Opinions expressed in this publication are those of the authors and do not necessarily reflect the official opinion of the Bank of Albania.
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MONETARY POLICY STATEMENT FOR THE SECOND HALF OF 2008

1. GOVERNOR’S SPEECH

World economy and the financial system in particular were severely hit in the second half of 2008. The crisis which struck the heart of the global financial system was progressively and relentlessly transmitted to the economic activity of advanced economies leading some of the latter into recession. The Albanian economy has been resilient amid this hitting wave. According to the available official data and judging upon a number of indirect indicators, the Bank of Albania notes that the economic activity throughout the year has by and large performed in line with the early 2008 projections both in terms of economic growth and preservation of macroeconomic balances. The Bank of Albania in particular has met its primary objective mandated by law, contributing to the maintenance of price stability. Average annual inflation rate marked 3.4 percent, which is close to the central bank’s objective.

The recent global-scale developments attest to the further economic downturn. Despite the slackening of inflationary pressures as a result of the reduced demand and the slump in basic commodity prices, the tightening of lending standards and the fall in consumption and investment have led to uncertainties related to the duration and intensity of this troublesome situation. Against this backdrop, the facing of the economic activity contraction at a global level remains an open issue. The Euro area economy is already experiencing an economic slowdown. Euro area GDP contracted in the third quarter while the unemployment rate reached 7.8 percent in November 2008. The U.S. economy showed quite similar features. The further contraction of economic activity - owing to the deterioration of financial indicators in the U.S. corporate and household balance sheets, mirrored in lower consumption spending and reduced aggregate investment - drove the unemployment rate to reach 7.2 percent. Monetary and financial stimuli managed by central banks and the ministries of finance have helped to bolster confidence and relieve pressure on the financial institutions.

Against this backdrop, the “resilience” shown by emerging countries is displaying the first signs of weakening. In contrast to the first half of 2008, the latest data attest to the moderation of economic growth rates in the majority of these countries. The channels through which the slowdown in advanced economies has affected the emerging countries differ depending on their development characteristics. China and India have been severely hit by the slowdown in exports; Russia had hard times owing to the slump in raw material prices in the global market, while East European countries have been impacted by the tightening of funding conditions on a global level.
In contrast to many emerging countries, the Albanian economy has been sustained by domestic demand, while although upward foreign demand in the form of Albanian exports has provided a proportionally lower impact over the economic growth. Economic activity at home has been almost entirely sustained by domestic financial resources, while foreign financing in the form of credit lines or portfolio investment has been less considerable. Operating within all the parameters of financial soundness, the Albanian banking system has been dynamic and effective in channelling the savings towards the funding of corporate production or household consumption. This process has been also facilitated by the macroeconomic stability which enabled the fall of risk premiums in economy and helped to gradually extend the investment horizon.

These features led the economic activity at home to record adequate growth in the first three quarters of 2008, a period which is covered by statistical data. With regard to the last quarter, indirect data on economic activity - mainly financial ones - suggest a slight slowdown of economic activity, however, remaining within the projections for 2008. Manufacturing, where construction continues to share the main weight, provided the main contribution to the increase of turnover indicator in terms of volume. Investment in major road infrastructure projects and the recovery of construction permits from the prolonged constraints triggered high growth rates in construction activity during this period. In addition, the sector of services continues to provide the primary contribution to economic growth at home. The positive developments in domestic production have been also evidenced by the increase of economic tendency indicator, derived from the business and consumer opinions, and by the increased number in employed persons. In annual terms, unemployment rate fell by 1.5 percent to 12.62 percent, being mainly triggered by the increase in the average number of employed persons in the private agricultural sector.

Notwithstanding the inflationary pressures of early 2008 - mainly triggered by supply-side shocks - CPI annual inflation was brought back within the Bank of Albania’s target during the second half of 2008. In the second half of the same year annual inflation rates stood close to the central bank’s target - 3.0 and 2.5 percent, respectively, in both quarters. The performance of the inflation rate in the second half mirrored the global effect of the fall in basic commodity prices (mainly foodstuff and oil prices) as well as a more favourable price conjuncture of goods and services in the domestic market as a result of their demand coverage with an ever-growing supply.

The return of inflation within the targeted band was not only conditioned by the relaxation of supply-side shocks but also by the adequate monetary conditions which provided room for the balancing of demand and supply-side factors. Monetary policy stance was neutral throughout 2008 and the key interest rate was kept unchanged at 6.25 percent. In tandem with the strengthening of several banking supervision measures in terms of credit risk management, the monetary policy has led to a more balanced credit growth and has transmitted the appropriate stimuli for consumption and savings. The adequate monetary policy and the keeping of inflation under check by
the Bank of Albania have been also reflected in the anchoring of economic agents’ inflationary expectations close to the 3 percent target of the central bank. In absence of unexpected shocks on financial stability, inflationary expectations or other supply-side factors, the balance of risks on inflation over the period to follow seems to be shifting downward.

In this context, worth noting is the contribution of fiscal policy which has ensured the preservation of macroeconomic balances by keeping the budget deficit at adequate levels. The carrying out of public spending in line with the budget plan has facilitated the control of domestic demand pressures and has bolstered confidence in the country’s macroeconomic stability. Budget revenues collected as of end November have met the 11-month plan of the Ministry of Finance by about 96.4 percent, while expenditures met 92 percent of the plan. Following the developments in the first half of 2008, budget performance for the period July to November 2008 was characterized by a more active carrying out of expenditure. Budget deficit created after the first half of 2008 was mainly financed through foreign resources.

On the other side, the external sector of the economy continued to be characterized by the deepening of current account deficit, which in annual terms, increased by 48 percent in the third quarter of 2008 to about 252 million euros. As a share of GDP it accounted for 13.7 percent which is about 5 percentage points higher than the same period the previous year. In addition to the trade deficit widening, the deepening of current deficit was also triggered by the narrowing of the positive balance of revenues and current transfers’ account. Its stability is imperative to ensure Albania’s financial stability and a stable and long-term economic growth. Therefore, the dynamics in the balance of payments developments remains an area which needs constant monitoring by the Bank of Albania.

Monetary indicators had a stable performance in the second half of 2008, although the end of the period showed signs of their downward growth rates. Average annual growth rate of money supply was about 13 percent. A small part of deposits were withdrawn from the banking system in the last months of 2008 as a result of depositors’ concerns following the vague situation in the global financial system. In relative terms, these withdrawals made up a small share in commercial banks’ balance sheets and did not affect the banking system’s soundness indicators or impair its financial intermediation role. Credit to the private sector continued to provide the main contribution to money growth. In annual terms, credit growth fell during the second half of 2008 relative to the first half the same year. Intermediation indicators increased further; the ratio of loan portfolio to deposits and total assets was 63 and 43 percent, respectively, as of end November. Following September, the structure of loan portfolio by currency displayed a higher annual growth rate of lek denominated loans. The performance of loan portfolio by customer attests to higher annual growth rates of business loans relative to household loans. In contrast to the first half of 2008, loan portfolio to construction and trade shifted downward while loans to industry increased slightly in the second half of the year.
The performance of money markets during the second half of 2008 was conditioned by the developments in monetary indicators and the real economy. As experienced by many countries, the increased vulnerability of banks to liquidity has brought about the reduction in the interbank trading volume and upward interest rates on deposits. The coverage ratio of Government demand for money has reduced and some risk premiums have increased in the last two months. This performance brought about the increase in Government securities’ interest rates and in a few cases in the loan interest rates. In response to these developments, the Bank of Albania intervened in the money market by injecting liquidity at different maturity rates. In addition, the central bank changed in November the form of repo auctions to auctions with undetermined amounts in order to better satisfy the banks’ needs.

Economic and financial developments have by and large been positive during 2008. Economic growth performed in line with the early year projections, while the main indicators of macroeconomic and financial stability remain solid. The negative impact of developments in global economy was marginal. However, as in other emerging countries, the Albanian economy cannot remain immune for long to the direct or indirect impact of the global economic crisis. The Bank of Albania public statements have constantly noted that the global crisis impact over the Albanian economy will largely depend on its intensity and duration. The persistence and deepening of the global economic crisis signal that the Albanian economy will go through a harder economic environment in 2009, which may call for the solution of many issues.

The slowing remittances and the tightening of financing conditions are the channels exposing the Albanian economy the most to shocks in the global economic environment. The expected impact of these factors would materialize in a slower economic growth in 2009. We note that the economic and financial programs of all economic agents need to reflect and consider this prospect. A slower economic growth does not necessarily translate into a crisis in Albania, but rather as a temporary development propelled by external factors. Hence, promoting policies need to be formulated based on this underlying premise. They should at no case be designed to the detriment of long-term macroeconomic stability, which represents one the most treasured assets the Albanian economy has achieved during the transition years.

The preservation of financial stability remains crucial for the long-term economic development and under constant consideration in the Bank of Albania decision-making process. In this context, confidence in the banking system and in its balance sheets would be the most rational behaviour of any individual, business or other agent in the Albanian economy. Global experience shows that the mutual interaction between the real economy and the banking system in terms of savings, use of payment infrastructure and expertise in the area of financial counselling and support with funds is a key feature of economies that have managed to progress and leave behind the transition countries’ level.
In conclusion, I would like to assure the public that the Bank of Albania remains committed to creating the proper premises which boost economic activity at home, without infringing the objective of price stability. In addition it will keep working on firming up financial stability in the country. The Bank of Albania decisions will be a direct contribution to smoothing out the negative effects deriving from the international crisis and they will help to ensure the further maintenance of economic and financial balances at home.

2. DEVELOPMENTS IN WORLD ECONOMY

2.1 ECONOMIC GROWTH AND MACROECONOMIC BALANCES

WORLD ECONOMY

Over the second half of 2008, the world economy was characterized by the slowdown of economic activity owing to the economic contraction in the main advanced economies and to the economic downturn in emerging countries. The economic downturn has been triggered by the financial turmoil of mid-year 2008. The inflationary pressures have eased owing to the decline in food and energy prices. The heightened volatility shown in the financial markets led many institutions and organizations to review their projections for the economic growth.

Table 1 Some main macroeconomic indicators

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<tr>
<th>Country</th>
<th>GDP Growth Q3 2008/Q3 2007</th>
<th>Unemployment rate November 2008</th>
<th>Annual inflation rate</th>
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<tbody>
<tr>
<td>USA</td>
<td>0.7</td>
<td>-0.5</td>
<td>7.2(^1)</td>
</tr>
<tr>
<td>Euro area</td>
<td>0.6</td>
<td>-0.2</td>
<td>7.8</td>
</tr>
<tr>
<td>Germany</td>
<td>0.8</td>
<td>-0.5</td>
<td>7.1</td>
</tr>
<tr>
<td>Greece</td>
<td>3.1</td>
<td>0.5</td>
<td>7.2(^2)</td>
</tr>
<tr>
<td>Italy</td>
<td>-0.9</td>
<td>0.5</td>
<td>6.7(^2)</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.1</td>
<td>-0.1</td>
<td>3.9</td>
</tr>
</tbody>
</table>

Source: OECD, Eurostat, Respective Statistical Institutes

\(^1\) Data for November.

\(^2\) Data for the third quarter of 2008.

EURO AREA ECONOMY

The economic downturn in the Euro area, triggered by the financial turmoil and the uncertainty related to the assessment of economic prospects, persisted in the third quarter of 2008. Despite an economic growth of 0.6 percent in annual terms, the Euro area economy continued to contract by 0.2 percent compared with the previous quarter. The weakening of economic activity owes mainly to the fall in investment over the third quarter of 2008 by 0.6 percent\(^1\) and the growth of imports by 1.4 percent. Consumer spending on the other hand did not undergo significant changes.

Inflation rate marked 1.6 percent in December 2008, maintaining the downward trend starting from July 2008, when it marked 4.0 percent. The decelerating demand and the decline in energy and commodity prices...
seem to have provided their contribution to the performance of inflation. In annual terms, unemployment rate marked 7.8 percent in November 2008, maintaining the upward trend of the second quarter the present year.

**U.S. ECONOMY**

The second half of 2008 attests to the further weakening of U.S. economic activity. In contrast to the first half of the year when the U.S. government’s fiscal-stimulus package helped to maintain economic growth, the outlook for the U.S. economy deteriorated significantly owing to the aggravation of some of the largest U.S. companies’ balance sheet financial indicators. This period was characterized by a weakened domestic demand as a result of lower consumption expenditure and the fall of aggregate investment, which provide the main contribution to the GDP. In November 2008 personal income and consumption expenditure dipped 0.2 and 0.6 percent, respectively, compared with the preceding month. Although the U.S. dollar appreciated in the third quarter, the current account deficit improved owing mainly to the growth of exports at more accelerated rates than imports. In the second half of 2008, average unemployment rate recorded higher rates compared with the average of the preceding period, peaking in December when it recorded 7.2 percent. The high commodity and oil prices, which fuelled the inflationary pressures over the first half of the year, lost their effect in the second half of 2008. The period August to November 2008 was characterized by the sharp fall of the consumer price index, hence indicating possible rising deflation risks in the U.S. economy. Although the inflation rate averaged 5.3 percent in the third quarter of 2008, it has been following a downward tendency starting from September, being also followed by improved inflationary expectations.

**MAIN EMERGING COUNTRIES’ ECONOMIES**

The decelerated economic activity in advanced economies over the second half of 2008 provided its impact over the economic performance of BRIC countries as well. Although the economy grew at accelerated rates in the first half of the present year - which in the case of China reached a two-digit level -, the data on the third quarter of the year attest to a more moderate GDP growth rate. In China, the deceleration of industrial production led to weakened economic growth rate, notwithstanding the 4 percent growth of domestic demand in annual terms. The considerable drop of exports over October to December 2008 is expected to moderate the economic growth rates further in the last quarter of the same year. In India, the economy performed quite similarly. In annual terms, exports fell by about 4 percentage points in the third quarter and the main sectors of the economy reduced their production capacities.

In contrast, Brazil recorded more accelerated growth rates over the third quarter owing to the increase in industrial production and aggregate investment. In Russia, the turbulences in the domestic financial market provided their effect on the real economy, reflecting the weakened lending ability of commercial banks and the contracted production activity.
In the meantime, the considerable slump in the oil price – under the conditions when Russia remains one of its main exporters – led to contracted domestic demand. In November, inflation rate dropped in Russia and China while increasing in Brazil and India. In their last monetary policy meetings, the central banks of Russia, India and Brazil decided to keep the key interest rate unchanged, while the People’s Bank of China decided to cut it.

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<tbody>
<tr>
<td>Brazil</td>
<td>6.4</td>
<td>6.4</td>
<td>6.2</td>
<td>6.8</td>
<td>3.0</td>
</tr>
<tr>
<td>China</td>
<td>4.0</td>
<td>2.4</td>
<td>10.4</td>
<td>9.0</td>
<td>8.5</td>
</tr>
<tr>
<td>India</td>
<td>9.0</td>
<td>10.5</td>
<td>8.4</td>
<td>7.5</td>
<td>6.3</td>
</tr>
<tr>
<td>Russia</td>
<td>14.2</td>
<td>13.8</td>
<td>8.1</td>
<td>6.2</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: IMF, OECD.Stat, Respective Statistical Institutes

1 IMF assessments.

Table 2 Some macroeconomic indicators for the BRICs

SOME REGIONAL COUNTRIES’ ECONOMIES

According to the final National Accounts estimates, the Italian economy contracted by 0.9 percent in annual terms in the third quarter of 2008. Following the unfavourable economic conditions over the first half of the present year, the sharper contraction of the GDP growth reflected the deepening of the economic crisis Italy is going through. The downward tendency of aggregate investment shown from the first quarter, and the decreased exports for the first time the present year, were the main contributors to the economic downturn. Consumption expenditure provided a positive contribution to the GDP growth although they grew at more moderate growth rates compared with the first half of the present year. In December, the harmonized consumer price index rose by 2.3 percent relative to the same period the preceding year. The last two months attest to the relaxation of inflationary pressures which hit the Italian economy over January to September 2008.

The latest figures on the Greek economy attest to the contraction of economic activity over the last quarter of 2008 compared with the two preceding quarters. Economic growth rates were lower than the average of the first half of the year, owing mainly to the drop in aggregate investment and weakened industrial production. In the meantime, consumption expenditure has maintained a heightened upward tendency and exports to non-EU countries recorded growing volumes. The economic situation seems to have deteriorated over the last months. The results obtained from the survey on Economic Tendency Indicator attest to its deterioration in September to November 2008, in contrast to the optimism which characterized the first nine months of the year. Additionally, the latest data on industry show a weakened production activity in some of the main branches of the economy, namely in manufacturing, construction and energy. In the third quarter, unemployment rate reached 7.2 percent, which is lower than in the first half of the present year. Inflation rate, as measured by the harmonized consumer price index, marked 2.2 percent in December 2008, hence maintaining the downward tendency shown in October 2008.
Turkish economy decelerated in the third quarter of 2008. Year-on-year economic growth was 0.5 percent, the lowest since 2001. Although public investment recorded an annual growth of 22.2 percent, the drop in private investment was a determining factor in the contraction of economic activity. In the meantime, the growth rate of exports and consumption expenditure has lowered. Annual inflation rate marked 11.7 and 10.9 percent, respectively, in the third and fourth quarter of 2008. In December, inflation marked 10.1 percent, compared with 10.8 percent the preceding month.

The Macedonian economy recorded an annual growth of 5.5 percent in the third quarter of 2008 relative to the growth of 6.5 percent the previous quarter. Construction and trade provided the main contribution to the economic growth, whereas agricultural production recorded a lower quarterly growth than the annual growth rate in this branch of the economy. From October to November 2008, industrial production contracted sharply by 9.9 and 2.9 percent, respectively. Annual inflation rate during the third and last quarter of 2008 marked 8.4 and 5.5 percent. In December, annual inflation marked 4.1 percent, while the average annual rate for the year 2008 stood at 8.3 percent.

<table>
<thead>
<tr>
<th>Country</th>
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<th>Annual inflation November 2008</th>
<th>Unemployment rate November 2008</th>
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<tbody>
<tr>
<td>Italy</td>
<td>-0.9</td>
<td>2.3</td>
<td>6.7&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>Greece</td>
<td>3.1</td>
<td>3.0</td>
<td>7.2&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>Macedonia</td>
<td>5.5&lt;sup&gt;1&lt;/sup&gt;</td>
<td>4.1&lt;sup&gt;2&lt;/sup&gt;</td>
<td>33.0&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>Serbia</td>
<td>4.9</td>
<td>6.8&lt;sup&gt;2&lt;/sup&gt;</td>
<td>14.0&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td>Croatia</td>
<td>1.6&lt;sup&gt;1&lt;/sup&gt;</td>
<td>4.7</td>
<td>13.2</td>
</tr>
<tr>
<td>Turkey</td>
<td>0.5&lt;sup&gt;1&lt;/sup&gt;</td>
<td>10.1&lt;sup&gt;2&lt;/sup&gt;</td>
<td>10.3&lt;sup&gt;4&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

Source: Statistical Institutes, EuroStat, OECD.Stat, Bloomberg

1 Data for the third quarter of 2008.
2 Data for December.
3 Data for October.
4 Data for September.

### 2.2 Monetary Policy, Financial Markets and the Exchange Rate

In December 2008, the European Central Bank decided to cut the key interest rate by 75 basis points to 2.5 percent<sup>5</sup>. This was the second time since September 2008 when the key interest rate was 4.25 percent. This decision aimed at stimulating the economy following the negative growth rates of economic activity in the Euro area over the course of the second and third quarter of 2008.

In the last quarter of 2008, the Federal Reserve cut its key interest rate for the third time to within a range of 0 to 0.25 percent from 2 percent in October 2008. The Federal Open Market Committee took this decision in order to prevent the further deterioration of the U.S. economy. The Bank of England cut the key interest rate for the fourth time to 2 percent from 5 percent it marked in October 2008. This is the lowest level since 1951. Over
the course of the last quarter, the Bank of Japan cut
the key overnight lending rate twice by 20 points
basis to 0.1 percent. This decision followed after the
projections for a 0 percent economic growth in the
year to follow.

Over the course of the second half of 2008, there were increased tensions in the global financial
markets, which affected the economic performance
of the main advanced countries. The intensification
of financial tensions over the last months of the
year provided a negative impact over the financial
and banking sector, mirroring tightened lending
standards and high financing costs. In particular,
the situation created over September and October
when the international financial markets were faced
with a wave of failures, led to heightened uncertainty
and lack of confidence among the main market agents, hence hampering the
exchanges in the main capital and money markets. The normalisation and
relaxation of tensions in the global financial markets required a decisive and
co-ordinated intervention of all central banks of advanced economies. The
inflationary pressures slackened over this period following the fall in raw material
prices, which helped central banks cut the key interest rate in order to reduce the
financial institutions’ cost of money. Over the last months of 2008 the interest
rates in the international financial markets improved and decreased slightly.
The interventions of central banks and governments, which sought to revigorate
the financial and industrial sectors, provided their impact. In November and
December 2008, the LIBOR and EURIBOR interest rates in the money market
depreciated against the U. s. dollar. Following the appreciation in July and
August, the euro maintained a downward tendency and was highly unstable
against the U.S. dollar. In the last months of 2008, the euro depreciated
slightly vis-à-vis the main currencies, mainly as a result of the appreciation
of the U.S. dollar, the Japanese yen and the Chinese yuan. In December,
the euro appreciated against the pound sterling. The high demand of many
financial institutions for the U.S. dollar, the weak performance of the Euro area
and the latest data on some macroeconomic indicators, which stand below
the market agents’ expectations, have led to the appreciation of the U.S.
dollar vis-à-vis the euro. The latter depreciated by an average of 7.8 percent
towards the end of the last six months of 2008 relative to the preceding half
of the year.
2.3 PERFORMANCE OF OIL AND RAW MATERIAL PRICES

The second half of 2008 was characterized by an accelerated decline of oil price, which began since July the present year. A closer look at the average change of the oil price over the second half of the year compared with the previous period attests to the decrease of average oil price per barrel by about 17 percent to an average of 40.88 U.S. dollar per barrel in December. The unfavourable signals on the economic environment in OECD countries and on the slowing GDP growth rate in the largest Asian countries led to the decline of oil demand at a global level in the last months of 2008. Although the demand for oil grew at moderate rates, mainly in non-OECD member economies – China, Middle East and Latin America – the consumed oil in these countries did not result sufficient to offset the negative effect of the weakened demand from advanced economies.

The accelerated fall of the oil price was expected to lead to growing demand but the deterioration of the financial crisis in mid-September 2008 and its impact over the real economies of advanced and emerging countries did not yield positive results. Against this background, OPEC countries, in their last two meetings held in November and December, decided to slash the oil output quota by about 4.2 million barrels from the September 2008 peak.

However, the resumed refining activity by the major refining centres in the U.S., the increasing inventories in OECD countries, the rise in Russian oil export duty and the persistent fall of demand are expected to keep the oil price at low levels in the months to follow. Given the expectations for the
The ongoing contraction of global economic activity, the forecast for the global oil demand in 2009 has been revised down by 0.2 percent, compared with 2008.

Over the course of the last quarter of 2008, Commodity Price Index, published by the IMF, continued to maintain its downward tendency started in mid-year. In December 2008, the index value was about 36.5 percent lower than in December 2007. The last quarter of 2008 was the first since 2002 to record negative values of this index. Food and fuel prices recorded the highest fall, followed by the lower prices of main metals owing mainly to the economic downturn.

**Box 1 Emerging countries under the global crisis**

The effects of the crisis in the early 2008 did not seem to affect the emerging countries, given that their financial and economic indicators did not change substantially. The crisis evolution and its entry into a new phase, characterized by the loss of confidence among the main market agents, tensions in the money and capital markets associated with sharp losses in the stock markets altered the global economic outlook, in particular that of emerging countries, which until the early 2008 had shown stable developments. In more concrete terms, the financial crisis has lowered the demand for investment in these countries, in particular in those emerging countries which face large balance of payments deficit and imbalanced macroeconomic indicators. The tightened lending conditions have constrained the absorption of funds and at the same time, they have increased the cost of financing the domestic economies with foreign capital. The interest rates on bonds increased and the local currencies in emerging countries depreciated. In addition, the business asset prices have declined. Capital outflows have been sharper, which in turn have generated the contraction of credit supply and the tightening of liquidity conditions in the domestic markets which face high inflation and tightening monetary policies. Global demand – in particular that of industrialized countries – has reduced, causing the export of many emerging countries to shrink. These economies are largely dependent on foreign capital inflows and financing, therefore the deterioration of financial conditions in the global markets is assessed to have a considerable impact over the domestic economies.

The weakening domestic demand has provided its impact on the slowdown of economic growth in the third quarter of 2008 in Turkey, Serbia and Croatia. Macedonia as well experienced a weaker economic activity growth relative to the first half of 2008; however, it was generated by the decline in agricultural production, since domestic demand has grown. The economic issues the main trading partners of regional emerging economies are experiencing have triggered a slower export growth in Turkey, Serbia and Macedonia, while the exports of Croatia do not seem to have been affected. The liquidity shortage in the international markets was expected to provide its effect on foreign direct investment in emerging countries and on the tightening of lending terms, given the financial constraints the parent banks in advanced economies are going through. Turkey and Serbia were hit by the downturn...
in foreign direct investment, which until the past year financed a large part of the current deficit. By contrast, Macedonia remained an attractive destination to foreign investors, who increased their foreign direct investment inflows over this year.

The liquidity shortages in the market have constrained the banks’ lending capacity. Credit to economy and business and household loans declined in Serbia, Croatia and Turkey. Against this background, the respective central banks intervened in the market by increasing the liquidity available in the market. In addition, the central banks took other actions to halt the depreciating trend of their local currency vis-à-vis the Euro, which started in the early 2008.

Table 4 Annual changes of some macroeconomic indicators

<table>
<thead>
<tr>
<th>Country</th>
<th>Gross Domestic Product</th>
<th>Aggregate exports</th>
<th>Foreign Direct Investment (as a share of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q:3</td>
<td>S:1</td>
<td>S:1</td>
</tr>
<tr>
<td>Croatia</td>
<td>3.9</td>
<td>1.6</td>
<td>7.0</td>
</tr>
<tr>
<td></td>
<td>Q:3</td>
<td>11.6</td>
<td>8.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>7.0</td>
</tr>
<tr>
<td>Macedonia</td>
<td>6.0</td>
<td>5.5</td>
<td>12.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>16.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>6.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>8.2</td>
</tr>
<tr>
<td>Serbia</td>
<td>7.3</td>
<td>4.9</td>
<td>40.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>29.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>9.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1.5</td>
</tr>
<tr>
<td>Turkey</td>
<td>4.3</td>
<td>0.5</td>
<td>20.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>25.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2.2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2.1</td>
</tr>
</tbody>
</table>

Source: European Commission

3 PRICE STABILITY AND THE BANK OF ALBANIA OBJECTIVE

Average annual inflation for the year 2008 marked 3.4 percent, which is about 0.4 percentage points higher than in the previous year. The increase of the average annual inflation rate owes mainly to the increase of core inflation to 3.8 percent over the course of 2008 from 1.7 percent it marked in 2007. Annual inflation fluctuated considerably over 2008, swinging between 2.2 and 4.6 percent as a result of temporary supply-side shocks.

In the second half of 2008, annual inflation marked rates close to the Bank of Albania objective - 3.0 and 2.5 percent in each quarter. The lowest rate of 2.2 percent was marked in December. This performance owes to the relieved inflationary pressures deriving from the supply-side factors and to the adequate monetary conditions to meet the needs of the economy. In addition, the carrying out of public expenditure in line with the budget plan halted the further generation of inflationary pressures. In absence of unexpected shocks on financial stability, inflationary expectations or other supply-side factors, the balance of risks on inflation is expected to shift downward over the period to follow.

In line with its strategy, the Bank of Albania monetary policy is oriented towards meeting its primary objective: achieve and maintain price
stability. Monetary policy-related decisions are based on the analysis and assessment of current and expected economic developments and on the assessment of risks that may lead to the deviation of inflation from the objective, taking into account the time lag monetary policy affects the demand and the price level. In order to bring the inflation back to the target tolerance band, prevent the deterioration of inflationary expectations and the materialization of second-round effects of supply-side shocks – in the light of the ongoing growth of domestic demand - the Bank of Albania increased the key interest rate three times over the course of 2007. This tightening approach proved effective in keeping the inflationary expectations under check and consequently, maintaining low inflation rates over the second half of 2008. The resetting of balances on the supply-side – the fall of raw material prices in the international markets and the domestic supply with agricultural products – in addition to the tightening of lending standards, attested to the fact that macroeconomic balances at home and the monetary conditions were adequate to ensure an inflation rate close to the Bank of Albania target. Monetary policy was neutral in the course of 2008 and the key interest rate was kept unchanged at 6.25 percent. Inflation forecasts suggest that it will remain stable and close to the Bank of Albania target over the following period. Economic agents’ expectations are also in line with the Bank of Albania inflation forecasts, being anchored close to 3 percent.

3.1 PRICE PERFORMANCE OF THE MAIN BASKET ITEMS

Inflation rate performance in the second half of 2008 reflected mainly the fall in global basic commodity prices (mainly food and fuel prices) and the favourable price conjuncture of goods and services in the domestic market, as a result of their demand coverage with an ever-growing supply. Overall, this period has been characterized by relatively lower annual inflation rates in all categories which fuelled the high rise in prices over August 2007 to July 2008.

‘Processed foods’ and ‘Non-food consumer goods’ recorded the sharpest decrease owing to the decline in fuel prices, hence preceding the overall fall of prices in the market. The low inflationary pressures deriving from the price conjuncture in the global market were also favoured by the adequate supply of domestic production. This positive performance was mostly shown in the prices of ‘Unprocessed food’, whose inflation marked negative rates throughout the year 2008.
The contribution of some categories to headline inflation over the second half of 2008 has changed substantially the extent at which it has affected the annual inflation rate compared with the previous one-year period. Although ‘Processed foods’ continues to provide the main contribution to the overall inflation rate, its effect almost reduced by half as of end 2008 compared with the period from February to June, standing at the levels prior to the price crises of the last year. The decline in the prices of this category starting from August 2008 owed mainly to the relaxation of strong inflationary pressures deriving from the foreign markets these goods come from and to the abatement of effects of the bread price rise over August 2007 to February 2008.

