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GOVERNOR'S SPEECH*

At the first decade of the transitional period, Albanian economy recognized a great circle-like development. The macro-economic imbalance in the years '91-'92 and '97 is followed by efforts for reforms and equilibrium re-establishment. As a result of applying these stability programs, Albanian economy has recognized a relatively great development, budget deficit reduction and price stability. The average annual inflation of 3,5% for the period '98-02 is considerably lower than that of other East and Central European countries.

I. ALBANIAN ECONOMY IN 2002.

I.1. DEVELOPMENT IN PRODUCTION.

The growth rates of Albanian economy for 1998-2002 period are considered high. However, they have shown a falling tendency during all this period. Bank of Albania assesses that the economy growth rate slowdown is a result of:

- Not fully applying the structural reforms;
- Low foreign investment rate;
- Unfavorable international conjuncture after the events of September, the 11th 2001;
- The soothing of the economic activity after its considerably high growth in '98-'99.

The economic growth in Albania for 2002, at 4,7%, as a result of the private sector expansion, relied mainly on transport, services and construction activities. The public sector is shrinking.

However, the economic growth in 2002 is lower compared to the period 1998-2002 and with 1,3% deviation from the objective declared at the beginning of the year (6%). Nearly all the economic branches have manifested lower growing rates than predicted especially agriculture and industry. The structure of Albanian economy is also changing. The agriculture and animal farming weight, sectors that have traditionally supported the economic growth, are weakened, and the contribution of services and construction sectors is increasing. These structural changes are in complete harmony with the development that a country should experience, whose objective is its integration in European Union, but still it is noticed that the industry sector has no important role. In order to support stable long-term

economic growth, we think it is important that the governmental authorities must give priority to the industrial production stimulus.

Agricultural production for 2002 increased at 2,1%. It's years since agriculture does not contribute anymore by 50% to the country's economy, but considerably less. It seems that this sector's growth rate can not rely only on its extensive aspect. It is necessary that certain adjustments be performed in this sector, which in turn would lead to productivity growth. The agriculture problems relate to: land parceling, and conflicts related to its ownership, and this does not allow long-term investments in this sector; lack of investment in technology; undeveloped rural infrastructure and the considerable disparities from a certain region to another; limited conservative abilities of agriculture and animal farming products; as well as the inadequate support provided to this sectors by funds. In spite of these problems, the agriculture sector suffered the autumn floods of year 2002. In this sector, the developments, somehow better, in animal farming and agro-industry compensates for the problems of the agriculture sector.

The industrial production for 2002, increased at 2% having the lower growth rate compared to other branches. More than any other branch, industry has suffered electric power problems that exist since at least three years ago. It is obvious, now, that the resolution to this problem is vital to the country's development. But, I have to stress that the situation is even more vexatious. Due to the observations Bank of Albania has periodically performed near the businesses of the industry sector, it has been emphasized that the country's energetic situation has led to weakening the optimism of the future business development, that's to say the stability of the economic growth is in danger.

* Governor's speech held in the Albanian Parliament, on April 29th, 2003.

The transport branch is assessed to have grown at 10,1% having the highest growth rate in comparison to other branches. Perhaps, this sector would have grown at 11% as predicted, had the investments been performed at a better level during 2002. The investments are performed at 79,4% of the ones planned and mainly as an aftermath of their increase in the last three months of the year.

The construction sector continues to maintain high growing rates. It is assessed that this sector's production has grown at 9,1% for the year 2002. However, construction is showing a slowing down trend in its activity extension. This is a natural trend as a result of numerous new buildings during the last ten years, and meeting the requirements. But, in the short-term period the endeavors for the constructing activity formalization will exert much influence.

On the whole, the lowest economic growth rate for the year 2002 is the aftermath of foreign investments lower rate and capital expenditures shrinking, as well as of political developments accompanied by frequent changes in government. The direct foreign investments decreased by 31% compared to year 2001. Considering that the country's political and macro-economic situation is similar to that of a year ago, foreign investments decrease is because of strategic institutions privatization deficiency, especially that of Savings Bank and Alba- Telecom. On the other hand, capital expenditures are realized at lower rates. In concrete terms, in 2002, nearly 73% of the planned capital expenditures were returned compared to 96% a year ago. The factual capital expenditures for 2002 fell by 13,8% compared to the previous year.

At year-end 2002, the number of the employees reached 921 000. In compliance with economy's development and its structural change, the employing structure in the country has also changed. So, the employees in the agriculture sector constitute 57% of all the employees from 71,5% a year ago. Migration toward towns and the private sector expansion have attracted a considerable part of the working force. So, the employment in the private non-agriculture sector occupies 23% of the employment on the whole from 15, 8% a year ago. However, Albania still has a high unemployment rate of 15,8%. Private

activity expansion and public investments still are not at such rates to prosper sufficient working positions.

Anyway, the fact that the Albanian economy has insured economical growth for the fifth consecutive year has also led to per capita income increase. For year 2002, per capita incomes accounted as GDP evaluated in dollars, compared to the country's population, are assessed at USD 1500, on average. Although this income rate remains one of the lowest of the region, we can again say that the "The Strategy for Economic and Social Development" application is taking effect. Immigration continues to be an important income source for Albanian families. These incomes have reached at USD 606,8 million for 2002, ensuring 52,5% trade deficit coverage.

At year 2002, Albanian economy trend has reflected also the effect of the overall slowdown of world economy growth, especially the impact of the problems accompanying the region's economy and the main trade partners.

I.2. DEVELOPMENTS IN ECONOMY'S EXTERNAL SECTOR AND EXCHANGE RATE.

Albanian economy competitiveness in the domestic and foreign markets is still low. The trade deficit has shown an upward trend for the last three years. For 2002, trade deficit results at 24,6% of GDP. Trade deficit escalation is the outcome of higher levels of imports compared to exports.

Albanian exports volume increased by USD 330,2 million. Re-exports occupy the main weight of Albanian exports at 74%, whereas domestic product exports remain at low rates. Albanian exports are limited in raw material production as a result of the non-expansion of domestic manufacturing capabilities. In this way, domestic production exports could not be accompanied by investment expansion and new work positions. As far as re-exports are concerned, it seems that they contribute somehow to employment, making use of free labor force in Albania. This activity represents also the most important investments of two neighbor countries in Albania: Italy and Greece.

However, it remains unclear the fact that such investments are accompanied by investments in advanced technology which would serve as a premise to productivity growth.

Albanian import volume reached USD 1,5 billion. Imports include consumer goods, machinery and equipment. Machinery and equipment imports constitute 16% of imports or 5% of GDP. Indirectly this indicator points that private investments have increased.

