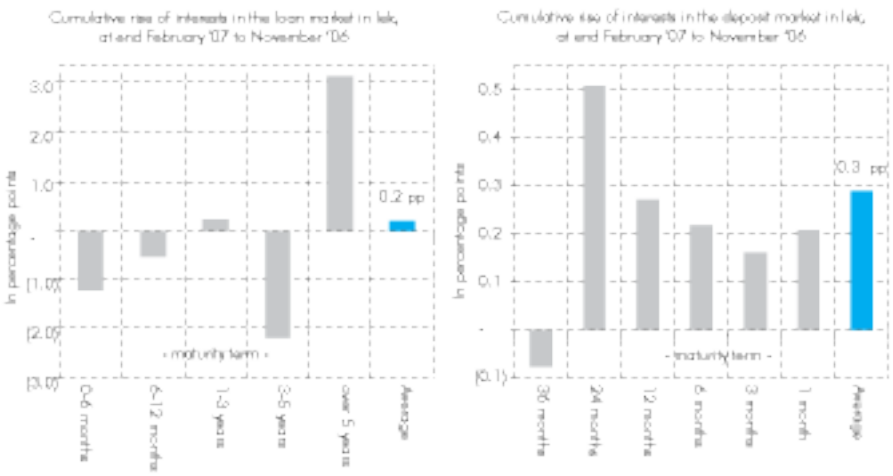
Source: Bank of Albania

system net foreign assets have grown by USD 49.8 million, amounting to USD 2.5 billion. The changes in the exchange rate of the euro to the usd had a moderate impact on the performance of these assets. Excluding the exchange rate effect, they grew by USD 48.6 million.

5.4 DEVELOPMENTS IN FINANCIAL MARKETS

After the tightening monetary conditions in July and November the previous year, the Bank of Albania has been pursuing a neutral monetary policy in the first quarter of 2007. Being affected by the increase of excess liquidity, the money market interest rates decreased compared with the previous quarter, while remaining in higher rates than the previous year. Meanwhile, the interest rates in the ALL deposits and loans market reflected the monetary policy signal in November further.

Chart 26 Interest rates performance in deposits and loans' market



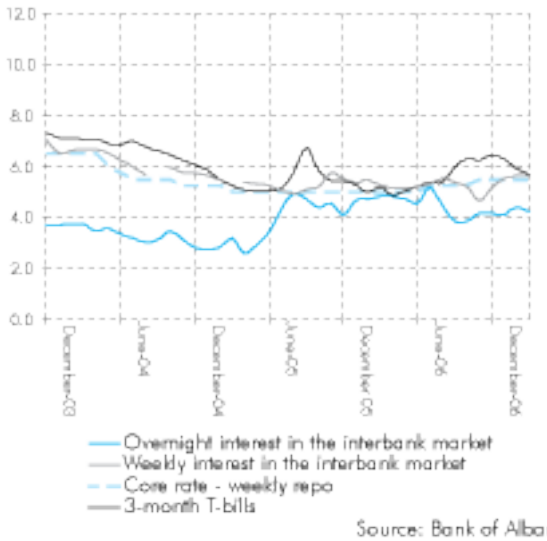
Source: Bank of Albania

5.4.1 Money market

The banking system excess liquidity grew substantially in the first quarter, as a result of the money inflow in the system and the positive effect of the Government's operations. The daily average level of liquidity amounted to ALL 4.2 billion compared with ALL 1.9 billion in the fourth quarter and ALL 6.1 billion in the first quarter of 2006[6].

The asymmetric distribution of liquidity causes the interbank market to be used as a source for meeting short-term needs for funds. All transactions in the interbank market were of weekly or shorter maturity (overnight mainly). The daily volume of lending averaged ALL 1.78 billion[7], compared with ALL 1.75 billion in the previous quarter and ALL 1.83 billion the previous year. The average interest for weekly transactions increased to 5.60 per cent from 5.00 per cent the previous quarter and 5.38 per cent the previous year, being quite close to the core interest rate.

Chart 27 Interest rates in the money market



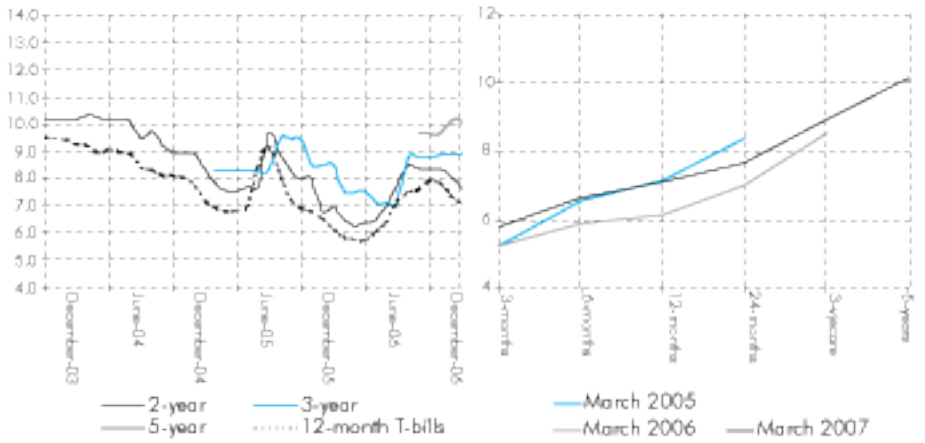
Source: Bank of Albania

Banks' short-term investment in Treasury bills had a positive effect on the increase of liquidity, part of which shifted to the purchase of bonds. The effect of liquidity formation was followed by the decrease of Treasury bills yields of three maturities (3-month, 6-month and 12-month). At end March, the 3-month yield dropped to 5.69 per cent from 6.45 per cent at end December, while the 12-month yield dropped to 7.10 per cent from 7.89 per cent.

5.4.2 Capital market

Banks remain the sole active participants to have met the demand for financing in the auctions of 2-, 3- and 5-year Government bonds[8]. Their portfolio in these securities grew by ALL 12.1 billion in the first quarter, shifting slowly the time structure of investment to longer terms. 2-year bonds yield had the same downward performance of 12-month yields, as a result of competition enhancement and high excess of liquidity. It dropped to 7.65 per cent in March or 0.75 percentage points below the yield of December. 3- and

Chart 28 Yields performance in the Government's bonds market and interest rates curve



Source: Bank of Albania

5-year bonds yield, which are issued only once in three months had quite an opposite performance. In March, 3-year yield recorded 8.90 per cent, while the 5-year one 10.14 per cent, increasing by 0.10 and 0.46 percentage points, respectively.

The difference between long-term and short-term yields continues to be positive. Except for 3- and 5-year maturity terms, the yields dropped similarly in the first quarter, pushed by a neutral policy and the increase of excess liquidity in the market. Nonetheless, at the beginning of April, there has been a reduction of liquidity in the market, which has brought about the increase of Treasury bills yields for all maturity terms[9].

5.4.3 Deposits and credit interests

Chart 29 Difference between 1-3 years ALL credit interests and 12-month deposits interests

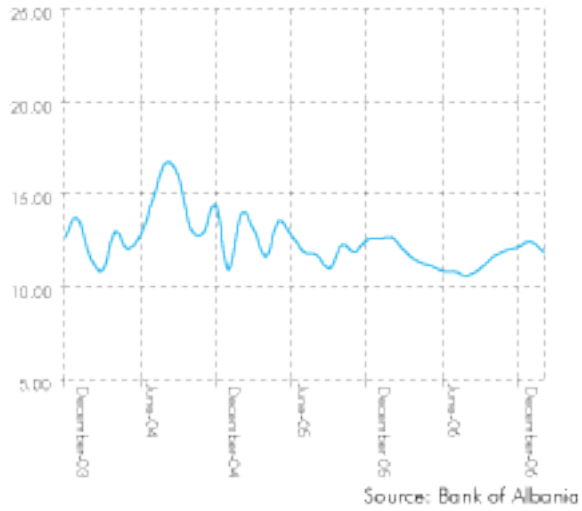
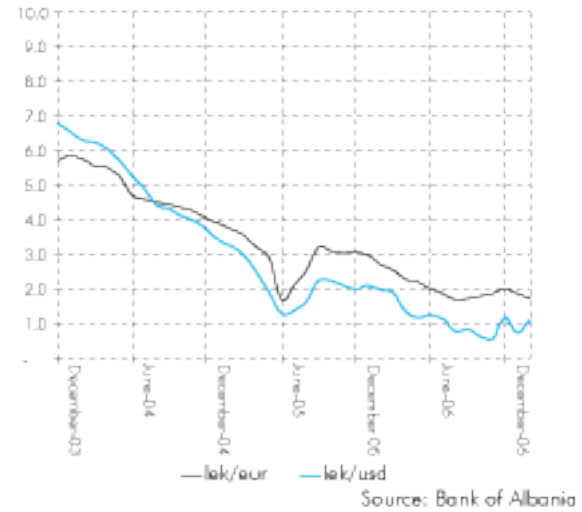


Chart 30 Spread of real 12-month deposits interests in lek to those in foreign currency (in percentage)



According to the most recent data[10], the lek deposits interests[11], in particular of 1 and 24-month deposits, increased in the first two months of 2007. However, signs of interests decrease were being displayed in February, such as in current accounts, 1-month and 24-month deposits, reflecting as such the increase of liquidity in the system over the period.

The intermediation cost continues to fluctuate around the same level, as a result of the high level of lek credit. Credit demand continued to grow and it did not seem to exert any pressures for the decrease of credit rates.

In February 2007, the average weighted interest of ALL credit increased to 14.7 per cent, from 12.9 per cent in December. ALL credit interest increased for all terms, except for 1-3 years credit, which in contrast, dropped.

In the first two months of 2007, the dollar and euro deposits interests increased in all terms, except for 24-month euro deposits and 36-month dollar deposits. Compared with the same period the previous year, the euro and dollar deposits interests have also been increasing. The tightening monetary policy pursued by the European Central Bank and the Federal Reserve at the early 2007 has had its influence on this increase.

The following chart displays the spread of real 12-month deposits interests in lek to those in foreign currency, which in February 2007 dropped to lower levels compared with December 2006. Furthermore,

credit in foreign currency was mostly concentrated in the euro, pushing banks to become more aggressive in accepting euro funds.

In February, there has been a decrease in USD deposits interest in all terms, except for interests of current accounts, demand deposits and 6-month deposits. This performance was pushed by the expectations for the dropping of the core interest rate by the Federal Reserve at the beginning of 2007.

In the first two months of 2007, the USD credit interests decreased almost in all terms, except for over 3-year credit interests, which increased. In February, the average weighted interest of USD credit reached 8.97 per cent from 9.4 per cent as of end December. EUR credit interests decreased only for 6-month - 1 year and 1-3 years credit. The dropping of interests in foreign currency credit affects the decrease of the intermediation cost in foreign currency. At an average level, the weighted interest of EUR credit has increased slightly, reaching to 8.3 per cent in February, from 8.2 per cent as of end 2006.

Chart 31 Daily performance of ALL/EUR and ALL/USD

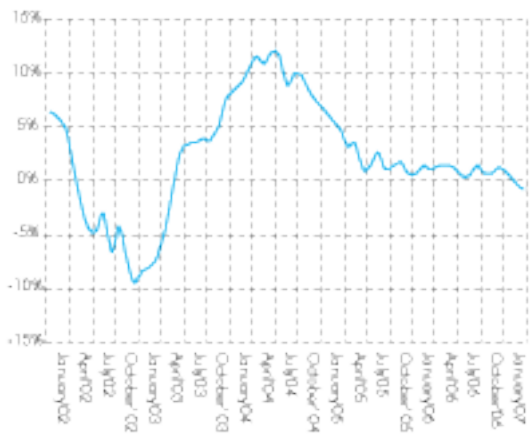
Source: Bank of Albania

5.4.4 Exchange rate

The lek performance over the first quarter of 2007 provided evidence for its depreciating trend to the euro and the appreciating one to the dollar. The depreciating tendency of the lek to the euro is a relatively new one (since the end 2006), while the appreciation of the lek to the dollar dates earlier (since the end 2005). The annual dynamics of the lek exchange rate presents the same performance. Over the first quarter of the present year, the exchange rate of the lek to the euro depreciated by 1.8 per cent, while that of the lek to the usd appreciated by 6.4 per cent, on average.

Except for end-year and Easter holidays, it may be concluded that the appreciating rates of the euro to the lek in the domestic foreign currency market were higher than the appreciating rates of the euro to the dollar in the international market. The appreciation of the euro to the dollar in the international market for the first quarter of the present year was 0.9 per cent, while the appreciation of the euro to the lek was 2.1 per cent. Other domestic factors exerted depreciating pressures on the lek, among them the increase of foreign currency spending to afford to the import of energy, the reduction of the ALL-foreign currency interest rates spread and the growth of demand for our domestic currency over the last quarter of 2006.

Chart 32 ALL annual changes in nominal effective terms (NEER[12])



Source: Bank of Albania

In nominal effective annual terms, the lek depreciated by an average of 0.1 per cent over the first quarter of 2007. This is the first time in the last four years to observe a depreciation of the NEER. At end March, the lek exchanged at 94.98 to the usd and 126.47 to the euro.

ENDNOTES

[1] FOMC - Federal Open Market Committee

[2] 12-month accumulated balance is measured as the sum of the preceding 12 months at any point/month of the year.

[3] Average annual inflation of this commodity group in the Euro area (27) was 4.4 per cent.

[4] Lek depreciated considerably to the euro over the first quarter of 2007. Average annual rate of the depreciation for the period was 1.9 per cent.

[5] The Bank of Albania quantitative objectives are part of the new PRGF/ EFF 2006-2008 arrangement, signed between the Albanian Government, the IMF and the Bank of Albania in January 2006.

[6] The excess liquidity in the first quarter was withdrawn by the Bank of Albania through one-week and three-month repos.

[7] Out of which, ALL 0.68 billion were overnight loans.

[8] 5-year bonds were issued for the first time in November 2006.

[9] On 11 April, the 12-month yield increased to 7.54 per cent.

[10] The most recent data refer to February.

[11] See: Statistical Annex, Financial Markets: Table "Interest rates and their change in the lek deposits and credit market".

[12] NEER – nominal effective exchange rate measured against two currencies according to an approximate share they have in trade with abroad, EUR (80 per cent) and USD (20 per cent). Since April 2004, the NEER is above 100. An increase of the NEER implies an appreciation of the lek.

STATISTICAL ANNEX

INFLATION

Table 1 Annual inflation rate (in percentage)

	2001	2002	2003	2004	2005	2006	2007
January	2.2	6.5	0.0	3.3	3.3	1.4	2.9
February	1.5	7.6	1.1	4.4	1.8	1.3	2.9
March	2.9	7.5	1.3	4.0	1.6	1.5	2.7
April	3.0	6.5	2.3	3.2	1.3	2.4	
May	2.5	4.6	2.8	2.6	2.0	3.1	
June	4.0	3.7	2.6	2.9	2.9	2.4	
July	5.6	4.2	3.0	3.1	1.8	3.2	
August	4.1	5.5	3.0	2.7	2.3	2.9	
September	3.5	5.3	2.8	2.0	3.1	2.6	
October	1.8	5.8	2.9	2.0	3.3	2.3	
November	2.8	3.7	3.4	2.2	3.0	2.9	
December	3.5	1.7	3.3	2.2	2.0	2.5	
Average	3.1	5.2	2.2	3.0	2.4	2.4	

Source: INSTAT

Table 2 Contribution of basket constituent groups to total inflation

	April - 06	May - 06	June - 06	July - 06	August - 06	September - 06	October - 06	November - 06	December - 06	January - 07	February - 07	March - 07
Foodstuffs and non-alcoholic beverages	1.03	1.51	0.80	1.86	0.51	-0.45	-0.59	0.45	0.09	0.66	0.70	0.32
Rent, water, fuels and energy	0.84	1.00	1.04	0.88	1.78	2.32	2.19	1.91	1.87	1.70	1.70	1.84
Transportation	0.13	0.23	0.24	0.19	0.13	0.10	0.09	0.08	0.05	0.02	0.01	0.04
Hotels, café and restaurant	0.22	0.22	0.22	0.16	0.18	0.18	0.15	0.15	0.14	0.14	0.17	0.14
Other	0.12	0.10	0.15	0.15	0.24	0.40	0.40	0.32	0.40	0.34	0.35	0.35
Total	2.35	3.1	2.45	3.24	2.84	2.55	2.24	2.91	2.55	2.86	2.93	2.69

Source: INSTAT, Bank of Albania

MONETARY INDICATORS

Table 3 Performance of monetary indicators (in billions of ALL)

	February - 07	Monthly change		Annual change	
		Absolute	Percentage	Absolute	Percentage
Currency outside banks	154.5	-0.9	-0.6	15.4	11.1
Total deposits	529.8	7.6	1.5	88.7	20.1
- In lek	320.3	0.9	0.3	37.0	13.0
- In foreign currency	209.5	6.7	3.3	51.7	32.8
Demand deposits	144.0	-2.9	-2.0	13.3	10.2
- In lek	76.0	-4.2	-5.2	-4.1	-5.1
- In foreign currency	68.0	1.2	1.8	17.4	34.3
Time deposits	385.8	10.6	2.8	75.3	24.3
- In lek	244.3	5.0	2.1	41.0	20.2
- In foreign currency	141.4	5.5	4.1	34.3	32.0
M1	230.5	-5.1	-2.2	11.4	5.2
M2	474.9	0.0	0.0	52.4	12.4
M3	684.3	6.7	1.0	104.1	17.9
Monetary base	212.0	0.3	0.1	23.1	12.2

Source: Bank of Albania

Table 4 Performance of NFA indicators by main groups, January 2007 (in millions of USD)

	In absolute terms	Monthly change	Annual change
Net foreign assets	2,500.6	29.6	416.3
Foreign assets			
Bank of Albania	1,811.2	26.5	364.5
ODC	1,193.1	51.3	301.5
Foreign liabilities			
Bank of Albania	104.7	- 0.9	0.9
ODC	399.0	49.1	248.8

Source: Bank of Albania

Table 5 Performance of Net Credit to the Government indicators by main groups

	February - 07	Monthly changes	Annual changes
Net claims on the Government	297,019.5	1,398.0	17,722.9
Bank of Albania	50,820.7	- 31.8	- 4,768.5
ODC	246,198.8	1,429.8	22,491.4
Deposits held with the Bank of Albania	7,017.0	22.2	1,018.9
Budget deficit	14,2934	11,060.5	10,544.4

Source: Bank of Albania

Table 6 Performance of some main indicators

	2003	2004	June - 05	December - 05	June - 06	December - 06	January - 07	February - 07
Money supply (in billions of ALL)	448.4	507.2	541.8	578.04	594.5	674.3	677.6	684.3
Domestic credit (in percentage to M3)	71.5	68.9	69.9	70.03	71.0	71.8	72.3	73.1
Credit to the Government (in percentage to M3)	60.2	55.1	52.2	48.94	45.3	43.4	43.6	43.4
Credit to economy (in percentage to M3)	11.3	13.8	17.7	21.10	25.71	28.4	28.7	29.7
Credit to economy (in percentage to total assets)	13.7	16.9	20.8	25.11	28.7	31.3	31.5	32.1
Credit to economy (in percentage to GDP)	6.8	9.0	11.2	14.57	17.6	21.3	21.5	22.4
Credit/deposits ratio (in percentage)	15.7	19.0	23.6	28.47	33.7	37.4	37.2	38.4

Source: Bank of Albania

Table 7 Outstanding credit indicators as a share to total

	2003	2004	2005	Q1-06	Q2-06	Q3-06	Q4-06	January- 07	February - 07
Outstanding credit (in billions of ALL)	50.7	69.3	121.6	134.6	152.8	165.3	191.2	194.4	203.5
Credit to households	24.5	30.6	32.3	31.9	32.3	33.3	33.4	34.2	33.8
Credit to private sector	75.5	69.4	67.7	68.1	67.6	66.7	66.5	65.7	66.2
Short-term credit	46.0	34.0	32.3	32.5	31.1	30.0	29.6	29.5	29.8
Medium-term credit	33.3	36.0	29.7	30.0	31.2	32.6	31.6	31.1	31.0
Long-term credit	20.7	30.0	37.9	37.5	37.7	37.4	38.8	39.4	39.2
Lek	19.6	19.5	26.6	26.0	28.2	29.8	28.9	28.9	28.3
Foreign currency	80.4	80.5	73.4	74.0	71.8	70.2	71.1	71.1	71.7

