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Quarterly edition

March 2003

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MARCH 2003

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TRANSPARENCY THROUGH PUBLIC COMMUNICATION

AN ADDRESS MADE BY THE BANK OF ALBANIA GOVERNOR, MR. SHKËLQIM CANI, IN THE ORGANIZED MEETING WITH BUSINESSPERSONS AND STUDENTS OF SARANDA. FEBRUARY 2003.

I. BANKING SYSTEM, THE BANK OF ALBANIA, MONETARY POLICY, AUTONOMY, AND INFLATION ETC¹.

In today's meeting, I thought to take up some of the simple economic realities, which you are randomly acquainted with in your everyday life or frequently happen to be protagonists of them. More concretely, I would like to bring a more realistic insight of central and commercial banking in Albania, rules of the game, the banking system must respect to further proceed with major economic issues, as you might be frequently listening through TV- screams.

II. BANKING SYSTEM

In the every day practice, individuals intimidate with the term "bank", all the institutions, holding this term written somewhere in a window and they generally do not care, whether they have to do with a universal commercial bank, an investment bank or something else or a central bank, for example.

Perhaps, it is the moment to make some clarifications. Let's provide initially a short description of the so-called central bank. Historically, the central bank name was attached to those financial institutions that in one way or another enjoyed the attribute to issue the currency of the state where they operated. These institutions got healthier and improved with the passing of the time. First of all, they understood that the value of the currency printed and issued in circulation by their windows must be held at any rate; otherwise these must be reprinting new currencies in eternity. In this case, the credibility on the currency and the institution itself must be constantly falling. Therefore, additionally to the role as the state vault and currency issuer, their activity was enriched with new elements on how to keep the value of the currency, the entirety of which is recognized as drafting and implementing the monetary policy of the country. Nowadays, this central bank

function has constantly gained ground, and today, the central bank notion is part of the monetary policy notion.

Even in the case of the Bank of Albania as well, I would briefly say that we have to do with a typical case of the international experience in the central banking field. The Bank of Albania is the central bank of the Albanian State, which pursuant to current legal base in effect is responsible for:

- Compiling and implementing the monetary policy of the country.
- Compiling and implementing the foreign currency policy of the country.
- Drafting rules on the foreign currency transactions, inside or outside the country borderlines.
- The establishment and the supervision of the banking system.
- Currency issuing (coin minting and bank note printing).
- Providing government advisory services and qualified expertise in drafting and implementing all the rest of the financial and economic policies of the country.

On the other hand, commercial banks are financial institutions, founded on the grand "privilege" as that of deposit taking. Simply based on this fact, it can be realized that the point here is for that group of banks, where citizens normally place their households in deposit form.

The financial industry in Albania is practically more or less identified with the banking system, except for some small exceptions.

The 15 banks licensed until now are universal. These offer the following services: accept deposits, extent credits, provide payment and cash collecting services, issue, accept and administer payment instruments, intermediate

¹ An address made by the Bank of Albania Governor, Mr. Shkëlqim Cani, in the organized meeting with business persons and students of Saranda.

monetary transactions, provide the service of security safes, provide bank guaranties or other guaranties, serve as financial agents or advisors, conduct other banking or financial activities.

After creating an impression on both types of institutions, then we might be raising two more questions:

- What is the link between these two different types of financial in institutions, and
- The fact that commercial banks accept deposits from the thirds, including the population intimidates supervision on using these funds appropriately or not?

I'll start from the second. It is true that the commercial banks mobilize considerable amounts of financial funds in deposit form. Therefore, commercial banks are given the "privilege" to manage the cash in the hand of the thirds, ensuring a profit either for themselves or the real owners of these funds. In the real life things are a bit more different. Several experiences, old and new have indicated that some banks have not been able to orient toward the market economy and have gone bankrupt consequently making the households placed in deposit form lose massively. The most typical case is that of the hard crisis that hit the American State, during the '30's where one of the most apparent symptoms was commercial banks massive insolvency. In this way we come to a point, which seems to have no need for additional comments. Commercial banks must be a subject of strict supervisory framework by the respective authorities, which corresponds to the central bank in most of the cases. More precisely, it is a duty of the commercial bank to periodically verify whether each member bank of the system is respecting rules of the game, or not? It is its duty to assess the risk rate each commercial bank is exposed to, the management mode, the financial results, etc.

The entire process, acknowledged with the name "banking supervision", in our country case, is coetaneous with the banking system itself. However, I must be stressing that with the passing of the time, the Bank of Albania supervisory capacity is significantly increased, converging international standards day after day.

In completing such a very important function, the Bank of Albania has tried to erect an as more possibly complete framework of a prudential banking supervision targeting:

1. The establishment of an efficient and competitive banking supervision.
2. The maintenance of the public confidence in banking supervision.
3. The safeguard of funds deposited in the bank to minimize losses in case of insolvency.
4. The application of laws and regulations in the banking system.

Banking supervision starts with the bank licensing undertaken pursuant to the legal requirements of the law "On Banks in the Republic of Albania" and the regulation "On bank licensing in the Republic of Albania".

Applicants present their idea on a bank establishing supported by the required documentation and application form submitted in the Bank of Albania.

Licensing requirements vary with the country however, **their main goal has to do with limitation of the possibility that dishonest individuals without experience create or participate as shareholders in a bank.**

To estimate the future activity of the bank through the submitted documentation, the Bank of Albania relies on:

- The economic and the competitive conditions in the area, where the bank will concentrate its financial activity.
- The amount fixed assets invested in the bank and the needs for additional capital in the future.
- Bank's operational or proposed business plan, which serves to argument the
- strategy of bank founders to successively participate in the market.
- Training bank's proposed administrators is an important factor for a successful bank. Their moral figure and integrity ranks first, while their financial and banking ability and experience comes next.
- The resource of the used capital to

commence the bank activity and its structure. In case it is not fully convinced that the capital origin is from a legal activity and clearly documented, this would be a reason to recommend the refusal of the licensing request or application.

The required documentation from the applicants relates to factors helping the valuation of the request or the initiative undertaken. To evaluate the origin of the bank's proposed capital, information on the bank founders, their businesses and their financial statement and their moral character is requested. Applicants present through certified documents the financial statement of their businesses, or other income, comprising the resource of the funds needed on a bank founding.

The Bank of Albania has followed an open policy for every request presented on a bank licensing meeting the minimum rates set by it. The Bank of Albania has tracked and tracks the principle that it is the free market competition, deciding which businesses will survive or shut down.

The Bank of Albania has tried to apply international standards in the regulatory and supervisory framework and offer its assistance and cooperation for submitted requests.

III. CENTRAL BANK, MONETARY POLICY AND INFLATION

I believe that from the first part you apprehended that an important distinction between the central and the commercial bank lies in the fact that the first is the licensing and the supervisory authority of the second. However, a central bank mission, also including the Bank of Albania, is vaster. Actually a central bank mission is ever more identified with another ability the function it has for compiling and implementing the monetary policy of the country.

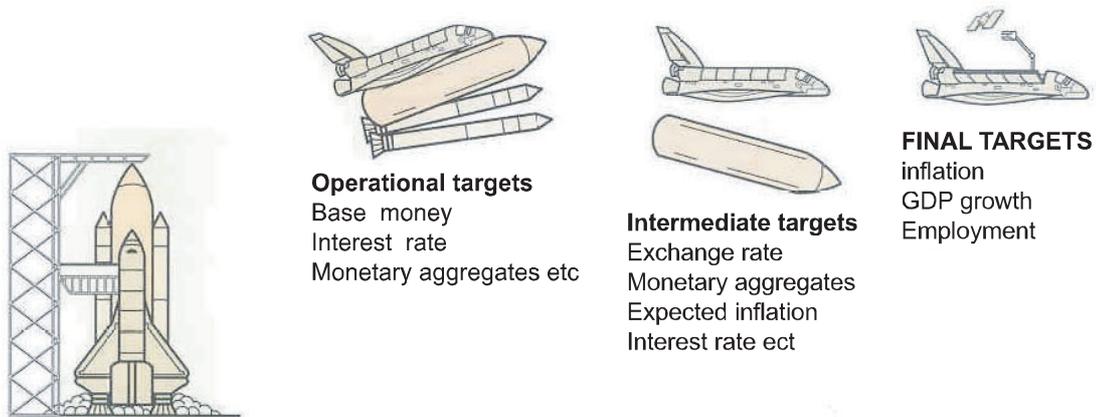
Somewhere in a book on the economic theory of Mish kin, it is given a very simple and understandable example, helping us understand the kernel of the monetary policy, very much. To be more concrete, I guess that

you have had the chance to see the moment of launching a spacecraft, which I'll elaborate a bit to make an analogy with the monetary policy.

1. The above two cases have a final goal: in the case of the space craft, the final objective is the ship joining the space-station, while in the case of the monetary policy the final goal relates to keeping a low inflation rate. In both cases the final goal, which from now on we shall call as the final target, cannot be attained by a magic scepter.
2. In the case of the spacecraft, two powerful motors are needed to make it depart from earth and drive it out from the gravity effect. In the case of the monetary policy, we need one or some economic variables, which through their manipulation, we can impact another economic indicator that is an intermediate step in the long and the difficult way of controlling inflation. The entire process in the economic theory is recognized as monetary policy operational target.
3. Its departure from the Earth atmosphere is an important step to successfully achieve its mission, however it remains an intermediate step. For this reason, the constructors have thought on another solution; the existence of two smaller power motors which will orient the movement of the craft to space station. In the case of the monetary policy, the last step remains the manipulation of the intermediate variable, whose change is tested at a later time, affects what initially said, holding inflation at low rates. The entire process is recognized as the intermediate target of monetary policy in economic theory.

Coming back to our case, the Bank of Albania monetary policy was for the first time visualized and applied in the middle of 1992, when as part of the agreement for the IMF support to Albania were for the first time introduced some decisions, which aimed at controlling the money supply through direct instruments of monetary control.

Central bank strategy



From the first law, the Bank of Albania mentions “maintaining domestic currency national and international value²”, as of which it would be reached the consumer price stability.

In the course of the years, the final target of the Bank of Albania monetary policy was further refined, ever more tending to reach a clearer definition of the consumer price stability. More precisely, in the current law arranging the Bank of Albania activity, it is cited that “achieving and maintaining the consumer price stability³” is the Bank of Albania principal target, while the rest of the targets are derivatives of this law.

The following figure provides a clear view on how the Bank of Albania manages to hold its monetary policy

As indicated by the figure, the Bank of Albania monetary policy principal instrument is the fixed Repo rate, which one subordinate to signal the Bank of Albania will transmit is offered either in auction where the bid accepted amount is unlimited or in auctions where the accepted amount is fixed and the advertised price is a limit. In spite of the auction type the only scope is controlling the liquidity in the system trying its upkeep at optimal rates to ensure a maximal efficiency of the transmission mechanism.

² Law no. 7559, dated 22.04.1992, “On the Bank of Albania”, article 3, paragraph 1.

³ Law no. 8269, dated 23.12.1997, “On the Bank of Albania”, article 3, point 1.

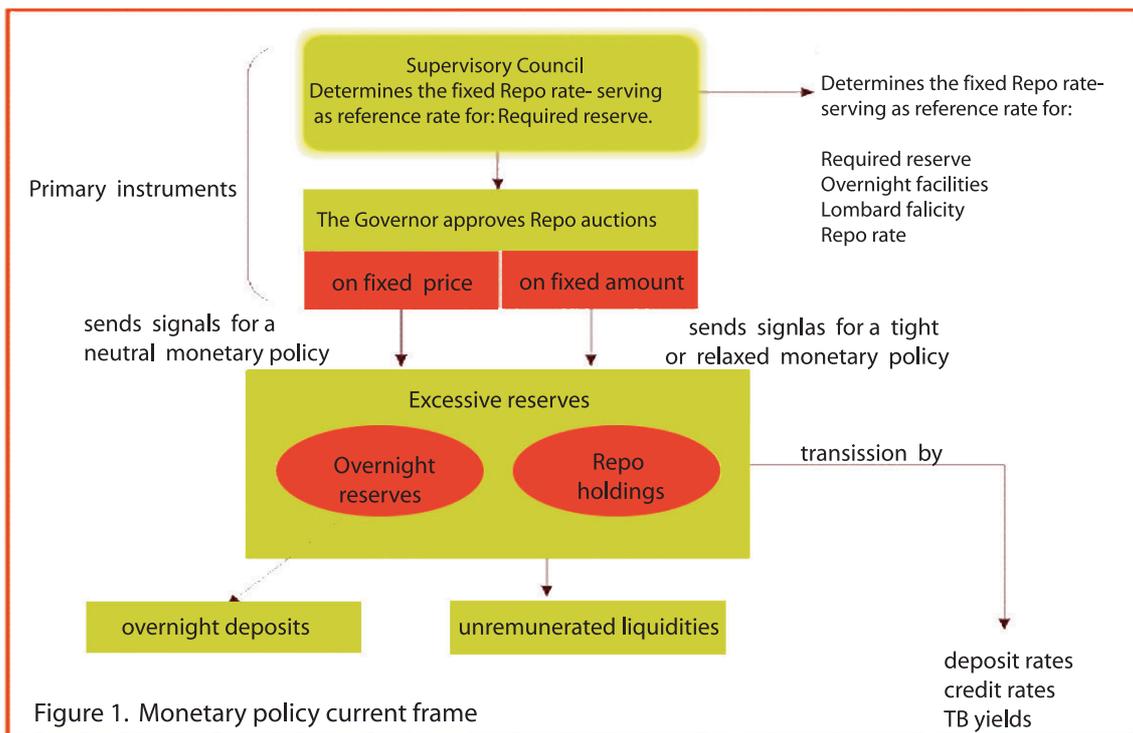


Figure 1. Monetary policy current frame

As it might be guessed, fixed Repo rates serve as reference rate to other rates, mainly for loan facilities that the Bank of Albania offers to the banking system.

After providing the description on the way followed by the Bank of Albania for controlling inflation, I suppose that someone may be asking the question that why so much care for the so-called inflation? What is it and why should we so much worry about it? The point here is how to measure it and who should we “send the bill” to. How to explain that equal size economies, as the American and the Russian economy, for example – have different rates of immunity against inflation. Why in fragile or weak economies, inflation is frequently referred as part of the “sins” of the politicians.

There is no need to be an analyst of the economic theory to understand what inflation is and what is it capable to cause, moreover. It is also true that causes producing it are generally acknowledged. In fact, what is commonly understood relates to the fact that whenever it happens to be a lot of money or offered services and material benefits are few we would face up consumer price increase, which in either cases means existing inflation in the long run.

Inflation from the overall viewpoint is simply an

“overproduction” of currency, which on one hand, increases the consumer price apparently and decreases the purchasing power of currency, on the other. Anyway, to make it public aware, we could say that inflation happen then when the general standard of consumer prices and costs in economy increases that is bread, oil, car price increases or when salaries and real estates price increases. It is normal that the consumer price increase be not at the same rate for all above mentioned commodities and the time interval when evidenced the increase be not the same for two different commodities. In this sense with, with inflationary period we would define those time intervals that when the level of consumer prices is measured by a changing index of consumer prices – generally increases. Thus, as many times media or newspapers announce that “inflation has fallen” or “inflation expectancies in economy are increased”, the authors have written these things considering the fluctuations of consumer price index, which for the most part of the countries are identified as the consumer price index or CPI.

CPI is nothing else but a measurement of prices of a consumer goods or service basket. Frequently included by bigger merchandise groups of the CPI basket are foodstuffs, clothing, buying and maintaining apartments,

fuels, transport and medical care. To this moment, things seem to be simple, but the problem becomes more difficult when fixing each group share to the total. More clearly put, it must be

Determined what would be the overall increase of consumer prices providing 10 percent raise in foodstuffs. Fixing or determining shares is practically based on the economic relevance each of each group measured by that part of expenditures - against – the total that customers spend on a certain merchandise group. More concretely if customers spend only 15 percent of their household budget on clothing, then this group share in the basket shall be 15 percent.

As evidenced, there are the customers with the way they spend that determine inflation “face”. It is precisely for this reason that different country indexes have common points, which mostly relate to the same groups existence as well as with the approximation of shares that these merchandise groups occupy to the total. These similarities are more apparent, when similar economies with a similar development standard and structure are compared – for example - when French economy is compared to German.

How many types of inflation we would identify? In the every day reality we happen to hear announcements related to economy indicators where inflation is certainly a part of them. What might be catching our attention since at the first sight is the published figure; is it high or low; is it annually or monthly-based, etc. It certainly a true thing which has accompanied and shall accompany the development of human history; the consumer and goods price ever tend increase and the question is what would be the size of this growth and how would you be to keep the consumer price increase within the your wanted pace. Expressed in a more condensed way, we could mention Jimmy E. March saying, “Inflation can not be stopped, as economists pretend or claim, but as many times we go shopping it seems to be set free on condition or penalty”.

Just like diseases, inflation indicates different rates of infection, however the researchers or scholars when it comes to be discerned from the qualitative side have managed to identify four types of inflation, low, moderate, flare-up and hyperinflation.

In today’s literature, **low inflation** implies a positive rate of inflation, moving by the band of 0-4 percent. Right from the very first moment, everyone might guess that the reference here is with respect to a typical inflation rate for developed countries.

Moderate inflation, a decade ago implied single-digit inflation, which in its upper extreme had 10 percent, as annual rate. Actually, the reference here is with respect to an annual inflation rate fluctuating by the band of 5-10 percent, which most typical for a part of developing and transition economies. From a less technical viewpoint, this type of inflation accompanies those periods when applicable “therapies” for crisis periods have started to give their effects. However, in some cases, especially, after relatively long periods of a low inflation, it is evidenced a constant acceleration leading it to a higher-class inflation, we could say that bells have started to ring alarm.

Inflation is called **flare-up** when annual-based prices have increase by 2 or 3 digits, in percent. Most of transition countries have found themselves in the same situation, after the disintegration of the vast communist block in Europe. In economic environments where prices are doubled or tripled within one-year frame, problems to be worried about are several and the life of economic agents, business companies or individuals becomes more difficult, in general. This type of inflation is accompanied with rupture of macroeconomic stability, leading economic recession, deterioration of he foreign position and the destruction of the savings in the dollarization of economy and many other negative phenomena.

Meantime that the economy can survive by a flare- up inflation, there is no doubt that hyperinflation is a real cancer. Additionally to the distant past, when Germany was hit by a fierce inflation, years 1922-1924, the majority of former Soviet Union Republics experienced a long and difficult period of hyperinflation at early ‘90’s.

Who is answerable for (to be called to account on) inflation? As above-mentioned, the central banks hold at the center of their attention the maintenance of the consumer price stability. At the same time, we clarified that inflation is a monetary policy “sin” as long as monetary

expansion is not enforced by the application of irresponsible fiscal policies. In these conditions, the correlation, money- inflation, is very strong and takes the form of a spiral, where an element pushes the other and the reverse.

Once more turning to the real world, we would like to clarify that the life of the central bankers is ever more growing difficult. The whole opinion keeps eyes stuck on them; what would be their next movement; whether the market interests will meet the expectations (be increased) or not; whether the decision was right time taken or not; whether the message would be transmitted at the appropriate velocity or not, etc. To be sincere, the public pressure is more is much more stronger in developed countries, however their life is really more perplexed in undeveloped countries.

Why is that so? Surely, the answer to this question is only one, the central bank independence, which is real indeed at a western democracy and ever under menace or threatened or frequently formally incomplete at developing countries. From the several surveys, central banks resulting with a high level of independence have best results or achievements with inflation challenge as the opposite is evidenced with the majority of the countries, where the level of the central banks' independence is far from the wanted rate.

Nowadays, it is ever more confirmed that achieving the consumer price is the most precious contribution; a central bank may give for the long-term economic development of the country. Based on that meeting this target is frequently threatened or menaced by short-term interests such as a rapid growth rate, high employment rate, etc., ensured by "forgiving" some inflation percentages or tolerating a high inflation rate. But the short-term benefit or advantage is shortsighted, as well. It may turn into a boomerang for the economy, the stability and its long-term development. For this reason, such target or objective is confided to the central banks, which reverse from the governments, or politicians have no reason to be guided by short-term interests or benefits.

To legally acknowledge the central bank the right to have the consumer price stability as its core target does not mean that the central bank shall

achieve it. The central bank can do nothing without felling fully independent from the executive to observe this target with the instruments it decides to use for implementing the monetary policy in the country. Whether the central bank is legally acknowledged the stability of prices as its main target, the law anticipates that the central bank is at any time compelled to directly credit the government at any amount, then the central bank shall not be able to attain this target. In this way, the central bank success in achieving its duties depends on the level of independence it enjoys.

In defiance of that, should a central bank be blamed for any consumer price movement is that extremely apparent? Should the Bank of Albania be responsible for the consumer price of fruits and vegetables have high fluctuations at different seasons of the year? Can the negative effects, generated by crises in the neighbor countries, as that of energy, be considered as monetary policy consequences?

No, absolutely not. Central banks are responsible for and are called to account for that part of inflation, which is a derivative of stable element, ever present, whose performance is constantly guided by the demand, while there exist other temporary excess relative prices, which developments mostly happen as result of the interaction of the supply. The permanent element, commonly recognized as **core inflation**, is that assessed as direct contribution of monetary policy. Meantime, the influence of relative price developments is generally considered as a temporary "upset or disorder", which from the monetary policy viewpoint should be ignored either with regard to the decision-making or the analysis of decisions taken in the past.

In general, it exists the idea that everyone is capable to explain what happens to our pockets when inflation starts climbing up. In fact, I have the impression that common public do not understand the fact that only politicians can come out of it without being wet.

What about the rest? A real catastrophe...! That little money, they could hardly set aside fly off (are spent) within a day or in very rare cases, with the monthly salary you get; you cannot afford single bread.

Someone describes inflation, as nothing else, but your own attempt to save with the only purpose to buy something which you unfortunately can never afford with the passing of time.

Macroeconomic theory offers a number of other misfortunes “which “author” is only “mister” inflation. Some of them are harder to digest, while that, above said, has been easily and really understood and shall continue to be understood even in the future.

IV. BANK OF ALBANIA INDEPENDENCE

As already aware, the Bank of Albania core target is achieving and maintaining the consumer price stability or more precisely keeping inflation by low positive rates. The monetary policy the Bank of Albania complies and implements follow this target. In fact, many central banks worldwide follow this target, as well. Central bank independence depends on many factors. In our case, the central bank of Albania is assessed to enjoy a high legal independence. But, its real independence is very low. There are several factors leading to the reduction of real independence.

POLITICAL INSTABILITY

As it has been generally assessed or believed that the political instability affects the central bank independence. Not complying to the rules of the political game and handing powers from one political force to another brings strong impacts of the political instability on the central bank independence.

Both above described situations have existed in Albania and have had their own impacts on the Bank of Albania independence. More or less, it can be asserted that it has been observed a political instability as result of holding four elections and two referendums on the Constitution within an 8-year frame (when we should normally have two elections). The same can be said at the moments when political forces in power have felt that they would removed from power due to early elections, the topic of their daily discussions has been “honoring institutions and technocrats” including the Bank of Albania, as well. On the whole, the political instability has affected reduction of the central bank independence.

FINANCIAL MARKET DEVELOPMENT

In the case of Albania, it is sure that the central bank independence is harmed by the low standard of financial intermediation and the lack of capital markets, as well. This makes the financial market share be inconsiderate in the domestic economy and the central bank decisions and actions are not at their maximum effect as an aftermath. This sets the central bank in an inferior position in ratio to government.

DOMESTIC DEBT

The existence of a high government debt makes the political class be uninterested for an independent central bank. Albania has a relatively high debt, which limits the central bank independence as well.

OPEN MARKET OPERATIONS

A central bank has a higher independence if it is equipped with the necessary spaces and ability to sufficiently intervene in open market, when such a thing is needed. However, should government liabilities be non-tradable, this ability and the central bank independence consequently are significantly limited. Practically, treasury bills issued by the Albanian Government (the Ministry of Finance) turned into a non-tradable instrument very soon. On the other hand the government has required banks to reinvest their due-date portfolio. This made banks meet with a non-liquid investment, frequently setting them in front of liquidity problems. In these conditions to avoid the appearance of liquidity problems in the bank system, the Bank of Albania has intervened through offering Repo-s or purchasing securities from commercial banks portfolio. The most extreme case has been that of four government obligations issued against unpaid liabilities of agricultural cooperatives. On administrative order, these bonds were transferred to another state-owned bank, having a more favorable liquidity position. However, even this bank was very soon compelled to issue these bonds in the secondary market, after its unsuccessful efforts to sale; the Bank of Albania purchased these bonds, again.

COUNSELOR/ ADVISER POSITION

In some countries the official duty of the governor is being an economic adviser of government. Such a function or position allows

him to periodically address to parliament or office on such matters as labor market policies and fiscal policies. The Bank of Albania does not actively participate in drafting or giving advice for other policies than monetary or foreign currency. However a step undertaken with respect is the Bank of Albania Governor participation in the Committee of Economic policies directed by the Prime Minister.

PUBLIC OPPOSITION TO INFLATION

Another important determinant of independence is the public support for achieving the consumer price stability. It is generally confided that if the public is disposed to oppose then the central bank has got more authority in its decisions has more chances to get a broader support and the rate of its transparency is enhanced as an aftermath.

Is there an opposition against high inflation in Albania? No certainly not. It cannot be found either by the broad public or the financial circles. Especially negative with this respect is the people mentality who economically worn out, have lost any kind of sensibility or feeling "for sacrificing welfare" at the exchange of an economic welfare for the future. We can openly say that the commitment of Albanian authorities so as to maintain macroeconomic balances and ensure a low inflation rate either in the past or today has been much more attained under the pressure or need to ensure agreements with international institutions mainly with IMF and get the required financing from them.

PERSONALITY AND REPUTATION OF CENTRAL BANK AND GOVERNMENT ADMINISTRATORS

A central bank real independence is also a product of the every day policy of the personal and institutional interactions of its administrators and those of government or at a narrower framework of the Ministry of Finance affecting them in one way or another. Governor personality and tradition can exercise a significant effect on the central bank behavior. From the Bank of Albania work experiences that the personality of the Bank of Albania and Ministry of Finance administrators has been

really influential in behavior of these institutions. Whether the Bank of Albania has tried to respect its own independence, this might be very well discovered if it is followed the applicable language in institutional correspondence or the public presentations made by administrators.