Annual inflation of ‘Unprocessed food’ continued to record negative values in December (-0.3 percent). Since December 2007, its inflation has declined by an average of 2.3 percentage points. The items of this category are mainly affected by the prices of fruit and vegetables which are highly volatile and show considerable seasonality. The supply of domestic production for the year 2008 has been satisfactory (due to the good weather conditions), causing the supply in the domestic market to grow and at the same time offsetting the imported inflation transmitted from the high prices of these goods in Albania’s main trading partners.

Annual inflation rate of ‘Services’ marked 5.6 percent in the second half of 2008, which is about 2 percentage points higher than the average inflation rate of the same period the preceding year. Inflation of ‘Services’ experienced the highest increase in June to October 2008, as a result of the accumulated price rise in hotel and restaurant services and in particular in transport services owing to the oil price crisis. Prices in hotel and restaurant services rose by an average of 2.5 percent, while starting from June 2008 transport services have recorded a high average inflation rate of 20 percent in annual terms.

‘Housing’ has marked very low inflation rates starting from September 2007, owing to the stable rent prices. Housing prices rose by an average of 0.5 percent, compared to the average rise by 4.3 percent in the four preceding years (2003-2007). Over the course of the second half of 2008, the prices of this category remained unchanged at an average level. Rent prices have been

| Table 5 Contribution of items to annual inflation (in percentage points) |
|---------------------------|---------|---------|---------|---------|---------|---------|
| Processed foods (pp)      | 1.6     | 2.4     | 2.5     | 2.9     | 2.3     | 1.7     |
| Bread and cereal (pp)     | 0.7     | 1.2     | 1.4     | 1.7     | 1.3     | 1.0     |
| Alcohol and tobacco (pp)  | 0.2     | 0.3     | 0.1     | 0.1     | 0.0     | 0.1     |
| Unprocessed food (pp)     | 0.6     | 0.5     | -0.3    | -0.4    | -0.9    | -0.1    |
| Fruit (pp)                | 0.2     | 0.4     | 0.5     | 0.3     | -0.1    | -0.1    |
| Vegetables (pp)           | 0.3     | -0.1    | -0.9    | -0.2    | -1.3    | -0.7    |
| Services (pp)             | 0.4     | 0.4     | 0.3     | 0.3     | 0.5     | 0.5     |
| Administered prices (pp)  | 0.4     | 0.1     | 0.3     | 0.7     | 0.8     | 0.3     |
| Fuels and energy (pp)     | 0.2     | 0.0     | 0.2     | 0.6     | 0.6     | 0.7     |
| Housing (pp)              | 0.6     | 0.2     | 0.1     | 0.1     | 0.0     | 0.0     |
| Non-food consumer goods   | 0.0     | 0.1     | 0.2     | 0.3     | 0.3     | 0.2     |
| Durable consumer goods (pp)| 0.0    | -0.1    | 0.0     | 0.0     | 0.0     | 0.0     |
| Consumer Price Index (y/y, %) | 3.6   | 3.6     | 3.7     | 4.2     | 3.0     | 2.5     |

Source: INSTAT and Bank of Albania estimations
constantly affected by the price changes in the housing market, reflecting the situation prevailing in this market over the past year.

Administered prices rose by an average of 3.6 percent over the course of the second half of 2008. Soon after the price rise of energy in March 2008, annual inflation of administered prices has been declining. In the second quarter it rose by an average of 6.2 percent, while in the last quarter the rise decreased to 2 percent. This decrease owes mainly to the fall of prices in ‘Communication’ by about 19.2 percent in the last quarter of 2008.

The prices of ‘Durable consumer goods’ and ‘Non-food consumer goods’ declined over the second half of 2008. Within the first category, ‘Audio-visual equipment’ continued to record negative annual inflation rates, standing at -5.5 percent in the second half of the year.

Within the second category, fuel prices declined substantially in December by 7.7 percent, which along the negative rate marked in November, represent the first decline of the inflation rate in ‘Service to personal vehicles’ (wherein oil is included), following a long period of high inflation which started in the middle of 2007. Although the fall in fuel prices in the domestic market did not progress as expected by consumers – albeit more evident than in the previous months – along with the satisfactory situation of prices in the food and energy supply markets, have established an environment characterized by low domestic inflation pressures.

**Chart 8 Annual inflation by categories of goods and services (in percent)**

Source: INSTAT and Bank of Albania estimations.
3.2 INFLATIONARY TRENDS BASED ON OTHER INFLATION MEASURES

Headline and core inflation marked higher average rates than their historical trend. However, the developments in headline inflation rates over the second half of 2008 converged to the average rates of main core inflation measures (2.5-3.0 percent) or to its long-term trend. The downward trend of annual core inflation over the second half of 2008 attests to the mitigation of inflationary pressures - mostly determined by demand-side factors - at home.

Core inflation, computed using the permanent exclusion method, marked 3.0 percent in December 2008 – the lowest rate for the year 2008. Despite the positive developments in core inflation, mainly over the last quarter, its 12-month average stood above the average rates of annual headline inflation. Global developments in the prices of consumer goods, basic commodities and production affected inevitably the performance of some primary commodity prices in the domestic consumer basket, which generally remain almost ‘frozen’ or are highly stable over the time. In particular, ‘Bread and cereal’ provided the main contribution to the high core inflation rates over the entire year 2008. If excluded, inflation would mark quite stable rates and close to 2 percent.

The downward trend in the inflation of traded goods and services is assessed to have contributed the most to the moderation of inflationary pressures in economy over the second half of 2008. In response to the more contained price rise rates in Albania’s main trading partners and in the Euro area, as well as in raw materials and primary commodities, traded inflation stood at 2.1 percent in the second half of 2008. In December 2008, traded inflation marked 1.3 percent, which is the lowest since fall 2007.

<table>
<thead>
<tr>
<th>CPI annual change</th>
<th>Share in the CPI basket (%)</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total (CPI)</td>
<td>100.0</td>
<td>2.4</td>
<td>2.9</td>
<td>3.7</td>
</tr>
<tr>
<td>a. Core (permanent exclusion)</td>
<td>77.0</td>
<td>1.1</td>
<td>1.7</td>
<td>3.7</td>
</tr>
<tr>
<td>- Core (permanent exclusion, excluding 'bread and cereal')</td>
<td>70.0</td>
<td>1.1</td>
<td>1.1</td>
<td>1.9</td>
</tr>
<tr>
<td>b. Core (trimmed mean, 30%)</td>
<td>Average for 2008 60.0</td>
<td>0.7</td>
<td>0.7</td>
<td>1.7</td>
</tr>
<tr>
<td>Average of the two measures (a and b)</td>
<td>68.5</td>
<td>0.9</td>
<td>1.2</td>
<td>2.7</td>
</tr>
<tr>
<td>By price</td>
<td>62.0</td>
<td>1.7</td>
<td>2.3</td>
<td>3.9</td>
</tr>
<tr>
<td>Traded</td>
<td>38.0</td>
<td>3.7</td>
<td>3.9</td>
<td>3.4</td>
</tr>
<tr>
<td>- Non-traded, excluding administered prices</td>
<td>33.0</td>
<td>3</td>
<td>2.7</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Source: INSTAT Bank of Albania and Bank of Albania estimations

The graph shows the performance of annual core and headline inflation and the key interest rate (in percent) over the years 2006 to 2008. The key interest rate and average core annual inflation measures are plotted against the CPI annual change share in the CPI basket (%). The data is sourced from INSTAT Bank of Albania and Bank of Albania estimations.
Non-traded inflation of goods and services also recorded more moderate increasing rates over the last quarter of 2008 (3.5 percent). However, its average annual rate was relatively high due to the administrative decisions taken over the year on the price rise of some goods and services ‘sensitive’ to consumer budget. The exclusion of the latter’s effect would reduce average annual inflation by about 1 percentage point or to 2.7 percent. The downward tendency of the average core and non-traded inflation measures, excluding the administrative effects, over the last two quarters of 2008, and the rate convergence of these two measures close to 3 percent for the year 2008 attest to the mitigation of demand-side inflationary pressures and the appropriate stance of monetary policy in the decision-making process over the course of the last two years. The latter is considered to have contributed to a better balancing of supply-side factors which have been quite active in the increase of inflation rates over the first half of 2008.

4 MACROECONOMIC DEVELOPMENTS AND THEIR IMPACT ON INFLATION

4.1 AGGREGATE DEMAND AND OUTPUT

Economic activity in Albania continued to record high growth rates over the course of the third quarter of 2008. In terms of volume, turnover indicator recorded an annual growth of about 19.1 percent. Manufacturing sector provided the main contribution to the growth in the volume of turnover indicator, where construction continues to share the main weight in this sector.

The positive developments in domestic production over the third quarter of 2008 are also underpinned by the increase in the Economic Tendency Indicator (ETI), obtained from the business and consumer opinions as in the previous quarter.

Over the course of the third quarter of 2008, turnover indicator recorded a higher growth rate in terms of volume in the sector of manufacturing. In industry, this indicator increased by as much as five times at an annual level, compared with the previous two quarters, to 15.6 percent. Processing industry recorded an annual increase of about 18.5 percent. Turnover indicator in construction has maintained the high growth rates of the first half of 2008, reaching 51.1 percent in annual terms. Investment in major road infrastructure projects and the recovery of construction permits from the
prolonged constraints triggered high growth rates in construction activity over the first nine months of 2008.

In terms of volume, the annual increase of turnover indicator in the services sector was about 13.3 percent over the third quarter of 2008. Transport and communication services had a better performance with respect to turnover indicator. Trade activity increased by about 12.2 percent over the third quarter, while hotel services remained at almost the same levels as in the previous year.

The main indicators of energy sector attested to a positive performance over July to November 2008. The favourable hydric situation led to substantial increase of domestic production, which was followed by the fall in the import of energy.

<table>
<thead>
<tr>
<th>Table 7: Annual growth rate of energy balance sheet indicators over July to November (in percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
</tr>
<tr>
<td>Net production</td>
</tr>
<tr>
<td>Import</td>
</tr>
<tr>
<td>Distribution</td>
</tr>
<tr>
<td>Distribution losses</td>
</tr>
<tr>
<td>Technical losses</td>
</tr>
<tr>
<td>Non-technical losses</td>
</tr>
<tr>
<td>Energy supply shortages</td>
</tr>
<tr>
<td>Domestic demand</td>
</tr>
<tr>
<td>Consumed energy</td>
</tr>
<tr>
<td>Invoiced consumption</td>
</tr>
<tr>
<td>Un-invoiced consumption</td>
</tr>
<tr>
<td>Household consumption</td>
</tr>
<tr>
<td>Non-household consumption</td>
</tr>
</tbody>
</table>

Source: KESH

Domestic demand for energy grew by about 9 percent over this period, with the private sector contributing the most. The increased collection by
10.1 percent over July to November 2008 is assessed to reflect the improved energy invoicing and the annual price rise of this product in the market.

### Box 2 Importance of complete quarterly statistics on Gross Domestic Product

**Uses of quarterly GDP statistics**

Quarterly Gross Domestic Product (GDP) is one of the key indicators of quarterly National Accounts. It provides macroeconomic information on a quarterly basis. Hence, it provides more frequent information on the performance of economy in current periods than the annual GDP indicator. GDP quarterly data play an important role in the economic decision-making process. They provide timelier indicators than the annual data on economic activity and developments in a country or a group of countries. GDP quarterly data assist economic analysis since they manage to examine the economic activity and its level compared with the long-term trend or the business cycle, judging upon the movements and the turning points in economy in a given moment within a year. Annual GDP tends to ‘hide’ or ‘flatten’ these movements, since they are inclined to terminate over the time. Quarterly GDP data are key information which serve to the forecasting and modelling process of macroeconomic indicators in the short and medium term. In addition, they assist in the study and analytical process. Over the past 15 years, the methodologies of measuring the quarterly GDP series are being standardized, in order for their indicators to be comparable among the countries and country-groups.

On the quarterly GDP series published by the international institutions OECD and Eurostat provide a rich database on the time series of quarterly GDP (by country/country-group as well as the total GDP of components). Among its components, the most important are as follows: GDP by type of expenditure and type of activity; gross fixed capital formation by sectors and type of production; private final consumption by type of expenditure and entity. All these series are expressed in constant and current prices. In addition, the quarterly GDP data provide the series of capital formation financing and the GDP by cost structure at current prices.

Some methodological aspects of quarterly GDP estimation in Albania

The first official estimation of quarterly GDP was conducted by the INSTAT. It was followed by a special publication (December 2008), which provided some methodological explanatory notes in addition to the results given. The first publication of quarterly GDP covers the Q1:2004–Q3:2008 period, maintaining the consistency with the past GDP annual growth. Quarterly GDP series has been constructed based on the quarterly GDP assessment by sectors of economy in an indirect way. The indirect method has used different economic indicators (monthly and quarterly), which help to assess macroeconomic developments at home in the previous periods. The identification of economic time relationships between conjunctural indicators has helped to estimate the value added by sectors of economy. Developments in the sales index in economy (one of the most correlated indicators with production) have determined the rates in value added. This method allows the use of available conjunctural information on past periods in order to obtain quarterly GDP figures on the economy and by sectors of economy in the following periods. The estimates have been made at both current and constant prices (average prices in 2005). The published series are seasonally adjusted. Quarterly GDP is subject to future revision. GDP data are expressed as quarterly and annual rates of change in GDP figures.
One the way to using quarterly GDP
Being a user of official statistics, the Bank of Albania uses some indicators which relate to the developments in the real sector of the economy. In addition to short-term statistics (INSTAT), sales in absolute value (INSTAT), business and consumer confidence indicators (BoA), assessments and forecasts of macroeconomic indicators (BoA), the quarterly GDP (INSTAT) will be added to this set. The use of this indicator in the Bank of Albania decision-making process will be gradual for some important reasons.

First, the quarterly GDP is not a measure but an estimate that is subject to constant revision. The measuring of an indicator is more accurate than its estimate, which is more exposed to uncertainty.

Second, the Bank of Albania will estimate the quarterly GDP series after it has made the consistency analyses with a number of indicators on the real sector of economy. This step assists the past and future decision-making analysis.

Third, the availability of a longer quarterly GDP series, which is quantified by the expenditure method, would assist the central bank’s experts, in particular in making the consistency analyses.

In conclusion, it is a known fact that the thorough understanding of the quarterly GDP estimation methodology by experts helps to make accurate analyses of the economy. The latter are an essential tool in the monetary policy decision-making process. The broad understanding of all methodological aspects is a crucial preliminary phase that will serve to the right use of this indicator in the future.

HOUSE PRICES
House prices recorded a slight annual decrease over the last quarter of 2008 (0.9 percent), which followed the more considerable decrease of the House Price Index in the preceding quarter (4.3 percent). Average annual change of the House Price Index for the year 2008 stood at -0.3 percent, in contrast to the two-digit growth rates over the 2005-2007 period (by an average of +16 percent). Compared with the previous quarter, the House Price Index increased by 12 percent in the last quarter of 2008. The performance of house prices starting from the first quarter of 2008 has followed the increase in the number of construction permits. As of end the third quarter, the value of residential building permits was about 10 times higher than in the same period the preceding year.

The performance of house rents over the year 2008 displays higher volatility than house prices, however showing a more apparent downward tendency. In the last quarter of 2008, the rent index fell by 4.9 percent compared with the same period the previous year. Relative to the previous quarter,
the rent index increased by 12 percent. The increase in the House and Rent Price Index in quarterly terms mainly relates to seasonal factors.

The price-rent ratio\textsuperscript{23} did not undergo significant changes over the last quarter of 2008 compared with the previous quarter, maintaining its long-term tendency. The historical performance of this ratio indicates that starting from the end-2006, house prices have increased at faster rates than rent prices. This ratio recorded the highest value in the third quarter of 2007, to later show signs of downward tendency. However, the price-rent ratio is currently about twice higher than its average for the 1998-2008 period.

\begin{box}
\textbf{Box 3 A comparative insight on house and rent prices}\textsuperscript{24}

House prices have risen significantly over the last decade. After having recorded only positive growth rates starting from the year 2003, the house price index – which refers only to the city of Tirana – showed signs of slowdown in 2008. By contrast, the rent index shows a general downward tendency, albeit the more volatile annual growth rates than the house price index. For the 1998-2008 period, average annual change rate of the house price index was about 9 percent. Data on the house market show that their price rise slowed down in early 2008. If we deflate the fall of prices in the last quarter, then the fall of house prices would be even higher in real terms (3 percent). The price rise in Tirana has not been uniform: the price rise in the centre is twice higher than the price rise in the suburbs. The slowdown in the house price rise was followed by the increase in the number of construction permits in the first quarter of 2008 (21 percent) after a one-year period of decrease. On the other side, the banks’ lending survey shows that the lending terms banks have applied on house loans have tightened, hence leading to the relative fall of demand.

\begin{table}
\textbf{Chart 1 Nominal and real annual changes of house prices}

\begin{graph}
\includegraphics[width=\textwidth]{chart1}
\end{graph}

\textbf{Chart 2 Performance of rent and price index}

\begin{graph}
\includegraphics[width=\textwidth]{chart2}
\end{graph}

Source: Bank of Albania and INSTAT

\textit{Price/rent ratio}\textsuperscript{25} has been increasing. Although this indicator showed a downward tendency in the last quarter of 2008, its value is 1.9 times higher than its long-term average (1998-2008). This indicator suggests that house prices have risen at more accelerated rates than their rents.
\end{box}
The following chart shows that although the house price in Albania is relatively lower than in other countries, the cost of rent is the lowest. Based on the latest data, the ratio between the price of an average apartment to the annual price of rent for the same apartment is one of the highest among the countries taken under consideration.

* This indicator is determined by dividing the average price of an apartment in the centre of the main cities with an area of 120 m² by the cost of average rent for the same apartments multiplied by 12 months: Indicator = price/annual rent

4.1.1 External sector developments

CURRENT ACCOUNT AND FOREIGN TRADE DEVELOPMENTS

Current account deficit increased by 48 percent in annual terms to about 252 million euros over the third quarter of 2008. As a share of GDP, it accounts for about 13.7 percent, which is 5 percentage points higher than the same period the previous year. In addition to the trade deficit widening, the deepening of current deficit over this period was also triggered by the narrowing of the positive balance of revenues and current transfers’ account.

The volume of current transactions grew by 4.4 percent in annual terms. Current expenditures were mainly used for the purchase of goods and services (95 percent), while current inflows were principally in the form of private current transactions and travel services (56 percent). Deficit in trade in goods recorded an annual decrease of 10.5 percent over this period, accounting for about 28 percent of the GDP. Services account balance recorded a surplus of about 74 million euros, where travel services contributed by 83 and 78 percent, respectively, to the export and import of services. The net positive result of 63.2 million euros in the incomes account recorded an annual decrease of 14.6 percent, where the contraction in labour inflows provided
the main contribution. Investment income - mainly portfolio investment - increased by 11.4 percent. Workers’ remittances recorded an annual drop by 28.2 percent over the third quarter of 2008, financing about 30 percent of the deficit in trade in goods.

Trade exchanges grew by 15.4 percent in annual terms to 1.95 billion euros over July to November 2008. Imports and exports of goods recorded an annual increase of 15.23 and 16.09 percent, respectively, while the coverage of imports by exports was 25.3 percent. Excluding the contribution of fuels, imports and exports of goods over this period would have grown by 13.8 and 15.2 percent, respectively.

In annual terms, imports and exports fell slightly in November. Maintaining the downward tendency of the preceding months, the decline in the import and export of fuels by 39 and 45 percent, respectively, provided the main...
contribution. ‘Unprocessed goods’, ‘Machinery and equipment’, ‘Processed goods’ and ‘Beverages and tobacco’ recorded the highest annual growth in the import value. The favourable weather conditions in Albania are considered to have principally triggered the decline in the import of fuels.

With reference to exports, ‘Animal or vegetable fats and oils’, ‘Fuels’ and ‘Beverages and tobacco’ recorded the sharpest annual decline. By contrast, the export of ‘Chemical products’, ‘Processed goods’ and ‘Foodstuffs and live animals’ recorded growth.

Table 8 Imports and exports by commodity groups (in million euros) and annual changes

<table>
<thead>
<tr>
<th>Commodity groups</th>
<th>Imports</th>
<th>Change (%)</th>
<th>Exports</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>November 2008</td>
<td></td>
<td>November 2008</td>
<td></td>
</tr>
<tr>
<td>Foodstuffs and live animals</td>
<td>34.65</td>
<td>-29.37%</td>
<td>4.24</td>
<td>18.23%</td>
</tr>
<tr>
<td>Beverages and tobacco</td>
<td>8.44</td>
<td>35.29%</td>
<td>0.10</td>
<td>-18.38%</td>
</tr>
<tr>
<td>Unprocessed goods</td>
<td>8.00</td>
<td>46.16%</td>
<td>7.54</td>
<td>-8.11%</td>
</tr>
<tr>
<td>Fuels</td>
<td>39.50</td>
<td>-38.71%</td>
<td>3.25</td>
<td>-44.96%</td>
</tr>
<tr>
<td>Animal or vegetable fats and oils</td>
<td>2.80</td>
<td>-28.67%</td>
<td>0.00</td>
<td>-86.76%</td>
</tr>
<tr>
<td>Chemical products</td>
<td>31.03</td>
<td>-0.08%</td>
<td>0.93</td>
<td>139.90%</td>
</tr>
<tr>
<td>Processed goods</td>
<td>84.30</td>
<td>36.05%</td>
<td>20.51</td>
<td>31.89%</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>75.20</td>
<td>38.04%</td>
<td>3.89</td>
<td>5.67%</td>
</tr>
<tr>
<td>Other manufactured goods</td>
<td>30.98</td>
<td>-21.90%</td>
<td>33.52</td>
<td>-10.43%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>314.90</td>
<td>-0.44%</td>
<td>73.98</td>
<td>-1.21%</td>
</tr>
</tbody>
</table>

Source: Bank of Albania estimations

The structure of trade exchanges by partner countries attests to their high concentration with the EU member countries (about 62 percent). Italy, Greece and Germany remain Albania’s main trading partners in terms of total trade exchange volume with the EU member countries. China, Turkey, Macedonia and Kosovo rank among the non-EU member countries.

Box 4 Unit value indices, value indices and volume in foreign trade indices

Unit value indices in foreign trade are calculated by the INSTAT based on the detailed statistics by products, in value and quantity, provided every month by the Customs General Directory. These indices capture the changes in average prices of aggregate imports and exports, assuming that the imported and exported quantities remain unchanged. Thus, these are not price indices, but rather average value indices which express the ratio performance of exchanged value/quantity to the reference period. Average values are initially calculated at a detailed level; then they are aggregated using the values of the surveyed quarter as a weighting coefficient. However, unit value indices as other indices in general, feature some advantages and disadvantages. From the unit value index we can generate another important index, Terms of Trade Index (TTI), which results from the following formula:

\[
TTI = \left( \frac{\text{Export unit value index}}{\text{Import unit value index}} \right) \times 100
\]
If the Terms of Trade Index number increases, it is described as a favourable movement as a unit of exports will buy more imports. If the Terms of Trade Index number decreases, it is described as a worsening or deterioration of the terms of trade, as a unit of exports will buy fewer imports. In the Albanian case, for instance, this index has for several quarters recorded high positive growth rates, which is a positive development, albeit the downward growth rate in the third quarter of the year 2008.

Import (Export) Value Index is as simple to calculate as it is important for the calculation of other indices. The ratio between import (export) value index and the import (export) unit value index yields the import (export) volume index. The value index is computed using the following formula:

\[
\text{Value index} = \left( \frac{V_i}{V_o} \right) \times 100
\]

where:
- \( V_i \) = Current value of imports or exports in the reference period;
- \( V_o \) = Arithmetic average of import or export values in the base year.

From where:

\[
\text{Volume index} = \left( \frac{\text{Value index}}{\text{Unit value index}} \right) \times 100
\]

A major aim of economic analysis is to develop an understanding of changes taking place in an economy over time. To achieve this, it is necessary to distinguish between changes arising solely from price changes and those arising from other influences such as quantity and quality, which are referred to as changes in ‘volume’. Volume indices provide a broader understanding of these changes and help us derive more accurate conclusions on the fact that the developments in one country’s trade exchanges with the rest of the world owe to the developments in price performance or for instance to the performance of demand in trading partners.

**CAPITAL AND FINANCIAL ACCOUNT**

Capital and financial account recorded a positive net flow of about 170 million euros in the third quarter of 2008 or 44 percent lower in annual terms. Capital transfer inflows amounted to about 27 million euros, while the financial liabilities of residents totalled 142 million euros. The net flow of this account finances about 67 percent of current deficit and accounts for 10.3 percent of the GDP. Net foreign direct investment amounted to 124 million euros over the third quarter of 2008 or about 45 percent lower than in the same period the previous year.

As of end the third quarter, ‘Errors and omissions’ amounted to 201 million euros, causing the overall balance of payments to record positive values that are reflected in the increase of reserve assets by 118.5 million euros. Foreign reserve totalled about 1.6 billion euros, sufficient to cover 4 months of imports of goods and services.24
4.1.2 Fiscal indicators and fiscal policy

The fiscal policy for the year 2008 has been pursued in line with the macroeconomic and fiscal framework for the three-year period 2008-2010. The expansionary stance of fiscal policy after the first half of 2008 was reflected in the widening of budget deficit, which amounted to 22.0 billion leks as of end November 2008.

Table 9 Performance of main fiscal indicators until November, 2007-2008

<table>
<thead>
<tr>
<th></th>
<th>Realization in 2008 (in billion leks)</th>
<th>Cumulative realization of the 11-month plan (in %)</th>
<th>Realization of the 11-month plan (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q 1</td>
<td>Q 2</td>
<td>Q 3</td>
</tr>
<tr>
<td>Total revenue</td>
<td>63.6</td>
<td>71.4</td>
<td>73.9</td>
</tr>
<tr>
<td>- Tax and customs</td>
<td>46.9</td>
<td>49.2</td>
<td>53.9</td>
</tr>
<tr>
<td>- VAT</td>
<td>24.0</td>
<td>25.7</td>
<td>28.3</td>
</tr>
<tr>
<td>- Tax on profit</td>
<td>6.1</td>
<td>3.8</td>
<td>3.6</td>
</tr>
<tr>
<td>- Excise</td>
<td>6.5</td>
<td>8.4</td>
<td>9.9</td>
</tr>
<tr>
<td>- Tax on personal income</td>
<td>4.8</td>
<td>5.2</td>
<td>6.7</td>
</tr>
<tr>
<td>Local government</td>
<td>2.4</td>
<td>3.1</td>
<td>2.9</td>
</tr>
<tr>
<td>Social insurance contributions</td>
<td>11.1</td>
<td>11.3</td>
<td>11.8</td>
</tr>
<tr>
<td>Non-tax</td>
<td>3.1</td>
<td>7.4</td>
<td>5.1</td>
</tr>
<tr>
<td>Total expenditure</td>
<td>53.1</td>
<td>84.2</td>
<td>80.1</td>
</tr>
<tr>
<td>- Current expenditure</td>
<td>48.1</td>
<td>59.8</td>
<td>61.8</td>
</tr>
<tr>
<td>- Personnel</td>
<td>14.2</td>
<td>15.8</td>
<td>16.4</td>
</tr>
<tr>
<td>- Interest</td>
<td>6.9</td>
<td>8.1</td>
<td>7.9</td>
</tr>
<tr>
<td>- Operation and maintenance</td>
<td>3.7</td>
<td>6.8</td>
<td>6.2</td>
</tr>
<tr>
<td>- Social insurance</td>
<td>16.6</td>
<td>18.4</td>
<td>20.4</td>
</tr>
<tr>
<td>- Local government</td>
<td>3.8</td>
<td>6.7</td>
<td>6.7</td>
</tr>
<tr>
<td>- Other expenditure</td>
<td>2.6</td>
<td>3.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>5.1</td>
<td>22.9</td>
<td>17.5</td>
</tr>
<tr>
<td>Budget balance</td>
<td>10.5</td>
<td>-12.8</td>
<td>-6.1</td>
</tr>
<tr>
<td>Domestic financing</td>
<td>-10.6</td>
<td>11.8</td>
<td>-11.5</td>
</tr>
<tr>
<td>- Privatization</td>
<td>0.1</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>- Domestic borrowing</td>
<td>5.5</td>
<td>6.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Foreign financing</td>
<td>0.1</td>
<td>1.1</td>
<td>17.6</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance

Budget revenues continued to perform satisfactorily over July to November 2008. Budget revenues collected as of end November have met the 11-month plan of the Ministry of Finance by about 96.4 percent. Excise and local government revenue recorded the main difference between the plan and the factual realization of total revenue. The non-realization of the 11-month plan for excise revenue by about 3.8 billion leks owes to the decline in the prices of goods that are subject to excise in the global markets.

In nominal terms, the revenues collected over the 11-month period totalled 262.4 billion leks, recording at the same time the highest annual increase (16 percent) of the last nine years. In addition to certain items that have historically provided a positive contribution to the increase in revenues - VAT, excise and social insurance contributions -, tax on personal income has been providing an increasing contribution over the year 2008.
Compared with the previous two years, the Ministry of Finance has been more active in carrying out the budget expenditure over the second half of 2008. The 11-month plan has been met by 92 percent while about 21 percent of total expenditure planned for the year 2008 will be carried out in December.

As of end November 2008, expenditure recorded an annual increase by about 28 percent, which as in the case of budget revenues represents the highest rate for the decade. Expenditures on wages and salaries and on social insurance continue to provide the main contribution. Investment expenditure – 50 percent of which is used for the construction of Durrës-Kukës road – have contributed to total increase of expenditure by about 6.8 percentage points over the year 2008. In addition, the 11-month period recorded the highest ratio of capital expenditure (about 24 percent) to total expenditure of the last nine years.

Although the revenues have shown an accelerated growth rate over October and November 2008, the increase of expenditure at higher rates than revenues led to budget deficit deepening, which as of end November 2008 totalled 21.9 billion leks from the planned amount of 36.6 billion leks.

In contrast to the same period the previous two years, budget balance has recorded negative values starting from the end of the first half of 2008, standing below the level planned by the Ministry of Finance.

**Budget Deficit Financing**

Budget deficit created after the first half of 2008 was mainly financed through foreign resources.
The highest amount of Government domestic borrowing was recorded in September 2008 - about 13.4 billion leks. This amount reduced in the months to follow reaching 2.7 billion leks as of end November. The reduction of domestic borrowing owes to the absence of market demand for some debt instruments issued by the Government in October and November 2008.