Source: Bank of Albania

Table 8 New credit indicators as a share to total

	Total	2005				2006				January	February-
	2004	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	- 07	07
New credit (in billions of ALL)	99.7	22.1	32.8	32.1	32.9	29.4	35.7	35.8	53.9	9.6	13.1
Short-term credit	62.54	53.2	47	47.4	48.7	44.2	42	45.8	46.7	38.8	40.2
Medium-term credit	22.53	22.4	31	30.3	25.6	30.1	33	31.2	27.4	28.0	31.6
Long-term credit	14.93	24.4	22	22.2	25.7	25.7	26	23.0	25.9	33.2	28.2
Credit in lek	32.59	30.1	32.8	30.2	31.4	27.7	35	39.6	26.2	32.7	26.9
Credit in foreign currency	67.41	70	67.2	69.8	68.6	72.3	65	61.4	73.8	67.3	73.1

Source: Bank of Albania

Table 9 Distribution of credit by sectors of economy (as a share to total)

	Q1 -'05	Q2 -'05	Q3 -'05	Q4 -'05	Q1 -'06	Q2 -'06	Q3 -'06	Q4 -'06	January - 07	February - '07
Agriculture, Hunting and Silviculture	1.3	1.5	2.4	2.7	2.2	0.9	0.7	0.7	0.7	0.7
Fishing	0.01	0.1	0.1	0.1	0.1	0.1	0.11	0.1	0.1	0.1
Extracting industry	2.35	0.6	0.5	0.5	1.4	2.3	1.0	1.0	1.1	1.4
Processing industry	15.8	15.6	13.9	13.8	14.2	15.3	15.5	14.3	14.5	14.2
Production, distribution of energy, gas and water	6.27	2.9	2.9	2.6	2.4	1.1	1.2	1.5	1.1	1.3
Construction	10.6	11.2	12.8	13	13.0	12.2	12.6	12.6	12.5	12.6
Trade, repair of vehicles and household appliances	20.5	19.1	20	18.9	19.0	22.5	23.1	22.4	22.2	21.9
Hotels and restaurants	2.5	4.7	4.4	4.3	4.8	4.1	3.9	3.5	3.5	3.5
Transportation and telecommunication	2.5	1.7	1.7	1.5	1.3	1.6	1.6	2.0	2.0	1.9
Financial activities	0.2	1.1	0.7	0.8	0.7	1.3	0.7	2.1	1.5	2.1
Health and social activities	0.1	0.4	0.6	0.7	0.6	0.6	0.3	0.0	0.2	0.3
Collective, social and personal services	8.3	7.4	5.9	5.8	4.6	1.7	2.0	0.6	1.9	2.1
Other*	29.6	33.7	34.1	35.4	35.7	36.2	35.1	39.2	38.7	37.9
Total	100	100	100	100	100	100	100	100	100	100

Source: Bank of Albania

**"Other" includes credit extended to some sectors sharing a small weight in the country's economic activity and credit to households. Upon the introduction of new credit forms, it was required to review the credit distribution by sectors, where the new classification was introduced.*

FINANCIAL MARKETS

Table 10 End-month interest rates and their change compared with the previous periods (in percentage points)

	March '07	Change March '07– December '06	Change March '07 – '06
Core interest rate	5.50%	0.00	+0.50
Interbank market			
Overnight interest	4.51%	-0.01	-0.27
Weekly interest	5.68%	0.44	+0.48
Primary market			
3-month Treasury bills yield	5.75%	-0.75	+0.47
6-month Treasury bills yield	6.64%	-0.47	+0.78
12-month Treasury bills yield	7.07%	-0.64	+0.99
Bonds market			
2-year bonds yield	7.65%	-0.75	+0.65
3-year bonds yield	8.90%	+0.10	+0.40
5-year bonds yield	10.14%	+0.46	-
9-month Eurobond	5.02%	-	-

Source: Bank of Albania and commercial banks

Table 11 Interest rates and their change in the lek deposits and credit market (in percentage points)

	February '07	Change February '07 – December '06	Change February '07- February '06
Core interest rate	5.50	0.00	+0.50
Interest of ALL deposits			
1-month	3.56%	+0.21	+0.15
3-month	4.02%	+0.08	-0.26
6-month	4.73%	+0.09	+0.02
12-month	5.60%	+0.14	+0.26

24-month	6.10%	+0.22	-0.27
36-month	6.48%	+0.06	+0.28
Interest of ALL credit			
Up to 6-month credit	14.38%	+2.20	+1.37
6-month to 1-year credit	13.46%	+2.30	-0.06
1-3 years credit	17.51%	-0.19	-0.52
Over 3-year credit	13.41%	+1.20	+1.06

Source: Bank of Albania and commercial banks

Table 12 Interest rates of deposits in foreign currency (in percentage points)

	February '07	Change February '07-December '06	Change February '07–February '06
Fed – Core interest rate	5.25%	0.00	+0.75
Interest of USD deposits			
1-month	3.16%	+0.13	+0.74
3-month	3.64%	+0.20	+0.77
6-month	4.16%	+0.29	+1.10
12-month	4.49%	+0.20	+0.89
24-month	4.93%	+0.07	+1.00
ECB – Core interest rate	3.50%	0.00	+1.25
Interest of EUR deposits			
1-month	2.76%	+0.22	+0.92
3-month	3.39%	+0.48	+1.15
6-month	3.45%	+0.16	+1.14
12-month	3.88%	+0.43	+1.20
24-month	3.77%	-0.39	+0.93

Source: Bank of Albania and commercial banks

SPEECH BY MR. ARDIAN FULLANI, GOVERNOR OF THE BANK OF ALBANIA

At the launch of the European Fund for Southeast Europe,
Tirana International Hotel, 6 March 2007

Honourable Mr. Prime Minister,
Honourable Mr. Minister of Finance,
Dear Mr. Glaubitt,
Dear friends,

I am honoured to be invited to the occasion of launching the European Fund for Southeast Europe. I regard this new initiative in the Albanian financial system as a highlight development, due to the financial potential and to the signals it brings to our market.

It has become almost inevitable to start each speech with a short description of the latest economic and markets' situation. I invite you to interpret it as an opportunity to understand our vision for the future of the economy and the financial system.

From the general viewpoint, I would briefly highlight that the inflation and inflationary expectations have been kept under control, the economy is growing under stable rates and there is an increasing business confidence. The financial markets are relaxed, well-regulated and lucrative. It is good to evidence that apart from the other contributing factors, the Bank of Albania has played a key role in providing for such an environment with its prudent policies pursued over 2006.

Global factors have increased their interest in the developments of the Albanian economy, with a special focus on the macroeconomic and development policies. The expansion of global markets has exerted pressures on our economy, expected to be increased in the future. The Bank of Albania is paying a special attention to the considerations and signals deriving from these markets and invites the business community to do the same. The entry of foreign players into the market should encourage the domestic business to re-dimension or re-consider its role in the development of the market in general, and of the financial one, in particular.

Over the last years, the Bank of Albania, being supported by the business community, has paid a special interest and attention to the development of the domestic financial system. If I were to ask you: "Have we been successful?" your answer would have been "Certainly, yes." It holds true that we have made significant steps towards a modern banking system and facts do speak for themselves: there are 17 banks, all private-owned; stable growth and profits; great European players; new products and modern approaches; consolidation; sound competition and last, a new contemporary law on the banking system.

In this respect, one might even say that the transition to a modern financial system is approaching its end. However, allow me not to fully agree. Do not forget that what I have been talking about represents a crucial, but solely, segment of the financial system. It is in the interest of the economy, private sector and households, and in our interest as well, as the monetary authority, to push the development of the entire financial system. I think that the financial system we have is not enough to foster our expectations in the context of the economic and financial development of the country.

I would not exclude the banking system from the observation. The high and stable profits have further deepened the concentration of the banking system and investment in a financial market segment. Such a trend might affect financial stability due to an undesired mix of financial and human capital and of managerial abilities in a restricted segment of financial market. Moreover, these risks could be fuelled by reckless competition and market share deriving from the concentration and issues of immoral speculations.

The launching of this scheme, apart from emphasizing the confidence in our development policies, helps to provide the layers for the financial system and to fill in the gaps in the financial markets, stating an indisputable fact that there is room for boosting and strengthening those segments which do not seem to be lucrative. This is a significant signal for small-sized enterprises having great ambitions.

These developments should help us to really understand the true potential of the Albanian economy and they must be read by all players as such. Moreover, they must understand that such entries will make the rules of participating in the market clearer. They set the standards for the quantity and quality of both financial and human capital, which make a company an eligible market player. Time requirements impose the necessity for building similar capacities with the new entrants, otherwise the market will not tolerate.

In this context, the Bank of Albania will be cautious to avoid any negative consequences deriving from the timely misinterpretation of current and expected developments. In our belief, all participants in the system should act responsibly and professionally, no matter how small they are. The misinterpretation of this new philosophy would be intolerable, with consequences for the financial stability, since it operates as a whole. These developments impose to us, as a monetary and supervisory authority, the adoption of more contemporary standards. The new players, in additional to sound macroeconomic policies, require the establishment of a market that can accommodate their business in both assets and liabilities.

In response to these challenges, the Bank of Albania aims to formulate and later on, implement a medium-term strategy for the development, licensing and supervision of banking financial institutions. The key objectives of this strategy would be summarized in: the adoption and application of supervision standards deriving from Basel II Accord; the adoption of more conservative practices related to the principle of selective licensing; the constant promotion

to boost the banking system, mainly through mergers and acquisitions; the adoption of both theoretical and practical approaches related to services and products to develop all the financial market segments. With the latter one, we intend to provide the right incentives for the managers to extend their business in those market segments where they are located, helping in this way to fully develop that particular market segment. I take this opportunity to invite all the existing financial institutions to grow, expand and become active players within the market segments where they operate.

Otherwise, they should seek those market areas where they provide most of their efficiency, considering their financial and human capital and the products they own. The Bank of Albania seeks to use market segmentation as a prerequisite for building market discipline in the financial system:

First, to facilitate the monetary policy, through the perfection of monetary transmission mechanism.

Second, to boost the country's economic and social development.

Therefore, the Bank of Albania sees this new entry as a premise for the development and revitalization of money and capital market. Allow me to explain it more broadly. The available fund in this scheme is considerable. However, the positive stands in the fact that these additional funds will be used to launch new products and services in those market segments which have not had so-far, access to the financial infrastructure.

This is particularly true for small-sized businesses in local communities and rural areas, to which large universal banks are not their perfect partners. Moreover, the financial market is being enriched with a new instrument, which will be a novel investment alternative for all the economic agents concerned, be they households, organizations or businesses.

The orientation toward micro and small entrepreneurships reflects a sound and specialized understanding of their financial needs. They represent a key element of economic infrastructure, of employment and income growth, in particular for the sector of agriculture and local communities. Undoubtedly, this new initiative will also provide its positive effects to the social context of these segments.

In this context, the launch of the European Fund for Southeast Europe is a new element, which will serve as a catalyst for a number of new changes and opportunities, in line with the requirements of a modern market, able to support the perspective development of the country. Its expansion throughout our region will allow the further enhancement of regional co-operation and will facilitate other regional initiatives.

You are welcome and we assure you that you have our full co-operation in your activity and in developing the market and free initiative of Albanian economic agents. I wish you a lot of success in your work.

SPEECH BY MR. ARDIAN FULLANI, GOVERNOR OF THE BANK OF ALBANIA

At the meeting "The banking system over 2007: the Governor communicates with the market",
Tirana International Hotel, 26 March 2007

Distinguished participants,

Considering today's meeting of a special importance in line with our institutional tradition and intensive communication with the general public, particularly with the main market stakeholders, I would like to thank you for your participation. I think that such meetings further increase the degree of mutual understanding, aiming at enhancing the financial market efficiency.

Allow me to start my address, making a brief summary of the latest macroeconomic developments. Likewise in 2005, the Albanian economy, even during the last year, continued its path towards macroeconomic consolidation. The country's GDP is estimated at 5 percent growth in real terms. This growth has been associated with price stability, denominated in an average annual inflation of 2.4 percent. The monetary conditions, characterized by historically low interest rates and a stable exchange rate, have favoured the rise of investments and consumption in the economy. Particularly, they have been reflected even in the rapid credit growth, further sustaining the economy growth.

The fiscal developments have resulted within the programmed levels, contributing to further consolidation of the public finances and to budget deficit control.

The extension of the country's economic activity has been associated with increased foreign trade exchanges. The balance of payments for 2006 has recorded positive terms, sustaining the exchange rate stability.

From the BoA's monetary policy viewpoint, I would like to underscore that year 2006 coincided with a change of the previous direction. Initially in July and later on in November 2006, the BoA's Supervisory Council rose key interest rate by 0,25 pp, leading it to 5,5 percent, from 5 percent at end of June 2006.

The Bank of Albania decisions were a reflection of a number of risk factors, whose presence constituted a potential risk on the long-term inflation performance, which, I re-emphasise, from the legal viewpoint, constitutes our primary objective. The Bank of Albania is confident that its decisions were appropriate and they have served to orient inflationary expectations within the target range.

End-2006 and first quarter of 2007, as well as current inflation forecasts indicate that we have been successful in this direction. However, I avail

myself of the opportunity to re-emphasise that we remain totally committed to successfully monitor the current developments and the implications they may entail in future development. Our focus will continue to be the control of inflationary pressures in the economy.

To this end, I would like to attract the banking system attention to a new project of the Bank of Albania, which is going to assist us a lot in this regard. Our researches, the business and consumer sentiments do not succeed in attaining appropriate dimension under the conditions of lacking the financial market expectations on inflation, exchange rate and key interest rate. In the near future, a new requirement will be made to the banking system, having to do precisely with what I previously said: Which is the bank's expectation on inflation, exchange rate and repo rate in the short and long run. Personally, I consider it as a new challenge for the banking system; therefore I would insist that the whole banking system should deal seriously with this problem, to timely incorporate scientific analysis and research centres into its organisational structures.

I am confident that the banking system has already understood that, inter alia, it is just the time for such institutions to pay attention to developments of the economy, intensifying the analysis on current and future developments.

Another issue I will deal with in this address is the monetary policy decision-making perception and implementation. Given the current stage of financial market development in Albania, the high level of euroization and other objective and subjective factors, I would say that the monetary transmission efficiency is not yet in the parameters of the developed financial markets. The currency market is still concentrated; its specific segments are characterized by insignificant trading volume and high volatility.

Effective liquidity management is an important element for us, which, as in other central bank, goes beyond a mechanic management of excess liquidity withdrawal or injection in case of shortage. By managing the liquidity, we have aimed at implementing the monetary policy decisions made by the Bank of Albania Supervisory Council to the market. Liquidity management intends controlling short-term interest rates, keeping them in line with monetary policy decisions. Concretely, the frequent use of other instruments, besides the main instrument of the Bank of Albania, reflects the Bank of Albania's determination in terms of controlling short-term interest rates. I would also like to point out that preventing or solving situations of liquidity shortage or excess are not sufficient for achieving the liquidity management goal by the central bank; the effective liquidity management should ensure its smooth re-allocation among banking system operators. As a result of liquidity concentration, this would reduce the short-term interest rate volatility.

In this framework, in 2007, the Bank of Albania will start the application of a new Regulation "On repurchase and reverse repurchase agreements" which will bring about a novelty on interventions for a more effective distribution of banking system liquidity.

This development of the regulatory framework will foster the repo market among commercial banks. It will contribute to the establishment of a more active inter-bank liquidity market and more active liquidity management by commercial banks. Not only the information but also the real time of its transmission is of unquestionable importance to the financial market. In this context, I would like to emphasize that though the central bank has the necessary statistics to estimate the banks' positions and their operations, we expect from them to work more for enhancing the transparency in this regard.

To encourage banks in terms of enhancing the transparency, the Bank of Albania has provided to the system the Regulation "On calculating fixed interest in interbank currency market", whose application shall be of importance not only to the Bank of Albania, but also to commercial banks for active liquidity management. In the same line, the central bank, through its active participation in the "Dealers Association" is supporting even the creation of a code of conduct for interbank relationships, which is deemed to lay another stone to market development in Albania. As I mentioned above, the political decision-making of the Bank of Albania is forward-looking. From this viewpoint, I would require from the banking system to adopt the same philosophy: "React today to prevent undesirable events in the future! As Alain Blinder has stated: "Frequently, the decision-makers only look through the window and make case decisions, based on current circumstances". Therefore, the banking system should adopt the same philosophy for assimilating and factorising the Bank of Albania's decisions into the short- and long-term operational strategy.

Another issue is an argument, which given the importance and the current stage of the economic-financial development of the country, assumes an extremely high importance. The financial stability has become a central topic of current practical-academic debate. I would like to bring to your memory the regional conference of the Bank of Albania organized in October last year related to this issue. While the debate continues for determining a number of qualitative and quantitative indicators to measure the vulnerability of the economy, I would like to attract your attention to a higher attention we jointly should pay in this direction.

The macroeconomic stability is of primary importance, but without doubt, the financial stability is of the same vital importance. We should not forget that the segment represented in this audience constitutes the most developed and regulated part of the whole financial sector. The banking system in Albania has been transformed into a promoter of the country's economic sustainability, by extending funds to the economy. At the same time, the variety of financial products it supplies is being increased year on year.

At end-2006, the banking system was presented in a good financial position. Its assets were to ALL 624.3 billion, or about 25.7 per cent more than in end-2005. The banking system deposits have amounted to ALL 520.3 billion, reaching 20.2 percent on annual basis. The loans portfolio is

estimated at ALL 197 billion, 55 percent higher than year-end 2005. About 28 percent of the loans portfolio has been extended in ALL, while the rest in foreign currency. At end of 2006, the loans portfolio quality resulted to 3.05 percent. In December 2006, the capital adequacy ratio was 18.1 percent; while the banking system profit was ALL 7.45 billion. Return on assets was 1.36 percent, whereas return on equity was 20.2 percent. It is my pleasure to observe the increased number of branches and banking agencies and the ever increased geographic covering of the territory with banking services and products. The entry into the market of distinguished European banks is another accomplishment of the last year, which is expected to continue even during the current year. Being driven by competition, banks have been more aggressive in lending, using new segments of the lending market, such as consumer loan or real estate loan.

In spite of what I mentioned earlier, it does not mean that we are automatically immunized against various risks, which may occur from one moment to the other. Furthermore, the rapid credit growth is an argument for more prudence, particularly in terms of its quality. Being completely aware for our role as a decision-making and regulatory institution, we have decided to raise our vigilance in this direction. We will create a specialised unit, i.e., the Financial Stability Department, as a first step.

The safeguarding of the banking and financial system stability will be given a new dimension relating to the policy of licensing the conduct of banking business by the Bank of Albania. Once more, the Bank of Albania emphasizes its objective related to licensing and the presence of sound institutions in the banking system: which are backed by influential and experienced shareholders in the banking industry; which apply the best standards of accountability in management; which conduct a balanced business with well-administered risks; which are able to cope with and develop under the competition provided in an open and integrated market into the international financial market; which boost the country's economic development and which, transparently provide to the public qualitative and efficient banking products and services.

The Bank of Albania is confident that only financially stable banking institutions guarantee the foundations of a financial market, which develops dynamically and which is able to avoid systemic financial crises. Therefore, the Bank of Albania sustains and encourages the process of transformation and consolidation of the activity of banking institutions. They naturally come to help the banking institutions which are faced with difficulties during their own activity and others which intend to expand the business through a more effective use of ample financial sources.

In this framework, the Bank of Albania, based on the new banking system law, cooperating with other financial market authorities, will work for enriching and stratifying this market with efficient financial institutions specialised in financial activities, which sustain the banking activity and ensure a better covering of the population needs with financial services.

