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MONETARY POLICY REPORT FOR THE FIRST QUARTER OF 2008

GOVERNOR’S SPEECH

The first quarter of 2008 continued to be characterized by relatively complex worldwide economic developments. The economic activity of some developed countries decelerated raising the concerns for a global slowdown. The price rise prevailed an overwhelming part of developed and developing countries. Hikes in raw materials, oil and food prices affected every economy leading to increasing concerns related to a higher inflation spiral in the future.

On the other side the financial markets were not relaxed reflecting the spread of credit crisis generated by the US economy. A considerable number of financial institutions have been affected by this crisis while the largest central banks have been continuously injecting liquidity into the money markets.

This situation pushed the Federal Reserve to cut the key interest rate further, followed by the Bank of England as well. On the other hand the European Central Bank and the Bank of Japan have maintained the same rates. The financial markets display diverse sensations, varying from concerns for further inflation hikes on one hand to financial stability-related concerns on the other.

Given its small size and being relatively open, the Albanian economy cannot escape being affected by these developments. As a result, we have been attesting an accelerated rise in overall consumer prices. As of end April annual inflation marked 4.4%, shifting slightly above the upper level of 4% targeted by the Bank of Albania. After a careful analysis of the influence of various groups on inflation we conclude that the latter has been most overwhelmingly affected by the price rise in foods. Within this group the processed foods prevail.

Another factor to have provided additional effect is the change in the administered prices which consists in the price rise of energy in March 2008. Excluding this effect the annual inflation rate would have marked only 3.7%.

Other important indicators which best describe the inflationary pressures caused by domestic demand in economy, such as that of core inflation and non-tradable goods’ inflation, are still low. In addition, the banking system, business and consumer expectations remain within the targeted parameters regardless of the slight upward shift.

The latter remain of prime importance in assessing the role of monetary policy in the future, in particular when the risk factors are significantly related to shocks generated by the performance of aggregate supply.
There are few statistical data on the Albanian economic activity for the first quarter of 2008. Consequently, it is challenging to make a complete and detailed sectoral analysis.

The new data on the agricultural activity for the entire year 2007 confirm the most recent analysis of the Bank of Albania related with this sector’s performance. According to the data made available by the Ministry of Agriculture, agriculture grew moderately by 1.5% during 2007 relative to 4.3% the previous year.

Under these circumstances the rational use of agricultural land is of prime importance, aiming at increasing the planted areas and the productivity per unit. To this purpose, the Bank of Albania re-highlights the need for deep structural reforms related with land, property, the collection and distribution, as well as with infrastructure.

Construction continues to be characterized by a vague setting in the first quarter of 2008. The slower growth rate of construction relative to the average performance in the last years requires careful attention considering the role and contribution this sector has on domestic economy.

The satisfactory hydric situation provided its impact on the growth of supply with energy, hence improving the energy balance sheet. Domestic production grew at similar rates with year 2006, which led to the decrease of imports of energy and the moderate improvement of the KESH performance. Given the sensibility of this sector, the Bank of Albania deems as reasonable to bring into the public’s attention the fact that the energy challenge remains open and the soundness of KESH’s financial situation is a necessity. The rapid privatization of the distribution network is of priority; consequently, we believe that the drop in losses and the increase of income are crucial.

Exports continued to grow in the first months of 2008 both relative to the last and the first quarter of the previous year by 4% and 13%, respectively. Despite the considerable drop relative to end-year 2007, imports are about 17% higher than the same period the previous year. As a result, trade deficit grew by about 17% relative to the same period the previous year. Worth emphasizing is the fact that the numerical developments in foreign trade also reflect the price rise effect of raw materials, energy and foods.

Fiscal developments of the first quarter 2008 provide evidence for a prudent fiscal policy which has resulted in a budget surplus above the projected level. The collection of revenues followed an upward trend while investment expenditure reduced during this period relative to the previous year. Government’s borrowing has been represented by domestic borrowing during this period.

In annual terms, broad money grew by 11% as of end the first quarter 2008. In general, the banking system has supplied the economy with monetary assets mainly through the injection of money in the form of credit to the private sector.
The performance of the system’s net foreign assets and the accumulation of the public sector’s monetary balances have offset this effect.

In annual terms, credit to economy grew by 47.3% on average in the first quarter of 2008. Despite the downward rates, credit continued to grow in absolute terms as in the previous year by about 22 billion leks. Commercial banks have been active in the lending market deepening further their role as financial intermediators. This fact has also been reflected in the stable growth of intermediation indicators. In March the share of credit to broad money and to the GDP reached 40.9% and 31.4%, respectively.

Key interest rate remained unchanged at 6.25% in the first quarter of 2008. Last year the Bank of Albania raised the key interest rate three times by 25 basis points each in response to the inflationary pressures in economy. These raises were followed by the increase of short-term interest rates in the money market and of lek-denominated deposits’ interest rates. In the first months of 2008 the performance of interest rates in the interbank and primary market was stable and their fluctuations were linked to the asymmetrical allocation of liquidity in the market. On the contrary the interest rates of new credit denominated in lek dropped significantly, causing the difference with other interest rates to narrow. This fact shows enhanced competition in the banking market.

For the rest of the year and until the first quarter of the following year the annual growth rates of the overall price level are expected to fluctuate for some time around the current rates and return by the end of the year within the tolerance band targeted by monetary policy. However, the risk that the assumptions made may deviate is still present and in most cases, they are positioned on the internal and external supply-side. The costs arising from the price rise of raw materials, oil and foods are expected to continue to exert direct pressures on consumer prices and provide indirect impact on producer prices.

Domestic agricultural production is expected to be a determining factor originating from the inside. Presently, the domestic production begins to be traded in the retail market. As of end April 2008, inflation dropped by 0.4% in monthly terms as a result of the reduced contribution of foods and alcoholic beverages. For this reason the performance of this factor will be of great interest in the months to follow. Based on the historical behaviour, the following two or three months record the highest downward influence on unprocessed foods prices. However, this sector of the economy continues to be highly sensitive to weather conditions and to short-term fluctuations in the costs of raw materials and oil prices.

Making a general assessment of all risk factors and focusing on their possible materialization in economy the Bank of Albania assesses that the balance remains shifted on the upward side. The latest data on inflation expectations, which provide evidence for a slight shift to the upper level, are additional information in this context.
The entire relatively complex setting of developments and expectations requires prudence in terms of the financial system’s stability. The risks are related both with the regional and global environment and with the internal environment considering the rapid growth of credit to economy. Apart from credit and exchange rate risk there are other risks related with external factors. The expansion of credit crisis in Europe, the possible economic slowdown in partner countries and the presence of the same banking institutions in the majority of the regional countries require constant attention.

The analysis of earlier decisions confirms that the policy has been on the right track and with the proper intensity, allowing satisfactory control over the overall level of consumer prices. Past decisions have had a positive impact on the monetary stimulus which boosts the economic activity in the country and the banking system’s financial stability.

The Bank of Albania remains vigilant in particular in terms of inflationary developments in economy. To this purpose it will accountably analyze the developments and various risks the future of macroeconomic and financial stability may be faced with, including the inflationary expectations of different agents in economy. The Bank of Albania remains entirely committed in successfully achieving its objective mandated by law. This commitment implies taking sound decisions at the proper time, not excluding here their combination with administrative-related measures.

I. WORLD ECONOMY

The growth rate of world economy fell in the first quarter of 2008. The slowdown of US economy, the turbulences in the global financial markets during the second half of 2007 combined with the oil and raw materials’ price hikes were the main factors to induce the slower world economy growth rates. The pressures deriving from the geopolitical turbulences in oil exporting countries and OPEC’s decision to keep the oil production targets unchanged despite the constant growth of global demand have impacted the further oil price hike. The industrialized countries’ energy-related policies’ orientation to producing biofuel as an alternative source of energy has led to constant price rise of agricultural products. These developments have increased the inflationary pressures overwhelmingly in the first quarter of 2008 and have contributed to rapid producer prices’ rises in the international markets’ processing industry. The economic growth in developing countries continued to maintain high growth rates and to offset the economic slowdown in industrialized countries.

I.1 US ECONOMY

US economic growth was assessed to have maintained an unchanged growth rate in the first quarter of 2008 relative to the previous one. Consumer spending on services, the exports of goods and services and the Federal Government budget spending provided the main contribution to the GDP.
growth. The constant depreciation of the US dollar relative to some main foreign currencies favoured the growth of exports’ volume. However, the positive effect of exports’ growth on the GDP growth was somehow counterbalanced by the more rapid growth of imports relative to the last quarter of the previous year. Investments continued to maintain the downward rates shown in the early 2007 although the drop was lower in the last quarter of 2007 than the previous quarter. US unemployment rate dropped in April mainly as a result of the increased number of employed people in services.

The constant price hike in raw materials, along with a reduced profit margin in processing industry, have increased significantly the inflationary pressures. In March monthly inflation rate was about 0.3% higher than in February. The price rise in transportation, energy and foods provided the main contribution to the increase of the inflation rate. In its meeting of 30 April 2008, the Federal Open Market Committee decided to lower the key interest rate by 25 basis points to 2%.

I.2 EURO AREA ECONOMY

Euro area economy grew at a more moderate rate in the second half of 2007 recording an annual growth of 2.2% in the last quarter of the year. The slowdown in the growth rate was mainly prompted by the downward growth rate in consumer and investment spending while foreign demand continued to impact positively the GDP growth despite the continuous appreciation of the euro. The first data on economic performance for the first months of 2008 indicate an improved economic activity for the Euro area. Construction which fell slightly at the end of 2007 recorded accelerated growth rates in the first quarter of 2008. Manufacturing industry displayed a positive performance, maintaining the upward tendency characterizing year 2006. The sound labour market conditions and the high capital gains continue to maintain a low unemployment rate.

According to preliminary assessments of the European Central Bank the continuous price hikes in oil, agricultural products and energy have sharply increased the inflationary pressures deriving from the supply-side. These developments have prompted the increase of the inflation rate which now stands above the 2% target of the ECB. In its last meeting of 8 May 2008, the ECB decided to keep the key interest rate unchanged at 4%.

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP annual growth Q1:08</th>
<th>Annual inflation April 2008</th>
<th>Unemployment rate March 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>2.5</td>
<td>3.9</td>
<td>5.1</td>
</tr>
<tr>
<td>Euro area</td>
<td>2.2</td>
<td>3.3</td>
<td>7.1</td>
</tr>
<tr>
<td>Germany</td>
<td>2.6</td>
<td>2.6</td>
<td>7.3</td>
</tr>
<tr>
<td>Italy</td>
<td>1.5&lt;sup&gt;1&lt;/sup&gt;</td>
<td>3.6</td>
<td>6.1&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td>Greece</td>
<td>3.6</td>
<td>4.4</td>
<td>7.9&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td>Japan</td>
<td>1.0</td>
<td>1.2</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Table 1 Macroeconomic indicators of the main economies

<sup>1</sup> Average rate for 2007.  
<sup>2</sup> Fourth quarter of 2007.

I.3 ECONOMIES OF THE REGION

I.3.1 Economy of Turkey and FYROM

In Turkey economic growth continued to grow at moderate rates in the last quarter of 2007, close to the growth rates recorded in the previous quarter. The droughts of 2006, the monetary policy tightening and the high interest rates impacted the contraction of general investments’ growth rate and the growth of domestic demand. Imports grew by about 15.7% in annual terms in the last quarter of 2007. On the other hand the lower growth rates of exports led to the deepening of current account deficit as a share to GDP. Consumer Price Index increased by 0.5% in April relative to the previous month. The price rise of processed foods, of energy as a result of the Turkish lira depreciation and of the oil provided the main contribution to the increase of inflation rate.

FYROM’s economy recorded an accelerated growth rate in the last quarter of 2007. The expansion of aggregate demand and in particular the growth of households’ private investments, the boosted activity of transportation and wholesale and retail trade provided the main contribution to the GDP growth, growing at more rapid rates than the previous quarter. Following a positive performance in the first part of the year, the considerable growth of imports and the dropping volume of remittances in the last quarter resulted in a 3% deficit on current account as a share to GDP. Inflation rate increased sharply in the first quarter of 2008 reaching 10.2% in March.

I.3.2 Economy of Italy and Greece

Italy’s economic growth rate was assessed to have fallen in the last quarter of 2007. This fall mainly attributes to the slower growth rate of investments, industrial production and construction. The negative impact of the above elements on the GDP growth was somehow reduced by the increase of consumer spending which was favoured by various fiscal stimuli and by the increase of revenues. Although the current account deficit as a share to GDP deepened in the last quarter of 2007 it remains close to the last years’ average levels. Inflation rate increased swiftly in the first months of the year, mainly as a result of the price hikes in energy, food and fuels.

The economic growth of Greece continued to grow under stable rates in the last quarter of 2007. This high growth of exports, the drop in imports and the growth of domestic demand provided the main contribution to the GDP growth. Investments dropped while budget spending grew at lower rates relative to the previous quarter. Consumer Price Index increased by 4.4% in April relative to the same month the previous year. The increase of the inflation rate was a result of the increased price index of foods and alcoholic beverages by 6.6% in annual terms.
II. ALBANIAN ECONOMY

II.1 PRODUCTION

II.1.1 Industry

The sales index for industry has increased by 25% in 2007 relative to 17% the previous year. Extracting industry recorded the highest annual growth by 50.6%, while considerable growth was also recorded by the sub-sector of ‘energy, gas, steam and water supply’ (37%) relative to 2006 (0.6%). Although higher than the previous quarter, the annual sales increase for industry in the last quarter has followed a downward trend during the year. The annual sales’ growth rate for extracting industry recorded the highest rate in the third quarter while dropping in the last quarter of 2007. This indicator recorded the highest growth during the last quarter in the sub-sector of ‘energy, gas, steam and water supply’. The annual sales growth for processing industry has been descending from the first to the last quarter of 2007. Within this sub-sector, manufacturing industry of electrical and electronic equipment, food industry and rubber and plastic industry recorded the highest growth rates. However, there was evidenced an annual drop in the last quarter of 2007 in the sales of the manufacturing industry of machinery, equipment and spare parts by about 57% and of leather and footwear industry by about 16%.

Table 3 Indicators for industry (annual change in %)

<table>
<thead>
<tr>
<th>Country</th>
<th>Sales (as a share to GDP)</th>
<th>Employment (as a share to GDP)</th>
<th>Wage (as a share to GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
</tr>
<tr>
<td>Extracting industry</td>
<td>42.7</td>
<td>48.7</td>
<td>66.5</td>
</tr>
<tr>
<td>Processing industry</td>
<td>32.9</td>
<td>27.1</td>
<td>9.8</td>
</tr>
<tr>
<td>Energy, gas, steam and water supply</td>
<td>30.1</td>
<td>33.0</td>
<td>30.9</td>
</tr>
<tr>
<td>Total industry</td>
<td>32.9</td>
<td>30.3</td>
<td>18.8</td>
</tr>
</tbody>
</table>

Source: INSTAT, Sales from VAT and short-term statistics
times lower relative to the previous quarters. Wages in the sector of industry recorded a high rise. In terms of wages, this sector recorded an average annual rise of 20% from 6.4% in 2006. The highest wage rise was recorded in extracting and processing industry while the wage rise in ‘energy, gas, steam and water supply’ was somehow lower.

The sales index for ‘energy, gas, steam and water supply’ recorded an average increase of about 37% in 2007 (from 0.9% in 2006). Meanwhile, turnover indicator\(^4\) shows an increase of 1.2% from the decrease of about 12.2% the previous year.

Table 4 Annual change of turnover indicators in ‘energy, gas, steam and water supply’*

<table>
<thead>
<tr>
<th></th>
<th>2006*</th>
<th>2007*</th>
<th>T1-07</th>
<th>T2-07</th>
<th>T3-07</th>
<th>T4-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy, gas, steam, water supply (Sales from VAT)</td>
<td>0.9</td>
<td>37.0</td>
<td>30.1</td>
<td>33.0</td>
<td>30.9</td>
<td>54.0</td>
</tr>
<tr>
<td>Energy, steam, water supply (survey)</td>
<td>-12.2</td>
<td>1.2</td>
<td>0.0</td>
<td>3.1</td>
<td>-7.0</td>
<td>8.5</td>
</tr>
<tr>
<td>- Energy and steam supply (survey)</td>
<td>-14.0</td>
<td>1.7</td>
<td>-0.1</td>
<td>3.6</td>
<td>-6.8</td>
<td>10.1</td>
</tr>
<tr>
<td>- Water supply (survey)</td>
<td>6.6</td>
<td>-1.9</td>
<td>1.5</td>
<td>-1.4</td>
<td>-8.6</td>
<td>1.1</td>
</tr>
</tbody>
</table>

*Average annual increase.
Source: INSTAT, Sales from VAT and short-term statistics

Characteristic of the energy sector for 2007 was the continuous drop of domestic production, the considerable annual increase of imports and the constant difference between supply and consumer demand for energy. In annual terms, energy supply grew by about 12% in the first quarter of 2008. The high rainfall has helped to improve the energy situation in the country. Domestic production has grown while imported energy has fallen during this quarter relative to the same quarter the previous year. Household and business consumption of energy was about 13% higher in the first quarter of 2008 relative to the same period the previous year.