Current deficit deteriorated, recording 9,5% level of GDP from 6,1% a year ago. The current deficit deterioration was the outcome of trade deficit escalation. Immigrants' incomes and tourism mainly enable current account financing. Current deficit, marking USD 447,6 million level is financed by capital inflows at 75% rate. Direct foreign investments (USD 135 million) and foreign debt (USD 142,7 million) have the main weight in its financing.

The unfavorable developments in economy's external sector have exercised no strong pressure for domestic currency depreciation. During 2002, the foreign exchange rate towards the main currencies has especially tracked the factual seasonal tendencies even in previous years, the main exchange currency trend in the international exchange market, too. In comparison with last year, Lek was depreciated by 3,03 percentage points on the average, compared to EURO and was appreciated by 2,32 percentage points compared to USD. The banking panic of March-April period, accompanied by the confidence shrinking in domestic currency and the increase of money circulation is considered as a crucial factor counting for Lek depreciation. But the developments in international markets are those which determine domestic currency movements. EURO/USD rate in international market determined Lek's depreciation towards EURO.

Depending on those developments, Bank of Albania has intervened in the domestic foreign exchange market, during 2002, in two phases: March-April-May and December. The intervening direction was different for both phases. In the first phase, nearly USD 5 million were sold out, whereas in December, nearly USD 2 million were bought.

II. INFLATION AND MONETARY POLICY

The annual inflation rate at year-end 2002 reached 2,1%. The developments in consumer prices during 2002 showed a different tendency from the last year one. If in 2001 inflation remained at relatively low rates and within the objective, pressures for higher inflation increased in its last months, resulting in a 3,5% inflation rate reached at year-end. Year 2002 started with high inflation rates, nearly the twice of the objective's ceiling. Rates higher than the objective were present almost during the whole year and considerably decreased in its last two months. In general, the mid-term inflation has shown an upward trend. The average annual inflation rate increased from 0,4% and 0,1% in 1999 and 2000, into 3,1% and 5,4% correspondingly in 2001 and 2002, as a result of the most inflationary economic environment during 2002.

In 2002, many factors have operated and have dictated the developments in consumer price. These factors have operated in both directions: the demand and the offer direction. These factors operation at certain ratios and the fact that demand factors operated in continuation of one another giving even longer-term effects, made Bank of Albania respond prudently.

Among the main factors operating in the inflation trend, worth mentioning are:

- Money growth outside banks over forecasts, in certain periods of the year and the weight increase of a more liquid aggregate, M1 in the monetary offer at the first half of the year;
- Domestic currency depreciation at the first half of the year as well;
- Foodstuff price increase in markets from which Albania imports and a higher inflation compared to the objective in Eurozone;
- Electrical power price increase in December 2001 reflected in consumer goods prices, especially at the first half of the year. Also, the unstable power situation operated as an important factor for higher prices;
- Climate conditions, such as the cold

- weather at the beginning of the year and autumn floods, influenced on transport price increase and as a result on food product increase.
- Speculative increase of prices, especially on the verge of feasts at year-end.
 - Since these operating factors intensity was stronger in the first half of the year, inflation rates resulted to be higher in this period and became smoother later. The prudence in budgetary expenses performing, the price reduction in “communication” group as a result of the mobile service invigoration in Albania and also campaigns undertaken by Bank of Albania at year-end influenced on inflation reduction, in order to smooth the phenomenon of speculation with prices.

The monetary policy tracked by Bank of Albania in 2002 was somehow changed compared to years '98-00. In general, monetary policy applied during last years has had a soothing character. In 2001, responding to pressures for high inflation, monetary policy was neutral, whereas in 2002, for most of the time it became tightening. In addition to that, different from the ten-year activity history of Bank of Albania, banking system stability maintenance was given priority for nearly three months. By this decision, Bank of Albania avoided banking panic expansion and extension for a longer period of time. Although at first sight, the maintenance of banking system stability seemed to threaten the achievement of the inflation objective, in fact it serves to long-term price stability. The developments till year-end 2002 proved that Bank of Albania took the right decision.

On the whole, monetary policy in 2002 was a tighten policy responding to the pressures for high inflation rates. But, it has not uniformly been tighten during the whole year. In compliance with inflation and monetary developments trend, monetary policy of Bank of Albania during 2002 may be divided into three periods:

- **In January-February, a neutral monetary policy was adopted.**

High inflation rates at the beginning of 2002, influenced by the offer factors, made interest

growth rate not necessary. In general, the monetary indicators improved and liquidity was quickly returned to the system. Bank of Albania withdrew excessive liquidity by means of REPO auctions. It did not finance the budget deficit. Interest rates have generally been stable.

- **In March-September a tightening monetary policy was tracked.**

Deposit withdrawal from the two greatest banks of Albanian banking system, which started at mid March 2002, changed the course of monetary developments and rose up additional pressures about inflation. Panic expansion was an unpredicted phenomenon. At least, banking system situation did not cause it. Despite certain problems supervised by Bank of Albania and made known to public through the threatening toward the financial system, Banks in Albania show a healthy financial situation. Albanian banking system is being consolidated year on year. Therefore, the panic could not be urged or based on banking system situation. Panic was assessed to be the aftermath of the political situation aggravation at that period, misinterpretation of the law “On deposit insurance” and of insufficient information to depositors, too. As a result, deposits worth Lek 23,4 billion were withdrawn from the banking system, 73% of that represented the withdrawal of deposits in Lek. These withdrawals represented 8,3% of deposits set on in Albanian banking system. Deposit withdrawal caused difficulties for banks short-term liquidity and for budget deficit financing through the primary market of treasury bills. This difficulty was even more aggravated when it became clear that the privatization process in 2002 would not progress as forecasted. Monetary indicators deviated from the program. Money outside banks during this period increased at Lek 16,4 billion. Only in April was the annual growth rate of this indicator 35,6%, and this is the highest growing rate during the last five years. On the other hand, Lek was depreciated compared to the two main foreign currencies and at the same time pressures for inflation increase was strengthened. As a result, banking system passed from its position of excess liquidity of Lek 1,6 billion in February into liquidity deficiency.

In order to overcome this situation, Bank of Albania strategy consists in:

- Allowing the deviation from the monetary program and meeting banks needs for liquidity. By injecting the liquidity needed in markets, banks had the possibility to meet the requirements for deposit withdrawal and in this way this served as a measure to prevent panic expansion. In spite of this, since having liquidity banks operated normally in the primary market of treasury bills.
- Financing the government to ensure normal expenditures continuity. But, since pressures for inflation were strengthened, Bank of Albania searched and found Albanian government's understanding to be extremely prudent in performing expenses. The fiscal quantitative objectives were rigorously respected. Supervisory Council of Bank of Albania decided that the government should be financed at least by 8% of average budgetary incomes for the three last years. But, the premature situation improvement made this measure implementation not necessary;
- Increasing the interest base rate by 1,5 percentage points to foster deposit interest rate increase. This amount ensured higher real deposit incomes and promoted them to turn money in banks. Despite this, deepening the difference with foreign currency interests was aimed at, so that pressure could be applied to not allow Lek depreciation;
- Explaining to public the banking system real situation, as well as the effects and benefits of the law "On deposit insurance" in order to smooth the negative psychological effect that occurred.