Regardless of the above, I think that the system should be more committed to this direction. Banks, particularly those that are more active and of systemic importance, should set up and strengthen their risk management structures, mainly in terms of market risks (interest rate and exchange rate), credit risk and operational risk. This implies not only the ensuring of human capacities, but also the establishment of necessary systems of information and technology. This process should not be considered as a cost-advantage relationship in a material level and in the short run, but as an indispensable process, which hedges the bank from risks, which, under certain market conditions, may be intensified, resulting to fatal circumstances.

While the supervisory attention is focused particularly on large banks that are of systemic importance, the same importance is assigned even to small banks, which are faced intensively with the consequences brought about by the enhancement of market competition. In view of this, the Bank of Albania requires from the management of these banks to act quickly for protecting their business. The necessary operations should intend the qualitative improvement of banking services to the public, development of joint projects with larger banks and with other financial institutions inside the country and abroad, establishment of a more suitable work environment and provision of necessary promotions to their staff. In the meantime, their boards of directors and shareholders of these banks should strengthen the monitoring and should be ready for a larger financial support for the bank's activity.

In particular, I would like banks to be cautious with regard to:

- The continuous monitoring and controlled conduct of lending activity, focusing on setting realistic development objectives, on the exposure to related persons, exposure to foreign currency – in particular, to borrowers with insufficient financial assets in foreign currency, exposure to new loan products, such as consumer loan, etc. It is crucial for banks to rigorously observe the lending and loans' quality analysis procedures. Moreover, they should maintain a conservatory stand, in terms of being insured with pledges and collaterals, and of providing for reserve funds, required in cases of non-performing credit risk. In this context, the Bank of Albania expects commercial banks to duly observe the final amendments made to the regulation "On managing credit risk";

- The consolidation of internal control systems of their activity, in view of the adoption of best accounting standards in management, as well as the careful formulation and analysis of financial statements by the banks' structures and their internal and external auditing. With regard to the latter, we are under the process of enhancing the reporting system, by shortening the reporting time of the financial data, periodically reported by banks to the Bank of Albania. We think that banks should qualitatively improve the method of preparing and reporting these data to the Bank of Albania. These issues will be the topic of discussion in a special meeting to be held in the near future.

From the legal viewpoint, the issues related to the conduct of a safe banking business have been addressed at a higher level, in the new law "On banks in the Republic of Albania", passed by the Albanian Parliament on 18 December 2006, and becomes effective on 1 June 2007. Some of its important amendments are the following: a more complete addressing of banking business supervision issues, including the organization, the risk monitoring, the provision of prudential supervision norms, the clarification of procedures related to the management and liquidation, the inclusion of some general principles related to the client's protection (consumer of banking products) etc. Following the notification sent by the Bank of Albania on January this year, the banks should speed up the steps to duly and timely carry out the necessary changes in their internal procedures, which ensure the complete consistency of their business with the requirements of the new law.

I take this opportunity to draw your attention in terms of applying the legal requirement for the observance of international financial reporting standards, starting from 2008. This is an issue banks belonging to European Union banking groups are more prepared for. However, these banks, and in particular other banks not availing of this opportunity, should co-operate with external auditing companies, in order to define the concrete measures to be taken in their activity for the observance of this legal requirement.

Dear participants,

I believe today's meeting is a good opportunity to communicate with one-another; therefore, I invite you to keep on exchanging effective ideas and thoughts. On behalf of the institution I represent, I would like to reassure you that the Bank of Albania remains fully committed and accountable in fulfilling its legal mission, capable and willing to loyally co-operate with any institution or stakeholder influencing on the country's economic and financial development.

Thank you.

INFORMATION ON INTERNATIONAL RESERVES AND FOREIGN CURRENCY LIQUIDITY TEMPLATE*

ABSTRACT

The following paper provides some information on the compilation of international reserves and foreign currency liquidity template as an important macroeconomic statistics, mandatory to be reported as one of the standards of the SDDS Project Albania aims to subscribe in by the end of 2007. The compilation of this statistics is in line with the "International Reserves and Foreign Currency Liquidity Guidelines for a Data Template, IMF, 2001", and for the first time, it is being compiled in Albania.

PREFACE

The international reserves and foreign currency liquidity template establishes the standards for the provision of information to the public on the amount and composition of reserve assets, held by the central authorities: the central bank and the government.

This template also specifies the way of reporting the short-term foreign currency liabilities and related activities, such as, financial derivatives positions and guarantees extended by the government for public and private borrowing, which may potentially bring about the withdrawal of reserve assets. Since 23 March 1999, this standard has been included in the SDDS Project requirements and it has been made mandatory to all countries subscribed to this project. On 29 March 2000, the International Monetary Fund approved the establishment of a database showing countries' template data of all SDDS subscribed countries, on the IMF's website. This is the first time for Albania to compile this statistical indicator. Apart from its usefulness in analyzing the country's liquidity risk, the subscription of Albania to the SDDS Project is another reason for meeting this standard.

The following paper provides an overview of the concepts of this template and it aims to present its linkages to other related statistics, such as "Net foreign assets", "International reserves" etc. The first section outlines the content of the template and its importance. The second section provides some explanations of key template concepts: definitions of "International reserves" and "Foreign currency liquidity" and how they are linked; it also provides the main statistical characteristics for their compilation. These characteristics relate to the institutional coverage, financial activities covered in the template, valuation principles, time horizon and other template reporting considerations. The third section contains four compiled tables of the template, using the data for Albania and providing a few explanatory notes.

1. OVERVIEW OF THE INTERNATIONAL RESERVES AND FOREIGN CURRENCY LIQUIDITY TEMPLATE AND THE IMPORTANCE OF ITS REPORTING

Financial crises in the late 1990s underscored the importance of disseminating comprehensive information on countries' international reserves and foreign currency liquidity on a timely basis. Deficiencies in such information have made it difficult to anticipate and respond to crises by obscuring financial weaknesses and imbalances. Moreover, the importance of such information has increased as a result of the ongoing globalization of financial markets and development of financial instruments.

The international financial activities that countries' central banks and government entities undertake now occur in myriad forms, involve multiple domestic and foreign entities, and span locations around the globe. To assess countries' foreign currency liquidity requires supplementing traditional data on international reserves that cover largely cross-border and balance-sheet activities with those on foreign currency positions and off-balance-sheet activities.

Timely disclosure of such information serves a number of purposes. First, it can strengthen the accountability of the authorities by better apprising the public of the authorities' policy actions and risk exposure in foreign currency. Second, it can spur a more timely correction of unsustainable policies and possibly limit the adverse effects of contagion in times of financial turbulence. Third, it can allow market participants to form a more accurate view of the condition of individual countries, of the vulnerability of regions, and of possible international consequences, thereby limiting uncertainty and the associated volatility in financial markets. Last, enhanced data transparency also can assist multilateral organizations to better anticipate emerging needs of countries for foreign currency liquidity.

Information on international reserves and foreign currency liquidity will best inform public and private decision-making if countries disclose it in a coherent common framework. As part of the effort to strengthen the architecture of the international financial system, the IMF and a working group of the Committee on the Global Financial System of the Group of Ten central banks in 1999 developed such a framework in the form of a data disclosure template. The template was devised in consultation with country authorities, statistical compilers, international organizations, market participants, and users. It reflects the efforts of all concerned to balance the anticipated benefits of increased data transparency and potential costs of adding to the authorities' reporting burden.

The template is intended to be comprehensive and innovative, compared to the so-far reporting of international reserves. It integrates the concepts of international reserves and foreign currency liquidity in a single framework. In addition to covering the traditional balance-sheet information on international reserves and other selected external assets and liabilities of the authorities, the template takes account of their off-balance-sheet activities, such as in forwards, futures and other financial derivatives, undrawn credit lines, and loan

guarantees. It also notes future and potential inflows and outflows of foreign exchange associated with balance-sheet and off-balance-sheet positions. Moreover, it includes data intended to illustrate how liquid a country's international reserves are, such as the identification of assets pledged, and to reveal a country's risk exposure to exchange rate fluctuations.

The template covers not only the authorities' foreign currency resources on a reference date but also inflows and outflows of foreign exchange over a future one-year period. The one-year horizon is consistent with the convention of defining "short-term" to cover a 12-month period, used in other economic statistics' international standards.

2. CONCEPTS OF INTERNATIONAL RESERVES AND FOREIGN CURRENCY LIQUIDITY

The underlying framework of the template is built on two related concepts, international reserves and foreign currency liquidity. The two concepts and their linkages are explained below.

2.1 INTERNATIONAL RESERVES

The fifth edition of the IMF Balance of Payments Manual sets forth the underlying concept of international reserves. "A country's international reserves refer to those external assets that are readily available to and controlled by monetary authorities for direct financing of payments imbalances, for indirectly regulating the magnitudes of such imbalances through intervention in exchange markets to affect the currency exchange rate, and/or for other purposes." (BPM5, paragraph 424). As defined, the concept of international reserves is based on the balance-sheet framework, with "reserve assets" being a gross concept. It does not include external liabilities of the monetary authorities. Underlying the concept of international reserves is the distinction between residents and non-residents, with reserve assets representing the monetary authorities' claims on non-residents.

Also integral to the concept of international reserves are the provisos "readily available to" and "controlled by" the monetary authorities. That is, only assets that meet these criteria can be considered reserve assets. Types of reserve assets cover foreign exchange assets, consisting of foreign currencies and foreign currency deposits and securities, gold, special drawing rights (SDRs), reserve position in the IMF, and other claims.

2.2 FOREIGN CURRENCY LIQUIDITY

Foreign currency liquidity is a broader concept than that of international reserves. In the data template, foreign currency liquidity refers to (1) the

foreign currency resources; (2) both predetermined (known, or scheduled) and contingent demands on foreign currency resources resulting from the short-term foreign currency liabilities and off-balance-sheet activities of the authorities.

That is, the authorities' foreign currency liquidity position refers to the amount of foreign exchange resources that is readily available, taking into account both predetermined and potential net drains on such resources. Underlying the liquidity concept is the notion that prudent management of this position requires managing foreign currency assets along with foreign currency obligations to minimize the vulnerability to external shocks. The concept of foreign currency liquidity is broader than that of international reserves in at least three respects:

- While reserve assets refer to external assets of the monetary authorities, foreign currency liquidity concerns foreign currency resources and drains on such resources of the monetary authorities and the central government, referred to hereafter as "the authorities", as opposed to "monetary authorities".
- While reserve assets represent the monetary authorities' claims on non-residents, foreign currency liquidity relates to the authorities' foreign currency claims on and obligations to residents and non-residents.
- While the concept of reserve assets is based on the balance-sheet framework, the concept of foreign currency liquidity encompasses inflows and outflows of foreign currency that result from both on- and off-balance-sheet activities of the authorities.

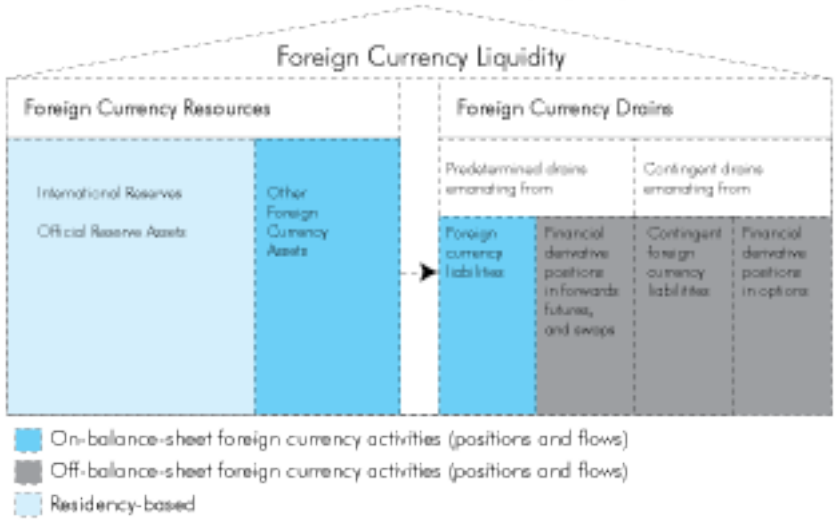
The concept of foreign currency liquidity is also broader than the notion of net international reserves. Net international reserves refer to reserve assets net of outstanding reserves-related liabilities at a point in time. Foreign currency liquidity takes account of foreign currency drains on existing foreign currency resources arising from the authorities' financial activities vis-à-vis residents and non-residents in the coming 12-month period. Information on whether a country's short-term foreign currency drains exceed its foreign currency resources could be used, among other data, to analyze the country's external vulnerability.

To enhance the transparency of data on countries' international reserves and their foreign currency liquidity, the template calls for comprehensive disclosure of the authorities, according to this structure:

1. Official reserve assets.
2. Other foreign currency assets.
3. Predetermined short-term net drains on foreign currency assets.
4. Contingent short-term net drains on foreign currency assets.
5. Other related information.

A schematic presentation of the framework of the template, showing the linkages between the concepts of international reserves and foreign currency liquidity, is provided in Figure 1.

Figure 1 Linkages between concepts of international reserves and foreign currency liquidity



2.3 KEY FEATURES OF THE DATA TEMPLATE

The data template sets forth the institutions that are to be covered and their financial activities over a certain time horizon in order to facilitate analysis of the authorities' foreign liquidity and risk exposure.

2.3.1 Institutions Covered

The template is intended to apply to all public-sector entities responsible for, or involved in, responding to currency crises. In practice, this coverage includes the monetary authorities, which manage or hold the international reserves, and the central government (excluding social security funds), which, together with the monetary authorities, accounts for most of the official foreign currency obligations. Demands on the authorities' foreign currency resources also could arise from elsewhere in the public sector. These other public entities generally are not covered in the template because of the difficulties of obtaining the data from these entities on a timely basis. Nonetheless, the standard recommends the inclusion of these other public-sector entities if their foreign currency activities are of material significance. In such a case, the data should be clearly indicated in country notes accompanying them.

Consistent with the BPM5 (paragraph 514), the template defines monetary authorities as "a functional concept, encompassing the central bank and other institutional units, such as the currency board, and certain operations usually attributed to the central bank but sometimes carried out by other government institutions or commercial banks. Such operations include the issuance of currency; maintenance and management of international reserves, including those resulting from transactions with the International Monetary Fund".

In conformity with existing international guidelines of other macroeconomic statistics, the template defines the central government to include "all government departments, offices, establishments and other bodies that are agencies or instruments of the central authority of a country (Manual on Government Finance Statistics, page 12)". "The central government excludes state governments, local governments, and social security funds operating at all levels of government" (System of National Accounts, paragraph 4.114), due to the timely non-collection of information.

2.3.2 Financial Activities Covered

For the purpose of foreign currency liquidity analysis, the template specifies that only instruments settled in foreign currency are to be included in resources and drains as covered in the template. The rationale is that, as concerns future inflows and outflows of foreign currency arising from the authorities' contractual obligations, only instruments settled in foreign currency can directly add to or subtract from liquid foreign currency resources. Other instruments, including those denominated in foreign currency, but settled in domestic currency, will not directly affect liquid resources in foreign exchange. Instruments denominated in foreign currency or indexed to foreign currency but settled in domestic currency, are to be reported as memorandum (memo) items in the last section of the template. These instruments can exert substantial indirect pressure on reserves during a crisis, particularly when expectations of a sharp depreciation of the domestic currency lead holders to exchange the indexed liabilities for foreign currency. Among such instruments are domestic currency debt indexed to foreign currency and nondeliverable forwards settled in domestic currency.

2.3.3 Valuation Principles

In the template, the values of foreign currency resources are to reflect what could be obtained for them in the market if they were liquidated; that is, at market prices on the reference date. In cases where determining market values on a frequent basis is impractical, approximate market values can be substituted. Drains on foreign exchange resources, including predetermined and contingent drains, are to be valued in nominal terms; that is, the cash-flow value when the currency flows are due to take place. Generally, this means the principal repayments reflect the "face value" of the instrument and the interest payments reflect contractual amounts due to be paid.

Inflows and outflows of foreign currency related to financial derivates are also to be reported in nominal terms.

2.3.4 Time Horizon

Consistent with the focus on liquidity, the horizon covered in the template is short term. For practical purposes, "short-term" is defined as "up to one

year." Finer breakdowns of time horizon of "up to one month", "more than one month and up to three months", and "up to one year" are included to assess the authorities' liquidity positions within the one-year time frame.

The term "residual maturity" is used in the template to indicate the types of "short-term" foreign currency flows to be reported for the various subperiods of the one-year time horizon. Residual maturity is commonly referred to as the time remaining until the final repayment of the outstanding obligations.

Accordingly, applying the "residual maturity" concept, one should include:

- Flows emanating from short-term instruments with original maturities of one year or less and;
- Flows arising from instruments with longer original maturities whose residual maturity is one year or less.
- In addition, in the template, this concept also includes principal and interest payments falling due within one year on instruments with original maturities of more than one year.

2.3.5 Other Reporting Considerations

The template does not specify the currencies (national, U.S. dollar, euro, or others) in which the data are to be reported. It is recommended, however, that compilers report data in the template in the same currency they normally use to disseminate data on official reserve assets, to promote reconciliations among different data sets. Moreover, to facilitate data comparability over time and among countries, it is preferable that the reporting currency be a reserve currency or, at a minimum, a stable one. The reference date in the template is the end date of the reporting period.

For position data, data to be reported refer to outstanding stocks of assets and liabilities on that date. For flow data, data to be reported refer to the anticipated amount on the reference date of future outflows and inflows of foreign currency, associated with known predetermined or contingent positions outstanding on the reference date. Where appropriate, the convention of applying a plus (+) sign to denote assets and inflows of foreign currency and a minus sign. In determining outstanding foreign currency resources and flows, it is recommended that transaction dates (not settlement dates) be used. Transaction dates are the preferred basis of recording because the time lags for countries' settlement practices differ. Since the template is designed for use in diverse economies, it is important that items not applicable be left blank in the template. Where the value of an item is zero, an entry denoting zero should be shown. To enhance the analytical usefulness of the data and to minimize the prospect that users will misinterpret information reported in the template, it is recommended that country-specific exchange rate arrangements, such as the operation of a currency board or the implementation of dollarization, be disclosed in country notes accompanying the data. Moreover, the practices

differing from the standards related to sectorization, the valuation and time of recording are to be explained.

3 STRUCTURE OF THE DATA TEMPLATE

The data template has four sections: Tables 1 – 4 include the data on Albania with a reference date 29 September 2006. Section 1 covers information on the authorities' foreign currency resources, including official reserve assets and other foreign currency assets.

I. Official reserve assets and other foreign currency assets

Indicator	Period
	September 2006
I. Official reserve assets and other foreign currency assets	In millions of USD
A. Official reserve assets	1,672.73
(1) Foreign currency reserves (in convertible foreign currencies)	1,603.21
(a) Securities	1,379.03
of which: issuer headquartered in reporting country but located abroad	
(b) total currency and deposits with:	224.18
(i) other national central banks, BIS and IMF	224.18
(ii) banks headquartered in the reporting country	
of which: located abroad	
(iii) banks headquartered outside the reporting country	
of which: located in the reporting country	
(2) IMF reserve position	4.96
(3) SDRs	11.72
(4) gold (including gold deposits)	52.83
volume in fine troy ounces	0.878
(5) other reserve assets (specify)	
—financial derivatives	
—loans to nonbank nonresidents	
—other	
B. Other foreign currency assets (specify)	
—securities not included in official reserve assets	
—deposits not included in official reserve assets	
—loans not included in official reserve assets	
—financial derivatives not included in official reserve assets	
—gold not included in official reserve assets	
—other	0

Official reserve assets are presented in part A of the table. According to the Balance of Payments Manual, Fifth Edition, they cover foreign currency, monetary gold, SDR, and reserve position in the Fund, which are marked-to-market values. The accounting balance data of the Bank of Albania and other additional data on securities have been used as a source of information, since the practice of their accounting recording does not meet the requirements of this template. The items included are the same with the ones included in measuring the NFAs[1], but the way of their recording differs. As explained above, these instruments are presented in the template in their market value, while in the existing NFAs, the purchase price of these instruments is presented.

Foreign currency assets, presented in section B of the table, are liquid assets issued in foreign currency (that meet the criteria of being available for use by the central government in times of a crisis). Pledged assets that are clearly not readily available should be excluded. These assets must be in convertible currencies, which may be claims on residents or nonresidents.