<table>
<thead>
<tr>
<th>Table 10 Budget deficit financing for the 11-month period, 2001-2008 (in billion leks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>November</td>
</tr>
<tr>
<td>2001</td>
</tr>
<tr>
<td>Budget balance</td>
</tr>
<tr>
<td>Domestic financing</td>
</tr>
<tr>
<td>Privatization</td>
</tr>
<tr>
<td>Domestic borrowing</td>
</tr>
<tr>
<td>Foreign financing</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance

Foreign financing of the Albanian deficit totalled 33.1 billion leks for the 11-month period, compared with the planned 30.3 billion leks. The loan obtained for the financing of Durrës-Kukës road shares the most considerable part. In addition, the further deepening of primary deficit, in particular over the last quarter of 2008, reflects the increase in the public debt stock, primary of the foreign one.

As of end 2008, short-term debt stock accounted for about 62 percent of total domestic debt, compared with 67 percent it accounted for as of end the previous year. The extension of the maturity term in the Government securities’ portfolio represents one of the priorities in domestic borrowing policy.

4.1.3 Monetary developments

Monetary indicators had a stable performance over the second half of 2008, although the end of the period showed signs of their downward growth rates. Average annual growth rate of M3 aggregate was about 13 percent, while M2 aggregate in lek maintained its upward trend. The performance of net domestic assets reflected the deceleration of demand for money in November, compared with the growth rates over the previous period in the year 2008.

The creation of monetary flows has mainly resulted from the financing of the private sector, which remains high despite the slower growth rates over the last two months. Credit to the private sector
continued to provide the main contribution to money growth by about 10 percentage points in terms of M3.

Annual growth rate of broad money increased slightly in the third quarter to above 14 percent to later stabilize at the end of the period and reach the figures recorded over the first half of the year. Slowdown in money supply over the last months of the year reflects the downward annual growth of total deposits to 10.7 percent relative to the annual average of 17.2 percent. The upward growth rate of lek denominated deposits maintained over the second half of the year shifted at the end of the period and reached 7 percent. Foreign currency denominated deposits showed a downward tendency in the second half of the year, which was mainly concentrated in the last two months of the year. Their annual growth rate was 16.2 percent compared with the average of 25.3 percent in the third quarter.
In terms of time structure, the growth rate was more weakened in household time deposits, which have the largest share in total deposits, and in business demand deposits. Household time deposits maintained their upward tendency of the first half of 2008, except for the last two months when the growth rate receded by about 15 percent. The performance of business time deposits was highly volatile. A small part of deposits were withdrawn from the banking system in the last months of 2008 as a result of depositors’ concerns following the vague situation in the global financial system. Despite the fall in the growth rate of foreign currency denominated deposits, their contribution to M3 growth remains high. As of end period, their share to total deposits was 43.8 percent compared with 33.4 percent the same period the previous year.

Average annual growth rate of M2 aggregate expanded to above 10 percent over the course of the second half of 2008, concentrating mainly at the end of the period. Currency outside banks provided the main contribution to M2 growth. The downward pressures of M2, as a result of the reduced growth rate of lek denominated deposits, were moderated by the more rapid growth of currency outside banks which reached 21.2 percent. As of end November, the ratio of currency outside banks to M2 stood at 32.8 percent, which is above the average ratio for the year 2008. Subsequently, M1 aggregate grew by about 14 percent over this period. This tendency has been also reflected in the creation of high liquid money, base money. In nominal annual terms, base money grew to 9.3 percent over the second half of the year compared with 7.6 percent the same period the previous year.

![Chart 22: Performance of M2 aggregate components in lek](source: Bank of Albania)

**Credit to the Private Sector**

Demand for money fell over the course of the second half of 2008, both from the private and the public sector. The annual growth of loans by an average of 44 percent reduced compared with the first half of the year when it grew by about 46 percent. The slower growth rate of loans owes to the
lower lending to households and the reduced growth of foreign currency
denominated loans. In addition, as of end period, new disbursed loans
recorded the lowest figures for the year 2008 and lower than the same period
the previous year.

Despite the lower growth rate of loans, the banking system is ever-
increasingly sustaining economic activity at home. Being also affected by the
more significant decline in the growth rates of money supply and deposits,
intermediation indicators increased to 50 and 63 percent, respectively,
compared with 45 and 55 percent as of end June 2008.

Following September, the loan portfolio structure by currency shows an
increase in the annual growth rate of lek denominated loans to 35 percent,
owing mainly to the higher lending to businesses in lek. For the same period,
lending in foreign currency has decreased in annual terms to 46 percent from
the average of 49 percent the first half of the year 2008. The cost of loans in
foreign currency did not seem to observe the easing of monetary conditions
in the international markets over the last two months, hence maintaining
the summer levels. The preservation of relatively high interest rates and the
slackening of lending in foreign currency indicate new policies pursued by
commercial banks, which sustain less lending in foreign currency in response
to the strengthening of supervision regulations and the reduced liquidity in
foreign currency.

The performance of loan portfolio by customer shows higher annual growth
rates of business loans to 44 percent in the second half of 2008 compared with
the average of 40 percent in the first half of the same year. In the meantime,
household loans continued to grow at lower rates, by 39 percent compared
with the average annual growth by 52 percent in early 2008. The largest share
of business loans (80 percent) finances the main sectors of the economy: trade
(33 percent); construction (22 percent) and industry (25 percent). In contrast to the first half of the year, the loan portfolio to construction and trade showed a declining tendency while that to industry increased slightly over the second half of 2008. The increase in the loan portfolio to industry was also triggered by the growth of lending to the public company, KESH.

Unlike the first half of 2008, the developments in loan portfolio over the second half of the year show a declining contribution of house loans to the quarterly growth of total loans. As of end period, house loans grew by 40 percent in annual terms, compared with the average growth by 63 percent in the first quarter. Some commercial banks’ inclination to tighten the conditions for this type of product may have fuelled the moderated growth of house loans’ portfolio. Overall, the contribution of consumer loans to the growth of total loans reduced over the course of the year 2008. This performance was
shown since the end-2007. The annual growth of consumer loans was stable over the second half and recorded 27 percent.

### CREDIT TO THE FISCAL SECTOR

In response to the higher demand for funds to cover the fiscal deficit, the net claims on the government increased in the beginning of the second half of 2008. Until September, the net claims on the government increased by 13 percent in annual terms. Despite the high government demand for funds, some commercial banks had a portion of their T-bill portfolio matured in the last month of the reference period, hence, reducing the banking system’s claims on the fiscal authority. The annual growth of net claims on the government by 5 percent in November marked the lowest level for the year 2008.

As of end November, lending to the public sector accounted for only 43

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**Chart 26** Composition of loan portfolio by purpose of use

**Chart 27** Performance of domestic credit and Government financing

*Source: Bank of Albania*
percent of domestic demand for money, recording marked decline in the last four years. Preliminary data on the primary market for December attest to the growth of the Bank of Albania T-bill portfolio and a higher participation of commercial banks in the securities’ market. In December, commercial banks were noted to shift further to long-term instruments.

4.2 LABOUR MARKET AND WAGE PERFORMANCE

4.2.1 Labour market

The average number of employed persons increased over the third quarter of 2008, with the private agricultural and non-agricultural sectors providing the main contribution. The average number of unemployed persons increased slightly compared with the previous quarter. Unemployment rate has been declining, owing mainly to the increase in the average number of employed persons in the private agricultural sector. As of end the third quarter, the average number of total employed persons increased by about 3.3 percent compared with the previous quarter. The average number of employed persons in the private agricultural and non-agricultural sectors increased by about 26,549 and 4,018 persons compared with the previous quarter. The increase in employment was more marked in manufacturing industry and construction, mainly owing to the high share of the number of employed persons in these sectors.

Over the course of the third quarter of 2008, the average number of total unemployed persons recorded an annual fall of 1.5 percent. Unemployment rate reached 12.62 percent, hence maintaining a downward trend.

4.2.2 Performance of wages

The annual growth rate of wages slowed down in both the public and private sectors over the third quarter of 2008. In nominal terms, average monthly wage in the public sector rose by about 1.24 percent compared with the same quarter the previous year. Average wage in economic enterprises rose by about 9.9 percent over the third quarter compared with the same period the previous year. However, the growth rate is about twice lower than over the first half of the present year.
In real terms, the annual growth rate of average wage was about 6.7 percent over this period. In nominal terms, the annual growth rate of average wage in the third quarter was lower for the industry and services sectors. While the nominal annual growth rates of average wage in construction and quarrying industry were higher than over the second quarter of 2008 - 16.3 and 13.9 percent, respectively. Monthly minimum base wage reached 17,000 leks in the third quarter, up by about 6.3 percent compared with the previous quarter. In quarterly terms, average full economic assistance recorded the highest growth by about 5.84 percent, while average partial economic assistance rose by about 0.52 percent.

### Box 6 Main signals deriving from the trends in labour productivity and labour cost per unit of output indicators

Inflationary pressures in the medium-term are to a large extent explained by the fact how and how much the changes in income from labour (wages, etc) are supported by the changes in labour productivity (LP). Labour cost per unit of output (LCUO) is the indicator which better synthesizes the main trends in the wage and labour market. It is the cost of labour required per unit of output in a sector, branch or economy. Expressed in an index, this indicator is widely used in comparative analyses between the sectors of the economy but also between different countries. As such, it identifies aspects of inter-sectoral competitive capabilities between different countries, as well.

The ongoing increase of the LCUO in an economy would provide signals for the increase of domestic supply-side inflationary pressures, materialized in the expected rise of producer prices. The upward trend of this indicator in one economy compared with that of another economy would signal ‘the loss’ of the competitive position of the first economy in the labour and price market area. The second economy would be a more attractive investment market, since it would provide relatively lower labour costs and consequently, lower producer prices and higher profitable opportunities for investors.

In general, a country can improve its competitive position by reducing the nominal labour cost for one employed person or by increasing the labour productivity performance. The strategies in this area are selected based on the country’s economic conditions. They may consist in: moderation of wage rise rates, which would lower the producer price; growth of productivity, which would allow higher output; combination or optimization of these two strategies in order to ensure adequate LCUO development rates.

### Trends of LP and LCUO in the Albanian economy

LP and LCUO indicators may be proxied using the data provided by short-term statistics. LP index is measured by the ratio of two indices: turnover indicator** - seasonally adjusted*** - to the number of employed persons. LCUO index is measured by the ratio of wage index** per one employed person to the productivity index. The simple transformation of the formulas leads to a more direct estimation of the LCUO index: as the ratio of wage fund index to the deflated and seasonally adjusted...
turnover indicator. The expected publication of value added index as part of the short-term statistics helps to better estimate the productivity. These indicators are estimated for individual sectors and the economy in general (excluding agriculture). The above-mentioned indicators are also constructed by categorizing the economy in two sectors: traded and non-traded.

In this context, the traded sector requires special attention; first, because the performance of productivity in this sector should ‘tone’ the upward growth rates of productivity in one economy; and second, being a competitive sector in the foreign markets, it should offer goods with ‘attractive’ prices and labour costs. In principle, the traded sector should embody the priorities in the country’s competitive capabilities.

At an economy level, as of end 2006, these two indicators converged close to 100 percent or their ratio close to 1. Starting from the year 2007, the ratio has almost been in favour of the LCUO. The peak in the LCUO index (Q2: 2007) was reached during the implementation of the Government measures, which aimed at further formalizing the labour and wage market. The construction sector shows the most considerable divergences of the indices, where the unit labour cost index displayed the most pronounced increase.

The year 2008 marked relatively positive developments in these two indicators: LCUO downward rates and LP upward rates. The traded sector and within this sector, the industry, are the sectors showing the most pronounced converging trends of both indices. The increase in the LCUO index in the industry sector has been mostly sustained by the increase in the LP index, which has helped to maintain the stable trend of LP indicator for the entire traded sector of the economy.

Chart 1 Performance of LP and LCUO indices by main sectors of the economy

Source: INSTAT and Bank of Albania estimations
Note: The economy implies only those sectors included in the short-term statistics (industry, construction and services). The indices are based on Q1:2003, in order to simplify the comparative aspect of the trends in these two indicators.
**Preliminary assessments show that the maintenance of competitive capabilities of the Albanian economy in the international markets, albeit still limited, has been mostly sustained by the sector of industry, which shares a relatively considerable weight in the Albanian exports. Preliminary results on some empirical findings - under the restriction of short-time series - show that the quarterly change rates of both indicators have a relatively high negative correlation. This implies that the quarterly increase of productivity affects the average quarterly decrease of labour cost per unit of output. At the economy level, for Q2:2003-Q3:2008, the average quarterly volatility of the LCUO attributes to the labour productivity to an extent of about 32 percent.**

### 4.3 PRODUCER AND IMPORT PRICES

Inflationary pressures generated by producer and import prices on the overall level of consumer prices have been declining in the third quarter of 2008. For both these indicators, food prices – which have a considerable share in the consumer basket - recorded the sharpest fall over this period. Compared with the same quarter the previous year, Producer Price Index (PPI) increased by 7.1 percent over the third quarter. Producer prices in quarrying industry rose by 9.7 percent in annual terms, while the average growth rate over the first half of the year was about 4.2 percent. Despite its small share to total PPI, it has contributed by about 1 percentage point to the PPI annual growth. The first half of the year 2008 was characterized by an accelerated rise in raw material and oil prices in the international markets. The Albanian businesses – mainly those importing the raw material – were faced with higher producer costs which were partly transmitted to the domestic market as well. The strong lek vis-à-vis the U.S. dollar helped to mitigate the complete pass-through of costs to businesses. ‘Food industry’ and ‘Food and beverage industry’, which were among the most affected categories by the high raw material prices, dropped their PPI by 4.0 percent in the third quarter compared with the previous quarter. This tendency does not seem to have been uniformly transmitted to the price index of ‘Processed foods’ in the CPI basket.

**Table 11 Annual change rates of some PPI components and the CPI ‘Processed foods’**

<table>
<thead>
<tr>
<th>Date</th>
<th>PPI Total processing industry</th>
<th>PPI Food processing industry</th>
<th>CPI – Processed foods</th>
<th>PPI Extracting industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4:06/Q4:05</td>
<td>-0.7</td>
<td>1.5</td>
<td>1.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Q1:07/Q1:06</td>
<td>2.1</td>
<td>14.4</td>
<td>2.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Q2:07/Q2:06</td>
<td>3.3</td>
<td>7.3</td>
<td>11.3</td>
<td>2.9</td>
</tr>
<tr>
<td>Q3:07/Q3:06</td>
<td>3.6</td>
<td>6.3</td>
<td>14.7</td>
<td>7.3</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>
</tr>
<tr>
<td>Q1:08/Q1:07</td>
<td>7.4</td>
<td>6.8</td>
<td>20.5</td>
<td>11.2</td>
</tr>
<tr>
<td>Q2:08/Q2:07</td>
<td>7.4</td>
<td>6.9</td>
<td>14.6</td>
<td>12.9</td>
</tr>
<tr>
<td>Q3:08/Q3:07</td>
<td>7.1</td>
<td>6.1</td>
<td>7.0</td>
<td>10.0</td>
</tr>
</tbody>
</table>

Source: INSTAT and Bank of Albania estimations
Import prices recorded negative annual growth rates over the first nine months of 2008. The annual change in the third quarter was -7.5 percent, the lowest recorded in the last eight years. The downward tendency of import prices over the first nine months of 2008 is almost present in all categories: capital, intermediate and consumer goods.

Imported inflation has provided a positive impact over the fall of consumer prices at home, owing to the annual fall in the import prices and the appreciation of the lek vis-à-vis the U.S. dollar (8.9 percent) and the Euro (0.5 percent) in the third quarter. Developments in import prices were directly reflected in ‘Processed foods’ in the consumer basket and indirectly in producer prices. The prices of imported foods reached their historical peak in the second quarter of 2008, recording an annual increase of 20 percent. This increase led to the annual rise of food producer prices (14.7 percent) and to the annual rise of processed foods’ prices in the consumer basket (13 percent).

The price of imported foods fell by 7.7 percentage points in the third quarter, hence leading to the drop in the producer prices of food by 7 percentage points and to the drop in processed foods’ consumer prices by 3 percentage points.

In absence of data on the last quarter of 2008, the proxy for imported inflation, measured by the consumer prices of foods in Albania’s main trading partners (Italy and Greece), attests to the continuous decline of imported inflation over this quarter as well. The decrease in the annual rate of imported inflation attributes mainly to the drop of food prices in these countries, while the exchange rate of the Albanian lek vis-à-vis the Euro remained almost unchanged in the last quarter. In annual terms, imported food price inflation declined from 6.2 percent in the second quarter of the year to 5.1 and 4.5 percent in the following quarters. This development led the annual inflation of ‘Food and non-alcoholic beverages’ to decrease from 6.9 percent in the second quarter to 3.8 percent in the last two quarters.

Import prices continued to be affected by the oil price fluctuation in the international markets. Over the course of the second half of 2008, average price of oil in the Albanian market showed a downward tendency similar to that in the international market. However, the volatility magnitude of the average oil price in the retail market was relatively more moderate. The pass-through of the oil price change in the international market to the domestic market occurred after a lag of approximately one month.
The appreciation of the U.S. dollar to the Albanian lek both in monthly and annual terms is assessed to have curbed the fall of oil price per litre in the retail market over August to November 2008. In the meantime, the appreciation of the Albanian lek in December relative to November has provided its impact over the fall of oil price per litre. The price fall rate was the most accelerated recorded for the second half of the year.52

4.4 EXPECTATIONS FOR THE PERFORMANCE OF PRICES IN ECONOMY

Economic agents’ expectations for inflation, which are based on the results obtained from the surveys conducted by the Bank of Albania53, have generally reflected the factual trend of this indicator. According to the latest data obtained from the banks’ survey in January 2009, expectations of banks’ experts for annual inflation after one year are slightly higher than the previous month. Banks expect the inflation rate after one year to increase by 3.2 percent, which is about 0.1 percentage points higher than the expected inflation in December 2008. Based on the probabilistic distribution of banks’ responses – in the January 2009 survey – by intervals of expected inflation rate, the probability that inflation after 12 months will be within the band of 2-4 percent has reduced slightly by 2 percentage points, 56 percent from 58 percent in December 2008. In addition, the banks involved in the January 2009 survey assess a slight upside risk that annual inflation will deviate from the 2-4 percent target band, showing a steeper shift to lower rates. The probability that inflation will exceed the 4 percent or be lower than 2 percent stands at 44 percent, compared with 42 percent the previous month.

5 FINANCIAL MARKETS, INTEREST RATES AND THE EXCHANGE RATE

5.1 INTEREST RATES

INTERBANK MARKET
Interest rates in the interbank market shifted upward in the second half of 2008, showing sharp volatilities in particular over September to November. The banking system continued to be characterized by liquidity constraints. The
Bank of Albania has injected liquidity through its open market operations, using reverse repurchase agreements of one-week maturity term. The main contributing factors are the developments in banks’ depositing activity and the effects of budget actions. In order to smooth out the market and normalize the activity in the interbank market, the Bank of Albania has extended the maturity terms of reverse repo auctions and later changed the form of these auctions to a fixed price and very open auction. In addition, the Bank of Albania has made transactions for the outright purchase of securities. These measures have improved the liquidity position in the interbank market and have satisfied the commercial banks’ demand.

The change of the form of the Bank of Albania auctions, in addition to the moderation of tensions in the interbank market, has also led to reduced daily trading volumes. Compared with the first half of the present year, the volume of one-week transactions has lowered by an average of 0.24 billion leks. Daily transactions volume has increased by 0.15 billion to 1.43 billion leks, mainly owing to the high volumes in the third quarter. In average terms, overnight interest rate increased to 5.99 percent in the second half of 2008 from 5.46 percent the first half. One-week interest rate increased to 6.36 percent or up by 0.49 percentage points.

PRIMARY MARKET

Unlike the performance of interest rates in the interbank market, the Government securities’ yields in the primary market have been increasing starting from November. The increase of the yields at the end of the last quarter owes mainly to the tightened liquidity conditions in the market.

The upward trend of T-bill yields began in November, while the third quarter was characterized by their downward trend. The liquidity-related tensions in the banking system caused the participation in securities’ auctions to be insufficient for meeting the demand. Some of the participants preferred to mature securities by reducing the portfolio in this type of instrument. The coverage ratio of demand for financing stood at 0.9 in November and December, compared with the average of 1.2 in the other months of the year 2008. The yields increased substantially reaching their peak of 8.65 percent for the 12-month maturity term, or about 60 basis points above the third quarter figure. The yields were 21 basis points higher than in the previous year, although the end-year 2007 was also characterized by sharp volatilities of this indicator owing to the growth of demand for financing. A similar performance was also present in 2008, albeit at a lower intensity.
Bonds in the primary market displayed a similar trend to the T-bills. Bonds’ yields have generally increased owing to the reduced supply with these securities. In December, the 2-year bonds’ yield stood at 8.95 percent and the 5-year bonds’ yield (of fixed interest rate) marked 9.75 percent, increasing by about 75 and 70 basis points relative to the end of the third quarter.

<table>
<thead>
<tr>
<th>Yields’ average interest rate</th>
<th>3-m</th>
<th>6-m</th>
<th>12-m</th>
<th>2-year</th>
<th>5-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>5.92</td>
<td>7.17</td>
<td>7.87</td>
<td>8.30</td>
<td>9.80</td>
</tr>
<tr>
<td>2008</td>
<td>6.26</td>
<td>7.39</td>
<td>8.15</td>
<td>8.40</td>
<td>9.25</td>
</tr>
<tr>
<td>September 2008</td>
<td>6.25</td>
<td>7.33</td>
<td>8.02</td>
<td>8.20</td>
<td>9.05</td>
</tr>
<tr>
<td>October 2008</td>
<td>6.23</td>
<td>7.20</td>
<td>7.94</td>
<td>8.15</td>
<td></td>
</tr>
<tr>
<td>November 2008</td>
<td>6.05</td>
<td>7.42</td>
<td>8.10</td>
<td>8.29</td>
<td>9.20</td>
</tr>
<tr>
<td>December 2008</td>
<td>6.20</td>
<td>7.45</td>
<td>8.56</td>
<td>8.95</td>
<td>9.75</td>
</tr>
</tbody>
</table>

**INTEREST RATES ON DEPOSITS AND LOANS**

Weighted average interest rate of lek denominated deposits has by and large increased in summer following the banks’ promotional strategies, peaking 6.72 percent in August. In September, the interest rates fell by 0.61 percentage points. The decline in interest rates persisted in October and November, owing to the correction of seasonal offers. Preliminary data indicate that the banking system offered relatively high interest rates in December on deposits – mainly for short-term maturity terms.

Weighted average interest rate marked 5.43 percent in November, 1.29 percentage points lower than in August. Average interest rates were 0.38 percentage points higher than in 2007 (when the repo rate increased by 0.25 percentage points). In average terms, the interest rates on deposits were 0.93...
percentage points higher in 2008 than in 2007 (the repo rate has changed by 0.75 percentage points over this period).

The interest rates on euro denominated time deposits maintained the same seasonal movements although at different margins. After the promotional increase of interest rates in the third quarter, average interest rates fell by 0.24 percentage points in the months to follow. In November they marked 3.98 percent. Weighted average interest rate on euro denominated deposits did not change in October and November. Following the cut of the key interest rate by the ECB in October, the interest rates on euro denominated deposits did not undergo any changes.

The spread between 12-month lek and euro denominated deposits was 1.98 percentage points in November, hence showing a high and ongoing competitive tendency of the banking system with regard to the euro denominated deposits.

The second half of the year has by and large showed a slight upward tendency of the interest rates in lek and in euro, being mainly affected by the short-term interest rates. Lending in euro has generally been in line with the developments in the international financial markets. In seasonal terms, the interest rates have been affected by aggressive policies pursued by some commercial banks, which have a considerable market share.

Weighted average interest rate of lek denominated loans marked 12.87 percent in November, declining by 0.20 percentage points compared with October (when the interest rate was 13.06 percent). Loans have been mainly extended for the short-term financing and overdrafts of businesses, consumers and for the purchase of real estates by households. The latter have been also promoted through the decrease of interest rates in November.

The interest rates on foreign currency denominated loans have generally performed in line with the developments in the global markets, following the changes in LIBOR and EURIBOR, although at different margins. In September, the interest rates on euro denominated loans marked 8.7 percent - 0.55 percentage points higher than the interest rate.
marked in July 2008. This increase reflects mainly the tightening policies pursued by the banking system over this month. In November, the interest rate decreased to 8.23 percent. The high demand for euro denominated loans - for all purposes and mainly for real estate-purposes – persisted in the last two quarters, as well.

Following August, the spread between loans and deposits denominated in lek maintained its upward tendency. In November, the spread reached 7.43 percentage points, up by 1.32 percentage points from August. Despite the medium-term upward trend, the intermediation rate in euro reflected a slight tightening tendency in October and November, owing to the latest developments in foreign currency lending in the banking system.

5.2 EXCHANGE RATE PERFORMANCE

The downward tendency of the lek exchange rate vis-à-vis the main currencies - the EUR and the USD - shown in the third quarter of 2008 shifted to its depreciation in the last quarter. The decrease to negative values of the change in the nominal effective exchange rate was 3.5 and 3.9 percent in annually and quarterly terms, respectively. The shift to the negative behaviour of the nominal exchange rate largely reflects the depreciation of the lek vis-à-vis the U.S. dollar, despite the small share (20 percent) this ratio has in the index. The depreciation of the lek vis-à-vis the currencies of Albania’s main trading partners suggests a relative mitigation of the amortizing effect that the exchange rate has had to imported inflation.

In annual terms, the lek depreciated vis-à-vis the U.S. dollar and the Euro by 13.1 and 1.2 percent, respectively, in the last quarter. As of end period, the lek traded at USD 87.91 and at EUR 123.80.

The depreciation of the lek vis-à-vis the U.S. dollar owes to a large extent to the developments of the latter in the international markets. The correlated performance of USD/ALL and EUR/USD ratios and the high dynamics of the USD/ALL both in annual and quarterly terms, attest to the high vulnerability of this ratio to the developments in the international markets.
The drop in the EUR/ALL ratio in the last months of 2008 has been mostly affected by the changes in demand-supply ratios in the internal market, rather than by the reflection of the developments in the euro in the international markets. The performance of the lek vis-à-vis the euro over the course of the last quarter has reflected the combined effect of the high demand for foreign currency, mainly outside the banking system. This effect was to some extent mitigated by the preceding behaviour of commercial banks starting from November to the seasonal supply with foreign currency, which characterizes the end-year. Accordingly, the quarterly dynamics in the behaviour of the lek to the euro is shown stable over this period, with a relatively lower volatility compared with the preceding quarter and the same period the previous year.

6 ECONOMIC AND MONETARY DEVELOPMENTS OVER THE COURSE OF THE YEAR 2009

The Albanian economy will perform amid a more turbulent setting of the global economy over the course of the year 2009. The chain effects of the global financial crisis are expected to affect the developments in the Albanian economy in the short-term. The global financial crisis has mainly hit the developed countries, which are Albania’s main partners in trade and financial exchanges. The slowdown of economic growth in these countries will lead to the increase in unemployment and consequently to the decrease in Albanian workers’ remittances, fall of foreign demand for Albanian exports and drop of foreign direct investment in Albania. The contraction of credit from foreign
banks operating in Albania, due to their buffering policies, remains a critical issue. Based on this scenario, the Bank of Albania deems that in absence of a rapid solution to the global economy issues, the economic growth over the year 2009 will to a certain extent be lower than the economic growth materialized in 2008.

However, in the analysis on the expected developments for the year 2009, the Bank of Albania considers with high priority the projections for maintaining and further bolstering macroeconomic stability. In this context, the expected reduction of budget deficit, the projections for the decrease of current deficit as a result of the more favourable conjuncture of global prices and the reduced demand for imported goods, as well as the maintenance of price stability, will help to consolidate macroeconomic stability. These factors will help to achieve a long-term economic growth, capable of responding to the challenges the Albanian economy will be confronted with as a developing economy.

The monetary programme of the Bank of Albania for the year 2009 is oriented to stabilizing the monetary stimuli of domestic demand and mitigating the pressures from the external sector and their impact on the real economy. In absence of a formal arrangement with the IMF, the quantitative restrictions with respect to the net domestic assets and the net international reserve will be constantly monitored by the Bank of Albania.

The 7.9 percent growth of broad money over the course of the year 2009 has been projected based on the assumptions for a stable fiscal performance, in line with the Bank of Albania objectives and concurrent with an average inflation rate of 3 percent. As a result of the growth of currency outside banks over the last quarter of 2008, the monitoring of this indicator aims at keeping any possible inflationary pressures under check.

The downward annual rates of foreign currency flows in the form of deposits denominated in foreign currency, owing to the expected reduced attention of commercial banks to banking intermediation in foreign currency, will stabilize the M3 component on the side of demand for deposits. The Bank of Albania’s net foreign assets are projected to grow at slower rates.

The program projects a stable growth of net domestic assets. The tightening of lending conditions is projected to yield the decline of money flows. In absence of liquidity denominated in lek and in foreign currency, credit to the private sector is expected to decline. Total credit to economy is projected to amount to 54 billion leks. This growth is projected to be relatively uniform by foreign currency components. Accordingly, credit in lek and in foreign currency is projected to grow by about 27 billion leks over the course of the year 2009. Based on these assumptions, the demand for liquidity from depositing banks is projected to persist.

