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GOVERNOR’S SPEECH

The Albanian economy marked positive annual growth rates during the nine-month period of 2007, while consumer prices inflation was quite low for most of the period. Economic growth during the present year is expected to be around 6 per cent. Despite the upward trend, average annual inflation during January – September was 2.7 per cent, being quite close to the Bank of Albania target of 3 per cent. The growth of demand has been assessed to have been more rapid than the growth of supply. The consumption of companies and households continues to represent the most significant and dynamic part of aggregate demand. The contribution of the public sector has made a positive contribution to the growth of demand, though it was not in the projected levels. The external sector was characterized by current and trade deficit deepening, accounting for 10 and 27 per cent of the GDP respectively, for the first six month of 2007.

During January-September 2007, supply in the Albanian economy was put under the influence of some internal and external factors, which have decisively determined the movements in the overall level of consumer and production prices. Both the second and third quarter of the year were characterized by a dry and unfavourable weather for agricultural production, which has caused the reduction of supply of agricultural products, mainly in summer. The price rise of grains in the international markets began to affect the domestic market in July. The shortages in the supply with energy have been present throughout the nine-month period. The weather conditions, the problems related to the energy infrastructure, the shortages in the supply of energy by the partner countries and the price rise have caused both the domestic production and the import of energy to face hard times. The energy crisis has been more intensive during the third quarter. The expenses for the provision of alternative sources of energy are assessed to have exerted pressures on the cost of production and on the trade of goods and services.

Factors such as the growth of demand for some basic exports, the favourable monetary conditions and the price rise of real estates, which contribute to the increase of companies and individuals’ wealth enhancing the opportunities for borrowing and investments, continued to contribute to the constant growth of demand. Credit to economy, which is the most direct indicator for the performance of demand, continued to grow rapidly during 2007. Credit to business grew by over 50 per cent in August, accounting for 16 per cent of the GDP. Although credit to households shares a smaller part in the total portfolio, it continued to grow annually by about 70 per cent. Exports were
evidenced to have grown significantly by about 28 per cent during January – August 2007. Trade deficit deepening by 4 percentage points as a share to GDP does not only reflect the increase of consumption but also the growth of investments. Both capital and intermediate goods imports have grown by about 30 per cent during the first semester. Foreign direct investments have also represented a great help for the economic activity.

The reliance of business on a better financial basis, through the banking system or on their personal resources, has been reflected in the growth of production in some of the most important sectors of the economy, such as industry and trade. For the fourth consecutive quarter, industrial production marked high annual growth rates and grew by about 20 per cent annually. At the same time, trade activity has maintained the high rates of the previous years, increasing by about 14 per cent during the first half of 2007. The contribution of the growth of construction sales to the total growth of economic enterprises’ sales was almost insignificant during the first six months of 2007.

The Bank of Albania decided to increase the key interest rate twice until the end of September. The rapid growth rates of credit and the expectations for the ongoing growth after the first semester increased the concerns for the achievement of price stability objective in the future. In response to the increasing demand-side pressures, at the end of June the Supervisory Council of the Bank of Albania raised the key interest rate applied on the repurchase agreements by 25 basis points to 5.75 per cent. This raise aimed at controlling or relaxing the inflationary pressures generated by the rapid growth of demand through the increase of the cost of money in economy.

At the end of the third quarter 2007, the medium-term stability of consumer prices was jeopardized by the ever-increasing demand and by the production cost-related factors, whose duration was and still remains undefined. Under these conditions, the Bank of Albania stepped further in terms of tightening the monetary policy and raised the repurchase agreement rate by 25 points basis to 6 per cent at the end of September. By means of this raise, the Bank of Albania showed to the market its willingness to make the inflationary expectations stable in the medium term, in line with its inflation target of 3 per cent. The keeping of the balance between domestic demand for money and price stability is a condition for maintaining stable economic growth rates.

For the rest of the year, the Bank of Albania believes that the identified supply-side issues will remain present in the Albanian economy, and they will constantly exert pressure on the level of prices. It seems that there are few chances for the energy situation to have a quick and final solution in the medium term. Oil, grain and other foodstuffs’ prices in the international markets may continue to rise or fluctuate, bringing destabilizing pressures on the domestic prices.

The Bank of Albania deems that time is ripe to set the domestic agricultural production, which nowadays is of prime importance, at the top of the structural reforms agenda. The establishment of an efficient collection and distribution
structure would be the starting point. Meanwhile, agricultural infrastructure, rural roads and the grain areas in particular remain very important issues.

The Bank of Albania believes that there is still room for further liberalization of the production market and the import of goods and raw materials, in order to enable a greater competition between the operators in these markets.

Beside the supply-side issues, the Bank of Albania believes that domestic demand will continue to grow in the future. In this context, beside the inflationary pressures-related concerns, the Bank of Albania is entirely committed in monitoring effectively the performance of lending in the country. The Supervisory Council of the Bank of Albania states that the loans’ portfolio quality remains a priority. Financial stability represents another key objective of this institution. Consistently, the harmonization of monetary policy and banking supervision rules was and still remains our main focus.

The Bank of Albania is very close to the finalization of Credit Registry, whose main purpose is to help in carrying out sound lending transactions, by making available all the information that banks have on borrowers, pushing further the lending process. Moreover, the Credit Registry will help to reduce informality in economy and to increase the volume of loans; consequently reduce the cost and time of the lending process. Ultimately, it will affect the country’s economic growth.

By making an overall assessment of the balance of risks which put consumer price stability at risk, it is to be emphasized that there is an increasing probability which requires the Bank of Albania to be very cautious.

The Bank of Albania considers the constant communication with the public as crucial. Continuous explanation of the balance of risks present in the short and long-term is required in order to make the public at large aware of the inflationary developments in the future. It also aims to anchor the inflationary expectations around the 3 per cent target.

In conclusion, I would like to underline that despite the full commitment of the Bank of Albania to achieve and maintain price stability, the constant coordination of monetary and fiscal policy is the key to success of all macroeconomic policies. All the economic agents and the public at large need to try and understand the motives laying behind the central bank’s actions, the scope and the constraints of monetary and fiscal policy, and the fact that not all the objectives may be achieved at the same time. Long-term well-being may require a higher cost for all at present.

1 WORLD ECONOMY

World economy continued to have a positive performance during the first half of 2007. Despite the growth rate slowdown, the positive growth rates of developing countries have supported the global growth. The developments
in the Euro area and Japan have been stable while the US economic activity has recorded considerable growth following several months of slow growth. The international financial markets did not genuinely reflect the positive developments of the economic activity. During June-September there have been increasing fluctuations in the financial markets, caused by the aggravation of non-performing loans indicators in the US sub prime lending market. The turbulences in the US financial markets brought about the increase of the risk prime at a global scale and caused the dropping of shares’ price and the increase of fluctuations in the long-term Treasury bills yield. The situation was further aggravated by the absence of liquidity in the markets. The US and European central banks took measures by injecting liquidity in the market or by dropping the interest rate of overnight loans. During the last months, consumer prices inflation rate and cost-related inflationary pressures in industrialized countries have been decreasing. However, the oil price rise in September signals the revitalization of worldwide inflationary pressures for the following months.

<table>
<thead>
<tr>
<th></th>
<th>GDP annual growth, Q2</th>
<th>Unemployment rate in August</th>
<th>CPI(^2) for September</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>+1.9</td>
<td>4.6</td>
<td>2.8</td>
</tr>
<tr>
<td>Euro area</td>
<td>+2.5</td>
<td>6.9</td>
<td>2.1</td>
</tr>
<tr>
<td>Germany</td>
<td>+2.5</td>
<td>6.3</td>
<td>2.7</td>
</tr>
<tr>
<td>France</td>
<td>+1.3</td>
<td>8.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Italy</td>
<td>+1.8</td>
<td>5.9(^*)</td>
<td>1.7</td>
</tr>
<tr>
<td>Greece</td>
<td>+4.1</td>
<td>8.4(^*)</td>
<td>2.9</td>
</tr>
<tr>
<td>Japan</td>
<td>+1.7</td>
<td>3.8</td>
<td>0.0(^**)</td>
</tr>
</tbody>
</table>

\(^*\) For June.  
\(^**\) For July.

Source: Eurostat; ECB, Report for September; Bureau of Economic Analysis, USA

The growth of economic activity in the Euro area during the first half of 2007 was more modest compared with the previous year, fluctuating around the potential growth rates. There was a slowdown in the industrial production, growth in the services sector and improvement of labour market conditions. Since November 2006, the inflation rate has fluctuated around the target of 2 per cent. Meanwhile, in September inflation marked 2.1 per cent as a result of the energy price rise. The influence of the rise in the oil and foodstuffs prices is expected to continue to exert inflationary pressures in the following months, increasing the chances for the inflation to go beyond the targeted level.

Following several months of growth under the potential, the US economy grew by 3.8 per cent in the second quarter of 2007. The growth of net exports, of the inventories and budget spending provided a positive contribution to this growth. Though the housing market continues to affect negatively the economic growth, it did not affect consumption and the other sectors of economy significantly. After the rapid rise of prices during the first months of the year consumer prices inflation moderated during June-August. The price dropping in the oil and its by-products price during this period provided the main contribution to the decrease of inflation. The increasing prices of agricultural products in the international markets also affected the price rise of foodstuffs in the US markets.
The monetary policy pursued by the ECB during 2007 continued to maintain an accommodating character. During January-September 2007, the Governing Council of the ECB raised the key interest rate three times to 4 per cent following the last rise. The US Open Market Federal Committee decided in its last meeting in September to drop the key interest rate by 50 basis points to 4.75 per cent. This decision aimed to prevent the negative effects the turbulences in the financial markets may bring to the economy and at the same time, to promote a moderate growth for the periods to follow. The key interest rate was last changed in June 2006.

OIL PRICE

The oil price in the international markets was about 55 USD/barrel at the beginning of the year to reach the level of above 80 USD/barrel at the end of September. The price rise during 2007 did not only offset the dropping of the second half of 2006 but also took the oil price to high levels. Behind the constant oil price rise stands the reduction in the supply and the continuous growth of demand, in particular from China and the US. Although the global demand for oil remains high, its growth rate has displayed a downward trend. Apart from the high demand, the tensions and the geopolitical uncertainties in the oil production countries and the beginning of the cold season in the northern hemisphere the depreciation of the US dollar during September also influenced the oil price rise. The depreciation of the US dollar to many other international currencies affected the decrease in the purchasing power of oil producers’ income and the increase of the purchasing power of consumers with income in other currencies.

Despite the constant rise, in real terms, the oil price arranged with the exchange rate and inflation is lower than the levels of the previous oil crises. At the same time, many countries are using alternative sources of energy, reducing their dependence on oil. As a consequence the influence of the high oil price on the global economic growth is assessed to remain limited. The oil price projections for 2008 move in a band of values, where the highest value is that of about 100 USD/barrel.

2 INFLATION

2.1 CONSUMER PRICES

Annual inflation rate was 3.6 per cent in the third quarter of 2007, while the annual core inflation rate marked 3.1 per cent. Annual inflation has been increasing since June this year. The accelerating rise of prices during this period has been a result of the inflationary effect of both supply and demand-
side factors. The growth of demand was not followed by the same growth size of supply which exerted pressures on the level of prices and on the country’s gross production.

The influence of the supply-side factors on the overall level of prices was not uniform during January-September. The rise in the foodstuffs prices, partly affected by the reduction in the domestic agricultural production and the price rise in grains and other foodstuffs in the global market were the main factors to affect the shift in the trend of annual inflation rate. The price rise effect of energy and tobacco excises of the previous year was no longer present in the third quarter of 2007.

The alternative measures of net inflation help to identify the combined or special effects of foodstuffs prices, administered prices and of services prices on the overall level of consumer prices. Net inflation, excluding foodstuffs, marked 1.3 per cent in the third quarter, recording the lowest rate in the last three years. The two other measures of net inflation, one excluding the administered prices and the other services prices, provide evidence for the annual decrease of these indicators during the nine-month period.

“Processed foodstuffs”, “Unprocessed foodstuffs”, “Housing” and “Services” formed about 92 per cent of the annual inflation rate in the third quarter of 2007.
“Processed foodstuffs” provided the main contribution to the increase of annual inflation rate in the third quarter. The upward trend of this item’s annual inflation, quite evident starting from mid-2006, continued to be present in the first nine months of 2007. The high annual inflation rates of processed foodstuffs greatly exceed the eight-year historical average of 0.3 per cent for January-September 2007. The third quarter also marked the end of the price rise effect of tobacco and the considerable price rise of bread and grains. The latter provided a contribution of 4.5 per cent to the annual rate of 7.3 per cent of the entire item. While during 1998-2006, bread and grains price index increased 3.4 per cent on average, during the nine-month period of 2007, it increased by about 21 per cent.

Along with the increase of processed foodstuffs inflation, “Unprocessed foodstuffs” inflation also increased by 3.1 per cent. This sub-item of prices is mainly influenced by the performance of domestic production of fruit and vegetables. During January-July ‘07, the price of fruit dropped by 11.7 per cent on an annual average, while during August-September it rose by 13.5 per cent. In annual terms, the price of vegetables rose throughout most of the nine-month period. Under the influence of dry weather conditions, the reduction of domestic agricultural supply and the price rise for these products in Greece and Italy (by 3.3 and 2.6 per cent respectively) exerted pressure for the price rise of these goods in the third quarter of 2007.

<table>
<thead>
<tr>
<th></th>
<th>Q3-06</th>
<th>Q4-06</th>
<th>Q1-07</th>
<th>Q2-07</th>
<th>Q3-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Processed foodstuffs (pp)</td>
<td>0.3</td>
<td>0.5</td>
<td>0.7</td>
<td>0.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Bread and grains* (pp)</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
<td>0.3</td>
<td>4.5</td>
</tr>
<tr>
<td>Alcohol and tobacco* (pp)</td>
<td>1.0</td>
<td>1.6</td>
<td>1.7</td>
<td>1.9</td>
<td>1.3</td>
</tr>
<tr>
<td>Unprocessed foodstuffs (pp)</td>
<td>0.6</td>
<td>-0.2</td>
<td>0.2</td>
<td>-0.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Fruit* (pp)</td>
<td>1.9</td>
<td>-1.4</td>
<td>-2.4</td>
<td>-3.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Vegetables* (pp)</td>
<td>0.7</td>
<td>0.0</td>
<td>3.0</td>
<td>-0.6</td>
<td>1.7</td>
</tr>
<tr>
<td>Services (pp)</td>
<td>0.3</td>
<td>0.2</td>
<td>0.2</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Administered prices (pp)</td>
<td>0.7</td>
<td>0.9</td>
<td>0.8</td>
<td>0.8</td>
<td>0.4</td>
</tr>
<tr>
<td>Fuels and energy* (pp)</td>
<td>5.5</td>
<td>7.8</td>
<td>7.6</td>
<td>7.8</td>
<td>2.7</td>
</tr>
<tr>
<td>Housing (pp)</td>
<td>1.0</td>
<td>1.1</td>
<td>0.9</td>
<td>0.9</td>
<td>0.6</td>
</tr>
<tr>
<td>Consumer Price Index (y/y, %)</td>
<td>2.9</td>
<td>2.6</td>
<td>2.8</td>
<td>1.8</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Source: INSTAT and Bank of Albania estimations

‘Services’ continued to record positive inflation rates, marking 4.2 per cent in September and getting close to the rates of the early 2005. This item’s inflation was mainly determined by the price rise in services, hotels and restaurants. During the last years, these services’ prices have risen by 2-3 per cent on average, while as of end the third quarter of 2007 this rise reached about 5 per cent. The price rise may have been caused by the cost of using alternative sources of energy and by the growing demand for such services.
Annual inflation of “Housing” fluctuated around the level of 5 per cent during 2006 and the first half of 2007. The stable price rise in annual terms is mainly a result of the growing demand for apartments for rent. Annual inflation of 3.3 per cent, marked in the third quarter, represented a shift from this rate caused by the almost inconsiderable increase of about 0.8 per cent of annual inflation in September.

Administered prices fluctuated around the band of 6-8 per cent for 2006: Q3-2007:Q2. Following the energy price rise by 14 per cent in August 2006, this item’s average contribution to the annual inflation was about 0.8 per cent. The adjournment of the decision on the energy price rise projected for August 2007 caused the last year’s rise effect to be inconsiderable.

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Box: II. 1 On administered prices

The concept of administered prices: The statistical manuals define administered prices as products and services’ prices which are deliberately set by a producer or a group of producers and any price fixed or directly or indirectly influenced by the government economic policies, without keeping in consideration the demand and supply fluctuations in the market. ‘Regulated’ prices which are monitored and controlled by certain governmental policies are a specific part of administered prices. A policy of regulated prices causes them to change depending on the strategic objectives of the government. The decisions taken based on these strategies define the prices of different goods and services independently from the market forces.

Administered prices in the Albanian CPI basket: The transition process from an entirely centralized to a free market economy was initially followed by deep reforms in the privatization of different sectors of the economy. The first results were evidenced in the process of the establishment of products and services’ prices in these sectors. The continuation and deepening of privatization reforms caused the balance between administered prices and market prices to change considerably in favour of the latter. The assessments indicate that the share of goods and services with administered prices
fell from 16 per cent in 1993 to about 9 per cent in the current basket (2001). ‘Energy and fuels’ shares more than half of this category while the rest of goods and prices with administered prices is shared by specific items of ‘communication’, ‘health’ and ‘water supply’. The common thing of goods and services with administered prices is that they are generated by the economic activity in non-privatized or under privatization process sectors. Their gradual ‘disconnection’ from the public to the private sector has been followed by the application of pre-notified price rises, which was mostly evidenced in ‘energy’. During January 2002 – September 2007 the average annual price rise of energy reached 30 per cent. Consequently, the price rise in energy was reflected in the total inflation rate. It has directly reflected the effect of this item whose share is relatively low in the current basket (4.6 per cent), and the indirect effect transmitted with relatively short time lags, mainly in services.

In general, the direct effects of the rise in administered prices to the total inflation rate are removed in a 12-month time period, unless other additional decisions are taken in the mean time. Being a product of administrative decisions the price rise effects cannot condition the monetary policy decision making, although the latter may not evade them completely. The main focus of monetary policy is the analysis of the influence of administrative prices changes on the demand and supply with other goods and services of consumer basket. This second round effect may cause the influence on total inflation to grow bigger, bringing indirect and longer-term implications to monetary policy.

2.2 PRICES OF TRADABLE AND NON-TRADABLE GOODS

Annual inflation of tradable and non-tradable goods and services was 4.1 and 3.4 per cent in the third quarter. Being more exposed to international competition in terms of prices because of the domination of imported products, the tradable sector continued to record high inflation rates reaching 7.1 per cent in September. This is one of the highest inflation rates of this item for the last four years. The evident rise of tradable inflation rates was mainly caused by the increased external inflationary pressures, expressed in the rising trends of prices of processed foodstuffs, oil and energy.

Annual inflation of non-tradable goods and services displayed a slight downward trend during the third quarter, which may reflect downward demand growth rates. Nonetheless, the average rate of non-tradable inflation for January-September 2007 still remains high.

2.3 PRODUCER PRICES

Both producer costs and the specific markets conditions which relate to the demand-supply ratio and the perception of producers and merchants to have a certain profit rate affect the price formation process of goods and services. Producer prices measured by the PPI are important information for

![Chart 6 Annual inflation rate by tradable and non-tradable sectors](chart)

Source: INSTAT and Bank of Albania estimations
analyzing the performance of some part of consumer prices. Producer prices may become ‘good’ orientations for the future short-term developments in consumer prices. From the PPI data it seems that the increasing inflationary pressures in the third quarter of 2007 were to a certain extent also pushed by the increase of producer costs in economy during the first half of the year. The annual change rate of the PPI was particularly high in the first half of 2007 reaching 3.3 per cent in the second quarter after the very low rates of last year. Processing industry, which shares more than 60 per cent of producer costs, recorded high annual growth during this year. Foodstuffs industry grew most intensively from the third quarter 2006 to mid 2007. The price rise of raw material may have also affected the increase in the producer costs in this industry. The developments in the price index of ‘Processed foodstuffs’ during January-September 2007 indicate that the supply-side inflationary pressures on this item derived from both price rise of imports and the increase in the costs of domestic production. The annual increase rates of producer cost in the extracting industry were considerably contained in the second quarter of the present year. The increase of sales in this industry during the first half of 2007, and in particular in the share of exports, reflects the growth of production and expansion of the extracting industry markets. Meanwhile, the costs have had a downward tendency.

Table 3 Annual change rates of some PPI and CPI components of ‘Processed foodstuffs’ (in %)

<table>
<thead>
<tr>
<th></th>
<th>PPI Total processing industry</th>
<th>PPI Foodstuffs processing industry</th>
<th>PPI Processed foodstuffs industry</th>
<th>CPI Extracting industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1:06/Q1:05</td>
<td>0.9</td>
<td>0.7</td>
<td>-0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Q2:06/Q2:05</td>
<td>0.4</td>
<td>-0.1</td>
<td>-4.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Q3:06/Q3:05</td>
<td>0.4</td>
<td>1.2</td>
<td>-2.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Q4:06/Q4:05</td>
<td>-0.7</td>
<td>1.5</td>
<td>1.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Q1:07/Q1:06</td>
<td>2.1</td>
<td>14.4</td>
<td>2.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Q2:07/Q2:06</td>
<td>3.3</td>
<td>7.3</td>
<td>11.3</td>
<td>2.9</td>
</tr>
<tr>
<td>Q3:07/Q3:06</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>7.3</td>
</tr>
</tbody>
</table>

Source: INSTAT and Bank of Albania estimations

2.4 IMPORT PRICES

The developments in the import prices play a vital role in the performance of inflation. Domestic economy continues to be import-oriented, having imports four times as high as exports. The rapid price rise of wheat exerted strong inflationary pressures on domestic consumer prices in the third quarter. The price of wheat in the international markets rose by 40 per cent in the third quarter of the present year. The unfavourable weather conditions, the drought and the floods in the large producer countries of grains caused the reduction of world supply while the demand has grown as a result of the reduced supply. The grains stock in the world reached the lowest level in the last 26 years. The price rise of wheat in the international markets had a strong impact on consumer price performance in the country. The index of bread and grains increased by 14 per cent in the third quarter. This item was the main contributor to the annual inflation rate of 7.3 per cent of ‘processed foodstuffs’. The nominal appreciation of the lek to the US dollar by 7.2 per
cent in this quarter prevented the full rise of grains price in the country (it rose by as much as one third of its rise abroad). While in this quarter the price rise of bread was more considerable, the risk of a rise in the meat and dairy products price as a result of the transmission of the costs increased by the farmers to these products’ final prices was also present. The indirect effect of the grains price rise has begun to be observed in the price rise of dairy products. In August and September 2007, ‘milk, cheese and eggs’ recorded an annual inflation of 2.4 and 6.1 per cent.

Oil price in the global market has fluctuated considerably during the last four years. The annual rise by about 40 per cent in the two-year period (2004:Q2 – 2006:Q2), was followed by the drop of 2 per cent in the following year (2006:Q3-2007:Q2). During the third quarter of 2007, the oil price recorded a new rise of about 6 per cent. The fluctuations of the oil price in the international markets were reflected in the performance of domestic oil price in a time lag of three months; however the size of the change was smaller at all periods. For 2004-2006 the oil price rise in the country was 25 per cent, while for 2007 the change is almost inconsiderable. The strong lek to the US dollar has contained the transmission of the price rise from the foreign to domestic market. In nominal terms, for the whole period of 2004-2007, the lek has appreciated by 7 per cent on average to the US dollar. However, under the energy crisis, the use of the oil and its sub-products as a basic matter for generating the energy may provide the grounds for the oil price rise in the future.

2.5 MONETARY POLICY DECISIONS

During the third quarter of 2007 money supply maintained the high growth rates observed in the first half of 2007. During this period it grew by about 17 per cent. This growth reflects the high demand for money, mostly from the private sector, in economy. The interest rates in the financial market have been mainly increasing in the first half of 2007. The rapid growth rates of credit and the expectations for the continuation of these rates beyond the first half of the present year increased the concerns for the achievement of price stability objective in the future. In response to the demand-side increasing pressures, at the end of June, the Supervisory Council of the Bank of Albania raised the key interest rate applied on the repurchase agreements by 25 basis points to 5.75
per cent. The rise of the interest rate aimed to contain and reduce the inflationary pressures by increasing the cost of money in economy. The upward tendency of the interest rates in the international markets was gradually transmitted to the domestic financial market. Consequently, the foreign currency interest rates have been increasing during 2007.

Although the increase of the key interest rate at the end of June was the third one within a period of 12-months, the high growth rates of credit continued during the third quarter of 2007. It has been continuously concluded that the low real interest rates have pushed the rapid growth of demand for money in economy. Along with the high monetary expansion rates the country recorded a deep current deficit during the first half and in particular during the first quarter of 2007. The external sector partly coped with pressures of domestic demand in the form of trade balance and current account deepening. The increasing inflation of non-tradable goods prices is another indicator of the demand-side increasing pressures. During the third quarter there have been both demand and supply-side pressures on the level of consumer prices. The supply-side pressures reflected the increase of producer costs as a result of the energy situation, the grains price rise in the international markets, the fluctuations in the oil price and the reduction in the supply of domestic agricultural products.

At the end of the third quarter 2007, the medium-term stability of consumer prices was jeopardized by the ever-increasing demand and by the production cost-related factors, whose duration was and still remains undefined. Under these conditions, the Bank of Albania stepped further in terms of tightening the monetary policy and raised the repurchase agreement rate by 25 basis points to 6 per cent at the end of September. By means of this raise, the Bank of Albania showed to the market its willingness to make the inflationary expectations stable in the medium term, in line with its inflation target of 3 per cent. The keeping of the balance between domestic demand for money and price stability is a condition for maintaining stable economic growth rates.

The Bank of Albania has operated in the money markets through its operational instruments, being in line with the monetary policy decisions. The Bank of Albania met the system’s needs for liquidity by injecting it mainly through the reverse repurchase agreements and the outright purchase interventions in the securities market. The liquidity injected during July to August was about ALL 9-10 billion, while the outright purchase interventions in the securities market resulted in the injection of about ALL 1.5 billion in August. The increase of liquidity in the system has met its needs following the seasonal growth of demand for money in circulation during summer. The return of cash to the system in September led to the decrease of the system’s demand for liquidity to about ALL 6 billion. The monetary operations of the
third quarter facilitated the keeping of balance in the money market in line with the rise of the key interest rate in June and the reduction of seasonal fluctuations in the foreign currency markets.

The monetary operations aimed to meet the quantitative objectives of the Bank of Albania. The presence in the foreign currency market was consistent with the achievement of the quantitative objective of net international reserve, while the injection of liquidity in the system did not infringe the objective of net domestic assets of the Bank of Albania.

<table>
<thead>
<tr>
<th>Table 4 Accomplishment of the Bank of Albania quantitative objectives¹⁵</th>
<th>December '06</th>
<th>March '07</th>
<th>June '07</th>
<th>July '07</th>
<th>August '07</th>
<th>September '07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net International Reserve of the Bank of Albania (in millions of USD)</td>
<td>1,343</td>
<td>1,318</td>
<td>1,337</td>
<td>1,378</td>
<td>1,418</td>
<td>1,459</td>
</tr>
<tr>
<td>Objective</td>
<td>1,484</td>
<td>1,487</td>
<td>1,486</td>
<td>1,527</td>
<td>1,523</td>
<td>1,650</td>
</tr>
<tr>
<td>Current</td>
<td>141.5</td>
<td>169.4</td>
<td>149</td>
<td>149</td>
<td>104</td>
<td>191</td>
</tr>
<tr>
<td>Difference (C-Obj)</td>
<td>79.1</td>
<td>80.6</td>
<td>81</td>
<td>86</td>
<td>90</td>
<td>95</td>
</tr>
<tr>
<td>Net Domestic Assets of the Bank of Albania (in billions of ALL)</td>
<td>342.4</td>
<td>338.6</td>
<td>346.6</td>
<td>348.6</td>
<td>350.6</td>
<td>352.6</td>
</tr>
<tr>
<td>Objective</td>
<td>330.6</td>
<td>332.8</td>
<td>331.2</td>
<td>329.5</td>
<td>334.4</td>
<td>--</td>
</tr>
<tr>
<td>Current</td>
<td>-11.8</td>
<td>-5.8</td>
<td>-15.4</td>
<td>19.1</td>
<td>16.2</td>
<td>--</td>
</tr>
<tr>
<td>Difference (C-Obj)</td>
<td>342.4</td>
<td>338.6</td>
<td>346.6</td>
<td>348.6</td>
<td>350.6</td>
<td>352.6</td>
</tr>
<tr>
<td>* Net International Reserve increased in September due to the income derived from the privatization of the Altelekom. Source: Bank of Albania</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Box: II.2. Public expectations of inflation

The main and only objective of most central banks is to maintain price stability. There is a vast literature on the effect of various factors on the level of prices. In this context, the analysis of the role of consumers’ expectations in the process of price formation is very important. There is now a wide consensus between the economists that the economic agents do not make continuous time errors during the forecasting process, since they are able to identify perception models in the past forecasting errors and base their behaviour in ‘the best possible’ forecasting of economic conditions.