Table 5 Energy balance sheet indicators

<table>
<thead>
<tr>
<th></th>
<th>Q1 06 (GwH)</th>
<th>Q1 07 (GwH)</th>
<th>Q1 08 (GwH)</th>
<th>Annual change Q107/Q106 (in %)</th>
<th>Annual change Q108/Q107 (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source</td>
<td>1,728</td>
<td>1,541</td>
<td>1,741</td>
<td>-10.3</td>
<td>11.8</td>
</tr>
<tr>
<td>- Domestic production</td>
<td>1,557</td>
<td>778</td>
<td>1,068</td>
<td>-50.0</td>
<td>37.2</td>
</tr>
<tr>
<td>- Exchange with abroad</td>
<td>-207</td>
<td>-858</td>
<td>-747</td>
<td>314.1</td>
<td>-12.9</td>
</tr>
<tr>
<td>Uses</td>
<td>1,728</td>
<td>1,541</td>
<td>1,741</td>
<td>-10.8</td>
<td>12.9</td>
</tr>
<tr>
<td>- Household consumption</td>
<td>595</td>
<td>562</td>
<td>711</td>
<td>-5.6</td>
<td>26.5</td>
</tr>
<tr>
<td>- Non-household consumption</td>
<td>366</td>
<td>348</td>
<td>423</td>
<td>-5.0</td>
<td>21.8</td>
</tr>
<tr>
<td>- Total losses</td>
<td>767</td>
<td>640</td>
<td>607</td>
<td>-16.5</td>
<td>-5.2</td>
</tr>
<tr>
<td>Losses as a share to sources</td>
<td>44.4</td>
<td>41.3</td>
<td>35.0</td>
<td>-3.1*</td>
<td>-6.3*</td>
</tr>
</tbody>
</table>

* Difference in %.
Source: KESH

Households continue to consume the largest share of energy or about 41%, while the share of business consumption was about 24% in the first quarter. Losses continued to descend during this period compared with the same period the previous year although the fall is less than the annual change during 2007.
II.1.2 Construction

The annual increase of sales in construction was about twice lower in 2007 than the annual increase during 2004-2006. The level of sales in construction recorded its lowest figure in the last quarter of 2007 (4.6%), which is about 11 times lower than the annual increase of sales during the same period the previous year (52%). The volume of total constructions has been falling while the new constructions have recorded the highest fall in the last quarter of 2007 (by 23.3%). This fact is evidenced by the decreased consumption of cement in 2007 which reduced by half of last year’s consumption.

Reconstructions were fewer in the last quarter of 2007 relative to the previous year. Although the annual increase of engineering works during this quarter was higher than in the previous one it remains comparable with the average annual increase of engineering works during the last years. Employment in construction has recorded annual drop during the entire 2007. In annual terms, it has dropped by about 5% while wage has risen by 15-20% on average.

Table 6 Energy balance sheet indicators

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>Q1 06</th>
<th>Q1 07</th>
<th>Q1 08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household consumption as a share to sources</td>
<td>36.4</td>
<td>39.3</td>
<td>34.4</td>
<td>36.3</td>
<td>41.0</td>
</tr>
<tr>
<td>Non-household consumption as a share to sources</td>
<td>24.9</td>
<td>25.4</td>
<td>21.2</td>
<td>22.4</td>
<td>24.4</td>
</tr>
<tr>
<td>Losses as a share to sources</td>
<td>38.7</td>
<td>35.4</td>
<td>44.4</td>
<td>41.3</td>
<td>35.0</td>
</tr>
</tbody>
</table>

Source: KESH

Table 7 Construction-related indicators (annual change in %)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>Q1-07</th>
<th>Q2-07</th>
<th>Q3-07</th>
<th>Q4-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>23.8</td>
<td>19.9</td>
<td>21.1</td>
<td>10.6</td>
<td>33.3</td>
<td>7</td>
<td>8.7</td>
<td>4.6</td>
</tr>
<tr>
<td>Employment</td>
<td>9.8</td>
<td>4.5</td>
<td>-0.4</td>
<td>-4.4</td>
<td>-1.7</td>
<td>-4.5</td>
<td>-6.7</td>
<td>-4.6</td>
</tr>
<tr>
<td>Wage</td>
<td>16.3</td>
<td>10.2</td>
<td>6.1</td>
<td>16.9</td>
<td>10.2</td>
<td>15.4</td>
<td>19.2</td>
<td>22.6</td>
</tr>
<tr>
<td>Volume</td>
<td>15</td>
<td>11.2</td>
<td>1.7</td>
<td>-6.3</td>
<td>0.3</td>
<td>-1.9</td>
<td>-15.8</td>
<td>-7.6</td>
</tr>
<tr>
<td>New constructions</td>
<td>21.1</td>
<td>11.8</td>
<td>9.8</td>
<td>-14.6</td>
<td>-5.7</td>
<td>-10.4</td>
<td>-19.1</td>
<td>-23.3</td>
</tr>
<tr>
<td>Reconstructions</td>
<td>38.1</td>
<td>35.4</td>
<td>1.3</td>
<td>-8.3</td>
<td>3.9</td>
<td>4.5</td>
<td>-35.5</td>
<td>-6.1</td>
</tr>
<tr>
<td>Engineering works</td>
<td>8.8</td>
<td>12.7</td>
<td>-15.4</td>
<td>14.5</td>
<td>21.9</td>
<td>19.2</td>
<td>1.6</td>
<td>15.1</td>
</tr>
</tbody>
</table>

Source: INSTAT, Short-term Statistics

The number of new constructions’ permits was about 3 times lower in 2007 relative to 2006. However, the number of permits extended in 2007 has been increasing over the quarters peaking in the last quarter. 47% of permits have been extended for residential buildings and 53% for non-residential buildings, which include hotels, commercial buildings, industrial buildings etc.

Table 8 Number of approved permits during 2007

<table>
<thead>
<tr>
<th></th>
<th>Q1-07</th>
<th>Q2-07</th>
<th>Q3-07</th>
<th>Q4-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Constructions</td>
<td>40</td>
<td>173</td>
<td>232</td>
<td>550</td>
</tr>
<tr>
<td>1. Residential buildings</td>
<td>17</td>
<td>91</td>
<td>102</td>
<td>256</td>
</tr>
<tr>
<td>2. Non-residential buildings</td>
<td>23</td>
<td>82</td>
<td>130</td>
<td>294</td>
</tr>
<tr>
<td>a. Hotels</td>
<td>0</td>
<td>3</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>b. Commercial buildings</td>
<td>10</td>
<td>51</td>
<td>41</td>
<td>95</td>
</tr>
<tr>
<td>c. Industrial buildings</td>
<td>2</td>
<td>6</td>
<td>14</td>
<td>46</td>
</tr>
<tr>
<td>d. Other buildings</td>
<td>11</td>
<td>22</td>
<td>73</td>
<td>144</td>
</tr>
</tbody>
</table>

Source: INSTAT, Quarterly Statistical Bulletin
According to the construction permits extended in 2007 the projected number of new constructions is about two times lower than the previous year. The construction permits' share about 87% of total permits, out of which residential buildings share about 70%. In the total construction permits, engineering works' share about 13%, wherein the construction of roads and motorways has the main share by about 58%. About 85% of construction permits extended in 2007 for buildings and engineering works is attributed to private entities and 15% to public entities. The public sector has mainly focused on transportation infrastructure – roads and motorways.

### Table 9 Three districts with the largest number of construction permits approved during 2005-2007

<table>
<thead>
<tr>
<th></th>
<th>Gjirokastër</th>
<th>Fier</th>
<th>Korçë</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction permits approved in the given district during 2005/Total construction permits approved during 2005</td>
<td>19.5</td>
<td>13.2</td>
<td>10.7</td>
</tr>
<tr>
<td>Construction permits approved in the given district during 2006/Total construction permits approved during 2006</td>
<td>Dibër</td>
<td>Fier</td>
<td>Gjirokastër</td>
</tr>
<tr>
<td></td>
<td>23.2</td>
<td>12.4</td>
<td>10.6</td>
</tr>
<tr>
<td>Construction permits approved in the given district during 2007/Total construction permits approved during 2007</td>
<td>Tirana</td>
<td>Elbasan</td>
<td>Fier</td>
</tr>
<tr>
<td></td>
<td>21.4</td>
<td>13.4</td>
<td>12.2</td>
</tr>
</tbody>
</table>

Source: INSTAT, Quarterly Statistical Bulletin

### Table 10 Construction permits extended for buildings and engineering works by entity to total permits extended in 2007 (in %)

<table>
<thead>
<tr>
<th>Type of construction</th>
<th>Public entities</th>
<th>Private entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>8</td>
<td>92</td>
</tr>
<tr>
<td>Engineering works</td>
<td>85</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: INSTAT, Quarterly Statistical Bulletin

### Table 11 New constructions by districts (000 leks/m²)

<table>
<thead>
<tr>
<th>District</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berat</td>
<td>26.9</td>
<td>24.0</td>
</tr>
<tr>
<td>Dibër</td>
<td>35.3</td>
<td>107.8</td>
</tr>
<tr>
<td>Durrës</td>
<td>23.3</td>
<td>28.1</td>
</tr>
<tr>
<td>Elbasan</td>
<td>50.5</td>
<td>23.7</td>
</tr>
<tr>
<td>Gjirokastër</td>
<td>19.0</td>
<td>19.5</td>
</tr>
<tr>
<td>Fier</td>
<td>24.7</td>
<td>24.3</td>
</tr>
<tr>
<td>Korçë</td>
<td>32.1</td>
<td>20.3</td>
</tr>
<tr>
<td>Kukës</td>
<td>20.6</td>
<td>25.5</td>
</tr>
<tr>
<td>Lezhë</td>
<td>18.7</td>
<td>24.8</td>
</tr>
<tr>
<td>Shkodër</td>
<td>26.6</td>
<td>24.7</td>
</tr>
<tr>
<td>Tirana</td>
<td>29.5</td>
<td>24.4</td>
</tr>
<tr>
<td>Vlorë</td>
<td>27.5</td>
<td>24.5</td>
</tr>
</tbody>
</table>

Source: INSTAT, Quarterly Statistical Bulletin

### House Price Index

House price rise, measured by the House Price Index by the Bank of Albania, showed the first signs of slowdown in the first months of 2008 after a three-year period of very high growth rates. The annual increase of the index has been sharply descending in the first quarter of 2008 (about 0.5%) after an annual rate of about 17% in the last quarter of 2007. This index’s change was -14.4% from the last quarter of the previous year. This is the sharpest quarterly dropping rate since the early 1998. The moderate price rise in sales may attribute to the increasing number of extended construction
permits, which implies a close and similar growth of house supply (chart 1). Construction costs have had a slight influence on house prices, given that the construction cost index has increased at constant rates by 2% since the last quarter of 2004.

In contrast to developments in house prices, the House Rent Index has been descending starting from the third quarter of 2006. This fact implies that house rents are affected by other factors different from those affecting the level of prices. House Rent Index for the first quarter of 2008 was almost similar with that of the first quarter 2007 while relative to the last quarter of 2007 it has dropped by 15.6%. This quarterly drop is the most considerable since the last quarter of 2006.

One of the economic indicators which summarizes the house market performance, the ratio of price index to rent, returned in the first quarter of 2008 close to the long-term performance value (chart 2). The increasing number of permits for new residential buildings, the drop of demand as confirmed by the decline of durable purchase indicator by consumers and the interest rate increase are expected to affect the house price rise in 2008 in more moderate rates.

II.1.3 Agriculture

Total agricultural production grew by about 1.5% in 2007. The production of the sub-branch of agriculture, which shares about 74% of total agricultural production, grew by 0.8% or about four times less than the previous year. In contrast to year 2006 when the high fruit production provided the main contribution to this growth, this year stock-raising provided the main contribution. Although fruit-growing recorded the highest annual growth, its share to total agricultural production is the lowest. Stock-raising has maintained the same share to agricultural production since 2004 (56%).
Production in agro-industry grew by about 3.3% which is about three times lower than the growth rate of 2006 and than the average annual growth of the last three years.

| Table 12 Annual change of total agricultural production by sectors (in %) |
|-------------------------|-----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                        | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| Agriculture            | 1.5  | 2.2  | 2.8  | 4.6  | 0.6  | 3.5  | 0.8  |
| Stock-raising          | 4.0  | 3.5  | 5.0  | 3.2  | 0.8  | 2.6  | 1.8  |
| Plants                 | -3.1 | 2.0  | -3.9 | 2.1  | 2.8  | -0.4 | -3.8 |
| Fruit-trees            | 4.9  | -3.5 | 13.1 | 18.9 | -6.2 | 18.6 | 4.2  |
| Agro-industry          | 7.0  | 10.5 | 9.3  | 11.6 | 6.0  | 8.5  | 3.3  |
| Total                  | 2.6  | 3.9  | 4.2  | 6.1  | 1.9  | 4.7  | 1.5  |

Source: Ministry of Agriculture, Food and Consumer Protection

The relatively poor infrastructure in rural areas, the fragmentation of agricultural land, the incomplete and inefficient use and ownership-related issues remain among the main obstacles for the agriculture development. The unfavourable weather conditions have had a negative impact on the growth of agricultural production during 2007. Credit extended for agriculture-related purposes dropped by about 6% in annual terms. This type of credit shares about 1.2% of credit extended to businesses, relative to the previous year when it shared 3.3%.

| Table 13 Private investments in agriculture, agro-industry and public investments |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                   | 2006 (in millions of ALL) | 2007 (in millions of ALL) | Annual change in % |
| I. Agriculture                    | 2077             | 2869             | 38.1            |
| II. Agro-industry                 | 2045             | 3052             | 49.2            |
| III. Public investments           | 3098             | 2791             | -9.9            |

Source: Ministry of Agriculture, Food and Consumer Protection

II.1.4 Transportation and telecommunication

Sales in transportation and telecommunication dropped by 11% in the last quarter of 2007 relative to the previous quarter. The fall in the sales of ‘mailing services and communication’ and ‘transportation’ by 14% and 6.3%, respectively, contributed to the dropping activity of this sector. On annual basis, this sector’s sales have dropped slightly by 1.2%. In annual terms, sales in railway transportation increased by 25% in the last quarter of 2007, while the number of employed people and the average wage descended by 5.6% and 1%, respectively. Sales also dropped in sea transportation of passengers and goods by about 3.6%, relative to the same period the previous year. The number of employed people in this sector decreased by about 15%, while the average wage rose by about 19%. Turnover indicator in air transportation recorded an annual drop by 12% in the last quarter of 2007, while the number
of employed people and wages increased by 27% and 22%, respectively. Sales in ‘mailing services’ recorded an annual increase of 20% during the last quarter of 2007, while sales in ‘communication’ did not undergo significant changes in annual terms. The number of employed people and wages in ‘mailing services’ increased by about 12% and 15%, respectively. The same indicators remained almost unchanged for ‘communication’.

During the first quarter 2008 we attest growth in the labour volume of sea and air transportation by 5% and 14%, respectively. With respect to railway transportation, growth was recorded in ‘freight transportation’ (by 28%), while ‘passenger transportation’ dropped by about 50%.

### Table 14 Some indicators related to transportation during 2007-2008

<table>
<thead>
<tr>
<th>Transportation</th>
<th>Unit</th>
<th>Q1-07</th>
<th>Q1-08</th>
<th>Annual change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Railway transportation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Goods</td>
<td>000 tons</td>
<td>73.0</td>
<td>93.4</td>
<td>28%</td>
</tr>
<tr>
<td>- Passengers</td>
<td>000 passengers</td>
<td>325.6</td>
<td>160.7</td>
<td>-51%</td>
</tr>
<tr>
<td>Air transportation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total passengers</td>
<td>No.</td>
<td>127,390</td>
<td>145,215</td>
<td>14%</td>
</tr>
<tr>
<td>- Total goods</td>
<td>Tons</td>
<td>385</td>
<td>437</td>
<td>14%</td>
</tr>
<tr>
<td>- Total mailing services</td>
<td>Tons</td>
<td>83</td>
<td>100</td>
<td>21%</td>
</tr>
<tr>
<td>Sea transportation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total passengers</td>
<td>No.</td>
<td>165,300</td>
<td>172,904</td>
<td>5%</td>
</tr>
<tr>
<td>- Albanian</td>
<td>No.</td>
<td>124,301</td>
<td>119,377</td>
<td>-4%</td>
</tr>
<tr>
<td>- Foreign</td>
<td>No.</td>
<td>29,826</td>
<td>41,564</td>
<td>39%</td>
</tr>
<tr>
<td>- Underage</td>
<td>No.</td>
<td>11,173</td>
<td>11,963</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: Ministry of Public Works, Transportation and Telecommunication and Bank of Albania estimations

### II.1.5 Other services

Table 15 Indicators for the economic activity of ‘other services’ during 2006-2007

<table>
<thead>
<tr>
<th>Sales by quarters (in millions of ALL)</th>
<th>Q4-06</th>
<th>Q1-07</th>
<th>Q2-07</th>
<th>Q3-07</th>
<th>Q4-07</th>
<th>Quarterly growth</th>
<th>Annual growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other services</td>
<td>13,083</td>
<td>12,076</td>
<td>13,888</td>
<td>14,653</td>
<td>20,056</td>
<td>36.9%</td>
<td>53.3%</td>
</tr>
<tr>
<td>Monetary and financial intermediation</td>
<td>3048.2</td>
<td>3157.7</td>
<td>3541.5</td>
<td>4091.3</td>
<td>5374.2</td>
<td>31.4%</td>
<td>76.3%</td>
</tr>
<tr>
<td>Real estates and renting</td>
<td>4047.1</td>
<td>3544.5</td>
<td>4735.4</td>
<td>4232.0</td>
<td>5517.5</td>
<td>30.4%</td>
<td>36.3%</td>
</tr>
<tr>
<td>Education</td>
<td>626.6</td>
<td>568.2</td>
<td>467.4</td>
<td>234.9</td>
<td>1117.8</td>
<td>376%</td>
<td>78.4%</td>
</tr>
<tr>
<td>Health and other social activities</td>
<td>208.6</td>
<td>85.0</td>
<td>96.8</td>
<td>90.3</td>
<td>143.9</td>
<td>59%</td>
<td>-31.0%</td>
</tr>
<tr>
<td>Collective, social and personal activities</td>
<td>3242.9</td>
<td>2997.8</td>
<td>3202.3</td>
<td>3695.8</td>
<td>5386.9</td>
<td>45.8%</td>
<td>66.1%</td>
</tr>
</tbody>
</table>

Source: INSTAT and Bank of Albania estimations

Sales in ‘other services’ increased by 37% in the last quarter of 2007 relative to the previous quarter and by about 53% to the same period the previous year. Sales in ‘education’, ‘collective, social and personal activities’, ‘monetary and financial intermediation’ and ‘real estates and renting’ provided the main contribution to this growth. In annual terms, the sales growth in ‘education’, ‘monetary and financial intermediation’ and ‘collective, social and personal activities’ provided the main contribution. In addition, sales in ‘health and other social activities’ recorded considerable annual drop in the last quarter 2007 (by 31%), relative to the same period the previous year.
II. 2. INFLATION DEVELOPMENTS

II.2.1 Consumer Prices

Annual inflation was slightly higher in the first quarter of 2008 relative to the last quarter of 2007, moving from 3.6% to 3.7%. Inflation rate exceeded the upper tolerance band in March when it marked 4.6%. The upward trend was also maintained in April when inflation reached 4.4%. Average annual inflation rate was 3.2% in April, being close to the 3% point target of the Bank of Albania with respect to inflation. Relative to the first quarter 2007 average inflation rate was about 0.6% higher. Core inflation marked 4.5%, reflecting the constant pressures on the production capacities in economy.