The precautions ensured the interruption of deposit withdrawal by the end of June 2002 and the whole situation recuperation within year 2002.

- **In October-December a neutral monetary policy was adopted.**

Considering liquidity return in the system, which led monetary condition improvement, relative

interest rate stability and inflation pressures smoothening, Bank of Albania has applied a prudent monetary policy, with a smoothing tendency, in the two last months of the year. In November, it adopted a neutral attitude toward interest rates. In December, the neutral character of monetary policy stability was further strengthened due to the changes of auction's form from fixed amount auction into unfixed amount auction of fixed interest rate. This change represents a significant lending cost reduction in the banks.

As a consequence, the required quantitative objectives to be applied by Bank of Albania were respected. Net domestic assets resulted to be Lek 7,97 billion less than their above-mentioned objective; net foreign assets resulted to be 3,55 million USD more than the objective floor. In conformity to the actual monetary policy regime, Bank of Albania aims at economy's liquidity control, considering it as closely linked to prices level. Liquidity condition and economy's monetary indicators are controlled by the respect shown towards these quantitative objectives.

III. PUBLIC FINANCES

Budget indicators trend for year 2002 was conditioned because of privatization incomes deficiency; deposit withdrawal and the unrealized forecast for economic growth and this means less budgetary incomes. Therefore, in order to maintain the equilibrium of these indicators and to respect the quantitative objectives, everything was operated by a rigorous control in expense performance.

Budgeted deficit reached 6,2% toward GDP or 2,4% points less than a year ago. Albanian state finances consolidation resulted from the continuation of a clear tendency of budget deficit reduction for the period 1999-2002. Budget deficit reduction was ensured by the higher income growth compared to expenses.

Budgetary incomes increased by 11,4% compared to those of a year ago. However, the planned rate was realized at 95%. Expenditures increased by 3,2% compared to a year ago and the realized plan level was 90%.

The level of the realized budgeted income plan is influenced by taxation and custom incomes plan realized at 92% and 91%. It is clear that the budgetary income rate remains negatively influenced by fiscal evasion, domestic contraband and corruption level. On this ground, strengthening the precautions toward these phenomena is directly linked to fiscal position improvement.

As far as expenses are concerned, it is noticed that capital expenditures are realized at 73% rate, meanwhile current expenses hold 81% of all the expenses, from the forecasted 74,6%.

Year 2002, as well, did not avoid the usual phenomenon of expenses concentration in December. Expenses rate in December surpassed budgeted plan. The same situation is maintained since at least 1997, and this makes us paying more attention to the harmonization of expenses rhythm necessary.

IV. DEVELOPMENTS IN BANKING SYSTEM

The situation of Albanian banking system for 2002 is assessed to be healthy. Banking system activity is expanded by Lek 21 billion or 3,4% in real terms. The resulting profit is Lek 3,9 billion. Capital's position is further strengthened and capital adequacy rate reached 31,5% from 12% of the allowed minimal rate.

Albanian banking system is expanded by new entities and its network has further extended. In 2002, Albanian Credit Bank was licensed. Actually, 14 trade banks operate, and they have expanded their network by 9 new branches and 1 new agency. Despite banks, new financial institutions are being set up and licensed and they will influence in developing the financial system in Albania and will lead to reducing banking system weight in it. Therefore, in 2002, 1 non-bank financial institution, 20 foreign exchange bureaus, 113 saving-credit associations and 2 unions to these associations were licensed.

The increase in the number of financial institutions and their activity's expansion will rise up the financial intermediation level in Albania.

Despite positive developments in last years, still financial mediation is at low levels, even lower compared to the region. Term deposit ratio is nearly 40,1% of GDP from 50% of the average level in East and Central European countries. In the meantime, domestic credit is nearly 35,1% of GDP, but the credit to economy is 7,2% from nearly 40% on the average in East and Central European countries. The difference between domestic credit indicator and credit to economy, represents banking sector loaning to the government. Albanian government demand to finance budgeted deficit, still high in comparison to the most developed countries' level, keeps lending activity distorted. However, the developments in the last years have been positive. The continuous budget deficit reduction raised banks' ability to loan economy. Domestic credit ratio and economy credit ratio toward GDP a year ago were 45% and 4,6% correspondingly.

It's a positive fact that banking activity expansion is the result of a more intensive activity of private and joint venture banks. In this way, premise about the continuous reduction of Savings Bank dominating position is set up.

However, compared to the last year, the rhythms of banking activity expansion and profitability indicators have undergone a slight deterioration. Net incomes in comparison to average assets and their banks' funds, for 2002 result 1,2% and 19,1% from 1,5% and 21,6% a year ago. This situation reflects the influence of the panic caused in March-April 2002 over the banking system. Consequently, Bank of Albania concludes that the banking system is sound, but its stability is still fragile.

Banks lending activity for domestic economy is performed at satisfactory paces. The new credit cultivated by banks, has been Lek 62,6 billion from Lek 40,6 billion in 2001. Banking system credit outstanding, at year-end 2002 turned out to be Lek 47,4 billion or 16,6% of this system deposits. In general, credit indicators have improved. In years 1993-2000, the banking system granted credit at Lek 79,5 billion. The new granted credit for the period 2001-2002, reaches Lek 103,2 billion. This means that the average annual lending for these two years is nearly 5 times more than the period 1993-2000. Banking network and activity expansion makes us feel optimistic about lending increase in the future.

Despite banks, micro-credit scheme and non-bank financial institutions expansion is another fruitful development, which will lead to the increase of economy's loaning. It is assessed that Lek 4 billion credits is granted by these institutions during 2002.

Micro-credit schemes have precedence because they expand even in regions where there are no bank branches, especially in rural regions and create loaning possibilities for small business. These are the reasons by which it is assessed in general that informal lending is shrinking.

The credit granted by banking system has maintained its structural characteristics even in 2002. So, it is 67% in foreign currencies; 100% for the private sector and 71% short-termed. In spite of that, the trade sector continues to be the favorite in lending.