Considering the importance of public expectations in achieving inflation objective the central banks are interested in attending the performance of inflation expectations and understanding the formation process of these expectations. The importance of a reliable measurement of expected inflation may be illustrated by two simple examples. First, since the expectations are considered as approximate indicators of future inflation rates the expectations indicators provide crucial information for the long term analysis of price performance. Second, if the employees think that prices will rise they will ask for higher wages and if this is also the general expectation of the economy then the companies/employers will raise the wages since they can transfer the cost changes into higher prices.

To assess and check the empirical characteristics of inflation expectations are required certain methodologies for collecting public expectations and processing and transforming them into time series. Consumer confidence survey is the most common
way to provide these expectations. The questions on inflation expectations are made in a way that the consumer does not indicate a numerical value but rather identifies the orientation and the expected extent of the change in prices. The basis for comparison is the change rate of prices during the survey period. Qualitative responses in numerical values are made possible through the probability methods. The expected inflation series provides more valuable information for future developments than the simple methods series based on the balance of consumer responses.

The measurement of expectations almost always requires further testing on the nature and characteristics which generally relate to the rationality scale of expectations. This is very important for the fact that the nature of expectations affects the reaction of agents to anti-inflationary measures of the decision-making institution, which in most cases is represented by the central bank. The concept of expectations rationality is related to the way they are created. The hypothesis of rational expectations presupposes that the agents consider all the available information providing as a result non-shifted forecasts (as close to the real rate as possible). While in the case of adoptive expectations hypothesis the economic agents rely only on the past variable information.

The Bank of Albania obtains information from consumers through the Consumer Confidence Survey. Every three months the consumers are asked whether they think: prices will rise at higher rates; at the same rates; at lower rates; will not rise or will fall. During the last two years the question time horizon has expanded from 3 to 12 months. From the tests applied on the results it seems that the consumers consider the average inflation rate of the last three months when they are asked to make an inflation forecast for the following quarter. If the average inflation rate increases the respondents expect even a larger price rise for the following period; the same holds true for the cases when prices are falling. The behaviour of Albanian consumers seems to be an adoptive one which relies on the past variable information. As a result the dynamics of expectations closely follows the dynamics of the current inflation rate. The consideration of adoptive expectations may often lead to non-accurate conclusions.

The improvement of consumers’ perception of the macroeconomic indicators and inflation and the expansion of the database are expected to provide their contribution to the enhancement of the forecasting of expectation series.

3 INFLATION DETERMINANTS

3.1 MONETARY CONDITIONS

3.1.1 Interest rates and liquidity

The second and third quarter of the year were characterized by the growing tendency for tightening the monetary conditions in economy. The interest rates in the money market increased in line with the monetary policy signals. This tendency is being transmitted to the ALL deposits market as well, while the ALL loan interest rates stand at unchanged levels.

The real interest rates were relatively high in the first half of the present year as a result of the low inflation rate, which was also accompanied by an appreciating tendency of the national currency. The interest rates were accommodating for maintaining domestic demand, as also shown by the
above average growth of this indicator. On the other hand, the growth of demand for goods and services while the international prices were rising had implications for the increasing inflationary pressures and trade deficit deepening. The spread of interest rates between the lek and foreign currencies was narrowing after the central banks’ signals for an increase of the interest rate in the international market.

In order to contain inflation, at the end of June the Bank of Albania decided to raise the key interest rate by 25 basis points to 5.75 per cent. This decision was followed by the increase of the interest rates in both the interbank and deposits market. The third quarter evidenced the increase of supply-side inflationary pressures in economy. Domestic demand continued to maintain the high rates despite the increase of the interest rates. The exchange rate between the lek and euro recorded a slight appreciating tendency in the third quarter as a result of the seasonal supply while the lek continues to appreciate to the US dollar in line with the developments in the international market. The appreciation of the lek seems to have partly reduced the price rise effect of raw materials in the global market.

Following up the verbal signals of the Bank of Albania for tightening the monetary conditions in order to moderate the inflationary pressures, at the end of September the key interest rate was raised to 6.00 per cent, which is 75 basis points higher than the previous year. Currently, the interest rates in the interbank and deposits market are following the same trend.

The interbank market was used for meeting the short-term needs for liquidity, in particular when measuring the required reserve. The average lending volume amounted to ALL 2.2 billion from ALL 1.6 billion in the second quarter and ALL 1.4 billion the previous year. Most lending in the interbank market continues to be overnight and weekly.

The interest rates in the interbank market remained within the corridor defined by overnight facilities, but unlike the previous quarter they shifted upwards close to the key rate, affected by the growth of the banking system’s demand for liquidity. The weighted average rate of overnight interests was 5.14 per cent in the third quarter or 59 basis points higher than the second quarter. It fluctuated around the band of 4.39 - 6.12 per cent, while the previous year it fluctuated at around 77 basis points.
The coverage ratio of the Government demand for Treasury bills financing was positive (110 per cent), though the issued T-bills exceeded the matured ones (by ALL 11.0 billion). This caused the T-bills yields to be stable around the same levels throughout the third quarter. As of end September the 12-month yield of T-bills was 7.99 per cent from 7.96 per cent at end June. The increase of the key interest rate at the end of June was partly actualized earlier during the second quarter. As a result, the yields curve sloped compared with the previous year. The decision on the key interest rate rise by 25 basis points in September is being gradually reflected in the primary market for all maturities. The 12-month yield rose to 8.10 per cent or 0.14 per cent above the yield of June 2007 and 0.96 per cent above that of September 2006. The 2-year bonds yield increased by 0.10 per cent at the end of September to 8.30 per cent from 8.20 per cent in June.

ALL deposits continued to grow for all maturities. The weighted average interest of 12-month deposits reached 5.56 per cent in August or 0.44 per cent higher than the previous year. The key interest rate raise at the end of September 2007 and its transmission to the money market interest rates will orient the further increase of ALL deposits interests for the last quarter of the present year.

Their difference to the ALL credit interests fluctuates depending on the performance of ALL credit interests. In the second quarter this difference fell to 8.33 per cent (being under the average of 9.26 per cent) when because of the growth of supply for credit and the promotion of different packages the interest rates for ALL credit fell. In July and August the interest rates of credit returned to their historical average. At the end of August, the weighted average interest of credit increased to 13.50 per cent or 0.52 per cent higher than in June and 0.95 per cent higher than the previous year. Although the credit interest rates fluctuate from one period to another, being affected by changes in the structure of lending, in the last two years the short-term credit (0-6 months) interest rates have had an increasing trend while the medium-term ones (1-3 years) have been decreasing. The foreign currency interest rates have increased in line with the monetary conditions of other central banks. The interest rates of 12-months EUR deposits were 4.08 per cent or 0.64 per cent higher than the previous year. During this period the key interest rate for the EUR has changed by 1.00 per cent. The difference between the ALL and EUR interest rates remains positive at 1.5 per cent. EUR credit interest rates, like ALL credit ones, have been fluctuating, although...
in the last two years they have shown a slight upward trend. The weighted average interest for the EUR credit was 8.48 per cent in August or 0.30 per cent higher than the annual average.

3.1.2 The exchange rate

In nominal effective terms, the exchange rate during the third quarter 2007 continued its depreciating tendency which was present starting from the beginning of the present year. In the second quarter, the annual depreciation of the lek was 1.4 per cent, while in the third quarter the annual change was almost inconsiderable (0.6 per cent). The depreciating behaviour of the lek to the NEER was mainly affected by the depreciation of the national currency to the European one. The decreasing depreciating rates during the third quarter are mainly a result of the substantial appreciation of the lek to the US dollar and the slighter depreciation of the lek to the euro for this period.

Compared with the previous year, the position of the lek to the euro has remained unchanged, while it has appreciated considerably to the US dollar. In the third quarter, the lek appreciated at constant rates to the US dollar (by 7.2 per cent on average), reaching 89.2 ALL/USD as of end period. The performance of the lek to the US dollar was highly influenced by the international markets, where the US dollar has been constantly depreciating to the euro, as a result of the financial issues signalled by the US markets. The average exchange rate of the lek to the euro for the third quarter was 123.2 ALL/EUR, which implies an annual depreciation of 0.4 per cent.

The depreciating behaviour of the lek in nominal effective terms and only to the euro reflects the pressures transmitted by the current deficit deepening for this period.
3.2 BALANCE OF PAYMENTS

The balance of payments for the first half of 2007 provides evidence for the increase of both Albania’s current and financial transactions with the rest of the world. The volume of current transactions during this period was EUR 3.85 billion or 17 per cent higher than the same period the previous year. Both current income and expenses grew by about 17 per cent. The fact that both income and expenses had the same growth rates represents a positive development for Albania’s external position. These rates need to be monitored constantly since higher expenses than current income would jeopardize the long-term stability of Albania’s current account.

As of end semester, trade deficit was EUR 960 million or about 27 per cent of the GDP. Current trade deficit was not offset at the same extent by the improvement in the balance of payments and by the growth of excess income and current transfers. Hence, current deficit as of end semester accounted for 10 per cent of the GDP, while in the same period the previous year it accounted for 7 per cent. About 65 per cent of current expenses were used for the import of goods and 30 per cent for the import of services. In terms of income, the structure is less concentrated. The export of goods, services and incoming current transfers provided 22 per cent, 36 per cent and 30 per cent of total current transfers during the first half of the present year. The import of goods increased by about 24 per cent, while the export increased by 26 per cent. Although the growth rates of the import and export of goods have been quite similar for some consecutive years, their ratio remains almost unchanged. The imports coverage by the export of goods continues to fluctuate to around 28-29 per cent.

During January-August 2007 the import of goods grew by 23 per cent and the export by 28 per cent. ‘Minerals, fuels and energy’, ‘construction materials and metals’ and ‘machinery, equipment and spare parts’ recorded
the highest growth in terms of import. The growth by about 45 per cent in the import of minerals, fuels and energy mainly reflects the growth of volume and price of imported energy. The growth in the import of capital goods has been a tendency for several quarters and it reflects the continuous expansion of investment in the country. The import of foodstuffs and beverages has almost remained around the same level as in the previous year. The price rise of these goods in our partner countries’ markets may have held back the increase of their import.

Table 5: Imports and exports (in millions of EUR) and the annual increase by commodity groups

<table>
<thead>
<tr>
<th>Commodity Group</th>
<th>January-August 2007</th>
<th>Increase</th>
<th>January-August 2007</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foodstuffs, beverages and tobacco</td>
<td>305</td>
<td>7%</td>
<td>35</td>
<td>12%</td>
</tr>
<tr>
<td>Minerals, fuels and energy</td>
<td>302</td>
<td>44%</td>
<td>84</td>
<td>189%</td>
</tr>
<tr>
<td>Chemical and plastic products</td>
<td>198</td>
<td>18%</td>
<td>4</td>
<td>-15%</td>
</tr>
<tr>
<td>Leather and articles thereof</td>
<td>41</td>
<td>17%</td>
<td>11</td>
<td>41%</td>
</tr>
<tr>
<td>Wood and paper</td>
<td>69</td>
<td>33%</td>
<td>15</td>
<td>23%</td>
</tr>
<tr>
<td>Textiles and footwear</td>
<td>194</td>
<td>8%</td>
<td>252</td>
<td>12%</td>
</tr>
<tr>
<td>Construction materials and metals</td>
<td>325</td>
<td>33%</td>
<td>84</td>
<td>22%</td>
</tr>
<tr>
<td>Machinery, equipment and spare parts</td>
<td>400</td>
<td>26%</td>
<td>19</td>
<td>26%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>64</td>
<td>35%</td>
<td>14</td>
<td>20%</td>
</tr>
<tr>
<td>Total</td>
<td>1,900</td>
<td>23%</td>
<td>519</td>
<td>28%</td>
</tr>
</tbody>
</table>

Source: INSTAT

The structure of import and export by commodity groups did not undergo significant changes compared with the previous periods. The largest share of resident expenses is used for the import of machinery and equipment, construction materials, minerals and foodstuffs. The structure of exports continues to be overwhelmingly oriented to re-exports produced by orderer’s material. Worth being underlined is the reduced share of re-exports to the total exports, while there is an increased share of the export of minerals and construction materials.
CAPITAL AND FINANCIAL ACCOUNT

Capital and financial flows increased by 32 per cent during the first semester of 2007 compared with the same period the previous year. They managed to finance about 90 per cent of current deficit. Residents’ financial claims on the rest of the world remained almost around the same levels as in the previous year. The stock of liabilities grew by about EUR 60 million. Foreign direct investments which totalled EUR 150 million during the first half of 2007 or 16 per cent higher than the previous year provided the main contribution to the growth of liabilities. This item played the main role in financing the current deficit. During this period public borrowing amounted to about EUR 55 million.

Foreign reserve as of end the first semester totalled EUR 1.4 billion, being fully sufficient to cover about 4.1 months of import of goods and services.

3.3 MONETARY DEVELOPMENTS

3.3.1 Monetary aggregates

Money supply continued to grow rapidly during the nine-month period of 2007. The growth of money supply was dominated by the private sector’s demand for money, followed by the growth of the banking system’s net foreign assets. In the medium run, the tendency of money supply reflects the upward trend of credit, while the fluctuations around this tendency reflect the fiscal sector’s monetary position and the seasonal foreign inflows in the form of remittances.

Money supply maintained the same growth rate in the third quarter as in the previous two ones (about 17 per cent). The growth of the banking system’s lending provided the main contribution to the growth of money supply. Public sector continues to provide a relatively inconsiderable contribution to the growth of money supply.
creation of money. Although in annual terms the net claims on the public sector have increased by about 8 per cent, the fiscal balance to the economy maintained the same level in the third quarter compared with June. The banking system’s external position reflected the seasonal developments of money creation as a result of foreign inflows during summer.

The creation of ALL monetary assets, measured by the M2 aggregate slowed slightly down as a result of the positive balance on fiscal account, while the growth of ALL credit has a relatively small share in the M2 growth. M2 aggregate grew by 9.5 per cent on average in the third quarter, while it grew by about 10-11 per cent in the second quarter. The annual growth rate of money base had a downward tendency. As of end quarter, the annual growth of money base slowed down to about 4-5 per cent, decreasing considerably compared with March and June (14.5 and 9.4 per cent respectively). Public sector’s domestic borrowing was followed by seasonal fluctuations of the demand for cash in circulation, reflected in the performance of money base in economy and M2 aggregate.

Foreign currency and time structure of money supply reflected the share of 70 per cent of lending in foreign currency and the positive balance of fiscal position to the system. The foreign currency component of M3, foreign currency deposit, grew by 36 per cent annually compared with the 17 per cent growth of M3. This growth rate is in line with the overall tendency observed in the last two years. The changes in the monetary structure of M3 aggregate were oriented to its foreign currency component. About 61 per cent of the money supply (M3) annual growth of ALL 105 billion in August is composed of the growth of foreign currency deposit. The share of the latter to M3 increased to 33.4 per cent from 30.7 per cent in June and about 29 per cent in August 2006. The share of M2 to money supply maintained its downward trend. Hence, the share of ALL denominated deposits to M3 dropped to about 45%

![Chart 18 Annual performance of public sectors’ net borrowing and money supply](source: Bank of Albania)
per cent. The share of currency outside banks to M3 also dropped to 21.7 per cent.

The annual growth rate of ALL denominated deposits and currency outside banks maintained the downward tendency of M2 aggregate. While currency outside banks grew by about 6 per cent in the third quarter, ALL denominated deposits grew by about 12 per cent. However, M2 time structure was put under the influence of seasonal developments. While the share of currency outside banks to M2 decreased compared with the previous year, their share in August grew to 32.6 per cent from 31.7 per cent in June. The seasonality factor of this ratio tends to reflect the developments in the real sector of economy.

The time structure of the banking system’s deposits during 2007 slightly shifted to time deposits. This tendency was mainly evidenced in the performance of ALL denominated deposits. In August, ALL demand deposits shared 22.7 per cent of total ALL denominated deposits from 27.4 per cent in August the previous year. During the last months this ratio results to be unchanged. The time structure of deposits denominated in foreign currency remained unchanged. During 2007, the share of demand deposits denominated in foreign currency to the total of foreign currency deposits was about 30-35 per cent. Compared with the last quarter the previous year this ratio results to be about 3.5 per cent lower.

In general, the performance of the banking system’s total deposits was dominated by the changes in the structure of ALL denominated deposits. Hence, the share of total demand deposits to total deposits in...
the third quarter the present year is about 33 per cent from 35 per cent the third quarter the previous year. This general trend tends to partly correct the growth of ALL denominated demand deposits two years ago.

3.3.2 Credit to the public and private sector

The high growth rates of demand for money, in particular of credit, continue to transmit risk for inflationary pressures in economy in the medium and long run. The share of credit denominated in foreign currency to the total credit portfolio remained almost unchanged in the third quarter compared with the first half of the present year, providing evidence for the ongoing high demand of businesses for foreign currency credit. Meanwhile, the higher lending to households, for both consumption and real estates, grew the credit portfolio to households.

Credit to economy grew by ALL 20 billion in the third quarter. As of end quarter the stock of credit was ALL 255 billion or as much as 27 per cent of the GDP. The share of credit to economy to money supply is presented stable at 34 per cent. Credit continued to grow in the third quarter with high growth rates of 54 per cent on average or ALL 89 billion in annual terms. The largest part of the growth of credit came as a result of the growth of businesses demand for credit. New credit of ALL 21 billion extended over the months remains at high monthly levels.

The structure of credit by foreign currency did not undergo significant changes during the third quarter. Credit in foreign currency continues to dominate the credit portfolio, accounting for 70.2 per cent. For more than two years credit portfolio in ALL is characterized by the moderation of growth rates which however continue to remain high. ALL denominated credit grew by 53 per cent on average in the third quarter, compared with 63 per cent
in the second quarter. Meanwhile, the growth rates of credit denominated in foreign currency are higher than the growth rates of the first half, being equal with the annual growth of ALL denominated credit. This positive performance is attributed to the high demand of the private sector, mainly of businesses, for credit denominated in foreign currency.

| Table 6 Credit to businesses and households (average annual growth of quarters in %) |
|-----------------|-----------------|-----------------|
|                 | Q1-07 | Q2-07 | Q3-07 |
| Credit to businesses | 54.0  | 50.6  | 46.6  |
| For moving capital  | 47.8  | 64.2  | 62.0  |
| For investment      | 59.0  | 40.9  | 36.0  |
| Credit to households | 68.4  | 68.6  | 67.1  |
| For consumption    | 101.2 | 100.9 | 107.9 |
| For real estates   | 91.5  | 53.9  | 60.0  |

Source: Bank of Albania

The portfolio of credit to businesses reached to 17 per cent of the GDP in the third quarter. There were no significant changes in the sectoral distribution of credit to businesses during this quarter. Trade, construction and processing industry remain the most credited sectors of the economy absorbing about 73 per cent of total credit to businesses. The dynamics of this portfolio evidences that unlike the first quarter of 2007, when credit to businesses was characterized by the growth of credit for investment in machinery and real estates, in the second and third quarter the growth of businesses’ demand for credit was focused on covering their liquidity needs, included in overdraft and moving capital credit. The difficulties in the businesses’ economic activity as a result of the shortages in the energy supply during summer are believed to have pushed the demand for short-term credit by businesses.

The portfolio of credit to households during the third quarter reflects further growth of the share to total credit to 36.5 per cent from 35.0 per cent in June.
and 33.3 per cent the previous year. Credit to households is characterized by
high annual growth rates at an average of 68 per cent for 2007. Real estates
credit has the largest share in this portfolio, sharing 62.4 per cent. The growth
of households’ real estates credit in the last months of the quarter seems to
have provided the main contribution to the growth of credit, which accounted
for 9.6 per cent of the GDP. Meanwhile in July consumer credit was the type
of credit to dominate the growth of households’ credit portfolio. As a share to
GDP consumer credit reached 2.6 per cent.

3.4 DEMAND AND SUPPLY FACTORS

The growth of production during the first half of 2007 was slightly higher
than the average growth rates of the previous year. The sectors of industry and
trade provided the main contribution to the growth of sales, while construction
continues to display slow growth rates. Economic growth has found strong
support in the growth of domestic demand. Consumer demand is the main
component of aggregate demand which recorded the most rapid growth.
Investments have been increasing in almost all the sectors of economy.
Economic growth was followed by the increase in the number of employed
and the dropping of the unemployment rate. The constant improvement in
the labour market was also reflected in the increase of nominal salaries and
wages.

3.4.1 Production by sectors

Industrial production recorded high annual growth rates and the trade
activity has maintained the high rates of the previous years. The contribution
of the growth of construction sales to the total growth of economic sales was
almost inconsiderable during the first half of 2007.

Considering the effect of prices which rise constantly it may be concluded that the sales of
constructed or in construction buildings were less
than the same period the previous year.

Total sales increased by 14 per cent in the first
quarter and by 20 per cent in the second quarter,
compared with the same periods the previous year.
The profile of annual growth of sales is much more
similar to that of 2005, when the highest rates
were recorded in the second and third quarter of
the year. The performance of sales is consistent
with a real growth rate of about 6 per cent\(^2\). The
slowdown in construction may be an issue for
maintaining the growth rates in the medium run.
Transportation and telecommunication recorded
a high sales growth in the second quarter (30 per
cent).
Box 4.1: Production and import of energy – Implications for the economy

The problematic energy situation during the present year does no longer constitute an isolated and short-term occurrence. The dependence of this sector on the weather conditions and the imports is ever-increasingly becoming greater. The relatively high and stable economic growth rates are a source of continuous demand for energy sources while the electric energy remains the sole alternative.

Under the conditions when the potentials of domestic energy production have reduced considerably the increase of the import of energy is becoming a long-term way to partly meet the domestic demand.

The phenomenon of energy supply shortages has been now present for several months and it seems to continue to be present in the future. The recurrence of shortages at the end of the second quarter further intensified in the third quarter of 2007. The unusual situation for this season not only reflected the energy sector problems in Albania but also the consequences accumulated from the long drought in the country and throughout the region.

The energy sector indicators for January-August 2007 indicate a lower supply of energy compared with the same period the previous year. The decrease of supply by 9.3 per cent came as a result of the decrease in the domestic production while the increase of imported energy did not manage to meet the demand for energy.

The consumption of energy by the households and businesses has dropped by almost the same rate. Meanwhile the decrease of total losses and losses to sources constituted a positive development in the energy balance sheet.

This decrease was to a large extent a consequence of the increase of cashing. Despite the measures taken by the economic agents and the KESH to cope with the problems caused by the energy shortages the economic activity is largely dependant on the developments in this sector.

Table 7 Indicators of energy balance sheet

<table>
<thead>
<tr>
<th>Indicator</th>
<th>January-August 2006 (in million GH)</th>
<th>January-August 2007 (in Million KWh)</th>
<th>Annual change (In %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sources</td>
<td>3,898</td>
<td>3,536</td>
<td>-9</td>
</tr>
<tr>
<td>- Domestic production</td>
<td>3,760</td>
<td>1,943</td>
<td>-48</td>
</tr>
<tr>
<td>- Exchange with abroad</td>
<td>189</td>
<td>-1,834</td>
<td>-9</td>
</tr>
<tr>
<td>Uses</td>
<td>3,898</td>
<td>3,533</td>
<td>-9</td>
</tr>
<tr>
<td>- Household consumption</td>
<td>1,445</td>
<td>1,383</td>
<td>-4</td>
</tr>
<tr>
<td>- Non-household consumption</td>
<td>930</td>
<td>884</td>
<td>-5</td>
</tr>
<tr>
<td>- Total losses</td>
<td>1,523</td>
<td>1,267</td>
<td>-14</td>
</tr>
<tr>
<td>Losses as a percentage to Sources</td>
<td>39</td>
<td>36</td>
<td>-8</td>
</tr>
</tbody>
</table>

Source: KESH

The timely disproportion of the growing demand of economy for energy sources and its decreasing supply, actualized in the supply shortages did in several cases put in question the general confidence in achieving the main macroeconomic objectives, such as economic growth and price stability.

The periodical analyses of the Bank of Albania indicate that the grave energy situation in the country has generally limited the economic activity. In certain extreme cases the domestic and foreign businesses have suspended the activity, while the shaking of potential investors’ trust is assessed to have a long-term negative effect on Albania’s
economy. In response to the considerable limitations of the economic activity the reduction of new jobs and the falling wages have accompanied the near-collapse point of energy situation in the country.

The additional costs deriving from the use of alternative sources have affected both the businesses and the overall consumer prices level. The use of generators has constantly created additional costs. These costs have strongly affected the prices of products and services because of the oil price rise. Experience has indicated that the need to recover the economic activity in later periods has pushed a strained economic activity imposing unforeseen costs for businesses and in several cases shaking of their position in the market.

Borrowing businesses find it difficult to achieve the expected financial results due to the restraints in the economic activity. Experts of commercial banks state that credit risk becomes even greater in times of difficult energy situation. It would affect the quality of the return of borrowing in the banking system which the Bank of Albania monitors very prudently.

The cost of the import of energy is increasing as a result of the high price in the global markets and the increase of the imported quantity. The assessments indicate that the price of 1 KWh imported by KESH during January-June 2007 was about 60 times higher than the previous year. The high import costs and the impossibility to increase the domestic production seem to continue to affect Albania’s trade balance negatively.

The high import does not manage to be compensated by the cashing, although the latter has increased considerably. This deficiency requires more support by the state budget in order to cope with the extra imports (Country Report, September 2007). In the long-term perspective the persistent occurrence of this phenomenon would reduce the potentials for efficient capital investments in economy.

There may be recurring exchange rate fluctuations in the domestic foreign currency market as a result of the high demand of KESH for foreign currency in order to carry out transactions for the purchase of energy (regardless of its price). Although these fluctuations may be temporary, their recurrence affects the domestic foreign currency market. As a result inflation is induced and the confidence in the stability of domestic currency is shaken.

3.4.2 Demand and consumption indicators

INDICATORS OF CONSUMER DEMAND

The indicators of domestic demand indicate that the level of households’ spending as of end the second quarter was high. The positive developments in the labour market, the rise in salaries and wages and the stock of credit to households are consistent with the continuous growth of consumer demand. The rises in the key interest rate starting from July 2006 do not seem to have had a decelerating effect on the growth of consumer spending.

The most recent data for the second quarter of 2007 provide evidence for the growth of sales and imports. Sales in services\(^1\) grew by 20 per cent. This is the highest growth rate of sales in services for the period covering 2006:Q2 – 2007:Q1, when the annual growth of this sector fluctuated
around 9-15 per cent. The volume of retail trade grew by 5 per cent during this period, while the employment index in this sector improved for the two consecutive quarters. Households channelled their spending mainly for the consumption of ‘foodstuffs, beverages and tobacco’, ‘clothes, footwear and leather articles’ and ‘household appliances’. The sales of these commodity groups recorded an annual growth of 41, 53 and 15 per cent in the first half of 2007. Apart from the increase in the short-term consumption there is also an ever-increasing tendency in durable consumption. For the first time, the number of vehicles purchased in the second quarter more than doubled compared with the previous year. The increase in the import of goods both for final and intermediate consumption provides evidence for an increased consumer demand in the second quarter. The imports of consumer goods increased by about 11 per cent compared with the previous year.

Consumer spending was supported by income from labour, credit to households and workers’ remittances. Along with the rise in the employees’ salaries and wages in both the public and private sector there was an increase in the number of employed. Credit to households continues to record high growth rates. Although credit in the third quarter grew at slower rates compared with the previous two quarters, it was 56 per cent higher than the third quarter the previous year. The increase of the stock of credit to households is a result of their increased wealth. Housing prices are one of the main indicators of the performance of households’ wealth. The rising housing prices increase the wealth of their owners; hence, it has a positive influence on the assessment banks make on the current and potential borrowers. Workers’ remittances continue to be high and provide a considerable source of income for the Albanian consumers. In the second quarter remittances grew by about 16 per cent.

The information obtained from the consumer survey provides different signals related to consumer confidence. Although the survey data for the second quarter indicate that there has been an improvement of the consumer confidence index by 0.4 per cent compared with the previous quarter, it has been decreasing in annual terms. This year’s energy crisis seems to have moderated the consumers’ confidence causing the share of positive factors such as the increase of income or the favourable credit terms to be less.

**INVESTMENT INDICATORS**

Investment activity for the first half of 2007 increased compared with the previous year. Indirect indicators of investment in Albania suggest that this indicator has increased for all sectors of economy. Private non-financial sector provided a positive contribution to the performance of investment. The funding of investment projects was at a large extent supported through borrowing. Business borrowing for machinery, equipment and real estates has recorded high growth rates in the nine-month period of the present year increasing annually by 61, 36 and 34 per cent for the first, second and third quarter. The import of intermediate and capital goods increased by about 29 and 28 per cent on average in the first half of 2007 compared with the same period the previous year. The opinions expressed in the Business Confidence
Survey generally indicate a favourable investment climate and proper lending terms.

In annual terms, investment in houses, mainly by households, decreased. The volume of new buildings was about 8 per cent smaller than the first half of 2006. The limitations in the extension of construction permits reduced the growth of supply with house buildings. Meanwhile the demand for houses remains high and ever-increasing. The more rapid growth of demand than supply exerted pressure on the continuous rise of housing prices and the dropping of the sales growth rate in construction. In the third quarter the house price index for Tirana increased by 25 per cent compared with the previous year.

Capital spending of the public sector recorded high annual growth rates mainly in the first and third quarter. Foreign direct investment which increased considerably in the first quarter provided a positive contribution to the increase of investment in Albania. The reduced direct investment in the second quarter was partly offset by the increase of income from tourism by 16 per cent for this period.