While monetary and fiscal indicators have been stable the macroeconomic environment has not been quite favourable for maintaining price stability. Since August 2007 annual inflation has been marking high positive rates being under the influence of the general price crisis worldwide, the contracted domestic supply with agricultural products, oil price hike, energy crisis and the psychological effect of the high inflation. As expected, the consequences deriving from these factors have not only impacted the annual price rise of some given goods and services, but also the overall rise in the Albanian consumer prices.

Inflation has been mainly affected by supply-side shocks deriving from outside our economy. The strong price hike in the global markets of some raw materials, mainly of grains and oil, whose demand for is relatively inflexible, and the contracted domestic supply of agricultural products and the energy crisis, led to the increase of inflation, despite the offsetting effect of the lek appreciation. The administered price rise of energy was added to these developments in March the present year. The extent and abrupt presence of these shocks led to the jump of annual inflation in March beyond the upper tolerance band, causing inflation to mark the highest rate in the last 5 years. The supply-side inflationary pressures were also boosted by the continuous growth of demand, mainly as a result of the growing household income, the growth of credit to the private sector and the concentration of budget expenditure at end-year – and by the deteriorated inflation expectations.

Food and administered prices have determined most of the inflation rate for the last 12 months.
Alternative measures of net inflation attest very low inflation rates excluding the influence of these two items. In April, annual inflation excluding food and administered prices inflation marked 0.8%.

Inflation of goods and services by economic nature shows similar performance throughout the second half of the previous year and on. In annual terms, prices of foods, in particular of ‘processed foods’, and prices of ‘non-food consumer goods’ (where oil is included) and ‘services’ recorded high positive inflation rates, representing about 80% of total annual rate. In addition, the energy price rose in March by 24%, contributing further to the overall price rise in economy.

Annual inflation of ‘processed foods’ has in general marked high rates. This item’s inflation rate marked 13.1% in the first quarter of 2008 while in April it reached 14.1%. This unusual increase was a result of the increased inflation of almost all sub-items constituting it. This increase added to the previous inflation rate increases of this item which started in August last year. The price rise of this item was to a large extent influenced by the high inflation rates marked in the main countries where these goods are imported from. This item’s average inflation marked 11.5% during August 2007-April 2008, relative to 0% it marked during January 1999-July 2007.

Annual inflation of ‘unprocessed foods’ marked -0.9% in the first quarter of 2008. This item’s inflation is mainly affected by prices of fruit and vegetables, which are very volatile and depend on seasonal factors. Inflation of ‘unprocessed foods’ has to a certain extent offset the inflation of ‘processed foods’. Vegetables’ prices, whose annual inflation marked -10.6% provided the main contribution to this item. The growth of domestic supply has mitigated the pressures deriving from the rising price trend of these goods which are imported from outside Albania.

The contribution of goods and services with administered prices to the annual inflation rate marked considerable growth during this quarter as a result of the price rise of energy by 23.7% in March. This item reappeared as an inflationary factor in the total inflation profile following the end of the effect of the previous price rise during August 2006 – August 2007. In the absence of other raises, this growth’s contribution by about 0.7% is expected to be maintained until March next year.

The price of ‘non-food consumer goods’ and ‘services’ raised in the first quarter of 2008 and in April. ‘Non-food consumer goods’ contributed by 0.5% to the annual inflation rate in the last two months, which is quite significant considering the contributions of this item over the years. Despite the small share (14.2%), the contribution of this item’s inflation to the annual
inflation rate for this month was about three times higher than the contribution in January and February this year. Oil price rise in the domestic market is the reason behind this rise, which continues to follow the soaring prices in the global market. In March and April this item marked one of the highest annual inflation rates over the years, about 4.3%, while a year ago it was 0%.

Inflation of ‘services’ continued to affect the increase of the annual inflation rate, marking high increase rates. Annual inflation rate of this item continued to increase in the first quarter of 2008, reaching 4.8% at the end of the period, the highest rates since the first quarter of 1999. The persistent oil price rise in the last quarters has had a direct impact on this item’s inflation rate. This impact has to a large extent been reflected in the price rise of hotel and restaurants services, which marked an inflation rate of 5.4% for this quarter.

### Table 16 Contribution of items to annual inflation (in %)

<table>
<thead>
<tr>
<th>Item</th>
<th>Q1-07</th>
<th>Q2-07</th>
<th>Q3-07</th>
<th>Q4-07</th>
<th>Q1-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Processed foods (in %)</td>
<td>0.7</td>
<td>0.6</td>
<td>1.6</td>
<td>2.4</td>
<td>2.9</td>
</tr>
<tr>
<td>Bread and grains* (in %)</td>
<td>0.0</td>
<td>0.3</td>
<td>4.5</td>
<td>5.9</td>
<td>6.4</td>
</tr>
<tr>
<td>Alcohol and tobacco* (in %)</td>
<td>1.7</td>
<td>1.9</td>
<td>1.3</td>
<td>0.7</td>
<td>1.0</td>
</tr>
<tr>
<td>Unprocessed foods (in %)</td>
<td>0.2</td>
<td>0.7</td>
<td>0.4</td>
<td>0.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Fruit* (in %)</td>
<td>-2.4</td>
<td>-3.1</td>
<td>1.1</td>
<td>2.6</td>
<td>4.0</td>
</tr>
<tr>
<td>Vegetables* (in %)</td>
<td>3.0</td>
<td>-0.6</td>
<td>1.7</td>
<td>-0.4</td>
<td>-3.5</td>
</tr>
<tr>
<td>Services (in %)</td>
<td>0.2</td>
<td>0.3</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Administered prices (in %)</td>
<td>0.8</td>
<td>0.8</td>
<td>0.4</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Fuels and energy* (in %)</td>
<td>7.6</td>
<td>7.8</td>
<td>2.7</td>
<td>0.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Housing (in %)</td>
<td>0.9</td>
<td>0.9</td>
<td>0.6</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Consumer Price Index (y/y, in %)</td>
<td>2.8</td>
<td>1.8</td>
<td>3.6</td>
<td>3.6</td>
<td>3.7</td>
</tr>
</tbody>
</table>

Contribution to annual inflation

Source: INSTAT and Bank of Albania estimations

II. 2.2. Other inflation measures

The annual rate of core inflation was 4.2% or 0.5% higher than total inflation’s for the first quarter of 2008. This trend was also maintained in April when core inflation marked 4.7%, which is the highest rate since early 2002. The upward trend of core inflation was affected by the continuous price rise of some important goods and services included in the measurement of this indicator^14_. In the early months of 2008 core inflation was about 1% higher than the second half of 2007, giving signals for upward and permanent inflationary pressures in economy.

The share re-distribution of excluded items^15_ has led to the further increase of the contribution of base sub-groups to this inflation measure. The upward trend of core inflation around the highest historical rates since June 2002 indicates that the long-term inflation component is markedly present in the Albanian economy.

The first quarter of 2008 saw increasing rates of annual tradable and non-tradable inflation which reached 3.9% and 3.4%, respectively. Tradable
prices have transmitted the inflationary pressure originating from outside our economy to headline inflation in a more complete way. The foods’ price rise in our main trading partners was reflected in tradable inflation. The price rise of oil, gas, energy and grains in the international markets and the pessimistic expectations with respect to future performance have created a stimulating inflationary environment for the consumer and producer prices at home.

The new CPI basket presents some slight changes to the structure of household consumption with regard to food and non-food goods. The slight drop in the share of foods in the CPI basket did not manage to offset the strong price rise effect of this item. Although the share of the sub-group ‘bread and grains’ was about 1.5% lower than in the previous basket, the overwhelming price rise of this sub-group caused the contribution of its inflation to the tradable inflation rate to reach 3%. The double share of fuels in the consumer basket of Albanian households was followed by the simultaneous rise in their prices. As a consequence, the inflation of fuels contributed to the annual tradable inflation of the first months of 2008 by an average of 0.6%. This sector continued to record high inflation rates in April (4.1%), albeit to a lesser extent than during March.

Annual inflation of non-tradables, dominated by the prices of services, administered prices and prices of goods produced and traded at home, was about 3.4% in the first quarter of 2008. The energy price rise in March 2008 caused the non-tradable inflation to reach 5.4% or the highest rate since January 2006. In April, annual inflation for this sector marked 5%, while the effect of the energy price rise is expected to terminate in the first quarter of 2009. However, we do not exclude the chain effect of the energy price rise, which may exert pressure on the increase of producer prices in economy\textsuperscript{16}. 

![Chart 6 Annual rates of core and headline inflation (left-hand side), and of tradable and non-tradable inflation (right-hand side) (in %)](chart6.png)
Box 1 The new basket effect on past rates of inflation measures

The rates of core, tradable and non-tradable inflation, measured according to the new basket structure of consumer price index show systematic changes compared with the changes shown until December 2007 (when the basket of December 2001 was used to measure the CPI). The relative share of some important sub-groups in the respective inflation measures has decreased or increased, given the re-distribution, while the indices have remained the same (they have only been re-based). The connection effect of the two baskets is expected to cease a year after the new basket has been introduced, that is in December 2008.

In general, the inflation measures according to the previous basket resulted in higher inflation rates relative to the same measures of the new basket. However, the extent of the changes has been relative low. What is important is that the series of CPI measures and the annual changes (past and new shares that will be analyzed in the period to follow) show the same trend. The chart on core inflation according to the two baskets is based on the above conclusions.

The average change between the measures for 2004-2007 is about 0.5%, which implies that the introduction of the new basket has “adjusted by decreasing” the past inflation by the same extent on average.

II. 3. DEMAND AND SUPPLY-SIDE FACTORS

II. 3.1. Supply

II.3.1.1 Price of foods and raw materials

Prices of raw materials have risen considerably in the global markets. Price index of raw materials increased by 45% in the first quarter of 2008. This is the highest figure in the last 10 years while its average increase for 1999-2007 was 13%. Fuels and foods have also recorded high growth rates in terms of prices, rising by 64% and 39%, respectively.

Food prices raised both in the domestic and global markets last year. The fact that the prices of certain components (such as grain and dairy products which impacted domestic inflation more considerably) also rose in almost all economies suggests that a general shock stands behind this price rise. Under the influence of the price rise abroad, the domestic prices of processed foods
recorded an annual rise of 13%, contributing to the quarterly inflation by 2.9%. Almost all consumer basket sub-items recorded a price rise.

The grain price worldwide doubled in the first quarter of 2008 relative to the same period the previous year. In Albania the price rise was 1.3 times as much. The appreciation of lek to the US dollar by about 14% has helped to mitigate the transmission of the price rise of grain abroad.

The projection for the food prices worldwide and in Albania remains very uncertain. The fact that the price rise of food does not only attribute to the weather conditions but also to the growth of global demand for these products signals that this is not a temporary phenomenon. Although global demand will continue to remain high (given the global economy and income growth) the supply with agricultural products will grow in response to the demand growth. The overall assessment is that the prices of food will remain high although the annual rates of the price rise will descend. Their effect on the increase of domestic inflation will be temporary. There is a risk that the high food prices may deteriorate the consumer expectations for inflation, providing an indirect impact through demand for wage rise.

Global oil price rose above $100 a barrel in early March and since then it has been ever-increasingly rising, reaching the highest historical levels. In early May oil price rose by approximately 100% in annual terms, reaching the record of above $120 a barrel. Oil price fluctuations which have characterized the last months have mainly resulted from the differences between the processing capacities and demand, but also from the increasing geopolitical pressures.

Oil price rise rates in the international markets were translated into oil price rise in the domestic market at almost the same dynamics. Characteristic of the last oil price rise in the domestic market is that the price rise time lag has shortened relative to the global market. This is a consequence of a homogeneous oil price structure in the global market. While before there was a distinct difference between the price of oil exported mainly from the Middle East countries (more precisely the OPEC countries) and the former-Soviet Union (from where Albania imports the oil), now both prices are almost equal. This fact has reduced the positive effect of the price rise transmission from foreign to domestic market as a result of the strong position of the lek to the US dollar\(^\text{18}\).
On the other hand, this has turned the price of this good into a direct source of inflationary pressures in contrast to the previous period (until October 2007), when as a result of the small share of oil in the consumer price index basket, its impact reduced to indirect effects having a seasonal nature, in particular on services and to some extent on transportation prices. Despite the small share, it increased the annual growth of the cost of living by an average of 0.5% in March and April 2008, relative to 0% in the same period the previous year. The price rise of oil has increased the cost of other products thus leading to second round effects. The last oil price rise was intensive and associated with other strong supply-side shocks (food prices). These developments have led to long-term increase of inflation expectations which are also expected to be manifested later in the increase of the inflation rate. The Bank of Albania is monitoring prudently the situation in order to better understand the evolution and the temporary or permanent features of inflationary pressures in a second period and avoid the potential creation of an inflation spiral in economy.

II.3. Performance of wages

Wages rose considerably in 2007. The annual change in the average nominal wage for the whole economy was 19%, while the average of the last three years has been 11%. The annual rise in the average real wage was 15%, while the average of the last three years was 7%. The upward tendency of wages was affected by the satisfactory economic growth and by the fall in the unemployment rate during the last three years. In addition to economic factors, there have also been administrative factors affecting the wage rise, mainly in the second and third quarter of 2007, which have encouraged the businesses to register and declare the real wages.

As in 2006 the rapid wage rise in 2007 was mainly a result of the rise in the wages of services sector, which rose by 22% on average. The constant wage rise in this sector is mainly affected by the high profit and competition in services. However, in the last two quarters of 2007 the rising rates of wages in services slowed down. The rise in the average wage of the entire economy for these two quarters was a consequence of the wage rise in industry (22%), construction (21%) and public sector (18%).
Unless followed by the growth of production in economy, the rise in wages may exert pressures on the increase of domestic inflation. The labour costs per unit\(^{23}\) in different sectors of the economy attest the presence of potential inflationary pressures.

The annual increase of productivity indicator was 1% in 2007 (compared with the 0% average of years 2004-2006). While in construction the rise in nominal wages was followed by the increase of productivity relative to the previous year, industry maintained the same level of productivity. In services, the annual drop of wages in the last two quarters of 2007 led to the fall in the labour cost per unit. The upward tendency of the labour cost per unit through 2007 signals the presence of potential inflationary pressures of the wage-inflation spiral.
II.3.1.3 Labour market

The number of labour forces reached 1,081.8 thousand people in the last quarter of 2007 or about 3,900 people more than the previous quarter. The increasing number of employed people in the private non-agricultural sector (by 3,250 people) and the increased number of registered unemployed (by about 660 people) provided the main contribution to this increase.

The number of total employed people increased by about 3,942 people in the last quarter of 2007 relative to the same period the previous year. The number of employed people in the public sector did not undergo significant changes compared to the previous quarter; however it has dropped by 1% in annual terms. In the private non-agricultural sector were employed about 5,842 people more in annual terms. Data on employment in the private agricultural sector remain unchanged which is a constant trend for quite a long period of time. Unemployment rate reached 13.2%, which is about 2% higher than the previous quarter. In annual terms, unemployment rate has dropped by about 7%, mainly as a result of the increased number of employed people in the private non-agricultural sector (by 3%).

II.3.1.4 Producer prices

The fluctuations in the Producer Price Index reflect the changes in the first link of the price formation process, serving as signals of the possible short-term performance of consumer prices. In addition, the increase in the producer price index may indirectly signal the augmentation of inflationary pressures deriving from the supply-side. The profit margin of productive entities, competition in the sector and the pressures exerted for the salary rise, if they are indexed to the PPI, affect the extent of transmission of fluctuations in the producer prices to the final products’ prices in the wholesale and retail market.
The more accelerated PPI growth in the last quarter of 2007 relative to the first quarters of the year seems to justify the augmentation of inflationary pressures which hit the consumer prices in the first months of 2008.

Annual PPI rate maintained the upward tendency shown in the first quarter of 2007 reaching a growth rate of 7.5% in the last quarter. Processing industry, which has the largest share in the PPI basket, continued to maintain the upward trend recorded in the same year. The fact that production in processing industry is very much sensitive to the performance of goods prices in the international markets and to the fluctuations in the import prices has caused the inflationary pressures in the foreign conjectures to be transmitted to the domestic market as well. Producer costs in food industry continued to increase. Industry cost index increased by an average of 12% during 2007. The increase in the index of ‘processed foods’ in the CPI basket of the first quarter of 2008 is close to the average rise of the producer prices in food industry for year 2007. The energy crisis deterioration in the last quarter of 2007 seems to have affected the increase of producer index in ‘production and supply of energy, gas and water’\(^{24}\). In annual terms, the producer price in this industry increased by 5% in the last quarter of 2007. On the other hand, producer prices in extracting industry continued to maintain a downward trend shown since the second quarter of 2007.