In the public sector, the budget deficit is projected to amount to 50 billion leks, out of which 8.5 billion will be foreign borrowing. Domestic borrowing
in foreign currency will total 30 billion leks and their channelling to projects financed in foreign currency is not projected to add the pressures over the growth of broad money. Credit in lek to the public sector - 12 billion leks - is projected to contribute to the growth of M3.
ENDNOTES

1 Expressed in quarterly terms.
2 In quarterly terms, the U.S. dollar appreciated by about 3.7 percent vis-à-vis the Euro.
3 Over the first half of 2008, unemployment rate averaged 5.2 percent compared with 6.5 percent the second half of the present year.
4 In August 2008 the inflation rate marked 5.4 percent. In September it marked 4.9 percent.
5 BRIC countries: Brazil, Russia, India and China.
6 The volume of exports to EU countries has reduced given the economic crisis the member countries are going through.
7 In annual terms, private investment dropped by 10 percent.
8 The annual growth of exports reached 1.5 percent following the sharp downward tendency shown since the first quarter of 2008. Consumer expenditure increased by only 0.3 percent in annual terms.
9 During the meeting of its Governing Council on 15 January 2009, the ECB decided to slash its main refinancing rate from 2.5 per cent to 2.0 per cent.
10 In order to mitigate the losses from the fall of oil price in the global markets, the Russian Government decided to increase the oil export duty.
11 According to the forecast of the Energy Information Administration, the statistical agency of the U.S. Department of Energy.
12 In December 2008, the Food Price Index recorded an annual rate of 18.4 percent, while the annual decrease of Fuel Price Index was 42.7 percent.
13 Monetary Policy Document for the 2009-2011 period.
14 The growth of credit to the private sector and the increase of employment and rise in wages, in addition to the optimistic expectations of economic agents are believed to have contributed to the growth of domestic demand.
15 Or 2 percentage points lower compared with the first half of 2008.
16 Due to improvements in the re-grouping of some basket items according to the measures referred to in the table, the inflation rates have reflected slight and systemic changes which have not distorted the trends shown in the analyses to date.
17 This indicator indicates the performance of economic activity in manufacturing and services sectors at home.
18 ETI aggregates specific indicators of the main sectors of economic activity (industry, construction and services), and of consumers. The series of indicators, which are based on the information obtained from confidence surveys conducted by the Bank of Albania, are used in the construction of the ETI and they are seasonally adjusted.
20 http://www.instat.gov.al
21 House and Rent Price Index are measured by the Bank of Albania and they cover only Tirana divided in three districts.
22 The first decrease after five consecutive years that the House Price Index recorded only growth rates.
23 Price-rent ratio series has been constructed using the House and Rent Price Index. The increase of this indicator above a normal value, defined by its long-term average, serves as a sign for the house price appreciation.
24 House Price Index and Rent Index are measured by the Bank of Albania and they include only the city of Tirana.
25 Price/rent ratio is calculated by dividing the house price by their rent price. The purchase of a house is considered a financial investment, where the price of rent represents the current value of expected income from the purchase of a house. If the price/rent ratio is higher than “a normal” value, houses are considered to have appreciated. The “normal” value of the price/rent ratio is determined by the long-term average of the ratio.
26 The values of indicators as a share of GDP, which are presented in “The External Sector Developments in the Albanian economy”, are annual cumulative values.
27 In travel services, services for personal purposes have the main share.
28 Labour inflows are assessed to have reduced by 50.6 percent in annual terms.
29 The weight that trade exchanges with these countries share to total trade exchange volume is 32.43, 14.22 and 5.59 percent, respectively.
30 The weight that trade exchanges with these countries share to total trade exchange volume is 6.86, 5.03, 2.73 and 1.91 percent, respectively.
31 These are Paasche-type indices.
32 These indices measure the average import and export prices and they do not consider the changes in quantity.
33 For more information, please refer to www.instat.gov.al
34 This figure refers to the period from January to September 2008.
35 In comparing the plan and the realization for the year 2008, we always refer to the revised budget plan in July 2008.
36 During the revision of the supplementary budget plan (July 2008), oil price in the global markets marked the highest levels for the year 2008. During this period, the Ministry of Finance reduced the annual planned level for the excises by only 1 billion leks, compared with the budget plan approved in the early 2008.
37 In the previous years, there has been a higher difference between the annual plan and the 11-month realization, implying a higher concentration of previous years’ budget expenditure in the last month of the year.
38 Average contribution of capital expenditure to total expenditure for the 11-month period over the years 2000-2007 is about 10.0 percentage points.
39 The first highest ratio over this period was recorded in 2001, which was a parliamentary election year.
40 Primary deficit has been corrected for proceeds of privatizations and grants.
42 Budget and non-budget (INSTAT, Conjuncture: Main economic indicators).
43 According to the INSTAT methodology, average wage is measured as the ratio of wage fund to the number of employed people.
44 Deflated by the effect of prices in economy.
45 Among the short-term statistics indicators, the performance of turnover indicator suggests a pronounced presence of seasonal factors in the first quarters; therefore, the application of deseasonalisation techniques is econometrically justifiable.
46 Measured as the ratio of wage fund index to the number of employed people index.
47 About 9.6 percent to total PPI.
48 Over the first half of 2008, the producer costs in the sub-items of ‘Food industry’ and ‘Food and beverage industry’ increased by 17.6 and 18.0 percent, respectively.
49 Measured by the unit value index, INSTAT.
50 The correlation coefficient attests to a stronger statistical relation between ‘Food and non-alcoholic beverages’ for Albania and these two countries than between total consumer price index. The correlation coefficient for the period 2002M1-2008M12 is 0.8 in the first case and 0.5 in the second case.
51 In annual terms, the Lek depreciated slightly by 0.4 percent vis-à-vis the Euro in the last quarter.
52 Compared with the previous month, in December, the Lek appreciated by about 6 percentage points vis-à-vis the U.S. dollar, while the oil price per litre dropped by 13.8 percent.
53 The analysis on inflation expectations is based on the results obtained from the surveys conducted by the Bank of Albania: Business Confidence Survey, Consumer Confidence Survey and Monthly Banks’ Survey.
54 NEER – 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). A positive change of the NEER implies the appreciation of the lek.
55 Measured as the quarterly average of exchange rate volatility. The latter is measured as the standard deviation indicator.
SPEECH OF THE GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI

October 7, 2008

Pursuant to the Law “On the Bank of Albania” and the obligation to issue a periodical statement on the threats to the financial system stability, during its meeting today, the Supervisory Council of the Bank of Albania analyzed the latest developments in the Albanian banking sector. After analyzing their performance, the Supervisory Council dwelled on the potential risks that may jeopardize the financial sector’s stability in the future.

The Supervisory Council of the Bank of Albania concludes that the Albanian banking system is safe, well-capitalized, lucrative and liquid. All the analyzed indicators attest to a sound situation, while none of the commercial banks operating in Albania has invested in any types of toxic assets, which as already known, were the main factor to generate the global financial crisis.

Over the first half of 2008, the domestic macroeconomic developments did not jeopardize the financial system’s stability. Economic activity at home is assessed to have performed in line with the country’s medium-term economic and financial development program. Consequently, the 6 percent economic growth target for the year 2008 seems to be achieved for the present year as well.

The inflationary pressures, albeit present over the first half of 2008, were considerably relieved in the following period.

Fiscal policy has sustained the creation of a positive budget surplus over this period. The Bank of Albania kept the key interest rate of 6.25 percent unchanged throughout the first half of the present year, considering this rate as appropriate to preserve the macroeconomic balances. The Bank of Albania has been constantly monitoring the liquidity situation in the interbank market. By employing the relevant financial instruments, it has aimed at preserving adequate liquidity and interest rate levels.

Over the same period, the situation in the foreign exchange market has been stable. The exchange rates of the Albanian Lek vis-à-vis the Euro and the U.S. dollar have moved within the historical intervals, mirroring at the same time the situation in the international financial markets.

With respect to advanced economies, macroeconomic policies were confronted with hard times in order to find a proper equilibrium between economic growth slowdown and intensified inflationary pressures.

The consequences of the financial crisis and the price rise in energy and
food products were materialized in considerable losses in the balance sheets of reputable financial institutions, increased producer costs and prices in general, reduced consumption, economic growth slowdown and increase in unemployment. The harmonized actions of the monetary authorities through interventions, which aimed at supplying the markets with necessary liquidity and providing a direct support to the reputable financial institutions, have prevented the failure of the financial markets.

The Albanian financial system continued to grow at stable rates over the first half of the year 2008. The financial sector’s assets have grown steadily but the non-bank financial sector continues to have a small share in the financial market. The good financial result, both in the banking and non-bank financial sector, continues to be sustained by the rapid growth of high return on investment activities. Household deposits remain the main financing source of the activity, while the financing through credit lines from the parent banks is still at adequate levels. Capitalization indicator of the financial sector and in particular of the banking one has increased, owing mainly to the 2007 profit capitalization.

Scenario-based risk analyses attest to the fact that the banking sector has the capacity to cope with the various risks that may arise as a result of unwelcome shifts in the exchange and interest rates.

However, prudent monitoring of assets’ quality is required and time is ripe to pay greater attention to the performance of liquidity indicators.

With respect to the banking sector, the loan portfolio quality is entirely at manageable levels. The rapid growth of loans, and the obstacles certain economic sectors that have been lent significantly may be faced with, will continue to exert pressure over the loan quality in the future.

To this purpose, banks should implement a policy of rapid detection of non-performing loans and promptly create reserve funds. The Bank of Albania will on the other hand increase the frequency of controls in order to verify this process.

As far as liquidity is concerned, it is imperative that the banks’ governing structures pursue practices, which allow the institution to meet the expected liquidity needs independently, and also having other options that improve their ability to generate liquidity if so needed.

Banks should re-evaluate the securities’ portfolio quality, in particular that in foreign currency, in order to attain the optimal characteristics of safety and tradability. In addition, banks should reassess the adequacy of certain indicators’ level in terms of differences in maturity terms and the type of currency of assets and liabilities.

The expansion of the international financial markets crisis to Europe has augmented the risk of its impact over the financial system at home. However, certain factors that have been also referred to in the previous statement,
among which the relatively low exposure of the Albanian financial system to the international financial institutions, the low integration and the well-capitalized activity of parent banks and their subsidiaries operating in Albania, will protect our financial system against this risk.

In the context of the global economic developments, the uncertainty related to the future consumer price developments and the economic growth in the European Union, Euro area and in the United States, will affect the performance of interest rates in the money and lending markets, as well as the exchange rate performance. These movements may also be present in the domestic market through the exposure of the Albanian financial sector to assets and liabilities denominated in foreign currency, although moderately.

In addition, there is a risk that the challenges the economies of the EU countries and broader are going through be reflected in Albania through the fall in workers’ remittances, deterioration of trade deficit and decrease of foreign direct investments. However, the materialization of this risk and its extent are not expected to be significant.

Notwithstanding the latest developments in the international financial markets, we consider that no risks that may be materialized or which may harm abruptly the activity of the Albanian banking system are identified. Increased vigilance and prudence is required from the financial institutions in order to maintain low exposures to the international financial markets and ensure a well-capitalized and liquid business.

In this respect, the Bank of Albania has required from the banks’ governing structures to establish and take necessary and concrete measures in order to maintain and improve the capacity to constantly generate a positive financial result, by preserving the assets’ quality and the liquidity indicators.

The Bank of Albania will orient and support these measures through the creation of necessary regulatory stimuli. The intensification of dialogue with the financial industry and the co-ordination of actions with the public authorities will help to preserve public confidence in the financial system and foster its stable development in the future.
What is the dynamics of this year’s meetings? Is Albania immune to this crisis? What measures have you as an institution and the government taken to cope with it?

This regular meeting in Washington has been special. Besides permanent discussions with the International Monetary Fund and the World Bank, priority was given to discussing about the grave global financial situation, the way to weather this crisis, along with possible solutions. At the same time, a special analysis was made for separate countries, of course Albania included, as a country that has a program with the Fund. So, participation in these discussions has been important. I would be interested in seeing Albania not only in our framework but also in the regional framework and even broader, because this situation should be considered in perspective, not only for what happened today, but also for what will happen tomorrow. The week has been full of activities. Washington has been involved in a special and unique whirl of discussions among important economic-financial institutions, policy-makers and international banks for finding a solution, not only for the moment but also for resolving the situation over the medium- and long-term, as well as for discussing the future global economy’s prospects. Many taboos have been broken and discussed around; now the global economy is confronted with new challenges for the future. In view of this, it is important to emphasize the G7 meeting and yesterday’s meeting on the Euro area, organized by the President Sarkozy in France. The decisions of these meetings appeal for more action – rapid, well-organized and effective – as well as for more cooperation and coordination rather than competition and arbitrage in law and regulations. Simultaneously, these decisions appeal for supporting public packages for a re-capitalisation of financial banking institutions, for putting the lending system into operation and for taking all relevant incentives in order to raise public credibility for these institutions, with the purpose to liven up the banking and financial system, as well as the economic life of different countries.

In specific terms, what measures have you as an institution taken to raise the credibility of this public already concerned about the financial situation?

I have said it time ago that this grave situation is not any longer a situation aggravated by international financial institutions or by various packages they used, as it comes out today, but it has merely turned into a great confidence crisis. Presently cooperation, coordination and a greater attention is required as concerns not only to the current problems but also to the prospects of the situation. We have been cautious. Over last two years I have taken some
initiatives for coordinating our operations in a regional framework. Two years ago we organized for the first time a Conference on Financial Stability in Albania, where seven governors of central banks in the region participated. Besides the Governors’ Club, we have actually a club that functions precisely for supervision, where we discuss all banking supervision problems and make a coordination of laws and respective regulations. Last year the new banking law entered into force, while the current year has been full of changes regarding four basic supervision regulations, having the main focus on increasing bank management quality, bank transparency, internal control and risk management.

The financial crisis here in the United States of America started with a fictional house price rise. How do you evaluate this market in Albania and how concerned are you about non-performing loans?

I would like to repeat what I said a week ago, when the financial stability statement was made public, i.e., the Albanian banking system is not “contaminated” from “toxic” products of the U.S. market and other markets.

Have foreign banks operating in Albania invested in markets that may be contaminated?

The Albanian banking system is safe. The security of this system rests in its parameters of capital, liquidity and profit. The Albanian banking system is profitable, and non-performing loans are within the specified international parameters. Our supervision standard is another additional element of the protective network that the Bank of Albania creates. Special attention the Bank of Albania has paid to the banking supervision, particularly over the last two years. It is a great guarantee for the public in order to raise the confidence in these institutions. The increased confidence in these institutions is a cornerstone for a steady long-term progress of any global economy, especially under such situation. We have always preceded the situations, treating the financial stability issue with primary importance. I have announced in public more than one year ago that the financial stability and the macroeconomic policy walk hand in hand. I think every investment in financial system quality is an investment made for a better and more successful implementation of monetary policy.

At your meeting with the IMF, of course you have discussed the perspective of extending the IMF program with Albania. Were there achieved any preliminary results? Which camp do you belong to, the camp favouring the extension of this program or the one that says that the government’s responsibilities should increase, by the IMF leaving now?

Presently there are no camps; actually there has never been any. Personally I believe that the IMF is the best certifier of our national balances and statistics and the guarantor of our macroeconomic policies; unquestionably, the best guarantor to associate Albania towards the European membership.
SPEECH OF THE GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI
At the Joint Press Conference of the IMF Mission with the Ministry of Finance and the Bank of Albania
November 11, 2008

The regular visit of the IMF’s EU1 European Department mission is made in the context of the last review of the current 3-year PRGF – EFF Arrangement between the Albanian authorities and the IMF Board of Directors.

This last review coincides with a sensitive outlook of the world economy, which is facing a highly intensive and uncommon global market correction. Given this situation, present and future prospects still remain vague and uncertain.

However, worth to note is that the Albanian economy has exhibited admirable immunity to these developments. In this context, the prudent and systematic work of the Bank of Albania, both in terms of maintaining the macroeconomic balance at home and safeguarding the banking system’s financial stability, has provided an overwhelming contribution.

Over the last two years, the Bank of Albania has been an active actor in both directions, analyzing carefully all the risk factors and taking various measures to minimize their materialization in practice. In our work we have been guided by the philosophy that one cannot build authority in the market through the mechanical use of a set of instruments but through the market perception and trust in the policies pursued by the authorities.

The conservative policy – the increase of the interest rate extended in a time period of 18 months – is the concrete application of this philosophy. In addition, measures have been taken in terms of amending and constantly improving the legal and regulatory package. The entire process of measures and decisions has aimed at ensuring the financial system’s efficiency and stability.

The latest regulatory amendments, which have brought a new dimension to the banking business in relation to the customers, foreign currency lending, investments in parent banks and internal control, are of particular importance. The Bank of Albania will persistently make an assessment of the existing regulatory framework and aim at improving it, in order to address the present and potential risks.

I believe the set of actions taken recently by the central bank has been a kind of intensive therapy which has contributed to the increase of the banking system’s immunity.

With reference to the economic and financial situation at home, I would like to inform you that the Bank of Albania shares the same opinion with the IMF and the Ministry of Finance regarding the current period as of end 2008.
We project that the GDP will grow during the present year by 6 percent. In addition, our projections indicate that the 12-month inflation will mark around 3 per cent at end year, which is very close to our numerical target.

All the other macroeconomic indicators attest to a relative stability with rates being close to our projections.

Despite this positive outlook, the public attention is at this moment future-oriented. In this context, the year 2009 shows a more complex setting, with numerous challenges ahead not only for the real economy but also for the monetary policy, the fiscal sector, the external sector of the economy and the financial system at home.

With respect to the international developments, the partner countries are close or have now plunged into economic recession. The decline of the economy, among others, affects negatively ‘the export of its surplus’ in goods, capital and investments in partner countries. In this context, the possible slowdown in foreign currency inflows may constitute a future occurrence, although the intensity at which this phenomenon may be exhibited is still vague.

In the recent months there has been a halt in the price rise of raw materials, oil and foods. In addition, a rapid correction process of these prices on the demand side has commenced. The further fall in prices may affect the decline on both sides of foreign trade. But, given the difference between imports and exports by several times, the net effect will naturally be the reduction of trade deficit. Worth to note, however, is that the fall in prices may impact indirectly the performance of fiscal revenues since the amount on which the fiscal tariffs are applied will be lower.

We are now facing the reduction in lending and credit lines extended by parent banks to their subsidiaries. Based on these arguments, the Bank of Albania assesses that there is an increasing risk that the economic growth may slow down in 2009.

The harmonization of the two basic policies in economy is a key element which ensures growth and a balanced development. In this context, we are in the process of analyzing the new project drafted by the Government for 2009. We remain constant in the belief that the harmonization of both basic policies remains a priority in the future as well. To this purpose, we require from the Government the inclusion in the fiscal package for 2009 of a fiscal rule on the performance of fiscal policy. This rule should be quantitative, monitorable and extended through the entire political mandate, with a clear bias towards the quantitative Maastricht criteria.

Other possible risks involve those related to the hydro-energy situation and to the possible rise in the energy price or to the performance of agricultural production at home.

In its last monetary policy meeting, the Supervisory Council of the Bank
of Albania concluded that there is a balance in the risk factors affecting the consumer price performance.

Inflation expectations are now being anchored to around our objective. Inflation is forecasted to continue to fluctuate around the current rates during 2009 and 2010. The Bank of Albania remains committed to take all the required measures that will help contain inflation within our 3 percent target.

In terms of financial stability, I would like to re-stress that the banking system continues to operate at optimal parameters which are in line with the prudent banking supervision standards.

The latest analyses indicate that the banking system has satisfactorily coped with the domino effect of the international financial market. The central bank has supplied the market with necessary liquidity in order to avoid any unwelcome situation in the system. I would like to assure you that the Bank of Albania will continue to do so based on the market needs and specifications in different periods of time.

I avail myself of this opportunity to address to the banking system, both to commercial banks and to their respective parent banks, to prudently analyze the Albanian economy in order to provide it with the real chances through the support with banking loans. The latter has been a key element in the economic development of Albania and consequently, it has to remain so in the future as well. Special emphasis should be also paid to the development of the money market. The new instrument of repurchase agreement transactions needs to be put in place as soon as possible. The Bank of Albania, the Ministry of Finance and the banking system need to mobilize the entirety of their resources and expertise in order to ensure a more liquid and stable money market. In view of this, I assure you that the central bank will assist and be fully committed to achieving it.

The Albanian business should keep being active, far-sighted and dynamic in developing its business plans. Only in this way it will be well-capitalized, lucrative and credited by the banking system. The business should co-operate closer with the bank, not only in terms of receiving loans but also in obtaining financial advice, which is a pre-requisite for ensuring its long-term stability.

I would also like to address to households and the public at large and advice them to be calm, cautious and rational in the way they manage their savings and investments portfolio. Any kind of savings or investments outside banks and in the form of cash bears considerable moral, financial and physical risks. My appeal is simple and straightforward: consult your bank for any actions you take. The banking system remains your best consultant. Prior to making a financial transaction of any kind, have the opinion of your bank as well – it is your banker.

In conclusion, I would like to highlight that the banking system is a national wealth – it belongs to us all. Let us develop it further in order to ensure a stable growth and a better future for the generations to follow.
Dear everyone,

The conviction that two monologues do not make a dialogue not only pushed me to study law after my economics studies but also to listen to and toss ideas with colleagues from different professions. I find it especially pleasing when I do this with lawyers, given that there is one particular person I talk to the most – my spouse.

The dialogue between the banking market and the legal system has always been important to any country. Nowadays, it has become extremely vital. For our country to continue sailing towards safe shores of economic development, financial stability and prosperity, I believe these two oars are required: judicial order and the financial market.

Dwelling briefly on the legislation issues, I would highlight that the economic activity is mutually dependent on the legal system at home. As one of the distinguished economists and academics, Mr. Mishkin, says - “The legal system, which as you know, is not only composed of legislation and rule books, but also of the infrastructure of the civil courts and the market regulators, represents a fundamental determinant of economic growth, especially in connection to financial development”.

The link between law and finance is inextricable. The financial instruments do not operate in a vacuum. As long as they serve to people, they are based on legal relationships. A financial asset is ultimately a claim in the form of paper (contract) or electronic form (account entry). In any credit relationship, the possibility of default is always looming and this inherent complication cannot be solved without a precise system of norms that protects both the creditors and the debtors.

As Shakespeare’s Merchant of Venice reminds us, the legal system has to ensure that the debtor does not walk away from his obligation. At the same time, the lender cannot be too taxing for the debtor. Hence, as anywhere else in life, the balance (that is, the balance of justice) should provide for the wellbeing of the financial system, which is based on these classical relationships, no matter how much modern they are.

Fundamentally, the legal system should ensure that contract and property rights are sufficiently clear, protected and predictable.

In more concrete terms, the parties should not only be aware of these rights,
but also exercise them freely and fully during the binding of the agreement or in cases of litigations. For this reason, the independent role of the court, its perception, the efficiency in judgment and the enforcement of the court decision are essential features, whose deformation has a direct impact on the functioning of the financial system.

To better illustrate this idea, worth to note is that the motionless of ownership titles, the delay in ownership-related litigations and the non-execution of the collateral have a direct impact on the share that mortgage loans in particular and the loans in general have compared to other countries. This yet unsolved legal issue has yielded the discouragement of the economy support with banking loans. As long as the banking system manages the people’s deposits, it must be safe and avoid any possible financial losses that may arise from the legally binding loan relationship. Undoubtedly, it is not easy.

The risk elements that associate this relationship are numerous and different in nature. Namely, there is a risk which relates to the type of currency, a second one to the performance of collateral prices, a third one may relate to the operational risk, and so on. The materialization of a single or a number of risks would put the bank into a difficult position.

However, the Bank of Albania, in its capacity as the supervisory authority, compels the banking system to create reserve funds for any jeopardized loans. The only direction the Bank of Albania and the banking system feel powerless relates to the non-execution of the collateral and the de facto impossibility to provide the disposition of the collateral, in particular when the collateral is in the form of real estate.

Thus, the banking and financial market need to be built and developed alongside the legal system. Unless there is certainty in exercising and protecting contracting rights, there could be no domestic or cross-border financial transactions.

The perception and exercise of these rights, the independent judgement in cases of litigations, the reasonable time in solving the conflict, the efficiency and velocity in enforcing the court decision are the greatest warranties to offer not only to the domestic and foreign investors, but first and foremost to the MARKET itself.

The Bank of Albania has intensified its efforts in this context, in particular in terms of defending before the Constitutional Court the quality of banking and financial contracts as executive titles. The same arguments support the legal changes made to the execution of mortgages and collaterals. These changes are presently being discussed in the Parliament and the market is looking forward to their finalisation.

Based on this philosophy of market functioning and regulation and believing that the market and the right are dynamic, the Bank of Albania has supplied the banking market and the banking right with a new instrument – the Repurchase
Agreement. By means of the Law on Repurchase Agreement and the master contract, the Bank of Albania has initiated a process which needs to be further developed by the specialists of the area. Personally and institutionally, we are expecting these efforts to be concluded with the execution of the first transactions of this kind.

It is for this purpose that I invite all the participants in this workshop, which for the first time has brought together judges, prosecutors and lawyers from the banking market, to be active and complement one another.

With the conviction that our initiative will be followed by other similar activities in the future, I wish you good proceedings.

Thank you for your attention.
1. The global crisis seems to be approaching Albania. How much do you think it will affect it?

For the moment, it is too soon to state whether and how much the decline of the global economy will affect Albania. Undoubtedly, a long and deep recession in the Euro area – our main trading partner – yields negative implications for some balance of payments items, such as remittances, imports, exports and foreign direct investments. In addition, the tightening of global financial conditions may affect the financial conditions at home, being mirrored in the reduction of financial intermediation growth rate and more complex financing conditions for borrowing from abroad.

However, there are certain factors that make us optimistic with regard to the stability of economic growth in Albania. Our country’s economic development is buttressed by domestic economic factors and is financed by internal resources. Macroeconomic stability and lending to the private sector have triggered the growth of consumption and investments at home. Therefore, the impact of the global economic crisis will be moderated. I believe that domestic demand and structural reforms in economy make very good basis for ensuring economic growth in the medium-term. On the other hand, the Bank of Albania and other players involved in economic policies, remain committed to preserving the macroeconomic balances at home, hence, not allowing the above risk elements produce economic distortions and impair the economic development in the long-term.

I would like to underline that this development is not exclusive and restricted to the Albanian economy; instead it is a phenomenon which – excluding obviously Ukraine and Hungary – is being spotted in many emerging Central and Eastern European countries. Although the latter are far more exposed to the European markets compared to Albania, they are being faced with a decline in the growth rates rather than with economic recession.

2. In addition to the most advanced countries in the world, the USA and the EU, Greece and Italy have created special funds to cope with the crisis. Should Albania do the same in case a possible negative scenario takes place? If yes, what would be the figure?

I have explained many times that the Albanian economy and the banking system are operating within normal parameters. Our system’s financial situation is sound, liquid, lucrative and unaffected by toxic products. In addition, loan/
deposits ratio is still low at around 45 percent. Presently, the Albanian system is well-capitalized – almost twice as much as in developed countries. The ratio of non-performing loans to total loans is only 4.1 percent, being among the lowest in the region. Let us not forget that when referring to this ratio we do not imply bad loans. These are non-performing loans whose recovery is considerably plausible. I would like to stress that the banking system has created sufficient reserve funds for these types of loans, hence, increasing their security level. Despite what said above, allow me to add that the responsible authorities are willing and capable to cope with the possible settings. To this purpose, as also informed by the Minister of Finance, Mr. Bode, the budget for year 2009 provides for very large contingency funds, whose destination implies the case you are also referring to.

3. Global economy experts have feared the occurrence of deflation. What does it mean to the Albanian market, considering that most consumer goods are imported from abroad?

Deflationary situations are very unwelcome to economic policies. Being such, I believe the responsible monetary authorities worldwide will take the necessary steps in order to avoid their occurrence. However, with reference to your question, I think that the decline of economic growth will be followed by the fall in the prices of some commodity groups - such as oil and foods - that Albania is a net exporter of. In this context, this is very welcome by the Albanian economy given that it will reduce the pressures on inflation and ease the financial burden on the balance of payments. Moreover, by reducing the share of economic agents’ income which is used for the purchase of import goods, it will create the grounds for greater orientation of consumption to domestic production, which in turn boosts economic growth.

4. In your last report you have stressed that commercial banks need to show prudence in terms of their financial exposures to parent banks. Does the central bank have a report as a reference? Are there any figures?

Obviously, these are additional shielding measures taken by the Bank of Albania in the context of a deepened global financial crisis. The information made available to the central bank, related to the exposure of Albanian banks’ branches to their parent banks, is complete and it notes that it is at entirely accepted levels. The activity of the Albanian banking system is overwhelmingly supported by financial funds generated by the Albanian economy and they are almost completely used to finance the economic activity at home.

5. There are certain Bank of Albania decisions which tighten the lending conditions. Fewer loans imply fewer investments. Do you think it will affect the economic growth?

I take this opportunity and address to the public at large by saying that
the measures taken by the central bank do not imply the tightening of lending. These are additional rules which aim at making a more prudent and responsible filtering of any loan applications. Said otherwise, they relate to their qualitative aspect and the financial stability. The strengthening of lending regulatory measures and the establishment of the Credit Registry Bureau are measures which aim at safeguarding financial stability. Regarding the last part of your question let me quote my appeal to the banking system in the last press conference “…the banking system, both domestic commercial banks and their respective parent banks, need to prudently analyze the Albanian economy in order to provide it with the real chances through the support with banking loans. The latter has been a key element to the economic development at home; consequently, it has to remain so in the future as well.”.

6. Do you think the Government needs to revise the fiscal policy in order to provide greater incentives to the Albanian economy and households?

Skipping the philosophical aspects of fiscal policy, I would say that Albania cannot be characterized as having a strict fiscal regime. In principle, the setting of a balance between public and private activity and the intergenerational aspects of fiscal policy are political and social choices of the society decided by people’s vote. Emerging countries have great infrastructure-related needs, which often find their solution in public undertaking; however, the latter’s financial potentials are shrunk. What we seek and expect from fiscal policy is to maintain a stable fiscal position which helps to preserve macroeconomic stability at home. We are constant of the idea that the harmonization of both basic policies – fiscal and monetary – should remain a high priority in the future as well. To this purpose, we suggest the inclusion in the fiscal package for 2009 of a fiscal rule on fiscal policy performance. This rule should be quantitative, monitorable and extended through the entire political mandate, with a clear bias towards the quantitative Maastricht criteria.

7. It has been stated that Albania has not been so far affected by the crisis. However, in addition to the direct impact, there is another impact - the psychological one. The latter occurs out of the accounting reports; nevertheless, it may produce irreversible chain effects. Has the central bank noticed increased public concern for their deposits held in banks?