Table 8 Investment indicators

<table>
<thead>
<tr>
<th></th>
<th>Q1’06</th>
<th>Q2’06</th>
<th>Q3’06</th>
<th>Q4’06</th>
<th>Q1’07</th>
<th>Q2’07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Import of intermediate goods (in millions of EUR)</td>
<td>273</td>
<td>301</td>
<td>296</td>
<td>345</td>
<td>347</td>
<td>396</td>
</tr>
<tr>
<td>Import of capital goods (in millions of EUR)</td>
<td>68</td>
<td>76.9</td>
<td>66.5</td>
<td>83.6</td>
<td>87.3</td>
<td>98</td>
</tr>
<tr>
<td>Government capital spending (in billions of ALL)</td>
<td>3.2</td>
<td>5.1</td>
<td>6.6</td>
<td>32.6</td>
<td>5.7</td>
<td>5.5</td>
</tr>
<tr>
<td>Foreign direct investment (in millions of EUR)</td>
<td>57</td>
<td>69</td>
<td>75</td>
<td>58</td>
<td>86</td>
<td>51</td>
</tr>
</tbody>
</table>

Source: Bank of Albania and Ministry of Finance

3.4.3 Fiscal sector

Fiscal policy for the nine-month period of 2007 may be described as tightening being quite rigorous in collecting income and prudent in carrying out spending. Fiscal balance for this period resulted in a surplus of ALL 10.3 billion from ALL 8.9 billion of the projected deficit. Budget income grew under satisfactory rates while spending followed the usual cyclic model, according to which it reduces during the first part of the year and increases in the last two quarters. This nonlinear distribution of budget spending over the year leads to the concentration of the fiscal stimulus in economy mainly in the last months of the year causing the inflationary pressures for this period to increase.
Budget income grew by 11.9 per cent and spending by 12.5 per cent in the nine-month period of 2007 compared with the same period the previous year. The share of fiscal surplus to the GDP dropped to 0.08 per cent in the third quarter.

Value Added Tax represents the main source of tax income. It increased by 21 per cent compared with the nine-month period of 2006. The application of the change in the law on excises and tax on personal income (application of the flat tax) in the third quarter increased the tax on personal income and excises by 125.5 and 30.7 per cent respectively. The same performance is expected to continue in the period to come while the flat tax applied on business profit will be applied starting from 1 January 2008.

| Table 9 Growth rates of income and spending (in percentage) and the fiscal balance |
|--------------------------------------|-------|-------|-------|-------|-------|
| Annual growth in %                  | Q3-06 | Q4-06 | Q1-07 | Q2-07 | Q3-07 |
| 1. Total income                     | 15.0  | 10.1  | 6.7   | 12.4  | 16.3  |
| 1.1 Tax income                      | 13.8  | 6.2   | 7.5   | 10.3  | 12.1  |
| 1.1.1 Income from tax and customs  | 15.1  | 10.0  | 11.9  | 13.3  | 16.9  |
| 1.1.2 Other tax income              | 9.9   | -4.7  | -4.6  | 1.2   | -2.9  |
| 1.2 Non-tax income                  | -15.1 | 35.7  | -1.0  | 42.7  | 129.6 |
| 2. Spending                         | -3.4  | 53.0  | 14.7  | 7.2   | 16.6  |
| 2.1 Current spending                | 2.0   | 21.9  | 9.5   | 7.1   | 13.3  |
| 2.1.1 Personnel spending            | 4.9   | 10.7  | 1.1   | 1.3   | 2.2   |
| 2.1.2 Spending for interests        | -2.0  | 2.1   | -7.2  | 6.2   | -12.7 |
| 2.1.3 Insurance and pension spending| 7.5   | 8.6   | 14.2  | 17.3  | 17.7  |
| 2.2 Capital spending                | -31.4 | 171.4 | 78.8  | 8.0   | 41.5  |
| 3. Fiscal balance (in millions of ALL) | (71.8) | (38,500.3) | 6,400.9 | 3,749.2 | (250.8) |
| 3.1 Domestic financing              | (152.3) | 34,262.7 | (6,416.0) | (4,028.8) | (433.2) |
| 3.1.1 Income from privatization     | 1.1   | (145.0) | 30.1  | 13.6  | 13,093.1 |
| 3.1.2 Domestic borrowing            | 2,995.9 | 28,196.6 | 2,839.7 | 596.6  | 8,563.7 |
| 3.2 Foreign financing               | 224.1 | 4,238.7 | 15.0  | 279.6  | 684.0  |

Source: Ministry of Finance

Current spending grew by 9.5 per cent and capital spending by 40.2 per cent in the nine-month period. Reform in public administration during the previous year caused the growth of spending on administration personnel to be modest by 1.5 per cent. Although investment had a satisfactory annual growth owing to several road projects undertaken over the year budget spending continues to be short-term oriented. This fact is evidenced by the small share of 27 per cent capital spending has in the budget.

3.5 LABOUR MARKET AND WAGES

Demand for labour continues to grow being reflected in the increase of employment and the decrease of
unemployment rate. The growth of domestic demand in industry and services was accompanied by the increase of employment in these sectors. The structural changes in the public sector had a negative impact on the employment indicator. The Government initiative to decrease the tax rate applied on businesses’ profit and to determine the reference salary and wage for calculating the legal obligations of employees, accompanied by the strengthening of controls by the responsible public authorities, encouraged the businesses to register and declare the real salary and wage. The considerable rise of salaries and wages in the private sector during the second quarter mainly attributes to these developments. At the same time, it does not seem to have affected the number of employed since its growth rate has fluctuated around the historical average.

**EMPLOYMENT AND UNEMPLOYMENT**

The data on employment for the second quarter of 2007 indicate an upward tendency starting from the last quarter of 2004. The number of employed in the second quarter was 933 thousand people or 1.7 per cent higher than the same period the previous year. This increase was mainly recorded in industry and services. Employment in these sectors increased by 5 and 4 per cent annually. In retail trade the employment index increased by 19 per cent. The decrease in the number of employed in construction was in line with the slowdown in production and sales while transportation recorded a very high volume of sales with a small number of employees.

The structural changes in the public sector led to the decrease in the number of employed in this sector by about 5 thousand people. This decrease was somehow compensated by the increase by about 7 thousand people employed in the private sector. Unemployment rate fell by 0.4 per cent annually reaching 13.5 per cent as of end the second quarter. Unemployment rate has been dropping starting from 2002.

The more rapid falling rates in the number of unemployed than the increasing rates in the number of employed is translated into the decrease of the labour

![Chart 27 Performance of unemployment and employed indicators](chart.png)

Source: Conjecture, Second Quarter, 2007, INSTAT
force. According to official data provided by INSTAT labour force reduced by about 3 thousand people in the second quarter. This occurrence may be attributed to the informal nature of employment relationships, to emigration and to the non-compliance between supply and demand for labour related to the education and skills required by the job seekers.

PERFORMANCE OF SALARIES AND WAGES

Salaries and wages rose in both the public and private sector in the second quarter of 2007. This rise differed among the two sectors. The average salary and wage rose at slower rates in the public sector compared with the previous two quarters.

The annual rise rate of average salary in this sector was 15 per cent or about 4 per cent higher than the average rise recorded in the last five years. The increase of wage index in the private sector varies from 15 per cent in construction to 40 per cent in services and hotel sector.

The encouragement of businesses to declare the real wages is assessed to have affected the considerable rise of wages in the private sector for the second quarter. Unlike the previous year the minimal approved wage and the unemployment payments did not undergo any changes during 2007.

Starting from May this year the contributions of social and health insurance and the tax on personal income from the employed in the private sector will be calculated on a monthly reference wage which has been determined upon the decision of the Council of Ministers.

“Reference” wage has been determined depending on the location of the business, the type of economic activity and the hierarchic level of employees so that the declared wages respond to the market value for the employment services.

![Chart 28 Average wage in the public sector (annual growth in percentage)](source: Short-term Statistics and Conjecture, Second Quarter, 2007, INSTAT)
NOTES

1. Sub prime lending is a type of lending that relies on risk-based pricing to serve borrowers who cannot obtain credit in the prime market, where higher degrees of risk for borrowers carry higher costs for loans.

2. For the Euro area and its member countries the inflation rate is measured according to the Harmonized Consumer Prices Index methodology.

3. Annual and core inflation over the months: May (1.4%; 1.5%) June (2%; 1.7%), July (2.1%; 2.1%), August (4.2%; 3.7%) and September (4.4%; 3.4%).

4. Dry weather, the situation with the watering infrastructure, the absence of an efficient system collection and distribution of production and the energy crisis have affected negatively the domestic agricultural production.

5. After a downward tendency in January-May annual inflation rate increased in the following months.

6. We derive net inflation after excluding the effect of too volatile prices or administered prices from total inflation. In our case, the influence of foodstuffs prices and the simultaneous influence of foodstuffs prices and administered goods prices are excluded from total inflation. These two groups of prices have affected the overall level of prices in the country, causing inflation jumps beyond the targeted band in certain months.

7. As a result of the rise in excises in September 2006.

8. As a result of the measurement of this rate according to the very high index of the same month the previous year. This item’s inflation was quite high in September 2006 due to the considerable increase of the dormitory tariffs paid by the students.

9. Average annual inflation rate for the non-tradable sector was 4.1 per cent.

10. The share of foodstuffs industry in the processing industry in the measurement of the PPI is about 17 per cent.

11. The share of extracting industry in the measurement of the PPI is 9.6 per cent.

12. Source: Research Department, Products Office, IMF.

13. Canada and some European countries.

14. Where bread and grains share 31 per cent.


16. The current average inflation of the second quarter of 2007 (when the Consumer Confidence Survey was carried out) was 1.8 per cent. It identified low expectations of inflation rate in the future from the consumers. Meanwhile inflation rate was in much higher rates, at least in the third quarter.

17. The corridor of facilities shifted by +0.25 per cent in this period.

18. The negative change rates of the NEER imply the appreciation of the lek to the currencies of the main trade partners. The positive rates imply its depreciation.

19. Total deposits are composed of deposits denominated in ALL and deposits denominated in foreign currency (time and demand deposits).
20 According to the IMF estimations of the GDP and the Bank of Albania estimations.

21 Services include the sub-sector of trade, hotels and restaurants, transportation, telecommunication and other services where the financial intermediation is part of.

22 Based on the Short-term Statistics for the second quarter of the year, published by the INSTAT.
SPEECH BY MR. ARDIAN FULLANI, GOVERNOR OF THE BANK OF ALBANIA
At the signing of the Memorandum of Understanding with the Competition Authority
Tirana, 17 July 2007

Dear participants,

I am pleased to have concluded this co-operation agreement between the Bank of Albania and the Competition Authority.

In observance of the legal responsibilities of the institutions we represent, this agreement concludes the formal basis for cooperative efforts, in terms of achieving the objective of enhancing the competition conditions, in which the banking and financial activity is being conducted. Fair competition promotes the efficiency in the banking business and refines the composition and the functioning of the banking market, by providing significant services to clients and the public at large, being users of banking and financial services.

It has been for some years now that the Albanian economy and the financial system are in an intensive process of integration into the regional economies and markets. This process requires the improvement of the legal and regulative framework for developing the business and the enhancement of the human and institutional capacities to cope with the challenges deriving from the economic openness and the enhancement of competition. Considering this phase of economic development, it is essential that the regulatory authorities of financial markets and their institutions establish transparent and non-discriminative conditions for conducting business and moreover, develop necessary instruments to identify and eliminate cases of abuse from the financial institutions in their relationships with the other market participants and the clients.

According to this agreement, the Bank of Albania shall, in fulfilling its supervisory role and in co-operation with the Competition Authority, support the latter in identifying the behaviour of banks and non-bank financial institutions, which may distort competition and ultimately, maintain an unfair position in the market, set unreal prices for banking products and services and discriminate certain clients or part of the public. In such cases, the Bank of Albania will require the Competition Authority, to start an investigation procedure, according to the law provisions. On the other hand, the Bank of Albania will continue to ensure that the regulatory framework and the supervisory practices remain transparent and provide to all entities meeting the law requirements equal terms for conducting banking and financial activity. In the context of this co-operation, the Bank of Albania and the Competition Authority shall establish the format of formal information exchange, by observing the requirements of the law in terms of its quality and characteristics.
Understandably, we have taken only one step along a very long process, which requires its consistency in practice, as well. It is crucial that the importance of this agreement be fully comprehended by the staff of both institutions. Its commitment is essential, in order for our co-operation to be part of our daily job and add to the efficiency of both institutions and not to remain solely on paper.

The Bank of Albania considers the conclusion of this memorandum as a cornerstone which will overwhelmingly affect the enhancement of real competition conditions, in which the banking and financial activity are currently being conducted. It is worth underlining that fair competition promotes the efficiency in the banking business and refines the composition and the functioning of the banking market. The Bank of Albania will make its utmost efforts to make the co-operation deriving from this agreement as concrete as possible and with direct impact on achieving a real, fair and efficient market competition.

I take this opportunity to express the Bank of Albania commitment to carry out all the responsibilities deriving from the law and from this agreement. In addition, allow me to express my appreciation to the Competition Authority and to Ms. Lati for the support granted in the conclusion of this agreement.

Thank you.
Honourable ladies and gentlemen,

It is a special pleasure for me to introduce Mr. Sylvester Eijffinger, an academic that is well-known for his research into central banking institutional and practical issues. Today he is going to share with us one of the latest experiences of his work in monetary policy transparency and its effects on the economy.

This activity is a follow-up of the lectures with distinguished personalities from academy and finance world, part of the program on enhancing transparency through public education. Undoubtedly, we have to do with an initiative of the Bank of Albania to contribute to the enlivening of academic and scientific research in Albania.

Over the last decade, there is noticed a tendency of central banks to be more and more open to the public concerning the decision-making in economic and financial policies. Transparency has become an important issue of monetary policy. The important changes occurring in central banking since the beginning of ‘1990 have led to interesting and contemporary topics of academic studies in monetary policy. Transparency and opening to the public became a necessary practice in the framework of adopting inflation targeting, as a good practice of communicating with the public and for meeting the final objective of monetary policy. Moreover, this practice was extended in other central banks of advanced and developing economies. The rationale behind such policy stands at the belief that central bank transparency prevents the asymmetric information that exists between policy-makers and other economic agents. From this viewpoint, transparency increases clarity on monetary policy and allows the private sector and the economy to make rational decisions.

Central bank transparency enhancement has been reflected in the publication of monetary policy objective, often defined in numeric form; in the publication of inflation report and the expected inflation forecasting; in the description of monetary policy decisions, together with the analysis and assumptions leading to such decisions; and in extreme cases, in the publication of minutes of monetary policy meetings, and the voting result in the decision-making process. Significant examples may be found in the European Central Bank, the Federal Reserve, the Bank of England, the Central Bank of Canada, of New Zealand, of Sweden.

These tendencies indicate that central bankers have strong reasons to believe that central bank transparency carries over the potential to increase
credibility and reputation of the institution and of the monetary policy, why not even its flexibility. Simultaneously, transparency helps the economy to achieve low inflation and interest rates. It is very important that scientific academy and researchers investigate this confidence of ours, providing their contribution and conclusions.

The Bank of Albania has assessed the importance of monetary policy transparency and has made substantial steps for raising its level, especially in the recent year. Let me briefly mention some of these improvements:

I believe that you share the same opinion with me, that currently the decision-making process in monetary policy area and in that of financial stability has undergone a significant improvement, not only in terms of the analysing process but also from the viewpoint of its communication. Presently the Supervisory Council has disclosed the calendar of meetings dedicated only to monetary policy decision-making.

Also, since a long time, the process of its implementation, of analysis and of proposals passes through the Committee for the Implementation of Monetary Policy, a consultative body which has not only raised the quality of analysis but has also contributed to a new up-dated format of the Bank of Albania’s communication with the market and with economic agents in general.

No doubt, the whole above-mentioned framework passes through an analytical process of assessment and forecasting, which is synthesised in monetary policy reports, part of which are the inflation forecasting models and baseline assumptions for possible economic events to which monetary policy should response.

I may elaborate this point even further, but I believe that in my public presentations, in many press releases of the Bank of Albania Supervisory Council, and in our periodical publications we have made it clear that the one-digit numerical inflation target, the explanation of both operational and monetary policy framework are a central part of the Bank of Albania transparency.

Personally, I am confident that this is the core of central bank transparency. I also believe that, thanks to this increased transparency, we have been relatively successful even in the achievement of another major central bank objective, i.e., that of anchoring the inflationary pressures at the programmed levels.

Enhancement of transparency to such levels indicates clearly the Bank of Albania’s obligation to be an entirely accountable institution. We are confident that only in this way we will raise our credibility, will maintain and strengthen the confidence of the public and of economic agents in the Bank of Albania and its commitments.

An aspect of transparency I would highlight is that of public understanding of central bank related issues. No effective communication exists without
succeeding in understanding each-other reciprocally. No matter how broad and clear the information given by central bank is, the positive effects of transparency may not be fully benefited if this information is not interpreted fairly by economic agents. This is particularly necessary for countries of a short history of market economy, where the degree of public involvement in the country’s economic life is still low. Therefore, the Bank of Albania has been very aggressive in terms of designing and developing various programs for public education. Numerous meetings with market participants, with financial and banking community, with the business, with the academy, with the media and beyond, with the public, have been regularly carried out and I assure you that they will continue with the same intensity even in the future.

I would like to emphasise that the argument of transparency enhancement remains equally valuable also for the rest of financial system. Transparency, without becoming an end in itself, and without damaging the achievement of final objectives of the business is a necessary market element for building confidence and expanding business relations, in products and volume, maintaining the financial system equilibrium and stability. In this framework, transparency should become a global concept of the financial market for products, services and actions taken by it. To this end, I would request from the banking system to further enhance its transparency with the public, particularly in terms of explaining simply and sincerely the products it provides, the commissions it applies, without leaving behind the publication in due time and quality of financial results, pursuant to legal obligations. In this context, I would like to let you know that the Bank of Albania will be rigorous in meeting all the obligations arising from the observance of laws and regulatory basis.

As my friend Eijffinger states: “Transparency seems to mean different things to different people”, it is understandable that the debate remains open to both, academic and practical plane. New elements, quantitative indicators, empirical models are constantly added to it. The material to be presented today, adds a new value in this regard, with practical importance for central banks. I am confident that today we will have the opportunity and pleasure to expand our knowledge and consolidate our confidence in transparency effectiveness. I invite you to be full of attention for the presentation.

Honourable Professor Eijffinger,

I thank you for accepting my invitation to present your research in Tirana, and I wish you have a pleasant experience during your stay in Albania.
I. INTRODUCTION

It is a pleasure to be here today and engage in this discussion on strengthening regional cooperation. This meeting in Bosnia builds upon other important activities in which we have come together to discuss similar issues. It is one thing to organize one activity where the governors of all central banks come together to share their views and agree upon importance of regional cooperation, but it is completely another thing to have them to bind themselves to continue the institutional dialogue. Today, we present another proof of such commitment and show that regional cooperation in SEE is not a slogan but a real process with real results and products.

II. WHY COOPERATION?

In general the nature and the character of any form of cooperation is shaped by the most important problems that central banks deal with. Therefore the stage of economic development, and economic and social challenges faced by our economies are bound to play an important role in this cooperation.

a. Common Challenges

While the overall region seems to experience macroeconomic stability, issues that the central banks face today in their respective jurisdictions with their main partners bear striking resemblance. Most importantly we share the same partners. We have all accepted the same challenges and set similar priorities which converge to the same objectives. Dealing with a much faster globalization of financial sector than the rest of the economy, guarding macroeconomic and financial stability in face while this is happening, and the challenge of European integration define similar problems across the region. Structural reforms I would consider as the main future challenge. Building a stable financial system, enhancing financial infrastructure, improving financial markets, deepening and broadening through innovative initiatives provides fundamental ground for such cooperation.

The memories of the latest episodes that have trembled financial markets in the western hemisphere, and the architecture of the financial system that is developing in our region (meaning the same banks becoming major players in each country) should make us aware of the potential risks. They indicate that each financial market remains highly exposed toward negative phenomenon that could develop in any of the region’s economies.
b. Common Destination

In this respect, I see enormous possibility for cooperation and policy coordination in the direction of information sharing, institution building, modification of the legal infrastructure and lobbying in European structures. Facing these problems in group rather than separately will allow to benefit and embrace the positive effects of “economies of scale”. I also invite the ECB and EC to explore the possibility of adopting a “party” treatment for the entire SEE region, by adopting a specific program for a specific group of countries.

The process of mergers and acquisitions has incorporated financial system of the region into the bigger European market. This market driven, business initiative of the financial community, calls for institutional integration as well. Bringing central banks of the region into the appropriate European structures has the potential to minimize the probability of dangerous drifting apart into worthless initiatives and create positive energy.

I encourage foreign partners as well as donor agencies to adopt the same logic of coordination in the process of the compilation and implementation of technical assistance in areas of integration, institutional building, and financial stability process. This approach and will benefit the region in several ways but most importantly it will avoid major economic and social disparities between our economies, which in the long run have the potential to develop into serious threats to stability.

On the other hand, several differences emerge in certain areas of developments. Yet, this provides further room for cooperation. It is a fact that our economies have adopted diverse approaches toward establishing macroeconomic and financial stability. We are at different stages of integration. It is probably due to these diverse characteristics that contagion has not been a prevailing phenomenon in SEE region. Along the path of transition our economies have encountered distinct problems in different moments. Just to point out a few examples:

- Credit has penetrated deep in the culture of some economies in the region while it still remains a fast growing new phenomenon in a few others;
- Some of us have experienced high capital inflows while the others expect to have in the future;
- Some pegged their currencies to Euro; the others have not.

For the rest of the region it is very important to know what triggered such different choices. How did authorities respond to such problems, what to expect, how to react? Due to these different paths that we have taken and nature of the problems that each economy has encountered, we are positioned in different parts of the learning curve. There is a great deal of learning by doing experience we have accumulated during this period of existence, and I believe that this knowledge must be shared.
c. Common Achievements

We have succeeded to establish a network of communication with all central banks in the region among governors. I have noticed that they have always expressed their enthusiasm to intensify regional cooperation in this context. I am also happy to say that during my contacts with respective international organizations, they have highly endorsed our cooperation and have promised their support with regard to specific problems that characterize financial and economic development of our region. I want to take this opportunity to thank my dear colleagues (friends I should say) and the institutions that they lead for the significant efforts and distinguished contributions provided in several important activities that are or will be organized by the Bank of Albania in the context of financial stability, monetary policy decision making, foreign reserve management and economic research.

III. HOW TO COOPERATE?

On personal grounds I can also identify other important areas of fruitful cooperation which bear common benefits. I would like to encourage the establishment of an annual SEE Central Banks Forum. This forum could discuss in details topics such as financial stability, statistics, payment systems, economic research, and why not human resources. I would like to encourage active participation of the second and third level Central Banks’ managers in this “Forum – to be”. They must follow the example of their governors and engage in a closer cooperation. They should not only follow up issues discussed and decided amongst governors, but they can open a dialogue and exchange opinions, identify the best business practices and standards and then adopt those in their daily work.

IV. CONCLUSION

I do not know how many times I might have mentioned the word “cooperation” today, but I hope that you will still tolerate me to close my discussion by saying that I strongly believe in the regional cooperation. I will never stop promoting this important process among financial systems of the Balkans. Dear governors, we have all spend enough time and energy on this important topic, to know that you share the same opinion as I do. So let’s keep up such attitude toward cooperation, it will build confidence in the region and enhance our efficiency.

I wish the Central Bank of Bosnia and Herzegovina success and prosperity for the many years to come.

Thank you!
Honourable participants,

It is my special pleasure to come back to your wonderful city. Today’s meeting is held in the framework of the new communication strategy of the Bank of Albania with various groups of interest. Meetings in different regions of Albania help us better understand the specifics characterising certain geographic areas, raising the premises for an ever more harmonious and complete development at the country’s level.

I would like to elaborate with you some issues related to the Bank of Albania’s activity, which I think, from the viewpoint of coverage and effects, involve all the groups of interest participating in this meeting.

First I would like to deal briefly with the issue of communication. Nowadays it is widely accepted that chances for long-term success become a reality if one is capable of communicating in proper language, with proper actors and on due time. More concretely, the central bank should constantly communicate simply and transparently with all market stakeholders, including the broad public, in order to be efficient and forward-looking. This is a necessary premise to guarantee institutional credibility, real independence and a sound accountability.

For a long time from now the Bank of Albania has started to think in a forward-looking way about this process and I may actually declare that we have already started to obtain the first fruits. According to different estimates, we deem that market efficiency is increasing, inflation expectations are anchored around our target, while the awareness of financial stability has been constantly increasing.

Notwithstanding the above, our claims in terms of information and clarification of Bank of Albania’s decision-making are greater.

Proper language translation and understanding of the strategic and operational decisions (monetary policy decisions) is our strategic target. Our ambition in this regard is great and I would invite all the stakeholders in general and the banking system in particular to make more efforts for cooperation.

The Bank of Albania is confident that the financial market in Albania has already created a complete physiognomy. The participation of many foreign institutions of international reputation is a testimony in this regard. Recently its efficiency is enhanced, reflected in both, the traded volume and the reduced interest rate volatility. However, the Bank of Albania has noticed that the market
should develop better and faster. Presently, I am of the opinion that there are no objective reasons that would weaken the financial market efficiency and in consequence the transmission of monetary policy to the economy.

The banking system has got all the possibilities and should interpret more correctly all the signals of the Bank of Albania, on due time and intensity. Also, the banking system should be seriously prepared not only with the respective structures, but also with professional human resources. This is a standard requirement, a postulate of modern times, to which we all should be committed at maximum.

I would let you know that the Bank of Albania has already prepared and soon enough will launch a specific package, centred on the efficiency of the financial market, particularly of the banking one. A new law on repurchase agreements, regulatory changes in required reserve maintaining and calculation, rarefaction of Treasury bill auctions from the viewpoint of time, and presentation of the base rate are part of this package.

All these measures will be implemented as a sole package and will revolutionize the inter-bank market operation, a vital link of the financial market for monetary policy transmission to the economy. On the other hand, they would make the operational tactics of the Bank of Albania more efficient. I invite the banking system to become part of this process, actively participating in all consultations of the case that will precede the launching of this package. Its suggestions and comments are welcomed at any moment.

Monetary policy decision-making of the Bank of Albania is the second issue I would like to deal with. I would like to repeat once more that consumer price stability is the primary target of the institution I govern. Recently, I believe you have had the occasion to comprehend from the statement of the Bank of Albania Supervisory Council that the risk for an inflationary environment is present. Also, we have enlisted in our statements the probable factors, which according to our considerations make the concern real for inflationary pressures to the economy.

The data disclosed by INSTAT show that the annual inflation in August 2007 recorded 4.2 percent, somewhat above the upper limit of the targeted band of 2 – 4 percent. August recorded a high monthly rate, 2.1 percent, a wholly unusual figure compared to the preceding years.

I am confident that we have been understandable when evidencing in our analyses that the causes relate to unforeseeable factors (unforeseeable shocks) and other reasons that have to do with the demand of the economy for goods and services.

It should be underlined that during the current year the factors of first nature are numerous and relate to developments within the country and to “imported” developments from international economy. To be more concise, I would briefly highlight:
1. The energy crisis, which during this year appeared earlier than usual and according to different assessments, will continue beyond what the business may envisage in its plans at the beginning of each calendar year. Naturally, the effect of the lack of energy is very complex; it affects directly the productive capacities, creates additional cost (alternative source of energy) on final products, and increases the overall uncertainty. I think that these elements are sufficient to create ambiguity in the markets, generating inflationary premises in the economy.

2. During this year we have been faced with another problem. It has to do with an international conjuncture of raised prices, which exerts its impact on our market of goods and services. Fuels and cereals are more vulnerable by this conjuncture. The needs of our economy for these two articles are increasing, while the domestic resources are limited, making Albania dependant on imports, and in consequence on international market prices.

3. In general, the economy demand is estimated to have been high at end of 2006 and in the major part of 2007. This fact is evidenced in the large credit growth to the economy, in further enlargement of the current account, in increased imports of such goods as vehicles, household electrical appliances, and machinery and equipment. Generally, the increased demand at a certain period of time means inflationary pressures on the economy; therefore we have reasons to be seriously concerned about this problem.

4. Nowadays, public expectations for future inflationary developments are in the focus of the efforts of each central bank to ensure long-term price stability. More concretely, it has to do with the perceptions that every economic agent creates about future inflation. In some cases, these expectations are mostly based also on the facts verified in the past. But, successful is that central bank, which succeeds in anchoring these public expectations with a numeric target that it considers as the optimal rate of inflation. Therefore, we are much focused in this direction, and I would like to once more emphasise in this meeting the Bank of Albania’s attitude, that we remain determined in our efforts to keep inflationary expectations anchored around 3 percent, a figure that constitutes also our numeric target.

To this end, we will continue to orient our political and operational decision-making towards the meeting of this target*

As a final issue I would like to consider another major objective of the Bank of Albania, the one related to financial stability. As you may already know the Bank of Albania is the licensing and supervisory authority of the banking system and of some other segments of the financial system (non-banking financial institutions and foreign exchange bureaus). Being simultaneously even an important decision-making authority in the area of the financial and economic policies, it is understandable that a delicate challenge remains the harmonisation between both major priorities: effective monetary policy without damaging the financial stability and financial stability without damaging the monetary policy effectiveness.
Currently this is the trendiest issue. Many experts, decision-makers, academics are laying great emphasis on this problem and they rank the financial stability as a principal, which if shaken it takes upon itself the entire infrastructure from which it arose, from which it was nourished and grown. Therefore, I consider it important to come back and back to this issue.