In this item of the template should be reported central government assets (excluding social security funds).

Examples of assets included in this item are:

- The authorities' foreign currency deposits in resident (domestic) banks, divided into deposits in resident banks and deposits in foreign banks' branches.
- The government's current accounts in foreign currency, readily available in non-resident banks.

Sub-loans extended by the government are not included in this item, since they are not liquid.

The accounting recording of the Ministry of Finance is used as a source of information. Currently, the Ministry of Finance reports that there are not any instruments, which meet these criteria.

II. Predetermined short-term net drains on foreign currency assets

Predetermined short-term net drains on foreign currency assets are the known or scheduled contractual obligations in foreign currencies. Short-term drains refer to contractual foreign currency obligations scheduled to come due during the 12 months ahead. Net drains are measured as a difference between outflows and inflows.

II. Predetermined short-term net drains on foreign currency assets (nominal value)					
			September 2006		
			Maturity breakdown (residual maturity)		
		Total	Up to 1 month	1 month - 3 months	3 months – 1 year
1. Foreign currency loans, securities and deposits		293.40	50.18	63.68	179.55
—outflows (–)	Principal	-38.98	-1.52	-13.60	-23.86
	Interest	-26.05	-1.59	-6.80	-17.66
—inflows (+)	Principal	299.92	51.92	70.85	177.14
	Interest	70.53	1.36	14.89	54.28
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency					
(a) Short positions (–)					
(b) Long positions (+)					
3. Other (specify)		0	0	0	0
—outflows related to repos (–)					
— inflows related to reverse repos (+)					
—trade credit (–)		0	0	0	0
—trade credit (+)		0	0	0	0
—other accounts payable (–)		0	0	0	0
—other accounts receivable (+)		0	0	0	0

Outflows consist of scheduled amortizations of foreign currency obligations and associated interest payments within 12 months. Inflows comprise obligations due to the authorities in the 12 month period ahead. Only inflows that are expected to be received should be reported. Interest payments should be reported separately from principal.

Whether an obligation is short term is defined on the basis of its remaining maturity. "Short term" refers to a period up to and including one year. In the template, they also include any amortization and interest payments falling due during the coming year. The time horizon in the table is broken into the three subperiods: "up to one month", "more than one month and up to three months" and "more than three months and up to one year". The "total" column in Section II of the template is to reflect the sum of the three subperiods. The flows value is their nominal flow converted in the USD at the exchange rate applicable at the reference date.

Loans (Section II.1) comprise liabilities resulting from the direct provision of funds from creditors, such as loans to finance trade, mortgage loans, use of IMF credit and loans, etc.

Sections II.3 includes accounts payable that are materially significant, including scheduled payments for goods and services previously purchased, payments of interest or loans in arrears, and wages and salaries outstanding (outflows of foreign currency).

Debt and other payments schedules of the Ministry of Finance and the Bank of Albania, as well as inflows data related to the securities and deposits held with non-resident banks are to be used as information source for this table.

III. Contingent short-term net drains on foreign currency assets

III. Contingent short-term net drains on foreign currency assets (nominal value)	Total	September 2006 Maturity breakdown (residual maturity)		
		Up to 1 month	1 - 3 months	3 months – 1 year
1. Contingent liabilities in foreign currency	-296.09	-220.25	-18.28	-57.57
(a) Collateral guarantees on debt falling due within 1 year				
(b) Other contingent liabilities	-296.09	-220.25	-18.28	-57.57
2. Foreign currency securities issued with embedded options				
3. Undrawn, unconditional credit lines provided by:	256.48	43.62	46.89	165.97
(a) other national monetary authorities, BIS, IMF and other international organizations				
—other national monetary authorities (+)				
—BIS (+)				
—IMF (+)				
(b) banks and other financial institutions headquartered in the reporting country (+)				
(c) banks and other financial institutions headquartered outside the reporting country (+)	256.48	43.62	46.89	165.97
Undrawn, unconditional credit lines provided to:				
(a) other national monetary authorities, BIS, IMF and other international organizations				
—other national monetary authorities (-)				
—BIS (-)				
—IMF (-)				
(b) banks and other financial institutions headquartered in the reporting country (-)				
(c) banks and other financial institutions headquartered outside the reporting country (-)				
4. Aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency				
(a) Short positions				
(b) Long positions				
PRO MEMORIA: In-the-money options				
(1) At current exchange rates				
(a) Short position				
(b) Long position				
(2) + 5% (depreciation of 5%)				
(a) Short position				
(b) Long position				
(3) – 5% (appreciation of 5%)				
(a) Short position				
(b) Long position				
(4) + 10% (depreciation of 10%)				
(a) Short position				
(b) Long position				
(5) – 10% (appreciation of 10%)				
(a) Short position				
(b) Long position				
(6) Other (specify)				

This table covers only contingent short-term net drains on foreign currency resources. Contingent flows simply refer to contractual obligations that give rise to potential or possible future additions or depletions of foreign currency assets. These flows may derive from assets and liabilities arising in the 12 months following the reference period. Section III of the template differs from Section II because contingent flows relate only to off-balance-sheet activities and they are contingent upon exogenous events.

Section III.1 of the template is used to report flows related to collateral guarantees and other contingent liabilities, which refer to guarantees provided by the authorities, backed by collateral. The recorded value in this item is the pledge of repayment by the authorities in the event of default by another entity. Data to be reported are foreign currency flows associated with the guarantees when they are exercised, and not the value of the collateral backing the guarantees.

Section III.I.(b) includes letters of credit and foreign currency loan commitments of the authorities. Also included are foreign currency deposits held at the monetary authorities by commercial banks in respect of the regulatory reserves/liquidity requirements.

Section III.3 is used for reporting undrawn, unconditional credit lines, which represent potential sources of foreign currency liquidity. Unconditional credit lines refer to those readily available to the authorities, that is, the ones that do not have material conditionalities attached. IMF arrangements are conditional lines of credit and thus should not be included in Section III of the template. However, where a country has not drawn amounts that have become available, these amounts can be shown in Section III as available over the period up to the next "test date" (a date at which end-of-period performance criteria have to be observed). These amounts are to be also reported separately in an explanatory note following the table.

IV. MEMO items

Section IV of the template provides supplementary information covering:

1. flows and positions not disclosed in Sections I-III, but deemed relevant for assessing the authorities' reserves and foreign currency liquidity positions and risk exposure in foreign exchange;
2. Additional details on positions and flows disclosed in Sections I-III; and positions and flows according to a breakdown or valuation criteria different from those found in Sections I-III.

IV. Memo items	September 2006
(1) To be reported with standard periodicity and timeliness:	
(a) short-term domestic currency debt indexed to the exchange rate	
(b) financial instruments denominated in foreign currency and settled by other means (e.g., in domestic currency)	
(c) pledged assets	
—included in reserve assets	
—included in other foreign currency assets	
(d) securities lent and on repo	
— lent or repoed and included in Section 1	
— lent or repoed but not included in Section 1	
—borrowed and included in Section 1	
—borrowed but not included in Section 1	
(e) financial derivative assets	
(f) financial derivatives that have a residual maturity greater than one year	
(2) To be disclosed less frequently:	
(a) currency composition of reserves (by groups of currencies)	
—currencies in SDR basket	96.8%
—currencies not in SDR basket	3.2%
—by individual currencies (optional)	

ENDNOTES

* This paper was prepared by Hilda Shijaku, Head of Financial Statistics Division.

[1] Net Foreign Assets

ALBANIAN PRICE DEVELOPMENTS IN COMPARISON WITH GREECE AND ITALY. WHAT ABOUT CONVERGENCE?*

ABSTRACT

One of the main criterions to become member of the European Union and then of the Monetary Union, is that of price stability. According to this criterion, the inflation rate must not exceed by more than 1.5 percentage points than that of the three best performing Member States in terms of price stability during the year preceding the examination of the situation in that state. Since one of the objectives of Albania is that of becoming a European member, in the following paper we have investigated price tendencies in comparison with that of Greece and Italy. These countries are taken in consideration because they are EU member states and Albania's main trading partners.

To compare price developments between Albania on one side and Italy and Greece on the other, in absence of absolute price data, we are based in series of the consumer price indices. These indices have the same division into 12 main groups for the three countries, but they have differences in the weights of these groups, in the division of groups into subgroups and in their respective weights.

Despite these differences we think that the methodology applied in this paper enables us to distinguish if the series of the 12 groups of the consumer price indices, have converged, are converging or diverge in relative prices or in inflation rates. The main conclusion in this paper is that in all cases we do not find divergence in inflation rates for the 12 groups of the consumer price indices between Albania and the two other states, Italy and Greece.

INTRODUCTION

One of the most important goals of the transition economies in South Eastern European countries is to join the European Economic and Monetary Union. In order to join the Monetary Union and adopt the euro as its currency, a country must meet certain economic and legislative requirements. These economic requirements are known as convergence criteria and entail, in brief: low inflation, stable exchange rate, sound government finances and low interest rates. In addition, the country's national central bank legislation must satisfy certain requirements. As an approximation for integration, it is expected that more integrated and competitive markets have lower price differences. To investigate this issue we view the developments of the Albanian consumer price index (CPI) in comparison with those of Italy and Greece. These countries are EU members and Albania's main trading partners[1] and convergence or

divergence in prices can be a good point to analyze, considering that the future of Albania is the accession in the EU.

The data used are the monthly series of the consumer price indices published by ISTAT for Italy, by General Secretariat of National Statistical Service of Greece for Greece (GSNSSG) and INSTAT for Albania. Although there are 12 groups of goods and services in the CPI basket of the three countries, there are differences in the classification of subgroups of goods and services and in their respective weights. In this analysis, we are conscious that these differences may distort the conclusions of this exercise.

It is not possible to use the CPI data to compare absolute price levels between different countries. CPIs do not tell us anything about the differences in the level of prices between the countries. An individual country index measures price level over a specific time period in that particular country and not absolute price levels. Furthermore, convergence in the rate of change of prices does not imply convergence in price levels. If we compare index numbers for two different countries, we can say that prices in one country are rising or falling, faster or slower, than in the other. We cannot tell from the index numbers whether prices or living costs are higher or lower in that country in comparison with another.

In the first part we give a general view on the inflation developments in the three countries and the main factors that have played an important role in these developments. Afterwards, we have analyzed developments in the 12 groups of the CPI and have tried to identify the main reasons which have led to these developments. The CPI data have been indexed using year 1999 as a base period.

In the second part of this paper, our focus is on finding the main tendencies in prices and inflation rates of these countries. We search for convergence of prices and inflation rates. Unit root and stationarity tests in levels and first differences have been used to investigate whether series are converging or have already converged. These tests are applied to the same monthly series of CPI data but, taking March of 2006 as the base month. The series have been seasonally adjusted and transformed by the exchange rate. Then, we have calculated the series of the differences –or contrast- between the log of price indexes and the series of differences in the inflation between countries and the tests are applied on these series.

I CPI DEVELOPMENTS IN ALBANIA, GREECE AND ITALY

Table 1 Annual changes in percentage for GDP and annual inflation average

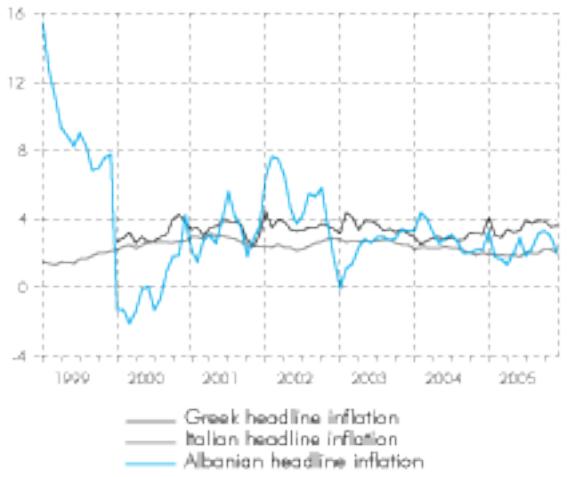
Annual changes in percentage for GDP and annual inflation average									
		1999	2000	2001	2002	2003	2004	2005	2006
Italy	Inflation	1.7	2.6	2.3	2.6	2.8	2.3	2.3	2.4
	GDP	1.9	3.6	1.8	0.3	0.0	1.1	0.0	1.5
Greece	Inflation	2.1	2.9	3.7	3.9	3.4	3	3.5	3.6
	GDP	3.4	4.5	5.1	3.8	4.8	4.7	3.7	3.7
Albania	Inflation	0.4	0.0	3.1	5.2	2.3	2.9	2.4	2.2
	GDP	10.1	7.3	7	2.9	5.7	5.9	5.5	5

Source: International Monetary Fund

Inflation in Albania has generally fluctuated between 2 and 4 per cent during these last six years. The main factors that have contributed to keeping inflation low are[2]:

- The gradual increase of the domestic agricultural production,
- The increase of the competition in supplying the domestic market with clothing, footwear products and household equipment.
- Stability oriented macroeconomic policies, with fiscal policy geared towards fiscal consolidation and monetary policy keeping positive levels of real interest rates have helped in keeping positive interest rate differences between lek and other foreign currencies.
- The appreciation of lek against Euro and USD. The appreciation might be explained by the increase in the productivity of the tradable goods[3] (good macroeconomic conditions helped developments in SME), remittances and income from tourism that justify the appreciation of lek especially in summer and in the last months of the year. The appreciation of our currency has played an important role in the amortization of the imported inflation in our country.
- The modest effects of oil price increases on the CPI, probably is in part due to the structure of our economy, characterized by low-energy activities, such as agriculture and services[4] (22.8 and 45.2 percent of GDP, respectively for the year 2005).

Chart 1 Headline inflation in Albania, Italy and Greece



Source: INSTAT, ISTAT, GSNSSG

Greece has succeeded in bringing inflation down from around 16%, where it was for most of the first half of the 1990s, to an average just above 3% since 2000[5]. Regardless of these developments, Greece has been one of the EU member state with high inflation rate. This may in principal be attributed to macroeconomic factors associated with:

- The faster growth rate of domestic demand compared with supply. This growth is reflected in the positive "output gap" and is in part due to the generally expansionary fiscal policy pursued in Greece in recent years[6].
- The rise of unit labour cost in Greece, which is higher than the euro average.
- Unsatisfactory competitive conditions in certain markets which do not operate efficiently (electricity, telecommunication, postal services).
- The developments of the world oil prices. Greece is more exposed to oil price changes than the European economy; the domestic energy consumption expressed in oil equivalent per GDP units is 36% higher in Greece than in EU-15 average. The developments in the exchange rate (appreciation of euro against usd during these last years) market has influenced on the impact of the increased oil prices in Greece.

Italy, in recent years, experienced a slower increase of GDP in comparison with other Euro area countries[7]; due to the decrease in the domestic demand.

- Household consumption decreased because of the weakening in the expectations about the economic growth. This is reflected in the increase of the household savings.
- Inflation was influenced by the developments in oil prices. The fluctuations in the euro/usd exchange rate contributed to the weight that the increase of the oil prices pursues against inflation.
- The main specific factors hindering more frequent price adjustments, in Italy, are the existence of explicit contracts with the buyers, the reluctance of individual firms to reprice for fear of provoking reaction from competitors, and the perceived temporary nature of shocks[8]. On the other hand, with the exception of firms in the retail sector, menu costs are not considered an especially important impediment to more frequent price adjustments. The reaction of firm prices to shocks is asymmetrical. Positive changes in costs have a greater impact than negative ones; increases in demand give rise to larger price changes than decreases in demand.

I.1 PRICE TRENDS OF THE 12 GROUPS OF THE CPI

Group 1 – Food and non alcoholic beverages

Economic theory suggests that the improvement in a population's standard of living leads to a fall of the share of its expenditure accounted for primary goods (food, housing, etc.) and to a raise in the share of the luxury goods. Consequently, relatively poor population groups spend a larger share of their income on primary goods and a smaller share on recreation, health, education etc. This theory holds when we compare the weights that the group "Food and non alcoholic beverages" has on the CPI basket for the three countries. The weight of this group for Albania is higher than for Greece and Italy.

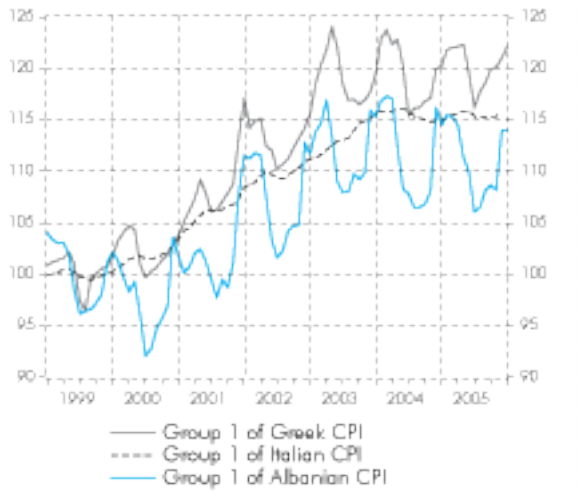
Table 2 CPI group weights in the three countries

CPI group weights in the three countries[9]			
CPI Groups	Albania	Greece	Italy
Food and non alcoholic beverages	0.426	0.185	0.154
Alcoholic beverages and tobacco	0.031	0.039	0.027
Clothing and footwear	0.038	0.099	0.098
Housing	0.244	0.117	0.095
Household equipment	0.046	0.086	0.099
Health	0.021	0.069	0.077
Transport	0.048	0.130	0.138
Communication	0.013	0.038	0.032
Recreation and culture	0.026	0.049	0.080
Education	0.010	0.027	0.011
Hotels/catering	0.073	0.097	0.106
Miscellaneous	0.024	0.064	0.083

Source: INSTAT, ISTAT, GSNSSG

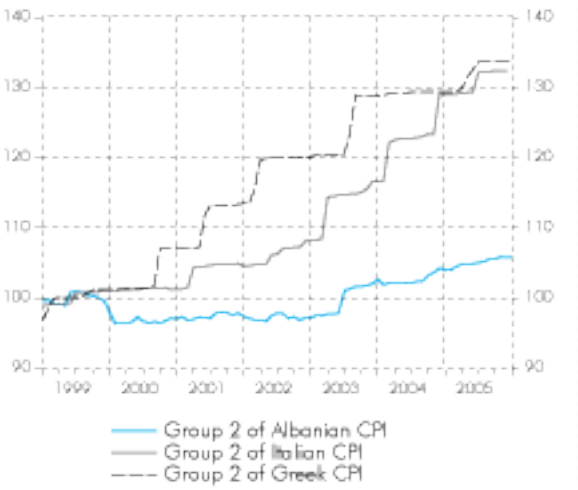
From chart 2, we notice that Albanian and Greece CPI experienced nearly the same fluctuations, while the Italian CPI is much smoother. The main explanations for these developments could be: the importance of the agricultural sector and the same climate conditions in Albania and Greece

Chart 2 Food and non alcoholic beverages



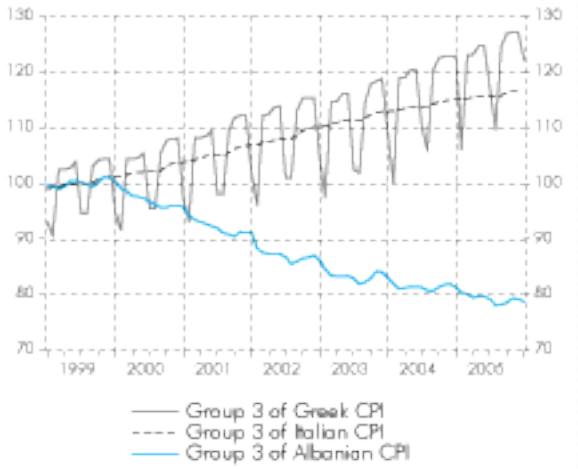
Source: INSTAT, ISTAT, GSNSSG

Chart 3 Alcoholic beverages and tobacco



Source: INSTAT, ISTAT, GSNSSG

Chart 4 Clothing and footwear



Source: INSTAT, ISTAT, GSNSSG

and the presence of a more industrialized economy, in comparison with the above countries, in the Italian case.