Whether the Governor personality has been stronger than that of the Minister of Finance (any government member) the language used in documents has been cooler, incisive and clear. In the reverse case it has been used a laconic writing with many terms of courtesy in between. Another factor evidenced in Albania, affecting this personality has been the support that these managers have enjoyed from the political force in power. Whether the political force in power has given a strong support to minister of finance, it has been noticed a more "humble" behavior of the governor and the reverse. Such a factor becomes highly important (the personality of the governor), in the case of Albania, where the executive, although it has been approved the law that sanctions the central bank independence, makes efforts or exercises constant pressure to limit such an independence in practice.

THE QUALITY OF THE RESEARCH DEPARTMENT AT A CENTRAL BANK

The quality of the research department at a central bank offers the latter the possibility to shape its own independent stand or attitude in ratio to other economic institutions of research inside the public sector and increase its share in ratio to government and the ministry of finance in particular.

In conclusion, it must be stressed that as long as the Bank of Albania has the liability to issue direct credit the Government, its independence shall never be complete on the contrary it shall be constantly under threat. As above mentioned and based on the strategic target, announced by the Bank of Albania to have as the European Central bank as its institutional model, very soon it must meet the condition of zero credit to government as other central banks of the European Union have.

CENTRAL BANK AND INFLATION.

LECTURE HELD BY THE BANK OF ALBANIA GOVERNOR, PROF. SHKËLQIM CANI AT "ALEXANDER XHUVANI", ECONOMICS FACULTY ON MARCH 20, 2003.

I. GENERAL CONSIDERATIONS ON INFLATION

An important part of the frame, defining the macroeconomic situation of a country is also inflation indicator, whose age from the economic viewpoint is old, perhaps, from the time when the ancient Greeks sought to explain the fact that, it is the amount of currency in circulation that determines the level of prices in economy. Having a look at the XX century, theoretical studies on the currency correlation to inflation have constantly evolved. While current inflation makes part in the "set" of the economic aggregates of a country, intertwining two important aspects:

- On one hand, inflation is a resultant indicator of the operation of all factors or other monetary aggregates in economy;
- On the other hand, it is a component element directly affecting the performance of other aggregates.

This means that the "grand and the complicated machine" of a country economy cannot be understood without the figure, characterizing this aggregate from the quantitative viewpoint. We could figuratively state that this figure amongst others indicates whether the monetary aggregate is at good working condition or whether it fails without "encountering a defect". In this case, the machine shall describe a difficult trajectory, perhaps, even with turn backs on a longer-term effect. It may happen to be tired and take time to rest at a normal work. Whether figures on inflation aggregate or other aggregates result within admitted frames on them, then the economic machine shall move on an utterly defined trajectory.

What about inflation? What is it?

In simple words, inflation characterizes economic situations with a general increase of consumer prices and services. It is a phenomenon that with reference to the main or essential economic literature is explained with overfilled conduits of circulating currency. Hence inflation or the increase of prices is produced in cases when:

- customers or the economy on the whole hold large amounts of cash in hand;
- material benefits and offered services are less than requests.

II. MEASURING INFLATION: ALBANIA'S CASE

Whether we have to do with an inflationary period, or not is evidenced by a simple calculation of consumer price index (CPI). The ratio between two indexes for two given periods results with a figure, which might be higher, equal or smaller than the unit or 100 percent.

If the result is over 100 percent, then we are found in front of an inflationary situation in economy and/ or when its costs are increased. It is important to stress that the inflationary situation is not characterized by the rising price of one or more commodities or services, per compared periods, because it may happen and this is a normal thing that some other commodity prices may decrease. Inflation is evidenced by an overall increase of CPI.

To better clarify this idea, it would be appropriate to deal with the meaning of the consumer price index in short.

¹ A lecture held by the Bank of Albania Governor, Prof. Doc. Shkëlqim Cani at "Alexander Xhuvani", Economics Faculty on March 20, 2003.

There are some consumer price indexes, measured in Albania, as well.

Production Price Index: is measured and published by INSTAT.

Import Price Index: is measured and published by INSTAT.

Consumer Price Index: measured and published by INSTAT

Anyway the most familiar of all is the CPI. It is also one of the most popular and most commented indexes in the majority of the countries. The Bank of Albania for analysis needs, calculates other indexes from which ones it produces different measurements of inflation such as:

- core inflation for the first time measured in 1995,
- average inflation measured since 1993,
- inflation of tradable and non-tradable goods sector, measured since march 2002.

Let's proceed with CPI

CPI is as a result of a whole statistical measurement on the consumer price level of the most indispensable goods and services or with which people are almost on a permanent contact throughout their lifetime.

This means that CPI measures the cost of a "fixed basket" of goods and services over a certain period of time. Changes in the cost of this basket directly relate to the changes in the "cost of living". These represent changes of the same side or momentum. Thus, if we accept that the basket cost is dearer or more expensive then we have admitted that the living cost is almost as much expensive as that, and the reverse. Therefore the rising price of bread, meat, fuels, rents or the level of wages itself leads to a rising cost of the basket and of living as well.

II.I. BASKET STRUCTURE AND COMPONENT ELEMENTS

As previously stated, CPI measurement is raised on an entire statistical methodology. This methodology explains basket structure or respective measurement procedures. To be clearer in this brief explanation to be dedicated to this question CPI measurement in Albania shall be taken, as an example.

Albanian basket structure and elements has been for the first time estimated in 1993 upon which basis, CPI started to measure, and it was for the second time revaluated in 2000. The new basket in Albania was evaluated, based on "Albanian household budget" questionnaire, where were regularly surveyed about 4351 Albanian families from which, there were received data on consumption and purchases, they carried at certain periods of the year. Data processing delivered the types of goods and services Albanian households or families frequently consumed (purchased) as well as the average structure of expenses for each good or service obtained. Hence, this questionnaire provided information on the average profile of consumption either from the structure or its elements viewpoint for an average- income Albanian household. The second questionnaire on households evidenced structural changes of the CPI basket, compared to that of 1993. These were expected changes resulted by some year social, political and economic transition of Albania and Albanians. Therefore, these changes were reflected in CPI and inflation indicator. It evidenced as main groups to participate the Albanian CPI basket, foodstuffs, clothing, household appliances and maintenance articles, fuels, transport, medical care, educational service, recreation etc. In general, these groups are also frequently acquainted even by other country baskets of CPI, in spite of the different shares they indicate. Similarities come to the fore when compared similar countries economies, as is the case of EU member countries economies.

² Matja e IÇK-së në Shqipëri, ka ndjekur hapat metodologjikë që zbatohen në vendet e Bashkimit Europian si edhe të pjesës më të madhe të vendeve të tjera të zhvilluara.

Box 1. Albanian basket of CPI

The number of new basket articles has reached 262 or 42 articles more than that of 1993. In this way, the “the recent or new” inflation reflects the information of 41 added articles (where amongst the most important ones is the input rent or a likely expenditure on house rental).

The new basket groups these articles by 12 groups of merchandise from 8 in the old basket. The addition of the merchandise groups has been made based on fact that certain articles by the old groups of merchandise had gained a considerable weight by the structure of expenditures of Albanians (for example “food, beverages and tobacco” has been subdivided into two other groups “food and non-alcoholic drinks” and “tobacco and alcoholic drinks”; recreation education and culture has been subdivided by two other groups “culture and recreation” and “education”).

The new basket is structured based on the information received on a territorial division, which is compliant to municipality division. Tirana municipality shares the largest weight. The survey undertaken in 1993 was only in Tirana city and the model of expenditures, confirmed by this survey was applied on the whole territory. With the new basket happens the reverse. The survey has been carried on the whole territory and the basis for measuring the consumer price index is December 2001 (index = 100). The information before this month has been revised to obtain the comparability of data.

On the whole, INSTAT concludes that inflation measured by the new basket is more real. With the new measurement foodstuffs have been considerably reduced and this has “smoothed or relaxed” the seasonal fluctuations, helping its forecast, as well.

Table 1: basket structure and component elements.

Old basket (1993)		New basket (2000)	
Total	1.0000	Total	1.0000
1. Food beverages and tobacco	0.7239	1. Food and non –alcoholic drinks	0.4263
2. Clothing and footwear	0.0282	2. Alcoholic drinks and tobacco	0.0311
3. Rent, water, fuels and power	0.0641	3. Clothing and footwear	0.0379
4. Furniture, household appliances and maintenance	0.0827	4. Rent, water, fuels and power	0.2436
5. Medical care	0.0092	5. Furniture, household appliances and maintenance	0.0455
6. Transport	0.0516	6. Medical care	0.0212
7. Recreation, culture and education	0.0357	7. Transport	0.0483
8. Personal care	0.0046	8. Communication	0.0132
		9. Culture and recreation	0.0262
		10. Educational service	0.0098
		11. Hotels, cafes and restaurants	0.0728
		12. Miscellaneous articles and services	0.0241

Source: INSTAT, February 2002.

CPI is the classical form of an aggregate index of Laspeyres.

P_{it} and $P_{i(t-1)}$ are goods or service prices “i” respectively at “t” and “t-1” moment, whereas q_i is that part of expenditures spent for article “i” against the total of expenditures or household consumption. The change of CPI may be:

- on monthly basis: in this case, we have

- to do with monthly inflation rates, on annual basis: in this case, we have to do with annual inflation rates.

As evidenced, CPI reflects the change in value of goods and services at any period (month), compared to the base period (December 2001), resulted from the changing prices, only, when either the purchased or consumed quantities, remain unchanged. Practically, the household

budget questionnaire resolves the problems of weights or economic relevance, each group or article has. In other words, it is the ratio per group expenditures against the total expenditures or household budget per family.

Example:

What will be the CPI increase, if “food and non-alcoholic drinks” reflect 18 percent increase in (t) month, compared to (t-1), when it is already aware, that this group share in the CPI basket is about 43 percent? If the rest of prices remained unchanged, then this group prices growth effect on overall level of prices would be: $(0.18 * 0.43) * 100 = 7.74$ percent. If this group prices had a smaller weight, then this group growth effect on the overall level of prices would be weaker.

The above example illustrates not only that, previously explained on the CPI basket, but on the other hand, it clarifies the fact that the basket structure is determined by the way Albanian households spend their own budget, in particular. In the long run, it is clarified the idea that it is this structure, set by customers, which accentuates, weakens or keeps unchanged inflation nuances in economy. Hence, CPI incarnates consumption profile by average income families in a country, therefore in Albania, as well.

III. INFLATION AND MAIN DETERMINANTS: CASE STUDIES

III.1. INFLATION NATURE

As already stressed that inflation is an expression of “overflowing” currency, we identify one of the determinants stimulating it. Irving Fischer (1992- quantitative theory) concluded that changes in the amount of circulating currency caused changes in the level of prices, a theory, propped up and further evolved by other monetarists. Milton Friedman reasoned that inflation begins to accelerate as many times as it is accelerated the increase of money supply. From this viewpoint, he reached at the conclusion that “inflation is any time whenever a monetary phenomenon”.

While Keynes (1959 – Radcliff Report) attributes currency a weaker role, laying the stress to other

determinants such as fiscal policy shocks in the aggregate supply etc. However, in the long run, he explains that high inflation is sourced or resulted from the high growth of money supply and that other factors are mainly temporary determinants.

Empirical analyses indicate that it exists a very strong correlation between rising cash and inflation. Historical periods corresponding to those correlations are characterized by clear “hyperinflation situations.

The question, we would like to clarify does not simply relate to the to periods of flared-up inflation, when it is obviously introduced, as a monetary phenomenon. Often, different countries economies and, moreover, economies under transition, as is the case of Albania, encounter inflation fluctuations, even when it is moderate. In these cases, these fluctuations or shocks are explained with the presence of other factors, frequently having a temporary operation.

Example:

Year 2001 and the first half 2002 are characterized by high inflation rates, as one of the determinants to have influenced its rising side the Bank of Albania has evidenced the “power crisis”. The Bank of Albania initially treated the rising level of consumer goods prices as a temporary factor. Later on, when blackouts became a constant refrain in Albanians daily life, it extended the analysis on this factor, almost having a permanent influence or operation on inflation. It is precisely the gradual transformation from “temporary” factors to “permanent” determinants, a process that we all should be worried about.

Why all of us?

Let's proceed with hypothetic data example:

Should the economy on a 12-month period produce monthly inflation rate at 1 percent due to the constant lacks of power, then inflation on the whole 12-month period would result 12 percent because of this factor: a high inflation for economists, central bankers, government and individuals in the long run need to pay more, as their purchasing power falls, which means that the company a year later has to pay 12 percent more due to the upper cause. In this

sense, this factor has become into a permanent determinant, as it produces a stable and a successive rise of the overall level of prices and in this point, it is considered a monetary phenomenon, as Friedman has already concluded.

III.2. MAIN DETERMINANTS OF INFLATION – CASE STUDIES

Inflation may be a match of supply -and - demand- side determinants or other specific determinants that over certain periods of time assume a greater significance, compared to others.

INFLATION MAY BE CAUSED BY DEMAND- SIDE DETERMINANTS

Prices grow as result of a higher demand. This means that when customers, businesses or government expenditures exceed the available goods and service supply the latter exert pressure for an increase of prices. Usually, when evidenced a rapid increase of money supply, the demand grows faster than the goods supply. That's why we say that more money in circulation exercise pressure for inflation.

CASE STUDY:

A similar case is in 2002 when as result of a panic situation, depositors withdrew their deposits held with the banking system. This increased the amount of cash in circulation, and M1 aggregate subsequently, exercising pressure for rising inflation. This phenomenon comprised one of the causes, which led to a rising inflation in the first half of the year.

INFLATION MAY BE CAUSED BY “SUPPLY-SIDE DETERMINANTS”

In this case, producers increase prices as result of the rising cost of the output and compensate it with the rising prices of articles produced, transferring the added costs by customers.

CASE STUDY:

The lack of power for the most part of service sector has been replaced by another alternative resource that is power generators. Buying generators and using fuels is an additional cost for businesses, which is inevitably reflected by increased prices per offered services.

INFLATION MAY BE CAUSED BY “LACK OR MARKET EMPTINESS”

In this case, prices grow as result of the lower goods or service supply while the demand, at least, remains unchanged.

CASE STUDY 1:

At 1970, inflation in USA was also deteriorated as result of OPEC control of oil supply worldwide, which caused five times increase of oil price.

CASE STUDY 2:

The same phenomenon is threatening at the eve of the conflict in Iraq. The conference of Islamic countries discussed the possibility for the reduction of oil sales and production, reducing the supply of this commodity and increasing its price as an outcome. It is enough to mention here that transportation prices increased as result of the rising price of oil, internationally, in January 2003.

MANAGED OR ADMINISTERED INFLATION

In this case, inflation is caused by companies, which given the fact that they operate by non-competitive countries can increase prices easily. Or in cases of economies where prices are fixed and controlled by governments, every change of these prices affects inflation.

CASE STUDY:

Power price increase in December 2001 caused a rising inflation by 1percentage points in this month. This was not a single rise, as it has been operating for another time: initially it was increased the power price and the group it makes part (the first time), and later on, by means of the chain effect, the increase was transmitted to other sectors using the power supply, as that services, for example (it has been estimated that the chain effect continued at least for the whole 5-month period, 2002).

INFLATION CAUSED BY EXPECTANCIES

In general economic agents operate by forecasting inflation. if their expectancies are for increase of the various commodity prices, this trend incites exaggerated purchase of these commodities be that unnecessary on customers behalf, preceding the rise of these prices. The rising demand is more likely to cause

unexpected lacks in the market which fact still leads to the addition of prices, therefore to inflation, as an aftermath.

INFLATION RESULTED BY GOVERNMENT DEFICITS

Huge government deficits may cause inflation. One way of financing deficit is for example, is that of purchasing treasury bills, issued by government, through household savings of individuals. These savings are changed into expenditures. Deficits may be financed direct credit extended by central banks. Should these deficits be financed through flowing cash into circulation then we'll have dramatic price effects.

It is for this reason that many central banks, especially those of EU, are categorically forbidden to directly finance government deficits and this restriction is clearly stated by law.

CASE STUDY: FINANCING BUDGETARY DEFICIT IN ALBANIA

Having a look at the Bank of Albania statistical documents, what's most eye catching is that a powerful or robust user of banking credit is government or otherwise known, as budget. As long as the latter shall be able to partly cover budgetary expenditures it shall address to markets, offering debts. Reverse from many other countries, the government, in Albania, can be treated on direct credit by the central bank, which means that it finances the budgetary deficit by new denominations, increasing this way inflationary pressures in economy. For this reason, the law on the Bank of Albania has envisaged a quantitative restriction on government financing amount. Albania's case attests this to the best. The Bank of Albania through its own analyses has expressed its opinion on the impact government expenditures and their concentration in certain periods of 2001 had on the rising pressures on inflation. In this view, to afford the created situation from deposit withdrawals, the Bank of Albania sought and found government understanding on these requirements, such as to reduce the budgetary expenditures in order to keep inflation under control.

INFLATION AND EXCHANGE RATE

Here is expressed a more straight and clearer correlation. If the domestic currency depreciates, it exercises pressure for rising inflation, as imported goods become more

expensive. If the reverse happens, the exercised pressure is for reducing prices, thus lowering inflation. Anyway, if Lek depreciates by 1 percent, we do not automatically encounter consumer price increase by 1 percent. Additionally to that, this depends on how competitive the markets are, on the kind of the product, whether those can be reduced by other products or not, etc.

CASE STUDY: EXCHANGE RATE AND INFLATION IN ALBANIA

As rule, our country encounters reduction of prices, thus inflation during the summer season, generally. Lek appreciates as emigrant remittances in foreign currency are increased in this period. Also in this period we encounter the appearance of domestic products, competing imported products. The reverse happens in other periods of the year, when Lek depreciation is accompanied by the increase of prices. In Albanian economy, exchange rate has a considerable effect on inflation. However, this effect is still more sensitive, as our country imports considerable quantities of consumer goods and the imports are some times higher than exports, facing less competition by domestic products. The higher inflation in the first half 2002 was also as a result of a stronger depreciation of Lek to other foreign currencies, while the domestic currency performance was normalized in the second half of the year, exercising no more pressures for rising inflation. It has been testified that for a USD appreciation by nearly 9 percent to Lek on annual basis, its impact on inflation is reflected by excess of the upper target rate, thus driving it to over 4 percent. This coincides with the moment when the exchange rate reaches, let us say, its "critical" point or peak on appreciation side by nearly Lek 152.2 per USD.

Fro some analyses conclusions it comes out that:

- USD appreciation to domestic currency at Lek 1 in the previous month increases inflation in following month by the average of 0.06 percentage points. However, Bank of Albania by its forecasting analyses also takes into account NEER effect,
- Between the domestic currency appreciation and the inflation, the inflation- exchange rate correlation is

statistically insignificant, whereas for appreciation periods it happens the reverse, this correlation is utterly important for high levels of confidentiality. In fact, cases of the periods of the strong domestic currency appreciations should generate falling inflation and this correlation should normally result important something our data do not confirm. This fact confirms our market nature, which is not a regulator of the prices on the descending side or momentum, therefore where the speculative element is very strong.

SPECIFIC DETERMINANTS

Inflation performance is affected by some other determinants or factors that are utterly unpredictable and might appear at different periods of the year. However for the period they operate they exercise a certain pressure. Natural calamities represent the most vivid expression for this group of factors. Usually such events are accompanied by lack of urgent living products and increase of market prices, as a result. Freight prices increase and this is also translated in consumer price rise, the speculative element is also enlivened, etc.

CASE STUDIES:

- the extremely cold weather that swept Europe and Albania during the period, December 2001- February 2002;
- the case of August- September floods 2002.

In the group of specific determinants, the speculative ones are remarkably apparent and bear a considerable weight for the addition of inflation pressures, at certain periods of the year, moreover. They disfigure the market and prices on the rising side.

CASE STUDY:

“ Price speculation at the eve of the New year holiday”; the Bank of Albania made this phenomenon a subject of its undertaken campaign in 2002. From monitoring some goods and markets prices it was confirmed that, it exists an unjustified increase of prices at the eve of holidays, indeed. The purpose of the campaign was to make businesses and customers and government authorities aware

that they can act based on the effective legislation. In conclusion, it might be asserted that the Bank of Albania undertaken campaign had its own effect with respect of reducing phenomenon.

IV. CENTRAL BANKS, MONETARY POLICY AND INFLATION

IV.1. CENTRAL BANK AND MONETARY POLICY

As up to this moment we have explained inflation as a monetary phenomenon, it seems like the central banks are the only ones to blame either for causing or not causing it, as they are the only currency issuing authority actually. However, the central banks' concern regarding inflation does not only relate to this real fact but also to another more important reason that the central banks are policy making and confident institutions at the same time. With the policy they compile and the credibility they transmit by public audiences, they are ever more considered responsible for inflation control. In the recent decade, it has been constantly added the central banks number having the maintenance of the consumer price stability amongst their targets. In this way, the level of central bankers awareness and the responsibility of their institution in front of the public has been significantly improved. Modern economic theories and experiences are ever more demonstrating that the consumer price mechanism is the most sensitive and the most delicate “economic machine” of a country, playing a directive role in economic growth, coverage of budgetary deficits, employment rate, business and customer confidence.

However, can a central bank compile policies having the maintenance of the consumer price stability as their main goal? Theoretically it can while the matter is complicated, in practice. Actually, inflation control is ever more getting a difficult process. Current inflation is not simply a phenomenon related to the fact whether the money supply is increased or not. There are many casual shocks, which from the impossibility to be predictable turn into phenomena, which tend to upset established balances in economy. Also the success for placing inflation under control is largely

dependable on the fiscal consolidation, which in developing and transition economies comprises a big challenge for authorities. It should never be forgotten that “an open economy” means free exchange of goods, services and capital, which in one way or another means importing a certain amount of inflation. Nowadays, the financial markets globalism additionally to the elimination of the geographical boundaries is ever more attracting more capitals and on the other hand is ever more making the central banks work more difficult. The huge interdependence among the markets has enabled the contamination effect be larger in the form of “domino effect” which has forced the most powerful economies of the world dedicate more time to the reinforcement of rules and their supervision. A clear evidence of the latter is crises happening in Asia and Russian region.

It frequently happens for monetary policies to be efficiently compiled, but there are no rare cases, when these represent an incomplete efficiency and this may be as a result of main factors:

- **Wrong decision- making and;**
- **the lack of an effective monetary policy instrument.**

Monetary policy includes the integrity of central bank operations undertaken to achieve monetary policy objectives. The most important monetary policy instrument for the majority of developed countries is the short-term interest rate set by the central bank to influence financial determinants operating on the side of the aggregate demand. In other countries, especially there where the financial markets are less developed, the central bank influence is attained through required reserves and the administrative control on interest rates offered by commercial banks and on the extension of loans.

However, whatever stands in principle is that – the central bank ability to control the money supply. By means of its available instruments it can either attract or inject liquidity in compliance with economy demands or needs. At a market-oriented

economy, the mechanism is simple. It is enough remembering here another central bank ability to manipulate with the price of currency and interest percentages. Increasing the interest rate, the monetary policy intends to make credit price dearer and make it less wanted or claimed accordingly and the currency will stand with the central bank, as an aftermath.

The reverse action implies a central bank decision to increase the amount of liquidity to be injected in economy and inflationary expectancies should be added in economy, subsequently.

As above described, controlling credit price, as it represents the main channel for flowing currency into economy, assumes a special significance, when we talk about gripping the control of inflationary pressures in economy. To this point, we have reached a very important moment, when citing that inflation is caused by the credit expansion in economy – credits expanded to individuals, companies or any other institution etc.

The way the government finances its deficit may be a potential resource to inflation, especially, when the deficit is steadily high and not sold out to the public, but covered by new currency prints.

Therefore, inflation in some cases may be as an outcome of an expansive monetary policy and in some other cases, especially at developed economies, it may be simply as a result of government arbitration to finance the deficit by new prints (currency).

In either cases it can be nothing else effected but the further increase of the overall demand of economy for goods and services, which in the conditions, when producing capacities do not track the same pace, the supply is enforced prices against a strong rising pressure.

CASE STUDY:

An illustration of such situation is still fresh in Albania when inflationary pressures were added significantly at the end of 1996 mainly due to the robust increase of the domestic demand for goods and services.

IV. 2. MONETARY POLICY REGIMES

Actually monetary policy decisions are practiced through the implementation of a certain market regime. This regime implies the selection of an intermediate objective to be appraised as the main contributor in achieving the final targets or objectives. Reverse from the final targets, the intermediate targets are macroeconomic variables, which, in one way or another, are under the direct control of the central banks, such as, i.e., the monetary base, exchange rate, etc. the classical manner of the exercised control over these variables is simple through the active participation in the market (money and foreign currency markets) where the established price by the central bank becomes a determinant factor in the formation of all other prices such as that of lending or the exchange (sale purchase) of the foreign currencies.

Today central banks are more straight with respect of the expected inflation and this is enabled by publicizing the figure of inflation target and the strategy the central bank shall follow to force the expected inflation with that set as target rate.

By manipulating the interest percentage, the central bank manages to control inflationary pressures ahead. Monetary policy must be very prudential, particularly when it has to assess future or upcoming inflation.

As conclusion, it might be said that there are three monetary policy regimes, actually: monetary targeting regime; exchange rate targeting regime and inflation targeting regime. Economic environment and the nature of transmission mechanism, characterizing a certain specific country, first of all, conditions the selecting type of monetary policy regime.

As different countries face different economic environments and financial structures it is understandable that a monetary policy anchors shall be different for different countries. As Andrew Crockett writes **“a size or measure should not necessarily correspond to all the dimensions”**.

We would be particularly stopping by monetary targeting regime and inflation treating regime (IT) as these are the cases related respectively to the current regime and that intended to adopt by the Bank of Albania ongoing.

Monetary targeting regime is considered as more valid for the so-called emergency or transition economies. In these countries where the financial channels are undeveloped (a typical case is that of our country) the control on the credit expansion is, generally, better served by means of fixing monetary targets. It is real that in these countries the credit transmission conduits from monetary policy viewpoint are the most important. On the other hand, intermediate monetary policy objectives help placing and maintenance of budget discipline. This is an additional reason why the IMF enforces prerequisites on the currency and credit growth rate in its programs.