Due to our not very distant history, I think that prudence in terms of financial stability is never excessive. I would like to assure you that the Albanian banking system is in a sound financial position, capitalised and profitable. Consolidation of the banking system through mergers and acquisitions, aiming at attracting internationally well-known investor with non-contestable experience in banking business is the prevailing philosophy in this regard. I believe that we have been successful in this direction. Recently there have been new entries in the system, highlighting internationally well-known banks, such as Intesa – San Paolo, Credit Agricol and Banka Societe Generale. As a conclusion, we may state that at present the Albanian banking system composition is appropriate, guaranteeing perspective support to the economy.

The entry of new banks has directly impacted on raising the value of the banking business in Albania, reflected, inter alia, in the increased competition among banks and aggressiveness of the banking system towards market share. The Bank of Albania deems that a reflection of this phenomenon is also the rapid growth of credit to the economy. More concretely, credit outstanding grew by 8 percentage points of GDP over three last years. In July ’07 its annual growth was above 50 percent, which makes us believe that it may account for 28% of gross domestic product at year end.

The Bank of Albania, in all its pronouncements, has argued that this phenomenon is a natural process that associates the banking business in every country. Also Albania, as most countries of the region, is under the rapid convergence process to certain parameters of the European Union.

To this end, we are completely aware of the fact that the growth rates will continue to be high. Leaving aside the probable effects on aggregate demand of the economy, I think that under the conditions of such rapid growth, the real challenge stands to the credit portfolio quality.

The Bank of Albania remains determined for the observance of the whole regulatory and supervisory package, which aims at guaranteeing a safe credit portfolio. We can not agree on some concepts crystallised recently, which make us understand that certain banks are running after the market share to the detriment of professional and rigorous treatment of applications for a loan.

Under the conditions when many objective obstacles exist, we deem that maximum prudence should be shown in extending loans. Let me remind you of the fact that we still inherit deficiencies in terms of ownership titles, collateral and its execution, address identification, property register and credit register. Non-recognition and non-acceptance of the above deficiencies increases the likelihood that objectively or subjectively, decision-making for extending a loan
may be wrong. I do not feel well when I see that in certain considerable cases, decision-making takes place within a short period of time, not sufficient enough to verify the case associating the credit practice.

I avail myself of this opportunity to require from the banking system to observe rigorously the banking supervision and risk management regulations. Given the current structures of credit stock to the economy, I consider it important to advise banks to seriously assess their exposure to foreign exchange risk and be prudent for its management.

Finally, I would draw the banking system attention also to another problem, which I have raised times ago. I have observed that there is greater prudence in terms of governance and internal audit, but there are problems in terms of transparency, window services, commission policies and recent innovations with electronic transactions.

Our support will not lack in this direction. You may consider the Bank of Albania as a possibility of permanent consultation and assistance. I would assure you that we are totally concentrated on and willing to support and assist any banking institution that aspires to bring innovation, Western practices and standards to Albania.

In conclusion, let me say a few words about the city we are gathered today, about the potential and support the banking system will provide to it.

Today Saranda is one of the most culminating places and may be the best showcase of possibilities and quality of the Albanian tourism, of this important sector that presently contributes by 9% to the country’s gross domestic product.

Currently the figure of 1 million tourists a year has become a reality and its perspective goes even beyond, if we continue to pay necessary economic, social and institutional attention to tourism. Beyond such impressive figures, the tourism development is translated also into a constant improvement of Albania’s image as a country under progress, of values it possesses and provides, of increased level of employment and revenues for many areas and strata of population, as provision of values of many environmental, historical and cultural, geographic and curative, economic and social potentials, etc.

Notwithstanding this optimistic situation, we should not forget that Albania is a Mediterranean country, found in one of the most developed tourism areas of the world, in one of the areas of the largest variety of types of tourism, and therefore in one of the areas where competition in tourism service is in its peak, where many of the countries of the region, with a very long tradition in this sector, have turned it into a real tourism industry.

Our objectives to improve rapidly and to solve qualitatively the problems of road infrastructure, water and electricity supply, sewerages, etc., should be attached to improved quality of services and implementation of standards, completion of regulatory and urban plans for all tourism areas, variety of
types of tourism and tourism products. Besides the coastline tourism, which is
dominant, the mountainous and rural tourism, cultural and historical tourism,
archaological and nature tourism, curative and sports tourism, massive and
elite tourism should be also developed. All these are going to make the sector
and the activity directly or indirectly related to tourism absorb more investments
and loans, making banks, domestic and foreign businesses, private and
institutional investors, etc., more interested and guaranteed for success.

You should be convinced that the banking business is observing you
attentively, expecting a signal, a sparkle which is mostly at your hand. The
standards are indispensable and should be respected. Therefore, I would invite
the local government, the business community, the individuals of Saranda to be
oriented towards the future, towards tourism and urban development models,
similar to those of advanced countries.

Let me conclude by thanking you once more for your hospitality.
To the press conference on the decision of the Bank of Albania Supervisory Council “On raising the interest rate by 0.25 percentage point, to 6.00 percent”
26 September 2007

The Supervisory Council of the Bank of Albania, in its meeting of 26 September 2007, after dwelling on the recent economic-financial developments, decided to raise the base interest rate (repurchase agreement interest rate of seven-week maturity) by 0.25 percentage point, to 6.00 percent.

The data on the performance of economic indicators reveal the presence of risks that exert upward pressures on inflation rate, beyond the Bank of Albania target. The administered price rise and high international prices of raw materials are being transmitted to domestic products cost. During two last months, the developments in agricultural products prices have reversed the downward trend that had dampened the inflationary pressures over the two last years. Also, the increasing energy cost to the economic activity is being evidenced in the overall price level performance. These effects are expected to be extended in time, maintaining the pressures of the supply side.

Credit growth has supported the economic activity over two last years. High lending paces have induced the aggregate demand and have permitted the transmission of higher costs to consumer price rise. The growth of the economy demand for goods and services has been associated with current account deficit enlargement.

This decision is further to earlier communications publicly made by the Supervisory Council. Our determination to keep inflationary expectations anchored around 3 percent, which is the numeric target of our monetary policy, is in its focus.

Additional information during September-October will elucidate the need for further steps in terms of stabilizing the inflation expectations, in accordance with the Bank of Albania target.

Taking into account that the Bank of Albania is the licensing and supervisory authority of the banking system, the Supervisory Council emphasizes its willingness to fulfill all the legal responsibilities, not only in terms of consumer price stability but also in terms of banking system financial stability.
Dear participants,

It is a pleasure to participate in this summit and to outline some of the main developments in one of the key areas of the Albanian economy, that of the banking system.

In my following discussion, I will dwell on two main issues:

First, the key steps in the banking reforms, with special focus on the issues related to commercial banks and the system’s financial developments in the recent years.

Second, the aspirations of the Albanian economy to absorb foreign direct investments, their importance to our financial system and the FDI growth implications in the future.

1) THE PERFORMANCE OF THE ALBANIAN BANKING SYSTEM

Reform in banking was part of the structural reforms undertaken by the Albanian authorities after 1992. In addition to the macroeconomic stability, these reforms aimed to transform the Albanian economy into a market economy, through its privatization and the establishment of financial institutions and institutions of social protection.

Albania has been going through a constant process of banking system consolidation since the transition into a market economy. In most of the 90s, this process was relatively sluggish as a result of the informal financial markets which had held the country’s economic and financial development back. The high interest rates offered by these markets kept the efficiency of monetary policy in steering the interest rate pending. In addition, other issues, such as the high concentration of deposits and loans in three state-owned banks, their operational losses as a result of the increase in non-performing loans’ portfolio, the undeveloped and incoherent regulatory framework in supervision had become an impediment to the expansion of reforms in the banking sector.

Following this period, the banking system consolidation process began to progress. This period is characterized by the reduction in the share of state-owned banks, their gradual privatization and the considerable increase in the number of private banks from 4 operating in 1997 to 17 banks in 2006.
In this context, the central bank has been extremely prudent in selecting and licensing the private banks, where only three of them licensed the recent years are of entirely Albanian capital.

Despite the increase in the number of domestic commercial banks, the expansion of the banking activity until 2003 was a prudent one, being in line with the country’s economic development. During 1998-2003, the banking system’s total assets grew by an average of 13 per cent a year, consistent with the nominal GDP growth during this period. Nonetheless, there has been a swift growth in banking assets by 67 per cent in the last three years, which is 2-3 times higher than the cumulative growth of nominal GDP. As a result of the enhanced confidence in the domestic banking system, the share of assets to the GDP increased in 2006 to the peak level of 70 per cent, which is comparable to that of the Central and East-European countries.

The performance of commercial loan to private sector and to households is also satisfactory. Its growth rate has been constantly exceeding the expansion rate of banking assets. Over the last years, private loan has improved considerably; for 2005-2006 it recorded a cumulative growth of 175 per cent, which is the highest growth recorded in the region and the Central and East-European countries. Another characteristic in support of foreign crediting institutions is the free choice of currency, where almost 3/4 (three-fourth) of total loan was extended in foreign currency.

Thus far we may say that credit supply is in prudent levels, since non-performing loans’ portfolio, though increased moderately to 3.1 per cent of gross loans in 2006, provides evidence for a limited exposure of the banking sector to non-settlement risk. However, despite the considerable improvement in the assets quality and the commercial banks’ financial performance, the growth of lending to the private sector and to households remains low as a share to the GDP – about 21.3 per cent in 2006, compared to 49 per cent in Central and East-European countries – providing evidence for other non-utilized banking services capacities in the Albanian economy.

2) BANKING LAW

Many amendments to the law on the financial system have been made over these years. These amendments resulted from the need of adopting the European Directives in this area and the Basel core principles for an effective banking supervision. This process was successfully finalized upon the approval of Law No. 9662 “On Banks in the Republic of Albania” by the Parliament. Compared with the previous law, the new law is more complete and more accurate in some parts of it. It has integrated some new concepts which are in full compliance with the European Directive 83/349 and other important directives. It stipulates changes in the licensing of activities by level of capital, in consolidated supervision, etc. In addition, “risk management”, which previously was provided for in specific regulations, has been now summarized in a specific chapter of this law.
3) FOREIGN DIRECT INVESTMENTS AND THE ALBANIAN FINANCIAL SYSTEM

Foreign direct investments have been assessed as very important for developing countries, since they have a positive impact on the macroeconomic, technological and institutional performance of recipient countries. The wide experience over the last decades indicates that the presence of the financial FDIs improves the soundness of the domestic financial system, through a better management of portfolio risk and a more efficient allocation of credit funds. In addition, the technological innovations deriving from the FDI inflows affect the enhancement of the banking system competition and efficiency, through the increase in the variety of products and services provided. Despite these positive effects, the presence of foreign banks in the country instigates improvements in the institutional framework, by pushing the application of international accounting, reporting and supervision standards, which does not only help the commercial banks’ decision-making process but also the central bank’s.

Therefore, the FDIs are expected not only to promote the production activity in the country, but also to have a direct and indirect impact on the Albanian financial system. Foreign production companies will directly need financial transfers and services (channel payrolls through the ATMs, POS), which will be executed through the domestic financial system. The international companies investing in the country will make use of commercial banks’ funding sources in order to prevent exchange rate and interest rate risk.

There have been many property-related developments in the Albanian banking system. Since its establishment, the domination of state-owned banks has been reducing and today, foreign commercial banks’ assets account for over 90 per cent of the banking system.

The increase in the number of foreign banks in the system has been also favoured by the fact that such investments have not been penalized in Albania; the requirements for establishing a bank are similar for both domestic and foreign-owned banks.

The current ownership is diverse; there are foreign investors from Austria, Italy, Greece, USA, Turkey, Germany, Bulgaria, Malaysia and some Arab countries. Greek banks have been present in the market since 1996; the German and Italian investment has been present for quite a long time as well, while the latter has grown substantially and has become one of the market’s key actors. Austrian investments may be considered as the most dominant ones. Their ownership has resulted from the acquisition of the largest domestic state-owned bank.

The long presence of foreign banks in the Albanian banking system has influenced the establishment of a stable banking system and its stable growth. Despite the financial collapse of 1997 or the panic crisis in 2002, in none of the cases was the system’s performance a source of crisis or instability.
Previously, foreign banks were more conservative in terms of expanding their geographical activity; however, the entry of Raiffeisen Bank into the market pushed them to be more active. This fact may be evidenced by the variety of products provided in the market, the growth of lending and the employment of clear strategies to increase or maintain their market share.

However, the economic benefits deriving from the presence of foreign banks have not reached the proper levels yet. The enhancement of the quality of information provided to the public at large and to the central bank, the lowering of the intermediation cost, the further improvement of risk management, and the standardization of the accounting and financial reporting systems are not in the desired levels yet.

Now let us now turn briefly to the possible financial relationship between the Albanian banking system and the production foreign investments flow. Undoubtedly, the positive influence foreign direct investments have on economic growth depends largely on their recipient countries’ circumstances. It requires a substantial level of financial system development as a crucial precondition. A developed financial system improves the efficiency in allocating the resources and it further enhances the country’s capacity to absorb the FDI.

The entry of new investors will orient the concentration of market segments to large-size businesses. Their impact, along with the lending capacity of our banking market, are believed to be the crucial proof for their success in Albania.

In more concrete terms, the circumstances in Albania are such that there is an asymmetrical distribution of total assets between banks in the market. The reference is only to banks, since in terms of total assets, the banking system shares more than 90 per cent. Other non-bank financial institutions play a more insignificant role than the commercial banks. As far as the latter is concerned, there are many qualitative banks in the market, whose presence is an attractive factor for absorbing the FDI.

On the other hand, the concentration of assets and banking loans in a few commercial banks bears the risk of creating an oligopolistic environment where only a few banks establish the terms for new loans. Such a situation would increase the investment cost in the public and private sector and in households, as well. Though thus far there have not been any cases of prices manipulation or banks exercising a dominant position in the market, I deem as necessary the promotion and vitalization of other financial market segments in general. This market requires real commitment in the efficient intermediation of financial resources in all its segments. Non-bank financial institutions need to become more active by expanding their activity in the market segments they operate in. With regard to the banking system, the Bank of Albania deems the revitalization of certain institutions, whose activity shares a small part of the banking market, as crucial. These institutions need to become more active, by taking more responsibility consistent with their business plans and they need to find new ways of organization and co-operation between them in order
to enhance competition and provide a more symmetrical re-distribution of banking activity in our market.

4) THE SYSTEM’S FUTURE CHALLENGES

Some sectors of economy, such as agriculture, continue to be credited at low levels or are not credited at all. The contribution of banking loans to production investments is still low. Moreover, considering the high share of loans for commercial purposes, it may be concluded that the largest share of loans is used to finance imports. The level of public accessing the banking system is not in the parameters set in the country’s economic development objectives. Furthermore, the level of cash in economy is extremely high. All these phenomena push the borders of informality further and reduce the monetary policy efficiency. It is the financial system’s duty and responsibility to make all its efforts in co-operation with the Bank of Albania and other Government authorities to find the solution to these problems.

In conclusion I would like to say that as a result of the reforms undertaken, the Albanian banking system, being the most dynamic part of the financial system, has made significant progress during the last years. This progress results from the clear visions and seriousness shown by the Albanian authorities in reforming the banking sector, the fruitful co-operation these authorities have had with the international financial institutions such as the IMF and the World Bank for designing medium-term strategies and developing this sector further. This progress is also a result of the numerous challenges the Albanian banking system has been faced with over the recent years.

It may be concluded that the Albanian banking system is presented safe, sound, under a constant reformation and consolidation process. It is going through a new stage, which will provide to the business and the banking clients modern banking services, aiming to reach the western banks’ standards.

With regard to the aspirations of the Albanian economy and strategies to be employed for its further opening to foreign investors, we believe that these undertakings will have a positive impact on the country’s macroeconomic, technological and institutional area.

The banking system’s stage of development and the FDI flows in economy have mutual influences on each other. Hence, if Albania attracts stable and long-term FDI flows in the following years, their impact on the further development of the financial system will be considerable. Furthermore, the demand for banking products both from domestic and foreign companies will grow.
INFORMATION ON INTERNATIONAL RESERVES AND FOREIGN CURRENCY LIQUIDITY TEMPLATE

Hilda Shijaku

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 statistic is in line with the “International Reserves and Foreign Currency Liquidity Guidelines for Data Template, IMF, 2001”, and for the first time, it is being compiled in Albania.

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

Elvana Troqë, Valentina Semi

Since one of the primary objectives of Albania is to become a European Union (EU) member country and one of the main criteria to become an EU member and then a Monetary Union (EMU) member is that of price stability, this article examines the price developments in the country while comparing them to those of Greece and Italy. These parties are taken into consideration because they are EU member states and Albania’s main trading partners. To compare price developments between the countries, in absence of absolute price data, we are based on the series of 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 sub groups and in their respective weights. The main conclusion of 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.

THE LAW “ON BANKS ON THE REPUBLIC OF ALBANIA” AND ITS COMPLIANCE WITH THE SUPERVISORY REGULATING FRAMEWORK.

OBLIGATION WITH REGULATORY CHANGES IN THE IMPLEMENTATION OF THE DIRECTIVES OF THE EUROPEAN UNION

Juna Bozdo, Irini Kalluci

This paper deals with the compliance of the Law No. 9662, dated 18.12.1996 “On Banks on the Republic of Albania” with the existing
regulatory framework, and the obligations for regulatory changes arising from the implementation of provisions of the Directive 2000/12/EU consolidated with the Directive 2006/48/EU.

LENDING ACTIVITY: THE ABSENCE AND THE ADVANTAGES OF A CRUCIAL DEVELOPMENT FACTOR
Elona Bollano, Gerond Ziu

This article discusses the issue of the country’s rapid credit growth, which exercises a considerable impact, not only on the banking activity but also on the economy as a whole. The material tries to examine the progress of lending activity based on literature and the experience of foreign countries, indicating the impulses of the activity and some of the motives that influenced the rapid lending boost, including the structural characteristics of this activity. Also, the article attempts to identify the risks and possibilities that can be identified, as a result of rapid developments, an aftermath of the lending activity and the progress of the banking system.

* Opinions expressed in these articles are of the authors and do not necessarily reflect the official opinion of the Bank of Albania.
ARTICLES

NATIONWIDE REMITTANCE BENEFICIARIES SURVEY*

ABSTRACT

This study addresses the issue of workers remittances that Albanian households receive. Notwithstanding many studies over the economic, demographic and social impact of international migration, there is only a partial knowledge of this phenomenon. Very little is known about the characteristics, the dynamics, trends and impact on various levels of the personal, household and community life. This study is an additional contribution to our knowledge of migration phenomenon, from the beneficiary households’ point of view.

INTRODUCTION

Social-economic phenomenon of migrant labor is an accepted fact of life in Albania today. Almost everyone has a relative or friend who is working or living abroad.

Due to the lack of formality, which follows this phenomenon in Albania - high number of unregistered migrants’ workers - consideration over the right number of Albanian migrants is impossible. However, it is estimated that, out of a total population of 3.2 million people in Albania, 1 million have immigrated to Greece and Italy (Lianos and Glystos, 2004).

Intimately tied with the migration issue are worker remittances – money or goods sent by migrant workers to households back home.

Worker remittances constitute an increasingly important mechanism for the transfer of resources from developed to developing countries (Russell 1992) and are among the largest source of external funding for developing countries (Ratha 2003).

Consideration regarding the development impact of worker remittances to Albania comes from their size, frequency and tendency these inflows show in years. At macroeconomic level, over the period 2000-2006, these inflows, averaging 13.8 percent of GDP, play a major role in supporting the balance of payments. Worker remittances are increasingly important relative to other foreign exchange-earning economic activities, rising to 65% of trade receipts and averaging 133 percent greater than tourism receipts. Remittances make

Bank of Albania
up 86 percent of current transfers, dwarfing other sources of external support to the country. Remittance flows are normally greater than foreign direct investments, almost 4 times larger.

Thus, the data show that worker remittances are a significant source of foreign currency and liquidity for the country.

Aggregate data on worker remittances, however, tell us little about their welfare effect on beneficiary households, the form of utilization (consumption, saving and investments) and interfere with the investigation of the impact these flows have in micro levels. Bank of Albania survey shows that remittances have had comparable positive impact across all Albanian regions. The influence has been slightly higher in less developed regions, alleviating to some extent income disparities.

Notwithstanding many studies over the economic, demographic and social impact of international migration, there is only a partial knowledge of this phenomenon. Very little is known about the characteristics, the dynamics, trends and impact at various levels of the personal, household and community life.

This study is an additional contribution to our knowledge of migration phenomenon, from the beneficiary households’ point of view. In the following, section 1 and 2, present the scope and the survey methodology. Section 3 contains the detailed results and analysis of the survey. Section 4 recaps the main findings and conclusions of the survey.

1 SCOPE

Data on remittances are collected largely to estimate balance of payments flows as well as to access their developments impact. One of the approaches that researchers have used to estimate remittances flows is to conduct household surveys of recipients. In our case this approach is the most acceptable due to the informal nature of these flows.

This survey presents information at the national, regional, rural and urban levels. The sample of this survey is representative of the Albanian territory, which makes it a reliable and timely instrument for the issue of family remittances.

The information collected enables to analyze the impact of remittances on the economic and social policies at the urban and rural levels as well as at the national level.

Nationwide survey of beneficiary household focuses on different aspects regarding the remittance peculiarities. It includes a range of dimensions in order to estimate the annual remittances flows and access other characteristics of remittances as frequency, use of formal and informal channels and tendencies of these flows in Albania.
1.1 GENERAL OBJECTIVE

This study contributes to the knowledge of the Albanian households receiving remittances from their relatives abroad, as well as with information that may serve as the basis for decision making in the political, economic and social fields.

1.2 SPECIFIC OBJECTIVE

(i) Provide information on the volume, origin, frequency and destinations of money transfers (remittances) from Albanians abroad.

(ii) Provide information on the utilization of banking means for the receptions of remittances as well as the degree of bankarization of recipient households.

(iii) Provide information on the use of remittances in Albania.

2 METHODOLOGY

2.1 DESIGN OF THE SAMPLE

The survey was conducted in cooperation with the Institute of Statistics (INSTAT). INSTAT constructed the sampling frame and collected the information through face-to-face interviews methods, during November 2006. The sample includes the Albanian households that receive remittances, having at least one member who has migrated. To contract the sample frame INSTAT used the LSMS\(^2\) 2002 results. The 2002 LSMS in Albania was conducted and managed from the World Bank.

Living Standards Measurement Study (LSMS) household surveys, part of the World Bank\(^3\) studies on Living Standards Measurement, have become an important tool in measuring and understanding poverty in developing countries. The Albanian 2002 LSMS was organized one year later than the Population and Housing Census (PHC), conducted in April 2001. The 2002 LSMS was in the field between April and July. The sample design included 450 Primary Sampling Units (PSUs) and 8 households in each PSU, for a total of 3600 households.

Using LSMS data, INSTAT calculated the number of households we needed to survey, in a total of 1017 households.

2.2 INSTRUMENT FOR THE COLLECTION OF INFORMATION

The questionnaire is designed by the Bank of Albania. A primary consideration in designing the questionnaire for use to elicit information from beneficiary households is the inclusion of both quantitative and qualitative issues. The
questionnaire has 23 questions structured under 5 main rubrics to collect information on: (i) households’ composition and geographical location; (ii) households’ income; (iii) remittances and savings in Albania; (iv) savings and investment attitudes of beneficiary households; and (v) others.

2.3 FIELDWORK

The information was collected through the face-to-face interviewing method. The interviewer had to visit the household more than once in order to complete the interview, in those cases where the information could not be collected at the first visit.

The field working team was selected by INSTAT and made-up of interviewers with previously experience on such a survey in the framework of the LSMS. The interviewers were previously trained. In addition, they know the places were the survey was conducted since they had experience in the LSMS.

Furthermore, the fieldwork had a direct supervision, appointed by INSTAT, to ensure the good quality of the information.

2.4 PROCESSING THE INFORMATION

Data from the survey was encoded and processed using the Statistical Program for Social Scientist (SPSS) in the Bank of Albania. In order to obtain correct estimates, the data need to be weighted. A file with household weights was provided by INSTAT.

3 ANALYZING THE RESULTS OF INVESTIGATIONS

Statistical results of the survey presented below enable the analysis of different characteristics of remittances received by Albanian households, from their relatives abroad.

3.1 HOUSEHOLD PROFILE

The survey reported 189,736 from 728,000 or around 26 per cent of households in Albanian territory, receiving family remittances from abroad.

Geographical distribution indicates that Tirana (19 per cent), Vlora (12 per cent), Shkodra (11 per cent) and Fieri (8 per cent) have the majority of households receiving remittances; (table 1 and table 1 in the attached annex).

Annual average flow of remittances per household is estimated at around 1,897 euro and varies from city to city.
Table 1 in the attached appendix, reports descriptive statistics of the beneficiary families and the yearly average amount of remittances received per household by cities in Albanian territory. Households located in Kuçovë, Peqin and Pogradec report the lowest remittances flows during the year (less than 1,000 euro on yearly basis), while, Puka, Tropoja, Bulqiza and Gramshi faced the highest amount of remittances per household (between 3,000 to 8,000 euro per year).

Table 1 Geographical distribution of beneficiary households and remittances flow for 2006

<table>
<thead>
<tr>
<th>District</th>
<th>Population*</th>
<th>Area (km²)</th>
<th>Cities</th>
<th>No. of households</th>
<th>Sum (euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berat</td>
<td>193,855</td>
<td>1,802</td>
<td>Berat, Kuçovë, Skrapar</td>
<td>11,396</td>
<td>13,312,843</td>
</tr>
<tr>
<td>Dibër</td>
<td>191,035</td>
<td>2,507</td>
<td>Bulqiza, Dibër, Mat</td>
<td>10,787</td>
<td>23,121,223</td>
</tr>
<tr>
<td>Durrës</td>
<td>247,345</td>
<td>827</td>
<td>Durrës, Krujë</td>
<td>15,622</td>
<td>21,442,827</td>
</tr>
<tr>
<td>Elbasan</td>
<td>366,137</td>
<td>3,278</td>
<td>Elbasan, Gramsh, Librazhd, Peqin</td>
<td>13,810</td>
<td>16,890,509</td>
</tr>
<tr>
<td>Fier</td>
<td>384,386</td>
<td>1,887</td>
<td>Fier, Lushnje, Mallakastër</td>
<td>29,825</td>
<td>40,166,439</td>
</tr>
<tr>
<td>Gjirokastër</td>
<td>114,293</td>
<td>2,883</td>
<td>Gjirokastër, Përmet, Tepelenë</td>
<td>8,423</td>
<td>13,763,310</td>
</tr>
<tr>
<td>Korçë</td>
<td>266,322</td>
<td>3,711</td>
<td>Devoll, Kolonjë, Korçë, Pogradec</td>
<td>15,759</td>
<td>14,317,155</td>
</tr>
<tr>
<td>Kukës</td>
<td>112,050</td>
<td>2,373</td>
<td>Has, Kukës, Tropoja</td>
<td>9,303</td>
<td>13,426,747</td>
</tr>
<tr>
<td>Lezhë</td>
<td>159,792</td>
<td>1,581</td>
<td>Lezhë, Malqëtër</td>
<td>11,110</td>
<td>14,008,983</td>
</tr>
<tr>
<td>Shkodër</td>
<td>257,018</td>
<td>3,562</td>
<td>Malësi e Madhe, Pukë, Shkodër</td>
<td>17,970</td>
<td>57,741,055</td>
</tr>
<tr>
<td>Tirënë</td>
<td>601,565</td>
<td>1,586</td>
<td>Kavajë, Tirënë</td>
<td>26,663</td>
<td>63,541,383</td>
</tr>
<tr>
<td>Vlorë</td>
<td>193,855</td>
<td>2,706</td>
<td>Delvinë, Sarandë, Vlorë</td>
<td>19,068</td>
<td>49,704,523</td>
</tr>
<tr>
<td>TOTAL</td>
<td>3,087,159</td>
<td>28,703</td>
<td>189,736</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Population and Housing Census 2001

The majority of remittances sent to Albania are received in rural areas. Around 59 percent of the recipient households are located in rural areas and 41 percent in urban areas. In addition, rural areas absorb almost 64 percent of the yearly volume of remittances.

<table>
<thead>
<tr>
<th></th>
<th>Yearly average of remittances received per household (euro)</th>
<th>% of total</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural areas</td>
<td>2029.4</td>
<td>63.9</td>
<td>58.7</td>
</tr>
<tr>
<td>Urban areas</td>
<td>1624.8</td>
<td>36.0</td>
<td>41.3</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

In accordance with the survey, the recipient households are mainly medium size households, with an average of 3.5 members per household.

Around 72 percent of households have up to 4 members and 22 percent up to 6 members per household.

3.2 INCOME AND SAVINGS PROFILE

Household monthly income does not have a normal distribution. Chart 2 shows a frequency histogram of monthly income per household. On average, monthly income per household is estimated
at 39,382 ALL, with income at the 75th percentile (49,500 ALL) approximately 2.3 times greater than income at the 25th percentile (22,000) (table 3 in the attached appendix).