The relatively high inflation recorded in Greece could be easily imported in Albania, given that food imports from Greece, construct a large share of Albanian's total food imports[10]. However, we believe that the appreciation of lek has worked as a buffer against the rising import prices.

Group 2 – Alcoholic beverages and tobacco

The weights of this group in the CPI basket are higher in Greece and Albania and lower in Italy. Prices of this group in Greece seem to be growing up faster with prices of Italy following while Albanian prices seem to have a slower growth rate. This could be explained by the fact that the goods of this group are more luxury goods than primary ones and because Albanians consume a lot of home made alcoholic products. The jumps in the CPIs of Italy and Greece are the result of changes in the indirect taxes on tobacco and alcohol in these countries. EU membership can explain the visible convergence in charts of these countries with the passing of time.

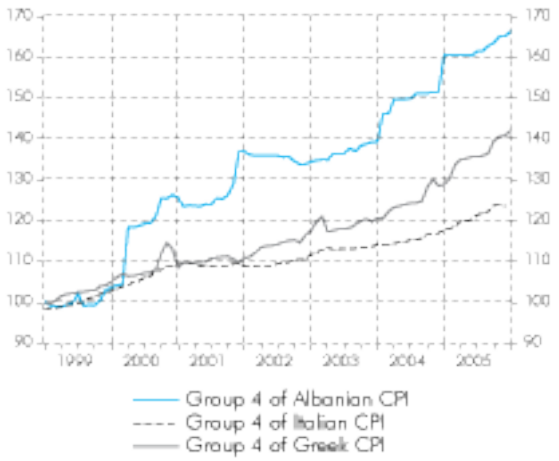
Group 3 – Clothing and footwear

The price tendency of the third group products "clothing and footwear", is falling in the Albanian case and rising in Greece and Italy cases. This difference in trends could be explained by the liberalization and increase of the competition in Albanian market of these goods, the appreciation of lek during these years and by the differences in the quality of these products traded in these countries. The weight of this group is nearly the same for Italy and Greece and lower for Albania. We observe a much higher seasonality in the Greek CPI. This seasonality can be explained by the sales after the winter holidays, in January and in summer season when tourism activity is very high. Seasonality is observed even in the Albanian CPI but it is not as prominent as in the Greek case. The fact that Italy has a much more stable CPI could be explained by the reputation of Italy as a well known country for its fashion houses and an exporter of these goods.

Group 4 – Housing

Housing prices display a general upward trend in the three countries. A very important subgroup of group "housing" is electricity. Albanian electricity market looks more like a monopolistic market with KESH the main generator, transmitter, distributor and seller of the energy. The problems that this company faces to cover costs, have led to the increase of the electricity prices during these years. Another factor influencing the increase of prices of this group is the continuous increase in housing prices. The upward tendency for Greece and Italy could be explained by the increase in the price of energy (even in the global market) and the increase in the rent and housing prices.

Chart 5 Housing

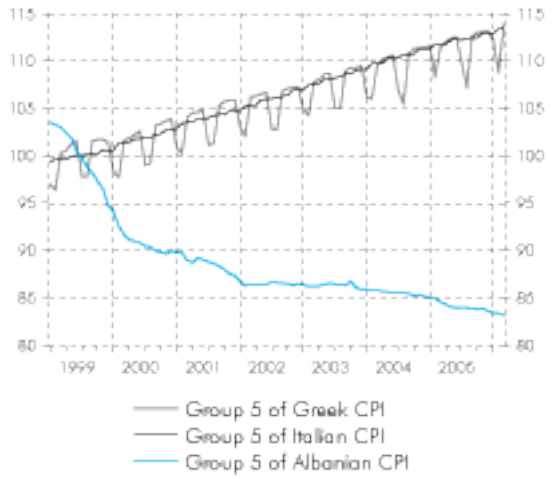


Source: INSTAT, ISTAT, GSNSSG

Group 5 – Household equipment

Analyzing price tendencies of the "Household equipment" group, we face the same picture as that of the third group of the CPIs basket. The developments in the Albanian market, the downward tendency of prices, could be explained by the liberalization of the market, increasing of the competition fuelled by the increase of the domestic products and the appreciation of lek against euro. In the Greek CPI we see the same seasonality that we have seen in the "clothing and footwear" group. We expect that the same factors causing seasonality in the third group can be true even in this case.

Chart 6 Household equipment

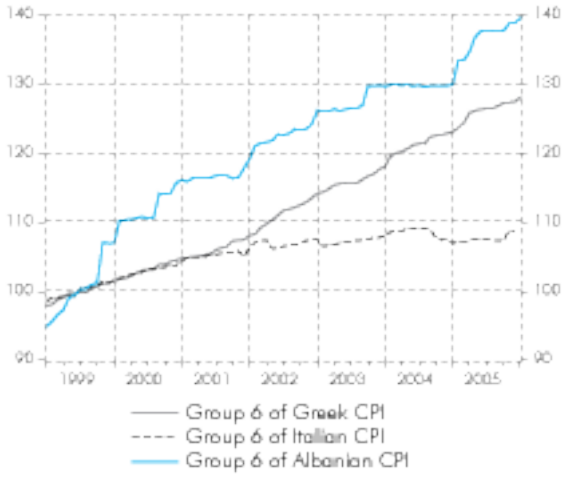


Source: INSTAT, ISTAT, GSNSSG

Group 6 – Health

The fast rise of the Albanian prices for "Health" group in comparison with the two other countries could be explained by the low competition[11] in this market and the continuous increase in the prices of the medical services and medicines. The majority of the medical products, appliances and equipment in Albania are imported. Medical warehouses, in general work by earning exclusivity on some articles, from the supplier firms which leads to low competition in the market. In Greece, imports comprise 95[12] percent of the market whereas in Italy 70 percent of medical devices and diagnostics used are imported. The public sector accounts for 70 percent of total medical purchases in Greece, mainly by public hospitals. Public hospitals in Italy

Chart 7 Health

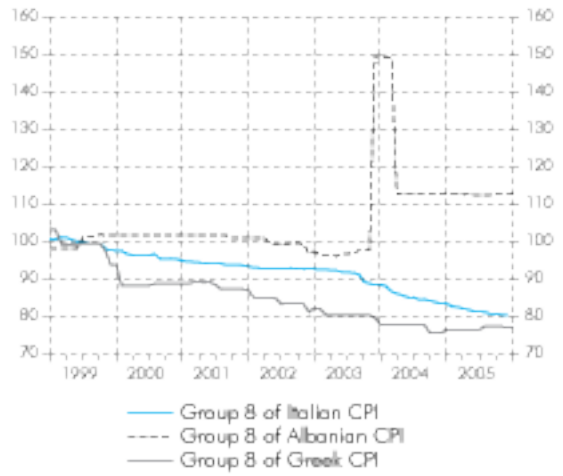


Source: INSTAT, ISTAT, GSNSSG

Chart 8 Transport

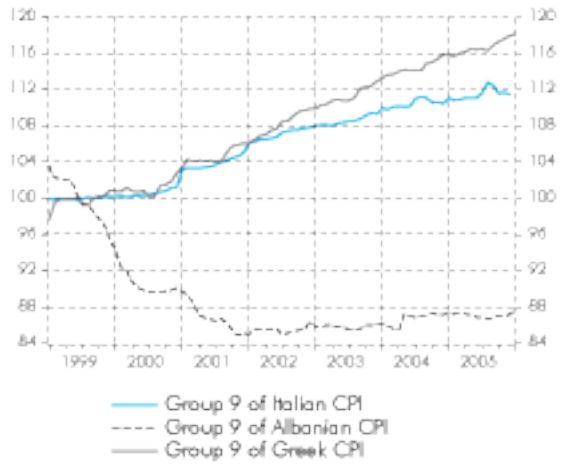
Source: INSTAT, ISTAT, GSNSSG

Chart 9 Communication



Source: INSTAT, ISTAT, GSNSSG

Chart 10 Recreation and Culture



Source: INSTAT, ISTAT, GSNSSG

account for approximately 75 percent of sales of medical equipment, while 25 percent of sales go to the private sector. These facts can bring more light in explaining why the CPI of Greece is rising faster than the Italian one. We could not find any evidence that there are big differences in the aging of the population between these countries. Old age dependency ratio is nearly the same for Greece and Italy. The weight that the group "health" has in the basket is greater in the Italian and Greek case and lower in the Albanian one.

Group 7 – Transport

In Albania the "Transport" group has about 5 percent weight in the inflation basket. This group consists of three subgroups: purchase of vehicles, operation of personal transport equipment and transportation services. Out of these subgroups the most important one because of its weight is the operation of personal transport equipment component with a weight of 2 percent. The price of this group is directly affected by the increase and decrease of oil prices in the international market, which has been very volatile in the last years. Albania demonstrates similar fluctuations in prices (increases and decreases) with Greece and Italy. However, there are periods when changes of the oil price in Albania did not reflect changes of oil price in the international market. This is due to the appreciation of lek in the last years, especially toward US dollar. Thus, as oil is traded in US dollars, the appreciation of lek against usd has helped to amortize the effect of increased oil prices in the international market.

Group 8 – Communication

The trend of this group in the Albanian CPI is very different from that of the other two countries. Whereas Greece and Italy show patterns of a competitive market that drives prices down (Chart 9). Albania shows a pattern of a controlled or uncompetitive market. There are two important moments in the communication sector in Albania: the first is the decrease in the price at the beginning of 2003 attributed to the promotional packages offered by Vodafone Albania that caused a slight decrease in prices at that time; and the second is the immediate increase in prices at the end of 2003

attributed to Albtelecom, the sole fixed telephony provider in Albania. This price increase was reflected in the market immediately. Albtelecom in the middle of 2004 decreased prices, affecting the market in general again. After this moment there did not seem to be a change in prices. This is because the Albanian communication market consists of only one fixed Telephone Company and two cellular ones and thus, it reflects the characteristics of a market that does not stimulate competition.

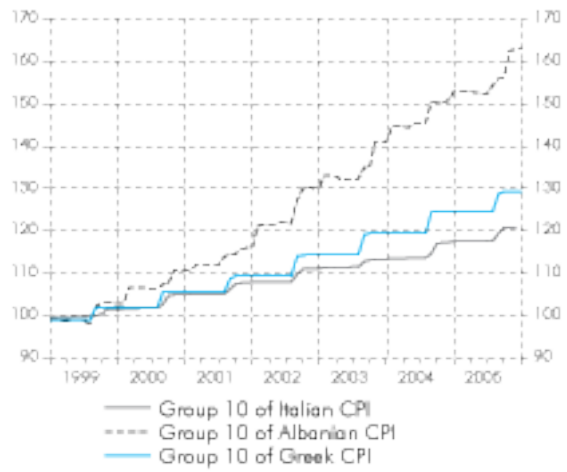
Group 9 – Recreation and Culture

The Albanian CPI of this category is comprised of three subgroups which are: "audio visual, photographic equipment and their repair", "entertainment and cultural services" and "newspapers, books and school supplies". The most important subgroup in this group is the "audio visual, photographic equipment and their repair". This subgroup is comprised of imported goods and supplies, whereas the other two subgroups include domestic services and products. From the chart we can see that the trend of Albanian prices is decreasing especially up to 2001. Meanwhile Italy and Greece show rising price tendencies. This could be attributed to the different development levels of these countries and the influence that euro had in the Euro zone markets.

Group 10 – Education services

In this group are included all education related services. This group has a weight of 0.1% in the Albanian basket of goods. When comparing price trends of these services in Albania to those of Italy and Greece there seems to be a higher upward tendency of prices for these services in Albania. This could reflect the moment of the entrance of private schools and educational institutions in this market which charge high prices for the services they provide as opposed to the free public education system. Italy and Greece seems to have a recurring pattern of price increases in September when the academic year starts. However, Albania seems to show price increases even in other months like January, explained by the beginning of the second academic semester. The Albanian price development for this group and its irregular changes throughout the years could be attributed to the entrance of the new services and perhaps with gaps or deficiencies in the regulatory or legal framework, that might put some price stability in this sector.

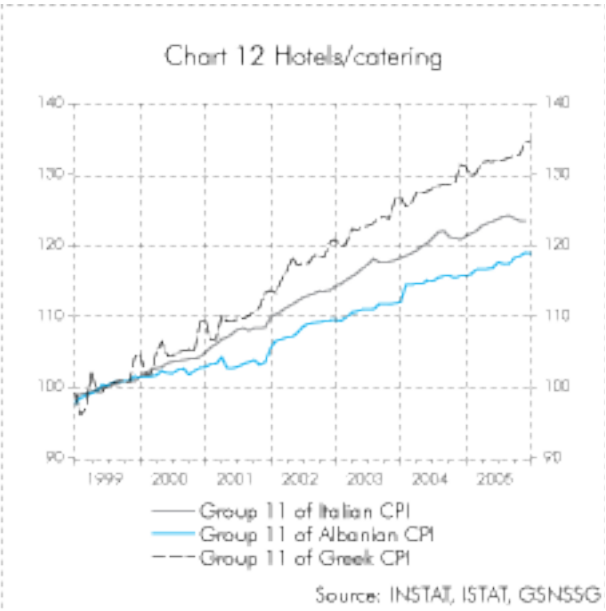
Chart 11 Education services

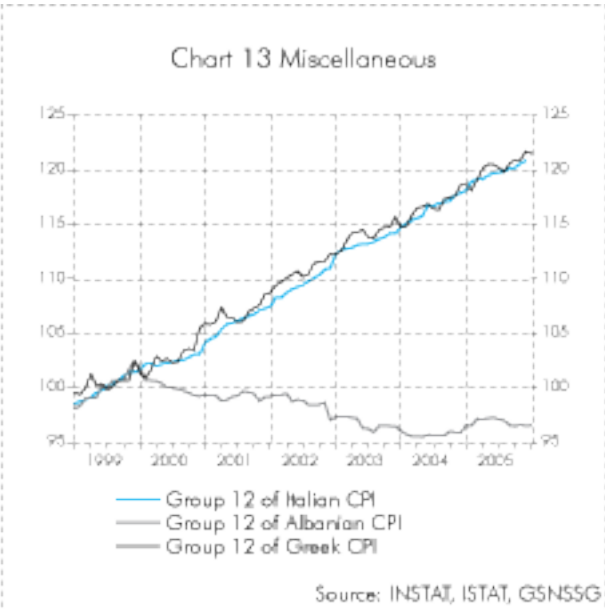


Source: INSTAT, ISTAT, GSNSSG

Group 11 – Hotels/catering

As far as the group "hotels/catering" is concerned, the three countries demonstrate a similar trend of price increases. In the three cases, we can distinguish seasonality of prices. However, the only noticeable difference is that the increase in prices in Italy and Albania occurs in the month of August, which is the





peak of the tourist season in both countries. On the other hand, the tourist season starts earlier in Greece, namely in April or May right around Easter. This could be explained by the high numbers of Northern European tourists, who start vacation earlier than the beginning of the summer. In Albania, we can not talk of a true tourist seasons, mostly about the inflow of Albanian emigrants that live abroad. Thus, during this period, the Albanian market reflects an increase of the prices of these services.

Group 12 – Miscellaneous

This category consists of goods and services such as personal hygiene products, or household cleaning supplies. Albania has a different price pattern than those of Italy and Greece. This could be attributed to the fact that both other countries are EU members and therefore have strict quality criterion on the products traded in their countries. For Albania, the same products are mostly imported and do not obey to such strict quality criterion. They are mainly imported from non EU countries or have been produced for the Albanian market and hence are on low cost. The Euro zone membership has affected prices for Greece and Italy since the introduction of the euro prices were rounded up. These products could be categorized as luxury goods and their prices are influenced by the cost of living. This could explain the downward tendency of prices in the Albanian market. Another explanation for the downward trend in the Albanian prices could be the increase in competition in the domestic market and the appreciation of lek.

II. TESTING FOR STABILITY AND CONVERGENCE

In the first part of the paper we compared the CPI of Albania, Italy and Greece. By this comparison we can say that prices in one country are rising or falling but we can not tell whether prices are higher or lower in one country in comparison with another. An individual country index measures price levels over a specific time period in that particular country and not absolute price levels. Furthermore, convergence in the rate of change of prices does not imply convergence in price levels. Considering this, in this part of the paper, we focus on finding whether the price differences, in inflation rates or in levels, between our country and that of Italy and Greece are diverging, are converging or have converged.

In the literature on convergence the general tests used to describe if the series have converged or are in process of converging are unit root test and

stationarity test. Unit root tests are more useful to establish whether the variables are in the process of converging. Stationarity tests are more appropriate to verify if the series have converged, i.e. whether the difference between them remains stable.

In our paper, we refer to the testing strategy described by Busseti, Fabiani, Harvey et al, (2006). They present a testing strategy to establish whether the convergence occurs in relative prices or just in rates of inflation. They have applied their strategy on the monthly series of the Consumer Price Index in the Italian regional capitals over the period 1970-2003. They argue that the use of unit root and stability test in first differences and levels allows us to distinguish if series have con/diverged or are in the process of converging and establish if convergence occurs in relative prices or in rates of inflation. In this paper is presented the same testing strategy but this time established to investigate convergence in levels or differences of the 12 groups of the CPI between Albania and Italy, and Albania and Greece.

Methodology, tests and data

In our exercise it is of interest to test the hypothesis of stability of convergence in both levels and first differences. In this way we can see the dynamics of both relative prices and inflation differentials. If $P_{i,t}$ is some weighted average of price in country *i* at time *t* than the price indexes are:

$$p_{i,t}=P_{i,t}/P_{i,b}$$

where *b* is the base year. The difference, or contrast, between (the log of) the price index and countries is:

$$y^{i,j}_t=\log p_{i,t}-\log p_{j,t}$$

Where, $y^{i,j}_t$ is the logarithm of the relative prices between two countries. It is not possible to discriminate between relative or absolute convergence with price index; all that can be investigated is convergence to proportional law of one price. The appropriate test for stability is ξ_1. On the other hand, a test of convergence can be based on DF statistic, τ, formed by taking the base to be the last period.

The contrast in the rate of inflation, or inflation differentials,

$$\Delta y^{i,j}_t=\Delta \log p_{i,t}-\Delta \log p_{j,t}$$

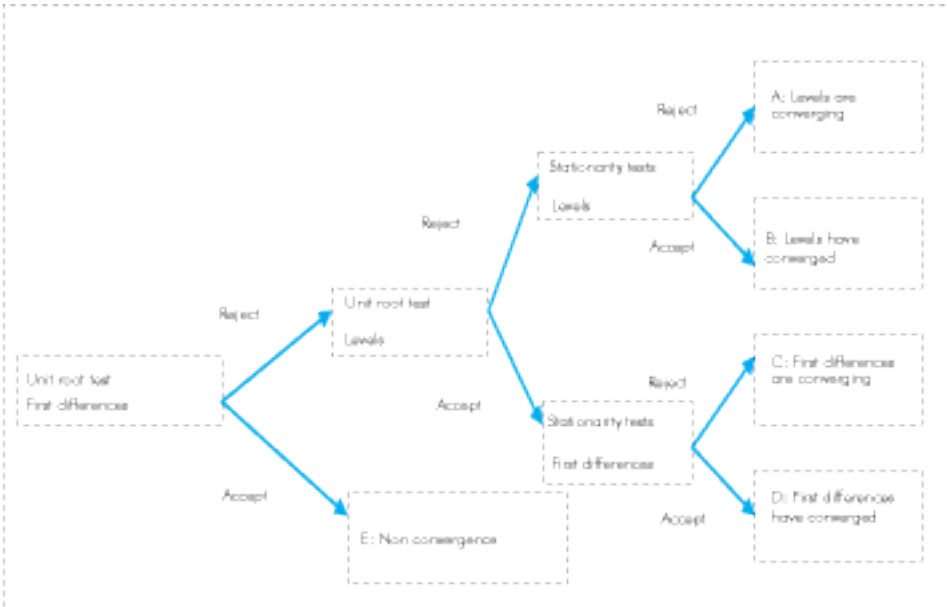
are invariant to the base year because this cancels out yielding $\Delta y_{i,t}=\Delta \log P_{i,t}-\Delta \log P_{j,t}$. The Null hypothesis that there are no permanent, or persistent, influences on an inflation rate contrast is tested by applying ξ_0 stationary test to Δy_t. Similarly, the null hypothesis of no convergence can be tested using τ_0 obtained from an ADF regression without a constant.