Table 17 Annual change rates of some PPI and CPI components of ‘processed foods’ (in %)

<table>
<thead>
<tr>
<th></th>
<th>PPI</th>
<th>PPI Total processing industry</th>
<th>PPI Food processing industry</th>
<th>CPI – Processed food</th>
<th>PPI 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</td>
<td>7.3</td>
</tr>
<tr>
<td>Q2:06/Q2:05</td>
<td>-0.1</td>
<td>-0.5</td>
<td>-4.4</td>
<td>0.5</td>
<td>10.8</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>
<td>8.4</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>
<td>8.3</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>
<td>8.1</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>
<td>2.8</td>
</tr>
<tr>
<td>Q3:07/Q3:06</td>
<td>3.6</td>
<td>6.3</td>
<td>14.7</td>
<td>7.3</td>
<td>4.7</td>
</tr>
<tr>
<td>Q4:07/Q4:06</td>
<td>7.5</td>
<td>10.2</td>
<td>18.6</td>
<td>10.8</td>
<td>4.5</td>
</tr>
<tr>
<td>Q1:08/Q1:07</td>
<td>11.3</td>
<td>11.3</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: INSTAT

II.3.2. Demand

II.3.2.1 Monetary policy decisions and inflation target

Average annual inflation marked 3.7% in the first quarter of 2008, remaining within the tolerance band of the Bank of Albania 3% inflation target. This quarter inflation maintained the high growth rates shown in the second half of 2007, reaching 4.6% in March. The high inflation rates have been mainly caused by supply-side shocks originating from outside our economy. The rise in the administered price of energy in the first quarter of 2007 exerted upward pressure. The magnitude and the simultaneous occurrence of these shocks brought about the increase of the annual inflation rate beyond the upper limit of the tolerance band, while many regional countries and beyond are experiencing high price rises.
In 2007, the Bank of Albania implemented its monetary policy in a stable macroeconomic environment with relatively high economic growth rates and with accommodating monetary conditions which provided increasing but yet favourable interest rates, exchange rate stability and financial resources to the economy. Average annual inflation marked 2.9%. Core inflation increased by 2.6% in annual terms, which is about 1.2% more than the average of the last four years. Until July 2007, annual inflation remained within the low limit of tolerance band, at about 2-3%. In the following two quarters of 2007 it increased considerably reaching high above the 3% target. This increase is mainly attributed to the global crisis as a result of the rise in food prices. The medium-term risks to price stability were assessed to have an upward trend. These risks included: the further price rise in raw materials, mainly of foods; the expected price rise of energy; the constant and rapid rise in wages, not fully supported by the production growth; the concentration of budget expenditures at end year; the continuous growth of aggregate demand; the weakening of consumer and business sentiment for inflation and the actualization of second round effects on wages and on price formation as a result of the high prices in raw materials and the high inflation rates.

The early 2007 forecasts\textsuperscript{25} for the annual inflation of the following 12 months partly actualized the risks to price stability. The deviation of the current average inflation in the first quarter of 2008 from the one forecasted a year ago is 0.7%. This deviation is mainly a consequence of the non-rise of energy price when expected and of the higher influence (by 2.9%) of the price rise in processed foods, following the price rise of grains in the international markets. The exacerbated inflation forecast, mainly because of supply-side factors (which are out of the influence of monetary policy) and the pressures generated by the high demand pushed the Supervisory Council of the Bank of Albania to raise further the core interest rate begun in 2006. During 2007 the Bank of Albania raised the key interest rate three times\textsuperscript{26} by a total of 75 basis points to 6.25%. Last year’s increase of the key interest rate managed to contain the high growth rates of money supply and of credit. Monetary aggregate M3 grew by 11% in the first quarter of 2008, while credit to economy grew by 47%, relative to the 13% and 50% growth respectively in the last quarter of the previous year.

The persisting reaction of the central bank reflects its commitment to act timely and accordingly in order to confront the increasing risks which may jeopardize price stability in the medium-term. Monetary policy will be implemented in line with the purpose of anchoring future inflation expectations on the inflation target. The Bank of Albania believes that the inflation target may be achieved only through a better harmonization of macroeconomic policies and through structural reforms.

\textbf{II.3.2.2 Fiscal sector}

The fiscal developments of the first quarter of 2008 provide evidence for a tightening fiscal policy which has resulted in a budget surplus above the projected level. The collection of revenues has followed an upward trend, while expenditure on investments has contracted relative to the previous year.
Revenues collected during the first quarter of 2008 have grown by about 15% annually exceeding the Ministry of Finance’s plan by about 2%\(^{27}\). The satisfactory performance of revenues is mainly attributed to the fiscal package measures of 2007. VAT revenues provided the main contribution to the growth of revenues by 8%, not only as a result of the considerable share this item has in total revenues but also given the increase in the number of taxpayers\(^ {28}\). Tax on personal income contributed by about 5% to the growth of revenues despite the low share this item has in total revenues. This performance has been a result of the new fiscal policy which altered the tax on personal income from progressive to flat tax. The intensity in the execution of expenditure in the first quarter of 2008 was lower than the revenues collection. In annual terms, total expenditure grew by about 9% while the projected annual growth rate is 14%. This growth rate implies that a considerable part of the expenditures is to be executed in the quarters to follow which may represent jeopardy for the augmentation of inflationary pressures during this period. Budget expenditures are more oriented to short-term expenditure, since long-term expenditure is not only distinctly below the projection but also about 10% lower than the previous year.
As of end quarter 2008 the budget balance ended in a surplus of about 10.4 billion lek, which is quite opposite the projected deficit of 2.3 billion lek. This result has mainly been a consequence of the non-execution of expenditure on investments as projected.

Government’s borrowing was represented by domestic borrowing in the first quarter of 2008. Being in line with the objectives of borrowing policy it has been oriented to long-term instruments’ borrowing, reducing at the same time the amount of short-term debt. Domestic borrowing accounts for about 22% of the annual projected limit during this period.

II. 3.2.3 Foreign trade

Trade exchanges showed an improvement in the trade deficit by 17% in the first quarter of 2008 relative to the previous quarter. The fall in the imports of goods by about 12% and the increase of exports by about 4% provided their contribution to this improved trade deficit. In annual terms, imports and exports of goods grew by 17 and 13%, while trade deficit deepened by about 19%. The level of imports’ coverage from the exports of goods is 26.5%, which is 4% higher than the previous quarter. This ratio marks a drop by about 1% relative to the same period the previous year (27.5%). The upward trend in the imports and exports of goods continued in April 2008 as well. During this month they recorded an annual growth of 17% and 32% relative to the same period the previous year. Italy and Greece remain Albania’s main EU trade partners. Exports and imports of goods with these two EU countries represent about 36% and 13% of total trade exchanges. China, Turkey, Macedonia and Croatia are Albania’s main non-EU trade partners. Worth highlighting is the considerable annual growth of exports with Turkey (84%) and Macedonia (101%). Exports with Croatia, although at low levels, have increased by 12 times as much relative to the same period in 2007. In addition, there has been a fall by 60% in the exports with China.

| Table 19 Trade balance for 2007-2008 |
|-------------------------------|----------------|--------|--------|--------|
|                               | Q1’07       | Q4 ’07 | Q1’08  | April ’08 |
| Volume (in millions of euro)  |             |        |        |         |
| Exports                       | 181.58      | 196.87 | 205.33 | 83.43    |
| Imports                       | 659.81      | 874.82 | 772.29 | 280.76   |
| Trade balance                 | -478        | -677.95| -567   | -197.3   |
| Change (in %)                 |             |        |        |         |
| Exports                       | 4%          | 13%    | 32%*   |
| Imports                       | -12%        | 17%    | 17%*   |
| Trade balance (trade deficit) | -17%        | 19%    | 12%*   |

* Changes are expressed in annual terms, April 2008 relative to April 2007.
Source: INSTAT and Bank of Albania estimations
‘Food, beverages and tobacco’, ‘machinery, appliances and spare parts’ and ‘chemical and plastic products’ recorded the highest annual growth in terms of imports during the first quarter of 2008. The imports of ‘minerals, fuels and energy’ grew by 11%. ‘Articles of construction and metal’ have grown slightly by 1% in terms of imports relative to the same period the previous year. On the other hand, the imports of ‘leather and articles thereof’ have dropped by 6%.

<table>
<thead>
<tr>
<th>Imports</th>
<th></th>
<th>Exports</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Food, beverages and tobacco</strong></td>
<td>147</td>
<td><strong>Growth</strong></td>
<td>37%</td>
</tr>
<tr>
<td><strong>Minerals, fuels and energy</strong></td>
<td>125</td>
<td><strong>Growth</strong></td>
<td>11%</td>
</tr>
<tr>
<td><strong>Chemical and plastic products</strong></td>
<td>74</td>
<td><strong>Growth</strong></td>
<td>15%</td>
</tr>
<tr>
<td><strong>Leather and articles thereof</strong></td>
<td>13</td>
<td><strong>Growth</strong></td>
<td>-6%</td>
</tr>
<tr>
<td><strong>Articles of wood and paper</strong></td>
<td>24</td>
<td><strong>Growth</strong></td>
<td>7%</td>
</tr>
<tr>
<td><strong>Textiles and footwear</strong></td>
<td>75</td>
<td><strong>Growth</strong></td>
<td>6%</td>
</tr>
<tr>
<td><strong>Articles of construction and metal</strong></td>
<td>111</td>
<td><strong>Growth</strong></td>
<td>1%</td>
</tr>
<tr>
<td><strong>Machinery, appliances and spare parts</strong></td>
<td>174</td>
<td><strong>Growth</strong></td>
<td>27%</td>
</tr>
<tr>
<td><strong>Miscellaneous</strong></td>
<td>29</td>
<td><strong>Growth</strong></td>
<td>36%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>772</td>
<td><strong>Growth</strong></td>
<td>17%</td>
</tr>
</tbody>
</table>

Source: INSTAT

The increase in the imports of ‘food, beverages and tobacco’ and ‘machinery, appliances and spare parts’ was reflected in the growth of their share to total imports by 2.8% and 1.7% relative to the first quarter of 2007. On the other hand, the share of imports of ‘chemical and plastic products’ remains almost unchanged relative to the first quarter of 2007. Quite opposite from these items, the share of imports of ‘articles of construction and metal’ is about 2% lower than the same period the previous year. Worth highlighting is the fact that the growth of imports during the first quarter of 2008 would have remained almost at the same levels even by excluding the import of energy. The structure of exports remains oriented to re-exports produced upon orderer’s material. The exports of ‘textiles and footwear’ have grown annually by 7.3%. Its share to total exports has dropped by about 3% relative to the first quarter the previous year (53%). Exports of ‘articles of construction and metal’ and ‘machinery, appliances and spare parts’ have also increased in annual terms by 38% and 39%, respectively. Their share to the structure of exports has grown annually by about 4% and 1%, respectively.

II. 4. MONETARY DEVELOPMENTS

II.4.1 Monetary aggregates

The performance of monetary indicators in the first quarter of 2008 has reflected the downward tendency of demand for money. The annual growth of broad money by 11% was affected by the high growth rates of deposits denominated in foreign currency and the moderate rates of M2 aggregate. By and large, the banking system has supplied the economy with monetary...
assets, mainly through the injection of money in the form of credit to the private sector. The performance of the banking system’s net foreign assets and the accumulation of the public sector’s monetary balances have offset this effect. In annual terms, total money stock (M3) to GDP has grown by about 1.5% in the first quarter. During 2007, this indicator fluctuated around an average rate of 5%.

The foreign currency structure of M3 has shifted to the foreign currency component, being favoured by the high annual growth of deposits denominated in foreign currency by 24%, relative to the M2 growth by 5%. Hence, in the first quarter of 2008, the share of deposits denominated in foreign currency has increased to 34.6% from about 31% the previous year. Although the annual growth rate of deposits denominated in foreign currency has been falling, their contribution to the growth of M3 remains high. Their share to total deposits has been ever-increasingly growing, accounting for 43% or 4%
higher relative to the same period the previous year. In addition, the share of credit denominated in foreign currency to deposits denominated in foreign currency has had a noticeable upward trend (85%).

The time structure of M2 has shifted to deposits denominated in lek, being supported by the positive growth rate of deposits in lek and the further reduction of currency outside banks. The annual growth of deposits denominated in lek slowed down to 8% in the first quarter of 2008 while currency outside banks reduced by 4% relative to the previous year. The share of currency outside banks to M2 has contracted to about 29.7%, which is slightly below the long-term tendency of this ratio.

![Chart 20: Performance of monetary aggregate components in lek (M2)](chart)

In real terms, the broader money aggregate M3 has followed a marked downward tendency. Its annual growth has slowed down to 5.5%, relative to about 9% in the previous quarter. In addition, real M2, monetary aggregate

![Chart 21: Performance of monetary aggregate components*](chart)

* Quarterly data adjusted from the seasonal effects
in lek, remained unchanged relative to the first quarter of 2007. The performance of this aggregate is affected by the seasonality of the public sector’s net borrowing from the system.

The developments in the fall of demand for money have been in part reflected in the performance of the Bank of Albania quantitative objectives. Hence, the lower demand for money and the decrease of reserves has been followed by the drop in the Bank of Albania’s net domestic assets. In addition, the developments in the foreign currency structure of demand for money affect the accomplishment of the net international reserve objective in the long run. The operational policy conducted by the Bank of Albania has considered the achievement of these objectives in the context of an orienting framework for short-term monetary stability in economy.

<table>
<thead>
<tr>
<th>Table 21 Accomplishment of quantitative objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net International Reserve of the Bank of Albania (in millions of USD)</strong></td>
</tr>
<tr>
<td>Current</td>
</tr>
<tr>
<td>Difference (C-Obj)</td>
</tr>
<tr>
<td><strong>Net Domestic Assets of the Bank of Albania (in billions of ALL)</strong></td>
</tr>
<tr>
<td>Objective</td>
</tr>
<tr>
<td>Current</td>
</tr>
<tr>
<td>Difference (C-Obj)</td>
</tr>
<tr>
<td><strong>Net Domestic Credit to the Government (in billions of ALL)</strong></td>
</tr>
<tr>
<td>Objective</td>
</tr>
<tr>
<td>Current</td>
</tr>
<tr>
<td>Difference (C-Obj)</td>
</tr>
</tbody>
</table>

* Source: Bank of Albania

II.4.2 Credit to economy

In annual terms, credit to economy grew by 47.3% on average in the first quarter of 2008. The downward tendency of credit growth rate, shown for more than two years, has been more significant in March when the annual growth of outstanding credit reached 44.9%. The slower credit growth rates have been affected by both the performance of business and household credit. However, the contribution of household credit to the growth of credit reduced more than the contribution of business credit in March. Despite the downward rates, credit continues to grow in absolute terms like in the previous year by about 22 billion leks. Commercial banks are active in the lending market, deepening further their role as financial intermediators, which is also reflected in the stable growth of intermediation indicators. In March, the share of credit to broad money and to the GP reached 40.9% and 31.4%, respectively.
The developments in the foreign currency structure of credit maintained the tendency of 2007. They are characterized by a stable growth of credit denominated in foreign currency which accounts for about 73% of credit to economy. In the first quarter of 2008, credit denominated in foreign currency continued to provide the most considerable contribution to the annual growth of outstanding credit by an average of 35.7%, relative to credit denominated in lek whose average contribution was 11.6%. The distribution of credit portfolio by currency, which is dominated by euro credit, continues to be supported by the appreciation of the lek in the foreign currency market and the higher cost associated with lek lending. In the absence of the lek appreciation, credit denominated in foreign currency would have recorded an annual growth of about 8.5 billion lek higher.

Credit to the private sector grew by an average annual growth of 45.4% in the first quarter of 2008. The distribution of credit by groups has remained the same, being dominated by credit to business, which accounts for 63%. In average annual terms, credit portfolio to business grew by 39.6% in the first quarter of 2008. The distribution of credit by sectors of economy continues to preserve the same characteristics. 80% of credit is extended to construction, industry and trade. Credit for investment purposes has been ever-increasingly showing lower growth rates, which began to be present during the last year. This phenomenon has led to the drop of this type of credit’s share in favour of credit lent to cover businesses’ needs for liquidity. This type of credit has maintained the average annual growth rate of the end-year 2007 of 58% in the first quarter of 2008.
Household credit continued to grow at high rates in early 2008, recording an average annual growth of 56.7%. This figure reflects a considerable slowdown relative to last year’s average, being mainly affected by the reduction of consumer credit. The considerable drop in the growth rates of consumer credit has caused its share to household credit to reduce to 24%, relative to 31% in July 2007. The developments in consumer credit mainly reflect the fall of credit for financing durable consumption. The contracted contribution of consumer credit to household portfolio was to a large extent offset by the maintenance of high growth rates of real estates credit. In contrast to consumer credit, the banks have responded to the high demand for mortgage loans by offering attractive products and have grown this type of credit further.

II. 5. MARKETS AND INTEREST RATES

II.5.1 Interest rates

Key interest rate remained unchanged at 6.25% in the first quarter of 2008. In response to inflationary pressures in economy, during 2007 the Bank of Albania raised the key interest three times by +25 basis points each. These decisions were followed by the increase of short-term interest rates in the money market and in the lek deposits’ market. The increase of short-term interest rates was most considerable at end year, when the primary market interest rates increased significantly under the pressure of demand for domestic financing and the interest rates of time deposits in lek increased as a result of several attractive promotional offers. However, upon the termination of this effect, in the first quarter of 2008 they returned to the levels of prior end-years (following the transmission of the last change in the key interest rate). In the first months of 2008, the performance of interest rates in the interbank and primary market has been stable and their fluctuations were related to the asymmetrical distribution of liquidity in the market. In contrast,
the interest rates of new credit in lek have dropped considerably, narrowing the difference with the other interest rates, perhaps because of the enhanced competition in this market.