Banks lending activity, regardless of the last years acceleration is not accompanied by credit portfolio quality deterioration. Bad credits represent 5,6% of credit portfolio from 6,9% marked a year ago. Bad credit structure as well, has not underwent changes by not reflecting any trouble toward the increase at the highest risks which is the risk of loans classified as lost.

V. BANKING SUPERVISION

The function of banking supervision constitutes the second key pillar of Bank of Albania activity.

The mission of Bank of Albania as a regulatory authority is:

- to insure banking system stability and support deposits and wide audience interests;
- to insure a sound banking system, whose activity should be transparent and conducted toward market economy;
- to increase investors and depositors trust by supporting the development of banking industry and its efficiency.

The main strategic objective is the one declared by the BIS Bazel Committee for banking supervision: **"No entity is to escape supervision**

and supervision must be adequate" and the observance of the Committee's 25 key principles about prudent banking supervision.

Banking supervision activity, in 2002, is concentrated in meeting and reviewing the regulatory framework, analyzing and inspecting banking and other institutions' activity supervised by Bank of Albania. Many new laws and regulations were drafted in the regulatory framework and they aimed at not leaving certain institutions activity out of supervision.

During 2002, 13 complete inspections and 11 partial ones were performed and it was noticed that:

- Lending activity expansion is accompanied by credit portfolio improvement, although it still evidences certain deficiencies such as the beginnings of lending activity without firstly ensuring a well-prepared group; non-reliance on complete and adequate policies and procedures.
- Public trust in the banking system is returned after the panic prevailing in March-April 2002 period.
- Banks top management, in general, has positively reacted to problems raised by the performed examinations, but has not shown the proper caution in: improving banking activity procedures and policies; meeting the regulatory framework of banking activity; applying bank's business plan.

During the performed inspections, certain violations of different nature are observed. In general, these violations are assessed as trivial and of no serious consequences for banks.

According to the evidenced violations, the corrective and punitive actions are determined, based on the provisions of the law "On banks in the Republic of Albania" and on the by-laws of Bank of Albania such as recommendations and suggestions to correct the little irregularities such as the requirement to present in Bank of Albania a certain program of measures for managing bank's situation.

In case of encountering a certain irregularity it determines the corresponding terms, too;

punitive actions for the managers involved in the observed violations toward the regulative and legal framework in power.

Considering the importance that banking supervision function has, the plan of medium-term banking supervision development is drafted having an effect till year 2004. Applying this plan aims at increasing the banking system security level in Albania by efficiently performing the standards for a safe and sound banking activity.

Strengthening the supervising abilities is considered as an important duty aiming at deterring problems and minimizing risks to which banking system is exposed. The importance of this undertaking grows more when facing the attempts and implementation of the measures for the further liberalization of economy and level of its integration increase.

VI. THE FINANCIAL SITUATION OF THE BANK OF ALBANIA.

For year 2002, the opinion of independent auditors is that the financial reviews of Bank of Albania reflect directly, in all material aspects, Bank's financial position and the results of its activity, changes in its capital and cash flows at year-end are in accordance with International Accounting Standards.

The total balance sheet of Bank of Albania turned out to be Lek 213 billion whereas net income reached Lek 9,7 billion or 8,9% higher than a year ago.

Foreign currency reserves constitute an important resource of foreign currency income for Bank of Albania. At year-end 2002, foreign currency reserves reached USD 838,9 million or 13,8% more than a year ago.

BANKING SYSTEM AND THE CENTRAL BANK¹

THE LECTURE HELD BY THE GOVERNOR OF THE BANK OF ALBANIA, MR. SHKËLQIM CANI IN THE ECONOMICS FACULTY OF "LUIGJ GURAKUQI" UNIVERSITY, SHKODËR, ON APRIL 4TH, 2003. .

I. BANKS' ROLE IN ECONOMY

Dear students,

A considerable number of you, or generally your parents, have a bank account where they have deposited a certain amount of money in leke, Euro or dollar, such as savings, on which they receive a certain interest rate. (i). On the other hand, the businesses in particular and consumers in general, receive an interest $(i+x)$ % on the bank loan. In this way, commercial bank performs intermediary role between the public that wants to deposit money and the loan-takers. This is the fundamental mission of a bank.

Can there exist an economy without banks? Theoretically, this is possible, for example a house can be financed with the assistance of its family members, or an enterprise may receive a loan from other enterprises, without needing a bank. But, banks have decisive "assets" of the economy game in their hands. They have the proper amounts of money, which comes from the citizens' savings. They have professional ability and finally they have possibility to provide loans to a great number of people.

Therefore, with much certainty, we may state that a modern economy without banks can not be imagined, either.

Banks are frequently mentioned in everyday life. Numerous are the people that have received a loan to construct a house, start a business or extend the existing activity.

The acceptance of deposits and the lending are two main typical activities of banks. The banks play intermediary role between the households, who want to deposit their money and borrowers

who need money. But, we do not go to bank simply as savers or as borrowers. We go to bank to request it to post money from our account to someone else's account; to sell or buy foreign currency; or even simply to take advice.

The main bank activities are deposit acceptance and lending. Banks are also accountable for non-cash transactions.

Entirety of different bank types with mutual links and certain functions constitutes a country's banking system.

The banking system may be one-level or two-level system. In one-level banking system, only one bank functions, playing some of the central bank roles (it issues national coins and banknotes) and some of the commercial bank roles (accepting deposits and lending to economy and public).

The one-level banking system is characteristic of planned and centralized economy of the socialist model of economy.

Two-bank types exist in the two-level banking system.

In the first level, the central bank, which does not function under commercial basis, carries out the monetary policy, the currency issuing function, being money bank and government bank.

In second level, a number of financial institutions do function under commercial basis, performing banking activity. Commercial banks occupy the most important place there.

The banks are the most important financial institutions developing the economy of a certain region. The word bank is nowadays broadly

¹ The Lecture held by the Governor of the Bank of Albania, Mr. Shkëlqim Cani in the Economics Faculty of "Luigj Gurakuqi" University, Shkodër, on April 4th, 2003.

used to describe a variety of financial institutions.

How is the banking system presented in Albania in 2003? :

economic development is unquestionable, and in this framework, this would constitute “the sound clientele” of banks and would contribute to success of both parties.

Table 1: Banking System presented in Albania in 2003.