The Bank of Albania has seen and well-understood the increasing interest of the public for the stability of banking institutions they keep their savings in. We have been open and transparent to the public and have provided clear explanations on the real situation the Albanian banking system is in. Our public statements on the banking system stability have been rational and welcomed by the media and the public at large. Along with the mitigated global financial crisis, they have helped to preserve public confidence in the Albanian banks. I suggest to the public at large to be calm, judicious and rational in the way they manage their savings and investment portfolio. Any type of savings or investment outside banks and other formal channels and
in cash bears considerable moral, financial and physical risk. My appeal is simple and straightforward: consult your bank for any actions you take. The banking system remains your best consultant. Prior to making a financial transaction of any kind, have the opinion of your bank as well.

8. One last question to calm consumers down. The international stock exchanges indicate a drop in the shares of most foreign banks operating in Albania. What do you think are the implications?

For the moment speaking I do not identify any mechanisms which would translate the drop in shares in the global markets into a constrained banking activity in Albania. Moreover, the measures taken to warrant the European banking activity and the re-capitalization of problematic banks have put the bankruptcy of systemically important banks in Europe to a halt. This implies that banking panic is over and the sound institutions – the banking groups owning the Albanian banks – do not risk the continuance of their banking business.
Honourable Prime Minister,
Honourable Ministers,
Honourable Ambassadors,
Dear Mr. Uldedaj!
Dear entrepreneurs!
Dear ladies and gentlemen!

I feel privileged to be here with you tonight and at the same time, be a friend to the Albanian entrepreneurship.

The times we are living through require the special attention of economic and financial forums, in particular when the latter bring together the governmental bodies, the banking system and the private entrepreneurship. The global table of discussions on macro-finance and future policies is the present focus; hence, I consider this forum as a follow-up of this prevailing philosophy of the time we are living in.

Set in a comprehensive context, the economic developments in the recent months have been characterized by the vague situation the monetary and financial markets and institutions have been going through – which in the last couple of weeks has been followed by other developments. The most recent data show that the economies of developed countries – the USA, Euro area, England and Japan – have recorded decline in economic growth.

However, most emerging economies have shown higher immunity to the consequences of the global crisis. Economic activity has been buttressed by domestic factors, which is the main reason to justify the immunity in addition to the incomplete financial integration with the developed countries.

Although Albania has been “a net importer” of global developments, its economy has shown high level of resistance and absorption. In the third quarter the present year, the Albanian economy continued to maintain its previous course. The available data on the first nine-month period show that the economic growth has been in line with the projections. Macroeconomic balances remain stable and the banking system continues to be sound. Economic growth at home has maintained its upward tendency. Services and trade sector in particular have provided the main contribution to the economic growth.

CPI inflation continued to fall in October to 2.7 percent. Developments in core inflation indicate that the macroeconomic balances at home and the
monetary conditions have been adequate to ensure an inflation rate close to the Bank of Albania target. The achieved stability has been also prompted by the inflationary expectations of economic agents which have been anchored to around 3 percent. These developments attest to the fact that the central bank’s measures have been effective in terms of containing the inflationary pressures. The fiscal policy pursued during the entire year 2008 has observed the targets set in the Medium-term Budget Programme for 2008-2010; consequently, it has not yielded any repressions in economy and performance of prices.

The Albanian banking system continues to operate under optimal parameters, in line with the standards of prudent banking supervision. The latest data indicate that the domino effect induced by the developments in the international financial market has been handled with satisfactorily. In addition, the Bank of Albania has supplied and continues to supply the interbank market with the required amount of liquidity.

As I have mentioned in my previous statements: There’s no such thing as a free lunch! Meaning that emphasis should be put on the far-sighted perspective characterizing the Bank of Albania in the recent years. I do not refer here only to price stability, but also to the greatest challenge: banking system stability. The Supervisory Council of the Bank of Albania has constantly amended the regulatory basis creating incentives for more qualitative lending, while other decisions have aimed at providing more banking system transparency to the public, more efficient internal control and better management and governing structures.

Regardless of what has been stated above, the future is of prime importance. For many reasons that I have also mentioned in my previous statements, end-year 2008 and almost the entire year 2009 will in a global context be hard, full of challenges and we will be walking through unknown paths. Overcoming this economic crisis requires time. Its solution will materialize through the resetting of a number of internal and external economic balances, the re-arrangement of many supervisory institutions and the re-design of the regulatory framework on many financial market segments.

Put in this general setting, the idea that our small economy would resist this global economic tsunami with no consequences at all sounds as unrealistic. However, this issue is even more intricate. Detecting the risks we may plausibly be faced with is not enough. I think our top priority is the design and implementation of preventive and remedial measures, which would reduce the materialization level of these risks. When I say ‘our’, I mean the state with its entirety of institutions and mechanisms.

Our main challenge – involving the central bank, the banking system, the government, other decision-making and executive authorities, business community and the public in general – is to maintain the aggregate demand, the production potentials and the financial resources in economy at unchanged levels. These are our top national priorities.
Put differently: keep the real economy going; make sure economic growth does not shrink; ensure your business maintains the same rates and that employment grows instead of reducing. This, dear participants, may otherwise be referred to as ensuring the stability of the country’s economic growth. On behalf of the institution I represent, I would like to assure you that the Bank of Albania - being one of the main economic and financial decision-making authorities at home – remains entirely committed in this context.

The times we are going through require all the development strategies, economic policies, measures and rules to undergo a strict cost/benefit analysis. In this context, although the crisis is not outlined yet, we have already drawn the first lessons from it. Public and private authorities need to consider these lectures as future opportunities. Mistakes can teach us how to better serve the future. We should have an optimistic view of the future and at the same time make sure our stance is realistic and consistent.

Time is ripe for Albania to start producing more goods and services than before. Despite the admirable progress in this context, the gap is still wide. Agriculture and industry remain two important branches of the economy operating far from their potential. Additionally, other sectors that have revitalized during the transition years require more orientation and tuning. These measures will enable better diversification of the Albanian economy, augmenting its stability with the passing of time. Other challenges I believe relate to the country’s external position, implying the reduction of current account deficit and the provision of alternative resources of foreign currency inflows.

Therefore, I think that the role of the state needs to be more pronounced, not only in terms of completing the legal and regulatory basis but also of concluding a number of important structural reforms, in particular those related to the land, ownership titles, pensions, to the support of the small and medium-size business, to the further improvement of business environment and the ongoing upgrade of national infrastructure. The further strengthening of safety nets, in the context of a stable fiscal and financial position, is an obligation whose accomplishment would reduce both the real and perceived risk of the Albanian economy, hence creating incentives for the growth of domestic and foreign investments. Time is ripe for the state budget to involve the participation of private entrepreneurs in strategic investment projects through joint financing programmes.

The banking system plays a vital role. Banking loan has played a key role in Albania’s economic development. It has been a source of profit in your business and it has to remain so in the future as well. In my recent communications with my counterparts and in the various meetings with senior officials of foreign banks’ main headquarters I have truthfully presented our country’s economic situation and I have required from them to keep their interest in the Albanian economy unchanged.

I avail myself of this opportunity to address to the Albanian entrepreneurship. You have to keep being active and focused on formulating and implementing
your future business plans. This would be the only way for you to remain well-capitalized, lucrative and credible to the banking system. In the current economic conditions, private entrepreneurship should be a supporter and promoter in the formulation of domestic strategies at home, in the region and broader, and in their implementation process. All conditions are in place for the Albanian business to go beyond the official regional borders, hence, becoming a factor in ensuring a stable regional activity. This also means a real integration into the targeted standards.

Concluding, I would like to highlight that the small countries like Albania, should be optimistic, flexible and adaptive to challenges. Only in this way, they may find themselves able to sail into the international waters.

Thank you.
Dear Chairman of the Albanian Association of Banks,
Dear managers of the Albanian banking system,

Thanking you for this invitation, I avail myself of this opportunity to provide some considerations of the path we have been through during 2008 and the challenges ahead us. What we have been through during this fall sounds unreal and somewhat unbelievable. Many taboos have overturned and the list of news enlarges day after day, including also schemes of financial mega-fraud.

I commenced my speech this way so as not to overlook this unusual global event and provide an outline of the general economic and financial setting surrounding our environment and above all, to underline an immense truth: that the Albanian banking system has shown admirable resilience and that the immunity shown has not only been a matter of luck.

The year 2008 has been an intensive year of ceaseless changes, at the centre of which were the safeguard and consolidation of macroeconomic stability at home and the banking system’s financial stability.

Taking a quick glance at the Albanian economy over the present years, I can state that it has maintained the projected growth for year 2008, under stable consumer prices and domestic currency exchange rate. Monetary policy has been throughout the year 2008 cautious and has kept the key policy rate unchanged at 6.25 percent. In addition, fiscal policy has been characterized by the collection of budget revenues beyond the Government’s projections and by the concentration of expenditures in mainly infrastructure-related projects. As in the recent years, the banking system has sustained the economic activity and consumer demand with loans, hence providing numerous incentives for a stable economic growth.

The positive performance of the economy and of certain economic sectors – in particular trade and construction - has been propelled by the positive rates of domestic demand at home. Lending has maintained its high annual growth rates of 42 percent. As a share of GDP and the system’s assets, loans have recorded further growth to 36 percent and 41 percent, respectively. Businesses were the main banking loans’ users, accounting for 66 percent of loan portfolio growth. This positive performance was associated with a favourable macroeconomic and financial setting. During the second half of the year, the CPI has recorded an annual drop to 2.6 percent in November. In addition, other inflation measures, such as core inflation, traded and non-
traded inflation, attest to the downward intensity of inflationary pressures at home. The inflationary expectations of the economic agents have also provided their contribution to this stability. According to our surveys they are anchored to around 3 per cent. These developments attest to the fact that monetary policy and the strengthening of supervisory measures by the Bank of Albania have proved to be effective in containing the inflationary pressures. Taking into account the central bank’s role and objective, I would like to underline that our commitment and success in preserving price stability has been mirrored in the anchoring of the inflationary expectations close to our 3 percent target.

The banking system’s performance for the present year proves to be positive. In the early year 2008, credit registry started to operate. Its establishment represents a key innovation of the financial infrastructure in Albania. We all attest to the fact that by putting the credit registry into operation, we have contributed to:

- Having basic understanding of credibility of the borrower and avoiding careless borrowers;
- Reducing a bank's cost in collecting information on borrowers;
- Promoting increased borrower discipline;
- Identifying all borrower liabilities and providing such information to lenders; and
- Improving the banking industry database, through developing the borrower loan history.

According to the latest data, the banking system appears to be lucrative. Return on assets for the entire year 2008 is expected to be 1.17 percent, while return on equity 14.7 percent. During the present year, banks have expanded their investments while augmenting their capital on the other hand. Capital adequacy accounts for 17.5 percent of total assets and off-balance sheet items classified by risk. The liquidity situation of the banking system for the year 2008 is presented as good. Despite the downward trend shown in the recent years (owing to the high credit growth rate), liquid assets to total assets in the system account for about 46 percent, which is considered as being satisfactory. The main resource of funds in the system – customer deposits – has been ever-increasingly consolidating its upward trend, mirroring public confidence in the Albanian banking system. As of end October, total deposits in the system amounted to 665.9 billion leks, up by 5.7 percent compared to end-year 2007.

Following the open forum this spring, the Supervisory Council paved the way to approving a package of new regulations, which aim at harmonizing the regulatory and supervisory framework with the best international practices.

In accordance with the new banking law, new criteria have been established for measuring, supervising and reporting of bank’s large exposures to a person/customer or a group of related persons/customers or having a special relationship with the bank, aiming at managing the risk stemming from the concentrated exposure to them.
The strengthening of internal control in banks and branches of foreign banks has been another focus of the Bank of Albania during the present year. The new regulation considers internal control as part of bank’s accountable governance. It provides the platform for establishing an efficient internal control system as key factor in the banks and branches of foreign banks’ governance and management.

Special attention has been also paid to the transparency related to banking and financial products and services. The regulation harmonizes the requirements on the way and mode on providing information to customers on banking products and services, on the publication of effective interest rates on deposits and loans, on the method of calculating the effective interest rate on loans, on the constituent elements to be specified in loan and deposit contract, on the marketing of products and services, on keeping the customer’s data confidentiality, on dealing with the customer’s complaints and on the establishment of specific structures to deal with these complaints.

Part of this new package has also been the standardization of the required information that banks and branches of foreign banks have to make public, related to the bank’s main activity, its organization and management, its financial performance, its financial situation, the risk management and the accounting policies.

In light of the international situation and in order to better diversify the risk stemming from the concentration in banks’ investments in the international financial markets, the Supervisory Council of the Bank of Albania amended the regulation on the management of risk from banks’ large exposures, aiming at reducing large exposures’ threshold.

Enhancing the efficiency of the financial market and of the money market in particular, has also been at the central bank’s focus. During the year 2008 was approved the regulation on the master repurchase agreement, hence providing a new instrument which reduces risk in borrowing transactions between banks.

After this short outline of our performance, of the Bank of Albania and of the banking system, it comes natural to claim that we have acted rightly by taking a number of preventive measures that have helped us absorb the negative effects of the latest events.

Dear bankers,

Year 2008 is leaving and a new year is coming now. Like the majority of various world economies, even our country is in front of many uncertainties. I would not like to overlook the domestic factors, but however, what is currently considered as the hottest issue, has to do with the overall global environment. For a long time from now, various agencies, and national and international institutions have forecasted a year of contracted overall global production. It would be utopian, and to a certain extent a lack of prudence, if we think
that our economy would be slightly or not at all affected by global crisis. Though Albania is a small economy, it is open, with numerous relations for exchanging goods and financial funds.

I have emphasized in my public presentations that all the actors should be prepared for harder days. In light of this I would like to notify you of a number of statements, findings or actions that we (I mean the Bank of Albania and the banking system) are going to carry out in the coming months.

1. Based on the latest analysis of the country’s economic and financial developments and on inflation forecasts for two forthcoming years, I would like to emphasise that there is a good anchoring of inflationary expectations around the Bank of Albania’s 3 percent target. Latest developments and information suggest that risks balance to future inflation is shifted to downward trend, creating space for manoeuvring in the near future.

2. Based on recent empirical studies of the Bank of Albania, it comes out that the relation of credit to economy with the country’s economic growth is positive and relatively strong. So, the credit growth leads to maintaining current paces of the country’s economic activity. In the recent years credit to economy has eclipsed the contribution of the public sector to generating and using financial funds, also based on a long process of the country’s fiscal consolidation. This process of more effective usage of funds impacts on increasing the efficiency and the economic growth. A contraction of credit to economy carries over the risk of reverse action, of eclipsing the credit to economy contribution from the public sector’s spending. In this sense, being aware of all the difficulties ahead, I would insist once more on my request to you to continue to keep credit to economy paces.

3. Further to my previous requests, I would once again require from you to be more active in the money market, in the interbank market and in securities market. The Bank of Albania has repeated time and again that we will satisfy all the financial market liquidity needs, but on the other hand we require from you to be more independent from your headquarters, in the policies you apply with relation to domestic financial market, in terms of investments portfolio. You are licensed and operating in Albania, therefore, you have under your management the Albanian citizens’ savings and the essential task of every banking system is the financial intermediation in the country they are operating. The Bank of Albania will insist for the fastest implementation of repurchase agreements in the transactions you carry out in the interbank market. The Bank of Albania makes use of a systematic approach in its dealing with and operating in the interbank market, which necessarily requires an efficient liquidity re-allocation among banks. Such a thing is carried out by applying repurchase agreement, thus preventing credit risk. In the meantime, the Bank of Albania is completing the regulation on DVP (delivery versus payment), which will simultaneously bring about even
the settlement risk prevention. This constitutes another step in terms of financial infrastructure improvement for an efficient banking market.

3. The Bank of Albania is also looking into some other measures to better precede the optimal functioning of the banking system. In more concrete terms, the Bank of Albania will require that the dividends materialised over 2008 be destined to increase the capital of banks you manage. I have constantly pointed out that our system is well-capitalised, but however under current conditions I regard its further increase as a prudential measure.

4. One of the strategic goals for the central bank’s objectives is the strengthening of its institutional independence and credibility, being a central and accountable institution for the mission entitled by law. One of the factors impacting directly and indirectly on the strengthening of this independence is also the fulfilment and improvement of the Bank of Albania’s legal framework in line with contemporary standards. To this end, we are working under three main directions:

Drafting the Law “On Payment System in the Republic of Albania” is included in short-term priorities that the Republic of Albania, through the Bank of Albania, has undertaken in view of the obligations deriving from the SAA, the European Partnership, as well as in the short and medium-term priorities required under the National Plan for the Implementation of the SAA. This draft law aims at:

- Strengthening the system’s institutional framework;
- Enhancing legal framework transparency through tasks clarification of participants in the system;
- Stipulating a complete regime for licensing and supervising the whole relevant systems.

Alterations in the legal framework of the Bank of Albania will be also associated with effective regulatory framework improvement, having banking supervision regulations on focus.

5. The Bank of Albania, starting from this year-end, will launch into circulation the new banknote with the face value of 2000 leks, while the whole existing series has been re-printed. I would like to highlight that the whole series of the re-printed banknotes and of the denomination 2000 leks is equipped with most modern security elements. In the meantime I avail myself of the opportunity to clarify to the public that the new denomination is an adjustment of the current structure, filling in a large gap between both existing denominations of a higher nominal value.

2009 will be a difficult year, and therefore everyone should take appropriate measures to correctly realise and interpret his role with professionalism. To maintain the dynamics of the country’s steady development toward
full European convergence, the banking system must further perfect its infrastructure. I would regard the improvement of customer service and the increase of public education and communication as sound foundations of this infrastructure. All the above-stated, along with technology investments, would enable a higher transparency to clients and more competitive service costs. This would lead to improved image to the public, enhancing the public confidence in the banking system.

Dear bankers,

Allow me to conclude my speech by emphasising once again the great importance the moment imposes to us. Wherever we are, inside the country or abroad, we must regard the challenge of overcoming this crisis as a patriotic task, which requires commitment and a high moral, social and political awareness.

Thanking you once again for the invitation, I avail myself of the opportunity to wish you happy year-end celebrations.
March 2008

A DISCIPLINED APPROACH TO PORTFOLIO MANAGEMENT AND TRADING
Rezart Molla

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. Its content comes on the top of a previous document which was a feedback for the internship the author attended in the World Bank Treasury in Washington D.C. during the months of October 2007 on reserve management. The back-bone of the approach is the one World Bank currently uses, therefore the author fully recognizes the authorship of the World Bank staff on the core concepts behind this paper. However, the three-year experience the author has had 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. The paper describes the following stages:


After going through the eight stages of portfolio management process, the author concludes that this process involves strong human emotions and that market gyrations can cause similar and almost one to one gyrations to these feelings which might have consequences on portfolio’s performance.

June 2008

INDEX OF FOREIGN PRICES/UNIT VALUES OF ALBANIAN IMPORTS
Risan Shllaku

The scope of this discussion paper is to propose an approach for an index of Foreign Unit Values/Prices of Albanian Imports. It also offers a brief review of index number theory, which unveils important aspects that need to be kept in mind by economists and policymakers while performing economic analysis and recommending or implementing economic policies. The proposed approach is based on this review of index number theory.

The paper is organized in the following sections. Section 1 introduces while section 2 offers a brief discussion of index number theory and of the main
EXCHANGE RATE PASS-THROUGH IN ALBANIA
Klodiana Istrefi, Valentina Semi

This paper assesses the extent and the speed of exchange rate pass-through to consumers prices in Albania, using vector autoregressions models, VAR. Evidence shows that exchange rate pass-through for the period 1996-2006 is complete within a year. Meanwhile, a sub-sample analysis shows the incompleteness and the decline of pass-through to consumer prices after the year 2000. Developments in market structures, the stability of our currency, ALL, the low inflation environment and higher credibility in the Bank of Albania, rank as good justifiers to such behavior. Nevertheless, this does not mean that exchange rate developments have no longer an importance on consumer price formation. This paper shows that the effect of exchange rate on prices is not easily captured by direct analyses of data on exchange rate and consumer prices. Therefore, the monetary authority should be cautious, and choose the right reaction toward exchange rate movements. If the volatility of exchange rate increases in the future, there is no guarantee that the reaction of the economy and especially consumer prices will not change.

NEW CORE INFLATION MEASURES: THEIR USAGE IN FORECASTS AND ANALYSIS
Evelina Çeliku, Rajna Hoxholli

The practice of core inflation measures provides various approaches. Is there any perfect and universal method to measure it? Until now, no such thing has been concluded. Selecting a method on whose basis a proper core inflation series is constructed is a debatable issue in academic circles and in those of central bankers. Central banks employ different core inflation measures based on the fact: (i) whether their ultimate target is the core or the headline inflation; (ii) whether they use it or not to forecast the headline inflation. In all cases, it is aimed at selecting those methods that inform more clearly the decision-makers, economic agents and the broad public on the long-term inflation trends. This research brings about arguments related to on-going discussions at the Bank of Albania on forecasting inflation in general and core inflation in particular. This paper examines several measures of core inflation. A summary of methods, of corresponding priorities and problems is made with regard to each measure. Then, based on the outcome of some statistical criteria, on tests about the degree of basic component persistency,
on the predictive abilities of core inflation measures for the headline inflation, efforts are made to evidence the optimal measure to be used under Albania’s case. Based on a complete estimation process, this paper presents forecasting models of various core inflation measures, exploring the possibility to obtain through them the most accurate headline inflation forecast. Making a balance between priorities and problems of the alternatives of various core inflation measures, it is drawn the conclusion that the most appropriate measure – which simultaneously meets the statistical criteria and enables the headline inflation forecasting – is the one that permanently excludes some items from the basket. This model is preferred to be applied largely by different central banks, because of the high degree of transparency and better understanding by the public. The research concludes by providing concrete proposals for encompassing information on core inflation measures to Bank of Albania’s periodical analyses on the developments of the economy in general and of prices in particular.

MEASURING IMPORT AND EXPORT FUNCTIONS IN ALBANIA
Ilir Vika

This paper uses an error correction model to measure the elasticity of merchandise import (export) flows to (from) Albania with respect to domestic (foreign) real demand, developments in relative prices abroad and at home, and local currency market fluctuations. The model specification is intended to find out whether trade flows respond differently to the explanatory variables in the long and short run. The estimated trade elasticities are useful for forecasting future trade flows as well as to policymakers who need to evaluate commercial policies or exchange rate devaluation options to improve the merchandise trade balance.

The empirical findings reveal that real income (as proxied by real GDP) is the main determinant of trade flows in the long run, particularly for exports. This suggests that Albania could potentially benefit from export promotion policies. Furthermore, changes in relative prices appear to have a larger impact than exchange rate fluctuations have on the volume of merchandise imports. The opposite is true for the export supply, which seems to react greater and faster to changes in the Lek/Euro exchange rate than to relative prices. Apart from estimating the elasticity of merchandise imports and exports for prediction purposes, the paper also sheds light upon domestic economic policies aiming at curbing the trade deficit with the rest of the world.
SURVEYS

BUSINESS AND CONSUMER CONFIDENCE SURVEY
METHODOLOGICAL EXPLANATORY NOTES
(July 2008)

LIST OF ABBREVIATIONS:
BCS  Business Confidence Survey
CCS  Consumer Confidence Survey
ETI  Economic Tendency Indicator
ICI  Industry Confidence Indicator
CCI  Construction Confidence Indicator
SCI  Services Confidence Indicator
CCI  Consumer Confidence Indicator
EC  European Commission

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ECONOMIC TENDENCY INDICATORS
Economic tendency indicators are built on business and consumer confidence indicators. The data for their construction are obtained from the business and consumer/household tendency surveys. These indicators derive from qualitative information obtained from the respondents on the past and expected developments in economy.

Tendency or confidence indicators have been widely used during the last decades. The information obtained from them is used to monitor the economic developments in current periods and make short-term projections. Global experience in the use of these indicators shows that they have proven to be successful in detecting the turning points in business cycles. The usefulness of confidence/tendency indicators stands in the fact that they help to make analysis of the economic developments prior to the publication of official statistics on the current periods. The ability to anticipate the underlying trends in economy enhances substantially the usefulness of confidence indicators, mainly in decision and policy-making. In emerging countries, confidence indicators of the current and expected situation are especially useful given the relatively delayed and incomplete provision of official statistics.

The qualitative nature of the assessment of various aspects of economic activity helps to speed up the completion process of questionnaires and the processing and publication of results compared to the longer process of
calculating and publishing the results obtained from the traditional statistical surveys.

Business/consumer confidence/tendency surveys date back to the 1920s. Some of the early surveys were conducted by business organizations, research institutions and by the national statistics institutes. In the meantime, a large number of banks have been involved in the conduct of confidence surveys. The increasing tendency of the central banks’ serious commitment to this ‘undertaking’ has been particularly shown in the last two decades. It is motivated by the preceding nature of monetary policy decision-making. Policymakers need updated economic information on the current situation and expectations of economic agents. Confidence surveys provide this information in the form of tendencies of present and future periods while official statistics are published with certain time lags.

**REFERRING TO A CONCRETE SITUATION**

Nowadays, the publication of confidence/tendency indicators by institutions engaged in this process are expected with great interest from the decision-makers, economists and market analysts, researchers and the public at large. In the last two years, we have often heard and read comments on confidence/tendency indicators, which were among the first indicators to forewarn the deterioration of economic conjunctures. Economic analysts frequently commented on the deterioration or slowdown in the growth rates of tendency indicators in some important economies, namely the U.S., the German, the European economy etc., which fell to their lowest historical levels in the second half of 2008. Economic tendency or sentiment indicators signalled and preceded the recession and depression phases of the crisis in the financial markets. Business and consumer expectations kept falling, recording the most pessimistic expectations of the last 2 to 3 decades.

This example has not only become part of the history of world finance, but it will also serve as “a case study”, which very soon will be part of lectures of economics, finance and bank professors – perhaps this has already come true. Its message relates to the importance of timely and qualitative economic data. The sound informing and forewarning power helps to take decisions at a micro and macro level. The good acknowledgement and right use of economic information is a challenge of the time. An increasing number of users are involved in this process, an integral part of which are economic tendency indicators.

**PUBLISHING THE CONFIDENCE INDICATORS**

The best international practices in the area of confidence surveys (OECD, EU) consider the publication of results as one of the underlying phases of the surveying process. It represents a decisive step in a process which has begun but has not completed yet. A qualitative publication of results and analyses based on confidence surveys requires above all an adequate level of reliability. Two are the main conditions which increase the reliability of survey
results: a high level of validity and an adequate level of time consistency of survey results. The meeting of these conditions, along with an adequate level of transparency, interpretation and distribution of results to the public at large help to better meet the international standards for the publication of survey results.

Business and consumer confidence surveys conducted by the Bank of Albania, in collaboration with INSTAT, have now been through an adequate testing period, which has helped to consolidate the surveying methodology. The latter is in line with the methodologies applied in the confidence and tendency surveys in many OECD and non-OECD member countries, the European Commission methodology and with one of the most reputable methodologies in this area - the German Ifo Institute for Economic Research. A statistically based-on methodology is one of the key points to yielding reliable results from business confidence surveys. It has been assessed that the results may be used at an acceptable level of reliability to analyze past and expected developments in important economic indicators, such as production, employment, prices, investment, savings, consumption, etc. This conclusion is based on several empirical analyses conducted on this area. The publication of BCS results enhances the transparency of the Bank of Albania. During the recent years, the economic agents have shown an increasing demand for information on the current and expected performance of various economic indicators. The various stakeholders, namely the survey respondents, economic and finance analysts and researchers, academics and above all the decision and policy-makers may now find the results published according to a pre-defined calendar at the Bank of Albania website. Worth to note is that these results should be interpreted as opinions of the respondent groups (businesses and consumers) and not as official views of the Bank of Albania. They help users in understanding the overall trend of economic developments, despite the short-term fluctuations and inconsistency with the reference indicators. Hence, their value should not be considered as absolute, but rather be viewed in the context of other economic developments.

The following material provides detailed methodological information to the users.

1. GENERAL FEATURES

Starting from the year 2002, the Bank of Albania has, in collaboration with the Statistics Institute, conducted the Business Confidence Survey (BCS) and the Consumer Confidence Survey (CCS), aiming at assessing different aspects of businesses and households’ economic activity. BCSs and CCSs are conducted on a quarterly basis. The questionnaires of both surveys contain qualitative questions, which provide information about the companies and households’ assessment of their past and expected economic developments.

The BCS questionnaire consists of 30 questions grouped in the following 7 main categories (see Annex 1, Business Survey - Questionnaire):
-general business climate (questions 1-2);
-firm’s general activity (questions 3-11);
-turnover (questions 12-13);
-producer prices (questions 14-15);
-labour market (questions 16-21);
-competition and financial situation (questions 22-23); and
-use of production capacities (questions 24-31).

The CCS questionnaire consists of 15 questions grouped in the following 4 main categories (see Annex 1, Consumer Survey - Questionnaire):

- financial situation (questions 1-2);
- general economic situation (questions 3-5.2);
- expectations of price performance (questions 6.1-7);
- spending and savings (questions 8-13).

The main purpose of BCS and CCS surveys is to collect complete and timely information on the country’s economic developments. The information collected from the surveys is later used to construct indicators of special sectors of the economy and the Economic Tendency Indicator. These indicators provide wider information, which is useful to both the internal decision-making process at the central bank and to the different economic agents. The use of confidence survey results allows the construction of time series, which do not only complete the set of the existing official data, but the also enable the construction of indicators which approximate the official information that is published later and may be subject to revision. Confidence survey results are not subject to revision, given that the collection of information for each phase in the survey ends with the termination of the given phase. The survey data are useful not only for making economic analyses, but also for forecasting different economic indicators, hence assisting the Bank of Albania decision-making process.

The Bank of Albania has collaborated with the INSTAT for determining the sampling features, including the survey’s geographical coverage. At present, the INSTAT covers the field surveying of businesses and consumers and the collection of questionnaires. The checking process, the entry and the processing of survey results are carried out by the Bank of Albania. The qualitative information obtained from the survey responses is first aggregated at a sector level and later, at an economy-wide level (see part 3.5). The qualitative changes in the questionnaires and in the data aggregation methodology have aimed at providing better approximation to the questionnaires and methodology applied by the European Commission.

The results of BCS and CCS surveys are merely a reflection of the tendency of indicators as perceived by producers and households. They do not reflect the Bank of Albania opinions. The aggregate indicators of different sectors and the economy as a whole do not substitute for the official quantitative statistics.
2. COLLECTING AND PROCESSING THE DATA

2.1 SAMPLING

The sample design in a survey relates to the selection of respondents to be interviewed. The selection of respondents is based on one or several required characteristics, with the intention to ensure better representativeness of the population or units at a regional or national level.