Households in urban areas belong to higher monthly income levels than those in the rural areas.

The average household monthly income in rural areas is around 34,787 ALL (chart 1 and table 4 in the attached appendix). While the average household monthly income in urban areas is around 46,038 ALL (chart 2 and table 4 in the attached appendix).

Around 51 percent of households report having business operations or farming. On average, monetary income from farming and business operations together contribute to 19 percent of disposable income (table 3.).

Monetary incomes from farming contribute up to 21 percent of rural household’s disposable income, while incomes from business operations occupy 4 percent of disposable income in these households. Meanwhile, it is estimated that on average 11 percent of urban households income comes from business operation activities.

Survey data indicate that remittances have become a critical source of income for households, reaching 40.7 percent of disposable income of an average household recipient.

Remittances have had comparable positive impact across all Albanian regions. The influence has been slightly higher in rural areas reaching 45.7 percent of disposable income (table 4).
Empirical estimates show that the level and severity of poverty are significantly reduced among those households receiving remittances.

Descriptive statistics for daily income per capita (table 5.) show that excluding remittances these households in almost 40 percent will fall under poverty level.\(^4\)

<table>
<thead>
<tr>
<th></th>
<th>With remittances</th>
<th>Without remittances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>457</td>
<td>283</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>408</td>
<td>286</td>
</tr>
<tr>
<td>Minimum</td>
<td>33</td>
<td>7</td>
</tr>
<tr>
<td>Maximum</td>
<td>4,093</td>
<td>3,333</td>
</tr>
<tr>
<td>Percentiles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>148</td>
<td>67</td>
</tr>
<tr>
<td>20</td>
<td>208</td>
<td>108</td>
</tr>
<tr>
<td>25</td>
<td>228</td>
<td>123</td>
</tr>
<tr>
<td>30</td>
<td>253</td>
<td>138</td>
</tr>
<tr>
<td>40</td>
<td>300</td>
<td>176</td>
</tr>
<tr>
<td>50</td>
<td>350</td>
<td>222</td>
</tr>
<tr>
<td>60</td>
<td>417</td>
<td>270</td>
</tr>
<tr>
<td>70</td>
<td>500</td>
<td>308</td>
</tr>
<tr>
<td>75</td>
<td>533</td>
<td>333</td>
</tr>
<tr>
<td>80</td>
<td>604</td>
<td>367</td>
</tr>
<tr>
<td>90</td>
<td>836</td>
<td>525</td>
</tr>
</tbody>
</table>

Households tend to perceive their economic status as more improved in presence of remittances flows. In only 21 percent of the cases, households show pessimism regarding the overall wellbeing generating potential of remittances (table 6.).

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No improvement</td>
<td>39,132</td>
<td>20.9</td>
</tr>
<tr>
<td>Improved slightly</td>
<td>91,278</td>
<td>48.9</td>
</tr>
<tr>
<td>Significant improvement</td>
<td>56,434</td>
<td>30.2</td>
</tr>
<tr>
<td>Total</td>
<td>186,844</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Around 53 percent of the respondents said they were able to save money, with higher frequency in rural areas (62 percent). Annual savings, for the respondent households, is estimated at around 63,115 ALL (or 508 euro).

<table>
<thead>
<tr>
<th>No. of households</th>
<th>186,844</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>63,115</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percentiles</th>
<th>Frequency</th>
<th>%(Mean)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>20</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>25</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>30</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>40</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>50</td>
<td>10,000</td>
<td>1.00</td>
</tr>
<tr>
<td>60</td>
<td>30,000</td>
<td>1.60</td>
</tr>
<tr>
<td>70</td>
<td>50,000</td>
<td>2.70</td>
</tr>
<tr>
<td>75</td>
<td>60,000</td>
<td>3.20</td>
</tr>
<tr>
<td>80</td>
<td>100,000</td>
<td>5.33</td>
</tr>
<tr>
<td>90</td>
<td>200,000</td>
<td>10.71</td>
</tr>
</tbody>
</table>
While 30 percent of beneficiary households hold a bank account, in the majority of cases they keep their savings in cash.

To measure the respondents’ considerations on the preference where to keep their savings, respondents were asked to rate the choices (in bank, at home, in investments) on importance from 1 (less important) to 5 (the most important). Households prefer to keep their saving in banks account (the calculated degree of importance 3.87). Meanwhile, still a consideration number of households prefer holding their savings in cash at home (degree of importance 3.39). Investments alternative is less preferred (the degree of importance 2.37).

3.3 REMITTANCES

The proportion of their incomes migrants send home depends on a myriad of factors such as the migrants’ profile, salary level, cost of living in the host country, the volatility of the home currency, and differentials in interest on savings between the host and the home country.

According to the survey, the number of Albanian migrants, sending remittances at least one time a year, is estimated at around 242,517. “Albanian migrants have a high propensity to save money; with an average annual saving level estimated at approximately 5,390 euro per household” (Nicolaas de Zwager and al., 2005).

Anecdotal evidence suggests that sending up to one third of their monthly income is more frequent.

From our survey results, the annual average of remittances per migrants approximate 1,310 euro (chart 3 and table 8).

<table>
<thead>
<tr>
<th>Table 8 Descriptive statistics, annual remittances per migrant (euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No. migrants</strong></td>
</tr>
<tr>
<td>Mean</td>
</tr>
<tr>
<td>Minimum</td>
</tr>
<tr>
<td>Maximum</td>
</tr>
<tr>
<td>Percentiles</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td>20</td>
</tr>
<tr>
<td>25</td>
</tr>
<tr>
<td>30</td>
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<tr>
<td>40</td>
</tr>
<tr>
<td>50</td>
</tr>
<tr>
<td>60</td>
</tr>
<tr>
<td>70</td>
</tr>
<tr>
<td>75</td>
</tr>
<tr>
<td>80</td>
</tr>
</tbody>
</table>
Sending patterns vary over the migration period as well. There has always been concern that remittances decline over time, in total and from particular households and individuals, due to lower migration rates, recession and a decrease in migrants’ willingness to remit.

Furthermore, it has been suggested that, even with continued migration, the anticipated decline in remittance rates is likely to occur due to family reunification and greater integration of the migrants in the host communities (Connell and Brown, 2003). This process reduces migrants’ ability and willingness to remit: ability because of the increased number of dependents now living in the migrants’ households, and willingness because of fewer ties at home.

Our survey results showed a curvilinear trend in sending remittances: migrants in their 5th to 10th year abroad send the most. Whereas, recent migrants (less than 1 year on migration) remit less than do migrants who stay on for more than 10 years (chart 3).

The chart suggests that the amount of remitting per migrants declines with length of absence, reporting the highest level within 1-5 years on migration (approximately 1,539 euro).

Survey results show that relationship has much to do with the sending of remittances. Almost 85 per cent of remittances were sent by sons or daughters of household head. This indicates that there is a very strong family tie with the nuclear home (chart 5).

Sons show the highest frequency as well as send the biggest part of money to sustain financially the households at home country (table 9). Though in 20 percent of cases remittances are sent by family’s daughters, they show the lowest mean per yearly remittance (table 9). Patriarchal authority structures still present in Albanian families constrain women’s migration (Germenji, 2005). Family reunion has been the main reason for migration of women from Albania (Misja, 1998; Carletto et al, 2004).

Meantime the consort sent the highest amount of remittances (yearly average of 2,448 euro), since direct dependency on him of the family back in Albania. It is noticeable that this category is not of a high frequency, due to the fact that the migration cycle of it is shorter; husband return back home or get the family reuniting in the host country.
Table 9 Annual remittances by relationship with the sender (in euro)

<table>
<thead>
<tr>
<th>Relationship with sender</th>
<th>No.</th>
<th>% of no</th>
<th>Mean (euro)</th>
<th>% of total remittances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Son</td>
<td>175,223</td>
<td>72.3</td>
<td>1,380</td>
<td>76</td>
</tr>
<tr>
<td>Daughter</td>
<td>45,704</td>
<td>18.9</td>
<td>624</td>
<td>9</td>
</tr>
<tr>
<td>Spouse/husband</td>
<td>15,925</td>
<td>6.6</td>
<td>2,448</td>
<td>12</td>
</tr>
<tr>
<td>Others</td>
<td>4,331</td>
<td>1.8</td>
<td>853</td>
<td>1</td>
</tr>
<tr>
<td>Brother</td>
<td>575</td>
<td>0.2</td>
<td>5,775</td>
<td>1</td>
</tr>
<tr>
<td>Wife</td>
<td>595</td>
<td>0.2</td>
<td>1,856</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>242,354</td>
<td>100.0</td>
<td>1,310</td>
<td>100</td>
</tr>
</tbody>
</table>

Regarding the frequency, in the most cases, households report to receive money 2 times per year. In only 3 percent of the cases households receive remittances every month (table 10).

This is an apprehensible outcome of the survey if we cross the information of frequency with that of remittances channels. In 59 percent of the cases remittances comes hand carry by migrant himself (chart 6). Geographical vicinity of Albania to Greece and Italy enable frequent visits of migrants to families back home.

Table 10 Remittances frequency

<table>
<thead>
<tr>
<th>Frequency</th>
<th>No. of migrants</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>235,952</td>
<td>100</td>
</tr>
<tr>
<td>1 to 2 times per year</td>
<td>163,884</td>
<td>69</td>
</tr>
<tr>
<td>3 to 4 times per year</td>
<td>49,515</td>
<td>21</td>
</tr>
<tr>
<td>5 to 6 times per year</td>
<td>15,389</td>
<td>7</td>
</tr>
<tr>
<td>Every month</td>
<td>7,164</td>
<td>3</td>
</tr>
<tr>
<td>Missing</td>
<td>6,565</td>
<td>3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>242,517</td>
<td>100</td>
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</tbody>
</table>

Our surveys show that the bulk of remittances to Albania were channeled through unofficial channel (89 percent), (chart 6). Albanian migrants residing in Greece and Italy largely prefer to resort to informal channel, hand-carry (in 83 percent of the cases). This in part is reflection of the short geographical distance between Albania and these countries.

Use of formal channel is low, accounting for only 11 percent of the cases. Although in host country Albanian migrants are familiar with banking system (findings from Nicolaas de Zwager et.al 2005, reveal that 74.4 percent of migrants hold their savings in banks) the majority of remittances are destined for rural areas, where the extension of banking system is restrained.

In contrast with other remittance-receiving countries, banks in Albania still have only a small market share in remittance services (less than 10 percent, chart 6).
The main country of origin of the remittances is Italy, with 45.8 percent, followed by Greece with 37.7 percent.

Greece is the top destination for Albanian migration (table 2, attached appendix); however in terms of volume Italy appears to be the most important source of remittances, with 45.8 percent of the total (chart 7).

In addition, the average delivery per migrant living in Italy results higher that the one from migrants living in Greece. According to a recent study undertaken on the issue of Albanian migration, Albanian migrants in Italy report higher saving rate compared to the Albanian migrants in Greece.

Aside from monetary remittances that Albanian migrants send to households ‘back home’ in Albania, a part of support for these households is coming in the form of goods, that had been supplement of financial flows in 36 percent of the cases. The value of goods received per household during the year is estimated at around 202 euro.

Saving rate is low. For those how specified allocation, more than half (59 percent) allocate up to 10 percent of the remittances they received to savings (chart 8).

Households express confidence regarding the amount of remittances they will be receiving in the following years, in almost ¾ of cases they do not expect decrease over the next two to three years. Meanwhile, 21 percent of households experiencing decrease flow over the past years, express pessimism for the future (table 11).

<table>
<thead>
<tr>
<th>In previous years</th>
<th>More</th>
<th>The same</th>
<th>Less</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>More</td>
<td>7,4</td>
<td>8,3</td>
<td>2,8</td>
<td>18,6</td>
</tr>
<tr>
<td>The same</td>
<td>5,5</td>
<td>40,5</td>
<td>8,7</td>
<td>54,7</td>
</tr>
<tr>
<td>Less</td>
<td>2,3</td>
<td>3,7</td>
<td>20,8</td>
<td>26,7</td>
</tr>
<tr>
<td>Total</td>
<td>15,2</td>
<td>52,4</td>
<td>32,4</td>
<td>100,0</td>
</tr>
</tbody>
</table>

3.4 USE OF REMITTANCES

It is necessary to emphasize that is not strictly possible to identify the precise use of income from remittances as opposed to other sources. In other
words, remittances increase as households’ income and thereby affect their consumption and saving behaviors.

The examination of the main destination for yearly remittances shows the following scenario:

- 41.8 percent of remittances are oriented towards consumption expenditures that include expenses for food, clothing, household items and other types of consumption expenses; 16.4 percent of the remittances are used for education and medical expenses, which are beneficial for the country as social investments.
- 33.9 percent of remittances are destined for investments. These results show the significant economic impact of remittances. In other words, it means that one third of remittances go directly to finance the operation of businesses (6.0 percent), the purchase of assets (5.8 percent), the construction of houses (12.3 percent), and savings in bank (9.9 percent).
- 6.6 percent of remittances are destined for intermediate consumption, which is interpreted as a resource to generate added value. In this category are expenditures for payments of loans.

4. CONCLUSIONS

This study is an additional contribution to our knowledge of migration phenomena, from the beneficiary households’ point of view.

As an outcome of the survey, around 26 percent of the households in Albania receive workers remittances from abroad. Total amount of remittances a household receives yearly is estimated at 1,897 Euro.

Remittances are now the mainstay of the external economy, both in terms of contribution to the balance of payments and in providing disposable income for beneficiary households (reaching 41 percent of disposable income of an average household recipient). Our estimates show that the level and severity of poverty are significantly reduced among those households receiving remittances. Descriptive statistics of daily income per capita show that excluding remittances, these households in almost 40 percent will fall under poverty level.

Remittances impact is not present only in household level. Our calculations show that 59 percent of the households live in rural areas with 2/3 being involved on business or farm activity. Spending remittances in rural areas might have higher multipliers effect, as remittances tend to be spent on locally produced goods.

Remittances are mainly used to finance consumption, showing the primary goal of the migrants to support their families financially.
There has always been the concern that remittances decline over time. Our results show that with the passing of time in migration, there is decrease in the remittances level. To preserve the overall macro stability and assure financing current deficit continuity, the priority stands for channeling remittances toward investments.

The use of formal or informal channels for transmitting remittances may have an effect on the potential uses of remittances. Data from the survey indicate that the bulk of remittances to Albania are channeled through unofficial sources (89 percent). The majority of remittance senders and receivers use informal channels because, often, they lack access to the financial system in the host country and/or the home country. A combination of the high transaction cost of remittances, and the socio-economic deprivation of migrant families—for example, that of recipients living in rural sectors and/or with low schooling levels—may be the most important factor in the continued use of informal channels.

Remittances capacities to generate well-being are tightly connected with their inclusion into financial system. The majority of the receiving households is unbanked (74%), and lacks flexible deposit accounts. One third of household heads have a bank account, nevertheless their use to receive the remittances is minimal. However, there are encouraging signs of the demand for new technologies, innovative partnerships and entry points to reach disadvantaged.

Some Greek and Italian banks have established a branch network in Albania. In addition, Albanian banks work mainly with various partner banks to remit money, primarily with Italy. These are welcomed developments for increasingly inclusion of remittances into the financial system. The ‘bankarization’ of remittances may be seen as an important lever to promote financial deepening in Albania.
REFERENCES


Ratha, D. 2004. “Enhancing the developmental effect of workers’ remittances to developing countries”.


National Strategy on Migration, 2004. A project of the Albanian Government managed in cooperation with the international Organization for Migration (IOM), funded by the Cards program of the European Union.


### Table 1 Summary report

<table>
<thead>
<tr>
<th>Cities</th>
<th>No. households</th>
<th>Annual average (euro)</th>
<th>Sum (euro)</th>
<th>% of Total No.</th>
<th>% of Total Sum</th>
</tr>
</thead>
<tbody>
<tr>
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<td>638</td>
<td>3,894</td>
<td>2,484,219</td>
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<td>0.7</td>
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<td>3,428</td>
<td>9,803,246</td>
<td>1.5</td>
<td>2.9</td>
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<tr>
<td>Berat</td>
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<td>1,250</td>
<td>10,309,007</td>
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<td>3.0</td>
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<td>Dibër</td>
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<td>Elbasan</td>
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<td>1.6</td>
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<td>7.7</td>
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<td>Gjirokastër</td>
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<td>Krujë</td>
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<td>714,307</td>
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<td>37,807,002</td>
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<td><strong>189,736</strong></td>
<td><strong>1,897</strong></td>
<td><strong>341,256,998</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
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</tbody>
</table>

### Table 2 Remittances by countries of origin

<table>
<thead>
<tr>
<th>Countries of Origin</th>
<th>No of migrants (%)</th>
<th>Mean per migrant (euro)</th>
<th>% of total Sum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentine</td>
<td>0.1</td>
<td>563</td>
<td>0.0</td>
</tr>
<tr>
<td>Austria</td>
<td>0.3</td>
<td>189</td>
<td>0.0</td>
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<tr>
<td>Australia</td>
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<td>1,855</td>
<td>0.1</td>
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<tr>
<td>Belgium</td>
<td>0.8</td>
<td>3,706</td>
<td>2.2</td>
</tr>
<tr>
<td>Canada</td>
<td>0.6</td>
<td>812</td>
<td>0.4</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0.2</td>
<td>2,416</td>
<td>0.3</td>
</tr>
<tr>
<td>Check Republic</td>
<td>0.0</td>
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<td>0.1</td>
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<tr>
<td>Germany</td>
<td>1.8</td>
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<td>2.1</td>
</tr>
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<td>France</td>
<td>0.6</td>
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<td>0.3</td>
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<tr>
<td>United Kingdom</td>
<td>5.1</td>
<td>1,812</td>
<td>7.1</td>
</tr>
<tr>
<td>Greece</td>
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<td>37.7</td>
</tr>
<tr>
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<td>0.1</td>
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<td>0.1</td>
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<td>------------------</td>
<td>-----</td>
<td>-----</td>
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</tr>
<tr>
<td>Holland</td>
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<td>n.a.</td>
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<tr>
<td><strong>Total</strong></td>
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<td>1,310</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 3 Monthly income per household (in ALL)

<table>
<thead>
<tr>
<th>Percentiles</th>
<th>Rural areas</th>
<th>Urban Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>20,000</td>
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<tr>
<td>25</td>
<td>22,000</td>
<td></td>
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<tr>
<td>30</td>
<td>24,000</td>
<td></td>
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<tr>
<td>40</td>
<td>28,600</td>
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<td>50</td>
<td>32,500</td>
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<td>60</td>
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<td>70</td>
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<tr>
<td>80</td>
<td>55,000</td>
<td></td>
</tr>
<tr>
<td>90</td>
<td>72,500</td>
<td></td>
</tr>
</tbody>
</table>

Table 4 Monthly income per household (in ALL)

<table>
<thead>
<tr>
<th>Percentiles</th>
<th>Rural areas</th>
<th>Urban Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>14,000</td>
<td>17,500</td>
</tr>
<tr>
<td>20</td>
<td>19,000</td>
<td>23,000</td>
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<td>45,000</td>
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<td>80</td>
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</tr>
<tr>
<td>90</td>
<td>62,800</td>
<td>79,349</td>
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</table>
Chart 1 Average monthly income of households in rural areas

Chart 2 Average monthly income of households in urban areas

Chart 3 Daily per capita income

Chart 4 Daily per capita income in urban areas

Chart 5 Daily per capita income in rural areas

Chart 6 Daily per capita income excluding remittances - rural areas

Chart 7 Daily per capita income excluding remittances - urban areas

---

**Chart 1** Average monthly income of households in rural areas

- Frequency distribution
- Mean = 34787.28
- Std. Dev. = 21598.29
- N = 110,536

**Chart 2** Average monthly income of households in urban areas

- Frequency distribution
- Mean = 46037.91
- Std. Dev. = 29783.23
- N = 76,308

**Chart 3** Daily per capita income

- Frequency distribution
- Mean = 457.17
- Std. Dev. = 408.20
- N = 186,769

**Chart 4** Daily per capita income in urban areas

- Frequency distribution
- Mean = 577.21
- Std. Dev. = 476.39
- N = 76,233

**Chart 5** Daily per capita income in rural areas

- Frequency distribution
- Mean = 34787.28
- Std. Dev. = 21598.29
- N = 110,536

**Chart 6** Daily per capita income excluding remittances - rural areas

- Frequency distribution
- Mean = 212.08
- Std. Dev. = 192.36
- N = 108,918

**Chart 7** Daily per capita income excluding remittances - urban areas

- Frequency distribution
- Mean = 386.91
- Std. Dev. = 360.14
- N = 73,675
NOTES

* Prepared by Argita Frashëri, Head of Balance of Payments office, Department of Statistics, Bank of Albania.
Opinions expressed in this paper are of the author and do not necessarily reflect the official opinion of the Bank of Albania.

1 Worker remittances are defined as international transfers of money sent by Albanian migrants abroad to their relatives or friends in Albania.
2 Living Standard Measurement Study
3 For more information, refer to http:\\www.worldbank.org\lsms.
4 Referring to poverty level of 2$ per day determined by the World Bank
5 For more on the characteristics of Albanian migrants, see “Competing for remittances” Nicolaas de Zwager et. al. (2005).
7 Following the initiative of the World Bank for the development of Italy-Albania Remittance Corridor (finalized at “Remittances: An Opportunity for Growth. The Albanian Migration to Italy as a case study”, Bari, 3-4 March 2006), the Albanian Association of Banks (AAB) and the Italian Banking Association (ABI) started, in 2006, to work together to expand cooperation between Albanian and Italian banks in order to encourage greater use of banking channels for remittances.
1 PREFACE

Bank lending is the primary source of real estate funding. Over the last couple of years, the coincidence of cycles in credit and property markets has been widely documented in literature (IMF, 2000, BIS, 2001).

However, the question of the direction of causality between bank lending and property prices has remained an unexplored issue. From a theoretical point of view, causality may go in both directions. Property prices may affect bank lending via various wealth effects. First, due to financial market imperfections, households and firms may be borrowing constrained. As a result, households and firms can only borrow when they offer collateral, so that their borrowing capacity is a function of their collateralisable net worth. Since property is commonly used as collateral, property prices are therefore an important determinant of the private sector’s borrowing capacity. Second, a change in property prices may have a significant effect on consumers’ perceived lifetime wealth, inducing them to change their spending and borrowing plans and thus their credit demand in order to smooth consumption over their life cycle. Finally, property prices affect the value of bank capital, both directly to the extent that banks own assets, and indirectly by affecting the value of loans secured by property.

On the other hand, bank lending may affect property prices indirectly, augmenting the funds at the borrowers’ disposal. A rise in lending may lead to a fall in the interest rates of real estate loans and thus to an increase in the demand for lending from households and firms. This increase in demand toward a temporarily stable level of real estate supply (due to the time needed to construct new flats) may lead to higher increase in the real estate prices.

As a result, we may say that property prices fluctuation might therefore influence not only the risk taking capacity of banks but their policy to extend loans as well.

2 REAL ESTATE LENDING AND THEIR TREATMENT FROM A SUPERVISORY POINT OF VIEW

Real estate lending is one of the most important components of bank loans. For such reason, the measurement of the bank’s credit risk exposure, is very important not only for bank managers but for the supervisors as well. Credit risk, however, is not confined to the real estate sector. Because real estate
assets are also widely used as collateral for other types of loans, fluctuations in property prices would have an effect in banking system’s balance sheets and even broader effects on the profitability and collateral value of the banking industry as a whole.

Anyway, before we consider the effect of real estate prices fluctuations on the asset quality, bank’s exposure, capital adequacy and the lending capacity of the banking system as a whole, we will consider different types of real estate loans and their supervisory treatment according to international and Albanian banking system standards.

2.1 TYPES OF REAL ESTATE LOANS AND SUPERVISORY STANDARDS ACCORDING TO BASEL I

Real estate loans are generally classified as:

- Residential real estate loans;
- Commercial real estate loans.

Residential real estate loans are granted to retail borrowers. The loan is fully secured by residential properties that are either occupied by the borrower or rented by the borrower to a third party. Most residential real estate loans are granted to retail borrowers to finance the construction or the purchase of their home. The terms and the conditions of real estate loans vary greatly across countries and within the same country, between banks.

Commercial real estate lending is lending to commercial borrowers who use the commercial real estate loan to fund the purchase, construction, or development of real estate properties. Commercial real estate loans are fully secured by mortgages on:

- office buildings;
- industrial buildings;
- single-purpose commercial premises, for instance a factory;
- multi-tenant commercial premises, for instance, stores, warehouses, shopping centers, hotels, etc.

A special type of real estate loans are also construction loans. Construction loans are granted specifically to fund the construction and development costs of a residential or commercial building. The funds are usually advanced at specific stages of construction in ‘progress payments’ which are secured by claims on the property. This payout mechanism ensures that the loan is funded in incremental amounts so that funds are available to the builder as construction progresses. At the same time, this mechanism ensures that the outstanding balance is in step with the increasing value of the property. These loans are offered to commercial borrowers and include the following construction lending:
- land development loans
- commercial construction loans
- residential development loans

陆地开发贷款是用于购买和开发土地的贷款，旨在为后续的建设做准备。此类开发可能包括土地的开发，以及公用设施和道路的建设。

商业建筑贷款可以涵盖范围广泛，包括工厂、公司大楼、办公楼、购物中心和酒店。每一种项目都需要开发者的特殊技能和经验来成功地建造、管理和营销项目。

住宅开发贷款是根据预测售出的房屋（未确定买家）或预售（已获得预付融资安排）的贷款。借款人、贷款人的财务状况、经验、声誉，以及建设者的信用记录，都是决定贷款条件的关键因素。

根据巴塞尔I，房地产贷款的资本权重为100%，但抵押住宅贷款的资本权重为50%（该贷款完全由抵押的房地产提供担保）。根据巴塞尔II标准方法，住宅贷款可以享受35%的优惠风险权重，前提是要严格遵守监管要求。巴塞尔II中，商业地产贷款可以享受50%的优惠风险权重，作为例外，需要满足特定的严格运营要求。

2.2 ALBANIAN BANKING SYSTEM AND THE REAL ESTATE MARKET

2.2.1 Real estate loans allocated from the Albanian banking system

2006年，银行业系统贷款显著增长，年末贷款余额增长了70.2亿列克，比2005年末的57.6亿列克增长了26%。与2005年末相比，短期贷款的占比下降了0.7个百分点，中长期贷款的占比增长了0.18个百分点。与2005年末相比，长期贷款的占比出现了显著增长。其中，住宅贷款占比在2005年-2006年间显著提高（从13%提高到13%），反映出银行在住宅贷款上的更加积极的促销活动。结构上的变化反映了住宅贷款的增加，以及银行的业务倾向。
investments in fixed assets needed for technology improvements or further activity improvements.

During 2006, the volume of real estate loans increased by 21.77 billion lekë (or 131 per cent compared to the previous year), where the individual’s sector weights 80.62 per cent and the foreign currency loans weight about 86 per cent of the total portfolio. We can make the same statement about the first half of the year 2007 so, notwithstanding the volume increase of the real estate loans about 6.72 billion lekë, its weight to the total outstanding balance shows a declining pace during the above mentioned period. Therefore, the ratio “real estate loans/ total outstanding loans” indicates the value 18.85 per cent in June 2007, compared to 19.39 per cent at the year end 2006. This fact is due to upward trend of the total outstanding loans compared to the the total disbursed real estate loans during the above mentioned period, respectively 41.3 billion lekë toward 6.71 billion lekë (chart 1).

The main attributes/features of real estate lending process in the previous years are as follows:

- the dominance of real estate loans for (Chart 2); it has the dominat weight to the total real estate outstanding loans 80.62 per cent, meanwhile the total loans disbursed to businesses and non-residents wheith respectively 18.53 per cent and 0.85 per cent, as well:
- the dominance of the real estate loans in foreign currency (chart 3).
Regardless of the dominance of the real estate loans in foreign currency, it is observed a slight increase of loans in local currency for the period december’01- december’06 (13.42 per cent compared 12.92 per cent), in the meantime year 2006 indicates a declining trend of 29 per cent compared to december’06 (table nr.1).

Table 1 Loan value by currency (in billion All)

<table>
<thead>
<tr>
<th></th>
<th>December ’01</th>
<th>December ’02</th>
<th>December ’03</th>
<th>December ’04</th>
<th>December ’05</th>
<th>December ’06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate lending</td>
<td>4.21</td>
<td>6.66</td>
<td>7.92</td>
<td>10.62</td>
<td>16.61</td>
<td>12.062</td>
</tr>
<tr>
<td>Domestic currency</td>
<td>0.54</td>
<td>0.59</td>
<td>0.76</td>
<td>0.97</td>
<td>2.28</td>
<td>1.62</td>
</tr>
<tr>
<td>Foreign currency</td>
<td>3.67</td>
<td>6.07</td>
<td>7.16</td>
<td>9.65</td>
<td>14.33</td>
<td>10.44</td>
</tr>
</tbody>
</table>

Source: The above information and data are obtained from the Banking Supervision Department.

2.2.2 Opinion of the banks operating in Albania

In order to identify the types of real estate loans and the risks associated with the real estate lending, a questionnaire for becoming aware of the opinion of the banks operating in the Albanian banking system, was compiled.