Banks*	Number of branches	Number of agencies	Paid in capital / total balance sheet (%)	Total deposits / total balance sheet (%)	Total (net) credits / Total balance sheet (%)	Bad loans / Total loans (%)	Treasury bills in % to the banking system
Group I 1. Savings Bank	37	1	0.4	92.4	0.5	16.2	78.2
Group I 2. Italian Albanian		3	10.5	76.0	37.0	22.5	1.4
3. Islamic Albanian Bank	1		63.4	36.0	6.3	0.0	0.0
Group III 4. National Commercial Bank	10	1	4.9	92.5	0.3	0.0	9.5
5. Dardania Bank			56.4	17.6	0.0	0.0	0.0
6. Tirana Bank	11		5.5	77.2	17.4	1.4	4.8
7. National Bank of Greece – Tirana Branch		3	12.9	83.4	3.4	4.6	0.9
8. International Commercial Bank	1		43.4	55.9	33.5	10.5	0.2
9. Alpha Bank-Tirana Branch	5		7.7	49.7	51.0	1.6	0.4
10. American Albanian Bank	2		3.8	92.4	13.1	1.9	3.0
11. Fefad Bank	7	1	8.7	84.1	26.2	2.0	1.4
12. First Investment Bank - Tirana Branch			61.0	13.7	0.2	0.0	0.0
13. Commercial Bank of Greece			48.6	55.2	54.0	0.0	0.3
14. Credit Bank of Albania							
15. Credins Bank							

*The division of banks into two groups is done pursuant to criteria of capital ownership. The first group includes completely state-owned capital banks, second group includes domestic and foreign joint-stock banks, and the third group includes other banks.

So, 15 commercial banks (or second-tier banks) operate in Albania. Credins Bank is established recently, and only some days ago, on March 26, 2003, it was licensed definitively by the Bank of Albania Supervisory Council to start banking activity.

The role of private community in Albania's

As it is already known, the banking system fundamental function is the channeling of savings or free surplus asset units towards deficient economic units. Thus, the bank lending constitutes the most important mechanism in financing economic activity of enterprises, whereas banks serve as the instrument of meeting this target of funds. The financing

ensured through bank's lending is one of the sharpest problems our business is faced with.

Nevertheless, it can be stated that banks have made improvements in the direction of establishing necessary facilities towards Albanian business, either for commencing a business activity or for extending the existing ones.

Also, the Bank of Albania has the lending policy as its legal task. The banks' lending activity is one of the monetary policy transmission channels and therefore the Bank of Albania is interested to further encourage it.

Which is the level of credit to Albanian activity during recent years?

It is a fact that in Albania, during 2000 – 2002, the macro economic sustainability is increased and the number of serious and reliable businesses is increased, making possible a higher lending by banks. In 1993 – 2002 the banking system has totally extended Leke 79.5 billion credit, whereas only during two recent years, 2001- 2002, it has extended Leke 103.3 billion. Or only during 2002 there is extended approximately as much as 2/3 of the whole period of 1993 – 2000 altogether.

So, the lending process in 2000-2002 included the most intensive and complete identification of new customers who need funds and stressed the importance of banks to business development.

Each bank employee, starting from cashiers, who are under direct contacts with the clientele, to board of directors, are all responsible on their bank's business development and indirectly even on their business. Specialized employees take regular contacts with possible clients, realizing marketing campaigns, getting direct contacts with them. The normal issue on initiating efforts to develop bank's business is market research and the study on it.

In some banks, the activity management has set objectives on lending, borrowing and on identification of possible business areas. The research can formally analyze economic conditions, local and demographic tendencies,

and interviews with the clientele. Concerning customers having a regular history with the bank, preferential interests can also be used for borrowing. Through leaflets, each bank makes the public acquainted with lending possibilities.

Advertisement has also become an important means in written and electronic media.

The majority of banks consider the participation in lending market as one of the most profiting investment forms to the bank itself and simultaneously as a contribution to country's economic development, paying special attention to extending their branches in many other districts of the country.

Generally, we observe that the lending advice offices are improved and the credit officers' number is increased. Any customer entering any bank premises finds data on lending terms and conditions, attached on relevant boards. Then, anyone interested in borrowing can find necessary information in advice office. The providing of assistance to business representatives, who request loans, through assisting in business plans compilation, as an element of financial mediation, is another way of assisting the businesses.

In a survey performed by the Bank of Albania during 2002 on lending and depositing activity, the following conclusions came out of credit specialists' opinion:

The most important factors in determining the credit interest rate are the profit rates and the risk level.

- Preferences on short-term credit, derive from the low risk level, as well as from the possibilities for a better credit monitoring;
- Services and trade activities have been the most favorable activities for lending during this period.

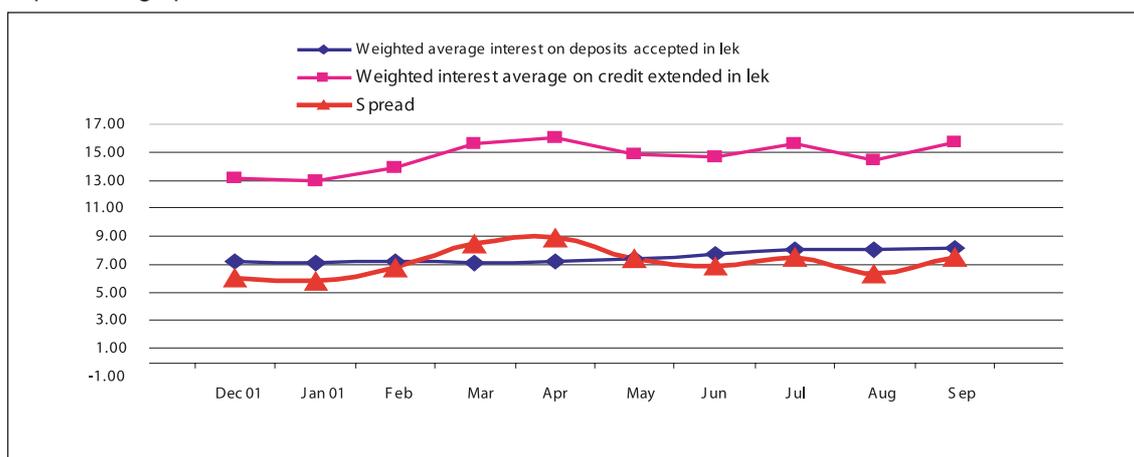
The decrease of some bureaucratic procedures and the increase of readiness degree by banks in service, represent the most important points, on which a bank must reflect so that the customers be more inclined towards banking (or official) services, than towards unofficial ones.

The bank lending market has not a stable interest rate and a pure performance trend yet. The difference of weighted average interest on credit and deposits in leke continues to remain high.

sectors and simultaneously even the most reliable for Albanian banking system.

The Savings Bank Privatization and increase

Chart 1. The difference of weighted average interest in leke on deposits accepted and loans extended, in percentage points.