The sample design of enterprises and households is based on the principle of better representativeness of the population. With respect to the consumer survey, the sampling was based on the data of the general census of the population and housing in 2001 by the INSTAT. The business survey sampling was based on the business register used by the INSTAT while conducting the Structural Survey of Economic Enterprises (SSEE).

The BCS and the CCS use a fixed panel of businesses and households during each survey phase. The current sample of the business and consumer survey includes 680 and 1200 units, respectively.

2.2 DATA AGGREGATION

The data aggregation begins with the aggregation of responses to each question. The latter are counted and then they are expressed as percentages of the total number of responding firms. For instance, in questions with three alternative options, P denotes the share reporting an increase; N denotes the share reporting a decrease and E denotes the share reporting no change, expressed as a percentage to total responses derive the following vector:

\[ X = (P, E, M) \text{ where } P + N + E = 100 \]

2.3 CALCULATION OF BALANCES

The calculation of balances is the traditional method of aggregating and quantifying the qualitative information in surveys. Balances are the difference between positive and negative answering options, measured as percentage points. If a question has three alternative options, “positive” (“up", “improve”, “more", etc.), “neutral” (“unchanged", “as much", “adequate") and “negative" (“down", “decline", “less"), the balance is calculated as:

\[ B = P - N \]

where,
B denotes the balance of the individual question;
P denotes the percentage of respondents having chosen the option “positive”; and
N denotes the percentage of respondents having chosen the option “negative”.

In the case of questions with five options, i.e. (“very much higher”, “up”, “unchanged”, “down” and “fall sharply”), the balances are calculated on the basis of weighted averages. Denoting PP and NN as “very much higher” and “fall sharply”, balances are calculated as:

$$B = (PP + 1/2P) - (1/2N + NN)$$

Where $$PP + P + E + N + NN = 100$$

It is clear from the expressions above that balance values range from -100, when all respondents choose the negative option (or the most negative one in the case of five-option questions), to +100, when all respondents choose the positive (or the most positive) option.

After balances have been calculated for each business questionnaire question, they are seasonally adjusted before seasonally adjusted series are processed further. Consumer questionnaire questions are not seasonally adjusted, given that the series of this survey do not show significant seasonal performance.

3. CALCULATION OF AGGREGATE CONFIDENCE INDICATORS

Based on the detailed results –balances of each question- are calculated a set of composite indicators. First, for each of the surveyed sector (industry, construction and services) are produced confidence indicators (CIs), which combine the balance of questions for each individual sector. CIs are calculated as the simple average of seasonally adjusted balances but not standardised ones of specific questions chosen from the questionnaire in each individual sector. CIs provide information on economic developments in the different sectors. Second, the results for the four surveyed sectors (industry, construction, services and consumers) are aggregated into the Economic Tendency Indicator (ETI), whose purpose is to track the overall economic activity at home.

Each confidence indicator is calculated as the simple arithmetic average of the seasonally adjusted balances of answers to specific questions chosen from the full set of questions in each individual survey. The selection of questions was guided by the aim of achieving an as highly as possible coincident correlation of the confidence indicator with a reference series. Gross domestic product by sectors and the sales index have been used as reference series. The balance series are not standardised prior to their aggregation.

Based on the complete set of balance series underlying the individual confidence indicators, the ETI is constructed, with the difference that the balance series are standardised prior to their aggregation.
3.1 INDUSTRIAL CONFIDENCE INDICATOR

The industrial confidence indicator is the arithmetic average of the balances (in percentage points) of the answers to the questions on production expectations, employment, order books and stocks of finished products (the last with inverted sign). Balances are seasonally adjusted.

Questions (see Annex for the complete questionnaire):

Q.10 How has your firm’s production developed over the past…? It has…
1. increased
2. remained unchanged
3. decreased

Q.12 How has demand (turnover) changed over the past…? It has…
1. increased
2. remained unchanged
3. decreased

Q.16 How has your firm’s total employment changed over the past…? It has…
1. increased
2. remained unchanged
3. decreased

3.2 CONSTRUCTION CONFIDENCE INDICATOR

The construction confidence indicator is the arithmetic average of the balances (in percentage points) of the answers to the questions on production, demand and employment. Balances are seasonally adjusted.

Questions (see Annex for the complete questionnaire):

Q.10 How has your firm’s production developed over the…? It has…
1. increased
2. remained unchanged
3. decreased

Q.6 How has demand for your firm’s goods and services developed over the…? It has…
3.3 SERVICES CONFIDENCE INDICATOR

The services confidence indicator is the arithmetic average of the balances (in percentage points) of the answers to the questions on business climate, employment and financial situation. Balances are seasonally adjusted.

Questions (see Annex for the complete questionnaire):

Q.3 How has your firm’s general situation developed over the…? It has…
1. increased
2. remained unchanged
3. decreased

Q.16 How has your firm’s total employment changed over the…? It has…
1. increased
2. remained unchanged
3. decreased

Q.23 How has your firm’s financial situation developed over the…? It has
1. improved
2. remained unchanged
3. deteriorated

3.4 CONSUMER CONFIDENCE INDICATOR

Consumer confidence indicator is the arithmetic average of the balances (in percentage points) of the answers to the questions on the expected financial situation, the expected economic situation and purchase and savings opportunities. Balances are not seasonally adjusted.
Questions (see Annex for the complete questionnaire):

Q.2 How do you expect the financial position of your household to change over the next quarter? It will...

1. get a lot better
2. get a little better
3. stay the same
4. get a little worse
5. get a lot worse

Q.4 How do you expect the general economic situation in this country to develop over the quarter? It will...

1. get a lot better
2. get a little better
3. stay the same
4. get a little worse
5. get a lot worse

Q.9 Do you think that now it is the right moment for people to make major purchases (such as furniture, electrical/electronic devices, etc.)?

1. yes, it is the right moment now
2. it is neither the right moment nor the wrong moment
3. no, it is not the right moment now. It would be better later

Q.13 Which of these statements best describes the current financial situation of your household?

1. we are running into debt
2. we are having to draw on our savings
3. we are just managing to make ends meet on our income
4. we are saving a little
5. we are saving a lot

3.5 ECONOMIC TENDENCY INDICATOR

The purpose of the Economic Tendency Indicator (ETI) is to track the performance of economic activity through a single indicator instead of two indicators obtained from the two main economic groups, business and consumers. The ETI is made up of 13 balances used for the construction of confidence indicators for each individual sector. The weights assigned to the four economic sectors are based on the contribution of the sectors of industry, services and construction on the country’s GDP. The weight of services has been kept unchanged from the share used by the European Commission in constructing the ESI (Economic Sentiment Index). The weights by sectors are as follows:
Industry: 18.24%
Construction: 15.44%
Services: 46.32%
Consumers: 20.00%

The sectors’ weights are equally divided between questions. The balance for each specific question goes through the standardisation process, after it has been seasonally adjusted. The exact calculation of the ETI on the basis of its component series can be summarized by the following steps (the balance of each individual question has been previously calculated):

(1) Standardisation

For each component/balance (j) is calculated the average (for each t period):

\[ \bar{X}_j^t = \frac{1}{T} \sum_{t=1}^{T} X_j^t \]

For each component is measured the standard deviation, \( S_j \):

\[ S_j = \sqrt{\frac{1}{T-1} \sum_{t=1}^{T} (X_j^t - \bar{X}_j^t)^2} \]

The standardised component is calculated:

\[ \frac{X_j^t - \bar{X}_j}{S_j} \]

(2) Weighting

Based on the weights assigned to each of the above-mentioned sectors is computed the weighted indicator:

\[ Z_t = \frac{\sum_i w_i Y_i}{\left(\sum_i w_i\right)_t} \]

where \( \left(\sum_i w_i\right)_t \) is the sum of the weights at time t. In case for each time t all questions are available, the denominator is 100. If not, it is equal to the sum of questions available at time t.

(3) Economic Tendency Indicator - ETI

The weighted average in each period, the previous and the current one, is computed. Then, it is calculated the standard deviation of the weighted
indicator for each period.

The ETI is calculated using the following formula:

$$TTE = \left( \frac{Z_i - \bar{Z}}{S_z} \right) \times 10 + 100$$

4. PUBLICATION OF SURVEY RESULTS

The survey results are published 45 calendar days following the reference quarter (see Annex 2), on the 15th day (or the closest business day following) of the second month of the following quarter. The publication calendar is available on Bank of Albania website at: www.bankofalbania.org/publikime/vrojtimet
ANNEX 1

A. BUSINESS SURVEY – QUESTIONNAIRE

1. How do you consider the performance of the economy in the country in the present quarter? It has...
   1. increased
   2. remained unchanged
   3. decreased

2. How do you expect the performance of the economy to develop in the next quarter? It will...
   1. increase
   2. remain unchanged
   3. decrease

3. How has your firm’s general situation developed in the present quarter? It has...
   1. increased
   2. remained unchanged
   3. decreased

4. How do you expect your firm’s economic activity to change in the next quarter? It will...
   1. increase
   2. remain unchanged
   3. decrease

5. Rank the following factors which affect your firm’s activity: (choose from 1-5 for each factor, where 1 is the least important and 5 is the most important):

   a. legal and institutional framework
   b. relation with banks
   c. internal political climate
   d. order and safety in the country
   e. infrastructure-related issues
   f. energy-related issues
   g. corruption and informal economy
   h. other (specify)
6. How has demand for your firm’s goods and services developed in the present quarter? It has…

1. increased
2. remained unchanged
3. decreased

7. How do you expect demand for your firm’s goods and services to change in the next quarter? It will…

1. increase
2. remain unchanged
3. decrease

8. In case you conduct export activity, how have your export orders for your goods and services developed? They have…

1. increased
2. remained unchanged
3. decreased

9. How do you expect the export orders for your goods and services to change in the next quarter? They will…

1. increase
2. remain unchanged
3. decrease

10. How has your firm’s production developed? It has…

1. increased
2. remained unchanged
3. decreased

11. How do you expect your firm’s production to develop in the next quarter? It will…

1. increase
2. remain unchanged
3. decrease

12. How has demand (turnover) changed over the present quarter? It has…

1. increased
2. remained unchanged
3. decreased
13. How do you expect the demand (turnover) for your firm’s services to change? It will...

   1. increase
   2. remain unchanged
   3. decrease

14. How have the prices you charge changed? They have...

   1. increased
   2. remained unchanged
   3. decreased

15. How do you expect the prices you charge to change? They will...

   1. increase
   2. remain unchanged
   3. decrease

16. How has your firm’s total employment changed? It has...

   1. increased
   2. remained unchanged
   3. decreased

17. How do you expect your firm’s total employment to change? It will...

   1. increase
   2. remain unchanged
   3. decrease

18. Which of the following groups of workers does your firm lack the most?

   1. trained workers
   2. managers/supervisors
   3. other

19. How has the level of gross wage (average per employee) changed? It has...

   1. increased
   2. remained unchanged
   3. decreased

21. How do you expect the level of gross wage (average per employee) to change? It will...

   1. increase
   2. remain unchanged
3. decrease

22. How has your competitive position in the domestic market developed over the past quarter? It has...
   1. improved
   2. remained unchanged
   3. deteriorated

23. How has your firm’s financial situation developed? It has...
   1. improved
   2. remained unchanged
   3. deteriorated

24. How has production capacity developed compared to the previous quarter? It has...
   1. improved
   2. remained unchanged
   3. deteriorated

25. At what capacity is your company currently operating (as a percentage of full capacity)?
   The company is currently operating at ____ % of full capacity.

26. Considering your current order books and the expected change in demand over the 12 coming months, how do you assess your current production capacity? The current production capacity is...
   1. more than sufficient
   2. sufficient
   3. not sufficient

27. How have your orders developed?
   1. more than sufficient (more than normal)
   2. sufficiently (normal for the period)
   3. not sufficiently (less than normal)

28. How do you expect orders to develop over the next quarter?
   1. more than sufficient (more than normal)
   2. sufficiently (normal for the period)
   3. not sufficiently (less than normal)
29. How many months of production (service) are assured by your current overall order books?

Our production (service) is assured for _______ months.

30. What main factors are currently limiting your firm’s production?

1. none
2. insufficient demand
3. shortage of labour force
4. shortage of material/equipment/space
5. financial constraints
6. other factors, specify_____________

31. How will your firm cope in case of financial constraints?

1. banking loans
2. non-bank institution loans
3. third-party loans
4. pre-paid orders
5. other, specify_____________
B. CONSUMER SURVEY - QUESTIONNAIRE

1. How has the financial situation of your household changed over the present quarter compared to the previous one? It has…

1. got a lot better
2. got a little better
3. stayed the same
4. got a little worse
5. got a lot worse

2. How do you expect the financial position of your household to change over the next quarter? It will…

1. get a lot better
2. get a little better
3. stay the same
4. get a little worse
5. get a lot worse

3. How do you think the general economic situation in the country has changed over the present quarter compared to the previous one? It has…

1. got a lot better
2. got a little better
3. stayed the same
4. got a little worse
5. got a lot worse

4. How do you expect the general economic situation in the country to develop over the next quarter? It will…

1. get a lot better
2. get a little better
3. stay the same
4. get a little worse
5. get a lot worse

5.1. How has the average living cost changed over the present quarter compared to the previous one? It has…

1. increased a lot
2. increased moderately
3. increased slightly
4. stayed about the same
5. decreased

5.2. How has the average living cost changed over the present quarter compared to a year ago? It has…
1. increased a lot
2. increased moderately
3. increased slightly
4. stayed about the same
5. decreased

6.1. How do you think prices will change in the next three months? They will…
1. rise more rapidly
2. rise at the same rate
3. rise at a slower rate
4. stay about the same
5. fall slightly

6.2. How do you think prices will change in the next twelve months? They will…
1. rise more rapidly
2. rise at the same rate
3. rise at a slower rate
4. stay about the same
5. fall slightly

7. How much do you think prices will change in the next twelve months? They will…
1. rise by 0-2%
2. rise by 2-4%
3. rise above 4%
4. fall

8. How do you think the level of unemployment will change in the next six months? It will…
1. increase sharply
2. increase slightly
3. remain the same
4. fall slightly
5. fall sharply

9. Do you think that now it is the right moment for people to make major purchases (such as furniture, electrical/electronic devices, etc.)?
1. yes, it is the right moment now
2. it is neither the right moment nor the wrong moment
3. no, it is not the right moment now. It would be better later
10. Compared to the past three months, do you expect to spend more or less money on major purchases (furniture, electrical/electronic devices, etc.) over the next three months? I will spend...

1. much more
2. a little more
3. about the same
4. a little less
5. much less

11. In view of the general economic situation, do you think that now is...

1. a very good moment to save
2. a fairly good moment to save
3. not a good moment to save
4. a very bad moment to save

12. Over the next three months, how likely is it that you save any money?

1. very likely
2. fairly likely
3. not likely
4. not at all likely

13. Which of these statements best describes the current financial situation of your household?

1. we are running into debt
2. we are having to draw on our savings
3. we are just managing to make ends meet on our income
4. we are saving a little
5. we are saving a lot
### ANNEX 2

#### Calendar of business and consumer surveys for the year 2009

<table>
<thead>
<tr>
<th>Date made available to Monetary Policy Department</th>
<th>Indicator</th>
<th>Reference period</th>
<th>Publication date</th>
<th>Time lag from reference period</th>
<th>Unit conducting the field survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 January</td>
<td>BCI</td>
<td>Q4 - 2008</td>
<td>16 February</td>
<td>46 days</td>
<td>INSTAT</td>
</tr>
<tr>
<td>20 January</td>
<td>CCI</td>
<td>Q4 - 2008</td>
<td>16 February</td>
<td>46 days</td>
<td>INSTAT</td>
</tr>
<tr>
<td>20 April</td>
<td>BCI</td>
<td>Q1 – 2009</td>
<td>15 May</td>
<td>45 days</td>
<td>INSTAT</td>
</tr>
<tr>
<td>20 April</td>
<td>CCI</td>
<td>Q1 – 2009</td>
<td>15 May</td>
<td>45 days</td>
<td>INSTAT</td>
</tr>
<tr>
<td>20 July</td>
<td>BCI</td>
<td>Q2 - 2009</td>
<td>14 August</td>
<td>44 days</td>
<td>INSTAT</td>
</tr>
<tr>
<td>20 July</td>
<td>CCI</td>
<td>Q2 - 2009</td>
<td>14 August</td>
<td>44 days</td>
<td>INSTAT</td>
</tr>
<tr>
<td>20 October</td>
<td>BCI</td>
<td>Q3 - 2009</td>
<td>16 November</td>
<td>46 days</td>
<td>INSTAT</td>
</tr>
<tr>
<td>20 October</td>
<td>CCI</td>
<td>Q3 - 2009</td>
<td>16 November</td>
<td>46 days</td>
<td>INSTAT</td>
</tr>
</tbody>
</table>
ENDNOTES

1 Confederation of British Industries (Great Britain); ifo Institut für Wirtschaftsforschung (Germany); INSEE (France) etc.
2 Belgium, Austria, Netherlands, Greece, Portugal, Scotland, Hungary, Turkey, Japan (European Commission Assessment, 2005).
3 Business and consumer confidence indicators.
5 Qualitative questions call for a response in the form of an opinion, perception or judgement on past or expected developments in different aspects, in contrast to quantitative questions which require a number from the respondent.
6 The sampling of the BCS is almost fixed, given that it is revised to exclude those businesses, which do not respond or have closed their activity. They are replaced by other businesses similar in size and nature of economic activity. The revision process is limited; the replacement of businesses does not exceed 10% of the fixed panel over a year.
7 Except for Consumer Confidence Indicator, which is constructed as the simple average of seasonally non-adjusted balances.
8 Excluding consumer survey balances, which are not seasonally adjusted.
9 The purpose of standardisation of balances (subtract the average and then divide it by the standard deviation) is to avoid the possibility that balances/series with the highest amplitude dominate the aggregate indicator.
10 Services questionnaire excludes questions on production and inventory.
FOREIGN DIRECT INVESTMENT IN ALBANIA FOR THE YEAR 2007*

ABSTRACT

This paper provides an analysis of the performance of foreign direct investment in Albania over the year 2007, based on the data collected from the survey of foreign and joint venture enterprises, which was conducted in July 2008.

1. INTRODUCTION

Foreign Direct Investment (FDI) in Albania continues to represent a vital source of capital flows and one of the main sources of financing the current account deficit. The acknowledgment of their exact value and nature calls for accurate and detailed statistics related to the FDI. The measurement and record of the FDI in Albania remains a challenge in terms of providing qualitative statistics and comparable to other countries'. To this purpose, the Bank of Albania in collaboration with the INSTAT has conducted annual surveys of foreign and joint venture enterprises operating in Albania.

The latest survey was carried out in July 2008, being the fifth conducted with a view to establishing and monitoring the FDI database in Albania. The surveying involved foreign and joint venture enterprises and it was carried out at a national level. It is assessed that the quality and quantity of information collected through this survey has been constantly increasing.

The following paper begins with a short summary of definitions and the methodology related to the FDI concept. In this section, it is described the approach used to estimate the foreign capital stock and other issues related to survey sampling.

The analysis of the survey results is divided into two sections: the first section makes an analysis of the general features of foreign and joint venture enterprises that have been surveyed (such as the distribution by economic activity, countries of origin, the concentration of workforce, etc.); and the second section analyzes the quantity features of the FDI in these enterprises, in terms of capital and investment stock.

Since the official publications of the Bank of Albania do not provide information related to the nominal values of FDI stock and its distribution in Albania, the following paper provides information only on the structure of foreign investment by its form, economic activity and country of origin.
2. COLLECTING AND PROCESSING THE DATA

2.1. METHODOLOGY

In processing the data obtained from this survey for valuating the FDI stock has been considered the definition of the FDI as provided in the fifth Edition of the IMF’s Balance of Payments Manual (BPM5), which defines the owner of 10% or more of a company’s capital as a direct investor. The surveyed enterprises have been selected based on this percentage.

The FDI involves both the initial transaction establishing the relationship between the investor and the enterprise and all subsequent capital transactions between them and among affiliated enterprises.

The survey questionnaire of enterprises has been revised over the years so as to provide more necessary information with respect to foreign investment in Albania and at the same time assure that it is user-friendly. It is made up of two parts: the first part requires information on the characteristics and identification features of the enterprise (such as the economic activity, number of employed persons, share of foreign capital, country of origin etc.) and the second part, which requires financial information on the main end-year financial statements, such as the balance sheet and the investment carried out during the fiscal year. These financial statements provide information on the current and previous fiscal year (in this survey on the fiscal years 2007 and 2006).

2.1.1. Evaluating the FDI stock

The components included in the valuation of the FDI stock invested in Albania as of the end of 2007 are:

- The share (contribution) of the foreign investor in the nominal (subscribed) capital of the surveyed enterprise (in shares or goods),
- The share of the foreign investor in the reserves of the enterprise (capital and revenue obligatory reserves, as well as other reserves held by the enterprise),
- The share of the foreign investor in retained earnings (or losses) from previous periods and reinvested earnings (non-distributed in the form of dividend),
- The share of the foreign investor in profits or losses of the fiscal period, and,
- Other capital, which are claims and liabilities of the resident foreign enterprise with the affiliated enterprise/s abroad.

The latter may be in the form of short-term or long-term, direct or indirect borrowing/lending of Albanian or foreign shareholders, which make up the equity (subscribed capital, reinvested earnings and the profit for the period), as defined by the literature on the FDI and the IMF and the OECD.
2.2. DATA COVERAGE

Since the first survey on foreign and joint venture enterprises was carried out, considerable work has been done with a view to establishing a database of active and joint venture enterprises. This database is updated with the data obtained from each survey and with new data provided by the INSTAT on newly established enterprises, which meet the terms for becoming part of the surveyed population of enterprises.

This survey involved 1247 enterprises registered and established in 24 districts throughout Albania. Out of this number, 220 enterprises or about 18 percent of the population of enterprises were found to be closed, unreachable or refused to respond. Out of the respondent enterprises, 101 were Albanian enterprises while the rest -928 enterprises- were foreign investment enterprises in non-bank non-financial sectors.

In order to have a more complete data set of the FDI in Albania, it has been added the financial data pertaining to 16 foreign and joint venture banks operating in Albania. Consequently, the following analysis is based on the general and financial data of 944 foreign and joint venture units of all sectors, which operate in Albania.

3. MAIN FEATURES OF SURVEYED ENTERPRISES

3.1. YEARLY DISTRIBUTION OF ENTERPRISES

Worth to note is that the analysis of the age of enterprises is based on enterprises, which were active at the moment of being surveyed. Hence, it does not take into account the enterprises that were established and later interrupted their activity during these years.

Except for the decrease in the number of new enterprises established in 1997 and 2002 (the collapse of the pyramid schemes and the Kosovo crisis), there has been an upward tendency in the number of foreign enterprises established in Albania. Their number is particularly high in 2007, accounting for about 22 percent of the surveyed enterprises.

3.2. FOREIGN CAPITAL PARTICIPATION

With respect to foreign capital participation, the survey distinguishes two kinds of enterprises: entirely foreign or joint venture enterprises. By and large, the
enterprises are controlled by foreign investors, given that in about 86 percent of them the foreign capital participation is more than 50 percent. According to the IMF’s BPM5, these enterprises are called subsidiaries and they are commercial companies in which the foreign investor owns either directly or indirectly (through another subsidiary) more than 50 percent of the voting (decision-making power).

In the meantime, in about 65 percent of the surveyed enterprises, the foreign investor has full ownership of the enterprise (100 percent foreign-owned enterprise).

3.3. COUNTRY OF ORIGIN OF ENTERPRISES

Investors from EU countries dominate FDI in Albania, accounting for about 77 percent of foreign enterprises. Among them, Italy ranks the first with about 40 percent of the foreign enterprises, followed by Greece with about 26 percent. Albania’s geographical proximity to these countries is only one underlying reason for the domination of investors from these two countries. Another important factor relates to the significant role Italy and Greece have as Albania’s main trading partners, given that they are the leading destination for the Albanian exports.

The regional countries’ participation in Albanian foreign or joint venture enterprises has reached 13 percent, the major investor among them being Turkey with 8 percent of the enterprises. Enterprises originating from Macedonia have also increased in the recent years. It may be noted that the foreign enterprises operating in Albania have by and large a wide geographical expansion.

<table>
<thead>
<tr>
<th>Country of origin</th>
<th>Number of enterprises</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union</td>
<td>727</td>
<td>77</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>382</td>
<td>40</td>
</tr>
<tr>
<td>Greece</td>
<td>242</td>
<td>26</td>
</tr>
<tr>
<td>Germany</td>
<td>28</td>
<td>3</td>
</tr>
<tr>
<td>Austria</td>
<td>17</td>
<td>2</td>
</tr>
<tr>
<td>Great Britain</td>
<td>16</td>
<td>2</td>
</tr>
<tr>
<td>France</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Regional countries</td>
<td>127</td>
<td>13</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>73</td>
<td>8</td>
</tr>
<tr>
<td>Macedonia</td>
<td>25</td>
<td>3</td>
</tr>
<tr>
<td>Kosovo</td>
<td>13</td>
<td>1</td>
</tr>
<tr>
<td>Croatia</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td>90</td>
<td>10</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>30</td>
<td>3</td>
</tr>
<tr>
<td>United States</td>
<td>24</td>
<td>3</td>
</tr>
<tr>
<td>Egypt</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td>27</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>944</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 1 FDI by country of origin for the year 2007

Chart 2 Foreign capital participation for the year 2007

- 10-30: 2.12%
- 31-50: 12.18%
- 51-70: 9.53%
- 71-99: 11.02%
- 100: 65.15%
3.4. SECTORS OF THE ECONOMY AND THE LABOUR FORCE

The surveyed enterprises operate in various sectors of the Albanian economy and they report a total of 32,107 employed persons as of end 2007.

As of end 2007, foreign enterprises showed a slight inclination to the sector of wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods, which has the largest number of enterprises (about 33 percent, see Table 2) and that is mainly represented by wholesale trade and commercial intermediation. Despite the large share in the total number of enterprises, this sector has employed only 6 percent of the labour force of foreign enterprises.

For several years in a row, manufacturing industry has ranked first in terms of the number of foreign enterprises operating in Albania, which as of end 2007 reached 306 (or about 32.4 percent of total surveyed enterprises).

Within the manufacturing industry, textiles and footwear show a high level of concentration (about 13 percent of surveyed enterprises). A considerable share of the Italian capital is invested in textiles and footwear, mainly in the form of processing materials. The analysis of the data on the number of employed persons by economic activity indicates that the manufacturing industry accounts for about 54 percent of total employed persons. These results suggest that the manufactured enterprises established in the EU countries, Albania’s neighbouring countries - mainly Italy -, continued to be oriented to Albania given the low-cost workforce.

Table 2: Distribution of enterprises by economic activity (based on the Nomenclature of Economic Activities Rev. 1.1 INSTAT)

<table>
<thead>
<tr>
<th>NACE</th>
<th>Description</th>
<th>Number of Enterprises</th>
<th>%</th>
<th>Number of employed persons</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Agriculture, hunting and forestry</td>
<td>4</td>
<td>0.4</td>
<td>72</td>
<td>0.2</td>
</tr>
<tr>
<td>B</td>
<td>Fishing</td>
<td>4</td>
<td>0.4</td>
<td>21</td>
<td>0.1</td>
</tr>
<tr>
<td>C</td>
<td>Mining and quarrying</td>
<td>19</td>
<td>2.0</td>
<td>400</td>
<td>1.2</td>
</tr>
<tr>
<td>D</td>
<td>Manufacturing</td>
<td>306</td>
<td>32.4</td>
<td>17,390</td>
<td>54.2</td>
</tr>
<tr>
<td>E</td>
<td>Production and distribution of electricity, gas, steam and hot water</td>
<td>17</td>
<td>1.8</td>
<td>280</td>
<td>0.9</td>
</tr>
<tr>
<td>F</td>
<td>Construction</td>
<td>71</td>
<td>7.5</td>
<td>924</td>
<td>2.9</td>
</tr>
<tr>
<td>G</td>
<td>Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods</td>
<td>311</td>
<td>32.9</td>
<td>1,914</td>
<td>6.0</td>
</tr>
<tr>
<td>H</td>
<td>Hotels and restaurants</td>
<td>16</td>
<td>1.7</td>
<td>279</td>
<td>0.9</td>
</tr>
<tr>
<td>I</td>
<td>Transport, storage and communication</td>
<td>34</td>
<td>3.6</td>
<td>3,686</td>
<td>11.5</td>
</tr>
<tr>
<td>J</td>
<td>Monetary and financial intermediation</td>
<td>23</td>
<td>2.4</td>
<td>5,542</td>
<td>17.3</td>
</tr>
<tr>
<td>K</td>
<td>Real estate, renting, computer, scientific research and other business activities</td>
<td>104</td>
<td>11.0</td>
<td>686</td>
<td>2.1</td>
</tr>
<tr>
<td>M</td>
<td>Education</td>
<td>11</td>
<td>1.2</td>
<td>426</td>
<td>1.3</td>
</tr>
<tr>
<td>N</td>
<td>Health and social work</td>
<td>11</td>
<td>1.2</td>
<td>54</td>
<td>0.2</td>
</tr>
<tr>
<td>O</td>
<td>Other community, social and personal service activities</td>
<td>13</td>
<td>1.4</td>
<td>433</td>
<td>1.3</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>944</td>
<td>100.0</td>
<td>32,107</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Given its growing importance to the Albanian economy, the construction sector has been ever-increasingly attracting the foreign investors’ attention in the recent years. As of end 2007, it totalled a number of 71 enterprises (compared to 44 enterprises as of end the previous year), which account for about 8 percent of the total surveyed enterprises. The sector of real estate, renting, computer and other business activities has also shown considerable progress in this context, accounting for about 11 percent of foreign enterprises as of end 2007.

The distribution of the labour force shows a slightly different performance to that of the number of enterprises. The sector to rank second in terms of the number of employed persons is that of monetary and financial intermediation, which is mainly represented by commercial banks. It reports about 17.3 percent of employed persons, which account for only 2.4 percent of the number of foreign enterprises. The sector of transport, storage and communication almost shows the same performance, accounting for about 11.5 percent of employed persons in foreign enterprises.

For a more analytical distribution of enterprises by economic activity, please refer to Table 2 in the attached annex.