According to the results of this questionnaire, real estate loans in the Albanian banking system are classified as follows:

- **Residential real estate loans**: residential real estate loans are granted to retail borrowers. The loan is fully secured by residential properties that are either occupied by the borrower or rented by the borrower to a third party. Most residential real estate loans are granted to retail borrowers to finance the construction or the purchase of their home. Depending on the fact that the residential property used to fully collateralize the loan, is owned or not by the borrower, this type of loan may be considered as a medium risk asset, thus receiving a risk weight of 50% (in case is owned by borrower) or as a high risk asset, thus receiving a risk weight of 100% (in case the borrower is not the owner of the property).

- **Commercial real estate loans**: commercial real estate loans are loans granted to commercial borrowers in order to fund the purchase or the restoration of the premises where they intend to develop or exercise their commercial activity. This may include: a) the purchase of a new non-civil building; b) the restoration of an existing building or c) the purchase of an existing building and/or of the land etc. This type of loans is fully secured by a mortgage on a real estate property which may or not be owned by the commercial borrower. Unlike residential real estate loans, this type of loans is considered as a high risk asset and receives a risk weight of 100%, independently the fact that the property is or not owned by the borrower.

- **Loans collateralized by real estate properties**: are loans granted to retail or commercial borrowers for different purposes, collateralized by a real estate property. More concretely, we mention the following type
of loans:

1. retail borrowers, who intend to exercise an activity, are funded by the bank for the purchase of a real estate property where they will exercise the activity.

2. private sector, according to the purpose:
   i) for business development, for the purchase of different equipment and machinery;
   ii) for trade, are funded through overdrafts and loans for working capital, in order to fulfill their short term liquidity needs.

This type of loans, which is collateralized by a mortgage on a real estate property owned or not by the borrower, are considered as high risk assets and receive a risk weight of 100%.

2.2.3 Risks associated with the real estate lending

Real estate lending is subject to some unique risks. The banks are exposed from two different sources:

- risks associated with the borrower;
- risks associated with real estate securing the loan

A. Risks associated with the borrower

There are two distinct categories of real estate borrower, retail borrower and commercial borrowers. Residential real estate borrowers have a strong incentive to repay their loans, to maintain possession of their homes. Nevertheless, some borrowers do default due to a variety of factors, including:

- borrowers become too heavily burdened with debt;
- adverse economic conditions, including increases in the cost of leaving and interest rates
- a decrease in income due to, for example, unemployment or change in employment
- change in family size or marital status (e.g. divorce)

In case of commercial borrowers, the repayment ability may be influenced by:

- economic conditions such as adverse changes in demand
- increased competition and rises in interest rates;
- deterioration in the firm’s management and business model

B. Risks associated with real estate securing the loan

The lender should pay careful attention to all of those circumstances that might affect the value of the real estate. It is very important for the bank to regularly review the value of the property on timely basis. Risks associated with real estate securing the loan might arise from:

- Nature of real estate markets: real estate is prone to volatility. Real estate markets are affected by many factors and declines can quickly
erode the margin of protection for real estate lenders. As a result, lending against the value of real estate carries risks that must be closely reviewed and assessed.

- **Catastrophic events:** catastrophes such as fire, floods, earthquakes, terrorist acts and wars can damage or destroy property. One technique, lenders can use to protect themselves, is to make it a condition of providing the financing that borrowers obtain insurance coverage against loss from such events.

- **Changing economic conditions:** economic downturns can adversely affect borrower’s repayment potential and at the same time might lessen a bank’s collateral protection, augmenting its exposure for the unsecured amount of outstanding loan.

- **Legal issues:** laws, its implementation and delays in their implementation, may affect the lender’s ability to promptly and efficiently take possession of a property once the borrower has defaulted on its obligations. During these delays, the value of the real estate collateral may deteriorate as the borrower may not be prepared to devote resources to provide needed maintenance. The possession of the property of the collateral in a non adequate manner, with no rapidity and above all with costs to be afforded by the bank, potentially increases the bank’s exposure in case of a depreciation of the value of the collateral.

The above mentioned risks should all be assessed in a sound and accurate manner. Although, banks should avoid granting loans based solely on the value of the collateral. In the event of default, physical collateral, especially in the form of real estate often proves difficult to liquidate.

As a result we consider that the assessment of the creditworthiness of the borrower is essential when granting a loan and includes: assessment of the applicant’s income, liquid assets, employment history, credit history, and existing obligations as collateral only provides extra protection for the bank.

The outstanding value of non performing loans in the Albanian banking system has increased significantly evidencing/recording a value of 7334.86 million lekë by june’07 compared to 6047.24 million lekë recorded by the end of the year 2006 and 2981.36 million lekë by the end of the year 2005. The value of real estate non performing loans has increased significantly as well for the period december’05 - december’06, showing/reaching a value of 604.7 million lekë against 214.01 million lekë during the year 2005, or in other words has increased by 182.56 per cent. The upward trend is also being observed for the period december’06-june’07, where the value of non performing real estate loans has rised by 249.3 million lekë. Notwithstanding, the volume of real estate compared to the volume of outstanding non performing loans in the banking system, is still considered to be low, respectively 604.7 million lekë against 6047.24 million lekë by the end of december’06 and 854.02 million lekë against 7334.86 million lekë by june’07. The same conclusion can be educed also for the real estate non performing loans weight compared to outstanding non performing loans of the Albanian banking system. Such a weight, eventhough performing increasing values during the last three years,
stands for a relatively low percentage weight of 10% to the outstanding total value of non performing loans in the banking system by the end of december ‘06 and 11.64% by june’07, but still to be continuosly monitored (see chart 4).

The performance of the real estate loan portfolio quality during the period december’01-june’07, has been characterized by an upward trend in the total volume of real estate lending. This trend, has recorded always increasing values of performing loans in the banking system portfolio and above all, these values have been several times higher compared to the values recorded by the volume of non performing loans in the banking system portfolio (see chart 5).

Non performing real estate loans record a slight increase during the period December’01-December’02, records almost half values during December’03 to record again increasing values during the period December’04-December’05 (see table 2).

<table>
<thead>
<tr>
<th></th>
<th>December ’01</th>
<th>December ’02</th>
<th>December ’03</th>
<th>December ’04</th>
<th>December ’05</th>
<th>December ’06</th>
<th>June ’07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total real estate loans (million lekë)</td>
<td>4,214.57</td>
<td>6,656.42</td>
<td>7,923.10</td>
<td>10,622.29</td>
<td>16,612.65</td>
<td>38,378.94</td>
<td>45,098.57</td>
</tr>
<tr>
<td>Non performing real estate loans (million lekë)</td>
<td>259.99</td>
<td>262.12</td>
<td>132.74</td>
<td>186.05</td>
<td>214.01</td>
<td>604.70</td>
<td>854.02</td>
</tr>
<tr>
<td>Performing real estate loans (million lekë)</td>
<td>3,954.58</td>
<td>6,394.30</td>
<td>7,790.36</td>
<td>10,436.24</td>
<td>16,398.64</td>
<td>37,774.24</td>
<td>44,244.56</td>
</tr>
</tbody>
</table>

Source: The above information and data are obtained from the Banking Supervision Department.

Based on the above table we may say that the quality of real estate loan portfolio remains good. These low values for non performing real estate loans, might be explained with the fact that the volume of lately disbursed real estate
loans has evidenced a rapid increase during december’05-june’07, but also because the international experience suggests that a rapid increase of loan portfolio is accompanied by a deterioration of its quality in the following periods.

3 FINDINGS AND RECOMMENDATIONS

3.1.1 Findings

• The year 2006 evidenced a considering expansion of the banking system’s loans. Hence, outstanding loan’s balance evidenced an increase of 70.2 billion lekë compared to 57.6 billion lekë balance at the end of 2005. The volume of real estate loans increased by 21.77 billion lekë during the year 2006 (or 131 per cent compared to the previous year) with a weigh of 19.39% to outstanding loan’s balance.

• The volume of non performing real estate loans evidenced a significant increase during the period december’05-december’06 by 182.56 per cent (604.7million lekë against 214.01 million lekë during the year 2004) and its contribution in the upgrowth of outstanding non performing loans in the Albanian banking system’s balance for the year 2006, is estimated at about 10 per cent.

• The weigh of non performing real estate loans to outstanding non performing loan’s balance has evidenced an upward trend during the last three years, from 6.29% during the year 2004, to 7.18% during the year 2005 and performes a value of 10% by the end of year 2006, annunciating the need for a prudent monitoring of such phenomenon ona timely basis.

• The performance of the real estate loan portfolio quality during the period december’01-june’07, has been characterized by an upward trend in the total volume of real estate lending (respectively 45,098.57 million lekë against 4,214.57 million lekë). This trend has recorded always increasing values of performing loans in the banking system portfolio, witnessing its good quality. However, we cannot come to a conclusion about the expecting performance of real estate portfolio, because low values of non performing real estate loans can be explained not only because the volume of newly disbursed real estate loans has rapidly increased during the mentioned period, but also because the international experience suggests that a rapid growth of the portfolio is accompanied by a deterioration of ita quality in the following periods.

• The main attributes/features of real estate lending process are the dominance of real estate loans to individuals and the dominance of real estate loans in foreign currency. Real estate loans to individuals weigh about 80.62 per cent to outstanding real estate loan’s balance, whilst the weigh of real estate loans to businesses and to non residential is estimated respectively by 18.53 and 0.85 per cent; real estate loans in foreign currency weigh 86.58 per cent to outstanding real
estate loan’s balance during the year 2006. Though the dominance of real estate loans in foreign currency, a slight increase in the weigh of real estate loans in domestic currency is being evidenced during december’01-december’06, from 12.92 per cent to 13.42 per cent.

• Real estate loans in the Albanian banking system are classified as follows: i) residential real estate loans; ii) commercial real estate loans; iii) loans collateralized by real estate properties. From the interviews had with some of the Albanian banking system’s banks nearly 90 per cent of the collateral accepted by the banks, other than for real estate loans, is comprised of real estate properties.

• Real estate lending is subject to two different types of risk: i) risks associated with the borrower; ii) risks associated with the real estate securing the loan.

• Among the main factors that explain the current level of real estate loan’s volume banking system’s banks list some inciting and some preclusive factors for the further development of the lending process. Relating to inciting factors, banks evidence the rise in real estate loans demand and the increased competitiveness in the banking system, while the banks evidence the absence of a secondary market of collateral as a preclusive factor.

• The expectations of the banking system for the real estate loan portfolio are positive, meaning that the majority of the banking system’s banks expect a rise not only in the real estate loan to individuals but to businesses as well in the banking system portfolio. Banks pronounced for a further increase in the land and commercial constructions prices, but are more hesitating on the performance of flats prices.

3.1.2 Recommendations

• The majority of the banking system’s banks reappraise the financial conditions of the borrower as well as the collateral market value on a one year basis, or in case of a parallel or a new loan demand. A potential/possible change in real estate prices might have a considering effect not only in consumer’s welfare in general, but also on loans collateralized by real estate properties, because potentially this affects not only the bank’s exposure but also their loan portfolio quality as well. For such reason, banks should be more prudent and to evaluate on timely basis the financial condition of the borrower and the value of collateral.

• An increase in the market value of collateral as a consequence of a rise in real estate prices, might lead to a higher demand for credit in the economy. The increased demand might affect the banking system’s banks conservatism in fulfilling specific requests in being credited, increasing their flexibility and thus affecting the problems to deal with in the forthcoming periods. Thus, banks have to be strict and rigorous in implementing their regulatory framework and their internal loan policy.
ANNEX

1. According to your opinion what is the percentage of the bank’s current collateral for real estate loans is taken for each of the following products?

<table>
<thead>
<tr>
<th>Product</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>___%</td>
</tr>
<tr>
<td>Apartments</td>
<td>___%</td>
</tr>
<tr>
<td>Business facilities</td>
<td>___%</td>
</tr>
<tr>
<td>Other</td>
<td>___%</td>
</tr>
</tbody>
</table>

In the following chart it is shown the composition of the collateral taken from the banks for mortgage loans (real estate loans), where loans for apartments dominate with 50.4 per cent.

From all the interviewed banks it is evidenced a common characteristic: the owner of the taken collateral for mortgage or real estate loans is not always the borrower. The real estates accepted as collateral is preferred to be located in the main cities of Albania, mainly in Tirana and Durres. In the cases when the borrower is not the same with the owner of the property, the owner must have a strong relation with the borrower and preferably be a client of the lending bank.

According to the collected data, another characteristic is evidenced: 90 per cent of the collateral accepted from the interviewed banks for loans other than real estate loans, is composed of pledges.

2. Which is the method you use to evaluate the collateral?

<table>
<thead>
<tr>
<th>Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current cost method</td>
<td>!_!</td>
</tr>
<tr>
<td>Market value</td>
<td><em>X</em>!</td>
</tr>
<tr>
<td>Price method</td>
<td>!_!</td>
</tr>
<tr>
<td>Present value of the expected future cash flows</td>
<td>!_!</td>
</tr>
</tbody>
</table>

All the banks evaluate the collateral based on the market price method.

3. What the collateral appraisal frequency?

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Once a year</td>
<td><em>!</em>!</td>
</tr>
<tr>
<td>Less than once a year</td>
<td><em>!</em>!</td>
</tr>
</tbody>
</table>

Referring to the collateral appraisal frequency, only five banks (or 31 %) evaluate the collateral once a year, while the other eleven banks (the dominating banks or 69%), re appraise it in periods longer than one year or in the cases when a new loan is approved for the client.
4. While appraising the collateral the banks rely upon:

1. Internal appraisers
2. Outsourcing (external) appraisers

Twelve banks (or 75 per cent of the total banks), rely only on external appraisers, while four of them (25 per cent) rely on both external and internal appraisers. It is worth it to mention that Banka Kombëtare Tregtare has an internal “ad-hoc” unit “The buildings’ appraising and maintenance department”. This unit reappraises regularly the maintenance of the collaterals from the borrowing clients, considering it as a very strong defensive rigor for the bank.

5. Would you please specify the ratio credit volume/yearly income for each group:

1. Individuals
2. Businesses
N.A.

6. Please specify the yearly interest rates for each currency (base + spread), for mortgage loans:

<table>
<thead>
<tr>
<th></th>
<th>Lekë</th>
<th>Eur</th>
<th>Usd</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Individuals</td>
<td>! !</td>
<td>! !</td>
<td>! !</td>
</tr>
<tr>
<td>2. Businesses</td>
<td>! !</td>
<td>! !</td>
<td>! !</td>
</tr>
</tbody>
</table>

Hence, we can conclude that banks apply either fix or floating interest rates for both local and foreign currency (mainly eur and lekë) loans. Minimal and maximal applied interest rates in either local or foreign currency for mortgage loans are shown in table nr.1. Fixed interest rate applied for local currency fluctuates mainly between the values less than 10 per cent and more than 13 per cent (19 per cent of the banks apply these interest rates respectively for individuals and businesses). Meanwhile, fixed interest rates for foreign currency (eur and usd) vary from minimum less than 9 per cent to maximum 9-13 per cent, both for individuals and businesses. Currently, the interest rates less than 9 per cent for individuals and businesses (respectively 21 % and 23%) dominate the euro currency, while the interest rates between the interval 9-13 % for individuals and businesses dominate in usd currency (respectively 21% and 23% of the total weight). Therefore, we can state that the fixed interest rates for both individuals and businesses in local currency are higher than applied interest rates for the loans in foreign currency.

Table 1 Fixed interest rates by currency

<table>
<thead>
<tr>
<th></th>
<th>Individuals</th>
<th>Private sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed interest rates in ALL (%)</td>
<td>Minimum value</td>
<td>Maximum value</td>
</tr>
<tr>
<td>Fixed interest rates in ALL (%)</td>
<td>&lt;10%</td>
<td>&gt;13%</td>
</tr>
<tr>
<td>Fixed interest rates in eur and usd (%)</td>
<td>&lt;9%</td>
<td>9-13%</td>
</tr>
</tbody>
</table>
A summary of the floating interest rates in both foreign (eur and usd) and local currency is shown in table nr.2. Floating interest rates applied in local currency for both individuals and business loans fluctuate between the minimum value TB+3/+5 per cent and maximum value TB+5/+7 per cent (respectively 38% and 31% of the banking system apply these interest rates). With reference to eur currency these rates fluctuate between minimally euribor+2.5/+3.5 and maximally euribor+>7 for both individuals and businesses. The interest rates euribor+5.5/+7.5 dominate the main weight (29% of the banks apply for individuals and 29% apply it for businesses). Whereas, with reference to usd currency these interest rates vary between minimally libor+2.5/+3.5 per cent to maximally libor+>7 for both individuals and businesses. The interest rates euribor+3.5/+5.5 dominate the main weight (25% of the banks apply for individuals and 19% apply it for businesses). Hence, the floating interest rates for both individuals and businesses in local currency are higher compared to applied interest rates for foreign currency.

### Table 2 Floating interest rates by currency

<table>
<thead>
<tr>
<th></th>
<th>Minimum value</th>
<th>Maximum value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Floating interest rates in ALL (%)</td>
<td>TB+3-5%</td>
<td>TB+7-9%</td>
</tr>
<tr>
<td>Floating interest rates in Eur (%)</td>
<td>Euribor+2.5-3.5%</td>
<td>Euribor+&gt;7%</td>
</tr>
<tr>
<td>Floating interest rates in Usd (%)</td>
<td>Libor+2.5-3.5%</td>
<td>Libor+&gt;7%</td>
</tr>
</tbody>
</table>

7. Which is the term structure for real estate loans by currency:

<table>
<thead>
<tr>
<th>Lekë</th>
<th>Eur</th>
<th>Usd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Min</td>
<td>Max</td>
<td>Min</td>
</tr>
<tr>
<td>1. Individuals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Private sector</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Term structure for the domestic currency, for the european currency and us dollars for individual class, vary from a minimum of five years up to a maximum of twenty years (see table 3), whilst for the private sector class, the term structure for the domestic currency is up to twenty years; for foreign currencies is shorter, with a maximum of 15 years. The brunt for individuals in domestic currency is occupied by 5-10 years term structure and for the private sector from the 5-10 year term structure. For the europian currency and for us dollars the brunt for individuals is occupied by 15-20 year term structure and by 5-10 years term structure for the private sector. So, we might say that we notice some linearity between the term structure of three currencies for individuals and private sector classes.

### Table 3 Term structure by currency (in years)

<table>
<thead>
<tr>
<th></th>
<th>Individuals</th>
<th>Private sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum value (in years)</td>
<td>Maximum value (in years)</td>
<td>Minimum value (in years)</td>
</tr>
<tr>
<td>Term structure for ALL</td>
<td>&lt;=5</td>
<td>15-20</td>
</tr>
<tr>
<td>Term structure for eur</td>
<td>&lt;=5</td>
<td>15-20</td>
</tr>
<tr>
<td>Term structure for usd</td>
<td>&lt;=5</td>
<td>15-20</td>
</tr>
</tbody>
</table>
8. Please rank by importance the criterions used by your bank in evaluating the custom’s payment capacity (where 1 is less important and 5 the most important):

1. Strong collateral  
2. Capability and faculty in managing the business  
3. The borrower’s business is well collateralized  
4. The reputation and good name of the borrower  
5. The borrower’s history in principal and interest payment  
6. Financial condition  
7. Other (specify)  

Below are listed the criterions, by their importance, used by banking system’s banks, in evaluating borrower’s payment capacity:

- Borrower’s financial condition;
- Capability and faculty in managing the business and the borrower’s history in principal and interest payment (receive the same evaluation by banks);
- Strong collateral, good name and the borrower’s reputation (same evaluation by banks);
- Well capitalization of the borrower’s business;
- Other;

9. If there exists, which level of covering ratio does your bank use for each group?

<table>
<thead>
<tr>
<th></th>
<th>Individuals</th>
<th>Private sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum value</td>
<td>&gt;150%</td>
<td>&gt;150%</td>
</tr>
<tr>
<td>Loan value/collateral value (%)</td>
<td>120-130%</td>
<td>100-120%</td>
</tr>
</tbody>
</table>

In table 4 the limits used by the banking system’s banks for the covering ratios are given. The minimum limits for this ratio are higher for individuals compared to those applied to the private sector, meanwhile maximum limits offer the same loan covering by collateral value. The average weigh of this ratio hovers around 130-140 per cent for individulas and for the private sector as well.

10. Have your bank ever had to execute the collateral?

Yes ! _!  
No ! _!

The majority of banking system’s banks (67% of them) declared that they have had collateral executing procedures, while only a small part of them (33%) declared that never had collateral executing procedures.
11. In case of affirmative response, how many months lasted collateral executing procedures for each of the following groups?

Individuals ______

Private sector _____

These procedures, in most banks, have lasted over one year for individuals and for the private sector as well.

12. In case you think that collateral executing procedures are too prolonged, which of the following factors might affect most:

Social problems ______

Legal issues ______

Other (specify) ______

Legal issues are listed as a key preclusive factor in accelerating the collateral executing procedures, in 87 per cent of the cases in the banking system’s banks.

13. To your opinion, how volume of real estate loans should be affected by the acceleration of the procedures?

<table>
<thead>
<tr>
<th>Will grow</th>
<th>The same</th>
<th>Will fall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals</td>
<td>! _ !</td>
<td>! _ !</td>
</tr>
<tr>
<td>Private sector</td>
<td>! _ !</td>
<td>! _ !</td>
</tr>
</tbody>
</table>

To the question that how would the acceleration of the procedures affect the volume of real estate loans, most banks answered that not only for individuals (67% of the banking system’s banks) but also for the private sector (64% of them) this would have a positive impact.

14. To your opinion, rate according to their importance each of the following factors that explain the current level of real estate lending (where 1 is less important and 5 the most important):

1. The competitiveness growth in the banking system, has promoted a higher demand for real estate loans from customers
   1 2 3 4 5

2. The increased demand for real estate loans (e.g. demographic movements) has affected the level of lending
   1 2 3 4 5

3. The expectation for an increase in the real estate prices
   1 2 3 4 5

4. As a consequence of a better portfolio diversification
   1 2 3 4 5
5. The absence of a secondary market for collateral
   1 2 3 4 5

6. Other (specify)
   1 2 3 4 5

Below are listed the factors that mostly explain the current level of real estate loans, according to the judgement expressed by the banking system’s banks:

- The increased demand for real estate loans;
- The competitiveness growth in the banking system;
- The absence of a secondary market for the collaterals;
- The expectation for an increase in the real estate prices;
- As a consequence of a better portfolio diversification;
- Other, where we can mention the tenor of living.

15. To your opinion, what will the pace of real estate portfolio be in the future:

<table>
<thead>
<tr>
<th></th>
<th>Will grow</th>
<th>The same</th>
<th>Will fall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals</td>
<td>![ ] ![ ]</td>
<td>![ ] ![ ]</td>
<td>![ ] ![ ]</td>
</tr>
</tbody>
</table>

To the question that what will be the pace of real estate portfolio in the future for individuals and for the private sector, most of the banks answered that they will grow in both classes (75% and 60% of the banks expect a rise in the demand respectively for individuals and for the private sector), meanwhile just a few of them answered that they expect no changes (25% and 33% of them).

16. Which is your judgement regarding the pace of real estate prices in the future:

<table>
<thead>
<tr>
<th></th>
<th>Land</th>
<th>Flats</th>
<th>Commercial constructions</th>
<th>Others</th>
</tr>
</thead>
</table>

Regarding the judgement on the pace of real estate prices in the future expressed by the banking system’s banks, 94 per cent of banks phrased for an increase in the land prices, 93 per cent phrased for an increase in the price of commercial constructions, 60 per cent for an increase in flat’s prices and 67 per cent in their items precisely. So, we may conclude that the banking system’s expectations are mostly for an increase in the real estate prices (see table 5).
Table 5 Pace of real estate prices

<table>
<thead>
<tr>
<th></th>
<th>Lower</th>
<th>Higher</th>
<th>Equal</th>
<th>N/a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land in %</td>
<td>94%</td>
<td>6%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Flats in %</td>
<td>60%</td>
<td>40%</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Commercial constructions in %</td>
<td>93%</td>
<td>7%</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>Others in %</td>
<td>67%</td>
<td>33%</td>
<td>33%</td>
<td></td>
</tr>
</tbody>
</table>

17. What are some of the measures that your bank would take in case of a depreciation in the collateral value (downfall in prices)?

To this question, 43 per cent of the system’s banks answered that would take no measure because they consider their banks as well capitalized through the coverage ratio; 43 per cent of the system’s banks answered that they would demand for an increase in collateral value (supplementary collateral); and just 14 per cent of them would simply ask for a reappraise and a monitoring of the collateral value.
NOTES

* Prepared by Juna Bozdo, Economic Analysis Office, Monetary Policy Department, Bank of Albania.

Opinions expressed in this paper are of the author and do not necessarily reflect the official opinion of the Bank of Albania.

1 In the majority of industrialized countries like: Portugal, Ireland, Spain and Greece, real estate lending occupies almost one third of total bank lending and in some other cases even more. The data are published by the European Mortgage Federation

2 According to international supervisory standards, we will refer to the effective supervisory framework, Basel I.

3 For example, floating interest rates are widely used in Great Britain and fixed interest rates (for 5-10 year period) in Germany. Differences, according to premature loan payment, do exist as well. In Germany, such a procedure is permitted but the borrower is obliged to pay a bank penalty, while in the USA, where loan maturity is up to thirty years, the borrower pays nothing.

4 Whilst outstanding loan’s balance in domestic currency increased by 24.44 billion lek or 78.2 per cent, outstanding loan’s balance in foreign currency evidenced an increase of 45.73 billion lek or 47.4 per cent.

5 Short term loans perform a weight of 25.6% to outstanding loan’s balance during 2006 year, compared to 26.2% it performed during 2005 year. Medium term loans have a weight of 30.78% (30.6 % during 2005), hence shifting these last ones toward long term loans, which evidenced a weight of 38.4 % during 2006 year, compared to 36.2 % by 2005 year end.

6 Datas are obtained from Call Report.

7 For such a purpose, some interviews were performed with bank managers and employees, in the following banks: American Bank of Albania, Italian-Albanian Bank, Tirana Branch of Alpha Bank, Procredit Bank, Raiffeisen Bank, Tirana Bank, National Commercial Bank, Tirana Branch of National Bank of Greece, Credins Bank, Popular Bank and Emporiki Bank.

8 A summary of this questionnaire is reported at the end of this study.

9 The term “performing loans” refers to the sum of the value of standard loans and special mention loans.

10 Whilst outstanding loan’s balance in domestic currency increased by 24.44 billion lek or 78.2 per cent, outstanding loan’s balance in foreign currency evidenced an increase of 45.73 billion lek or 47.4 per cent.

11 All interviewed banks declared that in case of a further rise in the collateral market value, as a consequence of increased real estate prices, the client’s possibility in getting credit should be higher as well.
On 17 July 2007, the Bank of Albania and the Competition Authority signed the Memorandum of Understanding. The Governor of the Bank of Albania, Mr. Ardian Fullani and Ms. Lindita Milo (Lati), Chairman of the Authority of Competition were the signatories to this memorandum, which aims to take action in order to protect the free and effective competition of the financial and banking market. In more concrete terms, through this co-operation, both institutions will aim to take appropriate measures for identifying and preventing the horizontal restrictions of competition (agreements for services prices, interest rates, markets territories, etc.), the vertical restrictions of competition (discrimination through the interest rates for different clients in the same market, discrimination through the limitations and specific requirements for guarantee and other terms for clients under equal conditions in the same market etc.), as well as to eliminate the possible abuse of one or a few banks to dominate the market. The Bank of Albania considers the conclusion of this memorandum as a cornerstone which will overwhelmingly affect the enhancement of real competition conditions, in which the banking and financial activity are currently being conducted.

On 22 August 2007, at the premises of the “Tirana International” hotel the Bank of Albania organized the seminar “Does Central Bank transparency reduce interest rates?”. The lector of honor for the occasion was the well known academic in the central bank transparency field, Prof. Sylvester Eijffinger, also known as the “father” of the index of central bank transparency. Since 2000, among his other current positions, Prof. Eijffinger is a professor of European Financial Economics at the Center for Economic Research and the Department of Economics of Tilburg University. The 22nd of August activity is a follow-up of the lectures with distinguished personalities from the academic and finance world, and comes as a part of the initiative of the Bank of Albania to contribute to the enlivening of academic and scientific research in Albania. In the material presented for this occasion, Prof. Eijffinger focused on issues concerning the effects of central bank transparency, on how this transparency is turned into an important factor for enhancing the credibility, reputation and flexibility of the monetary policy, being also one of the factors that help keeping lower interest rates.

During his stay in Tirana, Prof. Eijffinger valued the good job that the Bank of Albania has done concerning monetary policy transparency.

On 21 September 2007, the Bank of Albania initiated this years training program for the electronic and written media journalists. As it is also stated
in the program schedule, the thematic of the seminar will focus on the main arguments concerning the activity of the Central Bank. Modern central banks around the world devote a special attention and significant resources to fostering economic education and literacy. In such a fast-changing and complex world, economic literacy is becoming increasingly important in order to enable citizens to efficiently participate in the society in which they live. Thus, economic literacy is of prime importance for the functioning of our societies.

The Bank of Albania considers the media as one of the main transmitters of the information about financial markets and the economic situation. For this reason the organization of training seminars for journalists has become a consolidated tradition in the Bank of Albania.