The weighted average interest rate of overnight transactions in the interbank market increased by 0.28% to 5.19% in the first quarter of 2008 from 4.91% the last quarter of 2007 and 4.28% the previous year. They have shown higher fluctuation during this period as a result of the altered demand for liquidity and in several cases, of the concentration of its supply in the market. In the early 2008, the market was characterized by an excess of liquidity and the overnight interest rates in the interbank market fluctuated close to the lower limit of overnight standing facilities’ corridor. In February and in March there was an overwhelming growth of demand for liquidity which led to upward pressures of the interest rate up to the maximum level of 6.18%. The interest rates in the interbank market continued to increase in April 2008, which is to a large extent attributed to the concentration of liquidity in the market during this period. The interest rate of weekly transactions marked 5.86% or 0.27% higher than the previous year, however stable relative to the interest rates of the previous quarter. At the end of the quarter there were also some one-month transactions executed in the interbank market. Their interest rate reached an average of 6.31%, which is 0.06% higher than the previous quarter.

The T-bills yields in the primary market were stable in the first quarter of 2008. They stabilized around the response levels to the last change of the key interest rate in November 2007. The primary market yields increased in December, as a result of the pressures for meeting the domestic financing plan of budget deficit; however, this jump was corrected at the beginning of 2008. T-bills’ issues in the primary market slightly exceeded the projected amounts; however, it does not seem to have exerted pressure on the yields in the first quarter of 2008. Given the contracted liquidity, in April was shown their upward tendency. Some of the bids were not successful, creating a deficit in the domestic financing with T-bills according to the projection. As of end April, the 12-month yield increased by 0.09% to 8.13% from 8.04% as of end March.
Relative to the previous year, when the key interest rates increased by +75 basis points, the 3-month yields have increased by 0.52% and the 12-month yields by 0.34%, narrowing the difference between these maturity terms.

The yields’ stability was also shown in the bonds’ primary market, when they fluctuated around close levels in the first quarter of 2008 relative to the previous quarter. The demand to invest in these securities has been relatively high, bringing the further shift of the banking system’s portfolio to maturity terms of longer than one year. However, the primary market results are closely related to the allocation of liquidity in the market. In April, 2-year bonds’ yield increased by 0.20% as a result of the bids’ concentration. 3-year bonds’ auction remained incomplete, resulting in the injection of liquidity and in the maintenance of the interest rate unchanged at 8.98%.

**Deposits and credits’ interest rates**

Weighted average interest rate of 12-month deposits in lek reached 6.11% in March, which is 0.63% higher than the previous year, being in line with the last year’s signal for the increase of the interest rates in economy. They indicate a drop by 0.38% relative to the previous end-quarter, as a result of the termination of commercial banks’ end-year promotional offers. The increase of the interest rates of time deposits in lek was followed by the growth of these deposits in the first quarter of 2008 which is higher than the growth of time deposits denominated in euro.

The interest rates of time deposits denominated in euro generally dropped in the first quarter of 2008. The interest rates of 12-month euro deposits marked 4.12% or 0.11% lower than end-year 2007. However, time deposits denominated in euro remain relatively competitive. The interest rates of 12-month euro deposits were 0.33% above the previous year’s interest rates. During the same period, the key interest rate for this currency has changed by +0.25%.

A marked drop in the interest rate of new credit in lek was shown in February and March, while demand for credit remains high. Weighted average interest rate of new credit in lek fell to 12.25% in March, from 13.91% in December and 14.51% in January. The interest rates applied on new credit in lek have been mainly affected by the lower interest rates of...
business credit. This type of credit has dominated the new credit extended in lek during these two months. In addition, consumer credit was followed by a slight fall of interest rates. The last performance of the interest rates applied on credit denominated in lek has led to the drop of the intermediation cost in economy, indicating enhanced efficiency of the lending system. The improved infrastructure of the banking system with the launch of the Credit Registry is expected to improve the perception of credit risk in general, affecting the enhancement of the lending system’s efficiency.

The interest rates for euro-denominated credit corresponded to the performance of interest rates in the international market. Weighted average interest rate for new credit denominated in euro increased to 7.78% in March, which is 0.91% lower than the end-year. Their difference with the deposits of the same currency dropped in the first quarter and it is narrower than in the case of the lek (to 4.12% in euro and 7.26% in lek), indicating a relatively higher level of competition.

II.5.1 Exchange rate

As in the last quarter of 2007 the appreciating tendency of the lek to the other currencies continued in the first quarter of 2008, although at lower rates. In annual nominal effective terms, the lek appreciated to the main foreign currencies, the euro and the usd, by an average of 3.2%, which is considerably higher than the average of 1.1% the previous year. During this quarter the real effective exchange rate has increased annually by an average of 4.5% while in the same period the previous year it was 0.1%. The appreciating performance of the lek both in real and nominal terms reflects the macroeconomic stability at home and the comparable inflation rates with our main partners.
Compared with the previous year the lek has appreciated continuously to the US dollar by an average of 21.0%, exchanging at the end of the period at 78.29 lek to the usd. In addition, the average exchange rate of the lek to the euro for the first quarter of 2008 was 123.62 lek/euro, appreciating by 0.49% in annual terms.

The exchange rate performance in the first quarter of 2008 shows a higher volatility compared with the previous year. The increased dynamics reflects the developments in the international markets and in the domestic market. The depreciation of the dollar to the euro in the international markets has to a large extent reflected the uncertainty in finding a solution for the credit market crisis and the unsatisfactory performance of the US economy. The stabilizing endeavours of the FED, such as the injection of liquidity, the drops of the key interest rate by a total of 1.25% in the first quarter of 2008 and the public communication of senior FED officials, did not result successful in relaxing the situation in the financial markets. Although the FED’s statement at end-April seemed to create the impression that the low rate cycle may have come to an end, the figures published by the US economy have not shown strong optimism yet. On the other hand, the only response of the ECB to turmoil in financial markets was the injection of liquidity into the market. In their communication in early May, ECB’s senior officials stressed that the current interest rate is adequate for bringing inflation back to 2.0%, which in that
moment lowered to some extent the expectations for the increase of the interest rates.

In the domestic market, the demand for foreign currency has fluctuated in the first quarter. At the beginning of January, the demand for foreign currency was low given the seasonal effect characterizing this period. Meanwhile in February and March there was a concentration of demand for foreign currency which affected the depreciation of the lek following its appreciation in January as a result of the seasonal effect.
ENDNOTES

1 In annual terms, in the last quarter of 2007 they dropped by 3.7%, while in the first quarter of 2008 they dropped by 2.8%.
2 In annual terms, the Euro area economy grew by 2.9% during the first half of the year.
3 In annual terms, construction grew by 3% in January and by 4.3% in February.
4 Obtained from INSTAT’s survey.
5 Since the early 2007, the number of extended construction permits has reduced.
6 Composed of: Residential buildings, hotels, commercial buildings, industrial buildings and other buildings.
7 Composed of: roads and motorways, water-supply, energy and telecommunication lines, plants in industrial yards, other engineering works.
8 House Price Index is measured only for Tirana.
9 According to the data of the Consumer Confidence Survey (Bank of Albania).
10 The annual growth of these sub-branches is 78%, 76% and 66%, respectively.
11 In annual terms, in April the lek appreciated to the dollar by 17% and to the euro by 2.7%.
12 Prices rose mainly in ‘oils and fats’, ‘milk, cheese and eggs’ and in particular in ‘bread and grains’.
13 Annual inflation rates of ‘foods and alcoholic beverages’ in Italy and Greece were 5.5% and 6.1%, respectively, in March.
14 Such as ‘bread and grains’, ‘oils and fats’, ‘milk, cheese and eggs’, ‘transportation services’, ‘hotels, cafés and restaurants’, etc.
15 Their prices are mostly affected by seasonal, fiscal, administrative and foreign factors.
16 Production and services costs.
17 During January 2006 – December 2007, the average change was higher (about 0.7%).
18 The lek has appreciated by about 14% this quarter, relative to 6% the first quarter the previous year.
19 The share of ‘services to personal transportation vehicles’ in the consumer basket is 3.2%.
20 The Government’s initiative to reduce the tax on business profit and the setting of the reference wage for calculating the employees’ legal obligations, along with the strengthening of controls from the responsible public authorities.
21 In this sector were classified the activities in hotels and transportation.
22 From the sales index (INSTAT) it results that this sector (‘trade, hotels and restaurants’, ‘transportation and telecommunication’ ‘other’) has grown by 17% during 2002-2007.
23 It is calculated as the ratio of the wage index to productivity for each sector. The productivity per sector is calculated as the ratio of the sales index for the sector and the number of employees in the sector.
24 The share of this industry to PPI is 28%.
25 These forecasts considered the expected price rise of energy and oil. During this time, the price rise in foods, both global and domestic, was not in today’s extent.
26 The key interest rate was raised in June, September and November, each by 25 basis points.
27 As of end March, the actual revenues met about 23% of the Ministry of Finance’s annual plan.
28 Upon the entry into force of the new fiscal package in the second half of 2007, all existing exemptions from the VAT were removed, which implies a wider base for taxpayers.
29 Long-term debt is represented by bonds of 2-7 year maturity term, while short-term debt implies Government’s borrowing in T-bills.
30 The amount of exports with Croatia reached 582 thousands euro in the first quarter of 2008, relative to about 48 thousands euro in the first quarter of 2007.
31 The annual growth of these items’ imports is 37%, 27% and 15%, respectively.
32 During the first quarter of 2008, the share of this item was 9.6%, relative to 9.8% the same period the previous year.
33 During the first quarter of 2008, this item accounted for 14.4% of total imports, relative to 17% it accounted for in the first quarter of 2007.
34 Although this item’s imports record an annual growth of about 11%, its share to total imports remains almost unchanged at 16%.
5 The data refer to the average for the first quarter of 2008. The terms ‘money stock’ and ‘broad money’ refer to M3 aggregate.

NEER – nominal effective exchange rate measured against two currencies according to an approximate share they have in trade with abroad, EUR (80 per cent) and USD (20 per cent). Starting from April 2004, the NEER is above 100. A positive change of the NEER implies the appreciation of the lek.

7 Measured as the quarterly average of exchange rate volatility. Exchange rate volatility is measured as the standard deviation \( \sum (x_i - \bar{x}_i)^2/n - \bar{x}_i \), where \( x_i \) – exchange rate in period \( i \), \( \bar{x}_i \) – average of period \( i \) (for instance in a given day of the month in year \( i \) minus the average exchange rate of the month in year \( i \)).
SPEECH BY MR. ARDIAN FULLANI, GOVERNOR OF THE BANK OF ALBANIA
At the ceremony held on the occasion of the launch of Credit Registry
Sheraton Hotel, Tirana, 28 January 2008

Honoured Mr. Prime Minister,
Honoured ministers,

Dear ladies and gentlemen,

I am very pleased to announce the successful completion of the Credit Registry project and the start of its operation from January 3 2008. The establishment and operation of this Registry in early 2008 was a commitment made by the Bank of Albania to the banking sector and the international financial institutions 17 months ago. In contrast to other similar projects developed by the central bank, Credit Registry has the full authorship of the Bank of Albania in terms of financing, designing the technical specifications of the projects and of its implementation.

In general, the financial markets cannot operate properly unless a developed infrastructure is used. The latter helps to provide the necessary instruments for handling transactions between the parties, freely and reliably. The regulatory authorities have the responsibility to create the proper conditions for the market to develop this infrastructure or play the primary role in creating it in order to meet their objectives, enhance market efficiency and formalize the economy. In this context, Credit Registry represents an important development in the Albanian financial infrastructure, which is being developed swiftly.

By means of this Registry, the Bank of Albania aims to improve the credit management process at commercial banks, by providing an instrument which allows more complete and effective analyses of the borrowers’ creditworthiness. The improved information on the borrowers helps to reduce the costs of lending financial institutions which relate to the time of analysis and the consequences if wrong lending-related decisions are made. In a market which shows satisfactory levels of competition in terms of credit, the establishment of a credit registry helps the financial access of different borrowers and leads to the drop of the credit interest rate.

Credit Registry provides to the Bank of Albania, which is the regulatory and supervisory authority of the banking sector, an additional and useful instrument to deepen its analysis, not only in terms of assessing the general quality of credit portfolio, but also to identify the concentration of credit by banks and borrowing entities. In addition, it assists the Bank of Albania to make a comprehensive assessment of banks and borrowers’ exposure to financing by currencies, of the type of collateral and guarantees used, the relations between different borrowing entities, etc. These phenomena accompany the
lending activity and they require a prudent monitoring by the commercial banks and the Bank of Albania, in order to identify the jeopardy and contain it in case there are any.

In fact, the priorities provided by the Credit Registry to the banking and financial industry and to their supervisory authorities, as a result of the improved quality of the financial information in the lending process enhances the efficiency and stability of the entire financial system.

Credit Registry project at the Bank of Albania went through several phases which I would like to briefly point out. First, it was required that the professional and technical know-how of the way this instrument operates be concentrated and expanded in order for it to be later used efficiently in completing this project. To this purpose, an ad hoc team was set up, which was introduced to the way credit registries in different countries in the region and the Western Europe operated, aiming at selecting a project that would prove efficient to our banking market. At the same time, the work team continuously consulted and was advised by specialized foreign experts of the International Monetary Fund. Then, it began working on the project’s technical specifications and on designing a regulatory framework specific for the Credit Registry.

The Supervisory Council of the Bank of Albania has been paying special and utmost attention to the progress of the project and has provided the necessary support for its qualitative completion within the set time. During the entire process, commercial banks have provided their opinion being involved actively in the successful completion of the Credit Registry project. Their contribution has been particularly precious in the preliminary testing of the technical solution selected and in filling in the database with the necessary information.

At the same time, the Bank of Albania has paid special attention to public education, by publishing informational brochures during the entire process and providing the necessary clarifications in the media.

Allow me to mention in the following some characteristics of the Credit Registry.

The participation of commercial banks in the Credit Registry by entering the information according to the format specified by the Bank of Albania is mandatory. These institutions provide in the Credit Registry database information on their clients and in return, they can access the database to obtain information for all the system’s borrowers. The Credit Registry contains positive and negative information on the borrower, implying that apart from the information on the borrower’s correctness to repay the credit to the lender, the Registry also contains additional information on the borrower’s personal data, his/her main business direction, the real estates and the collaterals declared, the connected persons, etc. This type of information completes the borrower’s profile, better addresses the lenders’ needs for information to improve the decision-making process and ultimately, it improves the borrower’s opportunity to be granted a credit.
Credit Registry includes all the credits regardless of their amount. With regard to this, other countries’ experience provides various solutions. In some countries, the database of the public credit registry contains only those credits above a certain amount, selecting among a large number of credits those having a systemic importance. On the other hand, the private registers are those which cover the rest of total credit portfolio, thus making a de facto sectoral information breakdown. In the Albanian case, given the not too high number of total credits and the absence of a private and alternative registry, the Credit Registry includes all the credits extended. In this way, the Credit Registry enables the inclusion of the data on small borrowers, mainly involved in the small and medium-size business. Currently, the Registry contains data on about 210 thousand active credits of the banking sector and about 334 thousand objects serving as collaterals or guarantee for the credits extended to borrowers. In addition, the Registry has identified about 140 thousand related borrowers. The data is updated on regular basis.

Currently, banks are the only users of the Credit Registry. However, our objective is to include other non-bank financial institutions which operate in the lending business as users of the Credit Registry in a reasonable period of time. Consequently, the database will be expanded with new borrowers from all lending institutions.

The information included in the database is protected and used in line with the requirements of the Law ‘On the protection of personal data’. Certain commercial banks’ and Bank of Albania employees are the only people certified by the Bank of Albania to enter the data and use the information in the Credit Registry. In addition, in order to avoid cases of misinterpretation of the information contained in the Registry, the borrowers may address to the Bank of Albania in order to verify the information about them and make the necessary amendments by going through a clear and well-defined procedure.

In terms of the project’s technical execution, the expansion of the number of users and the interface of the Registry’s database with other public registers are possible. At the same time, this solution allows the interface with other similar private registers to be developed in the future. Undoubtedly, in such cases, the regulatory framework should clearly stipulate the users and their rights and responsibilities.

I would like to thank for the successful completion of this project:

• The International Monetary Fund for the support with technical assistance provided through the entire phases of this project;
• The commercial banks for their commitment in the adaptation process of their internal data systems with the requirements of the Credit Registry;
• The private company which provided the technical solution for their professionalism and seriousness shown in the timely completion of the project, hoping that the same standards will be provided during the maintenance period of the Registry’s technological platform;
• The work team of the Bank of Albania which took over the responsibility and successfully completed this important project with devotion and professionalism apart from carrying out the day-to-day functional duties.

In conclusion, I would like to underline that the Bank of Albania is convinced that the Credit Registry will be effective and successfully meet the objectives of its establishment.

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

At the meeting ‘Agriculture and Regional Development’ organized by the Institution for Democracy and Reforms and the Ministry of Agriculture, Food and Consumer Protection
Manza Municipality, 11 March 2008

Honoured Mr. President,
Dear participants,

1 INTRODUCTION

I believe today’s meeting represents a serious effort to accurately identify the drawbacks and advantages of the agricultural development in Albania. I take this opportunity to thank the organizers for holding this significant meeting. I believe debate on these issues in a public or institutional level has been poor and I honestly like to re-highlight that today’s meeting is the proper one and is seen with great interest by the Bank of Albania.

In several of my public speeches I have highlighted the influence of this sector on certain aspects such as consumer goods’ inflation and trade deficit, which are of great interest for the Bank of Albania. In addition, I have brought to the public’s attention the importance and necessity to undertake deep structural reforms, many of which would lead to the development of this sector.

It was for this purpose that in its last meeting, the Supervisory Council of the Bank of Albania re-emphasized (quote from the Supervisory Council... ‘the need for undertaking structural reforms in agriculture, in order to enhance the efficiency and production in this sector and reduce the extent and effects of external shocks related with agricultural products in the medium run’).