4. QUANTITATIVE FEATURES OF THE FDI

As of end 2007 the foreign capital stock for these 944 surveyed enterprises—measured according to the above explained methodology—is about 31.1 percent higher than the foreign capital stock of end-year 2006.

4.1. STRUCTURE OF FOREIGN CAPITAL STOCK

The equity makes up the largest part of the foreign capital stock. As of end 2007, subscribed capital, along with reserves and premiums, accounted for about 58 percent of the FDI in Albania.

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>Change during the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>93%</td>
<td>95%</td>
<td>34%</td>
</tr>
<tr>
<td>Subscribed capital, reserves and premiums</td>
<td>60%</td>
<td>58%</td>
<td>27%</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>15%</td>
<td>21%</td>
<td>83%</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>18%</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>Other capital</td>
<td>7%</td>
<td>5%</td>
<td>-9%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>31%</td>
</tr>
</tbody>
</table>

The stable macroeconomic situation has ensured a positive investment climate for foreign investors. The profitability indicators of enterprises have shown an upward tendency compared to the previous year. After-tax profit of surveyed enterprises was about 16 percent higher in 2007 than the profit reported in the previous year survey. In addition, the retained earnings from previous periods and the reinvested earnings have almost doubled relative
to the previous year, hence representing a good basis for the formation of investors’ confidence that economic stability will persist in the future as well.

4.2. FOREIGN CAPITAL ORIGIN

As indicated by the qualitative features of surveyed foreign enterprises, investors from EU countries dominated FDI in Albania. According to the data on 944 enterprises, as of end-2007 about 80 percent of total FDI stock in Albania was accounted for by the EU countries, the major investors among which being Greece with about 54 percent of total foreign capital stock. The distribution of the capital stock of foreign enterprises differs from that of the number of enterprises by country of origin, which ranked Italy the first in terms of the number of foreign enterprises.

As of end-2007, the Greek capital invested in 242 Albanian enterprises, out of 944 surveyed enterprises, attested to an increase by about 30 percent relative to end-2006 stock. About 62 percent of the Greek capital stock has been invested in the sector of transport, storage and communication. In addition, the Greek capital is invested in the sector of monetary and financial intermediation, which accounts for about 18 percent of total Greek investment, followed by the sector of manufacturing industry, which accounts for about 7 percent.

As of end-2007, the Italian capital has almost maintained the same position as in end-year 2006. The Italian capital stock invested in 382 Albanian respondent enterprises accounted for about 11 percent of total FDI in Albania as of end-2007. The Italian capital has been mostly invested in the sectors of monetary and financial intermediation and the manufacturing industry, which account for 36.4 and 31 percent, respectively, of total Italian investment in Albania. The rest has been mainly invested in construction (about 18 percent) and real estate and other business activities (about 10 percent).
The Turkish investment has attested to significant growth during the past year, mainly owing to the privatization process of one of the main sectors in the Albanian economy, telecommunication, more specifically to the privatization of the Albtelecom. As of end 2007, the Turkish capital invested in Albania ranks second in terms of total investment by country of origin, accounting for about 12 percent of total foreign capital.

The Austrian capital has also shown significant progress in the recent years. As of end 2007, it is reported to have almost reached the same level as the Italian capital, accounting for about 10.5 percent of total foreign capital. The Austrian capital has been mainly invested in the sector of monetary and financial intermediation, more specifically in commercial banks and insurance companies.

For more detailed information on the FDI annual performance by country of origin, please refer to Table 3 in the attached annex.

### 4.3. DISTRIBUTION OF FOREIGN CAPITAL BY ECONOMIC ACTIVITY

Although the sector of transport, storage and communication accounts for only 4 percent in terms of total number of surveyed enterprises, it ranks first with an overwhelming share of about 41 percent of foreign capital stock invested in Albania as of end 2007. Post and telecommunications has provided the main contribution within this sector, accounting for 82 percent of total investment in this sector and about 33 percent of total foreign stock in the surveyed enterprises. Relative to end-year 2006, this sector’s capital stock attested to an increase of about 35 percent as of end 2007, which mainly owes to the increase of retained and reinvested earnings and the profit for the period, and to the new investment in the form of privatizations.

The sector of monetary and financial intermediation, which is also represented by a small number of enterprises (about 2.4 percent of total surveyed enterprises), ranks second in terms of foreign capital stock accounting for about 33 percent as of end 2007. The investment in commercial banks, insurance activities and pension funds has increased during the observed period by about 50 percent. This progress owes to the high profitability rates during the year 2007 and the entry of foreign capital to the financial institutions.

<table>
<thead>
<tr>
<th>NACE</th>
<th>Description</th>
<th>Share of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Agriculture, hunting and forestry</td>
<td>0.3</td>
</tr>
<tr>
<td>B</td>
<td>Fishing</td>
<td>0.0</td>
</tr>
<tr>
<td>C</td>
<td>Mining and quarrying</td>
<td>0.7</td>
</tr>
<tr>
<td>D</td>
<td>Manufacturing</td>
<td>11.0</td>
</tr>
<tr>
<td>E</td>
<td>Production and distribution of electricity, gas, steam and hot water</td>
<td>0.4</td>
</tr>
<tr>
<td>F</td>
<td>Construction</td>
<td>4.9</td>
</tr>
<tr>
<td>G</td>
<td>Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods</td>
<td>5.9</td>
</tr>
</tbody>
</table>

Table 4 Distribution of foreign capital stock by economic activity (based on the Nomenclature of Economic Activities Rev. 1.1 INSTAT)
Despite accounting for about 32 percent of the total number of surveyed enterprises and having employed about 54 percent of total employed persons, manufacturing industry accounts for only 11 percent of these enterprises’ foreign capital stock as of end 2007.

As previously indicated, construction has been attracting a considerable amount of FDI in Albania during the past year. Foreign capital participation in this sector has increased substantially, accounting for about 5 percent of foreign capital in Albania as of end 2007.

For more detailed information on the distribution of foreign capital stock by economic activity, please refer to Table 2 and 4 in the attached annex.

4.4. INVESTMENT DURING THE FISCAL YEAR 2007

Only 331 enterprises responded to this part of the survey, which makes up about 35 percent of total respondent enterprises. The collected data indicate that total investment during the year 2007 was mainly invested in tangibles, which account for about 98.6 percent of total reported investment.

Table 5 Structure of investment during the fiscal year 2007

<table>
<thead>
<tr>
<th>Investment during the year 2007</th>
<th>Share of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Intangibles</td>
<td>1.4</td>
</tr>
<tr>
<td>2. Tangibles</td>
<td>98.6</td>
</tr>
<tr>
<td>2.1. Land</td>
<td>10.2</td>
</tr>
<tr>
<td>2.2. Buildings</td>
<td>8.9</td>
</tr>
<tr>
<td>2.3. Constructions and general installations</td>
<td>10.9</td>
</tr>
<tr>
<td>2.4. Technical installations, machineries, equipments, tools</td>
<td>35.5</td>
</tr>
<tr>
<td>2.5. Transportation means</td>
<td>20.0</td>
</tr>
<tr>
<td>2.6. Office and information technology equipment</td>
<td>3.5</td>
</tr>
<tr>
<td>2.7. Other</td>
<td>9.7</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The majority of investment carried out during the past year (about 36 percent) was concentrated in constructions and general installations; however, there have been higher investments during the year 2007 in transportation means and constructions and general installations. In terms of sectors of industry the respondent enterprises fall in, it is shown that the highest investment was carried out in the manufacturing industry (about 39 percent), followed by the sector of transport, storage and communication (about 28 percent).
Table 6 | Structural distribution of investment during the fiscal year 2007 by economic activity (based on the Nomenclature of Economic Activities Rev. 1.1 INSTAT)

<table>
<thead>
<tr>
<th>NACE</th>
<th>Description</th>
<th>Number of enterprises</th>
<th>Share of total invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Agriculture, hunting and forestry</td>
<td>2</td>
<td>0.1</td>
</tr>
<tr>
<td>B</td>
<td>Fishing</td>
<td>2</td>
<td>0.0</td>
</tr>
<tr>
<td>C</td>
<td>Mining and quarrying</td>
<td>5</td>
<td>2.1</td>
</tr>
<tr>
<td>D</td>
<td>Manufacturing</td>
<td>166</td>
<td>38.5</td>
</tr>
<tr>
<td>E</td>
<td>Production and distribution of electricity, gas, steam and hot water</td>
<td>5</td>
<td>2.9</td>
</tr>
<tr>
<td>F</td>
<td>Construction</td>
<td>24</td>
<td>2.8</td>
</tr>
<tr>
<td>G</td>
<td>Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods</td>
<td>80</td>
<td>10.0</td>
</tr>
<tr>
<td>H</td>
<td>Hotels and restaurants</td>
<td>4</td>
<td>0.8</td>
</tr>
<tr>
<td>I</td>
<td>Transport, storage and communication</td>
<td>10</td>
<td>27.7</td>
</tr>
<tr>
<td>J</td>
<td>Monetary and financial intermediation</td>
<td>3</td>
<td>3.8</td>
</tr>
<tr>
<td>K</td>
<td>Real estate, renting, computer, scientific research and other business activities</td>
<td>20</td>
<td>4.3</td>
</tr>
<tr>
<td>M</td>
<td>Education</td>
<td>3</td>
<td>2.9</td>
</tr>
<tr>
<td>N</td>
<td>Health and social work</td>
<td>3</td>
<td>0.6</td>
</tr>
<tr>
<td>O</td>
<td>Other community, social and personal service activities</td>
<td>4</td>
<td>3.5</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>331</td>
<td>100.0</td>
</tr>
</tbody>
</table>

5. CONCLUSIONS

The FDI survey for the fiscal year 2007 was conducted in July 2008. It involved 1247 enterprises established in 24 districts throughout Albania. Out of them, 944 respondent enterprises were found active foreign or joint venture enterprises (including commercial banks).

- Since the year 2002, the number of foreign enterprises has been constantly increasing and in most of the cases foreign investors own more than 50 percent - 86 percent of the surveyed enterprises. In the meantime, in about 65 percent of the surveyed enterprises, the foreign investor has full ownership of the enterprise (100 percent foreign-owned).
- Investors from EU countries dominate the FDI in Albania, accounting for about 77 percent of foreign enterprises. Among them, Italy ranks the first with about 40 percent, followed by Greece with about 26 percent of foreign enterprises.
- As of end 2007, the total number of employed persons in the surveyed enterprises is 32,107. Manufacturing industry ranks first in terms of employed persons in foreign enterprises (accounting for about 54.2 percent), followed by the monetary and financial intermediation sector (about 17.3 percent).
- Most surveyed enterprises (about 33 percent) are involved in the wholesale and retail trade sector. In terms of the number of foreign enterprises, manufacturing ranks second, accounting for about 32.4 percent.
- As of end 2007, foreign capital stock resulted to be about 31 percent higher than the previous year. About 80 percent of total FDI stock in Albania was accounted for by the EU countries, the major investors...
among which being Greece with about 54 percent, followed by Turkey and Italy with 12 and 11 percent, respectively. The Greek capital in Albania has been invested in 242 enterprises out of 944 surveyed enterprises, mainly (about 62 percent) in the sector of transport, storage and communication.

- The Italian capital stock has been invested in 382 foreign and joint venture enterprises in Albania. The Italian investors have mostly preferred to invest in the sectors of monetary and financial intermediation and the manufacturing industry, which account for 36.4 and 31 percent, respectively, of total Italian investment in Albania.

- In terms of distribution by economic activity, 41 percent of foreign capital stock has been invested in the sector of transport, storage and communication, being mainly represented by ‘post and telecommunications’.

- Out of 331 surveyed enterprises, almost all reported investment during the year 2007 was invested in tangibles, being mainly concentrated in constructions and general installation.
### ANNEX Statistical Tables

**Table 1** Distribution of enterprises and total FDI by country of origin (in percent as of 31 December 2007)

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of enterprises</th>
<th>% share of total FDI stock</th>
<th>Share of total FDI stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>17</td>
<td>1.8</td>
<td>10.5</td>
</tr>
<tr>
<td>Belgium</td>
<td>4</td>
<td>0.4</td>
<td>0.0</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>9</td>
<td>1.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Canada</td>
<td>2</td>
<td>0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Caribbean</td>
<td>1</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>China</td>
<td>30</td>
<td>3.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Croatia</td>
<td>6</td>
<td>0.6</td>
<td>0.1</td>
</tr>
<tr>
<td>Denmark</td>
<td>1</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Egypt</td>
<td>9</td>
<td>1.0</td>
<td>0.7</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>1</td>
<td>0.1</td>
<td>0.7</td>
</tr>
<tr>
<td>France</td>
<td>10</td>
<td>1.1</td>
<td>1.4</td>
</tr>
<tr>
<td>Germany</td>
<td>28</td>
<td>3.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Great Britain</td>
<td>16</td>
<td>1.7</td>
<td>0.3</td>
</tr>
<tr>
<td>Greece</td>
<td>242</td>
<td>25.6</td>
<td>52.7</td>
</tr>
<tr>
<td>Hungary</td>
<td>5</td>
<td>0.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Israel</td>
<td>5</td>
<td>0.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Italy</td>
<td>382</td>
<td>40.5</td>
<td>10.9</td>
</tr>
<tr>
<td>Kosovo</td>
<td>13</td>
<td>1.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Kuwait</td>
<td>1</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Lebanon</td>
<td>4</td>
<td>0.4</td>
<td>0.9</td>
</tr>
<tr>
<td>Macedonia</td>
<td>25</td>
<td>2.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1</td>
<td>0.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Montenegro</td>
<td>4</td>
<td>0.4</td>
<td>0.0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>6</td>
<td>0.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Romania</td>
<td>3</td>
<td>0.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>5</td>
<td>0.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Serbia</td>
<td>3</td>
<td>0.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Slovenia</td>
<td>5</td>
<td>0.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Sweden</td>
<td>2</td>
<td>0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Switzerland</td>
<td>7</td>
<td>0.7</td>
<td>0.1</td>
</tr>
<tr>
<td>Turkey</td>
<td>73</td>
<td>7.7</td>
<td>12.1</td>
</tr>
<tr>
<td>United States</td>
<td>24</td>
<td>2.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Total</td>
<td>944</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Table 2** Distribution of enterprises and total FDI by economic activity (based on the Nomenclature of Economic Activities Rev. 1.1 INSTAT) (in percent as of 31 December 2007)

<table>
<thead>
<tr>
<th>NACE</th>
<th>DESCRIPTION</th>
<th>Number of enterprises</th>
<th>% share of total FDI stock</th>
<th>Share of total FDI stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Agriculture, hunting and forestry</td>
<td>4</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>01</td>
<td>Agriculture, hunting and related service activities</td>
<td>4</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>B</td>
<td>Fishing</td>
<td>4</td>
<td>0.4</td>
<td>0.0</td>
</tr>
<tr>
<td>05</td>
<td>Fishing, operation of fish hatcheries and service activities incidental to fishing</td>
<td>4</td>
<td>0.4</td>
<td>0.0</td>
</tr>
<tr>
<td>C</td>
<td>Mining and quarrying</td>
<td>19</td>
<td>2.0</td>
<td>0.7</td>
</tr>
<tr>
<td>CA</td>
<td>Mining and quarrying of energy producing materials</td>
<td>3</td>
<td>0.3</td>
<td>0.0</td>
</tr>
<tr>
<td>10</td>
<td>Mining of coal and lignite; extraction of peat</td>
<td>1</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>11</td>
<td>Extraction of crude petroleum and natural gas; service activities incidental to oil and gas extraction excluding surveying</td>
<td>2</td>
<td>0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>NACE</td>
<td>DESCRIPTION</td>
<td>Number of enterprises</td>
<td>%</td>
<td>Share of total FDI stock</td>
</tr>
<tr>
<td>-------</td>
<td>-----------------------------------------------------------------------------</td>
<td>-----------------------</td>
<td>------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>CB</td>
<td>Mining and quarrying except energy producing materials</td>
<td>16</td>
<td>1.7</td>
<td>0.7</td>
</tr>
<tr>
<td>13</td>
<td>Mining of metal ores</td>
<td>5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>14</td>
<td>Other mining and quarring</td>
<td>11</td>
<td>1.2</td>
<td>0.2</td>
</tr>
<tr>
<td>D</td>
<td>Manufacturing</td>
<td>306</td>
<td>32.4</td>
<td>11.0</td>
</tr>
<tr>
<td>DA</td>
<td>Manufacture of food products; beverages and tobacco</td>
<td>22</td>
<td>2.3</td>
<td>1.9</td>
</tr>
<tr>
<td>15</td>
<td>Manufacture of food products and beverages</td>
<td>20</td>
<td>2.1</td>
<td>1.8</td>
</tr>
<tr>
<td>16</td>
<td>Manufacture of tobacco products</td>
<td>2</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>DB</td>
<td>Manufacture of textiles and textile products</td>
<td>119</td>
<td>12.6</td>
<td>1.2</td>
</tr>
<tr>
<td>17</td>
<td>Manufacture of textiles</td>
<td>8</td>
<td>0.8</td>
<td>0.0</td>
</tr>
<tr>
<td>18</td>
<td>Manufacture of wearing apparel; dressing and dyeing of fur</td>
<td>111</td>
<td>11.8</td>
<td>1.2</td>
</tr>
<tr>
<td>DC</td>
<td>Manufacture of leather and leather products</td>
<td>39</td>
<td>4.1</td>
<td>1.2</td>
</tr>
<tr>
<td>19</td>
<td>Tanning and dressing of leather; manufacture of luggage, handbags, saddlery, harness and footwear</td>
<td>39</td>
<td>4.1</td>
<td>1.2</td>
</tr>
<tr>
<td>DD</td>
<td>Manufacture of wood and wood products</td>
<td>14</td>
<td>1.5</td>
<td>0.1</td>
</tr>
<tr>
<td>20</td>
<td>Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials</td>
<td>14</td>
<td>1.5</td>
<td>0.1</td>
</tr>
<tr>
<td>DE</td>
<td>Manufacture of pulp, paper and paper products; publishing and printing</td>
<td>17</td>
<td>1.8</td>
<td>0.1</td>
</tr>
<tr>
<td>21</td>
<td>Manufacture of pulp, paper and paper products</td>
<td>11</td>
<td>1.2</td>
<td>0.1</td>
</tr>
<tr>
<td>22</td>
<td>Publishing, printing and reproduction of recorded media</td>
<td>6</td>
<td>0.6</td>
<td>0.0</td>
</tr>
<tr>
<td>DG</td>
<td>Manufacture of chemicals, chemical products and man-made fibres</td>
<td>4</td>
<td>0.4</td>
<td>0.0</td>
</tr>
<tr>
<td>24</td>
<td>Manufacture of chemicals and chemical products</td>
<td>4</td>
<td>0.4</td>
<td>0.0</td>
</tr>
<tr>
<td>DH</td>
<td>Manufacture of rubber and plastic products</td>
<td>12</td>
<td>1.3</td>
<td>1.5</td>
</tr>
<tr>
<td>25</td>
<td>Manufacture of rubber and plastic products</td>
<td>12</td>
<td>1.3</td>
<td>1.5</td>
</tr>
<tr>
<td>DI</td>
<td>Manufacture of other non-metallic mineral products</td>
<td>21</td>
<td>2.2</td>
<td>1.2</td>
</tr>
<tr>
<td>26</td>
<td>Manufacture of other non-metallic mineral products</td>
<td>21</td>
<td>2.2</td>
<td>1.2</td>
</tr>
<tr>
<td>DJ</td>
<td>Manufacture of basic metals and fabricated metal products</td>
<td>15</td>
<td>1.6</td>
<td>1.5</td>
</tr>
<tr>
<td>27</td>
<td>Manufacture of basic metals</td>
<td>1</td>
<td>0.1</td>
<td>1.0</td>
</tr>
<tr>
<td>28</td>
<td>Manufacture of fabricated metal products, except machinery and equipment</td>
<td>14</td>
<td>1.5</td>
<td>0.5</td>
</tr>
<tr>
<td>DK</td>
<td>Manufacture of machinery and equipment n.e.c.</td>
<td>3</td>
<td>0.3</td>
<td>0.0</td>
</tr>
<tr>
<td>29</td>
<td>Manufacture of machinery and equipment n.e.c.</td>
<td>3</td>
<td>0.3</td>
<td>0.0</td>
</tr>
<tr>
<td>DL</td>
<td>Manufacture of electrical and optical equipment</td>
<td>15</td>
<td>1.6</td>
<td>1.1</td>
</tr>
<tr>
<td>31</td>
<td>Manufacture of electrical machinery and apparatus n.e.c.</td>
<td>9</td>
<td>1.0</td>
<td>1.1</td>
</tr>
<tr>
<td>32</td>
<td>Manufacture of radio, television and communication equipment and apparatus</td>
<td>1</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>33</td>
<td>Manufacture of medical, precision and optical instruments, watches and clocks</td>
<td>5</td>
<td>0.5</td>
<td>0.0</td>
</tr>
<tr>
<td>DM</td>
<td>Manufacture of transport equipment</td>
<td>2</td>
<td>0.2</td>
<td>0.8</td>
</tr>
<tr>
<td>35</td>
<td>Manufacture of other transport equipment</td>
<td>2</td>
<td>0.2</td>
<td>0.8</td>
</tr>
<tr>
<td>DN</td>
<td>Manufacturing n.e.c.</td>
<td>23</td>
<td>2.4</td>
<td>0.4</td>
</tr>
<tr>
<td>36</td>
<td>Manufacture of furniture; manufacturing n.e.c.</td>
<td>21</td>
<td>2.2</td>
<td>0.4</td>
</tr>
<tr>
<td>37</td>
<td>Recycling</td>
<td>2</td>
<td>0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>E</td>
<td>Production and distribution of electricity, gas, steam and hot water</td>
<td>17</td>
<td>1.8</td>
<td>0.4</td>
</tr>
<tr>
<td>40</td>
<td>Production and distribution of electricity, gas, steam and hot water</td>
<td>12</td>
<td>1.3</td>
<td>0.1</td>
</tr>
<tr>
<td>NACE</td>
<td>DESCRIPTION</td>
<td>Number of enterprises</td>
<td>%</td>
<td>Share of total FDI stock</td>
</tr>
<tr>
<td>------</td>
<td>------------------------------------------------------------------------------</td>
<td>-----------------------</td>
<td>----</td>
<td>--------------------------</td>
</tr>
<tr>
<td>41</td>
<td>Collection, purification and distribution of water</td>
<td>5</td>
<td>0.5</td>
<td>0.3</td>
</tr>
<tr>
<td>F</td>
<td>Construction</td>
<td>71</td>
<td>7.5</td>
<td>4.9</td>
</tr>
<tr>
<td>45</td>
<td>Construction</td>
<td>71</td>
<td>7.5</td>
<td>4.9</td>
</tr>
<tr>
<td>G</td>
<td>Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods</td>
<td>311</td>
<td>32.9</td>
<td>5.9</td>
</tr>
<tr>
<td>50</td>
<td>Sale, maintenance and repair of motor vehicles and motorcycles; retail sale of automotive fuel</td>
<td>23</td>
<td>2.4</td>
<td>1.2</td>
</tr>
<tr>
<td>51</td>
<td>Wholesale trade and commission trade, except of motor vehicles and motorcycles</td>
<td>237</td>
<td>25.1</td>
<td>4.0</td>
</tr>
<tr>
<td>52</td>
<td>Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods</td>
<td>51</td>
<td>5.4</td>
<td>0.7</td>
</tr>
<tr>
<td>H</td>
<td>Hotels and restaurants</td>
<td>16</td>
<td>1.7</td>
<td>1.1</td>
</tr>
<tr>
<td>55</td>
<td>Hotels and restaurants</td>
<td>16</td>
<td>1.7</td>
<td>1.1</td>
</tr>
<tr>
<td>I</td>
<td>Transport, storage and communication</td>
<td>34</td>
<td>3.6</td>
<td>40.5</td>
</tr>
<tr>
<td>60</td>
<td>Land transport; transport via pipelines</td>
<td>5</td>
<td>0.5</td>
<td>0.2</td>
</tr>
<tr>
<td>61</td>
<td>Water transport</td>
<td>2</td>
<td>0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>62</td>
<td>Air transport</td>
<td>2</td>
<td>0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>63</td>
<td>Supporting and auxiliary transport activities; activities of travel agencies</td>
<td>16</td>
<td>1.7</td>
<td>1.8</td>
</tr>
<tr>
<td>64</td>
<td>Post and telecommunications</td>
<td>9</td>
<td>1.0</td>
<td>38.5</td>
</tr>
<tr>
<td>J</td>
<td>Monetary and financial intermediation</td>
<td>23</td>
<td>2.4</td>
<td>33.0</td>
</tr>
<tr>
<td>65</td>
<td>Monetary and financial intermediation, except insurance and pension funding</td>
<td>18</td>
<td>1.9</td>
<td>31.6</td>
</tr>
<tr>
<td>66</td>
<td>Insurance and pension funding, except compulsory social security</td>
<td>5</td>
<td>0.5</td>
<td>1.4</td>
</tr>
<tr>
<td>K</td>
<td>Real estate, renting, computer, scientific research and other business activities</td>
<td>104</td>
<td>11.0</td>
<td>0.9</td>
</tr>
<tr>
<td>70</td>
<td>Real estate activities</td>
<td>27</td>
<td>2.9</td>
<td>0.5</td>
</tr>
<tr>
<td>72</td>
<td>Computer and related activities</td>
<td>8</td>
<td>0.8</td>
<td>0.0</td>
</tr>
<tr>
<td>73</td>
<td>Research and development</td>
<td>4</td>
<td>0.4</td>
<td>0.0</td>
</tr>
<tr>
<td>74</td>
<td>Other business activities</td>
<td>65</td>
<td>6.9</td>
<td>0.3</td>
</tr>
<tr>
<td>M</td>
<td>Education</td>
<td>11</td>
<td>1.2</td>
<td>0.1</td>
</tr>
<tr>
<td>80</td>
<td>Education</td>
<td>11</td>
<td>1.2</td>
<td>0.1</td>
</tr>
<tr>
<td>N</td>
<td>Health and social work</td>
<td>11</td>
<td>1.2</td>
<td>0.0</td>
</tr>
<tr>
<td>85</td>
<td>Health and social work</td>
<td>11</td>
<td>1.2</td>
<td>0.0</td>
</tr>
<tr>
<td>O</td>
<td>Other community, social and personal service activities</td>
<td>13</td>
<td>1.4</td>
<td>1.2</td>
</tr>
<tr>
<td>90</td>
<td>Sewage and refuse disposal, sanitation and similar activities</td>
<td>2</td>
<td>0.2</td>
<td>-0.1</td>
</tr>
<tr>
<td>91</td>
<td>Activities of membership organization n.e.c.</td>
<td>1</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>92</td>
<td>Recreational, cultural and sporting activities</td>
<td>5</td>
<td>0.5</td>
<td>1.3</td>
</tr>
<tr>
<td>93</td>
<td>Other service activities</td>
<td>5</td>
<td>0.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>944</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 3 FDI stock in Albania by country of origin (as a share of total FDI stock, as of end period)

<table>
<thead>
<tr>
<th>Country</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>5.7</td>
<td>5.4</td>
<td>9.1</td>
<td>10.5</td>
</tr>
<tr>
<td>Belgium</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>1.4</td>
<td>1.1</td>
<td>0.8</td>
<td>0.9</td>
</tr>
<tr>
<td>Canada</td>
<td>0.3</td>
<td>2.1</td>
<td>3.8</td>
<td>0.0</td>
</tr>
<tr>
<td>Caribbean</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>China</td>
<td>0.0</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Croatia</td>
<td>1.3</td>
<td>0.3</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Cyprus</td>
<td>0.0</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
</tr>
</tbody>
</table>
Table 4 FDI stock in Albania by sectors (based on the Nomenclature of Economic Activities Rev. 1.1 INSTAT) (as a share of total FDI stock, as of end period)

<table>
<thead>
<tr>
<th>NACE</th>
<th>Description</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Agriculture, hunting and forestry</td>
<td>0.4</td>
<td>0.8</td>
<td>0.7</td>
<td>0.3</td>
</tr>
<tr>
<td>B</td>
<td>Fishing</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>C</td>
<td>Mining and quarrying</td>
<td>0.8</td>
<td>2.9</td>
<td>4.6</td>
<td>0.7</td>
</tr>
<tr>
<td>D</td>
<td>Manufacturing</td>
<td>25.6</td>
<td>14.2</td>
<td>12.8</td>
<td>11.0</td>
</tr>
<tr>
<td>E</td>
<td>Production and distribution of electricity, gas, steam and hot water</td>
<td>0.1</td>
<td>1.0</td>
<td>0.0</td>
<td>0.4</td>
</tr>
<tr>
<td>F</td>
<td>Construction</td>
<td>4.0</td>
<td>3.5</td>
<td>3.4</td>
<td>4.9</td>
</tr>
<tr>
<td>G</td>
<td>Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods</td>
<td>6.8</td>
<td>7.4</td>
<td>7.3</td>
<td>5.9</td>
</tr>
<tr>
<td>H</td>
<td>Hotels and restaurants</td>
<td>2.1</td>
<td>1.7</td>
<td>1.3</td>
<td>1.1</td>
</tr>
<tr>
<td>I</td>
<td>Transport, storage and communication</td>
<td>26.1</td>
<td>41.1</td>
<td>39.4</td>
<td>40.5</td>
</tr>
<tr>
<td>J</td>
<td>Monetary and financial intermediation</td>
<td>31.0</td>
<td>26.0</td>
<td>28.9</td>
<td>33.0</td>
</tr>
<tr>
<td>K</td>
<td>Real estate, renting, computer, scientific research and other business activities</td>
<td>2.3</td>
<td>1.1</td>
<td>1.3</td>
<td>0.9</td>
</tr>
<tr>
<td>M</td>
<td>Education</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>N</td>
<td>Health and social work</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>O</td>
<td>Other community, social and personal service activities</td>
<td>0.6</td>
<td>0.1</td>
<td>0.1</td>
<td>1.2</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

NOTES
* Endrita Xhaferaj, Statistics Department, Bank of Albania.
1 Hereinafter referred to as FDI.
On October 10-17, 2008, a delegation of the Bank of Albania, headed by the Governor, Mr. Ardian Fullani, also the Governor of Albania to the International Monetary Fund, participated in the annual meetings of the IMF and the World Bank Group, held in Washington D.C., USA.