<table>
<thead>
<tr>
<th>No.</th>
<th>Themes</th>
<th>Department</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Financial intercession and the developments in the Albanian banking system</td>
<td>Supervision Department</td>
<td>21 September</td>
</tr>
<tr>
<td>2.</td>
<td>Banknotes and their security</td>
<td>Issue department</td>
<td>28 September</td>
</tr>
<tr>
<td>3.</td>
<td>The system of payments in Albania. Electronic money and its widespread</td>
<td>System of Payments Department</td>
<td>5 October</td>
</tr>
<tr>
<td>4.</td>
<td>Internal debt financing</td>
<td>Monetary Operation Department</td>
<td>19 October</td>
</tr>
<tr>
<td>5.</td>
<td>The role of the Central Bank - Maintaining price stability</td>
<td>Monetary Policy Department</td>
<td>26 October</td>
</tr>
<tr>
<td>6.</td>
<td>Financial stability and the Albanian economy exposure to risks</td>
<td>Financial Stability Department</td>
<td>2 November</td>
</tr>
<tr>
<td>7.</td>
<td>The role of the Bank of Albania in the process of European integration. The Bank of Albania and public education</td>
<td>Foreign Relations, European Integration and Communication Department</td>
<td>9 November</td>
</tr>
<tr>
<td>8.</td>
<td>The foreign currency reserve administration performance</td>
<td>Monetary Operation Department. Participants of the work team</td>
<td>23 November</td>
</tr>
<tr>
<td>9.</td>
<td>The balance of payments and the role of statistics in the economy. The credit register</td>
<td>Statistics Department</td>
<td>14 December</td>
</tr>
<tr>
<td>10.</td>
<td>The monetary program of the Bank of Albania and its instruments</td>
<td>Monetary Policy Department</td>
<td>21 December</td>
</tr>
</tbody>
</table>

On 24 September, 2007 the Governor of the Bank of Albania, Mr. Ardian Fullani held a regional meeting in Saranda with representatives of the local government, the banking sector, the business community of Saranda, Gjirokastra, Delvina, Tepelena, Përmet, and with representatives of the University of Gjirokastra. The meeting is further to an institutional dialogue that the Bank of Albania has recently instituted with various groups of interest.

In his opening speech Mr. Fullani focused on some of the main issues of banking and economic policies, such as: consumer price stability, the perfection of the financial market and especially the perfection of the banking market, competition among commercial banks and the rapid increase of their credit portfolio.

As a reply to the reflections coming from the participants, Mr. Fullani returned to some of the previously dealt with issues, such as: commercial banks’ management, their internal audit, their window services and transparency.
The issues treated in the meeting aroused several productive discussions between the public and the panel. Representatives of the local government presented in their speech the economic projects and infrastructure of their cities. They also evidenced the tourism potential of the region, but also expressed their concern about the lack of funds for the development of tourism. Representatives of the local government and the financial community jointly requested the drafting and approval of the law on public borrowing. This law will assist the municipalities in benefiting as much as possible from commercial banks’ lending and on the other hand, the latter will be under less risk while extending loans to the local government. In this framework, the Bank of Albania is providing its consultancy for an efficient drafting of the law.

The Governor of the Bank of Albania treated in his speech some issues concerning the tourism development in the city of Saranda. He valued the positive achievements in the sector, but also remarked on the problems of tourism services, the strong competition factor that the countries of the Mediterranean Peninsula represent for the tourism industry and the environment protection issue.

A high level delegation coming from the Bank of Sweden visited the Bank of Albania on 26-27 September, 2007. Kerstin Midlid, adviser to the Governors, in the Financial Stability Department, and Christian Nilson senior economist in the Monetary Policy Department, Model and Methods Sector, were part of this delegation.

During 2007, the Bank of Albania and the Bank of Sweden established a collaboration relation, which will focus on issues such as the implementation of monetary policy, financial stability, public education and communication in general.

During its last visit, organized in light of the collaboration between the two central banks, the Bank of Sweden delegation was presented with the policy framework of the Bank of Albania and offered technical assistance for the perfection of short-term forecasts of inflation and its macroeconomic model.

During the period of 27 September – 1 November 2007, Mr. Jens Reinke, economist in the Statistics Department, in light of the technical assistance program regarding the statistics of the balance of payments that the International Monetary Fund gives to the Bank of Albania, attended an official visit in the last mentioned institution.

In this second visit at the Bank of Albania (the first one was held in 15 February-1 Mars 2006), Mr. Reinke held meetings with specialists and directors of the Statistics Department and evaluated the work done in regard to the implementation of the recommendations left by the previous IMF delegation for technical assistance.
Mr. Leonardo Guerra, Research Officer in the Data Dissemination Standards Division, Statistics Department, IMF, visited the Bank of Albania on 4-10 October 2007. The purpose of this visit consisted in the evaluation of the progress that the Bank of Albania and the central institutions in the country have done for Albania’s accession in the Special Data Dissemination Standard of the International Monetary Fund.

Starting from 1999, having the status of a pilot country, Albania is a member of the General Data Dissemination System (GDDS), an IMF project. Given that the main objectives of the GDDS are concerned with transparency boost for the existing practices of the member countries and the development of strategies for their improvement, aiming to meet SDDS standards, the GDDS represents the final intermediary step for SDDS accession.

SDDS projects include the most important data for macroeconomic policy evaluation. The categories of these data include four sectors of the economy: the fiscal sector, the real sector, the financial sector and the foreign sector.

The mission held meetings with INSTAT and the Ministry of Finance.
LEGAL EVENTS OVER JULY-SEPTEMBER 2007

BANKING SUPERVISION

On 04.07.2007 the Supervisory Council of the Bank of Albania approved with decision No. 36, the change of the significant ownership interests of the shares of the Banka Polullore Sh.a., through the sale of 75 percent plus 1 share to Société Générale, France. The rest of the share capital of the Banka Polullore Sh.a by 24.99 percent will be owned by its 9 shareholders.

On 18.07.2007 the Supervisory Council of the Bank of Albania adopted with decision No. 38, the Regulation “On Credit Register Operation at the Bank of Albania”, which shall enter into force on January 1, 2008. Its purpose is to define the organization and operation rules of the Bank of Albania Credit Register, as a database held electronically, to record identifying data and information and the credit ones for individuals, natural and legal persons and businessmen.

On 29.08.2007 the Supervisory Council of the Bank of Albania adopted with decision No. 43, the ownership transfer of the stake of the share capital of the Italian Albanian Bank Jnt. Stk., from the Sanpaolo IMI S.p.A to Intesa Sanpaolo S.p.A. Italy, resulting from the merger of the Sanpaolo IMI S.p.A. with Intesa Bank S.p.A., will be the new shareholder and will own 76.129 per cent of the shares of the share capital of the Italian Albanian Bank.

MONETARY POLICY

On 19.07.2007 the Supervisory Council of the Bank of Albania approved with decision No. 40, the Bank of Albania’s Monetary Policy Statement on the first semester of 2007. According to this statement, the first semester of 2007 marked a positive performance of the Albanian economy in terms of the programmed economic growth rates, further consolidation of macroeconomic stability and constant structural reforms in the economy. On the other hand, some specific developments over this period have testified the need for a constant attention to probable risks, and to the duly drafting and implementation of preventive policies, in order to guarantee the country’s economic balances and long-term development.

On 26.09.2007 the Supervisory Council of the Bank of Albania approved with decision No. 50 the “Rise in the interest rate of repurchase and reverse repurchase agreements”. With this decision, the interest rate of repurchase
and reverse repurchase agreements was raised from 5.75 percent to 6.00 per cent.

MONETARY OPERATIONS

On 18.07.2007 the Supervisory Council of the Bank of Albania approved with decision No. 39, the “Acceptance of the Deposit Insurance Agency’s deposits at the Bank of Albania”. According to this decision, the Bank of Albania will accept deposits from the Deposit Insurance Agency, of 1-week to 3-month maturity in ALL, Euro and American dollar. This decision specifies also the interest rates for various types of deposits, according to maturity term and respective currency.

FINANCIAL STABILITY

On 26.09.2007 the Supervisory Council of the Bank of Albania approved with decision No. 51, the statement “On financial system stability in Albania”. This statement, after analysing the country’s macroeconomic indicators, presents a stable situation of the financial system. The good financial result, particularly in the banking sector, is due to good use of financial resources and the relatively rapid expansion of the activity of high return from investment, such as lending and investing in securities.

PAYMENT SYSTEMS

On 26.09.2007 the Supervisory Council of the Bank of Albania approved with decision No. 53, the Regulation “On the operation of the Albanian large value interbank payment system – AIPS”. The AIPS is the system of real time gross settlements of payment orders in ALL, of systemic importance within the territory of the Republic of Albania, in an irrevocable and unconditioned way. According to this regulation, the Bank of Albania, in its role as the owner of the AIPS system, shall organise, manage, operate and supervise this system. It is also a participant in the settlement of payments deriving from its operational activity.

On 26.09.2007 the Supervisory Council of the Bank of Albania approved with decision No. 55, the Regulation “On the operation of Albanian Electronic Clearing House system (low value payments) (AECH). The AECH system is an electronic clearing house system that enables the exchange of files of payment instructions among the participants, computation of net multi-lateral positions and dispatching of a net settlement instruction to the AIPS. The Bank of Albania is a participant in the clearing for carrying out payments deriving from its operational activity or for payments of indirect participants.
On 16.07.2007 the People’s Assembly of the Republic of Albania, with its decision No. 9777, ratified the “Financial Agreement between the Council of Ministers of the Republic of Albania and the European Commission for the annual regional Cards 2006 program for national assistance, for taxation and customs authorities of Western Balkan”. According to this agreement, the European Union will finance this program at a maximum amount of Euro 14 million.

On 19.07.2007 The People’s Assembly of the Republic of Albania, with the Law No. 9783, ratified the “Loan Agreement between the Council of Ministers of the Republic of Albania and the OPEC Fund for stable development of rural mountain areas”. This agreement requires that the OFID (OPEC Fund for international development) extends to the Republic of Albania a loan of 4 513 000 (four million and five hundred and thirteen thousand) dollars for a project that aims to increase the income of families found in the poor segments of the population, trying to achieve additional mobilization of resources, rapid growth, poverty reduction and increased institutional capacity in order to influence and encourage investments in the public and private sector.

On 19.07.2007 the People’s Assembly of the Republic of Albania, with the Law No. 9785, ratified “The Share Purchase Agreement of the “Albtelecom” anonymous company”. The Ministry of Economy, Trade and Energy, on behalf of the Albanian State negotiated with the CETEL Çalik Enerji Telekomünikasyon Hizmetleri a.s for the purchase in one sole package of 11 400 000 (eleven million and four hundred thousand) ordinary shares of the company, free of any Encumbrance, with a nominal value of 1 000 (one thousand) lekë each, representing 76 percent of the share capital of the Albtelecom, Jnt.Stk.

On 19.07.2007 the People’s Assembly of the Republic of Albania approved the decision No. 9789 “On the creation and functioning of economic zones”. According to this Law, the creation of economic zones or in other words, territories enjoying a certain economic status, intends to promote investments, opening of new employment possibilities and increasing income, speeding up the regional development and expanding the economic links of the Albanian market with the international one, using the advanced technology and accelerating the circulation of goods and capitals.

On 23.07.2007 the People’s Assembly of the Republic of Albania adopted the decision No. 9796 “On antidumping and counterbalancing measures”. This Law provides the rules for procedures and conditions of defining and implementing the antidumping and counterbalancing measures, for protecting domestic industry and production from unfair international trade practices, by means of dumped or subsidised imports.

On 25.07.2007 the Council of Ministers of the Republic of Albania approved the decision No. 489 “On the fund for guaranteeing the export credits”. This decision foresees the creation of a limit fund, to provide guarantee for export
credits. The fund will be used to cover the collateral requirements for trade credits, for turnover means of enterprises, required by the Albanian banking system pursuant to the banking supervision regulations set by the Bank of Albania. The maximum limit of the guarantees to be issued for 2007 will be at the amount of ALL 200 000 000 (two hundred million) and will continue to be used for a time period of 6 years.

On 08.08.2007 the Supervisory Council of the Bank of Albania adopted the decision No. 512 “On an addition to the 2007 budget fund, approved for the Ministry of Public Affairs, Transport and Telecommunication for the realization of the strategic partnership project with the “Microsoft” company, in the information and technology area”. This decision adds to the Ministry of Public Affairs, Transport and Telecommunication a fund of ALL 142 000 000 (one hundred and forty two million), as a part of the overall fund of ALL 426 000 000 (four hundred and twenty six million) for the realization of the strategic partnership project in information and technology area with the “Microsoft” company.

On 15.08.2007 the Council of Ministers approved the decision No. 514 “On computerization of cost calculation and drafting the technical manuals of construction works prices”. This Law decided unification of the methodology of calculation and the format for presenting cost estimates and cost analysis for construction works, according to computer programs adopted for facilitating the activity of entities that perform activity in this area, facilitating the technical-financial control of construction works and preventing the informality in productive activity, in the construction market in Albania.

On 13.09.2007 the Council of Ministers of the Republic of Albania upon passing the Law No. 9801, ratified “The agreement between the Council of Ministers of the Republic of Albania and the Federal Council of Switzerland “On the technical, financial and humanitarian cooperation”. This agreement aims at promoting the realization of technical and financial assistance projects in Albania. The financial assistance will be given on a non-reimbursable basis to the Council of Ministers of the Republic of Albania for the priority projects of infrastructure and rehabilitation, which are not applicable for trade purposes.

On 12.09.2007, the Council of Ministers approved the decision No. 606 “On an addition to the fund of 2007 budget, approved for the Central Elections Commission, for financing partial parliamentary elections in the electoral zone No. 31 in Tirana on September 23, 2007”. This decision adds a fund of ALL 4 500 000 (four million and five hundred thousand) to the Central Elections Commission, in the 2007 budget, for financing partial parliamentary elections at the electoral zone No. 31 in Tirana on September 23, 2007.
* These departments have been approved with Decision No. 37, dated 18.07.2007 of the Supervisory Council of the Bank of Albania “On some changes to the organizational structure of the Bank of Albania”. This Decision entered into force on September 01, 2007.
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
   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. RAFFEISEN BANK (JOINT-STOCK COMPANY)
   Licence No. 2/1998, dated 11.01.1999
   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
   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)
   Licence No. 5/1998, dated 11.01.1999
   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
   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 September 30, 2007.
6. TIRANA BANK (JOINT-STOCK COMPANY)
Licence No. 07, dated 12.09.1996
Certificate No. 6 “On Deposit Insurance”.
Director: Dimitrios FRANGETIS
Address: Bulvardi “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 (JOINT-STOCK COMPANY) – TIRANA BRANCH
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
Certificate No. 8 “On Deposit Insurance”.
Director: Mahendra Singh 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 (JOINT-STOCK COMPANY) – ALBANIA
Licence No.10, dated 07.01.1998
Certificate No. 9 “On Deposit Insurance”.
Director: Andreas GALATOULAS
Address: Bulvardi “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
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.: 27 12 72 / 3 / 4 / 5
Tel/Fax: 27 12 76

12. FIRST INVESTMENT BANK (JOINT-STOCK COMPANY) - TIRANA BRANCH
Licence No. 13, dated 16.04.1999
Certificate No. 12 “On Deposit Insurance”.
Director: Svetoslav MOLDOVANSKY
Address: Bulevardi “Zogu I”, Nr. 64, Tirana, Albania
Tel.: 25 64 23, 25 64 24
Tel/Fax: 25 64 22

13. EMPORIKI BANK OF ALBANIA (JOINT-STOCK COMPANY)
Licence No. 14, dated 28.10.1999
Certificate No. 13 “On Deposit Insurance”.
Director: George CARACOSTAS
Address: Rruga “Kavajës”, Tirana Tower, Tirana, Albania
Tel.: 25 87 55/ 56/ 57/ 58/ 59/ 60
Tel./Fax: 25 87 52

14. CREDIT BANK OF ALBANIA (JOINT-STOCK COMPANY)
Licence No. 15, 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 31.03.2003
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
Certificate No.16 “On Deposit Insurance”.
Director: Henri Maus de ROLLEY
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)
Licence No. 18, dated 09.01.2006
Certificate No.17 “On Deposit Insurance”.
Director: Gazmend KADRIU
Tel: 25 06 53
Fax: 25 06 54

12. FIRST INVESTMENT BANK (JOINT-STOCK COMPANY)
Licence No. 13, dated 16.04.1999
Approved by the Supervisory Council Decision of the Bank of Albania No. 35, dated 27.06.2007.
Director: Svetoslav MOLDOVANSKY
Address: Bulevardi “Dëshmorët e Kombit”, Kullat Binjake, Kulla 2, Kati 14, Tirana, Albania
Tel.: 25 64 23/4; 28 02 10
Tel/Fax: 25 64 22
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: Elion Martini
Address: Rruga “Dëshmorët e 4 Shkurtit”, 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

6. OPPORTUNITY ALBANIA
License No.9, dated 06.06.2007, as a non-banking institution to conduct the following activity:
- granting credit;
- offering payment services;
- accepting and managing payment instruments;
- performing foreign exchange operations on its account;
- offer other types of collateral (that are not categorized as banking collateral)
Manager: Charles Értzinger
Address: Rruga “Gjin Bue Shpata”, Nr.7/1, Tiranë.
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., DURRES
Licence: No. 2, dated 01.10.1999
Address: Rruga “Tregtare”, Lagja 3, Durrës, Albania
Brokers: Mirinda 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 Shaltvare, Shk. 2/18, Tirana, Albania
Manager: Niko Leka
Brokers: Arjan Lezha (Manager), Albert Sara, Dhimitër Papadhopuli, Genta Angjeli (Agalliu), Piro Teti, Flora Simixhi, Petrika Mano (Manager), Lindita Shala, Mineo 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: Rruga “Durrësit”, Nr. 170, Tirana, Albania
Brokers: Ivan Pavlovski, 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. “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

Licence: No. 14, dated 07.04.2000
Address: Lagja “Luigj Gurakuqi”, Rruga “11 Nëntori”, Pallati 70, Nr.14, Elbasan, Albania
Brokers: Amarirdo Canoku

10. “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

11. “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
   Licence: No. 18, dated 11.06.2000
   Address: Lagia 4, Rruga “9 Maji”, Durrës, Albania
   Broker: Shpëtim Hysa

   Licence: No. 19, dated 24.11.2000
   Address: Lagia “Popullore”, Shijak, Albania
   Brokers: Nazmi Ademi, Farije Ademi

   Licence: No. 22, dated 18.04.2001
   Address: Bulevardi “Zogu I”, VEVE Business Center, Tirana, Albania
   Broker: Roland Manushi

15. “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)

   Licence: No. 24, dated 29.06.2001
   Address: Rruga “Kavajës” (next to Turkish Embassy), Tirana, Albania
   Brokers: Hair Shametaj, Fatmir Shametaj, Rudina Shametaj

17. “TILBA” FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN
   Licence: No. 25, dated 30.09.2001
   Address: Lagja “Kongresi i Elbasanit”, Bulevardi “Qemal Stafa”, Pallati 19,
            Elbasan, Albania
   Brokers: Kristaq Bako, Vjollca Bako

18. “ANAGNOSTI” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
   Licence: No. 26, dated 31.10.2001
   Brokers: Jani Anagnosti, Odise Anagnosti, Edlira Anagnosti
   Office No. 2 - Rruga “Kajo Karafili”, Nr. 11, Tirana, Albania
   Broker: Fredi Cami

19. “KO-GO” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
   Licence: No. 27, dated 12.11.2001
   Brokers: Mihal Konomi, Përparim Goxhaj

20. “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

   Licence: No. 29, dated 22.11.2001
   Address: Office No.1: Rruga “Muhamed Gjollesha”, Tirana, Albania
   Broker: Leonora Mihalcka
   Office No.2: Rruga “Dëshmorët e 4 Shkurtit”, Pallati i Shallvareve,
            Shk.7, Kati përdhe, Tirana, Albania
   Broker: Myzater Velaj, Dashuriqe Rrumbullaku

22. “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

Address:  Rruga “Kavajës”, Tirana, Albania
Brokers:  Bashkim Shametaj, Luan Shametaj, Ilir Mesini

Address:  Lagja “Kongresi i Elbasanit”, Bulevardi “Qemal Stafa”, Pallati 9-katësh, Elbasan, Albania
Brokers:  Arben Kovaçi, Besnik Lulja, Alfred Kapxhi

25. “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

Licence:  No. 44, dated 05.02.2002
Address:  Lagja “29 Nëntori”, Elbasan, Albania
Brokers:  Fahri Sanco, Ismail Bejta

27. “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

28. “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

29. “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, Albana Zhuzhi, Jonida Thanasi

30. “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, Tirana, Albania
Office No.2: Bulevardi “Bajram Curri”, Rruga “Lekë Dukagjini”, No.5, Tirana, Albania
Brokers:  Arben Sharra, Sokol Kaleci, Brikena Tole, Manjola Kume, Elona Zyra

Licence:  No. 55, dated 23.07.2002
Address:  Lagja “Kodër”, Shijak, Durrës, Albania
Brokers:  Argjend Calliku, Afërdita Calliku

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

33. “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
34. “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 Çiku

35. “YLDON” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 62, dated 03.06.2003
Address: Office No.1: Rruga “Qemal Stafa”, Pallati 382/2/2, Tirana, Albania
Office No.2: Bulevardi “Bajram Curri”, European Trade Center, Tirana, Albania
Broker: Ylli Ndoqi (manager), Sabit Lika, Enkeleda Selamaj, Suela Marku, Imelda Ahmeti

36. “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

37. “ARIABA” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence: No. 67, dated 07.06.2004
Address: Rruga “Abdyl Frashën”, Kati I, Shk. 5, Tirana, Albania
Brokers: Agim Xhema (manager), Astrit Hado, Flamur Denaj

38. “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

Licence: No.69, dated 19.07.2004
Address: Office No.1: Rruga “Durrësit”, Nr. 2, Tirana, Albania
Brokers: Xhetan Krashi, Dritan Lala

40. “OMEGA” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Address: Rruga “Abdyl Frashën”, Pallati 1, Shk.2, Ap.10, Tirana
Broker: Mihallaq Peko (manager), Ylli Meshau

41. “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)

42. “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

43. “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

44. “I & K 2005” FOREIGN EXCHANGE BUREAU S.R.L., LEZHË
Licence: No.77, dated 09.09.2005
Address: Lagja “Besëlidhja”, Pallati 73, Lezhë, Albania
Brokers: Ilir Malaj
45. “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, Dhimitër Papadhopuli

Licence:  No.79, dated 17.02.2006
Address:  Bulevardi Zog I, Godina “Zëri i Popullit”, Tirana, Albania
Brokers:  Ilir Doçi, Suela Dedaj

47. “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

48. “ARBËR F” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Licence:  No.81, dated 07.03.2006
Address:  Rruga “Kavajës”, Pallati 3, Kati I, Tirana, Albania
Brokers:  Florina Jaho, Bukurosh Jaho

49. “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

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

Licence:  No.84, dated 31.05.2006
Address:  Lagjja “Besëlidhja”, përballë Degës së Bankës “Raiffeisen”, Lezhë, Albania
Brokers:  Sander Marashi

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

53. “SHQIPONJA VL” FOREIGN EXCHANGE BUREAU S.R.L., VLORA
Licence:  No.86, dated 16.06.2006
Address:  Pallati i Kulturës “Labëria”, përballë detar, vlora, Albania
Brokers:  Vjollca Musaraj

54. “BONVOYAGE” FOREIGN EXCHANGE BUREAU S.R.L., DURRËS
Licence:  No.87, dated 20.06.2006
Address:  Lagjja 11, Bulevardi kryesor “Durrahu”, Ap.243, Durrës, Albania
Brokers:  Petrit Shtora; Jusuf Milaqi

55. “ANICHRI” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Brokers:  Ilir Gurashi, Lenije Murataj, Juliana Hajro.
56. “BROQI” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Address: Rruga “Kavajës”, përballë Kishës Katolike, Tiranë
Brokers: Nikollë Broqi, Dhurata Murrizi.

57. “HENRY” FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN
Licence: No. 90, datë 19.06.2007.
Address: Lagja “28 Nëntori”, pranë Hotel “Skampa”, Elbasan
Brokers: Albert Buzo, Sotiraq Buzo.

58. “KOMPLEKSI TURISTIK RABOSHTA” FOREIGN EXCHANGE BUREAU S.R.L., SHKODËR
Licence: No. 91, datë 26.06.2007.
Address: Lagja “Vasil Shanto”, përballë xhamisë, Shkodër
Brokers: përparim Raboshta, Jetmira Raboshta.

Licence: No. 92, datë 26.06.2007.
Address: Lagja “Çlirim”, Lushnje.
Brokers: Bledar Çela, Mondi Cejne.

60. “ARTUR 07” FOREIGN EXCHANGE BUREAU S.R.L., FIER
Licence: Nr. 93, datë 26.06.2007.
Address: Rr “Esat Dishnica” Nr.9, Fier.
Brokers: Artur Beqo.

61. “PACILI&GJIRITI” FOREIGN EXCHANGE BUREAU S.R.L., KORÇË
Licence: Nr. 94, datë 06.07.2007.
Address: Bulevardi “Edith Durham”, pranë Hotel “Turizmit”, Korçë
Brokers: Dylber Gjiriti, Jorgaq Pacili.

62. “TROKA” FOREIGN EXCHANGE BUREAU S.R.L., FIER
License: No. 95, date 16.07.2007.
Address: Lagjja “Apollonia”, Fier.
Broker: Xhevair Troka.

63. “MEL – FAT” FOREIGN EXCHANGE BUREAU S.R.L., FIER
License: No. 96, date 17.07.2007.
Brokers: Meleq Myrtaj, Fatmir Ymeri.

64. “VÉLLEEZÉRIT VALUTÉ” FOREIGN EXCHANGE BUREAU S.R.L., LUSHNJE
License: No. 97, date 17.07.2007.
Address: Lagjja “Çlirim”, rruga “Qemal Stafa”, nr. 5, Lushnje.
Brokers: Tomor Qorri, Fatmir Qorri.

65. “FYBEK” FOREIGN EXCHANGE BUREAU S.R.L., FIER
License: No. 98, date 17.07.2007.
Brokers: Ilir Seitaj, Sokol Seitaj.

66. “EXCHANGE DEA” FOREIGN EXCHANGE BUREAU S.R.L., FIER
License: No. 99, date 17.07.2007.
Address: Lagjja “Apolonia”, Sheshi “Fitorja”, Fier.
Brokers: Saimir Zeneli, Fatmir Kamberi, Fatmir Brahimi.

67. “KAMZA UNION” FOREIGN EXCHANGE BUREAU S.R.L., TIRANË
License: No. 100, date 17.07.2007.
Address: Kodër Kamëz, Tirana.
Brokers: Lindita Stafa, Anila Kola, Zef Gjoni.
68. "LAPRAKA UNION" FOREIGN EXCHANGE BUREAU S.R.L., TIRANË
License: No. 101, date 17.07.2007.
Address: Rruga "Lord Bajron", Laprakë, Tiranë.
Brokers: Rreshit Beja, Lulzim Beja, Hanke Beja, Hyre Beja.

69. "EXCHANGE BERTI 2007" FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN
License: No. 102, date 24.07.2007.
Address: Lagjja "Aqif Pasha", Pallati 31, Elbasan.
Broker: Robert Tashkollari.

70. "ANSA UNION" FOREIGN EXCHANGE BUREAU S.R.L., TIRANË
License: No. 103, date 25.07.2007.
Address: Rruga "Durrësit", Pallati 81, Shk.4, Tiranë.
Brokers: Magdalena Leka, Gëzim Leka, Elda Dengeri, Blerina Pojani, Ylli Guda.

71. “KLEO” FOREIGN EXCHANGE BUREAU S.R.L., VLORE
License: No. 104, date 31.07.2007.
Address: Lagjja “Osman Haxhiu”, Rruga “Demokracia” pranë Sahatit, Vlorë
Brokers: Murat Hysenaj, Gezim Shehaj, Dhimitraq Tangu, Shezai Xhaferaj.

72. “MOENA” FOREIGN EXCHANGE BUREAU S.R.L., FIER
License: No. 105, date 31.07.2007.
Address: Lagjja “29 Nëntori”, Rruga “Dervish Hekali”, Fier.
Brokers: Enver Lamaj, Namik Hasani, Mondi Likaj.

73. “ZENO & DHIMO” FOREIGN EXCHANGE BUREAU S.R.L., FIER
License: No. 106, date 31.07.2007.
Address: Lagjja Apollonia, Rruga “Brigada II Sulmuese” pranë Raiffeisen Bank, Fier.
Brokers: Dhimitraq Doko, Zenun Gjini.

74. “BALLA CHANGE” FOREIGN EXCHANGE BUREAU S.R.L., DURRES
License: No. 107, date 31.07.2007.
Address: Rruga “Prokop Meksi”, Lagjja 4, Durrës.

75. “ADKO” FOREIGN EXCHANGE BUREAU S.R.L., LUSHNJE
Brokers: Adil Mukaj, Koli Sako.

76. “I.SULEJMANI & SH.MYRTEZA” FOREIGN EXCHANGE BUREAU S.R.L., FIER
License: No. 109, date 31.07.2007.
Address: Lagjja “1 Maj”, Rruga “Jani Bakalli”, pranë poliklinikës qendrore, Fier.
Brokers: Islam Sulejmani, Shkeqim Myrteza.