What follows focuses on some issued I referred to above:

2 EFFECT ON INFLATION AND TRADE DEFICIT

The fluctuations in the prices of agricultural products, processed or non-processed, have a rapid and intensive influence on inflation. This occurs not simply because consumer goods’ prices are characterized by a large seasonality, but also because the share of foods in the total of consumer price index in Albania is higher than the share of all other sub-groups, accounting for about 40%.

Consequently, the performance of foods’ prices is viewed carefully by the Bank of Albania, in view of meeting its legal obligation which is achieving the main objective of price stability.

Another important aspect is the continuous deepening of foods’ trade balance, be they processed or non-processed goods. During the last five
years, 2002 – 2007, trade balance in foods has fluctuated around 18%-20% of total trade deficit.

I think the third aspect that makes us very sensitive relates to the latest developments in the international markets, whose effect has been also reflected in Albania. Recently, the international markets are being faced with more expensive costs of grains and products of animal and vegetable origin.

The reasons behind are known, however the duration of this phenomenon and the fact that many economies are immune of it are yet unclear. I believe the hardest part is still in front of us therefore I hope this meeting is not the last one.

3 STRUCTURAL DRAWBACKS IN AGRICULTURE AND THE NECESSARY REFORMS

Agricultural production is faced with a number of drawbacks, among which the non-functioning of agricultural land market and the uncertainties associating the ownership titles, the great fragmentation of agricultural land, the poor collection and distribution system, the poor infrastructure in rural areas, the lack of proper mechanical technology, the absence of adequate watering systems, lack of financing, insufficient marketing and many other similar reasons.

These structural drawbacks are also confirmed by the following data. Agriculture in Albania has been mainly driven by the meeting of rural families’ need. Only 30% of agricultural production is sold in the market. In addition, it is assessed that agricultural production for each farmer is on average 4 times less than that of new EU members and 20 times less than the old EU members. Agricultural is dominated by small farms with an average area of only 1.13 hectares.

The current organization way of agriculture in very small and fragmentized farms hampers the use of economies of scale, lowers the profitability of using the agricultural mechanics and consequently, results in a high cost and low productivity in agricultural production.

In addition, the informal and narrow character of these farms and the low productivity impede the allocation of lending funds to this sector leading as such to a vicious circle. Therefore, it is necessary to intervene in this vicious circle of low productivity, poor and inadequate infrastructure and mechanism and lack of financing.

To this purpose, I believe structural reform in agriculture is indispensable and it should aim at: growing productivity, lowering the costs, improving infrastructure and the collection and distribution systems.

--- The growth of productivity in agriculture can be attained only through the improvement and optimization of ratios between land, labour force and
capital inputs and the convergence of these ratios at least to the regional
countries’ standards. These requirements are based on the growth and
development theories; however, they cannot be attained spontaneously unless
adequate structural reforms are undertaken.

Allow me to mention that because of the absence of these ratios’ optimization
and the absence of convergence, many Albanian farmers have been tempted
by a higher profit to perform the same labour in foreign countries’ farms and
have emigrated abroad.

Structural reform should be first and foremost oriented to the functioning of
the agricultural land market. Undoubtedly it requires the clear designation of
agricultural land opposed to those used for other purposes and the clarification
of ownership titles of these lands. These would allow the establishment of
large farms, optimization of the ratios: agricultural land, labour force and
capital, better convergence, the economies of scale and ultimately the
growth of productivity. Only this reform can guarantee successful and stable
developments in this sector.

--- The improvements in infrastructure and in the collection and distribution
systems are also of special priority. These improvements would increase the
market’s perspective for agricultural products (rather than using them by rural
families themselves).

As a result of the inadequate collection and distribution systems, the
agricultural products are in many cases left unsold or sold at a lower price in
saturated local markets, while their prices in other markets are quite higher.

What is even worse is that the absence of inadequate infrastructure and
mechanism has left the agricultural land unploughed. The improvement of the
collection and distribution system may formalize the initiatives in this sector
and turn them into real businesses, making them more transparent, assessable
and monitorable. Hence, cooperation between the financial and agricultural
sector will be boosted.

On the other hand, the improvement of road, watering and drainage
infrastructure is necessary to provide to our farmers opportunities equal with
the other regional countries’ farmers.

--- Agricultural financing and lending is another focal pillar. The reasons
behind the absence of lending first of all relate to the low productivity in the
agricultural sector, to the non-optimization of its inputs, the informal agricultural
initiatives and to the absence of their market perspective. As a result, the
reforms addressed earlier, in terms of enhancing productivity and formalizing
the agricultural initiatives in order for the agricultural sector to become more
attractive to banks, need to be provided and guaranteed in the long-term.

At the same time, all the alternative options need to be carefully analyzed.
Certain schemes tested in other countries, where agriculture is a crucial part of
economic development, may be initiated both by public and private ventures. It is important for us to increase the alternatives for the specialized financing of the agricultural sector.

In the last two years the Bank of Albania has been paying special attention to the development of agriculture lending institutions, with a view to assist them in being developed as proper financial institutions and operate in line with the best standards of transparency, credibility and efficiency. In this way, banks will be viewed as real partners in the process of channelling the funds to the agricultural sector.

The improvement of the institutional, regulatory and reporting aspects of the activity of these institutions by the Bank of Albania will incorporate them and their lending network in an organic part of the financial system. Specialized agriculture lending agencies need to be consolidated and be seen with priority compared to banks in general, in terms of selecting valuable projects, risk assessment etc.

The establishment of modern instruments for the financial support of agriculture by introducing services and products dedicated to certain segments, which are currently out of the financing schemes, would provide the best alternative for as long as universal banks do not find it gainful yet and are not willing and do not have enough capability to expand this type of credit.

On the other hand, these institutions will help to mobilize and allocate the temporary free funds of different economic agents more effectively, pushing further the novelties that lead to the development of the financial market. Organized in such a form, they will generate positive effects in the social and educational context of the agricultural sector. Hence, it may be concluded that these institutions are a key element of economic and financial infrastructure of employment and economic growth, in particular for the agricultural sector and the respective community.

4 CONCLUSION

Concluding, I would like to thank the organizers of this meeting and I hope that a large part of the conclusions drawn from this meeting will be part of our short and long-term development plans.

Thank you.
SPEECH BY MR. ARDIAN FULLANI, GOVERNOR OF THE BANK OF ALBANIA
At the launch of the electronic data transmission project which relates to the execution of primary market auctions of the Government securities
Rogner Europapark Hotel, Tirana, 13 March 2008

Dear participants,

The Bank of Albania, the Ministry of Finance and the REUTERS have successfully finalized today after a year of close cooperation the electronic data transmission project, which relates to the execution of primary market auctions for the sale of the Albanian Government securities.

This project minimizes the time from the submission of commercial banks’ requests to participate in the auction until the announcement of the results to the market players. Otherwise said, the physical delivery of documentation is coming to an end.

The Bank of Albania as the auction agent and the Ministry of Finance as the securities issuer have considered the more developed countries’ standards. These two institutions have had a collaborative endeavour to be close to the market by establishing a partner relationship in order to meet the mutual demands.

However the achievement of success cannot be understood without the information technology support. In this respect the REUTERS has played a key role.

The auction process goes through the following phases.

First phase: Commercial banks’ bids are made electronically, not physically. This way of data transmission avoids the manual entry of bids, reduces the time for their entry, increases the safety and accuracy of entries by providing at end-process the minimization of operational risk and the required time to process the information.

Second phase: Following the preliminary processing of data sent by the participants in the primary market the Ministry of Finance may be provided with the data electronically as well. The provision of electronic data reduces the time required for the Ministry of Finance to be informed of through the physically sent documents.

Third phase: After the decision is taken the Ministry of Finance may transmit this decision electronically, contributing further to the reduction of time in informing the market related with the auction result.
The entire process described in these three phases required about 5 to 6 hours but upon the implementation of this project it will be reduced to 1 hour.

Fourth phase: The Bank of Albania transmits this result to commercial banks through the REUTERS. At the moment the commercial banks are the main market participants.

The transmission of this information in a shorter time allows commercial banks to administer their free funds more efficiently.

The enhancement of this efficiency is a step further in establishing the preconditions for developing the money market and the securities market.

Dear participants,

In conclusion I would like to underline that this project provides to the market an important infrastructural element. Starting from today, the securities market will speak in the language of electronics.

However, the Bank of Albania will introduce in April a full package of improvements which will focus on the development of the financial market and stability.

Hoping that you will be using the new system efficiently,

Thank you.
OPENING SPEECH BY MR. FATOS IBRAHIMI, DEPUTY GOVERNOR OF THE BANK OF ALBANIA

At the workshop organized in cooperation with the Convergence Program of the World Bank “General introduction on Regulatory Impact Assessment and first practical application”

Rogner Europapark Hotel, Tirana, 31 January 2008

Ladies and Gentlemen,

It is indeed a great pleasure to open the workshop on the “General introduction on Regulatory Impact Assessment (RIA) and first practical application” as part of the RIA Knowledge Transfer Program to be delivered by the Convergence Program of the World Bank. This workshop marks the beginning of the activities of the Special Projects Initiative (SPI) Albania that was launched on January 19th in Bari in the presence of Governor Fullani, the President of the Puglia Region Nichi Vendola, the high-ranking representatives from the Central Bank of Montenegro and the banking associations of the respective countries as well as the representatives from the Convergence Program of the World Bank, which promotes and manages the SPI Albania project.

The SPI Albania will build upon the positive outcomes of the similar projects carried out in Bulgaria and Romania. Its nature of a public-private partnership constitutes the most important characteristic of this project which will aim at the acceleration of the financial sector modernization in Albania by fostering a close dialogue and cooperation between the regulatory authorities and market participants in our country. In this context, the Bank of Albania remains fully committed to contribute to the successful implementation of this project by continuing to engage in a fruitful and continuous cooperation with the representatives of the banking system in accordance with the nature of this project.

The development of the evidence-based policy analysis skills in compliance with the EU’s “Better Regulation” approach will constitute the cornerstone of the SPI Albania activities. These capacity-building activities will aim at acquainting the staff of the Albanian regulatory and supervisory institutions with the necessary expertise that will enable them to draft the impact assessments of the regulatory acts proposed by the respective authorities by employing the main tools and methodologies necessary for the evaluation of costs and benefits as well as for the preparation of the market failure analysis. It should be emphasized that the Albanian institutions are not quite familiar with the techniques of Regulatory Impact Assessment and therefore trainings such as this one are more than welcome.

Following the adoption of the new Banking Law in December 2006 and its entry into force in June 2007, which represented a further alignment of the Albanian banking legislation with the EU acquis, the Bank of Albania is currently in the process of reviewing the regulatory framework which will
ensure the appropriate implementation of the said Law. In this framework, the preparation of the respective impact assessments for each proposed regulatory amendment in close consultations with the market participants remains one of the objectives of the Bank of Albania in the near future. These new analytical tools will certainly improve policy-making by placing a greater emphasis on the clarification of costs related to the enforcement and implementation of the adopted regulatory acts through the conduct of the respective cost-benefit analyses. At the same time, the use of these assessment techniques will enhance the transparency of policy-making by ensuring a better communication of the regulatory and supervisory authorities with market participants.

Let me conclude by thanking Mr. Bossone and Mr. Brogi from the Convergence Program as well as Ms. Wesseling from the Committee of European Insurance and Occupational Pensions Supervisors for being among us today. It is my deep conviction that their presentations will prove to be highly beneficial and insightful to all participants.

I wish you a fruitful and interesting workshop.

Thank you.
March 2007  

INFORMATION ON INTERNATIONAL RESERVES AND FOREIGN CURRENCY LIQUIDITY TEMPLATE  
Hilda Shijaku

This 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.

Juna Bozdo, Irini Kalluci

This paper deals with the compliance of the Law No. 9662, dated 18.12.1996 “On Banks in the Republic of Albania” with the existing regulatory framework, and the obligations for regulatory changes arising from the implementation of the Directives of the European Union.

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

This paper 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 paper 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 paper 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.

NATIONWIDE REMITTANCE BENEFICIARIES SURVEY
Argita Frashëri

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.

REAL ESTATE PRICES AND FINANCIAL STABILITY
Juna Bozdo

This paper assesses the correlation between bank lending and property prices. From the theoretical viewpoint causality may go in both directions. On one hand property prices may affect bank lending via various wealth effects. And on the other hand, bank lending may affect property prices indirectly, augmenting the funds at the borrowers’ disposal. As a result, from the practical viewpoint it can be said that property prices fluctuation might influence the level of risk that banks take during the lending process, as well as their loan extension policies. The paper makes an assessment of real estate lending, treating the subject from the supervisory point of view. The paper also makes use of the results attained from a questionnaire delivered to the banks of the system as to identify the types of real estate loans that exist and the risks that the lending process of these types of loans bear.
LABOUR PRODUCTIVITY IN ALBANIA: THE PROCESS OF SECTORS’ CONVERGENCE
Vasilika Kota

This paper investigates the impact of sectors’ convergence in labour productivity growth in Albania over the period 1996-2005. A decomposition exercise is utilized for this purpose. The results show that there is sectors’ convergence especially for the agriculture sector, while the other sectors tend to move towards a higher equilibrium point. However, the sectors’ developments support an ongoing labour productivity growth in Albania.

THE MAIN METHODS OF TEMPORAL DISAGGREGATION
Elona Dushku

This paper describes the main methods of temporal disaggregation and the disaggregation of GDP in Albania. It presents the first attempt to generate quarterly GDP figures from two series, M3 and total volume of sales. Both models have high determination coefficient $R^2=0.98$, thus 98% of GDP variation can be explained by M3 or total volume of sales. The models have also satisfactory DW figures. Given that the annual number of observations used in modeling is low and differs between the two cases, it is hard to compare their performance. However, the results may be considered as satisfactory for the first phase of GDP estimation, given that the series are short and do not allow further testing.

* Opinions expressed in these papers are those of the authors and do not necessarily reflect the official opinion of the Bank of Albania.
A DISCIPLINED APPROACH TO PORTFOLIO MANAGEMENT AND TRADING*
(A SHORT YET COMPREHENSIVE DESCRIPTION)

This paper aims to give a short description of the trading process in general and the steps through which a disciplined trader and/or portfolio manager should go in particular. This comes on the top of a previous document which was a feedback for the internship I attended in the World Bank Treasury in Washington D.C. during the month of October 2007 on reserve management. The back-bone of the approach is the one World Bank currently uses but it is not its official document for portfolio management purposes. Nevertheless, for academic honesty purposes, I fully recognize the authorship of the World Bank staff on the core concepts and format behind this paper. However, the description is in my own words and the three-year experience I have as a portfolio manager at the Bank of Albania surely helps in providing a meaningful description. The document is titled T.R.A.D.E.M.A.P where every character stands for the first letter of each of the stages of portfolio management process from inception to execution and the follow-through. Let us go through each of them:

T-Theme: It is always important to first identify the market’s current focus. In other words, a portfolio manager should know what is the main topic about which the market is speculating. Identifying market’s main focus enables the manager to select and filter the most important market-moving information available in the market. This in turn, makes her/him aware of the threats and opportunities present in the market thus protecting the portfolio’s performance from the formers and making use of the latters. To illustrate suppose that the market’s current speculation revolves around the issue whether FED (Federal Reserve) is done or not with cutting interest rates. Depending on which side of the story the manager sits, the positioning will be determined. Thus, it is obvious that you cannot take a position on an issue without first identifying the issue itself.

R-Review: Review the theme in details and translate it into possible scenarios of market reaction. Here comes into play the ability of the manager to simulate possible market reaction patterns with regards to three main risk factors: duration, curve and spread exposure. To make it more understandable let’s continue the previous example, deciding that market’s main theme is the possible end to the easing cycle of FED. If this is the case the manager must decide what will happen to the rates (increase/decrease), to the curve (flatten/steepesten) and to the spreads (tighten/widen) if the market comes to conclusion
that FED has some more to do with cutting rates or quite the opposite, is already done. This is important for the manager because the market is the focus where the manager will play and she/he cannot ignore its reaction towards different scenarios of the main theme.

A-Assess: Assess the degree to which the market has already priced in the reaction from each potential outcome of the review stage. This has to do with the quantitative assessment of the previous stage. To continue the previous example if the market is focused on the theme of FED’s likeliness to stop cutting rates and if such a speculation is confirmed by market action (higher rates, flatter curve and possibly tighter spreads), the manager must determine on advance (before the speculation becomes a reality) the degree to which the market is already anticipating this outcome. This stage of strategy-building is very important as it makes the manager aware of the possibility of adverse market reactions even though the long-speculated scenario actualizes. For example, if the market has longly speculated that FED is at the end of cutting rates (and the rates and curve have in the meantime increased and flattened respectively), there might be the possibility that when the very scenario itself becomes a reality (FED stops cutting in the next meeting), the rates might decrease sharply with a steeper curve. Assessment has also to do with evaluating the quantitative impact of seasonal patterns which might go in the same direction with the fundamental market reaction but have no direct relationship with it.

D-Decision: After the manager has identified the market’s main focus, translated its potential outcomes in real market reaction scenarios and determined each scenarios’ quantitative expression in market current prices, she/he must determine on which side of the story to position. This is very important as it will directly determine whether the manager will stay long or short, for a steepener or flattener and for a widener or tightener. Here comes into play the direct and unique contribution of the manager to the whole process of portfolio management. If the first three stages are descriptive and mainly determined by the market, the stage of decision is a function of manager’s internal perception of relative risk and probabilities. However, a successful decision depends on the way the manager has defined market’s focus (theme), potential market outcomes (review) and quantitative, fundamental and seasonal assessment of market’s anticipation of each outcome (assessment). Thus, the success of this stage (decision) cannot be understood without the rigorous implementation of its three preceding ones.