Other factors, highlighting or supporting the implementation of this regime relate to the huge difficulties acquainted in the adoption of the other two regimes in transition economies. Exchange rate targeting regime carries the risk of upsetting the external balance under the circumstances when the domestic inflation continues to be totally out of control. Meantime inflation targeting may be afflicted from the vague confidence at an unstable inflation environment. This would hamper the achievement of a core target on inflation targeting that of orienting the consumer price expectancies.

Box 2: Monetary policy features and monetary targeting regime in Albania.

Inflation performance in Albania more or less confirms that the Bank of Albania has conceived and followed a monetary policy since at the middle of 1992 when as part of the IMF support agreement to Albania were introduced some decisions which aimed at placing the money supply under control through using direct instruments of control. Maintaining the consumer price stability was stated as the final monetary policy target and monetary base was elected as intermediate target. From July 1992 until now, it has been adopted a free flexible exchange rate while current account transactions have been totally liberalized.

Monetary policy for period 1992-2002 has been characterized by these main features:

- a clear final target: maintaining the price stability – any year end has had a quantitative target on annual inflation. The assessment for its placing or establishment has not been sourced from a very clear analytical or empirical process. Moreover, the ways leading to its achievement have not been totally clear to somewhere. On the whole period it has not been discovered any explicit link or correlation between monetary aggregates growth and inflation;*
- placing an intermediate target on money growth which observation or respect shall lead to the fulfillment of the final target. Central bank controlling power is utterly full on the monetary base, alone. Anyway as above- mentioned, the central bank cannot detect and discover as strong connections or correlations as its controlling power on currency for inflation and monetary aggregates, although they cannot be taken into consideration. Actually the use of M3 (-5) and recently that of M1 (-3) intervene as variables in the model of sample of forecasting short-term monthly inflation.*
- application of the quantitative restrictions on the side of assets: (1) the Bank of Albania NFA (lower rate); (2) banking system NDA (upper rate) split into credit to economy and net credit to government. These objectives have been generally attained at satisfactory rates while the attainment of monetary indicators have been far from their planned rates.*
- direct monetary control – which was finally revoked in the third quarter 2000, eliminating direct instrument of control;*
- Exercising money supply control through indirect instruments, exactly through Repo rates. As long as the monetary and interbank market shall be undeveloped, indicating lack of flexibility, the monetary policy decisions will be harder. On the other hand, the Savings Bank position, still holding the monopoly in the deposit market, has played the role of one party, having an inconsiderable volume of transactions at Repo auctions. In the conditions, when the government remains the main absorbent of excessive reserve, the latter, changed to budgetary expenditures as the Saving Bank as the main ruler of the treasury bills issuing market is not privatized yet, moreover;*
- high credit supply to government*
- an ambiguity and low or deferred efficiency of monetary transmission mechanism expressed by an undeveloped situation of interbank market, a highly concentrated treasury bills market, the existence of a formal credit market where it is mostly lent in foreign currency. This makes the central bank signals to be hardly delivered and their efficiency be not that wanted. Estimating the efficiency of monetary policy decisions becomes even more difficult in the conditions of an informal economy, which assessed to be dominant in our country.*

Although it can not be given a complete evaluation on the efficiency of using the Repo rates as a monetary policy instrument, we can say that the central bank pervious year actions increasing them twice successively for March and April 2002 respectively helped the prevention of rising inflationary pressures in economy. This means that improving the application of this instrument remains an inevitable challenge to the transmission of central bank monetary policy decisions. This perfection consists in the constant improving of all transmission channels, amongst which that of money market, credit and the assignment of expectancies, occupying a main place in economy.

INFLATION TARGETING REGIME: THE BANK OF ALBANIA MONETARY POLICY CHALLENGE

Efforts made so far indicate that the Bank of Albania is already moving in the difficult path of creating premises for the substitution of the current monetary policy regime with inflation targeting. Moreover, holding an inflation-targeting regime is one of the medium-term objectives, the central bank is trying to attain with IMF assistance. **The Bank of Albania has projected and intends to attain the implementation of an inflation-targeting regime within a 2-3 years frame.**

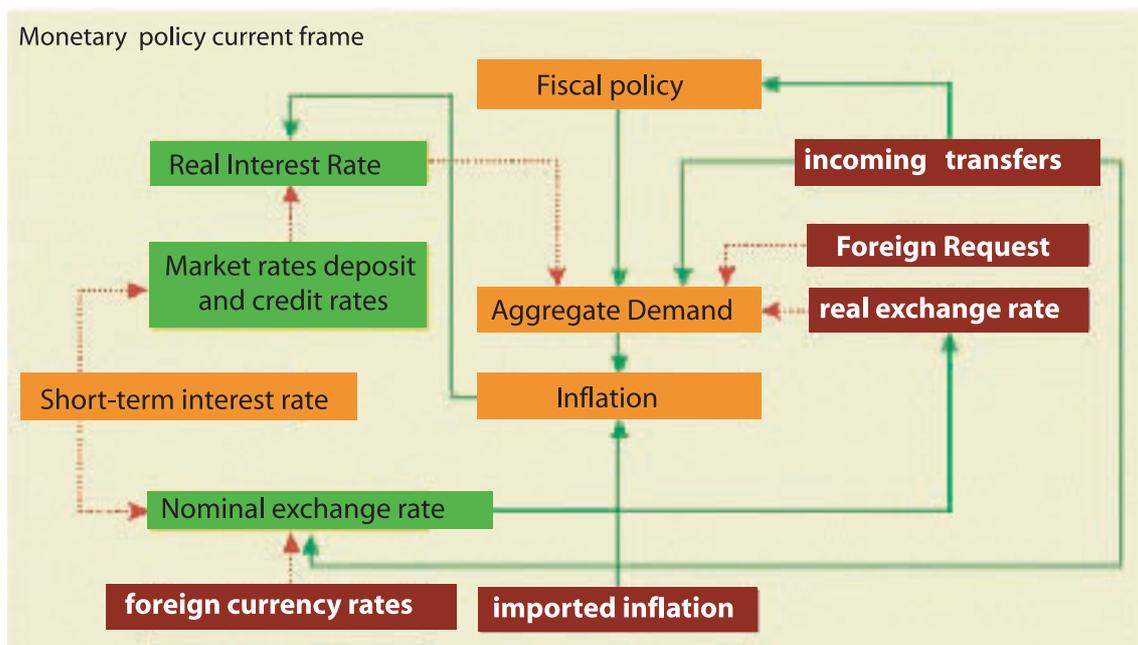
Inflation targeting regime is a medium-term monetary policy, implying five key elements:

- 1) publicizing the inflation figure as medium term goal to attain;
- 2) institutional commitment for the stability of prices as principal target of monetary policy from where all other targets depend;
- 3) preparing a strategy including many variables, not only monetary aggregates or exchange rate which have been used to determine the framework of monetary policy instruments.;
- 4) enhancing the transparency of monetary policy strategy through market and public communication on monetary policy

- 5) plans, objectives and decisions taken; the central bank increasing the responsibility to attain its targets set on inflation.

The five elements, as above- described, are very important, but, surely, the most conspicuous of them is the necessity for publicizing the figure established as target to attain in the next year. However, to pretend that the adopted regime coincides with inflation targeting regime is very important to comply to the other four principles or elements. This fact is highly indicative for transition countries, as many of them report inflation target, as a routine part of the government economic program for the upcoming year, while the strategy of their monetary policies is not yet characterized as inflation targeting regime, which requires the application of other four elements, as a support across medium-term periods. The Bank of Albania assisted by a technical assistance mission, for this purpose is casting steps forward, which helps the adoption of this monetary policy regime. More specifically, it is working to prepare an as more based strategy of forecasting inflation, constructing a macroeconomic model having the explanation of monetary policy mechanism on its basis.

A likely scheme of this mechanism is as below:



Broken lines in the scheme reflect not so well grounded links or correlations, while the full ones reflect efficient transmission conduits to somewhere. On the other hand, based on the above diagram, it has been outlined to somewhere a small macroeconomic model.

The scheme evidences

- weak correlation of short term – rate and inflation,
- it accepted and verified to somewhere that exchange rate, fiscal policy, emigrant transfers etc., exercise a fuller effect on the aggregate demand and inflation itself;
- although exchange rate is not a nominal anchor, it appears that the short-term interest behavior exercises effect on it;
- the lack of capital, securities, fixed assets etc., market.

We asses that the process of forecasting and constructing a macroeconomic model, in spite

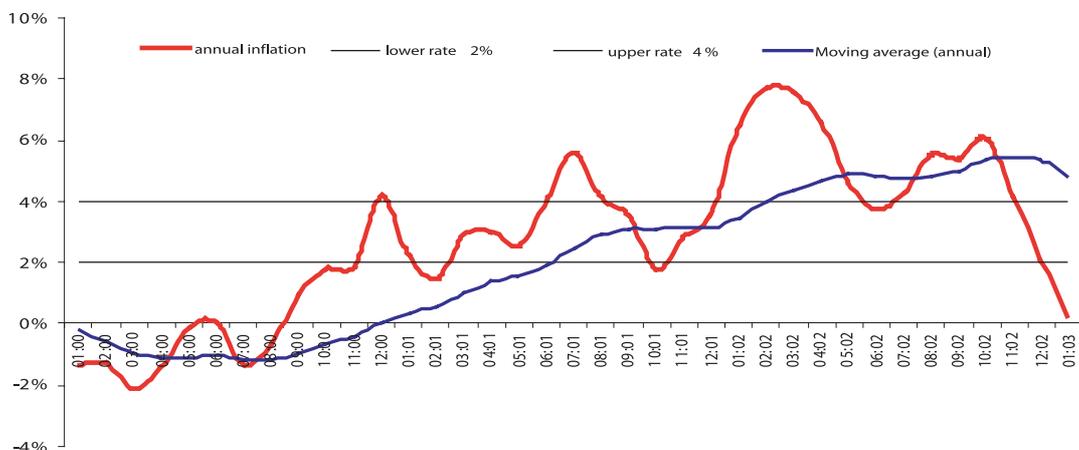
of its progressive steps, still happens to acquaint with serious difficulties with:

- time series respect: (1) these are young of age (2) they frequently suffer from the presence of shock factors which makes them shorter and non stationary; (3) important time series joining modeling such as GDP; unemployment rate; import price index; are estimations and have actually encountered break due to methodological changes.;
- undeveloped markets respect: this causes monetary policy decisions face the need for changing the short-term rates with inexistent markets to somewhere, which decisions, at the lack or deficiency of these markets activity, take a very slow way, resulting of an inefficient period of time,
- knowledge respect at modeling: although these are advanced, still they are assessed to be at limited range to somewhere especially in modeling field etc.

Box 3: A short overview on inflation in Albania

Although, it makes part in the long life macroeconomic indicators inflation series in Albania is young of age. This relates to history of establishing market economy relationships in our country, which dates back 10 years ago, approximately. To talk on inflation in the practical sense or consumer price increase before '90's in Albania was nothing else, but a heresy. Today are free to talk on but we are able to measure it , control, analyze, and moreover forecast it to somewhere, enforce monetary policy regime adoptable for forecasting inflation.

Graph 1: Annual inflation rate (2000-2003) in %.



As previously mentioned, inflation was for the first time measured in December 1993 based on a goods basket and consumption structure, resulted from Albanian household budget survey developed in 1993.

From that time until now, inflation has been tracking a spiral way. After it reached a one digit rate at the end of 1995 it was tripled a year later and at the end of 1997, it reached the highest peak recorded until then, at 42 percent. This shock was resulted from the inevitable crisis caused by the fall of the pyramid schemes in spring, this year.

Year 1998 recorded a recuperation and control on the central bank behalf. No later than one year, at December 1999, it was managed to attain an annual inflation rate at 8.6 percent. year 2000 was generally characterized by negative inflation rates on annual base, thus a whole period of a slight "deflation". However, this serenity did not last for so long. In fact, since at the end of 2000, the central bank forewarned that the domestic economy was accessing a phase, where inflationary pressures were intensified. Although under a constant and attentive control, we can not help mentioning the figures that the monthly inflation rate attained in July 2001, at 5.6 percent as well as in the first half of 2002 where annual inflation recorded very high figures although the end of it recorded an annual rate at 2.1 percent within the Bank of Albania target rate.

An important event of inflation was its revaluation on a new basket basis published at the beginning of 2002.

Inflation and political events

The current studies have confirmed that the political events like electoral campaigns for presidential or other of the political spectrum usually mark footprints in the domestic inflation of a country. Most events are followed by higher inflation values thus marking intensification of inflationary pressures.

Practically the recent history of inflation in Albania has not been indifferent to the most important events inside the country or internationally. Moreover, these have been more dense or frequent in the recent decade. In this way, the events or effects frequently generated in economy have been overridden (overset), moving the historical trend of inflation. Empirical results of a similar study on Albania have confirmed that the trend has recognized disfigurements after such periods, but those, dealing the strongest blows to it, have been two:

- The notorious period of spring 1997 which followed until August.
- The period corresponding to Kosova crisis in spring 1999, which followed until at the end of June.

Statistically important, both periods have been evidenced as shock moments in the history of inflation. However, the first event is considered as one of the most difficult moments to administrate on the behalf of the monetary authority in the country. Its consequences were reflected on a longer period of economic development of the country, they are even sensed in the social aspect today. Also from the latest estimations electoral years, though not at the same dimensions of the above events exercise a rising pressure on inflation from 0.5 to 2 percentage points higher than their average historical trend.

As general conclusion of this short historical overview, we would underline the idea that inflation just like the domestic economy is a very fragile indicator, the good experience of administration has already passed its "poor" phase and, undoubtedly, is directed versus the most prudential and secure steps at the same time.

V. INFLATION RATES AND ITS MEASUREMENTS

The Bank of Albania monetary policy final goal is maintaining inflation under control in the conditions of an existence of free floating exchange rate regime. For more than three years successively, central bank desirable objective is concentrated on achieving an annual inflation rate by the band of 2-4 percent at the end of the year.

WHY ANNUAL INFLATION RATE IS DESIRABLE FROM 2-4 PERCENT?

Normally annual inflation rates from 2-4 percent are considered low. As such, they support a stable economic growth. This is one of the reasons that this band is applicable by a chain of countries with a noticeable macroeconomic stability. In Albania's case, such a band is considered appropriate, as for some years, inflation series has acknowledged moderate levels up to very low ones in front of a satisfactory economic growth. The second reason of requesting a low inflation has to do with one of the most important prerequisites of implementing a monetary policy regime that is inflation targeting, having low inflation rates, ensuring an overall macroeconomic stability.

Why the Bank of Albania does not have a 0 inflation rate as its target rate?

Modern economic theories and world experience reveal three important economic reasons and one technical reason, which does not sustain or contradict holding a zero inflation rate. The Bank of Albania does not target a similar rate exactly for these reasons:

- Economic reasons

1. Not every consumer price increase can cause inflation. Prices reflect the quality of goods and services as well. Quality improvements usually request "additional" human, material and technological costs, which unquestionably shall be reflected by the increase of prices. Improving goods and services quality is part of the domestic demand of customers and is clearly explained by principles of customer behavior, which means that a considerable part of them spend material

benefits, aiming high qualities ahead. A zero rate inflation means an unchanged situation of basket group prices and an unchanged quality which fact is practically unreal.

2. It may be mentioned the fact that a moderate (low) inflation serves a positive signal for extending production on producers behalf, while a zero rate inflation may be conceived by the producer, as sign that the economy is under stagnation and rising supply can not be afforded or covered by the consumer demand. This reason at the same time relates to the Bank of Albania target for maintaining inflation by the band of 2-4 percent.

3. Another economic reason for not liking or preferring zero rate inflation is the positive effect of a moderate inflation over labor market competition. As already aware, each year brings an inevitable increase in the level or rate of salaries, which is difficult to keep constant or fall to the previous year ratio. On the other hand, the constant increase of wages or salaries adds production or output costs and is conceived, as a comparative disadvantage. A moderate inflation is an indirect way for lowering the real growth effect of wages and keeping the competition by the labor market.

- The technical reason

Such a reason relates to the applicable methodology for measuring the CPI. It is eligible acceptable that as long as measuring this index on which basis is measured inflation raises on entire survey process then the measurement and calculation errors are supposed to present in spite of that methodologies generally aim to minimize them. It may happen that CPI indicates higher prices than the reality or the reverse. This gives rise to the fact that for some independent reasons from the Bank of Albania, the control on zero inflation rate is practically impossible.

INTRODUCING SOME DIFFERENT MEASUREMENTS OF INFLATION

The Bank of Albania policy does not only suffice on keeping total inflation under control. However, even others have assisted the policymakers and its decision-making authorities. One of the most important

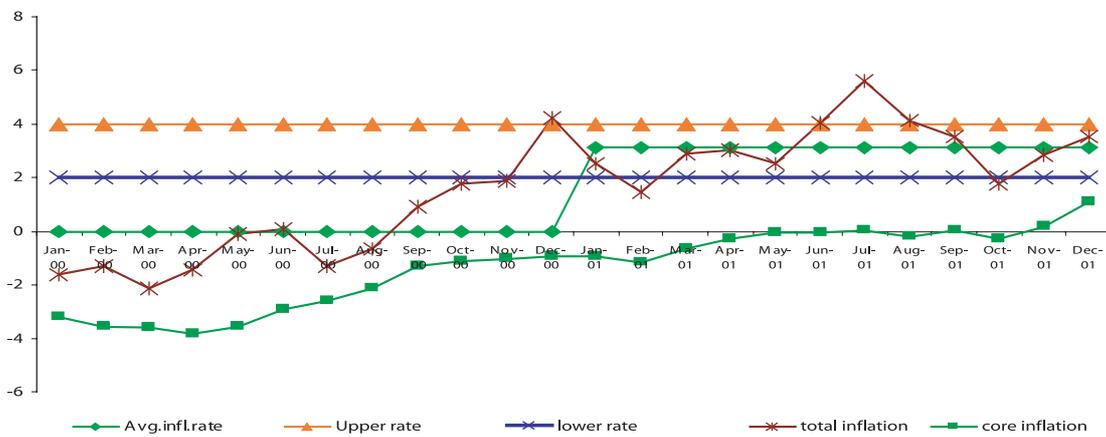
measurements, reflecting a central bank work to somewhere frequently acquainted by all materials and analyses to the end of 2001³ is that of core inflation. It incarnates the presence or attendance of the permanent element in inflation, which is assessed to be direct contribution of monetary policy. Meantime the impact of relative price developments is generally considered a temporary “upset”, which from monetary policy viewpoint must be ignored either, from current decision-making or decisions taken in the past. In 1995 Doris Shiesser, arrived in the conclusion that the most

appropriate approach for measuring core inflation in Albania's case is that accounted on 75 percent of the goods placed at the center of dispersion or distribution.

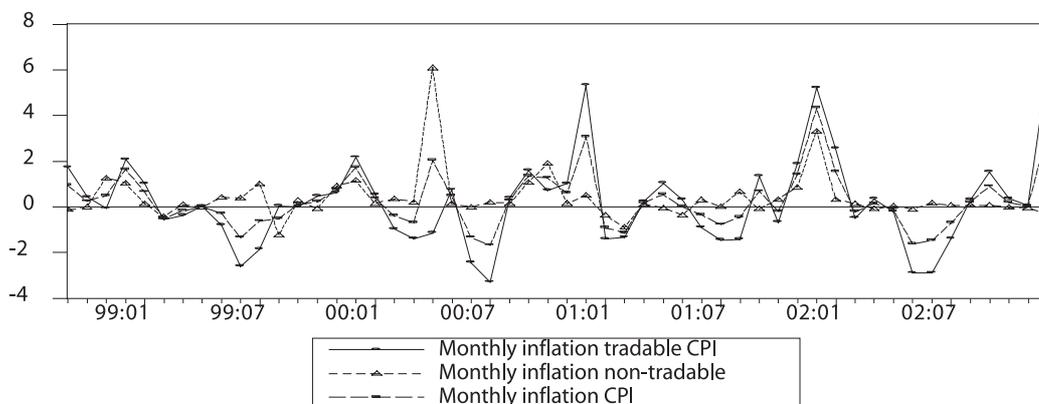
It is clearly noted that this measurement has reflected the rising trend of total inflation in the period 2000-2001, which verifies the Albanian economy getting access at an inflationary period to somewhere.

Another methodology for measuring inflation is that taking into account a two-sector basket split into tradable and non-tradable goods.

Graph 2: Inflation measurements



Graph 3: monthly change of consumer price index by sectors.



³ Core inflation shall be measured after the methodological review of its measurement, dictated by the new basket presence of CPI.

Box 4. Inflation types to be used as the Bank of Albania monetary policy target rates, ahead

Monetary policy target rate on inflation is a disputable issue, especially, in the conditions of Albanian economy, which is under the way of structural arrangements. As already aware, the Bank of Albania monetary policy follows, as indicator of its target rate, annual inflation rate at the end of the year.

Anyway, the spectrum of other versions, for selecting an inflation- targeting regime, is various and choosing between them with the purpose of adopting another inflation targeting regime in the future is undoubtedly not an easy question. This is also for the fact that the process of selecting between the versions relates to a chain of conditions, referring to the current stage of economic development in the country. Amongst the most frequently used measurements by central banks monetary policy targets world wide, we could mention the following:

- a) the target to attain a current inflation rate, on annual basis, at the end of the year, in the form of a band of values,*
- b) the target to reach a current inflation rate, on annual basis, at the end of the year, at a single value or an inflation targeting regime;*
- c) the target for having a core inflation on annual basis by a band or a single value;*
- d) inflation targeting may be focused on a single value or a band of annual averages;*

The Bank of Albania actually applies the first variant distinguished for three essential characteristics, as follows:

- first, its is a target band*
- second, its is a current value,*
- third, it is a value obtained at the end of the year.*

Based on these three features, we would assess that inflation target based on a band of values is more appropriate under the current stage of the economic development of the country. We also assess that it is still early for Albania to adopt a single target rate. Other important economic parameters must be met to reach highly "strict" points. On the other hand, it is very flexible in front of the structural reforms under way in the country. On the other hand, this feature of the current inflation value carries more transparency in itself, which is necessary requirement or prerequisite to exercise a clear monetary policy. Moreover, the existence of real transparency is a necessary prerequisite for implementing an inflation- targeting regime in our central bank monetary policy, ahead.

The third feature, peculiarity of real inflation at the end of the year represents final information, limited at a certain moment of time only. It looks like monetary policy efforts are only limited in a month's time or a single statistical figure. In fact, the year-end crowns the highly prudential work performed throughout the entire year by the only monetary authority in the country to for achieving the target set on inflation.

Therefore not limiting the work only at a certain moment of time and at a certain interval, the Bank of Albania bases its decision making process on the information, brought by other inflation categories.

VI. MONETARY POLICY MONTHLY REPORT AND INFLATION

One of the most important factors conditioning the public confidence in the Bank of Albania monetary policy is that the broad public should understand every action undertaken by it. For this reason, it prepares and publishes periodically important monetary policy documents amongst which is Monetary Policy

Monthly Report. The Bank of Albania for the first time prepared this report in October 2001 and since that time onwards the analysis has encountered or reflected a rising trend with its qualitative respect.

It is a very important document, as it must be placed at the direct service of the decision-making process in the Bank of Albania. The report contains assessments and analyses on the recent monthly monetary policy developments and the previous month data. To

be given here are also future policy stands and assessments through introducing potential scenarios short-term inflation developments ahead and proposes policy stances through reasoning.

The structure of a monthly report generally tracks some important points, giving a clear view of monetary situation and the current consumer prices, creating descriptive premises for decisions to be taken in the future.

To be more concrete, we are going to present in brief the structure and contents of the latest monetary policy monthly report of February 2003.

- a) Report structure
 - I. Main highlights or developments
 - II. Inflation and determinants to have affected inflation performance in January.
 - III. Monetary developments in January 2003.
 - IV. Monetary developments.
 - V. Banking system liquidity performance.
 - VI. Domestic credit.
 - VII. Credit to government.
 - VIII. Interbank market rates.
 - IX. Treasury bill market rates
 - X. Deposit rates
 - XI. Inflation expectancies and monetary policy stance
 - XII. Inflation expectancies
 - XIII. Monetary policy stance.

Right from the very beginning, it must be clarified that the above structure presents the confidential variant, presented to the Bank of Albania Supervisory Council. The confidential section relates to the fifth chapter, where are given assessments on forecasting inflation for at least a three- month period, while it exists a forecasting on the whole year. Forecasts rely on historical developments of inflation and models to be constantly improved on the behalf of a specialized staff at the Bank of Albania Research and Monetary Policies Department. Alongside with quantitative assessments and inflation expectancies, there are given arguments or qualitative analyses supporting them. Disclosed in the form of possible scenarios ahead this part or section intends to

create a broader spectrum, reasoning that that is likely to happen with the consumer prices. Basing or relying on these scenarios, there are suggested proposals on monetary policy stance and interest rates, whether these would be changed (rise or lower) or remain unchanged. This part or section would be confidential as long as the forecasting process is at its first steps.

- b) An abridged summary or précis
 - II. Inflation and determinants affecting inflation performance in January 2003.