77. “MATI UNION” FOREIGN EXCHANGE BUREAU S.R.L., LAÇ
License: No. 110, date 02.08.2007.
Address: Bulevardi kryesor, Laç.
Brokers: Mustafa Martinaj.
Mob: 0682037713.

78. "A.K" FOREIGN EXCHANGE BUREAU S.R.L., LEZHË
License: No. 111, date 02.08.2007.
Address: Lagjja “Besëlidhja”, Lezhë.
Brokers: Amerlon Reçi.
79. “UNION B” FOREIGN EXCHANGE BUREAU S.R.L., BERAT
License: No. 112, date 07.08.2007
Address: Lagjja “30 Vjetori”, Berat
Brokers: Sali Hoxha

80. “KOÇIU” FOREIGN EXCHANGE BUREAU S.R.L., GJIROKASTËR
License: No. 113, date 03.09.2007.
Address: Lagjja “18 Shtatori”, Gjirokastër.
Brokers: Lutfmir Koçiu, Rebani Koçiu.

81. “LANA” FOREIGN EXCHANGE BUREAU S.R.L., TIRANË
License: No. 114, date 04.09.2007.
Address: Rruga “Irfan Tomini”, Pallati 8/1, shk. 2, ap.2, Tiranë.
Brokers: Krenar Alimerko, Ixhlale Alimerko, Nevila Shabanaj, Amarilda Liço.

82. “BESTINA” FOREIGN EXCHANGE BUREAU S.R.L., URA VAJGURORE, BERAT
License: No. 115, date 04.09.2007.
Address: Lagjja “18 Nëntori”, Ura Vaigurore, Berat.
Brokers: Besim Guraj, Klementina Guraj.

83. “N&B UNION” FOREIGN EXCHANGE BUREAU S.R.L., TIRANË
License: No. 116, date 04.09.2007.
Address: Rruga “Dibrës”, Pallati 507, Tiranë.
Brokers: Nexhmi Ferhati, Shkëlqim Turku.

84. “ARGI 07” FOREIGN EXCHANGE BUREAU S.R.L., BERAT
License: No. 117, date 04.09.2007.
Address: Lagjja “22 Tetori”, Berat.
Brokers: Arben Yzbashi, Albana Yzbashi, Adriatik Avdylaj.

License: No. 118, date 05.09.2007.
Address: Lagjja 11, bulevardi kryesor, hotel “Durrësi”, Durrës.
Brokers: Kostandin Ekonomi, Entela Ekonomi.

86. “DODI” FOREIGN EXCHANGE BUREAU S.R.L., FIER
License: No. 119, date 05.09.2007.
Address: Lagjja “Apollonia”, bulevardi “Jakov Xoxa”, Fier.
Brokers: Albert Cucuri, Astrit Celaj, Artur Dodi.

87. “G 24” FOREIGN EXCHANGE BUREAU S.R.L., GJIROKASTËR
License: No. 120, date 05.09.2007.
Address: Lagjja “18 shtatori”, Gjirokastër.
Brokers: Arta Gjokaj.

88. “JM CHANGE” FOREIGN EXCHANGE BUREAU S.R.L., KORÇË
License: No. 121, date 05.09.2007.
Address: Rruga “Ismail Qemali”, Nr.2, Korçë.
Brokers: Jorgaq Micani.

89. “RENJA” FOREIGN EXCHANGE BUREAU S.R.L., KORÇË
License: No. 122, date 05.09.2007.
Address: Lagjja 9, Rruga “Mis Edit Durhan”, Korçë.

90. “EXCHANGE KIMI” FOREIGN EXCHANGE BUREAU S.R.L., TIRANË
Address: Rruga “Dëshmorët e 4 Shkurtit”, Pallati 3, Dyqani nr.3, Tiranë.
Brokers: Shfaqet Jata.
91. "JAUPAJ" FOREIGN EXCHANGE BUREAU S.R.L., FIER
License: No. 124, date 26.09.2007.
Address: Lagjja "29 Nëntori", Rruga "Dervish Hekali", AVN TV, Fier.
Brokers: Patriot Jaupaj, Miranda Jaupaj.

92. "EXPRES CHANGE" FOREIGN EXCHANGE BUREAU S.R.L., VLORE
License: No. 125, date 26.09.2007.
Brokers: Latif Breshan, Nexhmi Mustafaraj.

93. “MILI 2007” FOREIGN EXCHANGE BUREAU S.R.L., VLORE
License: No. 126, date 26.09.2007.
Brokers: Ismail Shehu, Albert Malaj, Përparim Jaupaj.

94. “EURO 2007” FOREIGN EXCHANGE BUREAU S.R.L., DURRES
License: No. 127, date 11.10.2007.
Address: Lagjja nr. 12, rruga “9 Maji”, Durrës.
Brokers: Raimond Çollaku, Ylka Lala, Arben Çuni, Ngushullim Hzoti.

95. “XHO-2007” FOREIGN EXCHANGE BUREAU S.R.L., TIRANE
License: No 128 date 29.10.2007.
Address: Rruga “Kavajës” Pallati nr.96, Shk 2, Ap 16/1, Tiranë.
Brokers: Arben Xhoxhi.

96. “PLANET- CHANGE” FOREIGN EXCHANGE BUREAU S.R.L., TIRANE
License: No. 129, date 31.10.2007.
Address: Bulevardi "Bajram Curri", Pallati Aviacionit, Tiranë.
Brokers: Llazar Nuzi.

97. “MARDEA” FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN
License: Nr. 130, date 05.11.2007.
Address: Komuna Mollas, Fshati Mollas, Elbasan.
Brokers: Bexhet Basha.
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: Vojtava Rama

2. “ALBANIAN SAVINGS AND CREDIT UNION” SAVINGS AND CREDIT ASSOCIATIONS UNION, TIRANA
Licence: No. 2, dated 09.08.2002
Address: “Zayed Business Center” Rruga “Sulejman Delvina”, Tirana e Re, Tirana, Albania
Head of the Executive Board: Zana Konini
SAVINGS AND CREDIT ASSOCIATIONS

1. “MËSUESI” SAVINGS AND CREDIT ASSOCIATION, TIRANË
   Licence No. 1, dated 01.07.2002
   Member of “JEHONA” SCA Union

2. “RIZGJIMI” SAVINGS AND CREDIT ASSOCIATION, TIRANË
   Licence No. 2, dated 01.07.2002
   Member of “JEHONA” SCA Union

3. “AFADA ” SAVINGS AND CREDIT ASSOCIATION, TIRANË
   Licence No. 3, dated 01.07.2002
   Member of “JEHONA” SCA Union

4. “BLETËRTËSIT ” SAVINGS AND CREDIT ASSOCIATION, KORÇË
   Licence No 5, dated 01.07.2002
   Member of “JEHONA” SCA Union

5. “BREGAS “ SAVINGS AND CREDIT ASSOCIATION, KORÇË
   Licence No. 6, dated 01.07.2002
   Member of “JEHONA” SCA Union

6. “FITORJA” SAVINGS AND CREDIT ASSOCIATION, PRRENJAS
   Licence No. 12, dated 01.07.2002
   Member of “JEHONA” SCA Union

7. “GRAMSHI” SAVINGS AND CREDIT ASSOCIATION, LUSHNJE
   Licence No. 13, dated 01.07.2002
   Member of “JEHONA” SCA Union

8. “HABA” SAVINGS AND CREDIT ASSOCIATION, TIRANË
   Licence No. 14, dated 01.07.2002
   Member of “JEHONA” SCA Union

9. “KANDAVIA” SAVINGS AND CREDIT ASSOCIATION, LIBRAZHD
   Licence No. 15, dated 01.07.2002
   Member of “Jehona” SCA Union

10. “KORÇARJA” SAVINGS AND CREDIT ASSOCIATION, KORÇË
    Licence No. 17, dated 01.07.2002
    Member of “Jehona” SCA Union

11. “KRUJA” SAVINGS AND CREDIT ASSOCIATION, KRUJÉ
    Licence No. 18, dated 01.07.2002
    Member of “Jehona” SCA Union

12. “METAJ” SAVINGS AND CREDIT ASSOCIATION, FIER
    Licence No. 20, dated 01.07.2002
    Member of “Jehona” SCA Union

13. “ORIK” SAVINGS AND CREDIT ASSOCIATION, VLORÉ
    Licence No. 21, dated 01.07.2002
    Member of “Jehona” SCA Union

14. “PIRG” SAVINGS AND CREDIT ASSOCIATION, KORÇË
    Licence No. 22, dated 01.07.2002
    Member of “Jehona” SCA Union
15. “RINGJALLJA” SAVINGS AND CREDIT ASSOCIATION, VLORÊ
   Licence No. 24, dated 01.07.2002
   Member of “Jehona” SCA Union

16. “SHËNDETI” SAVINGS AND CREDIT ASSOCIATION, TIRANÉ
   Licence No. 25, dated 01.07.2002
   Member of “Jehona” SCA Union

17. “SHKËNDUA” SAVINGS AND CREDIT ASSOCIATION, ELBASAN
   Licence No. 26, dated 01.07.2002
   Member of “Jehona” SCA Union

18. “STROPSKA” SAVINGS AND CREDIT ASSOCIATION, POGRADEC
   Licence No. 29, dated 01.07.2002
   Member of “Jehona” SCA Union

19. “SYNEI” SAVINGS AND CREDIT ASSOCIATION, KAVAJË
   Licence No. 30, dated 01.07.2002
   Member of “Jehona” SCA Union

20. “TEUTA” SAVINGS AND CREDIT ASSOCIATION, DURRÊS
    Licence No. 31, dated 01.07.2002
    Member of “Jehona” SCA Union

21. “URA E KUÇIT” SAVINGS AND CREDIT ASSOCIATION, BERAT
    Licence No. 32, dated 01.07.2002
    Member of “Jehona” SCA Union

22. “VOLOREKA” SAVINGS AND CREDIT ASSOCIATION, POGRADEC
    Licence No. 33, dated 01.07.2002
    Member of “Jehona” SCA Union

23. “YLLI I KUQ” SAVINGS AND CREDIT ASSOCIATION, KORÇË
    Licence No. 34, dated 01.07.2002
    Member of “Jehona” SCA Union

24. “VELÇE” SAVINGS AND CREDIT ASSOCIATION, VLORÊ
    Licence No. 36, dated 29.08.2002
    Member of “Albanian Savings and Credit Union” SCA Union

25. “KALLM” SAVINGS AND CREDIT ASSOCIATION, FIER
    Licence No. 37, dated 29.08.2002
    Member of “Albanian Savings and Credit Union” SCA Union

26. “KURORA E ELBASANIT” SAVINGS AND CREDIT ASSOCIATION, ELBASAN
    (CHANGED FROM “BANJE E SIPERME”)
    Licence No. 39, dated 29.08.2002
    Member of “Albanian Savings and Credit Union” SCA Union

27. “MOLLAS” SAVINGS AND CREDIT ASSOCIATION, ELBASAN
    Licence No. 40, dated 29.08.2002
    Member of “Albanian Savings and Credit Union” SCA Union

28. “PASHTRESH” SAVINGS AND CREDIT ASSOCIATION, ELBASAN
    Licence No. 41, dated 05.09.2002
    Member of “Albanian Savings and Credit Union” SCA Union
29. “GIJNAR” SAVINGS AND CREDIT ASSOCIATION, ELBASAN
License No. 42, dated 05.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

30. “KUQAN” SAVINGS AND CREDIT ASSOCIATION, ELBASAN
License No. 45, dated 05.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

31. “SHUSHICÊ” SAVINGS AND CREDIT ASSOCIATION, ELBASAN
License No. 46, dated 05.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

32. “BESTROVÊ” SAVINGS AND CREDIT ASSOCIATION, ELBASAN
License No. 49, dated 05.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

33. “SHALÊS” SAVINGS AND CREDIT ASSOCIATION, ELBASAN
License No. 51, dated 05.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

34. “OSHÊTIMÊ” SAVINGS AND CREDIT ASSOCIATION, VLRÊ,
License No. 52 dated 23.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

35. “BABICÊ E VOGÈL” SAVINGS AND CREDIT ASSOCIATION, VLRÊ,
License No. 53 dated 23.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

36. “NOVOSELÊ” SAVINGS AND CREDIT ASSOCIATION, VLRÊ,
License No. 54, dated 23.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

37. “ROMANAT” SAVINGS AND CREDIT ASSOCIATION, DURRÊS
License No. 55, dated 23.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

38. “JUBE” SAVINGS AND CREDIT ASSOCIATION, DURRÊS
License No. 56, dated 23.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

39. “ARDENICÊ” SAVINGS AND CREDIT ASSOCIATION, LUSHNE
License No. 58, dated 23.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

40. “VAJKAN” SAVINGS AND CREDIT ASSOCIATION, FIER
License No. 54, dated 23.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

41. “LLAKATUND” SAVINGS AND CREDIT ASSOCIATION, VLRÊ
License No. 60, dated 23.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

42. “GRABIAN” SAVINGS AND CREDIT ASSOCIATION, VLRÊ
License No. 61, dated 23.09.2002
Member of “Albanian Savings and Credit Union” SCA Union
43. “MAZRËK” SAVINGS AND CREDIT ASSOCIATION, TIRANË
Licence No. 62, dated 23.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

44. “MUSTAFÄ KOÇAJ” SAVINGS AND CREDIT ASSOCIATION, TIRANË
Licence No. 63, dated 23.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

45. “SHPAT ISUF MUÇAJ” SAVINGS AND CREDIT ASSOCIATION, TIRANË
Licence No. 64, dated 23.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

46. “PINAR” SAVINGS AND CREDIT ASSOCIATION, TIRANË
Licence No. 65, dated 23.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

47. “FUSHAS MUMAJËS” SAVINGS AND CREDIT ASSOCIATION, TIRANË
Licence No. 66, dated 23.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

48. “QEHA” SAVINGS AND CREDIT ASSOCIATION, TIRANË
Licence No. 67, dated 23.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

49. “DOBRESH” SAVINGS AND CREDIT ASSOCIATION, TIRANË
Licence No. 68, dated 23.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

50. “SHILBATËR” SAVINGS AND CREDIT ASSOCIATION, TIRANË
Licence No. 69, dated 23.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

51. “INIBA” SAVINGS AND CREDIT ASSOCIATION, TIRANË
Licence No. 71, dated 25.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

52. “FUSHË-PREZË” SAVINGS AND CREDIT ASSOCIATION, TIRANË
Licence No. 72, dated 25.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

53. “MËNIK” SAVINGS AND CREDIT ASSOCIATION, TIRANË
Licence No. 73, dated 25.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

54. “MULLET” SAVINGS AND CREDIT ASSOCIATION, TIRANË
Licence No. 74, dated 25.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

55. “ZALL-HERR” SAVINGS AND CREDIT ASSOCIATION, TIRANË
Licence No. 75, dated 25.09.2002
Member of “Albanian Savings and Credit Union” SCA Union

56. “BARËZEZ” SAVINGS AND CREDIT ASSOCIATION, TIRANË
Licence No. 76, dated 25.09.2002
Member of “Albanian Savings and Credit Union” SCA Union
57. “DAIAS” SAVINGS AND CREDIT ASSOCIATION, TIRANË
   Licence No. 77, dated 25.09.2002
   Member of “Albanian Savings and Credit Union” SCA Union

58. “PETRELË” SAVINGS AND CREDIT ASSOCIATION, TIRANË
   Licence No. 78, dated 25.09.2002
   Member of “Albanian Savings and Credit Union” SCA Union

59. “MANGULL” SAVINGS AND CREDIT ASSOCIATION, TIRANË
   Licence No. 79, dated 25.09.2002
   Member of “Albanian Savings and Credit Union” SCA Union

60. “PINET” SAVINGS AND CREDIT ASSOCIATION, TIRANË
   Licence No. 80, dated 25.09.2002
   Member of “Albanian Savings and Credit Union” SCA Union

61. “BERZHITË” SAVINGS AND CREDIT ASSOCIATION, TIRANË
   Licence No. 81, dated 25.09.2002
   Member of “Albanian Savings and Credit Union” SCA Union

62. “MARIKAJ” SAVINGS AND CREDIT ASSOCIATION, TIRANË
   Licence No. 82, dated 25.09.2002
   Member of “Albanian Savings and Credit Union” SCA Union

63. “ALLGJATË” SAVINGS AND CREDIT ASSOCIATION, TIRANË
   Licence No. 83, dated 25.09.2002
   Member of “Albanian Savings and Credit Union” SCA Union

64. “KAMÇISHT” SAVINGS AND CREDIT ASSOCIATION, LUSHNJE
   Licence No. 84, dated 25.09.2002
   Member of “Albanian Savings and Credit Union” SCA Union

65. “BUBULLIMË” SAVINGS AND CREDIT ASSOCIATION, LUSHNJE
   Licence No. 85, dated 25.09.2002
   Member of “Albanian Savings and Credit Union” SCA Union

66. “GORRE” SAVINGS AND CREDIT ASSOCIATION, LUSHNJE
   Licence No. 87, dated 25.09.2002
   Member of “Albanian Savings and Credit Union” SCA Union

67. “DRITHAS” SAVINGS AND CREDIT ASSOCIATION, VLORË,
   Licence No. 88, dated 25.09.2002
   Member of “Albanian Savings and Credit Union” SCA Union

68. “PALAŞÊ” SAVINGS AND CREDIT ASSOCIATION, VLORË
   Licence No. 89, dated 07.10.2002
   Member of “Albanian Savings and Credit Union” SCA Union

69. “MAMINAS” SAVINGS AND CREDIT ASSOCIATION, DURRËS
   Licence No. 90, dated 07.10.2002
   Member of “Albanian Savings and Credit Union” SCA Union

70. “RRAPÊZ” SAVINGS AND CREDIT ASSOCIATION, LUSHNJE
   Licence No. 91, dated 07.10.2002
   Member of “Albanian Savings and Credit Union” SCA Union
71. “PANAJA” SAVINGS AND CREDIT ASSOCIATION, VLORË
Licence No. 92, dated 07.10.2002
Member of “Albanian Savings and Credit Union” SCA Union.

72. “HOLTA” SAVINGS AND CREDIT ASSOCIATION, GRAMSH
Licence No. 93, dated 07.10.2002
Member of “Albanian Savings and Credit Union” SCA Union

73. “GJERGJAN” SAVINGS AND CREDIT ASSOCIATION, ELBASAN
Licence No. 94, dated 07.10.2002
Member of “Albanian Savings and Credit Union” SCA Union

74. “GJONME” SAVINGS AND CREDIT ASSOCIATION, ELBASAN
Licence No. 95, dated 07.10.2002
Member of “Albanian Savings and Credit Union” SCA Union

75. “GRAMSH” SAVINGS AND CREDIT ASSOCIATION, GRAMSH
Licence No. 96, dated 07.10.2002
Member of “Albanian Savings and Credit Union” SCA Union

76. “SHPRESA” SAVINGS AND CREDIT ASSOCIATION, GRAMSH
Licence No. 97, dated 10.10.2002
Member of “Albanian Savings and Credit Union” SCA Union

77. “FIER 2002” SAVINGS AND CREDIT ASSOCIATION, FIER
Licence No. 98, dated 28.10.2002
Member of “Jehona” SCA Union.

78. “BUCIMAS” SAVINGS AND CREDIT ASSOCIATION, POGRADEC
Licence No. 99, dated 28.10.2002
Member of “Jehona” SCA Union.

79. “LESHNICË” SAVINGS AND CREDIT ASSOCIATION, POGRADEC
Licence No. 100, dated 28.10.2002
Member of “Jehona” SCA Union.

80. “TREGAN” SAVINGS AND CREDIT ASSOCIATION, ELBASAN
Licence No. 101, dated 27.11.2002
Member of “Albanian Savings and Credit Union” SCA Union

81. “BELESH” SAVINGS AND CREDIT ASSOCIATION, ELBASAN
Licence No. 102, dated 27.11.2002
Member of “Albanian Savings and Credit Union” SCA Union

82. “LUŽI I MADH” SAVINGS AND CREDIT ASSOCIATION, KAVAJË
Licence No. 103, dated 27.11.2002
Member of “Albanian Savings and Credit Union” SCA Union

83. “BAGO” SAVINGS AND CREDIT ASSOCIATION, KAVAJË
Licence No. 104, dated 27.11.2002
Member of “Albanian Savings and Credit Union” SCA Union

84. “RADË” SAVINGS AND CREDIT ASSOCIATION, DURRËS
Licence No. 105, dated 05.12.2002
Member of “Albanian Savings and Credit Union” SCA Union
85. “HAMALLAJ” SAVINGS AND CREDIT ASSOCIATION, DURRÉS
   Licence No. 106, dated 05.12.2002
   Member of “Albanian Savings and Credit Union” SCA Union

86. “TIRANA KREDIT” SAVINGS AND CREDIT ASSOCIATION, TIRANÉ
   Licence No. 107, dated 05.12.2002
   Member of “Jehona” SCA Union.

87. “RRUSHKULL” SAVINGS AND CREDIT ASSOCIATION, DURRÉS
   Licence No. 110, dated 24.12.2002
   Member of “Albanian Savings and Credit Union” SCA Union

88. “FIER SEMAN” SAVINGS AND CREDIT ASSOCIATION, LUSHNJE
   Member of “Albanian Savings and Credit Union” SCA Union

89. “FRAKULL E MADHE” SAVINGS AND CREDIT ASSOCIATION, FIER
   Member of “Albanian Savings and Credit Union” SCA Union

90. “DAULLAS” SAVINGS AND CREDIT ASSOCIATION, FIER
   Licence No. 113, dated 24.12.2002
   Member of “Albanian Savings and Credit Union” SCA Union

91. “KALLM I VOGËL” SAVINGS AND CREDIT ASSOCIATION, FIER
   Licence No. 114, dated 10.01.2003
   Member of “Albanian Savings and Credit Union” SCA Union

92. “LEKAJ” SAVINGS AND CREDIT ASSOCIATION, KAVAJÉ
   Licence No. 115, dated 10.01.2003
   Member of “Albanian Savings and Credit Union” SCA Union

93. “ALLKAJ” SAVINGS AND CREDIT ASSOCIATION, LUSHNJE
   Licence No. 116, dated 10.01.2003
   Member of “Albanian Savings and Credit Union” SCA Union

94. “TOSHKËZ” SAVINGS AND CREDIT ASSOCIATION, LUSHNJE
   Licence No. 117, dated 30.01.2003
   Member of “Albanian Savings and Credit Union” SCA Union

95. “KAFARAJ” SAVINGS AND CREDIT ASSOCIATION, FIER
   Licence No. 118, dated 19.02.2003
   Member of “Albanian Savings and Credit Union” SCA Union

96. “LLESHAN” SAVINGS AND CREDIT ASSOCIATION, ELBASAN
   Licence No. 119, dated 23.06.2003
   Member of “Albanian Savings and Credit Union” SCA Union

97. “GOSË” SAVINGS AND CREDIT ASSOCIATION, KAVAJÉ
   Licence No. 120, dated 23.06.2003
   Member of “Albanian Savings and Credit Union” SCA Union

98. “HIMARË” SAVINGS AND CREDIT ASSOCIATION, VLORË
   Licence No. 122, dated 23.06.2003
   Member of “Albanian Savings and Credit Union” SCA Union
99. “KOTË” SAVINGS AND CREDIT ASSOCIATION, VLORE
   Licence No. 123, dated 23.06.2003
   Member of “Albanian Savings and Credit Union” SCA Union

100. “ARMEN” SAVINGS AND CREDIT ASSOCIATION, VLORE
    Licence No. 124, dated 23.06.2003
    Member of “Albanian Savings and Credit Union” SCA Union

101. “PERLAT” SAVINGS AND CREDIT ASSOCIATION, DURRES
     Licence No. 125, dated 15.07.2003
     Member of “Albanian Savings and Credit Union” SCA Union

102. “REMAS” SAVINGS AND CREDIT ASSOCIATION, LUSHNJE
     Licence No. 126, dated 16.07.2003
     Member of “Albanian Savings and Credit Union” SCA Union

103. “MIZE” SAVINGS AND CREDIT ASSOCIATION, LUSHNJE
     Licence No. 127, dated 04.08.2003
     Member of “Albanian Savings and Credit Union” SCA Union

104. “DUKAT-RADHIME” SAVINGS AND CREDIT ASSOCIATION, VLORE
     Licence No. 128, dated 03.11.2003
     Member of “Albanian Savings and Credit Union” SCA Union

105. “MJEMLA-HUDENISHT” SAVINGS AND CREDIT ASSOCIATION, POGRADEC
     Licence No. 129, dated 03.11.2003
     Member of “Jehona” SCA Union.

106. “GJEÇ KODÊR” SAVINGS AND CREDIT ASSOCIATION, TIRANE
     Licence No. 130, dated 26.11.2003
     Member of “Albanian Savings and Credit Union” SCA Union

107. “MERTISH” SAVINGS AND CREDIT ASSOCIATION, LUSHNJÊ
     Licence No. 131, dated 26.11.2003
     Member of “Albanian Savings and Credit Union” SCA Union

108. “MASHAN” SAVINGS AND CREDIT ASSOCIATION, GRAMSH
     Licence No. 132, dated 26.11.2003
     Member of “Albanian Savings and Credit Union” SCA Union

109. “PAPÊR” SAVINGS AND CREDIT ASSOCIATION, ELBASAN
     Licence No. 133, dated 26.11.2003
     Member of “Albanian Savings and Credit Union” SCA Union

110. “KUKUR” SAVINGS AND CREDIT ASSOCIATION, GRAMSH
     Licence No. 134, dated 07.01.2004
     Member of “Albanian Savings and Credit Union” SCA Union

111. “BLETA” SAVINGS AND CREDIT ASSOCIATION, POGRADEC
     Licence No. 135, dated 03.03.2004
     Member of “Jehona” SCA Union.

112. “VAQARR” SAVINGS AND CREDIT ASSOCIATION, TIRANE
     Licence No. 136, dated 01.04.2004
     Member of “Albanian Savings and Credit Union” SCA Union
113. “GRACEN” SAVINGS AND CREDIT ASSOCIATION, ELBASAN
Licence No. 137, dated 23.06.2004
Member of “Albanian Savings and Credit Union” SCA Union

114. “SKENDERBEGAS” SAVINGS AND CREDIT ASSOCIATION, GRAMSH
Licence No. 138, dated 23.06.2004
Member of “Albanian Savings and Credit Union” SCA Union

115. “DARZEZË” SAVINGS AND CREDIT ASSOCIATION, FIER
Licence No. 139, dated 12.07.2004
Member of “Albanian Savings and Credit Union” SCA Union

116. “SPIILLE” SAVINGS AND CREDIT ASSOCIATION, KAVALJE
Licence No. 140, dated 12.07.2004
Member of “Albanian Savings and Credit Union” SCA Union

117. “GOSTIMË” SAVINGS AND CREDIT ASSOCIATION, ELBASAN
Licence No. 141, dated 12.07.2004
Member of “Albanian Savings and Credit Union” SCA Union

118. “JADORA” SAVINGS AND CREDIT ASSOCIATION, SHKODER
Licence No. 143, dated 17.11.2004
Member of “Jehona” SCA Union

119. “QARR - BISHAN” SAVINGS AND CREDIT ASSOCIATION, FIER
Licence No. 145, dated 28.04.2005
Member of “Albanian Savings and Credit Union” SCA Union

120. “KRUTJE” SAVINGS AND CREDIT ASSOCIATION, LUSHNJJE
Licence No. 146, dated 29.07.2005
Member of “Albanian Savings and Credit Union” SCA Union

121. “TIRONA” SAVINGS AND CREDIT ASSOCIATION, TIRANE
Licence No. 147, dated 05.12.2005
Member of “Albanian Savings and Credit Union” SCA Union

122. “SHKAFANE” SAVINGS AND CREDIT ASSOCIATION, DURRES
Licence No. 148, dated 16.01.2006
Member of “Albanian Savings and Credit Union” SCA Union

123. “LIBRAZHD” SAVINGS AND CREDIT ASSOCIATION, LIBRAZHD
Licence No. 149, dated 10.11.2006
Member of “Albanian Savings and Credit Union” SCA Union

124. “HELMAS” SAVINGS AND CREDIT ASSOCIATION, KAVALJE
Licence No. 150, dated 22.11.2006
Member of “Albanian Savings and Credit Union” SCA Union

125. “LUKOVË” SAVINGS AND CREDIT ASSOCIATION, VLORE
Licence No. 151, dated 14.12.2006
Member of “Albanian Savings and Credit Union” SCA Union

126. “CERME” SAVINGS AND CREDIT ASSOCIATION, LUSHNJJE
Licence No. 152, dated 12.01.2007
Member of “Albanian Savings and Credit Union” SCA Union
127. “ELBASAN” SAVINGS AND CREDIT ASSOCIATION, ELBASAN
Licence No. 153, dated 18.04.2007
Member of “Albanian Savings and Credit Union” SCA Union

128. “DYRRAH” SAVINGS AND CREDIT ASSOCIATION, DURRËS
Licence No. 154, dated 27.04.2007
Member of “Albanian Savings and Credit Union” SCA Union

129. “SEMAN” SAVINGS AND CREDIT ASSOCIATION, FIER
Licence No. 155, dated 21.05.2007
Member of “Albanian Savings and Credit Union” SCA Union
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
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