E-Execution: This stage should not be confused and reduced to just pressing the sell/buy button in the manager’s computer. Before executing the trade the manager should first of all determine the sizing, quality, timing, and range of the transaction. By size we mean the amount of risk factor by which the manager decides to deviate from the benchmark (be it duration, curve or spread exposure) translated into dollar amounts of her/his portfolio. By choosing the quality we mean the asset class (if talking about spread exposure), and the maturity of the security which will be picked up for trade. Timing is the next thing to be determined. A lot of managers prefer quiet moments in
the market to build their positions especially if they are taking fundamental (more than just short-term/intra-day) positioning. Others, prefer to trade in front of market-moving events especially if their speculation is built upon the direction of the potential market volatility caused by that specific event. Next, the manager should choose the range. Three levels are important here: 1. entry level – level which is attractive to manager’s relative perception, 2. profit-taking level – level which is both reachable and satisfactory for the manager’s appetite for profit. If that is reached the manager must close the position to book profits. 3. last but not least and the most problematic one (which requires strong discipline) is the stop-loss level – level which if reached would make the loss of a position unbearable for the manager and would ideally trigger the manager to close the position at a loss. This is vital when one considers the possibility of slipping into a losing streak while hoping for recovery of previous losses. Regardless of what a manager bets on to built his position and of the size of her/his positioning, the above-mentioned details of preparation are crucial and should not be undermined. They should be determined before-hand (if needed written down) so that the manager saves time and nerves when the moment of execution comes.

M-Monitoring: This stage comes after execution and is as necessary as execution itself. The usual mistake the managers make is that they lose track of their positions after executing the transaction (assuming that they are opening a position). This, in the best case is an incomplete perception of the portfolio-management process (if not a handicapped one). After a trade has been placed a manager wants to know how it performed. The minimum that should be done is building a graph which depicts the real time evolution of the rate and/or spread levels (be them for curve or spread purposes). This is important as it enables the manager to react in case her/his stop-loss or profit-target levels are met, thus judging roughly on the performance of her/his position.

A-Adjust: This stage represents the ability and need of the manager to adjust her/his position after the initial information upon which the position was built, changes significantly together with the manager’s perception about the risks. When the manager decided to position in the market, he based his decision upon a set of market information available to her/him. However, as the time passes by, new information flows into the market. Depending on the importance of new information and its relevance to the main theme (if this has not changed already) the manager should assess the validity of the initial assumptions upon which the fundamentals of her/his positioning rest. To give more colors to this, and continuing the previous example, suppose that inflation turns higher than expected and the real economic indicators start to bottom out. This would put the positioning of the manager at risk if she/he has speculated that FED is not done yet with cutting rates. If the manager notices that the market is buying into the new psychology, and is coming to a turning point, s/he must adjust her/his position from reducing it to closing it all or even position on the other direction. The speed of reaction is crucial here. There is no recipe for an optimum reaction speed. It all depends on the manager’s perception of market turning points: not too early, not too late!
P-Performance: In the case of institutional investors performance is typically measured by a unit which is independent of and outside the investment unit where the manager is employed. However, it does not hurt to the manager of the portofolio to measure the performance of her/his own portfolio against the benchmark independently of the risk-measurement and compliance unit. In fact, it helps a lot to do so. Of special interest to the manager is the attributive performance. After the manager finds independently the total performance, it is advisable to try to allocate it amongst the three main risk factors (if the manager is exposed to the three of them—duration, curve, spread). This stage becomes especially important in two cases: 1. when the manager is losing s/he needs to close the position for stop-loss purposes, 2. when the manager is winning s/he needs to close the position for profit-taking purposes. In both cases, the manager must know the sources of the loss/profit before executing the position-closing transaction on the proper risk-factor.

To conclude, the process of managing a portfolio is stressful and entertaining at the same time. Frequently, it involves strong human emotions, such as anxiety, hope, stress, superiority, inferiority, fear etc. Market gyrations can cause similar and almost one to one gyrations to these feelings which might have serious good or bad (read as fantastic or catastrophic) consequences on portfolio’s performance the culmination of which is the reluctance to close a position (cutting a losing streak) through executing a stop-loss or the impatient closing of a winning position before it reaches the preset profit-taking level\(^1\). To prevent such an enjoyable yet abusive behaviour, firm procedures and guidelines must be in place. T.R.A.D.E.M.A.P offers a good guide eventhough it is not an official document of the World Bank Treasury.

\(^*\) Rezart Molla, specialist, Operations Division, Monetary Operations Department, Bank of Albania.

\(^1\) Such an asymmetric yet typical behaviour of human nature leads to safe losses in the long-term.
On 18 January 2008, Max Watson, a member of Wolfson College, Oxford; former Deputy Secretary of the International Monetary Fund and economic adviser to the Economic Commission, held in front of Bank of Albania directors and employees the seminar ‘Why do central banks publish the Financial Stability Report’.

The topic of the seminar was carefully chosen by the organisers considering that the Bank of Albania is ever-increasingly believing that financial stability has its roots in the formulation of successful economic and social policies by the authorities and that volatilities in the financial stability may be costly to the country’s future economic development.

During the presentation were analyzed and discussed many issues related to financial stability and the role of central banks in this area. More concretely, the presentation of Mr. Watson began with a description of what financial stability is, focusing further on the absence of an institutional or market breakdown with spillover risks in the financial sector and real economy.

Another important issue was the reason why Financial Stability Reports have been adopted. Mr. Watson pointed out that the costs of financial instability can be very high, in terms of output loss and of additions to the public debt (both can amount to 20% of GDP).

Financial stability reports have been widely adopted, and financial stability is now the common function of Europe’s 40 central banks.

At the end of the presentation, Mr. Watson concluded that: Financial stability has no dedicated instrument, so early analysis, policy co-ordination and communication are key; Art is to highlight connections and dynamics, not new data; Financial Stability Report needs a ‘bird’s eye view’ of sectors and policies; Standardised structure helps, plus studies on key themes; Public warnings at pre-crisis stage useful, not dangerous; Financial Stability Report is the ‘flagship product,’ but only one channel; An advance internal assessment should identify key issues, audiences, role and limits of each financial stability report.

During January – February 2008 the Bank of Albania held the first phase of the international competition for the construction and reconstruction of its headquarters. This project of the Bank of Albania is in line with the implementation of its medium-term development strategy, as well as with
its ambition to meet the standards of more developed countries’ central banks.

The international competition for the selection of the best project was held at Tirana International Hotel, before a jury of 11 people headed by the Governor of the Bank of Albania, Mr. Ardian Fullani. Other jury members were representatives of the Albanian Government, Albanian Architects’ Association, Banca d’Italia, Bank of Albania and the European Central Bank.

The announcement for the competition was also published in the daily prestigious newspaper ‘Financial Times’.

The jury was very careful in judging the projects, considering their compliance with the approved study of the centre of Tirana, the capacity of the Bank of Albania building to accommodate and create adequate working conditions for 400 employees, and the observance of architectonic values of the present building, which dates back in the 30s of the 20th century. Considering these values, it represents a remarkable work for the time it was built and has a special place in the historical buildings of Tirana. One of the requirements was the provision of environments to be used for the first numismatics museum, a conference room with 150 seats, the library which will have a public function as well, etc.

Projected to be a modern building, at the same time preserving the current architecture, that is its originality, the new building of the Bank of Albania will meet all the ecological criteria of present-day modern buildings.

In conclusion, the jury decided that the project to be implemented for the construction and reconstruction of the building of the Bank of Albania is that of Prof. Arch. Marco Petreschi.

On 28 January 2008 at Sheraton Hotel in Tirana was held the ceremony for the successful completion of the Credit Registry project and for its commencement of operation starting from 3 January 2008. At the ceremony organized on this occasion were present the Albanian Prime Minister, Mr. Sali Berisha, the Minister of Finance, Mr. Ridvan Bode, IMF resident representative in Tirana, Ms. Ann-Margret Westin, members of the Council of Ministers, members of the Economy and Finance Commission, heads of commercial banks operating in Albania, representatives of non-bank financial institutions, business and international financial institutions, etc.

Credit Registry, which represents an important development for the financial infrastructure in Albania, is a project which has the full authorship of the Bank of Albania, in terms of financing, designing its technical specifications and its implementation. It is a database containing demographical information and data on financial, real or potential engagements of people applying to receive a loan from a bank, branch of a foreign bank licensed by the Bank of Albania or other lending institutions. The main objective of the Credit Registry is to assist
banks in executing sound lending transactions, by making available information on the borrower, as well as to boost and control the lending process.

Credit Registry provides to banks and other lending institutions the necessary information to help them define their best clients, those who can pay for their loan and those who cannot. Hence, Credit Registry helps lenders make better and more objective decisions.

The establishment of the credit registry is a necessity for Albania, given the rapid growth of credit in economy during the last years. This register helps both commercial banks and borrowers. It represents ‘the financial soundness’ of borrowing households and businesses and provides those with a positive credit history, faster services and lower interest rates in case they apply for credit.

Initially, only banks are users of the Credit Registry. However, as stated by the Governor of the Bank of Albania, Mr. Ardian Fullani, during the ceremony of the Credit Registry launch, the Bank of Albania aims to include in a reasonable period of time other non-bank financial institutions, involved in lending activity, as users of this registry.

On 31 January - 1 February 2008, the Bank of Albania organized in cooperation with the Convergence Program of the World Bank the workshop ‘General introduction on Regulatory Impact Assessment and first practical application’. Participants in this seminar were representatives of the Bank of Albania, Albanian Financial Supervisory Authority, Ministry of Economy, Trade and Energy, Ministry of Finance, Tirana Stock Exchange and the Albanian Association of Banks. This workshop marked the beginning of the activities of the Special Projects Initiatives (SPI) that was launched on January 19th in Bare, Italy. This project will aim at the acceleration of the financial sector modernization in Albania by establishing a public-private partnership centered in Tirana. It will catalyze cooperation among financial authorities, the banking system, the entrepreneurs and the civil society, in order to boost reforms and improve financial intermediation and to enhance its impact on Albania’s economic development process.

The greeting speech was held by the First Deputy Governor of the Bank of Albania, Mr. Fatos Ibrahimi. In his speech, he highlighted that the Bank of Albania, being vested with the authority to license, supervise and regulate the banking system at home, remains fully committed to contribute to the successful implementation of this project by continuing to engage in a fruitful and continuous cooperation with the representatives of the banking system in accordance with the nature of this project. The development of the evidence-based policy analysis skills in compliance with the EU’s ‘Better Regulation’ approach will constitute the cornerstone of the SPI Albania activities.

This workshop proceeded with presentations of the representatives of the Convergence Program which related to the main elements of the Regulatory Impact Assessment.
At the beginning of February, specialists and directors of the Financial Stability Department of the Bank of Sweden visited the Bank of Albania, aiming at being acquainted with the respective work.

During their stay, they held meetings with the Bank of Albania administrators, as well as with senior officials of Financial Stability, Monetary Operations and Supervision Departments. The issues discussed in these meetings related with the financial stability, the well-functioning of the banking system, the statistical database, etc.

In addition, the representatives of the Bank of Sweden held meetings with senior officials of some main commercial banks and with representatives of the Albanian Association of Banks. The discussions focused on their views on the main risks jeopardizing the activities of these banks and other issues relevant to the banking system stability.

In the meetings held with specialists of the Financial Stability Department at the Bank of Albania, the counterparts from the Bank of Sweden introduced the structure, the main products of their department and so on. These meetings laid the basis for the further cooperation between these two departments. Many issues discussed during this visit deepened further in the last visit of representatives of Financial Stability Department of the Bank of Albania to the Bank of Sweden.

In the context of activities organized by the Bank of Albania’s educational program ‘Central Bank in everyday life’, which targets university students, on 4 February 2008 was organized the ‘Bank Day’ at the European University of Tirana.

‘Bank Day’ is a special day when university students are given the opportunity to listen to presentations, hold meetings and discuss with Bank of Albania specialists. Being interlocutors in topics focusing on the central bank and its function, the role it plays in economy and in the well-being of the country, current developments in modern banking and the latest products it offers, personal finance etc., the students may obtain additional and full information from banking specialists of the respective areas. In the Bank Day, the Bank of Albania organizes mini-fairs with its publications, various periodical reports, conference books, papers, as well as educational brochures and leaflets.

This mini-fair of Bank of Albania publications was organized in the central hall of the European University of Tirana.

For this special ‘Bank Day’ the Governor of the Bank of Albania, Mr. Ardian Fullani, held in front of an audience of about 200 students and professors of the European University of Tirana the lecture ‘Bank of Albania – step by step towards convergence’.

In his lecture, Mr. Fullani dwelled upon the issue of convergence, the necessity to undertake deep structural reforms and focusing at the end on the role of the Bank of Albania in the entire process.
Special emphasis was placed on the need for financial integration, the role of the financial market, the necessity to perfect them further, and the prudence to ensure the financial system’s stability. As in many other cases, Mr. Fullani pointed out a number of measures adopted by the Bank of Albania with reference to the financial market efficiency in Albania, concluding that financial integration implies first and foremost, integration with the global markets and ultimately opportunities for convergence.

Following that, the students were part of discussions with Bank of Albania specialists which focused on the central bank and its function, the role it plays in economy and in the well-being of the country, current developments in modern banking and the latest products it offers, personal finance etc..

Part of this Bank Day was also the introduction of the latest educational publication of the Bank of Albania: ‘The new era of internet banking’. This brochure aroused great interest of the students who asked questions and received information on the technological developments which enable banks to provide modern services. In this context, the explanation of the role and the responsibility of the Bank of Albania in the operation of the payments system in Albania were of great interest to the students.

At the end of this activity were handed out questionnaires to the students, which listed topics of interest to the students, to be discussed in a second period with Bank of Albania specialists. In this way, a more oriented communication link could be established with this target group.

Continuing with meetings in the context of ‘Bank Day’, part of the educational program ‘Central Bank in everyday life’, the Governor of the Bank of Albania, Mr. Ardian Fullani, held on February 5th 2008 a lecture at Aleksandër Xhuvani University in Elbasan. Present in this lecture were professors and students of this university, as well as representatives of the local government and the media.

In his lecture, Mr. Fullani outlined the main developments in the Albanian economy, placing the emphasis on the role of the Bank of Albania in safeguarding macroeconomic stability at home and creating the proper conditions for a rapid economic growth by providing low and stable inflation rates. In addition, Mr. Fullani dwelled upon the positive developments characterizing the banking system at home in the last years, and upon the Bank of Albania commitment to ensure the stable and sound development of this system in the years to follow.

Mr. Fullani also touched upon the issue of convergence and the necessity to undertake deep and continuous structural reforms.

One of the Bank of Albania commitments is the establishment of a real economic and financial culture which relates to helping the public understand the core principles of the economy, the activity of a modern central bank and that of the Bank of Albania, as well as the well-management of personal
finance and the benefits of using the banking system products. In this context, Mr. Fullani mentioned the activities organized by the Bank of Albania which have at its core the public education.

In conclusion, the attendees discussed the importance of having a continuous communication with the stakeholders in the main regions in Albania, which in return would provide a more comprehensive view of the economic developments in the respective regions and would help the Bank of Albania in its decision-making process.

With the support of the Convergence Program of the World Bank, on 21-22 February 2008, the Bank of Albania organized the 2nd session of the round table on ‘EU’s approach for a better regulatory framework’. During this round table were tested the working teams established during the introduction of the Regulatory Impact Assessment, aiming at improving the abilities of the Albanian institutions in formulating the regulatory framework in line with the EU’s approach. Participants in this round table were two representatives of each of the 16 commercial banks operating in Albania and the members of the working teams established at the Bank of Albania.

In the context of the program ‘Central Bank in everyday life’, which focuses on public education matters, with special attention on the education of the young generation, the Bank of Albania organized on 26-27 February at the premises of Tirana International Hotel a two-day training seminar for high school teachers of the capital city. In its public education-related projects, the Bank of Albania has planned to hold similar seminars four times a year.

In the first day of the seminar, the high school teachers listened to the lecturers and held discussions on ‘The responsibility of the Bank of Albania with regard to the payments’ system’.

While the second day of the seminar was dedicated to ‘The lek’, the Albanian currency we use in our day-to-day life.

Based on the interest and the suggestions provided by the teachers who participated in the first two rounds of the seminar and the interest shown by the teachers and students during the continuous visits the Bank of Albania staff had to the high schools of Tirana, during the second day of the seminar was held an additional lecture on the financial markets. Despite being discussed in the previous seminars, this topic has always aroused the interest of the attendees to be treated in detail.

On 13 March 2008, the Bank of Albania, the Ministry of Finance and the Reuters, held at the premises of Rogner Europapark Hotel the ceremony for the launch of the electronic data transmission project which relates to the execution of primary market auctions of the Government securities.
Present in this ceremony were the Governor of the Bank of Albania, Mr. Ardian Fullani, Vice Minister of Finance, Mr. Sherefedin Shehu, Head of the Reuters for South-East Europe, Mr. Stefan Bresslauer, general managers of commercial banks and representatives of Treasury Departments at these banks and of other institutions involved in the primary market.

This project is successfully finalized after a year of close cooperation of the Bank of Albania and the Ministry of Finance with the Reuters, which provided the technical solution to this project. It aims to minimize the time and enhance the safety and accuracy of procedures for the execution of auctions, providing among others the minimization of the operational risk. In addition, commercial banks are provided with new opportunities to manage their free funds more efficiently, which is a progress in terms of creating the pre-conditions for the development of the money and securities market.

On 16-22 March 2008, Mr. Zoltan Jakab, held a working visit at the Research Department of the Bank of Albania. Mr. Jakab came to the Bank of Albania in the capacity of the IMF technical advisor to the Research Department for building a macroeconomic model for Albania. During his visit, Mr. Jakab held meetings with specialists and heads of Research Department and with other Departments’ heads.

This visit aimed to exchange experience in order to enhance the research capacity within the Bank of Albania in the modern projections and developments of macroeconomic models. In more concrete terms, the focus is on building response scenarios with the monetary policy and the conclusion of the project in line with the reference terms set by the IMF technical assistance mission in cooperation with the Bank of Albania.