Based on the results of the unit roots and stationarity tests we can distinguish between groups of CPI that have already converged (rejection of unit root and

non rejection of stationarity test) and groups of the CPI that are in process of converging (rejection of both tests). Since both levels and differences are of interest, the order of testing is also important. Dickey and Pantula (1987), argue that it is best to test for a unit root in first differences and if it is rejected, to move on to test for a unit root in the levels.

On the other hand, stationarity of the levels implies that the spectrum of first differences is zero at the origin, thereby invalidating a stationarity test on first differences. This suggests that the sequence of stability test should be one in which the stationarity of Δy_t is tested only if stationarity of y_t has been rejected.

The starting point, of this testing strategy, is the unit root test on inflation differentials. If this hypothesis is not rejected we have the case of non convergence (divergence) (option E in the figure below), while rejecting the unit root test in first differences leads to the test of unit root hypothesis in relative prices. The rejection or acceptance of the later test will lead to stationarity test in levels or differences. The final results, as described in the strategy used by F. Busseti, et al, (2006) are:



(A) Relative prices are converging: rejection of unit root in first differences and levels; rejection of levels stationarity test.

(B) Relative prices have converged: rejection of unit root in first differences and levels; non rejection of levels stationarity test.

(C) Inflation rates are converging: rejection of unit root first differences but not in
levels; rejection of first differences stationarity test.

(D) Inflation rates have converged: rejection of unit root in first differences but not in levels; non rejection of first differences stationarity test.

(E) Non convergence: non rejection of unit root in first differences.

Data

The data used are the same monthly series of the consumer price index but the base period has been changed to March 2006. The series have been seasonally adjusted and transformed by the changes in the exchange rate lek/euro. Then we have calculated the series of the difference –or contrast- between the log of price indexes and the series of differences in the inflation between countries and the tests are applied on these series.

All test results are given in table 1 and 2. To better understand the results of this tables we can provide an illustration of the price and inflation contrast between Albania and Greece for the first group "food and non alcoholic beverages" of the CPI. The null hypothesis of non convergence is rejected at 1% level by the ADF test on inflation differentials. The unit root test in levels is also rejected but the level stationarity test is not rejected leading to the conclusion that the relative prices of "food and non alcoholic beverages" have converged, Option B. One aspect of these results that might be a concern is the fact that although prices seem to be converging; the stationarity test on inflation differentials rejects the null hypothesis.

The properties of the first differences stationarity test depend on whether the initial condition is small or large. In the former case the test is undersized, in the later it is oversized. Oversizing occurs for a large initial condition with the degree of oversizing increasing with the magnitude of the initial condition. Intuitively this oversizing problem can be explained if we think of a converging path in levels (starting from a large initial value): the first difference is the slope of the series which keeps changing mostly in the same direction in order to bring the level to its long run value. Notice that these large values of the initial conditions, for which oversizing occurs, are quite typical for converging series.

The results of the tests on inflation and price differentials on the 12 groups of the CPI are reported in table 1 and table 2. For the inflation contrasts we give the significant levels of rejection for the ADF test with and without a constant term, respectively τ_1 and τ_0. For price contrast we report significant level of rejection of the ADF test with a constant τ_1 and without a constant τ_0 term and Kwiatkowski, Pillips, Schmidt and Shin (KPSS) stationarity test ξ_1. In both cases, the maximum lag values according to the Akaike Information Criterion were 11.

In all cases, the unit roots tests on inflation differentials reject the null hypotheses, so we exclude the case of non convergence or divergence. In the first table we gave the results of the compared prices between Albania and Italy. In this case we have: 1 A, converging relative prices, 9 Bs, convergence in relative prices and 2 C, converging inflation rates. In the second table, we have compared Albanian and Greek prices. In this case we have: 11 Bs, convergence in relative prices and 1 C, converging inflation rates.

Table 3 Test results on the prices between Albania and Italy

Albania-Italy							
Groups of CPI	Inflation contrast			CPI contrast			Outcome
		τ	ξ_0		τ	ξ_1	
	τ_1^{13}	τ_0		τ_1	τ_0		
Food, non alcoholic beverage	1%	1%	1%	5%	1%	-	B
Alcoholic and tobacco	1%	1%	1%	-	-	-	C
Clothing and footwear	1%	1%	1%	-	-	-	C
Housing	1%	1%	1%	1%	1%	-	B
Household equipment	1%	1%	1%	-	5%	-	B
Health	5%	1%	1%	5%	1%	10%	A
Transport	1%	1%	1%	10%	1%	-	B
Communication	1%	1%	1%	-	5%	-	B
Recreation and culture	1%	1%	1%	-	5%	-	B
Education services	1%	1%	1%	-	1%	-	B
Hotels/catering	5%	1%	1%	10%	1%	-	B
Miscellaneous	1%	1%	1%	-	5%	-	B

Table 4 Test results on the prices between Albania and Greece

Albania-Greece							
Groups of CPI	Inflation contrast			CPI contrast			Outcome
		τ	ξ_0		τ	ξ_1	
	τ_1^{13}	τ_0		τ_1	τ_0		
Food, non alcoholic beverage	1%	1%	1%	10%	1%	-	B
Alcoholic and tobacco	1%	1%	1%	-	5%	-	B
Clothing and footwear	1%	1%	1%	-	-	-	C
Housing	1%	1%	1%	1%	1%	-	B
Household equipment	1%	1%	1%	-	1%	-	B
Health	5%	1%	1%	1%	1%	-	B
Transport	1%	1%	1%	-	1%	-	B
Communication	1%	1%	1%	-	1%	-	B
Recreation and culture	1%	1%	1%	-	5%	-	B
Education services	1%	1%	1%	-	1%	-	B
Hotels/catering	5%	1%	1%	-	5%	-	B
Miscellaneous	1%	1%	1%	-	10%	-	B

Table 5 Test results on the prices between Greece and Italy

Greece-Italy							
Groups of CPI	Inflation contrast			CPI contrast			Outcome
		τ	ξ_0		τ	ξ_1	
	τ_1^{13}	τ_0		τ_1	τ_0		
Food, non alcoholic beverage	1%	1%	1%	-	-	-	C
Alcoholic and tobacco	1%	1%	1%	-	-	-	C
Clothing and footwear	-	-					E
Housing	-	5%	1%	-	10%	-	B
Household equipment	1%	1%	1%	-	-	-	C
Health	1%	1%	1%	-	5%	-	B
Transport	1%	1%	1%	5%	1%	-	B
Communication	1%	1%	1%	5%	1%	-	B
Recreation and culture	5%	1%	1%	-	1%	-	B
Education services	-	5%	1%	-	-	-	C
Hotels/catering	1%	1%	1%	-	1%	-	B
Miscellaneous	1%	1%	1%	5%	1%	-	B

III. CONCLUSIONS

In this paper, are analyzed price tendencies between Albania on one hand and Greece and Italy on the other. In the conclusions found must be taken into consideration the different level of economic development between these

countries, the differences in the consumer price indices and the short period of time series used in this methodology.

- Initially, in this paper, we make a comparison of the price tendencies of the 12 groups of the CPI, between Albania, Italy and Greece. From this analysis, it results that in the Albanian market there are two main tendencies:

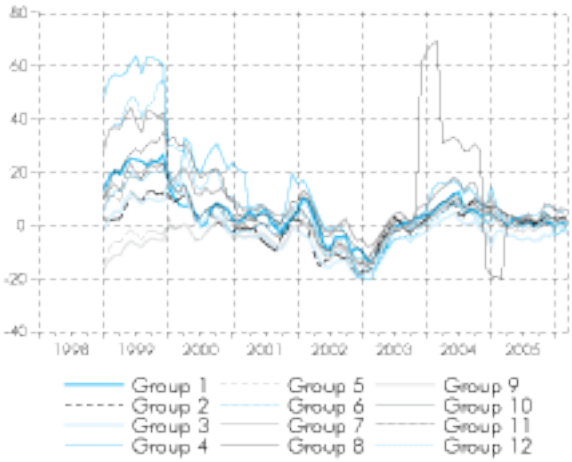
1. A decreasing tendency in the prices of the groups "Clothing and footwear", "Housing equipment", "Recreation and culture" and "Miscellaneous" in comparison with the two other partner countries.
2. A faster increase of the prices for the groups "Housing", "Health", "Communication" and "Education" in comparison with Italian and Greek ones.

Price developments in the first case could be explained by market liberalization, assignment of the Free Trade Agreement with the countries of the region, increase of the domestic production and the appreciation of the exchange rate[14]. In the second case, when the Albanian prices are rising faster than the prices of the two other countries, we need to take into consideration the nature of these goods and services and the fact that a good part of them are administered prices.

- Then, in the paper are applied the unit root and stationarity tests to investigate whether series have converged, are converging or diverge in relative prices and inflation rates. Tests are applied on the monthly series of the consumer price indices that have the same division into 12 groups, for the three countries, but change in the weights of the groups, in the division into subgroups and in their weights. In the majority of the cases, tests lead to the convergence in the difference of the relative prices. Anyhow, taking into consideration the differences of the consumer price indices between these countries and the oversizing problem we want to emphasize that the most important conclusion of this paper is that in all cases tests reject the hypothesis of divergence in inflation rates.

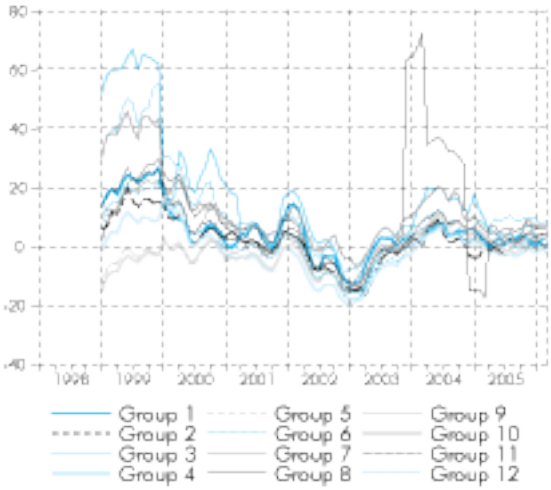
- For the future, we think that it will be of interest to apply this testing strategy on longer time, updated, series of the CPI. The future results can be of interest because some of the actual noises could be eliminated.

Chart 14 Contrast in inflation of the 12 groups of the CPI between Albania and Greece



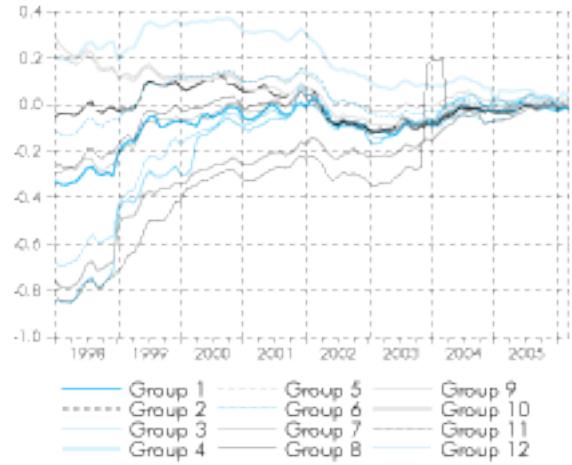
Source: INSTAT, GSNSSG and authors estimates

Chart 15 Contrast in inflation of the 12 groups of the CPI between Albania and Italy



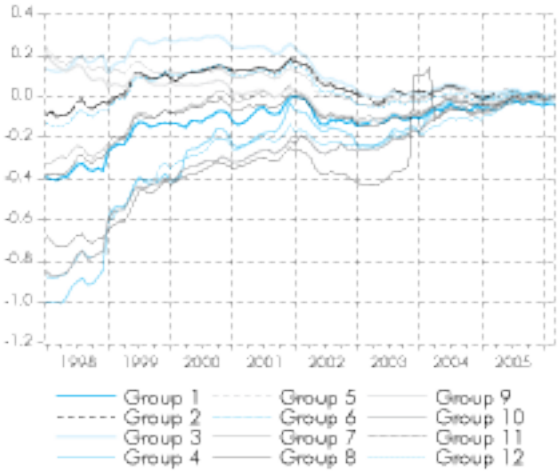
Source: INSTAT, ISTAT and authors estimates

Chart 16 Contrast in relative prices (CPI) between Albania and Greece



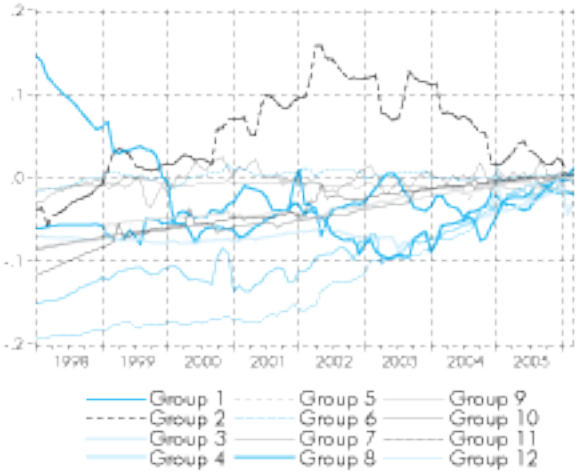
Source: INSTAT, GSNSSG and authors estimates

Chart 17 Contrast in CPI between Albania and Italy



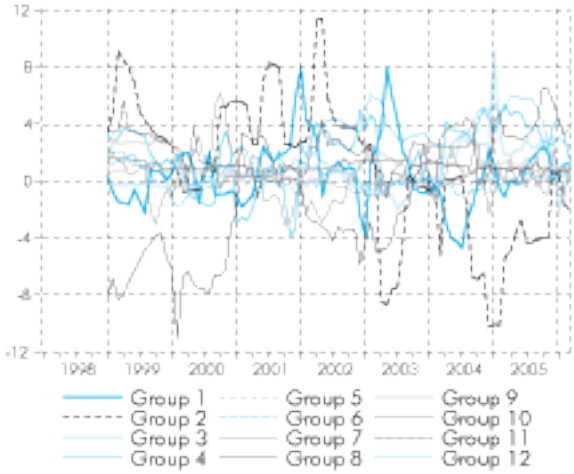
Source: INSTAT, ISTAT and authors estimates

Chart 18 Contrast in CPI between Greece and Italy



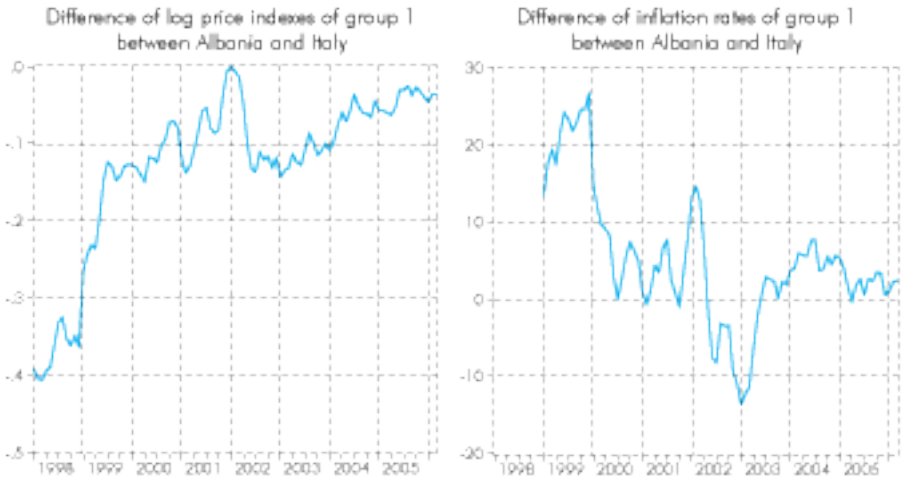
Source: ISTAT, GSNSSG and authors estimates

Chart 19 Contrast in inflation of the 12 groups of the CPI between Greece and Italy



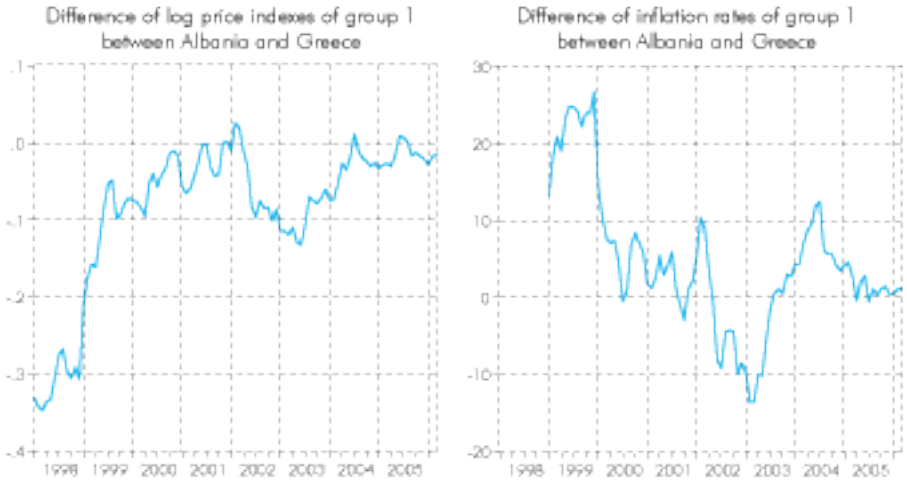
Source: ISTAT, GSNSSG and authors estimates

Chart 20 CPI and inflation differences between Albania and Italy



Source: INSTAT, ISTAT and authors estimates

Chart 21 CPI and inflation differences between Albania and Greece



Source: INSTAT, GSNSSG and authors estimates

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ENDNOTES

* Elvana Troqe, Valentina Semi, Specialists of Monetary Policy Department.

We would like to thank Ms. Marga Peeters, Mr. Gramoz Kolasi, Mr. Erion Luçi, Ms. Diana Shtylla and Mr. Erald Themeli for their helpful suggestions.

The views expressed here are those of the authors and do not involve the responsibility of the Bank of Albania.

[1] Exports with Italy, in 2005 compromise 72.4 percent of the total exports and with Greece 10.5 percent. Imports with Italy, in 2005 compromise 29.3 percent of the total imports and with Greece 16.6 per cent of the total.

[2] Source: Periodical Reports of the Bank of Albania.

[3] Jan Peter Olters "Is inflation too low in Albania? Macroeconomic foundations and socioeconomic development", Fifth Conference of the Bank of Albania.

[4] Not including transport services.

[5] Speech by the Deputy Governor Mr. Panayotis Thomopoulos: ''Supervision of credit and financial institutions - Structure of the Greek banking system''. Euromoney Conferences, Greece's rapidly changing banking sector, Athens, 1-2 November 2006.

[6] Source: Monetary Policy Interim Report and Annual Report, Bank of Greece.

[7] Source: Annual Report 2005, Bank of Italy.

[8] S. Fabiani, A. Gattulli and R. Sabbatini, July 2004, "The pricing behavior of Italian firms: New survey evidence on price stickiness".

[9] There are differences in the classification and weights of subgroups of goods and services in the 12 groups of the CPI between these countries.

[10] Imports of food and non alcoholic beverages, from Greece, comprised 17 percent of total imports in 2005.

[11] The competition could be considered lower taking into account the appreciation of lek during these last years.

[12] U.S. Department of Commerce. Mission Statement U.S. Healthcare Technologies Trade Mission. Greece, Italy, May 22-27, 2006

[13] Unit root test without constant τ_0, unit root test with constant τ_1, stationarity test without constant ξ_0, stationarity test with constant ξ_1.

[14] The subgroups of these groups are comprised mainly by tradable goods.

BANK OF ALBANIA NEWS OVER JANUARY-MARCH 2007

On the visit of the Governor of the Bank of Albania in the Bank of France

On 26 January 2007, the Governor of the Bank of Albania, Mr. Ardian Fullani had a meeting with the Governor of the Bank of France, Mr. Christian Noyer in Paris. The purpose of this meeting was to identify the new areas of co-operation between the two central banks. Mr. Noyer expressed his willingness to enhance this co-operation and to provide expertise in various areas to the Bank of Albania. Moreover, the two governors discussed the latest macroeconomic developments and the preservation of financial stability in both these countries. The work made by the Bank of Albania for the successful adoption of the inflation targeting regime in the future was also a topic of discussion between the two governors.