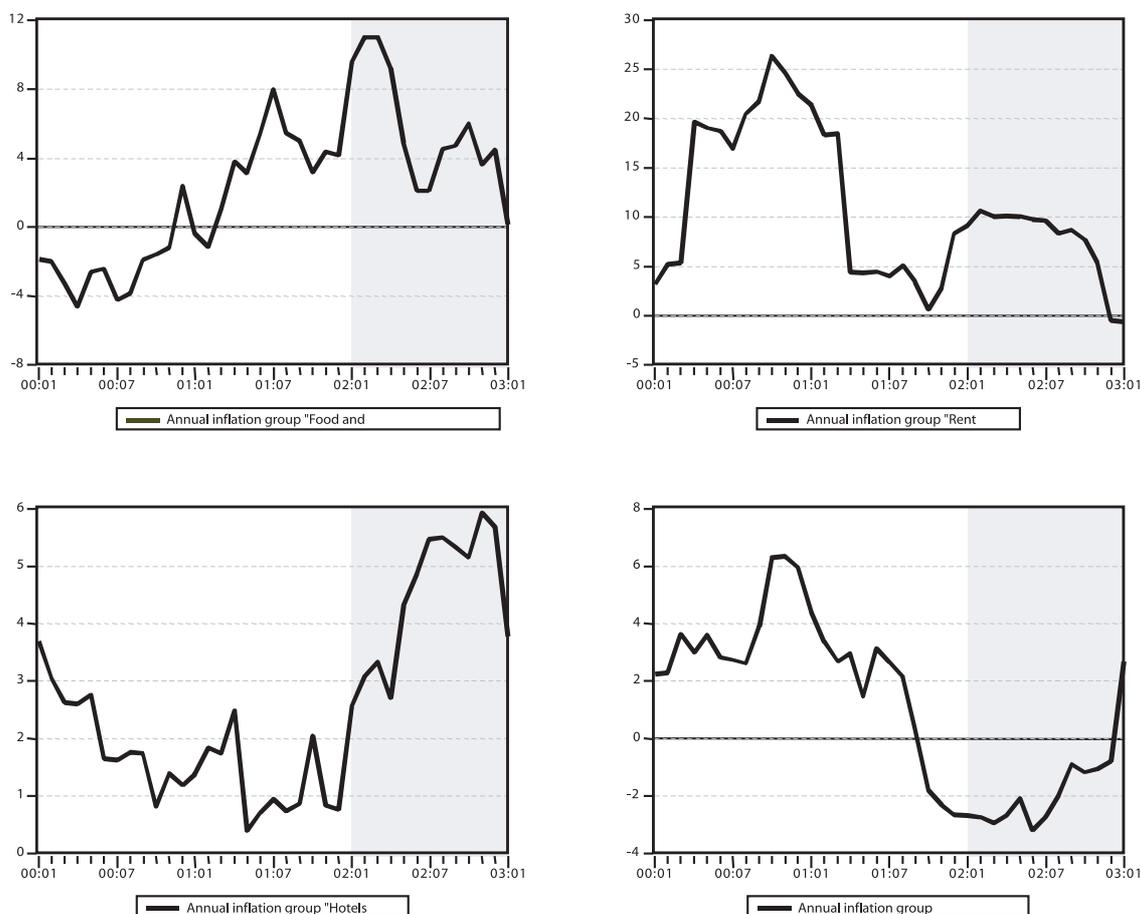
Annual inflation of January 2003 resulted at 0.28 percent, which was noticeably below the Bank of Albania minimal target band of 2-4 percent.

Annual inflation rate remains high at the average of 4.83 percent, although this month rising trend appears to be broken since at the middle of year 2000.

Amongst the determinants to have affected a low inflation rate in this month, we can mention those, down-listed as below:

- The falling demand for foodstuffs and services after the year-end holidays.
- Keeping monetary aggregates under control, especially, M1 aggregate, which have been generally kept within the Bank of Albania target rates, since July, previous year.
- As assessed the exchange rate performance has assisted the reduction of inflationary pressures in economy. Therefore, USD, as at December 2002, depreciated by 1.48 percentage points in average terms, while Euro appreciated by 0.48 percentage points against the domestic currency. USD maintained its depreciation trend even in January 2003 and is assessed to have affected the decrease of imported goods prices.
- in connection with imported inflation it is worth-mentioning that although inflation of Euro area as at December previous year exceeded the ECB target (2 percent) remaining low at 2.3 percent. Meanwhile annual inflation of or Euro area for January has been lower than the target indicating a declining trend (Financial Times 10/02/ 03).

Graph I.1 . Inflation by four main groups of CPI basket in percent



VII. MONETARY DEVELOPMENTS IN JANUARY 2003

VII.1. MONETARY DEVELOPMENTS, INFLATION AND THE BANK OF ALBANIA MONETARY POLICY.

Monetary developments in January seem to be improving after disorders or upsets frequently taking place in December. The banking system had a fast rate recovery of the currency outside banks. In January, the currency outside banks reduced by Lek 5,1 from 5 billion flown in circulation, in December. The reduction of the currency outside banks in January in absolute terms was very akin to that of January previous year. Its growth rate encountering a significant fall in December almost remained at the same level even for January, current year. The return of the currency by the banking system was

accompanied with a fast growth of Lek deposits and tranquility of interest rates.

The Bank of Albania kept unchanged its monetary policy stance in January. A neutral monetary policy is applied in the conditions of reducing real inflation and forecasted inflation within the target band as well as improving the monetary condition. Such the Bank of Albania position has been further strengthened with the changing type of auction in December.

The Bank of Albania via its policy has guaranteed the observation of quantitative targets even for January. The Bank of Albania net international reserves had a USD 10 million growth in January. Such a growth has been mainly dedicated to the rising value of investments in EUR denominated securities, resulting from EUR appreciation against USD. Net foreign assets tracked increase in February, as a result of the Bank of Albania purchase of foreign exchange.

Grafik II – 1: Norma vjetore e rritjes së parash jashtë bankave dhe inflacioni.

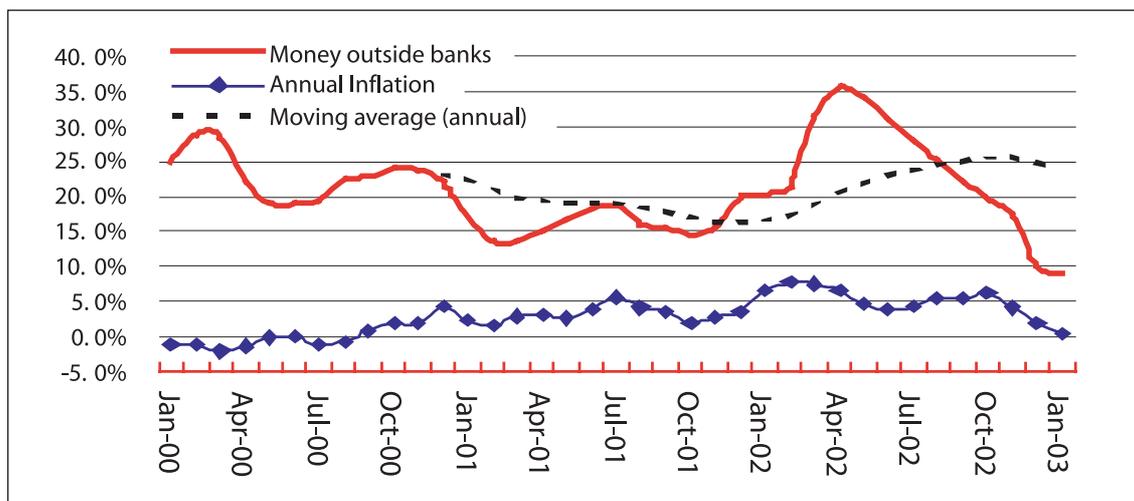


Table II - 1: Meeting the target set on NDA for 2002 (millions usd).

	June	September	December'02*	January'03*
Target	530.6	546.6	558.6	559.27
Current	550.1	570.9	563.1	574.0
Difference	19.5	24.34	4.49	14.69

*Operating data

The return of the currency in the banking system has affected the reduction of net domestic assets during January.

measurement of the third target that on the net domestic credit to government.

Anyway, this target was managed to observe or respect with a narrow difference of Lek 0,5 billion in November.

The lack of full data does not enable the

Table II - 2: meeting the target set on NDA for 2002 (Lek billion).

	June	September	December'02*	January'03*
Target	89.1	90.1	95.1	95.8
Current	87.6	83.5	85.9	79.7
Difference	-1.6	-6.60	-9.22	-16.11

*Operating data

Table II – 3. The performance of net domestic credit to government (Lek billion).

	June	July	August	September	October	November
Target	244.2	245.1	246.1	247.0	250.3	253.7
Current	246.8	249.1	250.1	247.0	250.4	253.1
Difference	2.6	4.0	4.0	0	0.1	-0.5

VII.2. MONETARY DEVELOPMENTS⁴

According to the operating data of January 2003, the performance of the currency outside banks and deposits in the banking system, manifests the same trends with January, previous year.

VII.3. LIQUIDITY PERFORMANCE OF THE BANKING SYSTEM

Liquidity condition by banks in the system had significant improvement during this part of the year. The lack of liquidity descended from Lek 3,4 billion, at the end December to Lek 1,3 billion

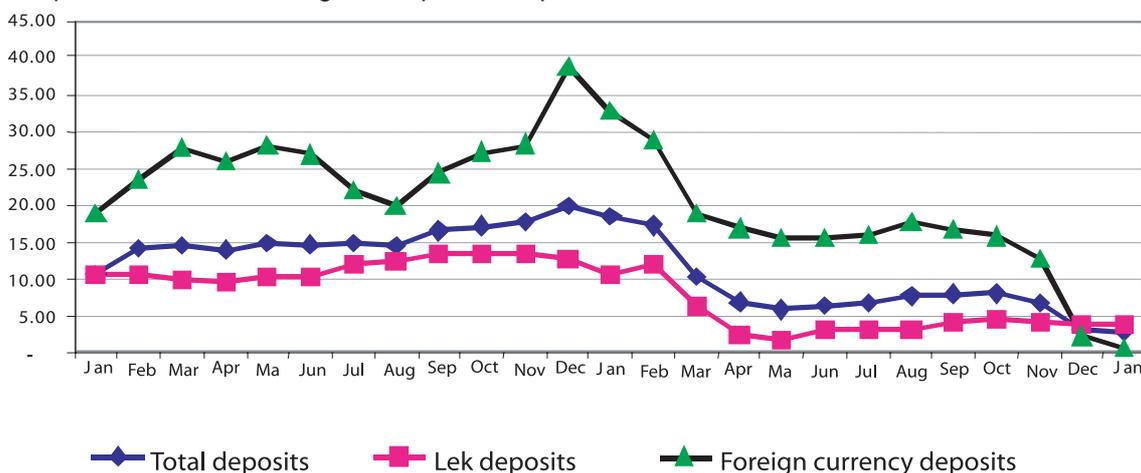
Table II – 4: monetary indicators in January (Lek billion).

	Absolute monthly change January 2002	January 2003
Currency outside banks	-3.5	-4.9
Total deposits	6.4	5.1
-in Lek	4.1	4.1
-In foreign currency	2.3	1.0
Required deposits	-1.6	-1.4
- in Lek	-0.3	-1.8
-in foreign currency	-1.3	0.4
Time deposits	8.0	6.5
- in Lek	4.4	5.9
-in foreign currency	3.6	0.6

The reduction of the currency outside banks has been accompanied with a high growth of total deposits, although at a lower rate, as previous year compared.

at the end of January. This trend continued even during the first weeks of January. According to the operating data as at January 14, banking system net borrowing by the Bank of Albania was practically 0⁶.

Graph II - 2: Annual change of deposits, in percent.



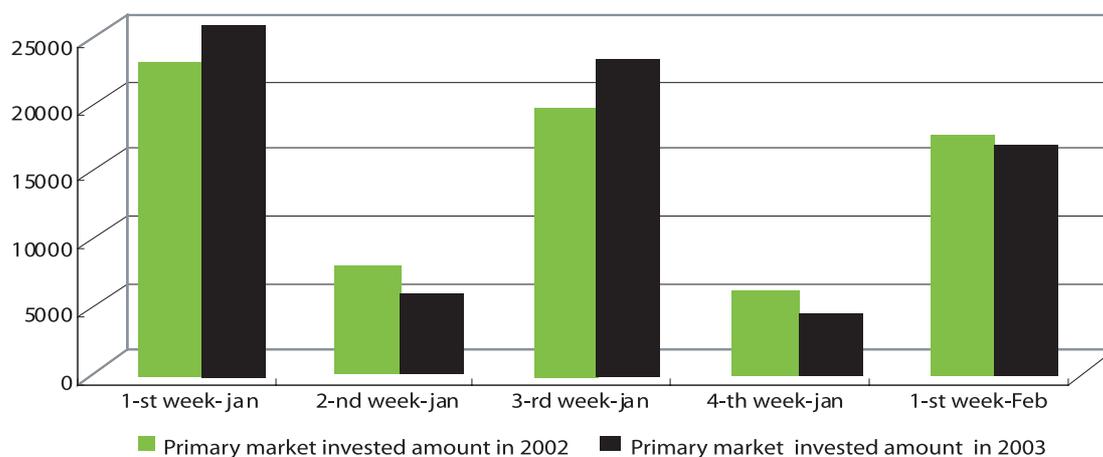
The main contribution in the total deposit growth has been utterly given by term deposits, while required deposits recorded decline.

The total volume invested in the primary market of treasury bills for the period under scrutiny has been higher than in the previous year.

⁴ For analyzing developments at the impossibility of using monetary survey data, operating data have been used instead.

⁶ Net borrowing in this date was only Lek 0,03 billion.

Graph II - 3: Primary market invested volume compared to the same period previous year (in millions of Lek).



Instances of not fulfilling government advertised amount in the primary market of treasury bills during 2003 have been more frequent than at the same period, previous year. The neutral policy followed by the Bank of Albania in this period has enabled the banking system net borrowing be prevailed by weekly Repo and Reverse weekly Repo (at about 71⁷ percent). For the first time after a 10- month period, the Savings Bank did not participate in the Reverse Repo weekly auction organized in the second week of February.

recorded a Lek 9,3 billion decrease of the deficit compared to the same period previous year. Nearly 80 percent of deficit financed from domestic resources was mainly from treasury bills and two-year bonds.

Budgetary deficit monthly growth rate has been low, compared to the same period previous year.

VIII. INTEREST RATE PERFORMANCE

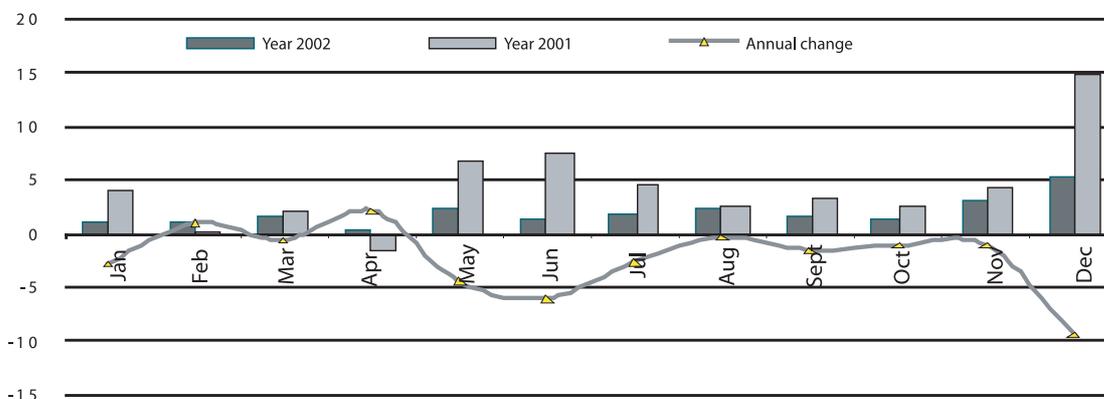
Interest rate performance has been generally stable during January and February. There have been noted lowering trends of deposit market and treasury bills yields in the primary market of treasury bills at the beginning of February.

VII.4. DOMESTIC CREDIT⁸

VII.4.1. NET DOMESTIC CREDIT TO GOVERNMENT⁹

At the end of 2002, budgetary deficit reached the value of Lek 23, 9 billion. December

Graph II - 4 : Budgetary deficit performance (in billions of Lek).



⁷ On daily average.

⁸ At the lack of data on credit to economy this section has been reduced on net credit issued to the government

⁹ These are operating data for December 2002 and February 2003.

MONETARY POLICY INSTRUMENTS: HOW TO CHOOSE & THE BANK OF ALBANIA OPERATIONAL FRAMEWORK*

LECTURE HELD BY THE GOVERNOR OF THE BANK OF ALBANIA, PROF. SHKËLQIN CANI, AT THE AGRICULTURE UNIVERSITY OF TIRANA - MARCH 2003

INTRODUCTION

A central bank monetary policy is materialized through instruments used by it. To successfully achieve its targets set, a central bank first must be first off all disposed of an efficient instrument through it can materialize its decisions undertaken by the board of directors or other decision-making organs. Therefore, in our every day practice, it is created the expression, randomly recognized, as monetary policy and instruments, incarnating the symbiosis of these two key elements of central banking.

A monetary policy instrument is nothing else but a concrete operation, a central bank undertakes to reach a predetermined target of economic policy.

To be less concrete, I will be taking an example, in the center of which lies a fragile economy with an apathetic banking system, with undeveloped markets, where the financial intermediation is low, a high budget deficit, etc. Should inflation in this economy be constantly increasing for a moment of time, as a result of an expansionary monetary policy, which responding the high liquidity demands on government side and other economic agents to credit, increases the money supply continuously.

The rise in money supply implies that the central bank does nothing else but adds the cash amount in circulation, making the cash in the hand of the customers be ever growing, by so exercising a strong pressure on the extension of the overall balance of prices in economy.

Found in this situation, the central bank executive board undertakes the decision to set

inflation under control, implying that the central banks target the reduction inflation from the highest x rate to the lowest y, for a certain period of time, let's say, 1 year. There are some alternatives set before the bank in this moment. The question is how to control the frenetic increase of money supply so that it is in fine tune with the programmed rate of y inflation.

In this case, the central bank might be disposed of two possibilities to reach the wanted result, either with direct or indirect instruments of control. It can enforce the banking system straightforward restrictions such as for example to fix limits on commercial banks' credit capacities, to apply high rates on the partly mobilization of commercial bank deposits by its windows (arkat), it may enforce floor rates on new deposits taken from the banking system. All these are literally recognized as direct money market control or otherwise known as direct monetary policy instruments.

In another case, the central bank decides to indirectly impose its own decisions on the money market. As you may already know, central banks have the ability to enter in financial agreements with commercial banks. More precisely, this means that the central bank may credit an A bank when it needs liquidity, while it can attract the excessive liquidity in a deposit form by bank B.

Both sides of this financial relation, (between the central bank and commercial banks) are carried to a price, known as interest rate through which the central bank offers liquidity or otherwise called the core interest rate in economy.

*Lecture held by the Governor of the Bank of Albania, Mr. Shkëlqin Cani, at the Agriculture University of Tirana - March 2003

Figure 3. The role of interest rate in economy.

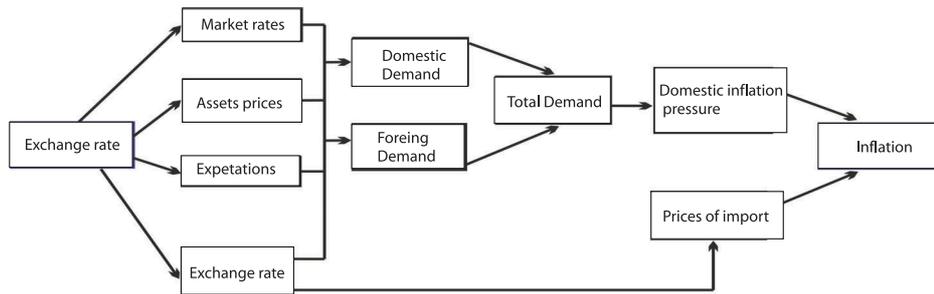


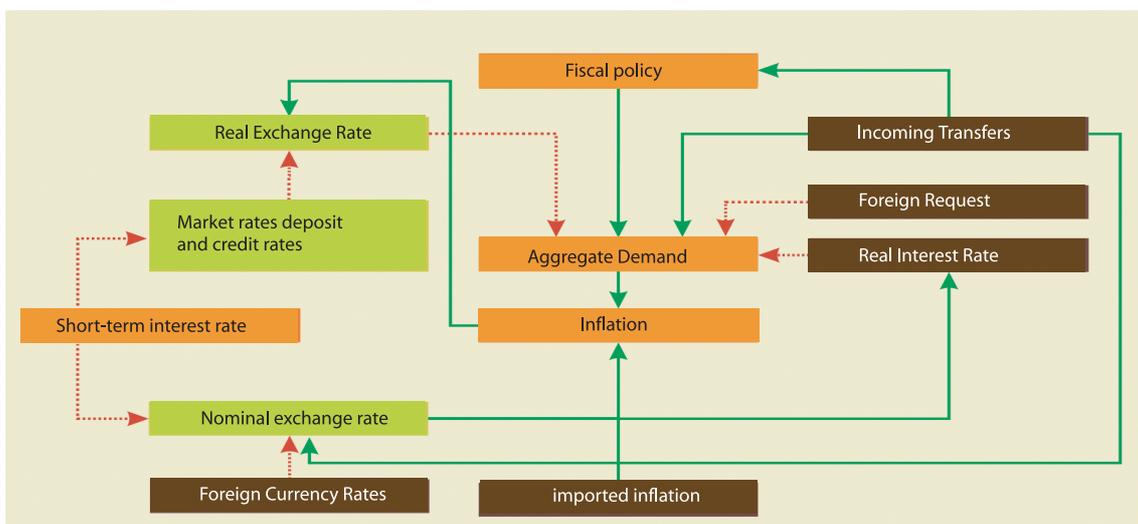
Figure 3. The role of interest rate in economy

In all the cases, when the bank wishes to reduce the money supply, it increases the core rate in economy and money price becomes higher as an aftermath. This makes investors and economic agents reduce their liquidity requirements, influencing the aggregate demand and inflationary pressures in economy, in this way. Actually, this does not happen so perfectly and immediately. As already known, reciprocal money lending relationships are not only a product of central and commercial bank relations. The financial market is much more spacious, as notion and its does not imply the money market, alone. There is another market called the capital market where free money is invested to replenish different corporate businesses. The securities market is another market where economic agents fulfill their liquidity needs through borrowing. There are other markets additionally to the financial market, as that of the foreign exchange, where the domestic currency is converted to other

foreign currencies or as that where are transacted real estates, etc.

My intention is not to explain markets and how they operate. Perhaps, this may be done, another time. What is really interesting for the moment is that either in the case of the central and commercial banks relationship or in the case, these markets have a price for every transaction, also recognized as interest rate, by literature. It is important to stress, that these interest rates as above explained that comprise the trading price are influenced by the change of core rate in economy although with a delay. This process of transmitting the effect of the changing the core rate in economy to other market rates, prevailing over financial market signals or markets, in general, is recognized as the process of monetary transmission, (see figure 1- the case of developed economies and figure 2 - Albania's case) which in the every day practice comprises the essence of the

Figure 2. Monetary policy current frame.



mechanism that explains the monetary policy efficiency over a certain time.

The entire process of controlling markets through the manipulation of the core rate in economy is recognized, as indirect market control or otherwise acquainted with the term, the use of indirect instruments of money control.

Both cases of monetary control have the same goal: money supply control, however, as evidenced, the way of reaching this control is reverse. Picking one alternative or another varies with the country.

Referring to our example on the above-described economy, I believe that you understand the reasons mentioned during the explanation of each of the cases, the central bank would be predisposed to select as direct instruments of money control, while it would have less opportunities to be successful, in case, it would tend to control the money supply through money market. Practically, the selective process per economy as that received, as an example is more difficult.

The second case is typical for developed economies, where the effect was maximal. This is for the simple reason that the markets development and mobility is high and a central bank reaction is immediately perceived and reflected at the same velocity.

On the other hand, another group of central banks in transition countries, where the Bank of Albania takes part, have adopted this system of money control that is monetary control through market instruments. Reverse from developed economies, the monetary control in our economies is not perfect, first of all this dedicated to the rate our banking system is developed, the financial market, banking infrastructure, etc.

However the current stage of monetary control by market instruments constitutes an achievement for these economies, considering that 10 years before, the majority of these countries operated on direct instruments of monetary control. This development indicates that although at a somewhat slower rate, markets in transition countries are ever more

growing and providing free spaces to the improving transmission of monetary policy decisions in economy.

THE EVOLUTION OF MONETARY POLICY INSTRUMENTS

The Bank of Albania monetary policy has currently accessed into a new and interesting phase of its development from the moment (the third quarter 2000), when it was finally resigned from the application of direct instruments of monetary control. For a relatively long time almost 8 years, the implementation of monetary policy was confined to two main instruments which were simply to administrative decisions of the Bank of Albania, consisting in the limited growth of outstanding credits from commercial banks and the obligation of state-owned banks to honor interest rate minimum on time deposits in Lek, proclaimed by the Bank of Albania.

CREDIT CEILING

An undeveloped banking system and the lack of a developed credit market (formal) imposed the Bank of Albania the necessity that from the middle of 1992 monitor the credit amount extended to the non-government sector through the application of credit ceiling for every bank of the system. To ensure this kind of flexibility as well as to encourage banks start with the simple forms of interbank transactions, it was deemed as rational that these limits be tradable between the banks.

Anyway, it must be asserted that the encountered problems were several, especially those related to reporting and supervising the observance of accorded limits. The new credit delivered to the private sector¹ commenced to grow with rapid rates and at the end of 1993 it shared 11 percent of the total credit compared to the 4 percent, in the previous year. For many subjective reasons honoring these rates/ limits, in any case, became impossible to achieve, lowering the efficiency of this instrument, in this way.

However, the addition of lending by the informal sector of economy gradually lessened the credit demand to the banking sector, while from May 1995, the banking system was added another investment alternative, the treasury bills. In this

¹Although it must be asserted that the starting point was very low.

way, the role of credit ceiling fell significantly, especially, after the crisis of 1997 when either for the applicable rates of bank supervision or the skepticism that characterizes the banking system to the private business, this instrument began to lose its sense, until it was finally resigned from its application in 1999.

INTEREST RATES

In historic context, prior to year 1992, the interest rate did not play any distributive role in economy. Throughout '80's the deposit rate remained unchanged, by the band of 0.5 – 3 percent, while credits rates were same with deposit rates. Although at November 1991, interest rates recorded an overall increase, they could not be competitive with the flared-up inflation, the economy was undergoing in this period.

With the initiation of efforts for the stabilization of economy in the middle of 1992, adopting a real interest rate in return was deemed as the main key in achieving the success, especially, for the mobilization of resources and financial investments. The first movement was increasing the minimum of time deposit rates in Lek from the low rate of 4-8 percent to 22² –32 percent. In response to the latter, credit rates increased significantly reaching the climax of 39 percent on 12- month maturity. The effect of this growth

in the first two – three years of transition was obvious and clear. The restraint of money bleeding coincided with a deposit growth in the system, while inflation was significantly restrained, constantly descending to one-digit figures at the end of 1995.