In the context of the close cooperation with Banca d’Italia, on 20-21 March 2008, Prof. Claudio Impenna, Head of Analysis Division of the Payments’ System Department at the Banca d’Italia, had a working visit to the Payments’ System Department at the Bank of Albania. During his visit, Prof. Claudio Impenna held meetings with specialists of the Payments’ System Department and participated in a seminar organized in the Bank of Albania headquarters.

The purpose of this visit was to gain the experience from the Payments’ System Department at the Banca d’Italia and the introduction of the latest developments in this area. During the seminar were discussed issues related to the role of the central bank as the main institution monitoring the payments’ system, to the standards to be reached in order to meet the objectives of a safe and efficient payments’ system, to the implementation of the EU Directives in the payments’ system, etc.
LEGAL EVENTS OVER JANUARY-MARCH 2008

BANKING SUPERVISION

On 23 January 2008, the Supervisory Council of the Bank of Albania approved upon Decision No. 2 ‘The transfer of the shareholder’s capital of ProCredit Bank from International Finance Corporation (IFC) and FEFAD Foundation to ProCredit Holding AG, Germany’. Upon this decision, the Bank of Albania approved the transfer of 36.25% of shares of shareholder’s equity of ProCredit Bank from International Finance Corporation (IFC), part of World Bank Group and FEFAD Foundation to ProCredit Holding AG, Germany.

On 12 February 2008, the Supervisory Council of the Bank of Albania approved upon Decision No. 12, the holding of 22.17% of shares of Credins Bank from Balkan Financial Sector Equity Holding BV, the Netherlands.

On 12 March 2008, the Supervisory Council of the Bank of Albania approved upon Decision No. 22, the revocation of the licence of Italian-Albanian Bank. This decision followed after its merger with the American Bank of Albania and its full transfer to the American Bank of Albania.

On 26 March 2008, the Supervisory Council of the Bank of Albania approved upon Decision No. 24, the Regulation ‘On the internal control system in banks and branches of foreign banks’. This Regulation sets out the rules for the organization and functioning of the internal control system of banks and branches of foreign banks, the structures and parts of this system, as well as the supervision procedures of its operation by the Bank of Albania.

ACCOUNTING

On 23 January 2008, the Supervisory Council of the Bank of Albania approved the Decision No. 4 ‘On the way of complementing the amount of the Bank of Albania capital’. This decision approves the complement of the amount of the Bank of Albania capital from 750,000,000 (seven hundred and fifty million) lek to 2,500,000,000 (two billion five hundred million) lek, through the capitalization of a part of net profit of the fiscal year 2007 in the amount of 1,750,000,000 (one billion seven hundred and fifty million) lek.

ISSUE

On 6 February 2008, the Supervisory Council of the Bank of Albania
approved upon Decision No. 07 the Regulation ‘On the numismatics vault at the Bank of Albania’. The purpose of this regulation is to set out the way of organization, control, inventory and marketing procedures for the numismatics vault at the Bank of Albania. The numismatics vault stores banknotes and coins, medallions, catalogues, specimens, precious metals and related, used by the Bank of Albania for selling purposes.

On 12 March 2008, the Supervisory Council of the Bank of Albania approved upon Decision No. 21, the withdrawal from circulation of the following currencies having legal tender:

a. 100 lek denomination issue of 1993, 1994, 1996, with the portrait of the national warrior.
b. 100 lek denomination issue of 1996, with the portrait of Fan S. Noli.

The decision provides that these banknotes will continue to have a legal tender until 31 December 2008. These banknotes will be collected and exchanged with their initial issue value with other banknotes and coins in circulation until 31 December 2010.

PAYMENTS’ SYSTEM

On 6 February 2008, the Supervisory Council of the Bank of Albania approved upon Decision No. 11, the Regulation ‘On electronic payments’ instruments’. Electronic payments’ instruments are payments’ instruments which allow the access of funds or electronic money in a bank account and which enable certain operations, such as: cash deposit/withdrawal, execution of payments and/or transfers, placement of deposits, money recharge etc., through electronic and technical means. This Regulation mainly sets out the transparency standards with the client related with the terms, rules and procedures of handling payments through the electronic payments’ instruments in the Republic of Albania.

MONETARY POLICY

On 27 February 2008, the Supervisory Council of the Bank of Albania approved upon Decision No. 13, the Monetary Policy Report of the Bank of Albania for the second half of 2007. According to this report, the Albanian economy recorded positive performance during 2007 being characterized by a stable annual growth in line with the projections, inflation under control and further consolidation of financial stability. Real economic growth for 2007 is estimated to be about 6% or the same as the previous year.

for 2007’. This annual report describes the activities of the Bank of Albania and reports on the economic and financial developments in the country during 2007. Part of this report is the opinion of independent auditors on the financial situation of the Bank of Albania, along with the financial statements of the Bank of Albania as of and for the year ended December 31, 2007.

FINANCIAL STABILITY

On 12 March 2008, the Supervisory Council of the Bank of Albania approved upon Decision No. 20, the Statement ‘On the financial system stability in Albania’. According to this statement, the financial system in Albania has continued its stable growth during the second half of 2007. The quite good financial outcome, in both banking sector and non-bank financial sector, was due to the better use of the financial sources and the ongoing relatively quick expansion of the investment activities with high return. The long-term trend for a gradual decline of the capital adequacy indicator of the financial system and particularly of the banking sector has continued, but the declining rate is reducing.

ECONOMIC POLICY

On 11 January 2008, the Ministry of Finance approved the Instruction No. 1 ‘On tax on income’. According to this instruction, the income of physical and judicial people, subject to local tax on small-size business, with an annual turnover of no more than 8 million lek and no less than 2 million lek, are subject to tax on personal income.

On 17 January 2008, the Ministry of Finance approved the Instruction No. 4 ‘On the execution of State Budget for 2008’. State Budget begins on 1 January and ends on 31 December each year. It is detailed in monthly and annual terms and it is placed for execution at the Ministry of Finance. State Budget is composed of the consolidated fund, (central and local budget), social insurance budget and health insurance budget.

On 18 January 2008, the Ministry of Finance and the Ministry of Justice approved the Instruction No. 5 ‘Tax on the transfer of ownership right on real estates’. The instruction provides that any persons, who transfer the ownership right on the real estate, land, building (gifted or sold), are subject to 10% tax on profit.

On 28 January 2008, the Council of Ministers approved the Decision No. 79 ‘On setting the criteria and procedures for the licence of insurance brokers and the rules for the supervision of their activity and the cases of their licence refusal’. According to this decision, the Albanian Financial Supervisory Authority licenses and supervises the activity of insurance intermediation for agents, brokers and brokers’ associations.
On 3 February 2008, the Council of Ministers approved the Decision No. 96 ‘On establishing the assets covering the technical and mathematical provisions and the maximal allowed limits of their investment by the insurance companies’. This decision sets out the categories of assets investments covering the technical and mathematical provisions and the maximal allowed limits of their investment. In addition, it obliges the insurance companies to hold assets for covering the technical and mathematical provisions no less than the gross amount of the technical provisions.

On 4 February 2008, the Parliament of the Republic of Albania approved upon Decision No. 9869 the Law ‘On local government borrowing’. This law aims to increase the local autonomy, by providing the adequate decisions, grounds and rules which ensure a transparent borrowing process in line with the development policies in general, and which safeguards macroeconomic stability and the credibility of public institutions in the financial markets.

On 13 February 2008, the Council of Ministers approved the Decision No. 232 ‘On the approval of the sectoral strategy of public finances for 2007-2013’. This strategy is developed in line with the National Strategy for Development and Integration and for a seven-year perspective it establishes the connection between the strategic objectives and the expenditure programs, designed in the context of the Medium-term Budget Program. It covers: macroeconomic and fiscal policy, the State Budget administration, the financial administration and control, the administration of tax income and the administration of income from customs duties.

On 14 February 2008, the Parliament of the Republic of Albania approved the Law No. 9872 ‘On the ratification of the agreement between the Council of Ministers of the Republic of Albania and the Government of the Federal Republic of Germany for financial cooperation’. According to this agreement, the Government of the Federal Republic of Germany enables the Council of Ministers of the Republic of Albania to borrow from Kreditanstalt für Wiederaufbau (KfW - Frankfurt am Main): (1) a loan of up to 4 million euros for the project ‘Water supply program of rural areas’; and (2) a financial amount, to provide for the necessary measures in the implementation and supervision of this project, amounting to 1 million euro.

On 21 February 2008, the Parliament of the Republic of Albania approved the Law No. 9879 ‘On titles’. This law establishes the types of titles, regulates the way and terms for their issue, the trading and registration, the identification and the handling of transactions with the titles. In addition, it sets out the persons and individuals authorized for carrying out transactions with titles, the terms for the organization of titles’ public trading, the protection of investors and right bearers over the titles, the conditions for the dematerialization of titles, the organization and functioning of titles’ registers, the exchange and the regulation of titles’ market.

On 27 February 2008, the Council of Ministers approved the Decision No. 235 ‘On setting the minimum wage’. According to this decision, the minimum
base wage for employees, applicable and obligatory to be applied in Albania by any physical or judicial persons, Albanian or foreigner, is 16000 (sixteen thousand) lek.

On 27 February 2008, the Council of Ministers approved the Decision No. 236 ‘On setting the base level of unemployment income’. According to this decision, the base level of unemployment income is 5980 (five thousand, nine-hundred and eighty) lek.

On 28 February 2008, the Parliament of the Republic of Albania ratified upon Decision No. 9883 ‘The loan, financing and project agreement between the Republic of Albania, represented by the Ministry of Finance, Albanian Development Fund and KFW, Frankfurt am Main, for the financing of the project ‘Rural program of water supply’. This agreement provides for the financing of the project ‘Rural program of water supply’ with a loan of 7500000 (seven million, five hundred thousand) euro and a financial contribution of 1000000 (one million) euro.

On 28 February 2008, the Parliament of the Republic of Albania ratified upon Decision No. 9884 ‘The agreement between the Council of Ministers of the Republic of Albania and the Government of the Federal Republic of Germany for financial cooperation’. According to this agreement, the Government of the Federal Republic of Germany enables the Council of Ministers of the Republic of Albania to borrow from Kreditanstalt für Wiederaufbau (KfW - Frankfurt am Main) a total financing amount of 3556000 (three million, five hundred and fifty-six thousand) euro for the project ‘Inter-border biosphere reserve in Prespa’. After careful study it was concluded that the project should be financially supported.

On 10 March 2008, the Parliament of the Republic of Albania ratified upon Decision No. 9886 ‘The agreement between the Republic of Albania and the Republic of Austria for the double taxation relief on taxes on income and on capital and for preventing fiscal evasion’.

On 20 March 2008, the Parliament of the Republic of Albania ratified upon Decision No. 9891 the amendment to ‘The agreement of the resale of shares of INSIG, between the Ministry of Finance, acting on behalf of the Albanian State, the International Financial Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD)’.
BANK OF ALBANIA MANAGEMENT
31 MARCH 2008

SUPERVISORY COUNCIL

ARDIAN FULLANI  Chairman
FATOS IBRAHIMI  Vice Chairman
TEFTA ÇUÇI  Member
LIMOS MALAJ  Member
KSENOFON KRISAFI  Member
ADRIAN CIVICI  Member
ARJAN KADAREJA  Member
HALIT XHABA  Member
BENET BECI  Member*

GOVERNOR

ARDIAN FULLANI

GOVERNOR’S OFFICE

GENC MAMANI

DEPUTY GOVERNORS

FATOS IBRAHIMI  First Deputy Governor

GENERAL INSPECTOR

TEUTA BALETA

DEPARTMENTS AND OTHER UNITS

HUMAN RESOURCES DEPARTMENT  Dashmir Halilaj
MONETARY POLICY DEPARTMENT  Gramoz Kolasi
RESEARCH DEPARTMENT  Altin Tanku
MONETARY OPERATIONS DEPARTMENT  Marian Gjermeni
SUPERVISION DEPARTMENT  Indrit Banka
FINANCIAL STABILITY DEPARTMENT  Kloodion Shehu
INFORMATION TECHNOLOGY DEPARTMENT  Xhilda Kanini Deliana
STATISTICS DEPARTMENT  Kliti Ceca
ISSUE DEPARTMENT  Valer Miho
ACCOUNTING AND FINANCE DEPARTMENT  Arton Toro
PAYMENT SYSTEMS DEPARTMENT  Marseda Dumanii
LEGAL DEPARTMENT  Toni Gogu
AUDIT DEPARTMENT  Teuta Baleta
FOREIGN RELATIONS, EUROPEAN INTEGRATION AND COMMUNICATION DEPARTMENT  Ina Kraja
ADMINISTRATION DEPARTMENT  Agron Skenderaga
SECURITY AND PROTECTION DEPARTMENT  -
PRINTING HOUSE  Alfons Theka

BRANCHES

SHKODRA  Ermira Istrefi
ELBASANI  Valentina Dedja
GJIROKAstra  Anila Thomaçi
KORÇA  Liljana Zjarri
LUSHNJIA  Shpresa Meço

* Since 4 February, 2008.
LIST OF ALL ENTITIES LICENSED BY THE BANK OF ALBANIA*

BANKS AND BRANCHES OF FOREIGN BANKS

1. RAiffeisen Bank (Joint-Stock Company)
   Licence No. 2/1998, dated 11.01.1999
   Approved by the Supervisory Council Decision of the Bank of Albania No. 163,
   Certificate No. 2 “On Deposit Insurance”.
   Director: Oliver WHITTLE
   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

2. United Bank of Albania (Joint-Stock Company)
   Licence No. 3/1998, dated 11.01.1999
   Approved by the Supervisory Council Decision of the Bank of Albania No. 165,
   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

3. Italian Bank of Development (Banca Italiana di sviluppo)
   Licence No. 5/1998, dated 11.01.1999
   Approved by the Supervisory Council Decision of the Bank of Albania No. 164, dated
   Director: Libero CATALANO
   Address: Bulevardi “Dëshmorët e Kombit”, Ndërtesa Kullat Binjake, Tirana
   Tel.: 28 03 51 / 2 / 3 / 4 / 5
   Fax: 28 03 56

4. National Commercial Bank (Joint-Stock Company)
   Licence No. 6/1998, dated 11.01.1999
   Approved by the Supervisory Council Decision of the Bank of Albania No. 162,
   dated 11.01.1999.
   Certificate No. 5 “On Deposit Insurance”.
   Director: Seyhan PENCAPLIGIL
   Address: Bulevardi “Zhan D’Ark”, Tirana, Albania
   Tel.: 25 09 55
   Fax.: 25 09 56

5. Tirana Bank (Joint-Stock Company)
   Licence No. 07, dated 12.09.1996
   Approved by the Supervisory Council Decision of the Bank of Albania No. 9, dated
   12.09.1996.
   Certificate No. 6 “On Deposit Insurance”.
   Director: Dimitrios FRANGETIS
   Address: Rruga “Dëshmorët e 4 Shkurtit”, Tirana, Albania
   Tel.: 26 96 16/7/8; 23 34 41/42/43/44/45/46/47
   Fax.: 23 34 17

* As of March 31, 2008.
6. 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: Ioannis LEIVADITIS
Address: Rruga “Durrësit”, Godina Comfort, Tirana, Albania
Tel.: 27 48 02; 27 48 22
Fax.: 23 36 13

7. INTERNATIONAL COMMERCIAL BANK (JOINT-STOCK COMPANY)
Licence No.09, dated 20.02.1997
Certificate No. 8 “On Deposit Insurance”.
Director: Mahendra sing RAWAT
Address: Qendra e Biznesit, Rruga “Murat Toptani”, Tirana, Albania
Tel.: 25 43 72 / 25 62 54
Tel/Fax: 25 43 68

8. ALPHA BANK (JOINT-STOCK COMPANY) – ALBANIA
Licence No.10, dated 07.01.1998
Certificate No. 9 “On Deposit Insurance”.
Director: Andreas GALATOULAS
Address: Bulevardi “Zogu I”, Nr.47, Tirana, Albania
Tel.: 23 35 32; 23 33 59; 34 04 76/77
Tel/Fax: 23 21 02

9. 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.: 24 87 53/4/5/6
Tel/Fax: 24 87 62

10. 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 72/3/4/5/6
Tel/Fax: 27 12 76

11. 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
12. 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

13. 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
Fax: 22 29 16

14. POPULAR BANK (JOINT-STOCK COMPANY)
Licence No. 17, dated 16.02.2004
Certificate No. 16 “On Deposit Insurance”.
Director: Henri Maus de ROLLEY
Address: Bulevardi “Dëshmorët e Kombit”, Ndërtesa Kullat Binjake, Kulla 1, Kati 9, Tirana, Albania
Tel.: 27 27 88 / 89 / 90 / 91
Fax: 27 27 81; 28 04 41

15. 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; 25 80 81
Fax: 25 06 54; 27 28 80

16. 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: Bozhidar TADOROV
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
In addition to banks and branches of foreign banks, the Bank of Albania has as of 31 December 2007 licensed the following entities:

<table>
<thead>
<tr>
<th>NO.</th>
<th>ENTITIES</th>
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</thead>
<tbody>
<tr>
<td>6</td>
<td>NON-BANK INSTITUTIONS</td>
</tr>
<tr>
<td>127</td>
<td>FOREIGN EXCHANGE BUREAUS</td>
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<td>2</td>
<td>UNIONS OF SAVINGS AND CREDIT ASSOCIATIONS</td>
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<tr>
<td>133</td>
<td>SAVINGS AND CREDIT ASSOCIATIONS</td>
</tr>
<tr>
<td>1</td>
<td>REPRESENTATIVE OFFICES OF FOREIGN BANKS</td>
</tr>
</tbody>
</table>

The full list of these entities may be found in section “Banking Supervision” of the official website of the Bank of Albania www.bankofalbania.org