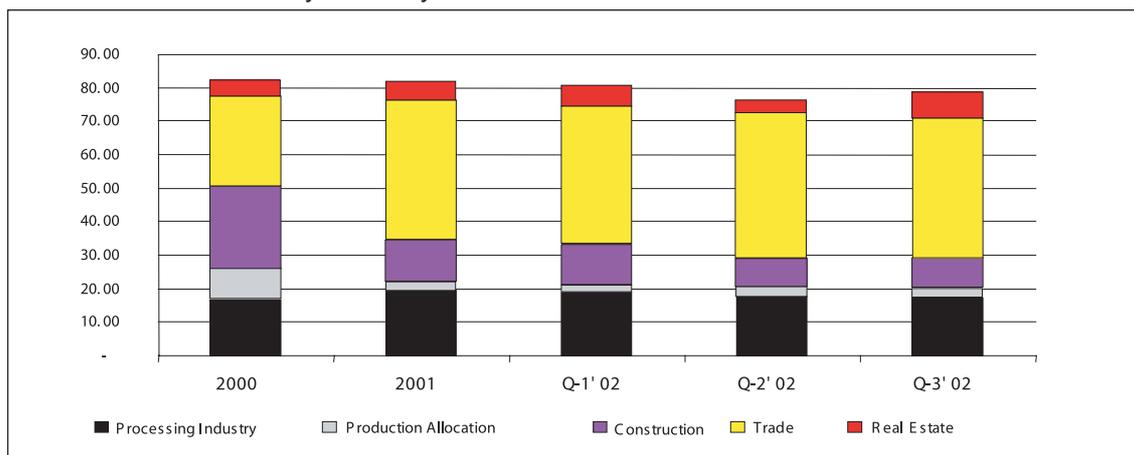


During December 2001- September 2002 the trade sector continues to remain the most favorable sector for crediting. While, the preference for construction has reflected a slight increase in the third quarter of 2002, at a time when in the first part of 2002 the demands for credit in this sector were assessed as

of competition in interbank market would increase the banking system efficiency in general and would strengthen Albanian businesses.

I.1. BANK OF ALBANIA AS THE CENTRAL BANK IN THE REPUBLIC OF ALBANIA

Chart 2. Credit balance by economy branches.



downward. The credit on purchasing real estate property has had a growing tendency.

So, the tendency of banks to lend to trade, constructing and real estate purchases indicates that these are even the most profiting economy

The Bank of Albania status is sanctioned in Article 161 of the Constitution and in Law No. 8269, dated 27.12.1997 "On the Bank of Albania",

which defines objectives, tasks, relations with the banking system and the state, organization and management, capital ownership, financial statements and profit allocation.

The Bank of Albania was established during the transition process, upon passing into two-level banking system and upon creating the necessary legal space for a central bank, which was made official upon approval of Law "On the Bank of Albania", No. 7559, dated April 22, 1992.

The later amendments made to this law were compiled pursuant to Western countries patterns and to recommendations by international institutions.

The Bank of Albania is a completely state-owned bank and is accountable to the Assembly of the Republic of Albania.

In the nomination of Monetary and Supervisory Authority of the country, the Bank of Albania enjoys all real functions of a classic central bank:

- a) to formulate, adopt and execute the monetary policy of Albania, which shall be consistent with its primary objective;
- b) it has the exclusive right to issue national coins and banknotes
- c) to hold and manage the Republic of Albania official foreign reserves;
- d) to formulate, adopt and execute the exchange arrangement and the exchange rate policy of Albania;
- e) to license or revoke and supervise banks that engage in the banking business in order to secure the banking system stability;
- f) to act as banker and adviser to, and as fiscal agent of, the Government of Republic of Albania;
- g) to serve as bank of second tier banks;
- h) to promote the smooth operation of payments systems.

Within the limits of its authority established by Law, the Bank of Albania is entirely independent of any other authority, in pursuing its objectives and in performing its tasks. Any person should respect the Bank of Albania independence, and no person shall seek improperly to influence any Bank of Albania Supervisory Council member in discharging his duties towards the Bank of

Albania or interfere in the activities of the Bank of Albania.

The Bank of Albania has its head-office in Tirana. It has 5 branches in Shkoder, Elbasan, Gjirokaster, Korçe, Lushnje.

I.2. WHAT'S THE PROCEDURE IN GRANTING A LICENSE TO PERFORM BANKING ACTIVITY?

The Bank of Albania Supervisory Council has approved a regulation named "Regulation on granting a license to perform banking activity in the Republic of Albania" were the conditions, terms and procedures are clearly stipulated for granting a license to perform banking activity as a bank and as a foreign bank branch, as well as the procedures on establishing a representative office in the Republic of Albania.

The regulation provides also:

- cases, terms, and procedures of revoking the license to perform the banking activity,
- requirements and procedures for extending or reducing the banks' network,
- procedures on approving the transforming the ownership on bank's stocks.

The legal basis of this regulation is constituted by: Law No. 8269, dated 23.12.1997 "On the Bank of Albania", Article 3, Section 4.c and Article 12, Law No. 8365, date 02.07.1998 "On the banks in the Republic of Albania ", chapter II, Law No.7638, dated 19.11.1992 "On Commercial Associations", as well as all regulations issued by the Bank of Albania.

Bank of Albania is the only authority that grants a license as an administrative act to provide the right to perform banking activity.

The bank is legally established as a joint-stock company. The amount of minimal initial paid in capital (contribution in cash) for a bank's licensing is not less than Leke 700 million.

When it is spoken about "initial minimal capital", we imply the minimal capital amount requested

by the Bank of Albania on receiving a license to perform banking activity in the Republic of Albania, whereas “the “initial paid in capital”, represents the capital paid by the bank to start its activity.

publish a press release in one of newspapers that comes out in a large quantity, regarding the application submitted on receiving a license to perform banking activity.

Table 2: List of entities licensed by the Bank of Albania

No.	Entities	Year 2000	Year 2001	Year 2002	Year 2003 March
1	Bank and foreign bank branches	13	13	14	15
2	Non-bank financial institutions	2	4	5	5
3	Foreign Exchange bureau	19	38	58	56
4	Savings and credit associations			113	118
5	Unions of savings and credit loan			2	3

The banks have as direct shareholders any trading natural person, legal entity or household that has participation in the bank’s capital and as indirect shareholders all those who have the ownership right in the capital of a legal entity that is a direct shareholder with influential participation in the bank’s capital.

The payment of the initial minimal capital amount for contribution in cash may be performed in domestic currency (leke), American dollar or Euro (European currency), constituting the capital corresponding value in leke, estimated on the daily average rate, calculated by the Bank of Albania on the capital payment day.

The initial paid in capital (for contribution in cash) to receive a license for performing banking activity is deposited to the Bank of Albania in a deposit account received as guarantee (not bearing interest). The depositing is performed by transfer into account and not by cash.