The annual meetings of the IMF and the World Bank Group were held in the form of an open forum, which had at its focus the financial situation the global economy is going through, its consequences on the member countries and the possible way-outs. The meetings of Governor Fullani aimed at introducing the high IMF and World Bank officials to the economic developments in Albania, the progress made during the past year and to the areas where improvement and reforms are required the most. The Minister of Finance, Mr. Ridvan Bode, was present in several of these meetings.

In addition to the meetings with representatives of the IMF and the World Bank, Mr. Fullani met with high officials of central banks, more specifically with the governors of the central banks in the region, Ms Barbro Wickman-Parak, Deputy Governor of the Sveriges Riksbank, other countries’ representatives from Italy, Israel, Belgium, Canada, etc. Upon the invitation of the Governor of the Bank of Canada, Mr. Mark Carney, the Governor of the Bank of Albania, Mr. Ardian Fullani, had an official meeting at the Bank of Canada on October 15, 2008. At the focus of these meetings were the current issues characterizing the financial markets, the measures taken by different countries in the areas where assistance could be provided, as well as the further coordination at a regional level.

On October 29-November 11, 2008, an IMF mission visited Albania to discuss with the authorities the sixth and final review of the PRGF/EFF agreement. The mission stated that the Albanian economy in 2008 had performed strongly. Inflation returned to the Bank of Albania’s 3±1 percent target, while growth remained buoyant and on track to reach 6 percent again this year. Debt consolidation continued and the underlying external position is sound, with the recent increase in the current account deficit reflecting mainly temporary factors.

Generally sound macroeconomic and structural policies have underpinned this favourable performance and laid the groundwork for future gains. Interest rates have been held consistently above inflation; budgetary policy has supported macroeconomic stability; supervisory regulations in the banking system have been tightened and updated; and there have been clear
improvements in the business climate. It is expected that the sixth and final review under the PRGF/EFF-supported program will be presented to the IMF’s Executive Board before the arrangement expires on January 31, 2009.

On November 13-14, 2008, the Bank of Albania organized the second workshop on “Economic Research in South-East Europe”. Participants in this workshop were research analysts from seven central banks in South-East Europe and representatives of the central banks of Italy, Poland and Turkey.

As a follow-up to the first workshop organized in November 2007, this year’s meeting aimed at promoting co-operation and open dialogue among the research analysts in the region, as well as prompting discussions on various central bank-related issues. All discussion and criticism touched upon the research standards and empirical and econometric methods applied. The workshop was organized in five sessions and it included 16 presentations and discussions following them, grouped by three topics of primary importance to central banking at present: monetary policy, macro-modelling and economic and financial integration.

On 17-21 November 2008, IMF’s Legal Department in cooperation with the Bank of Albania organized in Tirana the workshop on Banking Market and the Legal System. In light of the present worldwide developments, this workshop aimed at establishing for the first time a closer dialogue between the banking market and the legal system.

The lecturers in this workshop were distinguished legal experts who discussed from the legal viewpoint the U.S. financial crisis and its impact on the global financial system, with special focus on the legal aspects of banking supervision. This workshop also touched upon specific topics such as administrative and judicial supervision of legal initiatives, complex financial products, banks’ governance in Albania etc.

The workshop was attended by representatives of the Bank of Albania, legal departments of commercial banks operating in Albania; officials and experts of public institutions and agencies dealing with banking legislation and the regulatory framework, namely commercial banks operating in Albania, the Ministry of Finance, General Prosecution Office, Albanian Magistrate School, Albanian Financial Supervisory Authority, Deposit Insurance Agency, Competition Authority and General Directory for Money Laundering. The positive feedback from the audience with regard to the topics this workshop dealt with encourages the organization of similar activities in the future as well.

The fifth high level Euro-Mediterranean seminar, which brings together Eurosystem and Mediterranean central banks, was jointly organised by the Central Bank of Egypt and the European Central Bank (ECB) and held in Alexandria, Egypt, on 27 November 2008.
The seminar was attended by high level representatives of the Eurosystem, including Mr. Jean-Claude Trichet, President of the ECB, Mr. Lorenzo Bini Smaghi, Member of the Executive Board of the ECB, as well as by governors and high level representatives of the central banks of Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia and Spain, as well as by governors and high level representatives of the central banks of Albania, Algeria, Egypt, Israel, Lebanon, Libya, Mauritania, Morocco, the Palestinian National Authority, Syria, and Turkey.

This was the first time for the central Bank of Albania to attend this seminar. In addition, the seminar participants welcomed the organizers’ proposal for Albania’s full participation in this forum’s future meetings.

The meeting in Alexandria proved to be a useful platform for multilateral discussions and exchanges of views on issues of common interest from a central banking perspective. This year’s seminar focused on recent economic and financial developments in Mediterranean countries, on monetary policy strategies and exchange rate regimes in the region, and on trends in Mediterranean countries’ banking sectors, with a particular focus on the unfolding implications of the global financial turmoil.

A Polish delegation, headed by the President of the National Bank of Poland, Mr. Stawomir Stanislav Skrzypek, and accompanied by the Director representing Poland, Bulgaria and Albania on the EBRD Board, Ms. Krystyna Gawlikowska–Hueckel, and by the International Department Director at the National Bank of Poland, Mr. Romuald Szymczak, had an official visit to the Bank of Albania on December 2, 2008.

Being one of the recent EU Member States, Poland is a concrete example of reforms and steps taken with a view to approximating with and entering the EU and the European System of Central Banks. In his meeting with Governor Fullani, Mr. Skrzypek expressed the commitment of the National Bank of Poland to assisting the Bank of Albania in the European integration process and to enhancing the bilateral co-operation in areas of mutual interest, such as macroeconomic analysis and forecasts, research, etc. On her behalf, Ms. Hueckel appraised the progress Albania has made in the recent years, especially in the areas of implementing the structural and sectoral economic reforms, and expressed the EBRD’s commitment to providing ongoing financial support and investments in Albania, concurrent with the priority areas established in its strategy.

As a follow-up to lectures of distinguished guests and personalities in the areas of economics, finance and economic policies, Dr. Barry Asmus lectured on “International Prosperity and its Impact on Albania” on December 5, 2008, at the Bank of Albania’s hall.
As a Senior Economist for the prestigious National Centre for Policy Analysis, Dr. Asmus has been named by USA Today as one of the five most requested speakers in the United States. With other twenty-five years experience on the speaking platform, Dr. Asmus does more than just speak on policies, he is actively involved with their implementation.

After an insight analysis of the situation the global economy is going through recently, Dr. Asmus appraised the progress Albania has made in terms of free market and stable economic development. Dr. Asmus considered freedom as the main factor for achieving economic prosperity and development in the country. This is the reason why Albania’s ranking by the Index of Economic Freedom 56th out of 165 countries is a key indicator of Albania’s opportunities for achieving economic success.

On December 11 and 19, 2008, the Bank of Albania organized the competition “The Real Value of Money” for high school students of Vlora district. The competition involved teams of students representing the high schools of Vlora district, who competed against each other on their knowledge of the Bank of Albania, its monetary policy and instruments used, as well as its impact on the country’s economy. Like in any typical competition, the teams responded to a number of questions to the jury panel. The teams were evaluated not only based on their knowledge, but also on their analytical skills in providing arguments to the responses and on their team-work performance.

The eliminatory phase took place on December 11. 17 participant teams, representing both private and public schools, competed against each other. The three teams with the highest number of points were qualified for the final phase of the competition which took place on December 19. The jury headed by the Governor of the Bank of Albania, Mr. Fullani, announced “Ali Demi” high school as winner of the competition, which scored 99 points. The second runner-up was the team from “Aulona” high school with 97 points, followed by “Nr. 1” high school with 90 points.

This activity was attended with great interest by students, professor, parents and representatives of the Educational Directory of Vlora district. The final phase was aired on “Klan” National Television.

On the occasion of the closing year 2008, the Governor of the Bank of Albania, Mr. Ardian Fullani, met with distinguished publicists, analysts of economics and politics and print and electronic media. Appraising the role of the media, which through the messages conveyed promotes the further consolidation of public trust in the Albanian financial institutions and infrastructure, Governor Fullani extended his thanks to the participants for the attitude, analyses and assessments made in the media. Providing an outline of the economic developments over the course of the year 2008 and the work made by the Bank of Albania in preserving and consolidating macroeconomic
stability as well as the banking system’s financial stability, the Governor dwelt on the introduction of several major projects that the Bank of Albania has been intensively involved in over the year 2008, a number of which will be concluded in the years to follow.

Concluding, Governor Fullani announced the winners of the “Governor’s Award for the Best Diploma Thesis” for the year 2008. This award has now become a yearly tradition of the Bank of Albania and it aims to motivate the university students to make academic research in the area of central banking and the economy in general. It also attempts to help the Bank of Albania absorb qualified human resources. The three winners for the year 2008 are:

- The first prize to Vasil Zaho, for the thesis “Efficiency and increase of Albanian commercial banks’ productivity for the period 1996-2006”,
- The second prize to Arens Arbana, for the thesis “Consumer Price Index: Analysis of historical series in Albania”,
- The third prize to Leon Petani, for the master thesis “Entry of foreign banks into the emerging countries’ banking system: The Albanian case”.

Friday seminar has now become a tradition for the Bank of Albania. It is now for two years that the Research Department holds it every two Fridays. It invites all the Bank of Albania staff, researchers from the academic sphere and other financial, research and scientific institutions to present and discuss their theoretical and empirical research work, with a special focus on the Bank of Albania and the application of the most recent research methods.

Over the course of the last quarter of 2008 were presented three main papers. The first paper was presented by Mr. Genti Jole, Credit Risk Methodology and Assessment Department, Raiffeisen Bank – Albania, entitled “Forecasting model of credit behaviour. Construction of scorecard in credit applications with the logistic regression method”. As any other forecasting model, this paper examines the past and provides an understanding of the models affecting the behaviour, considering them still applicable. It is a statistical model and it is based on the implementation of a logistic regression for the study of variables of loan application in order to attain the Application of a Forecasting Model for an Automated Decision-making in Credit extension.

The second paper was presented in November by Ms. Arta Pisha, Statistics Department, Bank of Albania. The paper was entitled “Euro area indices. A new model for measuring the independence of central banks in the Euro area”. The purpose of this paper was to introduce four specific quantitative indices for measuring and comparing the level of independence in the central banks of countries aspiring to membership in the European Monetary Union, based on the criteria established in the Constitution of the European Union. The constructed indices were used for measuring the independence of central banks in South-East European countries, including Albania. The results on the independence of the Bank of Albania suggested important improvements to be made to its current legislation.
The third paper was prepared and presented by Ms. Hilda Shijaku, Financial Stability Department, and Mr. Kliti Ceca, Research Department, Bank of Albania. The paper was entitled: “Indirect credit risk assessment”. After providing a summary of the current assessment methodologies, the paper proposes various improvements to be made to the stress-test methodology on indirect credit risk in Albania. The authors concluded that the changes in the Euro and EURIBOR exchange rate had a considerable impact over the non-performing loans’ ratio. GDP growth impact also proved to be present, albeit insignificant.
LEGAL EVENTS OVER OCTOBER-DECEMBER 2008

FINANCIAL STABILITY

On October 7, 2008, the Supervisory Council of the Bank of Albania approved upon Decision No. 70 the Statement “On the Albanian financial system stability for the first half of 2008”. According to the statement, the Albanian banking system is safe, well-capitalized, lucrative and liquid. Economic activity at home is assessed to have performed in line with Albania’s medium-term economic and financial development program. The Albanian financial system continued to grow at stable rates. The financial sector’s assets have also grown steadily. The non-bank financial sector continues to have a small share in the financial market. Capitalization indicator of the financial sector and in particular of the banking one has increased, owing mainly to the 2007 profit capitalization.

BANKING SUPERVISION

On October 7, 2008, the Supervisory Council of the Bank of Albania approved upon Decision No. 72 some amendments to the Regulation “On risk management arising from banks’ large exposures”. These amendments result from the current situation in the global financial markets and they aim to prevent the spreading of negative phenomena to the Albanian banking system. They mainly consist in the setting of more prudential thresholds of large exposure indicators and collateral calculation techniques.

On December 24, 2008, the Supervisory Council of the Bank of Albania approved the Decision No. 92 “On granting the preliminary approval to Credins Bank for conducting an additional financial activity”. According to this decision, the application of the Credins Bank to conduct additional activities – factoring and trade transactions financing – is approved. The Bank of Albania assesses that Credins Bank fulfils the required administrative and technical conditions.

On December 24, 2008, the Supervisory Council of the Bank of Albania approved upon Decision No. 93, the change in the percentage of the qualifying holding in the shareholder’s capital of the Italian Bank of Development, through the transfer of 76.83 percent of the voting rights of the shareholder’s capital from the current shareholders, Mr. Francesco Mariano Mariano and Banca Popolare Pugliese S.c.p.A. to Veneto Banca Holding S.c.p.A.. Mr. Francesco Mariano Mariano holds 23.17 percent of the shares.
On December 24, 2008, the Supervisory Council of the Bank of Albania approved upon Decision No. 94, the increase in the percentage of the qualifying holding of the shareholder Aleksandër Pilo from 15.1525 percent to 23.64 percent of the shares in the Credins Bank shareholder’s capital.

On December 24, 2008, the Supervisory Council of the Bank of Albania approved upon Decision No. 95 “The reporting methodology and the contents of financial reports”. This document presents the accounting framework to be observed by commercial banks, a list of principles outlining the main banking operations along with the corresponding accounting recordings, a number of examples of the main banking operations and the information to be submitted to investors and clients (financial reports) or to the Bank of Albania for banking supervision purposes. The Methodology represents a document of reference for banks which should comply their accounting system with the rules established in the Methodology. It serves as a common language for banks, shareholders, investors and the governmental authorities.

**MONETARY OPERATIONS**

On October 29, 2008, the Supervisory Council of the Bank of Albania approved upon Decision No. 75, some amendments to the Regulation “On repurchase and reverse repurchase agreements”. The amendments expand Article 4 with the term “maximal participation rate” and paragraph 1, Article 11 with the letter “e”, “On the level of the maximal participation rate at any multi-price auction announced by the Bank of Albania, for the binding of repurchase and reverse repurchase agreements”. The letter “i” – “participation rate” is added to the list of information that, as specified in paragraph 3 of the Article 17, the announcement of the auction shall include. In addition, Article 18, which provides for the conditions the application for participation in the auctions of repurchase and reverse repurchase agreements shall include, is complemented with paragraph 4, which establishes that the ratio of the amount demanded by a bank to the amount announced in these auctions shall not be higher than the maximal participation rate announced by the Bank of Albania in the auction announcement. This decision provides for changes to the contents of Article 13, paragraph 1 “securities” and to the formula, which calculates the price of their purchase in the repurchase and reverse repurchase agreements, established in Article 19, paragraph 4.

On December 11, 2008, the Supervisory Council of the Bank of Albania approved the Decision No. 84 “On granting the approval to banks to use the required reserve in Lek”. According to this decision, the Supervisory Council of the Bank of Albania allows the banks and branches of foreign banks to use every day up to 40 (forty) percent of the required reserve in Lek.

On December 24, 2008, the Supervisory Council of the Bank of Albania approved the Decision No. 97 “On an amendment to the Regulation “On overnight loan””. According to this decision, the contents of paragraph 2, Article 5, is amended to: “The interest rate on the overnight loan is 0.75
percent, on an annual basis, higher than the interest rate on repurchase agreements, which is established upon the decision of the Supervisory Council of the Bank of Albania.”

**MONETARY POLICY**

On November 26, 2008, the Supervisory Council of the Bank of Albania analyzed and approved the Decision No. 80 “Monetary Policy Report for the third quarter of 2008”. After analyzing the economic and financial situation, the Supervisory Council of the Bank of Albania decided to keep the key interest rate unchanged at 6.25 percent.

On December 24, 2008, the Supervisory Council of the Bank of Albania approved upon Decision No. 88 “The Monetary Policy Document for the 2009-2011 period”. In general terms, the monetary policy strategy for the period 2009-2011 will maintain the key principles and arrangements pursued during the recent years. However, it is complemented with new elements in the area of economic analyses and the decision-making process, in line with the most recent practices of monetary management and the economic and financial market development in Albania. During this period, the Bank of Albania will be committed to enhancing its analytical skills, expanding the range of information used in the decision-making process, increasing the transmission channels’ efficiency and improving the communication with the public in both quantitative and qualitative terms.

**SECURITY AND PROTECTION**

On December 24, 2008, the Supervisory Council of the Bank of Albania approved upon Decision No. 91 the Regulation “On the minimum technical and security conditions of the working environments in which are conducted banking and financial activities”. The purpose of this regulation is to establish the minimum rules for the technical and security conditions of the working environments in which are conducted banking and financial activities by the entities of this regulation, in order to ensure the normal and safe conduct of these activities.

**ECONOMIC POLICY**

On October 3, 2008, the Council of Ministers decided upon Decision No. 1561 the approval of “The inter-sectoral strategy for the prevention and fight against corruption and for a transparent governing, 2008-2013”. This strategy aims to progressively and steadily reduce corruption, consolidate the integrity of institutions and promote governing values through the encouragement of public administration to serve to the public, the effective and equal compliance with the law, improvement of transparency and information and the rapid and stable economic and human development.
On October 6, 2008, the Ministry of Finance approved the Instruction No. 29 “On the recovery of loans transferred from state-owned banks to the Loan Recovery Agency, the criteria and conditions for the change of the loan agreement and the ownership procedures of real estates pledged or unpledged by the borrowers, the management, sale and emphyteutic lease for real estates”. The purpose of this instruction is to establish the procedures and the responsibilities of the Loan Recovery Agency, in order to make the change scheme of the loan agreement effective, establish the procedures for the replacement and mandatory execution of the collateral, as well as the ownership procedures of real estates pledged or unpledged by the borrower. The approval of this instruction aims to ensure that all the debtors, who meet the criteria, conditions and deadlines specified in the instruction, benefit from the facilities provided by the Law “On Loan Recovery Agency”.

On October 6, 2008, the Parliament of the Republic of Albania approved the Law No. 10003 “On some changes and amendments to the Law No. 7928 “On Value Added Tax”“. Among others, this law introduces changes to Article 24 of the law “On Value Added Tax”, which establishes the cases when the supplies of non-profit organizations shall be considered exempt supply. In addition, Article 26, which regulates the application and collection of the VAT in the import of goods, is reformulated.

On October 9, 2008, the Parliament of the Republic of Albania ratified upon Law No. 10004 “The loan frame-agreement between the Council of Ministers of the Republic of Albania and the Council of Europe Development Bank (CEDB) for the financing of the project “Upgrade of the Shkodra regional hospital – Stage III.” This loan is extended based on the general terms and conditions of the loan regulations and on special conditions provided in the Agreement. The amount of the loan is 6 000 000 (six million), to be settled in a period of up to 20 years from the day of disbursement.

On October 27, 2008, the Ministry of Finance, the Ministry of Economy, Trade and Energy, and the Ministry of Agriculture, Food and Consumer Protection, improved the Instruction No. 32 “On the reimbursement procedures of the excises of fuels used in greenhouses with heating and the production of industrial and agroindustrial products used for technological needs of manufacturing”. According to this instruction, the excise amount of fuels (gasoil (diesel), solar, (mazut)), which is used only for the technological needs of manufacturing some products as established in the Council of Ministers decision No. 1158, shall be reimbursed to those entities which use greenhouses with heating and to those which manufacture industrial and agroindustrial products.

On October 27, 2008, the Ministry of Finance approved the Instruction No. 33 “On the forgiveness of customs and tax obligations and unpaid fines of insurance contributions and social and health obligations” Based on the Law No. 9986, dated September 11, 2008, the Instruction provides for the cases when the forgiveness shall be applied. The Instruction also establishes the procedures to be followed during the examination of the information.
On October 31, 2008, the Council of Ministers approved the Decision No. 1443 “On the establishment, organization and functioning of the Agency for Agricultural and Rural Development (AARD) as the Payment Agency”. According to this decision, the AARD, which will start to operate on January 1, 2009, shall be responsible for the management of funds for the agricultural and rural development program, namely the State Budget funds for the direct support of agricultural development; the State Budget Funds for the development of agricultural markets’ infrastructure and the counterparty funds of 2KR project. This Agency shall operate with a central and local structure, at a district level.

On November 24, 2008, the Parliament of the Republic of Albania ratified upon Law No. 10021 “The agreement and protocol between the Council of Ministers of the Republic of Albania and the Swiss Federal Council for the road international transportation of travellers and goods”. The purpose of this agreement is to facilitate the road transportation of travellers and goods between the two countries, and the transit pass-through to their territories. The provisions of this agreement are applied to the transportation of travellers and goods, whose origin or destination is the territory of any of the two contracting parties, via the transportation vehicles registered in the territory of the other contracting party’s country.

On December 10, 2008, the Council of Ministers approved upon the Decision No. 1616 “The Regulation on the organization and functioning of the Commission for the Evaluation of Import Measures”. The purpose of this regulation is to establish the procedures, the rules, the responsibilities and the functioning of the Commission for the Evaluation of Import Measures, for the taking of anti-dumping measures, counterbalancing and protective measures in imports.

On December 11, 2008, the Parliament of the Republic of Albania ratified upon Law No. 10026 “The strategic objective grant agreement between the United States of America and the Government of the Republic of Albania to combat corruption in the framework of the millennium challenge account threshold program (Stage II)”. The strategic objective of this agreement is to lower corruption, strengthen the legal state and improve the economic freedom in Albania. In order to assist in reaching this objective, the United States, which act through the United States Agency for International Development (USAID) grant to the Government of the Republic of Albania an amount which does not exceed USD 15 731 000 (fifteen million seven hundred and thirty-one thousand). All the required activities for attaining the objective and results are assessed to terminate within January 31, 2011.

On December 11, 2008, the Parliament of the Republic of Albania approved the Law No. 10029 “On some amendments to the Law No. 9630, dated December 30, 2006 “On factoring”. The approval of this law amends the formulation and the contents of Article 28 and abrogates Article 29 of the Law “On factoring”. These amendments establish the Bank of Albania as the supervisory and regulatory authority of the activity of factoring, when
this activity is conducted by banks, non-bank financial institutions and by the commercial companies, which conduct only the factoring activity.

On November 27, 2008, the Parliament of the Republic of Albania approved upon Law No. 10023, the Budget for year 2009. The Budget for year 2009 aims to foster macroeconomic stability in Albania and economic growth. Projected revenues amount to 334 billion leks, while expenditures total 384 billion leks, hence the budget deficit amounts to about 50 billion leks. Nearly 1/3 of the state budget will be used for public investment, among which infrastructure will continue to receive the majority of funds. Economic growth for the year 2009 is projected to be above the 6 percent level, about 6.3 percent.

On December 22, 2008, the Council of Ministers approved the Decision No. 1623 “On the granting of immediate economic assistance to retired people”. This decision establishes the people to be granted immediate economic assistance at the amount of ALL 5000 (five thousand). The financial effects arising from this decision, which amount to 2 780 000 000 leks (two billion seven hundred and eighty million), shall be covered by the State Budget.

On December 22, 2008, the Parliament of the Republic of Albania ratified upon Law No. 10036 “The loan agreement between the Republic of Albania and the OPEC Fund for International Development (OFID) for the financing of secondary and local roads”. The loan of USD 15 000 000 (fifteen million) is projected to be used for the reconstruction of secondary and local road network in Albania, in order to improve the access of the local population to the main services and the economic markets.

On December 22, 2008, the Parliament of the Republic of Albania decided upon Law No. 10038, Albania’s adherence to the convention on the taxation of road vehicles engaged in the international goods transport, Geneva, December 14, 1956. Through this convention, the adhering countries aim to facilitate the international road transport of goods. The convention provides for the exempt from taxes on the circulation or stay in the territory of an adhering country of the vehicles registered in another country adhering to the convention during the international goods transport.
BANK OF ALBANIA MANAGEMENT, 31 DECEMBER 2008

SUPERVISORY COUNCIL

ARDIAN FULLANI        Chairman
FATOS IBRAHIMI        Vice Chairman
TEFTA ÇUÇI             Member
LIMOS MALAJ            Member
KSENIOFON KRISAFI      Member
ADRIAN CIVICI          Member
ARJAN KADAREJA         Member
HALIT XHAFA            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    Roden Pajaj
MONETARY POLICY DEPARTMENT    Erald Themeli*
RESEARCH DEPARTMENT           Altin Tanku
MONETARY OPERATIONS DEPARTMENT Marjan Gjermeni
SUPERVISION DEPARTMENT        Indrit Banka
FINANCIAL STABILITY DEPARTMENT Klodion Shehu
INFORMATION TECHNOLOGY DEPARTMENT Xhilda Kanini
STATISTICS DEPARTMENT         Diana Shyilla
ISSUE DEPARTMENT              Valer Miho
ACCOUNTING AND FINANCE DEPARTMENT Arjan Toro
PAYMENT SYSTEMS DEPARTMENT    Dashmir Halilaj
LEGAL DEPARTMENT              Toni Gogu
AUDIT DEPARTMENT              Teuta Baleta
FOREIGN RELATIONS, EUROPEAN INTEGRATION AND COMMUNICATION DEPARTMENT Ina Kraja
ADMINISTRATION DEPARTMENT     Agron Skënderaga
SECURITY AND PROTECTION DEPARTMENT Eduard Sinani

BRANCHES

SHKODRA          Ermira Istrefi
ELBASANI          Valentina Dedja
GIJROKAstra     Anila Thomaaj
KORCA            Liljana Zjarri
LUSHNJJA        Shpresa Meço

* Appointed on 22 October 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
   Certificate No. 2 “On Deposit Insurance”.
   Director: Oliver WHITTLE
   Address: Bulevardi “Bajram Curri”, European Trade Center, Tirana, Albania
   Tel.: 222 66 99, 222 45 40, 222 26 69, 222 54 16
   Fax.: 227 55 99, 222 35 87, 222 36 95, 222 40 51

2. UNITED BANK OF ALBANIA (JOINT-STOCK COMPANY)
   Licence No. 3/1998, dated 11.01.1999
   Certificate No. 3 “On Deposit Insurance”.
   Director: Abdul Waheed ALAVI
   Address: rruga e Durrësit, Godina 14 katëshe Teknoprojekt, Tirana, Albania
   Tel.: 222 84 60, 222 38 73, 222 74 08
   Fax: 222 84 60, 222 83 87

3. ITALIAN BANK OF DEVELOPMENT (BANCA ITALIANA DI SVILUPPO)
   Licence No. 5/1998, dated 11.01.1999
   Director: Libero CATALANO
   Address: Bulevardi “Dëshmorët e Kombit”, Ndërtesa Kullat Binjake, Tirana
   Tel.: 228 03 51 / 2 / 3 / 4 / 5
   Fax: 228 03 56

4. NATIONAL COMMERCIAL BANK (JOINT-STOCK COMPANY)
   Licence No. 6/1998, dated 11.01.1999
   Certificate No. 5 “On Deposit Insurance”.
   Director: Seyhan PENCAPLIGIL
   Address: Bulevardi “Zhan D’Ark”, Tirana, Albania
   Tel.: 225 09 55
   Fax: 225 09 56

5. TIRANA BANK (JOINT-STOCK COMPANY)
   Licence No. 07, dated 12.09.1996
   Certificate No. 6 “On Deposit Insurance”.
   Director: Bedri ÇOLLAKU
   Address: rruga “Dëshmorët e 4 Shkurtit”, Tirana, Albania
   Tel.: 226 96 16/7/8; 223 34 41/42/43/44/45/46/47
   Fax.: 223 34 17

* As of December 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.: 227 48 02; 227 48 22
Fax.: 223 36 13

7. INTERNATIONAL COMMERCIAL BANK (JOINT-STOCK COMPANY)
Licence No.09, dated 20.02.1997
Certificate No. 8 “On Deposit Insurance”.
Director: Mahendra Singh RAWAT
Address: Qendra e Biznesit, Rruga “Murat Toptani”, Tirana, Albania
Tel.: 225 43 72 / 225 62 54
Fax.: 225 43 68

8. ALPHA BANK (JOINT-STOCK COMPANY) – ALBANIA
Licence No.10, dated 07.01.1998
Certificate No. 9 “On Deposit Insurance”.
Director: Andreas GALATOULES
Address: Rruga e Kavajes, G – KAM Business Center, Kati II, Tirana, Albania
Tel.: 223 35 32; 223 33 59; 234 04 76/77
Fax.: 223 21 02

9. INTESA SANPAOLO BANK 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.: 224 87 53/4/5/6
Fax.: 224 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”.
Deputy Director: Borislav KOSTADINOV
Address: Rruga “Sami Frashëri”, Tirana e re, P.O. Box. 2395, Tirana, Albania
Tel.: 227 12 72/3/4/5
Fax.: 227 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.: 225 87 55/56/57/58/59/60
Fax.: 225 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, Kat 1 & 2, Tirana, Albania
Tel.: 227 21 68, 227 21 62
Fax.: 227 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.: 222 29 16, 223 40 96
Fax.: 222 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, Kat 9, Tirana, Albania
Tel.: 227 27 88 / 89 / 90 / 91
Fax.: 227 27 81; 228 04 41

15. UNION BANK (JOINT-STOCK COMPANY)
Licence No. 18, dated 09.01.2006
Certificate No.17 “On Deposit Insurance”.
Director: Gazmend KADRIU
Address: Bulevardi “Zogu I”, Pallati 13-katësh, përballë Stacionit të Trenit, Tirana, Albania
Tel.: 225 06 53; 225 80 81
Fax.: 225 06 54; 227 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 TODOROV
Address: Bulevardi “Dëshmorët e Kombit”, Kullat Binjake, Kulla 2, Kati 14, Tirana, Albania
Tel.: 225 64 23/4; 228 02 10
Fax.: 225 64 22
In addition to banks and branches of foreign banks, the Bank of Albania has as of 31 December 2008 licensed the following entities**:

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<thead>
<tr>
<th>NO.</th>
<th>ENTITIES</th>
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<td>NON-BANK INSTITUTIONS</td>
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<td>SAVINGS AND CREDIT ASSOCIATIONS</td>
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<td>1</td>
<td>REPRESENTATIVE OFFICES OF FOREIGN BANKS</td>
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</tbody>
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** 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