Not feeling the necessity to turn to the usury phenomenon, years 1996-1997 or somewhat earlier, perhaps, correspond to the collapse of interest rate and the monetary policy of that time, until we come to another period of a considerable administrative increase of time deposit rates in Lek. Inflation developments, verified over the period, 1999-2000, were uncommon and a constant easing of monetary policy conditions over this period was attributed to them. In this way we come to the third quarter 2000, when banks' reaction was not following the constant cuts of interest rates undertaken by the Bank of Albania. In these circumstances, it was taken into consideration a new re-conception of the entire operational framework of that time and it was decided that the Bank of Albania monetary policy be only based on the application of market instruments. More precisely, it was decided that the role of the core rate in economy pass over to the Repo rates, which transactions would be developed by systematic weekly³ auctions that would be organized by the Bank of Albania.

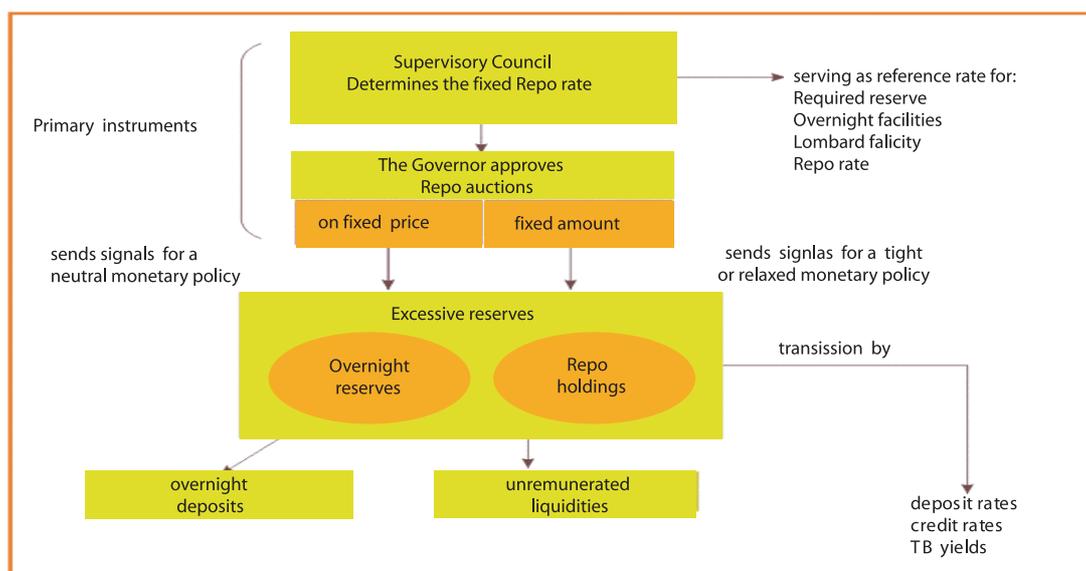


Figure 1. Monetary policy current frame

² 3- month deposit rate.

³ Subordinate to the Bank of Albania purposes, auctions may be based on - (i) repurchase agreements - to attract liquidity - or (ii) reverse repurchase agreements to inject liquidity in the market.

As also indicated by figure 3 the primary instrument of the Bank of Albania monetary policy is the fixed rate resulted from Repo weekly auctions, which is either offered by auctions, where the accepted amount is unlimited⁴ versus a fixed price or in other auctions where the accepted amount is fixed⁵ and the advertised price is at a limited rate depending on the signal, the Bank of Albania wants to deliver. Irrespective from the type of auction, the only scope is to monitor the liquidity in the system aiming its maintenance by optimal rates to ensure the maximum efficiency of transmission mechanism.

On the other hand, as it might be guessed, the fixed Repo rate serves as reference rate to other interest rates on the credit facilities the Bank of Albania offers to the banking system (a detailed presentation is given in the third question or subject-matter of this lecture).

OTHER INSTRUMENTS

Using some indirect instruments of monetary control is earlier in time and to this I will recall the application of the required reserve, the provision of a number of credit facilities on the behalf of Bank of Albania, etc. However, it must be stressed that that the latest years have recorded gross movements with respect of the Bank of Albania operational framework and more precisely I will evidence in short the list, the status, the goal etc of monetary policy instruments actually under the Bank of Albania disposal.

OUTRIGHT SALE PURCHASE SECURITIES

Permanent securities transactions can be applicable in those cases when it is requested sterilization of market on a stable basis. Actually serving as applicable instrument for these transactions are treasury bills with up to one-year maturity and remaining term to maturity, not less than 14 days.

In 2001, there have been performed two permanent transactions of treasury bills to an amount of Lek 8 billion and the Savings Bank has been the purchaser in both cases.

INTERVENTIONS IN THE FOREIGN EXCHANGE MARKET

Although the Bank of Albania has adopted a fully flexible exchange rate regime, still it has been market present throughout all the time, in most cases to avoid domestic currency (Lek) speculations. In the case of foreign currency transactions, these might be on outright or swaps basis. Such cases have been present in 2002. In March–April period, this year, the Bank of Albania has performed USD 6 million sale transactions, while in December it has purchased something more than USD 2,5 million. In the same way, we have purchased foreign currency in the first quarter, current year.

CREDIT FACILITIES

LOMBARD FACILITY

Lombard facility is introduced relatively early, however it must be asserted that it has been used in very rare⁶ cases. It is understood that its goal is classic and provides assistance to banks with temporary⁷ liquidity problems and is considered as the last credit resort, after all other possibilities have been preliminary exhausted. Actually, it comprises the most expensive rate offered by the Bank of Albania to the system.

Lombard facility price⁸ is set as an amount of Repo rates plus a penalty at 6 percent.

OVERNIGHT CREDIT

The banking system is provided with this facility in the last year and bears the goal to supply special banks with overnight liquidity in need of it. By the name given, it is understandable that the overnight credit must be paid in the next

⁴ In this case, it can be asserted that market is given or delivered a neutral monetary policy signal as it is actually taking place since the last spring.

⁵ Repo auctions initially consisted in the receipt of the previously announced or advertised amounts against a ceiling price also announced as well. By means of this operation, the market was delivered or transmitted a clear signal on cutting the interest rates further.

⁶ For 2000-2002, it has been only once used.

⁷ Its maturity goes up to three months and can be earned only once in a month.

⁸ Actually its price is 13 percent.

day and its price⁹, the same as the Lombard facility is based on the price of the weekly Repo rates plus a penalty of 2.5 percent. Overnight¹⁰ credits have been used relatively rare.

REQUIRED RESERVE

The required reserve is one of the fewest instruments of the indirect control mainly applicable from July 1992 that has kept the same rate of 10 percent from that time onwards.

The required reserve is accountable on all deposits¹¹ (commercial bank liabilities against the thirds) either in domestic or foreign currency. A recent novelty, corresponding to October 2002, when the Bank of Albania with the only goal to reduce the banking system financial intermediation costs offered a remuneration rate initially at the 1/3 of market rates¹² and starting from the first quarter 2001 based on the good will to have a faster effect the remuneration rate shifted from 1/3 to 1/2 of market rates.

OPEN MARKET OPERATIONS

Open market operations have key role in monetary policy transmission to the banking system. They are aimed at the settlement of the market rate manage the market liquidity and transmit banks signals related to the monetary policy to be followed by the Bank of Albania. Open market operations, for which ones the Bank of Albania decides the type of instrument to be applied as well as the respective terms related to their execution, are an exclusivity of the Bank of Albania.

By the end of application open market operation are cleft into main market operations, settlement and structural operations. Repurchase agreements as the main market instrument can be used for the above three scopes, whereas outright transactions can be used only for structural or settlement intentions.

REPURCHASE AGREEMENTS

TYPE OF INSTRUMENT

Repurchase agreements are open market operations during which the Bank of Albania sells securities to the commercial banks and repurchases them at a previously assigned date pursuant to the terms preset. Meantime that reverse repurchase agreements are open market operations during which the Bank of Albania purchases securities and repurchases previously assigned date pursuant to the terms of the contract.

THE LEGAL NATURE OF THE INSTRUMENT

Securities, traded through developing (reverse) repurchase agreements, are preliminary purchased by the Bank of Albania or the commercial banks either in the primary or the secondary market of treasury bills.

Only (reverse) repurchase agreements are considered as collateralized loans, where the collateral is 115 percent worth the bid amount in the auction. This amount should be minimally Lek 5 million or can be amplified by Lek 100 thousand multipliers. Serving as collateral are treasury bills on initial maturity term up to one year or remaining term to maturity less than 14 days.

MAIN MARKET TRANSACTIONS

Repurchase (reverse) agreement on weekly term is considered main market operation and the Bank of Albania core instrument for implementing monetary policy. Essential characteristics of repurchase (reverse) agreements can be summarized, as below:

- The purpose of their application is settling market operations, managing liquidity and signaling the direction of the monetary policy.
- Are fixed amount and diversified price

⁹ Actually its price is 9.5 percent.

¹⁰ Until October 31, 2001.

¹¹ To be exempted here are interbank deposits, respectively for USD and Euro reserves.

¹² 1/3 of 3-month treasury bill yield for Lek reserves and 1/3 of monthly deposit rate in USD and EUR, respectively for USD and Euro reserves.

- auctions or fixed price and unlimited amount auctions.
- The Bank of Albania Supervisory Council approves repurchase and reverse repurchase agreements fixed interest rate. This rate serves as maximum or minimum rate applied on diversified price auctions.
- Organized auctions for these kinds of agreements are weekly and of standard type.
- This instrument has a seven-day maturity.
- All commercial banks, holding accounts by the Bank of Albania, have the right to participate these auctions.
- Their using purpose is the settlement of the unexpected fluctuations in the market.
- These auctions are fast type and their frequency is not standardized.
- The interest rate refers to the fixed interest rate of repurchase and reverse repurchase agreements on seven-day maturity approved by the Bank of Albania Supervisory Council.
- All commercial banks, holding accounts by the Bank of Albania, have the right to participate these auctions.

AUCTION PROCEDURES

Open market operations in the Bank of Albania are developed in auction form. Box 1 summarizes the steps followed during the organization and the development of auctions. The Bank of Albania operates on two types of auctions, the standard and the fast type auction. The procedures for both types of auctions are identically the same, except for the time of organization.

STRUCTURAL TRANSACTIONS

Applicable instruments for structural transactions of open market are repurchase and reverse repurchase agreements on monthly or quarterly maturity and outright transactions. Down-listed are the characteristics of one-month and three-month repurchase agreements and reverse repurchase agreements:

- The purpose of using these auctions is the settlement of structural positions and the management of liquidity (the addition or diminution on temporary basis).
- The auctions for these kinds of agreements are fast type and are not preliminary fixed.
- Applicable interest rates on these agreements refer to market rates at the time of announcing the auction.
- The Bank of Albania has the right to refuse the requests, having a high difference from the current market rates.
- All commercial banks holding accounts by the Bank of Albania have the right to be participants in these auctions.

STANDARD AUCTIONS

Standard auctions are executed 24 hours after the announcement made by the Bank of Albania Monetary Operations Department. These auctions are weekly held on Wednesday or in the subsequent day, when Wednesday is an official holiday. The first diagram presents the stages of developing standard auctions. Only the auction of main market operation, that is the repurchase and reverse repurchase agreements, is standard.

FAST- TYPE AUCTIONS

Fast-type auctions are developed on repurchase and reverse repurchase agreements on overnight, monthly or quarterly maturity. They are held as many times as the Bank of Albania deems them rational. For repurchase and reverse repurchase agreements on overnight maturity, these types of auctions are held within two hours from the announcement made by the Monetary Operations Department, while monthly and quarterly agreements are held within 4 hours from the announcement.

SETTLEMENT OR CLEARING TRANSACTIONS

For the execution of the settlement of open market operations, overnight, monthly and quarterly repurchase and reverse repurchase agreements and outright transactions. Operational features of repurchase and reverse repurchase agreements on overnight maturity consist in:

FIXED AND DIVERSIFIED PRICE AUCTIONS

The Bank of Albania operates on two types of auctions: fixed and diversified price auctions. Fixed price auctions intimidate the auction based on repurchase and reverse repurchase agreements organized by the Bank of Albania in which the participants fill their bidding requests according to the repurchase interest, fixed by the Bank of Albania. Meantime that, in the diversified price auction filling the application forms or requests is made according to the repurchase interest required by banks but not higher/ lower than the repurchase interest offered by the Bank of Albania.

ADVERTISING AUCTIONS

- maximum minimum or fixed interest rate
- date and time of developing auction
- the date of effecting the reverse transaction
- date of clearing and settlement of accounts.

Either for the standard or the fast auction, there are followed the same procedures for pronouncing auction notifications.

DELIVERY OR SUBMISSION OF BID OR APPLICATION FORMS FOR PARTICIPATION IN THE AUCTION

Second-tier bid forms or requests for participation in REPO or Reverse Repo auction must contain the following information:

Box 1: Operational steps on developing auctions

Step 1: Advertising the auction

The Bank of Albania informs all banks on the type and terms of auctions through one of the information systems such as SWIFT, telex REUTERS fax or official document.

Step 2: The delivery of application forms

Banks send their requests or bid forms to participate in the auctions through telex REUTERS fax or official document at the Bank of Albania Monetary Operations Department

Step 3: Examination of bid forms or requests

Bank requests or bid forms to join the auction are examined by a permanent commission, replaceable, in case of absence of any of its permanent members, by specialists from Monetary Operations and Monetary Policy Departments and the Ministry of Finance.

Step 4: Filling the bid forms and the notification on the auction result

- a. the commission determines the way the bid form shall be filled up.*
- b. After the termination of auctions, participating banks receive the respective notification on auction results.*

Step 5. Advertising auction results for all banks

Step 6. Settlement or clearing after terminating action

The message delivered to the banks on the organizing auctions on Reverse repurchase agreements contains the following information:

- number of auction
- type of auction (sale/ purchase)
- kind of auction (diversified/ fixed price)
- the amount bid/required to participate the auction
- the date of organizing auction,
- the number of auction,
- the type of auction (sale/ purchase from the Bank of Albania view point),
- the date of performing the reverse transaction or operation,
- name and information of the bank requesting participation in the auction,
- bid amount in Lek (in figure and words),

- the amount of treasury bills to be used as collateral (in case of using the collateral),
- repurchase interest, expressed by two digits after the comma, only in the case of multilateral diversified price auction,
- the name and the signature of the authorized person.

Bids or application forms, detected on lack of information, or submitted later than the last date, are not considered for participating auction.

PROCEDURES FOR FILLING THE REQUESTS OR BIDS FORMS (FIXED PRICE AUCTION)

In fixed price auction organized on Repo or reverse Repo, banks state only the requested amount by the auction (bid amount). The commission responsible for organizing this type of auction accounts commercial banks aggregate demand paying or receiving from them the interest rate approved by the Bank of Albania Supervisory Council (according to the type of auction; sale or purchase).

PROCEDURES FOR FILLING BID FORMS OR REQUESTS (MULTILATERAL DIVERSIFIED PRICE AUCTION)

In multilateral or diversified price auctions organized on Repo or reverse Repo agreements, banks specify the amount and the interest rate they request. Banks requesting a higher/lower than the maximum/minimum rate announced by the Bank of Albania are automatically unqualified.

The bid or application forms are ranked on ascending/ descending mode, according to their repurchase interests they have requested. If banks requested amount is lower or equal to the offered amount by the Bank of Albania all banks requests are automatically announced

winners. In cases when banks requested amount is higher than the Bank of Albania offered amount then the prorata is equally applied for all requests or bid forms with a higher/lower repurchase interests, however equal through them for the amount until it equals the Bank of Albania offered amount. the prorata shall be equal to the remaining amount to be distributed and the amount of higher lower or equal repurchase interest.

NOTIFICATION ON THE RESULTS OF THE AUCTION

After terminating the auction, the Bank of Albania notifies the participating banks on auction results. This notification includes the following information;

- the number of auction,
- the type of auction (sale/ purchase),
- kind of auction,
- date of auction,
- the date of performing the reverse transaction or operation,
- the date of clearing and settlement of the accounts;
- banks requested interest and amount;
- the Bank of Albania offered interest rate and amount
- the respective amount earned/ gained by the participating bank.

All banks of the system are notified additionally to the participating banks in the Bank of Albania organized auctions. The notification delivered to banks of the system contains the total bid/ offered amount and the total requested or claimed amount by participating banks and the total amount accepted by the Bank of Albania, while the specific requests of each bank and results related to them are made aware only to respective banks.

MARKET REACTION TO MONETARY POLICY DECISIONS*

The Bank of Albania monetary policy decisions on the change of core market rates are decisive for their interest rate behavior. Based on the Bank of Albania announcement on the change of monetary policy stance, markets ensure the necessary information, serving as a signal on the change of interest rates.

Financial market development in Albania, which most developed structure is considered the banking sector, enables the Bank of Albania monetary policy decisions be mainly effective in money market, thus being limited at a time space, no longer than one year.

The Bank of Albania transmission of monetary policy decisions has its own features, in different

years, conditioned by the Bank of Albania instruments to transmit decisions on the money market developments, the structural changes, recognized by the banking sector, such as the addition of banks' number, the rising share of private banks to public banks, the addition of the active banks' number in the market, the gradual increase of competition by different markets, etc.

Hereinafter, we will try to analyze the Bank of Albania transmission of monetary policy decisions in the money market, by different periods to evidence the developments, this process has undergone either from the viewpoint of the progress or the obstacles to restrain this process improving efficiency.

Table 1. Bank of Albania monetary policy stance for period, 1997-2002.

Monetary policy signal	Core rate changing date	BoA main applicable instrument .	Core in interest change in p/p	BoA core interest rate
Year 1997, 8 times changed		Time deposit rates for utterly state-owned banks		
Tight policy	January 30	12- month 6- month 3- month	+3.0 +2.5 +2.0	22.0 21.0 20.0
Tight policy	March 5	12- month 6- month 3- month	+6.5 +7.0 +6.5	28.5 28.0 27.0
Tight policy	May 22	3 month	+7.0	34.0
Tight policy	June 27	3 month	+3.0	37.0
Mitigated policy	September 18	3 month	-2.0	35.0
Mitigated policy	November 10	3 month	-3.0	32.0
Mitigated policy	November 24	3 month	-2.0	30.0
Mitigated policy	December 3	12- month 6- month 3- month	-1.5 -2.0 -4.0	27.0 26.0 26.0
Year 1998, 5 times changed		Time deposit rates for utterly state-owned banks		
Mitigated policy	May 19	12- month 6- month 3- month	-3.0 -2.0 -2.0	24.0 24.0 24.0
Mitigated policy	June 18	12- month 6- month 3- month	-3.0 -2.0 -2.0	21.0 22.0 22.0

* Prepared by Suzana Sheqeri dhe Arta Pisha, Department of Research and Monetary Policies

Mitigated policy	August 24	12- month 6- month 3- month	-2.0 -2.0 -1.0	20.0 20.0 20.0
Mitigated policy	October 22	12- month 6- month 3- month	-2.0 -2.0 -2.0	18.0 18.0 18.0
Mitigated policy	November 12	12- month 6- month 3- month	-1.5 -1.5 -1.5	16.5 16.5 16.5
Year 1999, 6 times changed		Time deposit rates for utterly state- owned banks		
Mitigated policy	February 17	12- month 6- month 3- month	-1.5 -1.0 -1.0	15.0 15.5 15.5
Mitigated policy	May 27	12- month 6- month 3- month	-1.0 -1.0 -1.0	14.0 14.5 14.5
Mitigated policy	June 2	12- month 6- month 3- month	-1.0 -1.0 -1.0	13.0 13.5 13.5
Mitigated policy	July 7	12- month 6- month 3- month	-2.0 -2.0 -2.0	11.0 11.5 11.5
Mitigated policy	September 14	12- month 6- month 3- month	-1.0 -1.0 -1.0	10.0 10.5 10.5
Mitigated policy	November 3	12- month 6- month 3- month	-1.00 -1.25 -1.25	9.00 9.25 9.25
Year 2000, 3 times changed		Liberalisation of time deposit rates for utterly state-owned banks and passing to use of Repo auctions		
Mitigated policy	January 19	12- month 6- month 3- month	-0.50 -1.00 -1.25	8.50 8.25 8.00
Mitigated policy	March 29	12- month 6- month 3- month	-0.50 -0.75 -1.00	8.0 7.5 7.0
Liberalization of 6-month interest	May 17			
Mitigated policy	June 7	12- month 3 month	-0.25 -0.50	7.75 6.50
Liberalisation of 12-month interest	July 19			
Mitigated policy	July 27	Fixed amount and diversified price Repo		9.00
Mitigated policy	August 3	Fixed amount and diversified price Repo	-1.50	7.50
Mitigated policy	August 10	Fixed amount and diversified price Repo	-0.50	7.45
Mitigated policy	August 17	Fixed amount and diversified price Repo	-0.15	7.30
Mitigated policy	August 31	Fixed amount and diversified price	-0.30	7.00

Mitigated policy	September 7	Fixed amount and diversified price Repo	-0.10	6.90
Mitigated policy	October 5	Fixed amount and diversified price Repo	-0.40	6.50
Liberalisation of 3-month interest	October 6			
Year 2001 only once changed		Repo and Reverse Repo weekly auctions		
Mitigated policy	March 1	Fixed amount and diversified price Repo		6.5
Neutral policy	May 2	Repo me çmim fiks		6.5
Tight policy	August 22	Repo me çmim fiks	+0.5	7.0
Year 2002, 3 times changed		Repo and Reverse Repo weekly auctions		
Tight policy	March 21	Fixed price Repo (s)	+0.5	7.5
Tight policy	April 10	Reverse Repo on multilateral diversified	+1.0	8.5
Neutral policy	December 10	Reverse Repo on fixed price		8.5

According to the data of table 1, the Bank of Albania has 26 times signalized the market on the change of the core rate or at 4.3 times as yearly average, over the period 1997-2002. From these, 22 times or 5.5 times average in a year corresponds to the period 1997-2000, in which period, signaling monetary policy stance in the market was realized through the direct instrument of time deposit rates on public banks or 4 times only or 2 times a year through the indirect instrument of the weekly rates.

The Bank of Albania transmitted market signals have been released for the most of the period taken under study. Years 1997 and 2002 comprise exemptions from this period, during which the Bank of Albania monetary policy signals for the most of the period have been tight. The market was 4 times signalized on monetary policy tightening in 1997 and 2 times signalized in 2002. Although the Bank of Albania monetary policy stance has been the same for both periods, there have been changes between them, lying in the way of transmitting monetary policy decisions, the applied instrument, the frequency of transmitted signals in the market, the size of the changing core rate, which has been much higher in 1997, compared to 2002, etc.

The Bank of Albania monetary policy stance in both periods has been dictated by shocks of the banking sector in these periods, more precisely by the financial crisis of year 1997 or namely after the fall of the pyramid schemes, helped by the weaknesses of the banking sector and the deposit panic in spring 2002, which was a pure incident of the banking sector. The Bank of Albania was positioned in the role of the insurer of the financial system stability, aiming return of the public confidence in the banking system.

The aggressive increase of the core interest rates during January- June 1997 indicated that the return of the liquidity in the system was efficient. After the insolvency of the pyramid schemes, which attracted a large part of deposits, banks quickly reacted with the interest rates increase.

The applicable instrument conditioned the velocity of reaction, regarding the increase of the time deposit rates, in this period, which was administratively obligatory to apply by public banks. Meantime, other banks of the system were forced to track changes of interest rates by public banks so as to not lose weight in the Lek deposit market, remaining attractive for the broad public.

The data of table 2 indicate that monetary policy tightening was transmitted by the deposit market at 9.5 percentage points on 12-month deposits and 8.5 percentage points on 3-month deposits during January- March or about 77.2 percent on 12-month deposits and about 65.4 percent of 3-month deposits during January- March. In April, it was attained full or 100 percent transmission of it.

rates in Lek dictated banks raise the costs on the new deposits taken. Banks of the system transmitted coverage of the created cost in the primary market of the treasury bills, leading to a fast and parallel increase of the treasury bills' yield. Increasing the yield as per maturity terms was consistent with the increase of the time deposit rates in Lek for the same maturity terms. It was higher on 3-month treasury bills from 20.4

Table 2. Reaction of time deposit market in Lek, in percentage points.

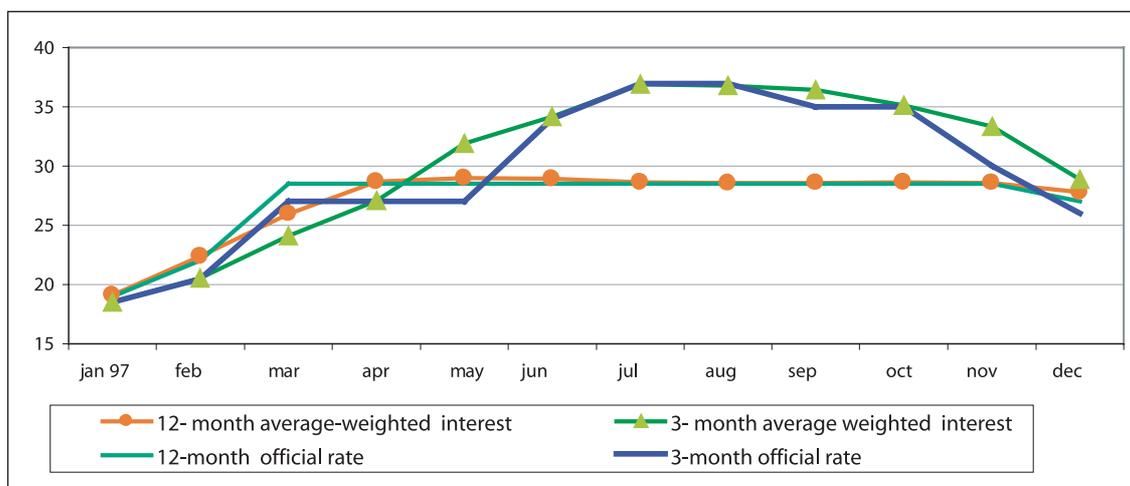
	12-month deposit rate	3-month deposit interest
January – March 1997		
Core interest change	+9.5	+8.5
Market reaction		
January - March	+6.86	+5.58
January – April	+9.59	+8.51
Maj –June 1997		
Core interest change		+10.0
Market reaction		
May – July		+9.84
September – December 1997		
Core interest change	-1.5	-11.0
Market reaction		
September – December	-1.17	-7.99

Worth mentioning for the above period is that deposit market was dominated by public banks, at 93.9 percent.

percent in January 1997 to 38.22 percent in August¹ (or 17.82 percentage points) and lower for 12-month treasury bills from 22.5 percent in January 1997 to 35.5 percent in August 1997 (or 13 percentage points).