Loans, credits or advances by third subjects can not be a source for the initial capital for bank’s establishment. Payments or expenses on purchasing or leasing the bank’s premises and work equipment are not included in the amount of minimal initial capital.

The application to receive license to perform banking activity is done in written form and is submitted to the Bank of Albania. The content of this application declares the commitment to implement Albanian legislation along the proposed bank activity, the name of the proposed bank and the motif of this nomination.

The applicant, after submitting the application, along with relevant documentation, is bound to

The documentation requested must contain:
Documentation of the capital source (individual income, income from activity of the natural person, as well as the direct shareholders’ notary declaration that the bank’s initial capital source is not a loan, credit or payment in advance by any third entities)

The Bank of Albania has the right to request clarifications and perform further verifications so that the source of money creation serving as the bank’s capital comes out clearly.

The list of bank-proposed managers shall also be submitted to the Bank of Albania, defining the Leading Board members, Audit Committee members, and two main executive directors.

The appropriate documentation shall be submitted on each of these managers: a) list of businesses they have participation in; b) list of businesses where they perform leading functions; c) current financial statements of businesses where they have influential participation or where they have leading functions; d) a copy of the shareholders’ General Assembly decision on electing the managers, etc.

The direct shareholders of the proposed bank will present the banking activity plan about the first three years, including: banking system assessment, competitors, market features and its development trend; proposed bank’s strategy, its targets and market positioning, banking and financial activities it proposes to perform and future objectives; organization structure of the proposed bank; the forecasting of the proposed bank financial statement for the first three years

of its activity.

The Bank of Albania shall perform the verification of fulfillment of the documents submitted, in compliance with the requirements provided by this regulation.

The Bank of Albania Supervisory Council takes the decision on granting or refusing the preliminary decision for a license.

The Bank or the foreign bank branch, to which the preliminary approval is given, will request from the Bank of Albania, within a year from the date the preliminary approval is given, and in written form, the granting of definitive license, filling in the documentation, pursuant to the requirements provided.

The license of the bank or the bank's branch shall be revoked only with the Bank of Albania Supervisory Council when: it is requested by the licensed bank itself or by the parent- bank for the foreign bank branches; when there is infringement of Article 44, section 2 of Law "On the Banking System of the Republic of Albania" No. 8365, date 02.07.1998; and in some cases as provided by law.

The bank is forbidden to engage in financial and banking activity after the entry into force of the decision that revokes the license and is obliged to liquidate its assets as soon as possible, to sort out the contractual relations on demand deposits and to meet its obligations.

Pursuant to Law requirements, the Bank of Albania Supervisory Department holds a register on public advice, where all the banking licenses granted according to the licensing regulation are recorded. This register records the name, the address of the head office and the branches, including names and addresses of the managers and shareholders with influential

participation, as well as current copies of the documents.

If a bank requests to merge, dissolve, separate, or sell its assets, it must address to the Bank of Albania a request in written form, clarifying the reasons of merging, dissolving, separating or selling. Only after receiving this consent from the Bank of Albania, the bank is permitted to start procedures to take the necessary decisions relating to merging, dissolving, separating or selling.

Ownership transfer on shares in or over 10 per cent of bank's capital in the Republic of Albania shall take place only after preliminary approval by the Bank of Albania.

I.3. MINIMAL CAPITAL REQUIRED APPLYING FOR A BANK

What does the capital represent for a bank?

The bank, just like any other commercial company, needs capital in order to exercise its activity. But, being distinguished from them, the commercial bank needs to hold a capital amount at any moment, to be able to amortize the unforeseen losses. This obligation springs from the special nature of the banking activity.

Currently, in Albania, the capital required is Leke 700 million or about Usd 5,38 million (at the rate of 1\$=130 Lek). During the last decade, the capital amount has changed in upward tendency. The EU criterion on the initial capital is 3.3 times higher than Albania's current rate.

Nevertheless, it meets the EU criterion for countries that will conclude the Stability Association Agreement. According to this directive, the countries that will conclude the

Table 3: Change from one year to another of the minimal capital amount in Albania

Years	Minimal capital amount (in million leke)	No. of total banks
After 1998	700	14
02.12.1998	700	10
December 1996	350	8
28.06.1996	200	8
In 1994	100 – 200*	6

*Note. In 1994 there were two levels of minimal capital required: for home investors leke 100 million and for foreign investors leke 200 million.

Stability Association Agreement for accession to EU should keep a minimal capital amount not less than Euro 5 million or Usd 4,7 million.

Change from one year to another of the minimal capital amount in Albania

A bank's capital performs a number of functions: To perform these functions, it should have structure and size so as to satisfy regulatory authorities, shareholders, and investors (including depositors).

Among the main capital functions, we would mention:

First, the capital absorbs the bank's losses and exposing to various risks, which it has to face during its activity.

Secondly, capital makes depositors and other

any bank in particular, and to the entire banking system in general.

Third, the bank's capital is a source of long-term funding for fixed assets, banking techniques and technology. The capital is the main source to finance bank's growth, which is highly important for being a competitor in the banking environment.

Fourth, the capital serves as an instrument of controlling the banking activity growth. If the bank's assets are increased faster than needed, then the bank would take signals from regulatory authorities that it would be constrained to its expansion or otherwise, it would add its capital, in compliance to the risks undertaken.

Fifth, the capital assists the bank to license,

Table 4: Comparison of capital indicators on region countries.

Countries	Amount of minimal capital (in million USD)	Minimal capital / GDP	Financial degree leverage	Capital adequacy	Banking system size*
Albania	5,38	0.05%	6.7	42	50
Macedonia	2,2- 8,3*	0.22%	23.3	36.7	38
Croatia	4,7	0.02%	11.2	21.3	71
Bosnia Herzegovina	7,0	0.17%	25.7	32	67
Slovenia	4,0	0.02%	14	12.4	79
Bulgaria	5,1	0.04%	11.3	41.3	40
Rumania	4,6	0.01%	8.6	23.8	29
Yugoslavia	5,0	1.87%	-	-	-
Turkey			11	-	70
Average	5,5		13.27	25.84	55.5

*Note: In the case of Macedonia, there are two levels of capital required for banks. The level to about 2 million USD is for banks that perform their activity within the borders of the country, whereas an amount of 8 million USD (minimal capital required) is for those banks that perform operations abroad.

*Banking system size means the total assets of the system to GDP.

This is the maximal level for banks, which want to perform their activity abroad, whereas the minimal level is about 2.5 million USD.