On the publication of TRIBID and TRIBOR

On 7 February 2007, upon the entry into force of the Regulation "On the calculation of the fixed interest rates in the interbank money market", the Bank of Albania initiated the publication of TRIBID and TRIBOR rates. TRIBID and TRIBOR are average interest rates quoted by commercial banks for the placement of deposits in the interbank money market, where commercial banks perform lending and borrowing transactions between them in domestic currency – ALL. These fixed rates are used by the Bank of Albania and the interested for reference, statistical, evaluation and accounting purposes.

On the signing of contracts "On the repurchase and reverse repurchase agreements"

On 9 February 2007, the Bank of Albania organized the seminar "The new developments in the implementation of the Bank of Albania operational framework". There was a presentation and discussion of the operational framework implemented by the Bank of Albania pursuant to the new approved regulations. Following the discussion, the Bank of Albania and the representatives of commercial banks signed the contracts "On the repurchase and reverse repurchase agreements". These contracts establish the terms when the Bank of Albania purchases securities from commercial banks, under an agreement to sell the same security for temporary injection of liquidity purposes or to sell securities under reverse agreements, for temporary withdrawal of liquidity purposes, through standard and quick auctions.

On the visit of the Governor of the Bank of Albania in Luxembourg and Belgium

Upon the invitation of the Governors of the Central Banks of Luxembourg and Belgium, on 26 – 27 February 2007, the Governor of the Bank of Albania, Mr. Ardian Fullani conducted a two-day working visit in these institutions. Moreover, Mr. Fullani had a meeting with Mr. Klaus Regling, Director General for Economic and Financial Affairs of the European Commission. During these meetings, the Governor required from banks of the European

System of Central Banks more attention and presence in Albania and other regional countries aspiring to European Union membership. This professional forum will become more formal through more frequent contacts between the European financial institutions and the Bank of Albania, aiming at harmonizing and supervising the common policies for meeting the ESCB standards

On the meeting "The banking system in 2007: The Governor communicates with the market"

On 26 March 2007, the Bank of Albania organized the meeting "The banking system in 2007: The Governor communicates with the market". The purpose of this meeting was to enhance the institutional dialogue between the Bank of Albania and the stakeholders, with a view to increasing the efficiency of monetary policy decisions and the banking system supervision. The banking system and the other stakeholders present in the meeting commended this new and direct practice of communication between the Bank of Albania and the market, considering it as an expression of maturity and institutional accountability of the central bank. The representatives present in the meeting made a lot of comments and expressed their concerns, which mostly converged to the necessity for further legal modifications, in particular as far as registration and execution of the collaterals are concerned.

LEGAL EVENTS OVER JANUARY-MARCH 2007

ISSUE

On 17 January 2007, the Supervisory Council of the Bank of Albania approved the Decision No. 3 "On the procedures of minting and printing, re-minting and reprinting, and issuing the coins and banknotes by the Bank of Albania for numismatic purposes". The purpose of this instruction is to establish the rules and procedures to be observed by the Bank of Albania during the process of minting and printing, re-minting and reprinting, and issuing the coins and banknotes for numismatic purposes.

MONETARY OPERATIONS

On 17 January 2007, the Supervisory Council of the Bank of Albania approved upon Decision No. 4 an amendment to the Regulation "On the procedures of the Bank of Albania's intervention in the internal foreign exchange market". This amendment establishes the limits of the exchange rate volatility for trade transactions with the Government and other international financial institutions, and with other clients, except for commercial banks.

On 14 February 2007, the Supervisory Council of the Bank of Albania approved upon Decision No. 12 an amendment to the Regulation "On repurchase and reverse repurchase agreements". According to the amendment, this regulation becomes effective on 15 April 2007.

BANKING SUPERVISION

On 31 January 2007, the Supervisory Council of the Bank of Albania approved upon Decision No. 7 an amendment to the Regulation "On the capital adequacy ratio". The purpose of this amendment is to make it consistent with the amendments to the Regulation "On credit risk management", in the context of approximating the regulative requirements to the international standards, which relate to the sensitivity to credit risk (counterparty). The supervisory regulative measures are a response to the system's developments in terms of the increase of credit to economy.

On 31 January 2007, the Supervisory Council of the Bank of Albania approved the Decision No. 8 "On the extension of the one-year validity period of the preliminary approval of the licence for First Investment Bank-Albania Jnt. Stk. to conduct banking activity". According to this decision, the one-year

validity period of the preliminary approval of the licence for First Investment Bank-Albania to conduct banking activity has been extended for 6 months from the termination day of the preliminary approval.

On 14 February 2007, the Supervisory Council of the Bank of Albania approved the Decision No. 10 "On the transfer of ownership of a part of the shareholder's capital of Credins Bank Jnt. Stk.". This decision approves the transfer of ownership of 14.67 per cent of shares of Credins Bank Jnt. Stk shareholder's capital, from the shareholder Muhamet Malo to the shareholder Renis Tërshana. Following the approval of this transfer, Mr. Renis Tërshana owns 22.67 per cent of the bank's shares, becoming the second shareholder after Credins Institute, which owns 41.33 per cent of the shares.

ECONOMIC POLICY

On 22 January 2007, the Parliament of the Republic of Albania approved upon Law No. 9679 "The loan agreement between the Council of Ministers of the Republic of Albania and the Islamic Development Bank, for the participation in the financing of the construction project of the Fishing Harbour, Durrës, Albania". According to this agreement, the Islamic Development Bank will extend a loan which does not exceed 6 million and 130 thousand Islamic dinars.

On 31 January 2007, the Council of Ministers of the Republic of Albania approved the Decision No. 42 "On establishing the minimal monthly salary for the calculation of social and health contributions, according to the nomenclature of economic activities, for the private sector employees working in qualified work and for their technical-economic managing personnel".

On 31 January 2007, the Council of Ministers of the Republic of Albania approved upon Decision No. 44, some amendments and insertions to Decision No. 119, date 18 March 2000, "On the procedures of auction privatization of state packages of commercial companies' shares operating in non-strategic sectors".

On 6 February 2007, the Ministry of Finance approved the Instruction No. 655/1 "On establishing uniform procedural standards and reporting system of national taxes". Under this Instruction, any entity, whose gross annual revenue over the financial year is less or equal to ALL 8 million, will be levied the national tax.

On 6 February 2007, the Parliament of the Republic of Albania approved upon Law No. 9683, some insertions in the Law No. 8981, date 12 December 2002 "On the customs tariff". Following the change in the customs tariff established in this law, the Council of Ministers will be responsible for their harmonization, based on the combined nomenclature of the European Union for 2007.

On 6 February 2007, the Parliament of the Republic of Albania approved upon Law No. 9681 "The loan agreement between the Council of Ministers of the Republic of Albania and the International Bank for Reconstruction and Development (IBRD) for the project "Reform on the improvement of the business climate and institutional consolidation"". According to this agreement, the International Bank for Reconstruction and Development extends EUR 4.4 million.

On 6 February 2007, the Parliament of the Republic of Albania approved upon Law No. 9682 "The financial agreement between the Council of Ministers of the Republic of Albania and the International Development Association (IDA) for the project "Reform on the improvement of the business climate and institutional consolidation"". According to this agreement, the International Development Association extends a loan of SDR 2.5 million.

On 17 February 2007, the Council of Ministers of the Republic of Albania approved the Decision No. 85 "On the notification procedures of the trade, economic and financial legal framework in the World Trade Organization". The purpose of this decision is to establish and approve the notification procedures in the WTO of all legal acts and any amendments following the membership of the Republic of Albania in this organization on 8 September 2000. Part of legal acts are the decisions of the Council of Ministers, regulations and instructions, and any other measures having effect on the trade in goods and services, intellectual ownership, public procurement and civil aviation, despite their consistency or inconsistency with the WTO agreements.

On 21 February 2007, the Council of Ministers of the Republic of Albania approved the Decision No. 112 "On the establishment of the Albanian Competition Fund". The Albanian Competition Fund provides assistance to small and medium-sized enterprises, in the form of direct subsidy up to ALL 1 million, but not more than 50 per cent of the acceptable costs. The financial effects deriving from the application of this decision with be covered by the budget of the Ministry of Economy, Trade and Energy.

On 28 February 2007, the Council of Ministers of the Republic of Albania approved upon Decision No. 104 an insertion to the Decision No. 27, date 19 January 2007 "On the rules of evaluating and granting concessions". Upon this insertion, in all concessions the commission includes in the bids evaluation criteria the royalties the bidders provide to the contracting authority for a given concessionary project.

On 21 March 2007, the Parliament of the Republic of Albania approved upon Law No. 9697 "The agreement between the Council of Ministers of the Republic of Albania and the Government of the Republic of Poland for the settling of the Republic of Albania debt to the Republic of Poland". After conversion, the Republic of Albania's debt to the Government of the Republic of Poland, as of 31 December 2005, is USD 1.958.066,87. Upon the entry into force of this agreement, on 31 march 2007, the Ministry of Finance, on behalf of the Council of Ministers of the Republic of Albania transfers to the

account established by the Ministry of Finance of the Republic of Poland USD 1.250.156,43. The payment made by the Ministry of Finance of the Republic of Albania in the amount and within the deadlines, enables the annulment of the remaining debt to be settled by the Republic of Albania to the Republic of Poland.

On 21 March 2007, the Parliament of the Republic of Albania approved upon Law No. 9698 "The agreement between the Government of the Republic of Bulgaria and the Council of Ministers of the Republic of Albania for the settling of debt of the Republic of Albania to the Republic of Bulgaria". After conversion, the Republic of Albania's debt to the Republic of Bulgaria is USD 103.246,00. Upon the entry into force of this agreement, the Government of the Republic of Albania transfers to the account established by the Ministry of Finance of the Republic of Bulgaria the amount of USD 103.246,00.

On 7 March 2007, the Council of Ministers of the Republic of Albania approved the Decision No. 162 "On leasing the properties of state enterprises, associations and institutions". According to this decision, the properties of state institutions, state enterprises and commercial companies of 100 per cent state capital are leased to the third parties through competition procedure. The properties to be leased are the non-used grounds, the buildings, the functional non-used grounds (not underground), the machinery and equipment and the production lines.

BANK OF ALBANIA MANAGEMENT 31 MARCH 2007

SUPERVISORY COUNCIL

ARDIAN FULLANI	*Chairman*
FATOS IBRAHIMI	*Vice Chairman*
TEFTA ÇUÇI	*Member*
ELISABETA GJONI	*Member*
LIMOS MALAJ	*Member*
KSENOFON KRISAFI	*Member*
ADRIAN CIVICI	*Member*
ARJAN KADAREJA	*Member*
HALIT XHAFA	*Member*

GOVERNOR

ARDIAN FULLANI

GOVERNOR'S OFFICE

GENC MAMANI

DEPUTY GOVERNORS

FATOS IBRAHIMI	*First Deputy Governor*

GENERAL INSPECTOR

TEUTA BALETA

DEPARTMENTS AND OTHER UNITS

HUMAN RESOURCES DEPARTMENT	*Dashmir Halilaj*
MONETARY POLICY DEPARTMENT	*Gramoz Kolasi*
RESEARCH DEPARTMENT	-
MONETARY OPERATIONS DEPARTMENT	*Marian Gjermeni*
SUPERVISION DEPARTMENT	*Klodion Shehu*
INFORMATION TECHNOLOGY DEPARTMENT	*Xhilda Kanini Deliana*
STATISTICS DEPARTMENT	*Kliti Ceca*
ISSUE DEPARTMENT	*Valer Miho*
ACCOUNTING AND PAYMENTS DEPARTMENT	*Marseda Dumani*
LEGAL DEPARTMENT	*Toni Gogu*
AUDIT DEPARTMENT	*Teuta Baleta*
FOREIGN RELATIONS, EUROPEAN INTEGRATION AND COMMUNICATION DEPARTMENT	*Ina Kraja*
ADMINISTRATION DEPARTMENT	*Agron Skënderaga*
SECURITY AND PROTECTION DEPARTMENT	-
PRINTING HOUSE	*Alfons Theka*

BRANCHES

SHKODRA	*Ermira Istrefi*
ELBASANI	*Valentina Dedja*
GJIROKASTRA	*Anila Thomaj*
KORÇA	*Liljana Zjarri*
LUSHNJA	*Shpresa Meço*

LIST OF ALL ENTITIES LICENSED BY THE BANK OF ALBANIA*

BANKS AND BRANCHES OF FOREIGN BANKS

1. ITALIAN - ALBANIAN BANK (JOINT-STOCK COMPANY)
Licence No. 1/1996, dated 17.07.1998
Approved by the Supervisory Council Decision of the Bank of Albania No. 89, dated 18.06.1998.
Certificate No. 1 "On Deposit Insurance".
Director: Luigi MASTRAPASQUA
Address: Rruga "Barrikadave", Nr. 70, Tirana, Albania
Tel.: 23 39 65, 23 56 97, 23 56 98, 22 62 62
Fax.: 23 30 34

2. RAIFFEISEN BANK (JOINT-STOCK COMPANY)
Licence No. 2/1998, dated 11.01.1999
Approved by the Supervisory Council Decision of the Bank of Albania No. 163, dated 11.12.1998.
Certificate No. 2 "On Deposit Insurance".
Director: Steven GRUNERUD
Address: Bulevardi "Bajram Curri", European Trade Center, Tirana, Albania
Tel.: 22 66 99, 22 45 40, 22 26 69, 22 54 16
Fax.: 27 55 99, 22 35 87, 22 36 95, 22 40 51

3. UNITED BANK OF ALBANIA (JOINT-STOCK COMPANY)
Licence No. 3/1998, dated 11.01.1999
Approved by the Supervisory Council Decision of the Bank of Albania No. 165, dated 11.12.1998.
Certificate No. 3 "On Deposit Insurance".
Director: Abdul Waheed ALAVI
Address: Bulevardi "Dëshmorët e Kombit", Nr. 8, Tirana, Albania
Tel.: 22 84 60, 22 38 73, 22 74 08
Fax: 22 84 60, 22 83 87

4. ITALIAN BANK OF DEVELOPMENT (BANCA ITALIANA DI SVILUPPO) (FORMER DARDANIA BANK)
Licence No. 5/1998, dated 11.01.1999
Approved by the Supervisory Council Decision of the Bank of Albania No.164, dated 11.12.1998. Certificate No.4 "On Deposit Insurance".
Director: Libero CATALANO
Address: Bulevardi "Dëshmorët e Kombit", Ndërtesa Kullat Binjake, Tirana
Tel.: 28 03 51 / 2 / 3 / 4 / 5.
Fax: 28 03 56.

5. NATIONAL COMMERCIAL BANK (JOINT-STOCK COMPANY)
Licence No. 6/1998, dated 11.01.1999
Approved by the Supervisory Council Decision of the Bank of Albania No. 162, dated 11.01.1999.
Certificate No. 5 "On Deposit Insurance".
Director: Seyhan PENCAPLIGIL
Address: Bulevardi "Zhan D'Ark", Tirana, Albania
Tel.: 25 09 55
Fax.: 25 09 56

** Up to March 31, 2007.*

6. TIRANA BANK (JOINT-STOCK COMPANY)
Licence No. 07, dated 12.09.1996
Approved by the Supervisory Council Decision of the Bank of Albania No. 9, dated 12.09.1996.
Certificate No. 6 "On Deposit Insurance".
Director: Dimitrios FRANGETIS
Address: Bulevardi "Zogu I", Nr. 55/1, Tirana, Albania
Tel.: 23 34 41/42/ 43/44/45/46/47
Fax.: 23 34 17

7. NATIONAL BANK OF GREECE – TIRANA BRANCH (JOINT-STOCK COMPANY)
Licence No. 08, dated 25.11.1996
Approved by the Supervisory Council Decision of the Bank of Albania No. 4, dated 14.03.1996.
Certificate No. 7 "On Deposit Insurance".
Director: Spiro BRUMBULLI
Address: Rruga "Durrësit", Godina Comfort, Tirana, Albania
Tel.: 27 48 02; 27 48 22
Fax.: 23 36 13

8. INTERNATIONAL COMMERCIAL BANK (JOINT-STOCK COMPANY)
Licence No.09, dated 20.02.1997
Approved by the Supervisory Council Decision of the Bank of Albania No. 9, dated 30.04.1996.
Certificate No. 8 "On Deposit Insurance".
Director: Mahendra Sing RAWAT
Address: Qendra e Biznesit, Rruga "Murat Toptani", Tirana, Albania
Tel.: 25 43 72 / 25 62 54
Tel/Fax: 25 43 68

9. ALPHA BANK – TIRANA BRANCH (JOINT-STOCK COMPANY)
Licence No.10, dated 07.01.1998
Approved by the Supervisory Council Decision of the Bank of Albania No. 01/03/96, dated 27.12.1997.
Certificate No. 9 "On Deposit Insurance".
Director: Andreas GALATOULAS
Address: Bulevardi "Zogu I", Nr.47, Tirana, Albania
Tel.: 23 33 59, 24 04 76/77/78
Tel/Fax: 23 21 02

10. AMERICAN BANK OF ALBANIA (JOINT-STOCK COMPANY)
Licence No.11, dated 10.08.1998
Approved by the Supervisory Council Decision of the Bank of Albania No. 105, dated 10.08.1998.
Certificate No. 10 "On Deposit Insurance".
Director: Lorenzo RONCARI
Address: Rruga "Ismail Qemali", Nr. 27, P.O. Box 8319, Tirana, Albania
Tel.: 27 60 00 / 24 87 53 / 4 / 5 / 6
Tel/Fax: 24 87 62

11. PROCREDIT BANK (JOINT-STOCK COMPANY)
Licence No. 12, dated 15.03.1999
Approved by the Supervisory Council Decision of the Bank of Albania No. 22, dated 03.03.1999.
Certificate No. 11 "On Deposit Insurance".
Director: Frieder WOEHRMANN
Address: Rruga "Sami Frashëri", Tirana e Re, P.O. Box. 2395, Tirana, Albania
Tel.: 23 04 99, 23 34 96
Tel/Fax: 27 12 76

12. FIRST INVESTMENT BANK - TIRANA BRANCH (JOINT-STOCK COMPANY)
Licence No. 13, dated 16.04.1999

Approved by the Supervisory Council Decision of the Bank of Albania No. 45, dated 13.04.1999.
Certificate No. 12 "On Deposit Insurance".
Director: Martin Isvetkov BOGDANOV
Address: Bulevardi "Zogu I", Nr. 64, Tirana, Albania
Tel.: 25 64 23, 3 564 24
Tel/Fax: 25 64 22

13. EMPORIKI BANK OF ALBANIA (JOINT-STOCK COMPANY)
Licence No. 14, dated 28.10.1999
Approved by the Supervisory Council Decision of the Bank of Albania No.105, dated 19.10.1999.
Certificate No. 13 "On Deposit Insurance".
Director: George CARACOSTAS
Address: Rruga "Kavajës", Tirana Tower, Tirana, Albania
Tel.: 35 87 55/ 56/ 57/ 58/ 59/ 60
Tel/Fax: 35 87 52

14. CREDIT BANK OF ALBANIA (JOINT-STOCK COMPANY)
Licence No. 15, dated 28.08.2002
Approved by the Supervisory Council Decision of the Bank of Albania No. 66, dated 28.08.2002.
Certificate No. 14 "On Deposit Insurance".
Director: Kamal Abdel MONEIM
Address: Rruga "Perlat Rexhepi", Al-Kharafi Group Administration Building, Kati 1&2" Tirana, Albania
Tel.: 27 21 68, 27 21 62
Tel/Fax: 27 21 62

15. "CREDINS" BANK (JOINT-STOCK COMPANY)
Licence No. 16, dated 28.03.2003
Approved by the Supervisory Council Decision of the Bank of Albania No. 22, dated 26.03.2003.
Certificate No.15 "On Deposit Insurance".
Director: Artan SANTO
Address: Rruga "Ismail Qemali", Nr. 21, Tirana, Albania
Tel.: 22 29 16, 23 40 96

16. POPULAR BANK (JOINT-STOCK COMPANY)
Licence No. 17, dated 16.02.2004
Approved by the Supervisory Council Decision of the Bank of Albania No. 06, dated 11.02.2004.
Certificate No.16 "On Deposit Insurance".
Director: Edvin LIBOHOVA
Address: Rruga "Donika Kastrioti", Pall. 11/1, Kati I, Tirana, Albania
Tel.: 27 27 88 / 89 / 90 / 91
Fax: 27 27 81

17. *UNION BANK* (JOINT-STOCK COMPANY) *TIRANA*
Licence No. 18, dated 09.01.2006
Approved by the Supervisory Council Decision of the Bank of Albania No. 101, dated 28.12.2005.
Certificate No.17 "On Deposit Insurance".
Director: Gazmend KADRIU
Address: Bulevardi "Zogu I", Pallati 13-katësh, përballë Stacionit të Trenit, Tirana.
Tel: 25 06 53
Fax: 25 06 54

NON-BANK INSTITUTIONS

1. TIRANA FINANCIAL UNION S.R.L. (WESTERN UNION)
Licence No. 1, dated 08.12.1999, on conducting the following financial activities:
- offering payment services;
- mediating in the conduct of monetary transactions;
- acting as financial agent or advisor.