However, this administrative increase deposit

Graph 1. deposit market behavior against monetary policy decisions for 1997, in percent.



¹ Yields recorded the highest level in August.

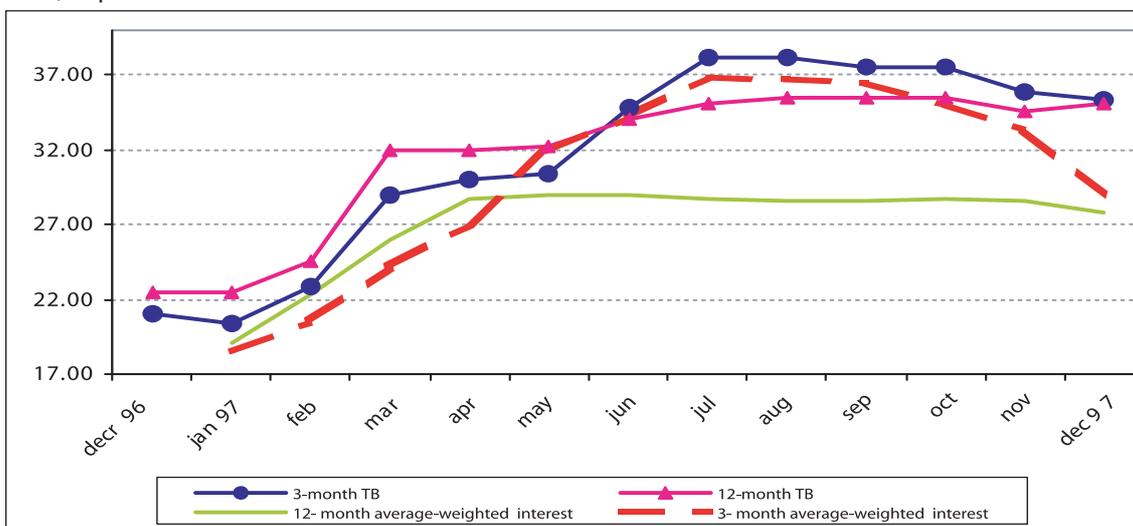
Tabelë 3. Treasury bill market reaction, in percentage points.

January – March 1997		
Core interest change	+9.5	+8.5
Market reaction		
January - March	+9.49	+7.80
January – April	+9.49	+8.92
Maj –June 1997		
Core interest change		+10.0
Market reaction		
May – July		+8.19
September – December 1997		
Core interest change	-1.5	-11.0
Market reaction		
September – December	-0.50	-2.92

Reverse from the deposit market, the primary market reaction of treasury bills is the highest of the period of changing the core rate, indicating a faster transmission of the monetary policy tightening in this market. The velocity of deposit market reaction is significantly higher, compared to treasury bills' market.

behavior even during the period monetary policy mitigation. The flexibility of the monthly average rate is very high, this year. Meantime, the spread on 12-month maturity recorded a rising trend from 3.4 percentage points in January to 7.2 percentage points in December 1997, recoding a monthly average of 5.2 percentage points. The profit

Graph 2. Yield behavior after the Bank of Albania interventions in the primary market of treasury bills, in percent.

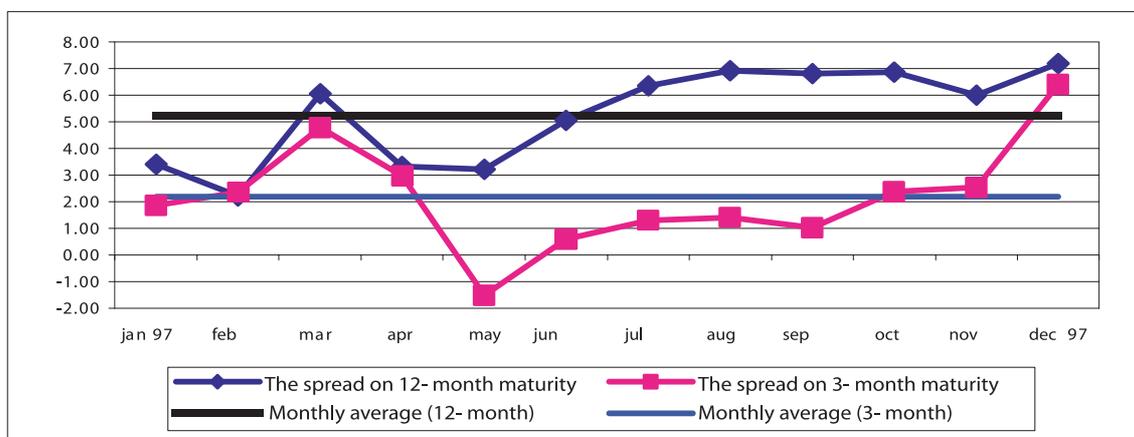


Intertwining these trends under loosened or relaxed circumstance has affected increase of interest spreads by both markets, respectively. While, the spread between 3- month deposit rates and treasury bill yields is expanded to 4.77 percentage points at the beginning of monetary policy tightening, it demonstrates the same

margin on this maturity is apparently very high.

Either the period of monetary policy contraction or alleviation is accompanied with interest spread expansions, disclosing a market with low level of competition and the administrative impact on the level of interest rates by the deposit market, in Lek.

Graph 3. The interest spread between deposits and treasury bills of 3- and 12- month maturity and average rate, in percent.



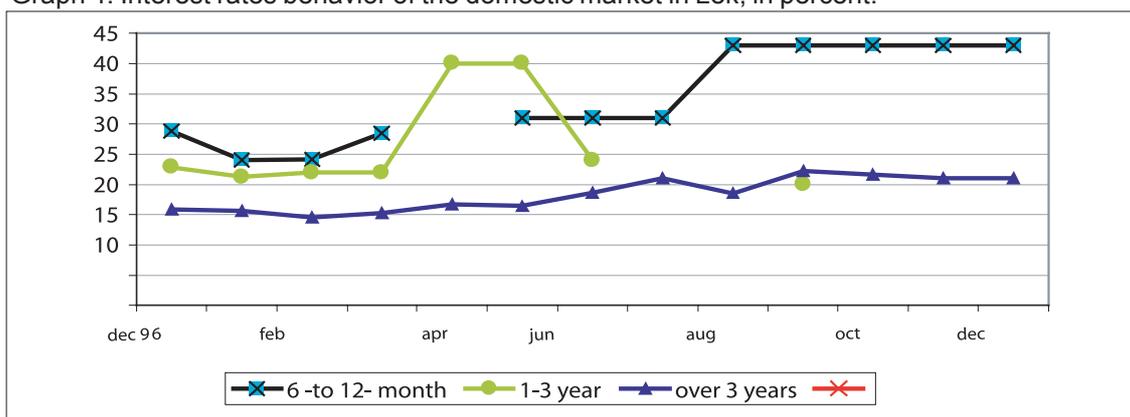
Also alongside with the moving spreads on the same maturity in different markets, it is evidenced that profit margin has been higher for long-term maturities against a lower margin on short-term maturities. Maintaining these spreads by profit margin per different maturities comprises unmerited profit for banks, indirectly increasing the budgetary deficit and the domestic debt.

The credit market in Lek displays the same situation, as well. Although the spread between time deposit rates and credit rates, after increasing the deposit rates was high, banks added applicable interests for accorded credits

interest rate for over 3-year credits extended from 15.7 to 21.02 percent, (or 5.32 percentage points).

Higher interest rates on 3-month deposits, compared to the rest of the maturities were accompanied with the higher interest rates by short-term maturities, either on the treasury bills or the credit market, dictating a fast increase of the budgetary deficit and decrease of profit rates for businesses accredited by short-term periods. In general, the Bank of Albania transmission of monetary policy decisions in 1997 is considered fast and complete with one-month lag by all markets and maturities. Interest spreads for the same maturity terms indicate a high fluctuation

Graph 4. Interest rates behavior of the domestic market in Lek, in percent.



in Lek, passing a part of their cost under credit to economy. The applicable interest rate on 6-month to 1-year credits went up from 24 percent in January to 43 percent in December (or 19 percentage points), whereas the applicable

on one-year maturity during the year. This behavior indicates banks' propensity to gain high profits, whereas the administrative form of signaling monetary policy in the deposit market dictates the high fluctuation. On the other hand,

the Savings Bank dominant position by the deposit market made more difficult the competition of other banks of the system in the play of interests in the primary market of treasury bills and the credit market in Lek.

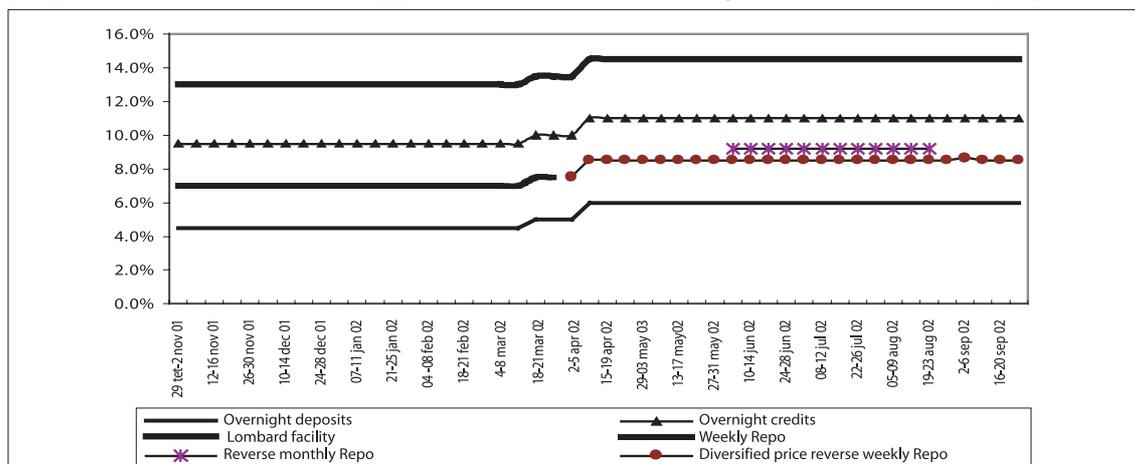
The second time shock of the banking sector from the unexpected creation of the deposit panic conditioned the Bank of Albania monetary policy decisions in 2002. This situation was accompanied with the extension of the currency outside banks² the rise of inflationary pressures³, the fluctuation of exchange rate. The created panic in the ranks of depositors created an immediate deficiency of liquidity in the system, which was transmitted by the deposit market as affected banks by the panic were not disposed of the sufficient liquidity to cover depositor requests in the primary market of treasury bills as the banking system did not meet the government offered amounts in the primary market⁴.

The Bank of Albania intervention was fast and according to a measure plan. In the market, it was utterly intervened with indirect instruments to provide the market with the required liquidity. The Bank of Albania changed the position from liquidity attractor to liquidity injector, enabling weekly injection in the market. Parallel to this, there were used other instruments to such as outright purchases and sales, overnight credit, Lombard facility and monthly Repo(s). Meantime, to increase the cooperation between

the banks, it was interrupted the application of overnight deposits in the first ten days of April. The primary market of treasury bills immediately and apparently transmitted the rapid and unexpected shrinkage of the deposits stock by the National Commercial Bank. The market could not fulfill government needs for financing. For the uncovered part of domestic financing, the Bank of Albania accorded a direct credit, honoring the permitted limits for 2002.

Such market intervention fulfilling the liquidity needs was necessary to guaranty the system stability. For the time ahead, of priority would be the return of the lost public confidence by banks of the system. The Bank of Albania increased the Repo rate, based on the experience of 1997. The Bank of Albania twice signalized monetary policy tightening to mid-April. Although the Bank of Albania monetary policy signals were tight as in 1997, the compatibility of markets' reaction indicates difficulty with some respects. More precisely, interest rates' increase in 2002 was not at the same size with that of 1997 and the transmission of deposit market decisions was indirectly and administratively not obligatory. Other instruments, affecting the level of interest rates and the number of market players had changed. The Bank of Albania monetary policy in 2002 was implemented through indirect instruments only. In the market, it already existed an experience of a market and interbank market oriented corridor of interest rate, although not fully formulated yet.

Graph 5. The Bank of Albania applicable interest rates through indirect instruments, in percent.

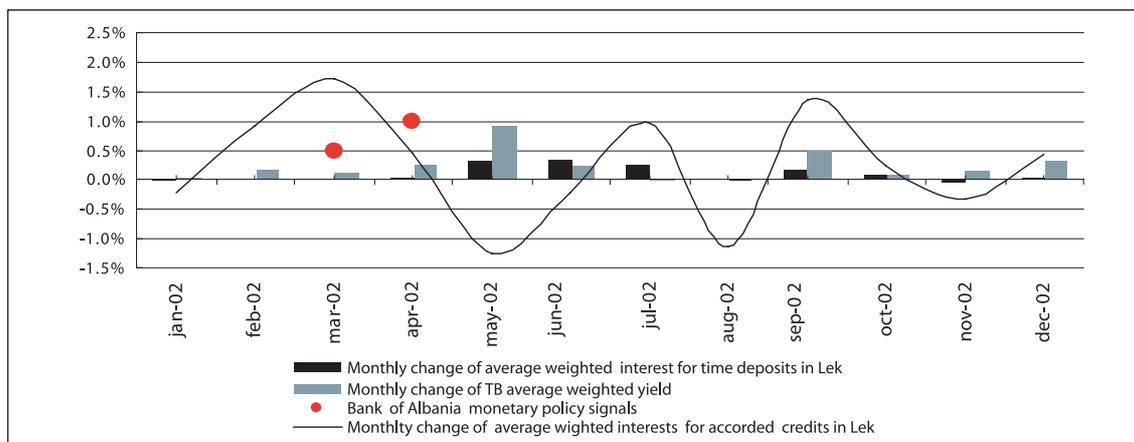


² March and April were accompanied with a rapid increase of Lek 16,4 billion.

³ The increase of prices was mainly demonstrated in the level of prices by agricultural products, especially, in the districts of Vlora and Fier, where the phenomenon of deposit withdrawal was more noticeable.

⁴ This was an expected phenomenon, as the two banks share included in the deposit attraction by the treasury bills portfolio, owned by commercial banks, accounted for nearly 89.9 percent.

Grafik 6. Sinjalet e Bankës së Shqipërisë dhe reagimet në tregje (në pikë përqindjeje).



Utterly different forms of transmitting monetary policy stance and the flexibility offered by the indirect instruments applied, compared to the direct ones dictated another form of market behavior from that of 1997. Meantime, this market demand for liquidity was higher, than the supply.

Signalizing the market on monetary policy contraction, intertwined with the higher budget demand, compared to the nominal value of the maturity terms, in every organized auction, previous year, mainly due to the non-

signals were transmitted at 81.3 percent on 12-month treasury bills and at 96.0 percent on 3-month ones. In May, the rise in 3-month maturity exceeds the Bank of Albania increase of core interest. The increase of the treasury bills yield presents their fastest increase by the short-term maturities, bringing a flattening of the interest rates curve in time, which stretched to August. Generally, interim a two months period, the Bank of Albania managed the full transmission of its monetary policy signal on short term, 6-month and 12-month treasury bills.

Treasury bills yields indicated rising trends in

Table 4. TB market reaction, in percentage points (p/p).

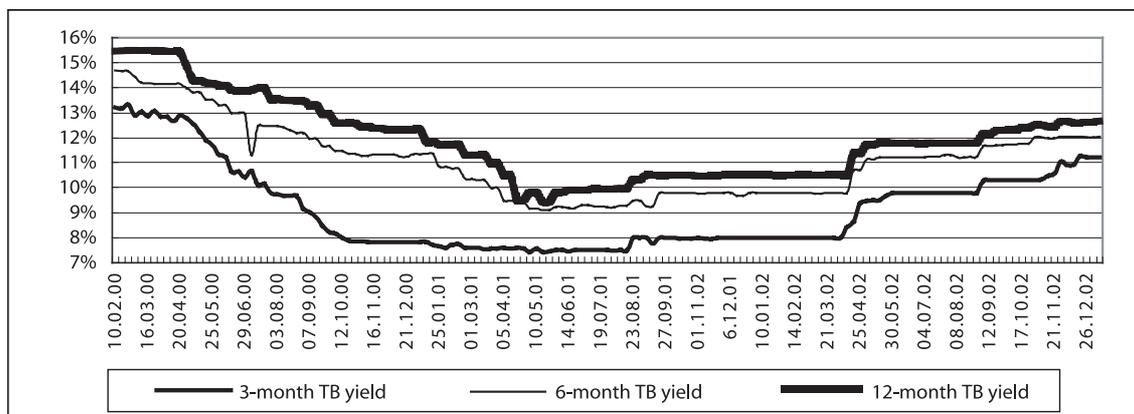
	Repo rates	12-month TB yield	3-month TB yield
March – April 2002			
Core interest change.	+1.5		
Market reaction			
March – April		+1.22	+1.45
March- May		+1.31	+1.81
March- September		+1.78	+2.31
March – December		+3.21	+2.13

accomplishment of privatization receipts, affecting the acceleration of the rising yield of the treasury bills for all maturities. Increasing the treasury bills yield was instantaneous, but not complete. Only for April, monetary policy

September and October, accompanied by stronger growths in September⁵. To the end of the year, the increase of the 12-month treasury bills was two fold that of the core rate, whereas the 3-month treasury bills accounted for 1.42

⁵ Not only as a result of the higher increase of the government demand than the market supply but also as a result of the slow regeneration of the liquidity after the massive deposit withdrawals and the cost created by the payment of the insurance prime to the Deposit Insurance Agency.

Graph 7. The average weighted yield in the primary market of treasury bills (in percent)



times higher, than that of the core rate. The operation was slower and timely distant from the deposit market in Lek. Banks affected by phenomenon of the deposit withdrawal reacted for the first time in May and at a small percentage. The Saving Bank, increasing the deposit interests to this range, did not deliver the expected effects on broad public reaction. Such a thing dictated a second time increase of interest rates in June.

The Bank of Albania marked full transmission of its monetary policy decisions in the deposit market at the end of the 12- month term or only 8 months later, while it was managed to transmit 71 percent on 3-month deposits.

However, reverse from 1997, the spread between deposit rates in Lek and the treasury bills yield by respective maturities is apparently

Table 5. Leks Deposits market reaction, in percentage points (p/p).

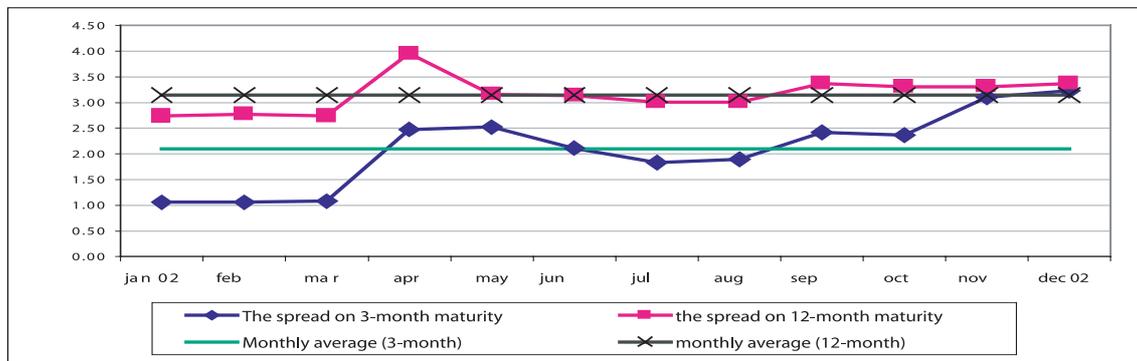
	Repo rates	12 month deposit rate	3-month deposit rate
March –April 2002			
Core interest change	+1.5		
Market reaction			
April		+0.01	+0.06
April-June		+0.88	+0.78
April-July		+0.99	+1.05
April-December		+1.50	+1.07

To the end of July or four months later from the delivery of market signals, the deposit market reflected the Bank of Albania signals at a pleasing rate.

It is evidenced that the Bank of Albania monetary policy signals in the deposit market were transmitted at 66.0 percent on 12- month deposits and 70 percent on 3-month deposits.

lower and demonstrates a small fluctuation. This spread presents as stable on 12- month maturity. Variations of this spread during the year have been generally at lower rates and mainly expanded during the period of monetary policy tightening. In spite of the rising trend throughout the year, it has been moving by narrow rates of 2.7 and 3.3 percentage points, again. Meantime that the spread on 3- month maturity

Graph 8. The spread between 3-and 12-month deposit rates and treasury bills yield and their average rate, in percentage points.



is much more expanded compared to 12-month maturity, increasing from 1.06 percentage points, in January to 3.23 percentage points, in December. Its fluctuations have been higher compared to the monthly average rate for 2002, indicating that banks have a tendency to ensure a faster profit under a certain time limit.

The credit market reaction continued to be weak in ratio to monetary policy signals. The lack of liquidity in the system was apparently transmitted in the primary market of treasury bills, but did not bear an impact on credit market to economy. Additionally to other factors such as the changing structure of new credits, the not so high competition, and their concentration in foreign currency, mainly, was conditioned by the fact that banks affected by the shock had a low or an almost zero rate of accorded credits in Lek. The transmission by an utterly different range was conditioned by a low or an almost zero rate of credit in Lek on the behalf of the banks affected by the shock and the fact that 75 percent of credit to economy is in foreign currency.

Empiric assessments reached in this paper indicate that in the period of monetary policy contraction markets have got the tendency to have a faster and a higher rate reaction to instruments providing profits against more delayed and gradual reaction to cost providing instruments, configuring at the end in complete an non-uniform reactions with a different "time sphere".

The transmission of the Bank of Albania monetary policy decisions in 2002 from the viewpoint of percentages of markets reaction is later in time, than the realized one in 1997. Anyway, as stressed throughout the whole paper, periods are not comparable. The core instrument applied in 2002 did not bear an obligatory administrative character for banks, but signaled the market on the monetary policy stance and each market acts according to the principles of the free market play.

Interest behavior by different markets reflected each market conditions of demand –supply for liquidity. Perhaps, the transmission of market decisions would have been faster and fuller, if the Savings Bank had no dominant position, which even at a reduced rate in 2002 comprises an obstacle for placing all market participants under the same positions.

More precisely in 2002, it was evidenced that this bank was not so much interested on the high growth of interest rates, in Lek. Such a thing deferred this bank reaction, as the major in the deposit market and caused the extension of the due date of transmitting monetary policy decisions in the deposit market, in general. Therefore even in 2002, the competition in this market was not so strong as to make banks more active with respect of the velocity and the size of the interest rate increase. This is evidenced as a factor that deteriorated the transmission of monetary policy signals.

The indirect transmission of monetary policy decisions on the change of the core rate, intertwined with the use of other instruments, influencing the system's liquidity, has brought to a natural reaction of market rates on the improving efficiency, in spite of obstacles. This is reflected in the narrowing spread between deposit rates and the treasury bill yields on long-term maturities, from 5.2 percentage points in 1997 to 3.1 percentage points in 2002, while this spread

indicates as much more abased on the 3-month maturity for 2002, compared to 1997. Anyway, it is evidenced that, the improving efficiency of transmitting monetary policy decisions in the fact that the to the end of 2002, the situation created by deposit panic was entirely recuperated and the lost confidence by largest banks of the system was returned as well as quantitative targets and maintaining the stability of prices were successfully attained. These markets managed the transmission of the Bank of Albania monetary policy decisions.

COMMERCIAL BANK OF GREECE (ALBANIA)

**FINANCIAL STATEMENTS AS AT 31 DECEMBER 2002
(WITH AUDITORS REPORT THEREON)**

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE COMMERCIAL BANK OF GREECE (ALBANIA) S.A.

KPMG POLSKA AUDYT SP.Z.O.O.

ul. Chłodna 51, XVI p.
00-897 Ęarszawa
Polska

Tel.:
+48 22 528 11 00

Telefax:
+48 22 528 10 09

We have audited the accompanying balance sheet of commercial bank of Greece (Albania) S.A. as of 31 December 2002, and the related statements of earnings and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these financial statements based on our audit.

We conducted our audit review in accordance with International Standards on Auditing applicable to review engagements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit includes also assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements present fairly in all material respects, the financial position of the Bank as of 31 December 2002, and the result of its operations and its cash flows for the year ended in accordance with Article 38 of the Banking Law of the Republic of Albania.

Warsaw, 31 March 2003

KPMG Polska Audyt Sp.Z.o.o.

David Pozzecco
Partner

**COMMERCIAL BANK OF GREECE (ALBANIA)
BALANCE SHEET AS AT 31 DECEMBER 2002**

(in Lek '000)

		31 December 2002	31 December 2001
Assets			
	Notes		
Cash and cash equivalents	3	242,285	359,795
Loans and advances to credit institutions	4	1,039,871	435,923
Investment securities	5	680,524	292,915
Loans and advances to customers	6	2,332,933	1,691,980
Property and equipment	7	281,597	293,902
Intangible assets	8	27,095	37,918
Other assets	9	19,493	20,662
Total assets		4,623,798	3,133,095
Liabilities			
Loans and advances from credit institutions	10	1,172,075	37,480
Due to customers	11	1,954,026	1,737,670
Other liabilities	12	19,050	68,567
Total liabilities		3,145,151	1,843,717
Shareholder's equity			
Paid-up capital	13	1,668,170	1,449,050
Translation reserve	13	(84,119)	(38,424)
Retained earnings (accumulated losses)		(105,404)	(121,248)
Shareholder's equity		1,478,647	1,289,378
Total liabilities and shareholder's equity		4,623,798	3,133,095

COMMERCIAL BANK OF GREECE (ALBANIA)
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

(in Lek '000)

	Notes	Year ended 31 December 2002	Year ended 31 December 2001
Interest income	14	236,167	146,139
Interest expense	15	<u>(58,551)</u>	<u>(46,984)</u>
Net interest income		177,616	99,155
Fee and commission income	16	41,404	30,460
Fee and commission expense		<u>(11,722)</u>	<u>(2,755)</u>
Net fee and commission income		29,682	27,705
Profit from foreign exchange transactions		17,004	21,591
Other operating income	17	<u>12,663</u>	<u>9,773</u>
		29,667	31,364
Provisions for loan losses		(39,237)	(16,252)
Other operating expenses	18	<u>(181,884)</u>	<u>(167,781)</u>
		(221,121)	(184,033)
Profit (loss) before taxes		<u>15,844</u>	<u>(25,809)</u>
Income tax expense	20	-	-
Net profit (loss) for the year		<u>15,844</u>	<u>(25,809)</u>

COMMERCIAL BANK OF GREECE (ALBANIA)
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2002

(in Lek '000)

	Year ended 31 December 2002	Year ended 31 December 2001
Cash flows from operating activities		
Net profit (loss)	15,844	(25,809)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	30,443	27,170
Amortisation	17,497	16,987
Provisions for loan losses	39,237	16,252
Loss on disposal of equipment	807	-
Translation effect	(39,812)	(73,637)
Cash flows from operating profits before changes in operating assets and liabilities:	64,016	(39,037)
Changes in operating assets and liabilities:		
(Increase)/decrease in loans and advances to credit institutions	(603,948)	746,295
(Increase) in loans to customers	(680,190)	(1,625,154)
Decrease/(increase) of other assets	1,169	22,273
Increase/(decrease) in loans and advances from credit institutions	1,134,595	(33,771)
Increase in due to customers	216,356	952,918
Increase/(decrease) in other liabilities	(49,517)	25,513
Net cash provided by operating activities	82,481	88,074
Cash flows from investing activities		
Purchase of intangible assets	(6,942)	(18,325)
Purchase of property and equipment	(24,560)	14,922
Purchase of investment securities	(387,609)	(175,706)
Net cash used in investing activities	(419,111)	(179,109)
Cash flows from financing activities		
Proceeds from the issue of shares	219,120	371,450
Net cash provided by financing activities	219,120	371,450
Increase (decrease) in cash and cash equivalents	(117,510)	241,378
Cash and cash equivalents, beginning of the year	359,795	118,417
Cash and cash equivalents, end of the year	242,285	359,795

COMMERCIAL BANK OF GREECE (ALBANIA)
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2002

(in Lek '000)

	Paid-up Capital	Translation Reserve	Retained earnings (accumulated losses)	Total
Balance at 31 December 2000	1,077,600	35,213	(95,439)	1,017,374
Allocation of 2000 loss	-	4,161	-	4,161
Increase in paid-up capital	371,450	-	-	371,450
Change in translation reserve	-	(77,798)	-	(77,798)
Net loss for the year	-	-	(25,809)	(25,809)
Balance at 31 December 2001	1,449,050	(38,424)	(121,248)	1,289,378
Increase in paid-up capital	219,120	-	-	219,120
Change in translation reserve	-	(45,695)	-	(45,695)
Net profit for the year	-	-	15,844	15,844
Balance at 31 December 2002	1,668,170	(84,119)	(105,404)	1,478,647

1. GENERAL

The Commercial Bank of Greece is a Greece based international financial institution. In October 1998, the CBG opened a subsidiary in Albania with its principal office located in Tirana, which, in October 1999, was authorised to operate in all fields of banking activity. In October 1999 this subsidiary was named **Intercommercial**Bank –Albania S.A. and subsequently during 2001 changed its name to **Commercial** Bank of Greece (Albania) S.A. (CBG or the Bank). The Bank operates in accordance with the Law no. 8565 “On the Banking System in Albania”, dated July 1998 and the Law no. 8269, dated December 1997 “On the Bank of Albania”.

The Bank started its activity with a share capital of USD 3,800,000, which by the end of December 2002 had been increased to US Dollars 11,800,000. The Bank employs 37 staff, including 2 expatriate managers and operates in the geographical region of Albania only.

2. SUMMARY OF ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

The accompanying financial statements have been prepared in accordance with Article 38 of the Banking Law of the Republic of Albania Law, No. 8365, dated 2 July 1998. The accounting policies of the Bank do not significantly differ from International Financial Reporting Standards.

The financial statements are presented in Albanian Lek, rounded to the nearest thousand and are prepared on the historic cost basis.

(B) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances on hand, cash deposited with the Central Bank and short-term highly liquid investments with maturities of three months or less when purchased.

(C) SALE AND REPURCHASE AGREEMENTS

Where debt securities are sold under a commitment to repurchase them at a predetermined price, they remain on the balance sheet and the consideration received is recorded in “Loans and advances from credit institutions”. Conversely, debt securities purchased under a commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in “Loans and advances to credit institutions”.

(D) INVESTMENT SECURITIES

Investment securities include treasury bills and Government bonds and are held to maturity as the Bank has the intention of holding them on a long-term basis, in principle until maturity. Treasury bills are recorded at cost plus accrued interest. When a treasury bill earns implicit interest, the effective interest rate is calculated and accrued.

Government bonds are included in the balance sheet at cost less any provision for permanent diminution in value. The Bonds are booked at the purchase price, with interest accrued for the coupons to be paid. Any discount obtained on the nominal value at the moment of the purchase is accrued to the payment date of the bonds’ capital.

(E) LOANS AND ADVANCES TO CUSTOMERS AND CREDIT INSTITUTIONS

Loans and advances to customers and credit institutions are reported net of a provision for possible loan losses to reflect their estimated recoverable amounts.

For the purposes of calculating the provision, the Bank classifies its loans into six categories as prescribed by the Bank of Albania's regulations as follows:

Type of loans	Days in arrears	Loss Provision
Standard	0 days	1%
Past Due	0-30 days	1%
Special Mention	31-90 days	5%
Substandard	91-180 days	20%
Doubtful	181-365 days	50%
Loss	Over 365 days	100%

(F) PROPERTY AND EQUIPMENT

Property and equipment is stated at cost less accumulated depreciation, which is calculated on a straight-line basis over the estimated useful lives of the assets.

The yearly depreciation and amortization rates are as follows:

Buildings	5%
Motor vehicles	20%
Office equipment	20%
Computers and electronic equipment	25%

(G) INTANGIBLE ASSETS

Intangible assets acquired by the Bank are stated at cost less accumulated amortization. The yearly amortization rates are as follows:

Start up	20%
Software	25%

(H) REVENUE RECOGNITION

Interest income and expense is recognised on an accruals basis, other than interest on non-performing loans, which is recognised on a cash basis.

Fee and commission income arises on financial services provided by the Bank including cash management services, brokerage services and investment advice. Fee and commission income is recognised when the related service is performed.

(I) RENTAL INCOME

Rental income is recognised in the income statement on a straight line basis over the term of the lease.

(J) TAXATION

The Bank determines taxation at the end of the year in accordance with the Albanian tax legislation. In 2002, tax on profit is calculated as 25% of taxable income. Taxable income is calculated by adjusting the statutory profit before taxes for certain income and expenditure items as required under Albanian law. Refer to note 20.

(K) FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of

the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at year-end. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the foreign exchange rate ruling at the date of the transaction, except for property and equipment that are translated at the year-end rate. Also refer to note 7.

The applicable rate of exchange rates (Lek to foreign currency unit) for the principal currencies as at 31 December 2002 and 2001 were as follows:

	31 December 2002	31 December 2001
USD	133.68	136.55
EUR	140.18	120.73
GBP	215.31	197.87
SFR	96.52	81.49

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and balances with the Central Bank as follows:

	31 December	
	2002	2001
Cash on hand	46,462	160,306
Central Bank		
Current account	6,484	6,919
Statutory reserves	189,339	130,570
Time deposits	-	62,000
Total	242,285	359,795

In accordance with the Bank of Albania's requirement relating to the deposit reserve, the Bank should maintain a minimum of 10% of customer deposits with the Central Bank as a reserve account.

4. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

Loans and advances to credit institutions are detailed as follows:

	31 December	
	2002	2001
Current accounts		
Resident	721	1,454
Non-resident	35,900	50,020
Deposit accounts and term deposits	1,003,250	384,449
Total	1,039,871	435,923

The majority of deposits are with the parent bank, CBG and other related banks. Almost 95% (2001: 93%) are in USD and the remaining are in EUR. Interest rates range from 1.4% to 3.28% (2001: 3.3% to 6.54%).

Loans and advances to credit institutions detailed geographically are as follows:

	31 December	
	2002	2001
Greece	959,355	322,962
Albania	52,721	101,879
United States	26,305	10,745
Other	1,490	337
Total	1,039,871	435,923

5. INVESTMENTS SECURITIES

Investment securities are held-to-maturity and are comprised as follows:

	31 December	
	2002	2001
Treasury bills	630,172	292,915
Government bonds	50,352	-
Total	680,524	292,915

Treasury bills

The effective interest rates on Treasury bills during 2002 fluctuated between 9.6% and 13.6% (2001: 7.6% and 13.9%). Details of treasury bills by maturity is presented as follows:

	31 December 2002			31 December 2001		
	Purchase value	Accrued interest	Book value	Purchase value	Accrued interest	Book value
3 months	114,197	723	114,920	-	-	-
6 months	220,547	7,173	227,720	124,022	2,423	126,445
12 months	272,887	14,645	287,532	158,132	8,338	166,470
	607,631	22,541	630,172	282,154	10,761	292,915

Government Bonds

During December 2002, the Bank purchased two government bonds denominated in Lek. They have a maturity of 24 months expiring in December 2004 and interest is received semi annually at a coupon rate of 14%. Details of are as follows

	31 December 2002			
	Purchase value	Accrued interest	Premium amortisation	Book value
24 months	50,085	267	(1.4)	50,352
	50,085	267	(1.4)	50,352

6. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers consisted of the following:

	31 December	
	2002	2001
Loans and advances to customers, gross	2,389,261	1,709,071
Provisions for loan losses	(56,328)	(17,091)
Loans and advances to customers, net	2,332,933	1,691,980

6. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Movements in the provisions for loan losses is as follows:

	Years ended 31 December	
	2002	2001
At 1 January	17,091	839
Charge for the year, net of write-offs	39,237	16,252
At 31 December	56,328	17,091

Loans and advances to customers can be detailed as follows:

Category	31 December 2002			31 December 2001		
	Individuals	Enterprises	Total	Individuals	Enterprises	Total
Standard	328,113	1,250,250	1,578,363	181,041	1,528,030	1,709,071
Special Mention	-	810,898	810,898	-	-	-
Provisions for loan losses	(3,281)	(53,047)	(56,328)	(1,811)	(15,280)	(17,091)
Net loans	324,832	2,008,101	2,332,933	179,230	1,512,750	1,691,980

The following table presents the distribution of the Bank's credit exposure by industry sector for loans and advances to customers as at 31 December 2002 and 2001:

	31 December			
	2002	%	2001	%
Trade	457,065	19.13	253,455	14.83
Processing industry	381,565	15.97	370,185	21.66
Construction	361,734	15.14	168,344	9.85
Real Estate	312,276	13.07	170,053	9.95
Telecommunication	281,693	11.79	437,351	25.59
Petrol importer	275,482	11.53	246,790	14.44
Production of various items	203,565	8.52	34,865	2.04
Service providers	107,994	4.52	23,243	1.36
Other	7,887	0.33	4,785	0.27
Loans and advances to customers, gross	2,389,261	100.00	1,709,071	100.00

7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	Buildings	Computers and electronic equipment	Office equipment	Motor vehicles	Other	Total
Cost						
At 1 January 2002	269,016	31,453	24,402	7,656	293	332,820
Additions	-	17,579	5,996	967	18	24,560
Disposals	-	(118)	(1,052)	-	(195)	(1,365)
Foreign exchange difference	(5,654)	(1,391)	(600)	(189)	(3)	(7,837)
At 31 December 2002	263,362	47,523	28,746	8,434	113	348,178
Accumulated depreciation						
At 1 January 2002	(14,727)	(13,331)	(7,321)	(3,319)	(220)	(38,918)
Charge for the year	(13,832)	(9,873)	(5,096)	(1,580)	(62)	(30,443)
Disposals	-	50	313	-	195	558
Foreign exchange difference	938	755	380	147	2	2,222
At 31 December 2002	(27,621)	(22,399)	(11,724)	(4,752)	(85)	(66,581)
Net book value						
At 31 December 2002	235,741	25,124	17,022	3,682	28	281,597
At 31 December 2001	254,289	18,122	17,081	4,337	73	293,902

8. INTANGIBLE ASSETS

Intangible assets as of 31 December 2002 and 2001 are composed as follows:

	Start up	Software	Total
Cost			
At 1 January 2002	41,514	31,406	72,920
Additions	-	6,942	6,942
Foreign exchange difference	(873)	(957)	(1,830)
At 31 December 2002	40,641	37,391	78,032
Accumulated amortization			
At 1 January 2002	(17,990)	(17,013)	(35,002)
Charge for the year	(8,538)	(8,959)	(17,497)
Foreign exchange difference	788	774	1,562
At 31 December 2002	(25,740)	(25,198)	50,937
Net book value			
At 31 December 2002	14,901	12,193	27,095
At 31 December 2001	23,524	14,393	37,918

9. OTHER ASSETS

Other assets are comprised of the following:

	31 December	
	2002	2001
Interest receivable	2,786	151
Bank orders receivable	-	1,366
Prepaid tax on profit	1,200	-
Clearing accounts	254	367
Temporary accounts	-	14,656
Prepayments	2,113	4,122
Other	13,140	-
Total	19,493	20,662

10. LOANS AND ADVANCES FROM CREDIT INSTITUTIONS

Loans and advances from credit institutions are detailed as follows:

	31 December	
	2002	2001
Current accounts		
Resident	70,135	37
Deposit accounts and term deposits		
Resident	821,580	-
Non-resident	280,360	37,443
Total	1,172,075	37,480

As at 31 December 2002, the resident deposits are with Alpha Bank, Tirana Bank and the Bank of Albania whilst the non-resident amounts have been placed with the parent bank in Greece. Almost 63% of balances (2001: 98%) are in USD and the remaining is in EUR. They bear interest of approximately 1.34% for USD (2001: 1.82%) and 2.87% for EUR (2001: 3.7-4.0%).

11. DUE TO CUSTOMERS

Customer accounts for enterprises, private entrepreneurs and individuals consisted of current, savings and term deposit accounts as follows:

	31 December	
	2002	2001
Current accounts		
Foreign currency	338,703	377,443
Local currency	185,962	284,175
Savings accounts		
Foreign currency	289,538	270,874
Local currency	63,202	55,768
Term deposits		
Foreign currency	578,938	333,863
Local currency	497,683	315,547
Total	1,954,026	1,737,670

The above balance in foreign currency represents deposits in US Dollars and EUR. Current accounts in Lek do not bear interest (2001: 1.25% to 1.75% p.a.) whilst current accounts in foreign currency bear interest from 0.025 % to 1.825 % p.a. (2001: 0.5-1.82%).

Saving accounts in Lek bear interest ranging from 2.75% to 3.75% (2001: 2.25 % to 2.75 % p.a.) whilst those in foreign currencies bear interest from 0.2% to 1.15% (2001: 0.4% to 2.2% p.a.)

Term deposits are composed of deposits with maturities of 1 to 12 months. Such deposits in Lek bear interest ranging from 7.25% to 9.97% (2001: 7.35% to 8.85% p.a.) and those in foreign currencies bear interest from 1.05% to 2.3% (2001: 1.7% to 3%).

12. OTHER LIABILITIES

Other liabilities are comprised of the following:

	31 December	
	2002	2001
Interest payable	13,795	6,760
Outstanding cheques	449	20,816
Clearing accounts	427	21,515
Sundry creditors	3,777	3,692
Temporary accounts	-	14,488
Accrued expenses	602	1,296
Total	19,050	68,567

13. PAID UP CAPITAL

The initial paid-up capital in 1999 was US Dollars 3,800,000 and was registered in Lek at the exchange rates prevailing at the date of payment 1 USD: 135.47 Lek. During 2000 the Bank increased its paid up capital in US Dollars 7,800,000. For the increased portion of the paid up capital the exchange rate at the date of the transaction was 1 USD: 140.70 Lek.

During 2001 the bank increased its paid up capital by US Dollars 2,500,000 to US Dollars 10,300,000. The rate of exchange at the date of the transaction was 1 USD: 148.58 Lek. Also during 2002 the paid up capital was increased by US Dollars 1,500,000 to US Dollars 11,800,000. The rate of exchange on the date of the transaction was 1 USD: 146.08 Lek.

The table below reconciles the number of shares outstanding at the beginning and end of the year. All shares are fully paid with a par value of USD 1,000.

	31 December	
	2002	2001
Number of authorised and fully paid shares at beginning of the year	10,300	7,800
Issued during the year	1,500	2,500
Number of authorised and fully paid shares at the end of the year	11,800	10,300

Translation reserve

The paid-up capital and retained earnings are measured in US Dollars. They are converted into Lek at the historical rate ruling at the date of the increase based on the General Shareholders' Assembly decision. The difference between the historic rate and year-end rate is included in the translation reserve as part of shareholder's equity.

14. INTEREST INCOME

Interest income was earned on the following assets:

	Years ended 31 December	
	2002	2001
Loans and advances to customers	164,302	86,600
Loans and advances to credit institutions	23,958	35,636
Investment securities	47,907	23,903
Total	236,167	146,139

15. INTEREST EXPENSE

Interest expense was incurred on the following liabilities:

	Years ended 31 December	
	2002	2001
Due to customers	47,852	40,426
Loans and advances from credit institutions	10,520	6,558
Repurchase agreement	179	-
Total	58,551	46,984

16. FEE AND COMMISSION INCOME

Fees and commissions received were comprised as follows:

Fees and commissions paid refer mainly to banking services provided from correspondent banks.

	Years ended 31 December	
	2002	2001
Banking services	16,533	10,629
Lending activity	17,048	16,014
Other	7,823	3,817
Total	41,404	30,460

17. OTHER OPERATING INCOME

Other operating income comprises rental income earned on operating leases:

	Years ended 31 December	
	2002	2001
Total	12,663	9,773

18. OTHER OPERATING EXPENSES

Other operating expenses consisted of the following:

	Years ended 31 December	
	2002	2001
Personnel costs (note 18)	34,689	26,893
Consulting and legal fees	35,223	29,509
Depreciation of plant and equipment	30,443	27,170
Amortisation of intangibles	17,497	16,946
Reuters, Swift maintenance	18,517	17,975
Insurance and security	10,316	11,714
Rent and office supply	7,429	12,034
Telephone and electricity	5,855	7,457
Taxes other than income tax	4,526	5,014
Advertising and Promotion	4,411	4,144
Travel and transportation	2,091	2,323
Maintenance and repairs	1,410	1,766
Other	9,476	4,836
Total	181,883	167,741

19. PERSONNEL COST

Personnel costs comprise:

	Years ended 31 December	
	2002	2001
Salaries	26,692	21,340
Social insurance	5,135	2,795
Other	2,862	2,757
Total	34,689	26,893

20. INCOME TAX

The reconciliation between the accounting profit (loss) with taxable profit for the years ended 31 December 2002 and 2001 is detailed as follows

	Years ended 31 December	
	2002	2001
Accounting profit	15,844	(25,809)
Adjustments of non monetary items:		
Amortization	(6,467)	2,582
Depreciation	-	14,658
Un deductible expenses:		
Adjustments to depreciation	14,840	3,448
Adjustments to amortization		7,376
Withholding tax	4,282	4,788
Hospitality expenses	90	1,109
Staff expenses	519	317
Other	1,308	172
Taxable profit	30,416	8,640
Computed tax at 25%	7,604	2,160
Utilisation of tax losses	(7,604)	(2,160)
Income tax expense	-	-

Adjustments to non monetary items relate to adjustments necessary to restate the fixed assets to their historical Lek values prior to calculating tax deductible depreciation and amortization.

There is no income tax expense recognized in the financial statements as the Bank has accumulated tax losses of Lek'000 52,119 (2001: Lek'000 82,535) which can be used to offset income tax payable. Tax losses may be carried forward for three years following the year in which the loss was incurred.

21. FOREIGN CURRENCY POSITION

The analysis of assets and liabilities as at 31 December 2002 by the foreign currencies in which they were denominated was as follows:

31 December 2002					
	ALL	EURO	USD	Other	Total
Assets					
Cash and cash equivalents	96,395	40,927	104,963	-	242,285
Loans to credit institutions	52,000	429,638	557,617	616	1,039,871
Investment securities	680,524	-	-	-	680,524
Loans and advances to customers	(2,368)	407,213	1,928,088	-	2,332,933
Property, equipment and intangibles	12,000	-	296,692	-	308,692
Other assets	12,827	2,338	4,328	-	19,493
Total	851,378	880,116	2,891,688	616	4,623,798
Liabilities					
Loans from credit institutions	70,098	700,904	401,073	-	1,172,075
Due to customers	746,847	179,196	1,027,983	-	1,954,026
Other liabilities	13,591	2,937	2,522	-	19,050
Shareholders' equity	-	-	1,478,647	-	1,478,647
Total	830,536	883,037	2,910,225	-	4,623,798
Net position	20,842	(2,921)	(18,537)	616	-

22. LIQUIDITY RISK

An analysis of financial assets and liabilities according to their remaining maturity is as follows:

	31 December 2002						Total
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-specific	
Assets							
Cash and cash equivalents	242,285	-	-	-	-	-	242,285
Loans to credit institutions	1,039,871	-	-	-	-	-	1,039,871
Investment securities	59,770	247,526	156,966	165,910	50,352	-	680,524
Loans and advances to customers	274,412	324,612	240,036	398,414	1,095,459	-	2,332,933
Property, equipment & intangibles	-	-	-	-	-	308,692	308,692
Other assets	19,493	-	-	-	-	-	19,493
Total	1,635,831	572,138	397,002	564,324	1,145,811	308,692	4,623,798
Liabilities							
Loans from credit institutions	891,715	280,360	-	-	-	-	1,172,075
Due to customers	1,375,259	277,062	203,809	97,896	-	-	1,954,026
Other liabilities	19,050	-	-	-	-	-	19,050
Shareholders' equity	-	-	-	-	-	1,478,647	1,478,647
Total	2,286,024	557,422	203,809	97,896	-	1,478,647	4,623,798
Liquidity risk at 31 December 2002	(650,193)	14,716	193,193	466,428	1,145,811	(1,169,955)	-
Cumulative	(650,193)	(635,477)	(442,284)	24,144	1,169,955	-	-

23. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments and contingencies include guarantees extended to customers and received from credit institutions. The balance is comprised of the following:

	31 December	
	2002	2001
Guarantees pledged from credit customers	5,320,431	2,570,270
Guarantees in favor of customers	35,162	22,365
Guarantees received from credit institutions	29,409	30,041
Other commitments	-	60,365
Total	5,385,002	2,683,041

GUARANTEES AND LETTERS OF CREDIT

Guarantees received from the customers include cash collateral, mortgages, inventory and other assets pledged in favour of the bank from its borrowers.

The Bank issues guarantees for its customers. These instruments bear a credit risk similar to that of loans granted. Based on management's estimate, no material losses related to guarantees outstanding at 31 December 2002 will be incurred and thus no provision for losses has been included in these financial statements.

LEGAL

In the normal course of business the Bank is presented with legal claims; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding at 31 December 2002.

LEASE COMMITMENTS

The Bank has entered into lease commitments primarily for the new branches to be opened during 2003. Such commitments for the years ended 31 December 2002 and 2001 are composed as follows:

	31 December	
	2002	2001
Not later than 1 year	16,926	7,077
Later than 1 year and not later than 5 years	67,704	67,704
Later than 5 years	103,005	115,731
Total	187,635	190,512

24. FINANCIAL RISK MANAGEMENT

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments result in certain risks to the Bank. The most significant risks facing the Bank are discussed below.

CURRENCY RISK

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank attempts to manage this risk by closing daily open foreign currency positions and by establishing and monitoring limits on open positions. The Bank's net open foreign exchange position at 31 December 2002 is shown in note 21.

INTEREST RATE RISK

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Bank attempts to mitigate this risk by monitoring the repricing dates of its assets and liabilities.

Credit risk

Credit risk is the risk that the counter party to a financial instrument will fail to repay the obligation and cause the Bank to incur a loss. The Bank manages credit risk by dealing only with approved counter parties under specific credit limits. The Bank regularly monitors its limits with, and exposures to, individual counter parties and countries. Also refer to notes 4 and 6.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Bank manages this risk by continually monitoring expected cash flows from financial instruments and adjusting interbank takings and placings to match the timing of payments and receipts. An analysis of the Bank's expected timing of cash flows.

25. FAIR VALUE DISCLOSURES

Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic

conditions, and risk characteristics of various financial instruments that are readily marketable.

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and value of assets and liabilities not considered financial instruments include: fixed assets, provisions for deferred taxation, core deposits.

In general, the Bank's balance sheet financial instruments have an estimated fair value approximately equal to either short-term nature or underlying interest rates that approximate market rates. The majority of financial monetary instruments are either at floating rates of interest or are subject to repricing within a year.

26. RELATED PARTY TRANSACTIONS

The Bank entered into the following related party transactions, with its Head Office in Greece: placements, foreign exchange transactions and money transfers. Substantially all of the Bank's transactions of this nature are with Head Office are carried out on an arms length basis.

A summary of related party transactions are as follows:

	Years ended 31 December	
	2002	2001
Assets at end of year		
Loans and advances to credit institutions	959,928	322,962
Liabilities at end of year		
Loans and advances from credit institutions	280,360	37,426
Income for year ending		
Interest income	10,724	22,900
Fee and commission income	38	30
Expenses for the year ending		
Interest income	6,138	2,007
Fee and commission expense	506	194

NEWS JANUARY – MARCH 2003

I. THE BANK OF ALBANIA GOVERNOR MEETS THE DIRECTOR OF USAID IN TIRANA, MR. HARRY BIRNHOLZ

JANUARY 07, 2003

The Bank of Albania Governor, Mr. Shkëlqim Cani received in a business meeting Mr. Harry Birnholz, Director of the USAID Agency for Albania, on January 7, 2003.

The main topics of discussion were main developments of Albanian economy during 2002 and forecasts for the upcoming year and cooperation opportunities between the two institutions.

Interlocutors discussed on Albanian economy developments during the previous year, assessing the Bank of Albania as successful in meeting targets for 2002 also confirming the support that UDAID shall give to the Bank of Albania for 2003.