Director: Niko Leka, Edmond Leka
Address: Rruga "Reshit Çollaku", Pallati Shallvare, Sh 2, Nr. 18, Tirana, Albania
Tel.: 25 06 53
Fax: 25 06 54

2. ALBANIAN POST-OFFICE (JOINT STOCK COMPANY)
Licence No. 3, dated 18.04.2001, as a non-bank financial institution to conduct the following financial activities:
- offering payment services;
- acting as financial agent or advisor.

Director: Arqile Goreja
Address: Rruga "Reshit Çollaku", Nr. 4, Tirana, Albania
Tel.: 22 23 15

3. CREDINS TIRANA (JOINT STOCK COMPANY)
Licence No. 04, dated 13.06.2001, as a non-bank financial institution to conduct the following financial activities:
- granting credit;
- offering payment services;;
- mediating in the conduct of monetary transactions (foreign currency included);
- offering guarantees;
- acting as financial agent or advisor (excluding herein the services set forth in point 3/a and 3/b of Article 26 of the Law "On Banking Law in the Republic of Albania".

Director: Migena Roshaj
Address: Rruga "Ismail Qemali" Nr. 21, Tirana, Albania
Tel.: 22 29 16, 23 40 96

4. MOUNTAINOUS AREA FINANCING FUND
Licence No. 5, dated 29. 03.2002, on conducting the following activity:
- granting credit.

Director: Bajram Korsita
Address: Rruga "Dervish Hima" Nr. 4, Tirana, Albania
Tel.: 25 90 80/1
Fax: 25 06 33

5. "AK-INVEST" (JOINT STOCK COMPANY)
Licence No.7, dated 31.12.2003, as a non-bank financial institution to conduct the following activities:
- offering payment services;
- mediating in the conduct of monetary transactions (foreign currency included);
- acting as financial agent or advisor.

Manager: Ilir Adili
Address: Rruga "Ded Gjon Luli", Nr. 2/3, Tirana, Albania
Tel.: 24 01 47

FOREIGN EXCHANGE BUREAUS

1. "JOARD" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 1, dated 01.10.1999
Address: Rruga "Ded Gjon Luli", Nr.2, Tirana, Albania
Brokers: Josif Kote, Pajtim Kodra

2. "AMA" FOREIGN EXCHANGE BUREAU S.R.L., DURRËS
Licence: No. 2, dated 01.10.1999
Address: Rruga "Tregtare", Lagja 3, Durrës, Albania
Brokers: Mirlinda Ceka, Ilir Hoxha

3. "ARIS" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 3, dated 01.10.1999
Address: Rruga "Luigj Gurakuqi", Tirana, Albania
Brokers: Ardian Goci, Ismet Noka

4. "UNIONI FINANCIAR" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 4, dated 01.10.1999
Address: Rruga "Reshit Çollaku", Pallati Shallvare, Shk. 2/18, Tirana, Albania
Manager: Niko Leka
Brokers: Arjan Lezha (Manager), Albert Sara, Dhimitër Papadhopulli, Genta Angjeli (Agalliu), Piro Teti, Flora Simixhi, Petrika Mano (Manager), Lindita Shala, Mirela Bakalli, Anila Demiri, Emili Bakalli (Nako), Astrit Sfërdelli, Mirela Kaiku, Erisa Emiri

5. "AGLI" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 5, dated 01.10.1999
Address: Office No.1: Rruga "Islam Alla", Nr.1, Tirana, Albania
Office No.2: Rruga "Kavajës", Tirana, Albania
Brokers: Kujtim Nina (Manager), Agim Cani, Selim Luli

6. "EXCHANGE" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 08, dated 24.11.1999
Address: Office No.1: Rruga "Durrësit", Nr. 170, Tirana, Albania
Brokers: Ivan Pavllovski, Ervis Myftari

7. "UNISIX" FOREIGN EXCHANGE BUREAU S.R.L., KORÇA
Licence: No. 09, dated 26.11.1999
Address: Bulevardi "Republika", Pallati 4, Korça, Albania
Brokers: Pandi Cunoti, Ernest Golka, Nikolin Bicka, Eli Bode

8. "EKSPRES J & E" FOREIGN EXCHANGE BUREAU S.R.L., DURRËS
Licence: No. 10, dated 26.11.1999
Address: Lagja 11, Rruga "Prokop Meksi", Durrës, Albania
Brokers: Kostandin Ekonomi, Entela Ekonomi

9. "ILIRIA 98" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 12, dated 25.02.2000
Address: Sheshi "Skënderbej", Teatri i Kukullave, Tirana, Albania
Brokers: Edmond Ymeri, Ali Topalli, Ilir Janku

10. "SERXHIO" FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN
Licence: No. 14, dated 07.04.2000
Address: Lagja "Luigj Gurakuqi", Rruga "11 Nëntori", Pallati 70, Nr.14, Elbasan, Albania
Brokers: Amarildo Canoku

11. "ALBTUR" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 15, dated 07.04.2000
Address: Bulevardi "Zogu I", Pallati 32, Shk.1, Tirana, Albania
Brokers: Albert Rahmani, Artur Rahmani

12. "R & M" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 16, dated 22.05.2000
Address: Rruga "Punëtorët e Rilindjes", Pallati 182, Tirana, Albania
Brokers: Edmond Stepa, Miranda Stepa

13. "T & E" FOREIGN EXCHANGE BUREAU S.R.L., DURRËS
Licence: No. 18, dated 11.06.2000
Address: Lagja 4, Rruga "9 Maji", Durrës, Albania
Broker: Shpëtim Hysa

14. "SHIJAK 2000" FOREIGN EXCHANGE BUREAU S.R.L., SHIJAK
Licence: No. 19, dated 24.11.2000
Address: Lagja "Popullore", Shijak, Albania
Brokers: Nazmi Ademi, Farije Ademi

15." MANUSHI" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 22, dated 18.04.2001
Address: Bulevardi "Zogu I", VEVE Business Center, Tirana, Albania
Brokers: Roland Manushi

16. "UNIONI SELVIA" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 23, dated 21.05.2001
Address: Rruga "Sami Frashëri", Pallati 11, Shk.4, Ap.29, Tirana, Albania
Brokers: Denis Merepeza (manager)

17. "KALENJA" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 24, dated 29.06.2001
Address: Rruga "Kavajës" (next to Turkish Embassy), Tirana, Albania
Brokers: Hair Shametaj, Fatmir Shametaj

18. "TILBA" FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN
Licence: No. 25, dated 30.09.2001
Address: Lagja "Luigj Gurakuqi", Bulevardi "Qemal Stafa", Njësia Nr.12, Elbasan, Albania
Brokers: Kristaq Bako, Vjollca Bako

19. "ANAGNOSTI" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 26, dated 31.10.2001
Address: Office No. 1 - Bulevardi "Zogu I", Pallati 97, Shk.3, Ap.28, Tirana, Albania
Brokers: Jani Anagnosti, Odise Anagnosti, Edlira Anagnosti
Office No. 2 - Rruga "Kajo Karafili", Nr. 11, Tirana, Albania
Broker: Fredi Cami

20. "KO-GO" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 27, dated 12.11.2001
Address: Rruga "Vaso Pasha", Pallati 16, Shk.2, Ap. 9, Tirana, Albania
Brokers: Mihal Konomi, Përparim Goxhaj

21. "ALB-FOREX" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 28, dated 22.11.2001
Address: Office No. 1: Rruga "Abdyl Frashëri", Nr.3, Tirana, Albania
Brokers: Mirel Topçiu
Office No. 2: Bulevardi "Zogu I", ish-Pallati i Kulturës "Ali Kelmendi", Kati I, Tirana, Albania
Broker: Melsi Çami

22. "L&N" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 29, dated 22.11.2001
Address: Office No.1: Rruga "Muhamet Gjollesha", Tirana, Albania
Broker: Leonora Mihalcka
Office No.2: Rruga "Durrësit", (përballë ish-Ambasadës Jugosllave), Tirana, Albania

Broker: Myzafer Velaj, Dashurije Rrumbullaku

23. "EXCHANGE ALOG" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 31, dated 22.11.2001
Address: Rruga "Mine Peza", Tirana, Albania
Brokers: Almida Sterio, Fatmir Tafaj, Eduard Andoni, Elida Hasamemi

24. "BASHKIMI 2001" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 35, dated 12.12.2001
Address: Rruga "Kavajës",Tirana, Albania
Brokers: Bashkim Shametaj, Luan Shametaj, Ilir Mesini

25. "ARJON 2002" FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN
Licence: No. 36, dated 14.12.2001
Address: Lagja "Kongresi i Elbasanit", Bulevardi "Qemal Stafa", Pallati 9-katësh, Elbasan, Albania
Brokers: Arben Kovaçi, Besnik Lulja, Alfred Kapxhi

26. "ALAKTH" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 42, dated 18.01.2002
Address: Rruga "Dibrës", Nr.105/1, Tirana, Albania
Brokers: Kosta Papa, Arben Memko, Lorenc Konomi, Thoma Konomi, Aleko Plaku

27. "FORMAT" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 43, dated 21.01.2002
Address: Rruga "Durrësit", Pallati 85, Shk. 1, Ap. 1, Tirana, Albania
Brokers: Diana Lemi, Egon Sinani

28. "TRI URAT" FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN
Licence: No. 44, dated 05.02.2002
Address: Lagja "29 Nëntori", Elbasan, Albania
Brokers: Fahri Sanco, Ismail Bejta

29. "BESA 2001" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence No. 46, dated 15.02.2002
Address: Rruga "Myslym Shyri", Nr. 25, Tirana, Albania
Brokers: Belul Lleshi, Vladimir Avda, Mimoza Avda

30." MARIO" FOREIGN EXCHANGE BUREAU S.R.L., SARANDA
Licence: No. 47, dated 14.03.2002
Address: Lagja 1, Saranda, Albania
Brokers: Vangjel Gramozi, Blerim Dhima

31. "DROGU" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 49, dated 23.04.2002
Address: Rruga "Vaso Pasha", Kulla 1, Kati I, Tirana, Albania
Brokers: Shkëlqim Drogu, Kostandin Koteci

32. "HYSEN-C" FOREIGN EXCHANGE BUREAU S.R.L., LAÇ
Licence: No. 50, dated 23.04.2002
Address: Lagja Nr. 3, Laç, Albania
Broker: Cen Hyseni, Violeta Hyseni, Miranda Palaj

33. "UNIONI FIER" FOREIGN EXCHANGE BUREAU S.R.L., FIER
Licence: No. 51, dated 08.05.2002
Address: Lagja "15 Tetori", Rruga "Kastriot Muça", Fier, Albania
Brokers: Gjergj Dulaj (manager)

34. "TAXI EKSPRES" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 52, dated 20.05.2002
Address: Office No.1: Rruga "Sami Frashëri", nr. 11 (pranë shkollës "Edith

Durhan", Tirana, Albania
Office No.2: Bulevardi "Bajram Curri", Rruga "Lekë Dukagjini", No.5, Tirana, Albania
Brokers: Arben Sharra, Sokol Kaleci

35. "GLEAR" FOREIGN EXCHANGE BUREAU S.R.L., SHIJAK
Licence: No. 55, dated 23.07.2002
Address: Lagja "Kodër", Shijak, Durrës, Albania
Brokers: Argjend Calliku, Afërdita Calliku

36. "ALBA-POST" FOREIGN EXCHANGE BUREAU, TIRANA
Licence: No. 56, dated 28.08.2002
Address: Rruga "Reshit Çollaku", Nr. 4, Tirana, Albania

37. "ESLULI" FOREIGN EXCHANGE BUREAU S.R.L , TIRANA
Licence: No. 58, dated 17.10.2002.
Address: Rruga "Reshit Çollaku", Pallati "Shallvare", Shk. 4/1, Tirana, Albania
Brokers: Selim Luli, Kleomen Gjiknuri

38. "DENI&KRISTI-2002" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 61, dated 02.06.2003
Address: Rruga "Myslym Shyri", Pallati 60, Ap. 3, Tirana, Albania
Broker: Maksim Çeku

39. "YLDON" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 62, dated 03.06.2003
Address: Rruga "Qemal Stafa", Pallati 382/2/2, Tirana, Albania
Broker: Ylli Ndoqi (manager)

40. "I.S.N." FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 66, dated 06.05.2004
Address: Rruga "Kavajës", Pallati 3, Kati I, Tirana, Albania
Brokers: Nexhmi Uka, Salandi Brojaj

41. "ARIABA" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 67, dated 07.06.2004
Address: Ruga "Abdyl Frashëri", Kati I, Shk. 5, Tirana, Albania
Brokers: Agim Xhemo (manager), Astrit Hado

42. "ALBACREDITS" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 68, dated 13.07.2004
Address: Rruga "Ded Gjon Luli", Nr. 5, Tirana, Albania
Brokers: Ermira Skënderi (manager), Engjëll Skënderi, Burhan Kodra

43. "ALB-KREDIT" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No.69, dated 19.07.2004
Address: Office No.1: Rruga "Durrësit", Nr. 2, Tirana, Albania
Brokers: Arben Cani (manager), Vasil Marto, Rudina Muskaj, Valbona Kadriu, Teuta Koltarka, Hajredin Toca, Doloreza Arapi.
Office No.2: Dega Peshkopi, Bulevardi "Nazmi Rushiti", Peshkopi, Dibër

44. "OMEGA" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 72, dated 20.12.2004.
Address: Rruga "Abdyl Frashëri", Pallati 1, Shk.2, Ap.10, Tirana
Broker: Mihallaq Peko (manager), Ylli Meshau

45. "ELBA 2005" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No.73, dated 28.04.2005
Address: Bulevardi "Bajram Curri", Pallatet Agimi, Nr.16, Tirana
Brokers: Kujtim Elbasani (manager)

46. "JONADA – 05" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 74, dated 27.06.2005
Address: Rruga "Kavajës", Pallati 185, Shkalla 2, Ap. 9, Tirana, Albania
Brokers: Liliana Zyfi (manager), Pëllumb Zyfi

47. "BASHA – N.B." FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN
Licence: No. 75, dated 08.07.2005
Address: Lagja "Shënkoll", rruga "Thoma Kaleshi", Pallati 110, Shk.1, Kati I, Elbasan, Albania
Brokers: Nashifer Basha, Çlirim Basha

48. "I & K 2005" FOREIGN EXCHANGE BUREAU S.R.L., LEZHE
Licence: No.77, dated 09.09.2005
Address: Lagja "Besëlidhja", Pallati 73, Lezhë, Albania
Brokers: Ilir Malaj

49. "EUROTOURS" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No.78, dated 17.10.2005
Address: Rruga "Reshit Çollaku", Nr. 2/18, Pallatet Shallvare, Tirana, Albania
Brokers: Albert Cara, Ilir Stafa

50. "A.B.I." FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No.79, dated 17.02.2006
Address: Bulevardi Zog I, Godina "Zëri i Popullit", Tirana, Albania
Brokers: Ilir Doçi, Suela Dedaj

51. "REGENCY INTERNATIONAL CASINO TIRANA" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No.80, dated 06.03.2006
Address: Rruga "Dëshmorët e 4 Shkurtit", Parku Rinia, Tirana, Albania
Brokers: Rajmonda Lami, Florjan Lami, Bandill Molla, Suzana Aliu, Aides Goga, Murat Haruni, Gjergji Selala, Marsela Elmazaj, Vjollca Nurka, Julian Llazri, Andi Hidi, Enkeleda Kola, Leonard Gjonaj, Almir Dhimitri, Elvis Marku, Donald Mihal, Albana Sherifi, Armand Çadra, Eriselda Dhamo.

52. "ARBËR F" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No.81, dated 07.03.2006
Address: Rruga "Kavajës", Pallati 3, Kati I (ish-Guden), Tirana, Albania
Brokers: Florina Jaho, Bukurosh Jaho

53. "EURO 2006" FOREIGN EXCHANGE BUREAU S.R.L., DURRËS
Licence: No.82, dated 12.04.2006
Address: Lagjja nr.4, Rruga "Migjeni", pranë Poliklinikës Qendrore, Durrës, Albania
Brokers: Hysni Baganaçi, Medi Dyrmishi

54. "VOSKOP" FOREIGN EXCHANGE BUREAU S.R.L., KORÇA
Licence: No.83, dated 13.04.2006
Address: Lagjja nr.7, Blloku "8 Nëntori", Korça, Albania
Brokers: Anesti Leska, Rexhep Mankolli

55. "KRISTIAN 2002" FOREIGN EXCHANGE BUREAU S.R.L., LEZHA
Licence: No.84, dated 31.05.2006
Address: Lagjja "Besëlidhja", përballë Degës së bankës "Raiffeisen", Lezha Albania
Brokers: Sander Marashi

56. "PRE-LAND" FOREIGN EXCHANGE BUREAU S.R.L., LEZHA
Licence: No.85, dated 31.05.2006
Address: Lagja "Skënderbej", ish-lokali "Gjahtari", Lezha, Albania
Brokers: Roland Kola

57. "SHQIPONJA VL" FOREIGN EXCHANGE BUREAU S.R.L., VLORA
Licence: No.86, dated 16.06.2006
Address: Pallati i Kulturës "Labëria", përballë portit detar, Vlora, Albania
Brokers: Vjollca Musaraj

58. "BONVOYAGE" FOREIGN EXCHANGE BUREAU S.R.L., DURRËS
Licence: No.87, dated 20.06.2006
Address: Lagja 11, Bulevardi kryesor "Durrahu", Ap.243, Durrës, Albania
Brokers: Petrit Shtaro; Jusuf Milaqi

UNIONS OF SAVINGS AND CREDIT ASSOCIATIONS

1. "JEHONA" SAVINGS AND CREDIT ASSOCIATIONS UNION, TIRANA
Licence: No.1, dated 27.06.2002
Address: Rruga "Kajo Karafili", Nr. 26/1, Tirana, Albania
Head of the Executive Board: Vojsava Rama
This union consists of 41 savings & credit associations Licensed also as special associations and technically assisted by the foundation "Movement for the savings & credit associations development".

2. "ALBANIAN SAVINGS AND CREDIT UNION" SAVINGS AND CREDIT ASSOCIATIONS UNION, TIRANA
Licence: No. 2, dated 09.08.2002
Address: Rruga "Ismail Qemali", Nr. 32, Tirana-Albania
Head of the Executive Board: Zana Konini
This union consists of 91 savings & credit associations, licensed also as special associations and technically assisted by "Mountain Area Financing Fund".

REPRESENTATIVE OFFICES OF FOREIGN BANKS

THE REPRESENTATIVE OFFICE OF BANCA POPOLARE PUGLIESE IN ALBANIA
Licence: No. 01, dated 02. 07.2003
Representative: Pasquale Guido Vergine
Address: Sheshi "Skënderbej", Pallati i Kulturës, Kati III, Tirana, Albania
Tel.: 25 67 82