II. THE BANK OF ALBANIA GOVERNOR MEETS WITH THE DELEGATION OF BANKING AND PAYMENTS AUTHORITY OF KOSOVA

JANUARY 23, 2003

The Bank of Albania Governor, Mr. Shkëlqim Cani developed a meeting with high representatives of the Banking and Payments Authority, headed by Mr. Ari Begu, Chairman of the Assembly and Mrs. Kim Rhee, Manager, of the Banking and Payments Authority of Kosova.

The meeting confirmed the very good relations existing between the Bank of Albania and the Banking and Payments Authority of Kosova, (BPAK) institutionalized in the General Agreement of Cooperation between the two institutions.

The main purpose of the visit was sharing the experience between the Bank of Albania directors and representatives of the Banking and Payments Authority of Kosova in the fields of Banking supervision Accounting and Payments; Human Resource Management; Information Technology etc.

Interlocutors discussed on the possibilities of cooperation and development of the banking systems in Albania and Kosova, helping the intensification of economic cooperation between both countries.

During its stay in Tirana, the delegation of the Banking and Payments Authority of Kosova developed a meeting with the General Director of the Savings Bank, Mr. Ardian Kamberi and the Chairman of the Executive Board of this Bank, Mr. Lavdosh Zaho.

III. PRESIDENT MOISIU MEETS GOVERNOR CANI

FEBRUARY 26, 2003

The Republic of Albania's President, Mr. Alfred Moisiu developed a business meeting with the Bank of Albania Governor, Mr. Shkëlqim Cani on February 26, 2003.

The most discussed topics in this meeting were issues of circulating cash in economy and the prospect activation of Tirana Stock Exchange, established since 1996.

IV. IMF APPROVES THE DELIVERY OF USD 5 MILLION TRENCHES FOR ALBANIA.

FEBRUARY 26, 2003

The IMF Board of Executive Directors approved the delivery of the USD 5 million trenches for Albania, under the framework of the Program for Poverty Reduction and Growth Facility (PRGF) on February 26, 2003.

The three- year program, approved since June 21, 2002, totally amounts at SDR 28 million (about USD 38 million). Up to now, Albania has acquired SDR 4 million (or about USD 5 million) in the framework of the current PRGF.

V. THE BANK OF ALBANIA GOVERNOR HOLDS A SERIES OF SPECIAL LECTURES IN HIGH SCHOOLS AND UNIVERSITIES OF ELBASAN, KORCA AND SARANDA.

The Bank of Albania governor in the framework of the enhancing transparency and the

development of the Bank of Albania public relations as part of the its 3- year development strategy held a series of lectures in different high schools and universities all over the country.

Invited in an organized activity by “Junior Achievement”, an NGO developing its activity in Saranda city and group of businesspersons and specialists of technical and economic schools, the Bank of Albania Governor presented the central bank role and that of the banking system in development and well-functioning of economy on March 1, 2003. The governor laid main emphasis on public education, which is very important to understand and have a right interpretation of phenomena, so that we all as “actors’ of economic development cooperate to attain the success, otherwise recognized, as the stability of prices. The governor assessed the public education with economic matters, a “necessity”. According to it all the central banks worldwide have got as their target the public education and

transparency. To have a successful activity a central bank must be well understood by the public.

On March 20, 2003, the Bank of Albania Governor, Mr. Shkëlqim Cani, held a sequence of special lectures with students of Economics Faculty at “Aleksandër Xhuvani” University-Elbasan, on the subject “**Inflation and the Central Bank role in Albania**”. Right from the start, the Governor focused on the academic staff and students of Economics Faculty to elaborate important subject matters, connected to the central bank profile and monetary policies. In his lecture, the Governor mostly focused on **inflation indicators**.

On March 21, 2003, the Bank of Albania Governor, Mr. Shkëlqim Cani, held a sequence of special lectures with students of Economics Faculty at “Fan Noli” University Korca, Albania on the topic “**Bank of Albania monetary policy and inflation**”.

BANK OF ALBANIA

MARCH 30TH, 2003

SUPERVISORY BOARD

SHKËLQIM CANI, Chairman
FATOS IBRAHIMI, Vice Chairman
DRINI SALKO, member
SULO HADËRI, member
SABAH HILMIA, member
TONIN KOLA, member
LLAZI BALLIU, member
BAJRAM MUÇA, member
DHAME PITE suspended

GOVERNOR

SHKËLQIM CANI

Governor's office - Mr. GRAMOZ KOLASI

DEPUTY GOVERNORS

FATOS IBRAHIMI - First Deputy Governor
DHAME PITE suspended - Second Deputy Governor

DEPARTMENTS AND OTHER UNITS

Research and Monetary Policy Ms. TEUTA BALETA
Monetary Operations, Mr. MARIAN GJERMENI
Banking Supervision, Mr. FATOS IBRAHIMI
Issuing & Cash Manag. Mr. KAMBER MYFTARI
Accounting and Payments, Mr. LLAZI BALLIU
Technology and Information and Statistics, Mr. SOKOL QERAXHIU
Legal and Human Resources, Mr. ARTUR LAMA (vice/dir)
Public Relation, Ms. ESMERALDA URUÇI
Administration, Ms. DOLOREZA ARAPI
Security and Protection, Mr. IBRAHIM SHEHAJ
Printing House, Mr. BESIM RAMA

General Audit Inspector

Ms. ELSA BIZHGA

BRANCHES

Shkodra - ZIHNI DJEPAXHIJA
Elbasani - BUJAR VYSHKA
Gjirokastra - ANILA THOMAJ
Korça - LILJANA ZJARRI
Lushnja - MS. DONIKA HILA

LIST OF SECOND-TIER BANKS PERMITTED TO OPERATE IN THE REPUBLIC OF ALBANIA, AS OF 30 MARCH 2003

1. ALBANIAN-ITALIAN BANK

License No. 1/1999, dated 17.07.1998
Address: Rruga "Haxhi Hafiz Dalliu", No.70, Tirana, Albania
Tel. : 356 97, 356 98, 262 62
Fax. : 330 34

2. SAVINGS BANK OF ALBANIA

License No. 2/1998, dated 11.01.1999
Address: Rruga "Dëshmorët e 4 shkurtit", No. 6, Tirana, Albania
Tel. : 245 40, 226 69, 254 16
Fax. : 235 87, 236 95, 240 51

3. ARAB ALBANIAN ISLAMIC BANK

License No. 3/1998, dated 11.01.1999
Address : Bulevardi "Dëshmorët e Kombit", No.8, Tirana, Albania
Tel. : 284 60, 238 73, 274 08
Fax. : 284 60, 283 87

4. DARDANIA BANK

License No. 5, dated 11.01.1999
Address : Bulevardi "Dëshmorët e Kombit", "VEVE" Center, Tirana, Albania
Tel. : 350 52, 350 53, 350 54
Fax. : 425 66

5. NATIONAL COMMERCIAL BANK OF ALBANIA

License No. 6, dated 11.01.1999
Address : Bulevardi "Zhan D'ark", Tirana, Albania
Tel. : 250 955
Fax. : 250 956

6. TIRANA BANK

License No. 7, dated 11.01.1999
Address: Bulevardi "Dëshmorët e Kombit", No. 55/1, Tirana, Albania
Tel. : 334 41, 334 47, 334 43, 334 67
Fax. : 334 17

7. BRANCH OF NATIONAL COMMERCIAL BANK OF GREECE

License No. 7, dated 12.09.1996
Address: Bulevardi "Dëshmorët e Kombit", No. 72, Tirana, Albania
Tel. : 336 21
Fax. : 336 13

8. INTERNATIONAL COMMERCIAL BANK

License No. 9, dated 20.02.1997
Address : Rruga "Ded Gjon Luli", Tirana, Albania
Tel. : 375 67, 375 68, 375 69
Telfax. : 375 70

9. BRANCH OF ALPHA CREDIT BANK A.E.

License No. 10, dated 07.01.1998
Address : Bulevardi "Dëshmorët e Kombit", No. 47, Tirana, Albania
Tel. : 335 32, 333 59, 404 76, 404 77
Telfax. : 321 02

10. AMERICAN BANK OF ALBANIA

License No. 11, dated 10.08.1998
Address : Rruga "Ismail Qemali", No. 27, Tirana, Albania
Tel. : 487 53, 487 54, 487 55, 487 56.
Telfax. : 487 62

11. FEFAD BANK

License No. 12, dated 15.03.1999
Address : Rruga "Sami Frashëri", Tirana e Re.
Tel. : 487 53, 487 54, 487 55, 487 56
Telfax : 487 62

12. FIRST INVESTMENT BANK

License No. 13, dated 16.04.1998
Address : Bulevardi "Dëshmorët e Kombit", nr.64, Tiranë
Tel. : 56 423, 56 424,
Telfax: : 56 422

13. INTERCOMERCIAL BANK (ALBANIA) A.E

License No. 14, dated 28.10.1999
Address : Rruga "Kavajës", "Tirana Tower", Tirana, Albania
Tel. : 58 755, 56, 57, 58, 59, 60
Telfax: : 58 752

14. CREDIT BANK OF ALBANIA. A.E

License No. 15, dated 28.08.2002
Address : Perlat Rexhepi, Al-Kharafi Group Administration Building, kati 1&2
Tel. : 247535, 247536
Telfax: : 27803; 23768

FINANCIAL NON-BANK ENTITIES

1. TIRANA FINANCIAL UNION

License No. 1, dated 08.12.1999

Address : Rruga "Reshit Collaku", Pallati Shallvare, Nr. 2/18, TIRANË

Tel. : 250 653

Fax. : 234 979

2. DINERS CLUB ALBANIA L.T.D

License No. 2, dated 09.10.1999

Address : Bulevardi "Zogu I", Qendra e Biznesit VEVE, TIRANË

Tel. : 235 055, 235 056, 227 684, 228 964

Fax. : 235 060, 235 061

3. ALBA POST S.A.

License No. 3, dated 18.04.2001

Address : Rruga "Reshit Collaku", Nr. 4, TIRANË

Tel. : 222 315, 223 243, 250 739

Fax. : 223 133

4. CREDINS S.A.

License No. 4, dated 13.06.2001

Address : Rruga "Ismail Qemali", Nr. 21, TIRANË

Tel. : 222 916, 234 096

Fax. : 224 905

5. "FINANCING FUND OF HIGHLAND AREAS"

License No. 5, dated 29.03.2002

Director : Arben Jorgji

Address : Rruga "Mustafa Matohiti", Vila Nr.12, TIRANË

Tel. : 250 633

FINANCIAL ENTITIES NOT LICENSED FROM THE BANK OF ALBANIA BASED ON DECISION NO. 26, DATED 29. 03.2000 OF THE BANK OF ALBANIA SUPERVISORY COUNCIL' ON THE EXEMPTION OF SOME FINANCIAL ENTITIES FROM THE APPLICATION OF LAW NO. 8365 DATED 02. 07. 1998.

"ON BANKS IN THE REPUBLIC OF ALBANIA"

(Although these financial entities are not licensed and supervised from the Bank of Albania, these bear the duty to report in the Bank of Albania).

1. Rural financial fund

- Founded on the Council of Ministers decision no. 207, dated 28.04. 1999.
- The object of activity: financing rural areas
- Head office: Rr."Ismail Qemali" P.32, Tirana
- Director: Zana Konini
- Exempted with the Bank of Albania document no.1843, dated 01.08.2000

2. Besa foundation

- Founded from "The Fund for the Open Society in Albania" (SOROS)
- The object of activity: Lending
- Head office: Rr. "Asim Vokshi" No.35, Tirana,
- Director: Bajram Muca
- Exempted with the Bank of Albania document no. 2895/1, dated 19.01.2001.

3. Albanian partner on Micro-credit

- Stockholder: "Opportunity International" (East Europe)
- Object of activity: Lending
- Director: James Reiff
- Exempted with the Bank of Albania document no. 828/1, dated 08.04.2002.

LIST OF LICENSED FOREIGN EXCHANGE BUREAUS, AS OF 30 MARCH 2003

1. FOREIGN EXCHANGE BUREAU "JOARD" L.T.D.

License No. 1, dated 01.10.1999

Address : Rruga "Ded Gjon Luli" Nr. 2, TIRANË

2. FOREIGN EXCHANGE BUREAU "AMA" L.T.D.

License No. 2, dated 01.10.1999

Address : Rruga Tregtare, Lagjja 3, DURRËS

3. FOREIGN EXCHANGE BUREAU "ARIS" L.T.D.

License No. 3, dated 01.10.1999

Address : Rruga "Luigj Gurakuqi", TIRANË

4. FOREIGN EXCHANGE BUREAU "UNIONI FINANCIAR TIRANA" L.T.D.

License No. 4, dated 01.10.1999

Address : Rruga "Reshit Çollaku", Pall. Shallvare, Shk.2/18, TIRANË

5. FOREIGN EXCHANGE BUREAU "AGLI" L.T.D.

License No. 5, dated 01.10.1999

Address : Rruga "Islam Alla" Nr.1, TIRANA

6. FOREIGN EXCHANGE BUREAU "ALBAKREDIT" L.T.D.

License No. 6, dated 24.11.1999

Address : Rruga "Ded Gjon Luli" Nr.5, TIRANË

7. FOREIGN EXCHANGE BUREAU "GUDEN" L.T.D.

License No. 7, dated 24.11.1999

Address : Rruga "Konferenca e Pezës", TIRANË

8. FOREIGN EXCHANGE BUREAU "EXCHANGE" L.T.D.

License No. 8, dated 24.11.1999

Address : Rruga e Durrësit nr.170 dhe "Reshit Çollaku", Pall. Shallvare shk.4, ap.42, TIRANË

9. FOREIGN EXCHANGE BUREAU "UNISIX" L.T.D.

License No. 9, dated 25.11.1999

Address : Bulevardi "Republika". Pall.4, KORÇË

10. FOREIGN EXCHANGE BUREAU "EKSPRES J & E" L.T.D.

License No.10, dated 26.11.1999

Address : Lagjja 11, Rruga "Prokop Meksi" (pranë Hotel "Durrësi"), DURRËS.

11. FOREIGN EXCHANGE BUREAU "MI & CO" L.T.D.

License No.11, dated 29.02.2000

Address : Rruga "DED GJON LULI", Nr.2/3, TIRANË.

12. FOREIGN EXCHANGE BUREAU "ILIRIA '98" L.T.D.

License No.12, dated 25.02.2000

Address : Sheshi Skenderbej, Teatri i Kukullave, TIRANË.

13. FOREIGN EXCHANGE BUREAU "SERXHIO" L.T.D.

License No.14, dated 07.04.2000

Address : Lagjja "Luigj Gurakuqi", Rr.11 Nëntori, Pall.70, nr.14, ELBASAN.

14. FOREIGN EXCHANGE BUREAU "ALBTUR" L.T.D.

License No.15, dated 07.04.2000

Address : Agjencia nr.1, Bulevardi "Dëshmorët e Kombit", pall.32, shk.1, (përballë Bankës Tirana), TIRANË;
Agency no.2, Rruga "Mine Peza", pall.102, Shk.1 (pranë Bar Grand), TIRANË.

15. FOREIGN EXCHANGE BUREAU "R & M" L.T.D.

License No.16, dated 22.05.2000

Address : Rruga "Punëtorët e Rilindjes", Pallati 182, TIRANË;

16. FOREIGN EXCHANGE BUREAU "TEUTA 2000" L.T.D.

License No.17, dated 22.05.2000

Address : Lagjja 4, Rruga "Skenderbej", Apartamenti 950, DURRËS.

17. FOREIGN EXCHANGE BUREAU "T & E" L.T.D.

License No.18, dated 11.06.2000

Address : Lagjja 4, Rruga "9 Maji", DURRËS.

18. FOREIGN EXCHANGE BUREAU "SHIJAK 2000" L.T.D.

License No.19, dated 24.11.2000

Address : Lagjja "Popullore", SHIJAK

19. FOREIGN EXCHANGE BUREAU "R & T" L.T.D.

License No.20, dated 20.12.2000

Address : Bulevardi Zogu i I, (pranë BPI-së) TIRANË

20. FOREIGN EXCHANGE BUREAU "DV - ALBA" L.T.D.

License No.21, dated 11.01.2001

Address : Sheshi Skenderbej, Tirana Internacional Hotel, TIRANË.

21. FOREIGN EXCHANGE BUREAU "MANUSHI" L.T.D.

License No.22, dated 18.04.2001

Address : Bulevardi "Zogu i I", Qendra e biznesit VEVE, TIRANË

22. FOREIGN EXCHANGE BUREAU "UNIONI SELVIA" L.T.D.

License No.23, dated 21.05.2001

Address : Rruga "Shenazi Dishnica", Pallati 124/1, TIRANË

23. FOREIGN EXCHANGE BUREAU "KALENJA" L.T.D.

License No.24, dated 29.06.2001

Address : Rruga "Kavajës" (prane ambasadës Turke), TIRANË

24. FOREIGN EXCHANGE BUREAU "TILBA" L.T.D.

License No.25, dated 30.09.2001

Address : Lagjja "Luigji Gurakuqi", Bulevardi "Qemal Stafa", Njësia Nr. 12, ELBASAN

25. FOREIGN EXCHANGE BUREAU "ANAGNOSTI" L.T.D.

License No.26, dated 31.10.2001

Address : Bulevardi "Zogu I", Pallati 97, Shk.3, Ap.28, TIRANË

Tel. : 0382126326

26. FOREIGN EXCHANGE BUREAU "KO-GO" L.T.D.

License No.27, dated 12.11.2001

Address : Rruga "Vaso Pasha", Pallati 16, Shk.2, Ap.9, TIRANË.
Tel. : 0382024230

27. FOREIGN EXCHANGE BUREAU "ALB FOR EX" L.T.D.

License No.28, dated 22.11.2001

Address : Rruga "Abdyl Frashëri", Nr.3, TIRANË
Tel. : 0382045287

28. FOREIGN EXCHANGE BUREAU "L & N" L.T.D.

License No.29, dated 22.11.2001

Address : Rruga "Muhamet Gjollështa", ish gjelltorja tek sheshi Atatürk, TIRANË;
Tel. : 268393

29. FOREIGN EXCHANGE BUREAU "TERBAÇI - GJ" L.T.D.

License No.30, dated 22.11.2001

Address : Rruga "Muhamet Gjollështa", Pallati 215, TIRANË;
Tel. : 268393

30. FOREIGN EXCHANGE BUREAU "EXCHANGE ALOG" L.T.D.

License No.30, dated 22.11.2001

Address : Rruga "Mine Peza", (përballë selisë së Vatikanit), TIRANË
Tel. : 0382041200, 0382022334

31. FOREIGN EXCHANGE BUREAU "EX-CHANGE BEBI & FLORI" L.T.D.

License No.32, dated 26.11.2001

Address : Lagjja "Kongresi i Përmetit", FIER
Tel. : 0382035654

32. FOREIGN EXCHANGE BUREAU "GERSILDA" L.T.D.

License No.33, dated 03.12.2001

Address : Lagjja Nr.2, Rruga "Mihal Grameno", TIRANË
Tel. : 0382051110

33. FOREIGN EXCHANGE BUREAU "CHANGE-ARIZAJ" L.T.D.

License No.34, dated 03.12.2001

Address : Rruga "Pandi Madhi", Pallati 60/2, Ap.15, TIRANË.
Tel. : 0382135394

34. FOREIGN EXCHANGE BUREAU "BASHKIMI 2001" L.T.D.

License No.35, dated 03.12.2001

Address : Rruga "Kavajës", (lokali pastičeri "Rinia"), TIRANË
Tel. : 0382024601

35. FOREIGN EXCHANGE BUREAU "ARJON 2002" L.T.D.

License No.36, dated 14.12.2001

Address : Lagjja "Kongresi i Elbasanit", Bulevardi "Qemal Stafa", Pallati 9-katësh, ELBASAN
Tel. : 054 584 60, 054 578 27, 06921077887

36. FOREIGN EXCHANGE BUREAU "AEDA TURIST" L.T.D.

License No.37, dated 14.12.2001

Address : Rruga "Abdi Toptani", Nr.5, TIRANË;
Tel. : 256658

37. FOREIGN EXCHANGE BUREAU "JONI" L.T.D.

License No.38, dated 18.12.2001

Address : Lagjja Nr.3, Rruga "3 Dëshmorët", KAVAJË

Tel. : 0382163013, 05743734

38. FOREIGN EXCHANGE BUREAU "EURO 2002" L.T.D.

License No.39, dated 20.12.2001

Address : Lagjja Nr.11, Rruga "Ismail Qemali", pranë PTT, DURRËS

Tel. : 0692135741, 0382152743

39. FOREIGN EXCHANGE BUREAU "EURO TRAVELS INTERNATIONAL" L.T.D.

License No.40, dated 14.01.2002

Address : Bulevardi "Bajram Curri", pallatet Agimi Nr.1, Tiranë

Tel :224942;

E mail: bdusha51@Yahoo.com

40. FOREIGN EXCHANGE BUREAU "G&3" L.T.D.

License No.41, dated 15.01.2002

Address : Rruga"Kajo Karafili", Kavajë

Tel : 05742739; 0382279094

41. FOREIGN EXCHANGE BUREAU "ALAKTH" L.T.D.

License No.42, dated 18.01.2002

Address : Rruga e Dibrës,nr.105/1, Tiranë

Tel: 0382026363

42. FOREIGN EXCHANGE BUREAU "FORMAT" L.T.D.

License No.43, dated 21.01.2002

Address : Rruga e Durrësit,Pall.85, shk.1,ap.1, Tiranë

Tel: 221606

43. FOREIGN EXCHANGE BUREAU "TRI URAT" L.T.D.

License No.44, dated 05.02.2002

Address : Lagja "29 nëntori", pranë filialit të postës Elbasan

Tel: 0382262233; 0382133184

44. FOREIGN EXCHANGE BUREAU "CROËNTONË" L.T.D.

License No.45, dated 05.02.2002

Address : Rruga "Mihal Grameno", Pall 010,Tiranë

Tel: 04223 544

45. FOREIGN EXCHANGE BUREAU "BESA 2001" L.T.D.

License No.46, dated 15.02.2002

Address : Rruga "Myslym Shyri", Nr.25,Tiranë

Tel: 0382133879

46. FOREIGN EXCHANGE BUREAU "MARIO" L.T.D.

License No.47, dated .03.2002

Address : Lagja 1, pranë ish komitetit ekzekutiv të rrethit Sarandë

Tel: 0732 38 33; 0732 29 85; 00355973708363

47. FOREIGN EXCHANGE BUREAU "JAV" L.T.D.

License No.48, dated 20.03.2002

Address : Bulevardi "Zogu I" Godina e Zërit të Popullit Tiranë

Tel: 0382023214

48. FOREIGN EXCHANGE BUREAU "DROGU" L.T.D.

License No.49, dated 23.04.2002

Address : Rruga "Vaso Pasha" Kulla 1, Kati I (pas pallatit Agimi) Tiranë

Tel: 240534; 0382045031

49. FOREIGN EXCHANGE BUREAU "HYSEN-C" L.T.D.

License No.50, dated 23.04.2002

Address : Lagja nr.3, përballë Komisarariatit të Policisë, Laç

Tel: 0382024688

50. FOREIGN EXCHANGE BUREAU "UNIONI FIER" L.T.D.

License No.51, dated .05.2002

Address : Lagja 15 Tetori, Rruga Kastriot Muca, Fier

Tel: 064 25 554

51. FOREIGN EXCHANGE BUREAU "TAXI EXPRES" L.T.D.

License No.52, dated 20.05.2002

Address : rruga Sami Frashëri, 11(pranë Shkollës "Edit Durhan"

Tel.: 223231; 0382046099; 0382250566

52. FOREIGN EXCHANGE BUREAU "MERO" L.T.D.

License No.53, dated .05.2002

Address : Zyra nr.1 : Bulevardi Fuat Babani, Bilisht

Zyra nr.2 : Dogana Kapshticë

Tel. : 085 22 331; 0382029748

53. FOREIGN EXCHANGE BUREAU "EURO-EKSPRES" L.T.D.

License No.54, dated 04.07.2002

Address : Rruga "Sulejman Pasha" Tiranë

Tel.: 0692032865

54. FOREIGN EXCHANGE BUREAU "GLEAR" L.T.D.

License No.55, dated 23.07.2002

Address : Lagjja Koder Shijak Durres,

Tel.: 05712657; 0682050515.

55. FOREIGN EXCHANGE BUREAU "POSTA SHQIPTARE" L.T.D.

License No.56, dated 28.08.2002

Address : Rruga "Reshit Collaku" , nr.4 Tirane,

Tel.: 250 702; 222 315

56. FOREIGN EXCHANGE BUREAU "UNIONI BALLSH" L.T.D.

License No.57, dated 11.09.2002

Address : Rruga "8 Nentori" , Ballsh

Tel: 03132675; cel: 0692121006

Fax: 03132675

57. FOREIGN EXCHANGE BUREAU “ESLULI” L.T.D.

License No.58, dated 17.10.2002

Address : Rr. Reshit Çollaku, Pallati i Shallvareve, shkalla n.4/1

Tel: 271 160; 271 438;

Note : based on the regulation “On foreign exchange operations”, foreign exchange bureau are equipped with licenses which are not restricted in time.

UNIONS OF SAVINGS AND LOANS ASSOCIATIONS

UNION OF SAVINGS AND LOANS ASSOCIATIONS"JEHONA" TIRANA;

Licence No.1, date 27.06.2002,

Address:

Head of Governing Board: Ms. Vojsava Rama

Members of this union are 41 savings and loan associations licensed also to act as independent associations. They have also technical support by the Foundation "Initiative for the development of savings and loans associations".

UNION OF SAVINGS AND LOANS ASSOCIATIONS"ALBANIAN UNION OF SAVINGS AND LOANS ASSOCIATIONS " TIRANA

Licence Nr.2, date 09.08.2002,

Address:

Rruga "Ismail Qemali", nr.32

Head of Governing Board: Ms. Zana Konini

Tel. + 355 42 51910

E-mail : *ffrural@albaniaonline.net*

Members of this union are 71 savings and loan associations licensed also to act as independent associations. They have also technical support by the Rural Financial Fund.

SAVINGS AND LOANS ASSOCIATION "INBLEG" Tirana,

Licence no. 70, date 25 .09.2002