Source: Annual reports of the countries and IFS Annual Report.

creditors feel more protected, not only during the normal periods of banking activity, but also during hard financial periods. This means that the capital is a factor that strengthens public confidence to

organize and operate before the deposit flow starts. In the initial period, when the public confidence in the bank is still relatively low, the only financial source, with which the bank may

Some pro and contrary reasons for capital increase:

Pro reasons for capital increase	Contrary reasons for capital increase
Low level of financial leverage	Frequency of changing the capital amount
Banking system risk, bad bank's portfolio quality	Capital amount and banking system size are close to region average
Country's risk	Capital adequacy is high
Approachment to EU criteria.	Capital amount is as much as the EU criterion to EU accession countries
	Macroeconomic situation approved
	Need for new banks
	Need for increasing competition in a focused banking system
	Domestic business power in capital terms
	Need to attract foreign investors

operate is its capital.

- Need to meet international standards.

According to the Bank of Albania researches, there are some reasons pro and contrary to further capital increase:

They are evidenced by analyzing some factors:

- Country's macroeconomic situation.
- Need to have new banks or not.
- Business power.
- Investors' degree of interest (either domestic or foreign) to open a bank.
- The risk level of the country in general and of the banking activity in particular.

A. Macroeconomic situation of the country. The more stabilized and sound this situation is, the lower is the risk level in the environment where banks operate. This means that banks bear less risk in their activity, thus such conditions do not encourage the increase of the minimal capital amount.

- Albania goes closer to such countries as Macedonia, Romania, Bulgaria, while it has a lower inflation among these countries.
- If we refer to item 'Foreign Direct Investments per Capita', Albania is ranked as the last country concerning the attracting of foreign direct investments as compared to the region countries.

Table 5: Overall economic indicators.

	1996	1997	1998	1999	2000	2001*	2002*
Real GDP growth (in %)	9.1**	-7.0	8.0	7.3	7.8	6.5	4.7*
GDP (current prices, in million leke)	315 835.0	333 071.0	425 356.0	488 611.0	551 282.0	590 237.0	658 062*
GDP (current prices, in million USD)	3022.5	2236.5	2824.4	3548.4	3836.3	4113.7	4695.4*
GDP (in USD per capita)	920.6	672.9	842.1	1052.0	1128.0	1332.6	1521.0*
Employees number (in thousand)	1116.0	1107.0	1103.0	1081.0	1068.0	1065.0	921
Unemployment rate	12.4	14.9	17.8	18.0	16.9	14.6	15.8
Inflation rate (y/y)	17.4	42.1	8.7	-1.0	4.2	3.5	2.1
Budget deficit (in % of GDP)	-11.4	-13.2	-11.3	-11.9	-9.1	-8.6*	-6.2
Domestic debt (in % of GDP)	30.7	36.2	35.1	36.3	41.0	40.9	38.7 (Q.3-02)
Current account (in % of GDP) ^{1/}	-2.1	-11.3	-2.3	-3.7	-4.3	-5.3	-9.5
External debt (in % of GDP)	29.2	35.6	26.5	25.8	29.2	28.2	24.6*
Average exchange rate	104.5	148.9	150.6	137.7	143.7	143.48	140.15

Note: * Data are estimations of the Ministry of Finances and IMF.

** Data on GDP and its real growth for 1996 – 2000 are taken from INSTAT.

Source: INSTAT, Ministry of Finances, Bank of Albania and IMF estimations.

- The stable exchange rate speaks about a favorable macroeconomic situation.
- We may state that the macroeconomic situation created does not necessarily indicate the increase of minimal capital amount.
- The banking system is not oversaturated, therefore we may state that the entry of new banks in the system may be further encouraged.
- Increase of minimum level of initial capital would not assist in attracting investors.
- If we refer to the banking system

B. The need to have new banks or not. This relates to the market need to increase the

Table 6: Albania and the region countries (n the banking system size).

Countries	Bank's number	Bank's number for 1000 km ²	Bank's number for 100,000 citizens
Albania*	15	0.53	0.48
Macedonia	22	0.87	1.08
Croatia	44	0.78	1.02
Bosnia Herzegovina	63	1.23	1.61
Slovenia	97	4.79	5.03
Bulgaria	35	0.32	0.45
Rumania	40	0.17	0.18
Average	45	1.23	1.4

*Data for 2002, whereas the data on other countries for 2000

banking system and its services. If the market lacks competition, banks and banking services, then this could enable authorities encourage the entry of new banks, operating even through liberalizing the capital required even more.

- Albania is the country that has fewer banks in the region countries.

structure, Albania has a banking system focused on one bank only.

- The more focused the banking system is the more indispensable is the increase of competition and the entry of new banks in the market.

C. Business power (in capital terms) indicates the business possibility of a country to be able

to enter into the banking industry. The country's authorities and the business are interested in increasing the number of banks with domestic capital in the banking system. To realize this preference, even the real powers of business are also considered in capital terms. Referring to this criterion, as well as to the preferences towards banks with domestic capital, in any case, this would not impact on further increasing the capital amount.

D. The investors' degree of interest (home or foreigners) to open a bank. This factor underlies the fact that it is not important only how much the power of investors is to invest (in capital terms), but also how much is the degree of their interest towards this activity. The degree of foreign and home investors' interest is related directly to their investment profitability indicators as well as to the risk they undertake. If interest is low, then it is operated through holding the amount of capital in low levels, and vice-versa.

E. The degree of risk of the country and especially of the banking activity. When we speak of risk, we consider one of the main factors impacting on the decision either to invest or not. A banking system operating in a high-risk environment requires more security, more capital, meaning it needs more initial capital.

F. The need to meet international standards, such as different directives from BIS (Bank of International Settlements) or European Union. Many region countries, such as Croatia, Romania, etc., in the framework of association agreement to be accessed to EU, have converged the minimal capital amount pursuant to directive No. 12 of '2000. Pursuant to this directive, the countries that will conclude the association agreement to be accessed to EU must hold a minimal amount of capital of not lower than Euro. 5 million.

I. 4. BANKING SUPERVISION AND CAMELS SYSTEM

The Bank of Albania performs also the mission of banking supervision on second tier banks.

The banking supervision function is carried out by the Bank of Albania, as the central bank,

pursuant to Law "On the Bank of Albania" and Law "On banking system in the Republic of Albania".

One of the basic tasks of Bank of Albania is to license the banks or to revoke their license and to supervise banks that engage in banking business in order to secure the banking system sustainability.

Mission

The Mission of Banking Supervision is to:

- Promote stability of the banking system and protect the interests of depositors and the general public;
- ensure a sound banking system whose activities are transparent to and governed by the market economy; and
- provide an environment of confidence for investors and depositors while enabling growth and profitability for the industry.

GENERAL OVERVIEW ON CAMELS SYSTEM

CAMELS rating system is an internal supervisory rating system used by the Bank of Albania Supervisory Department to assess the financial institutions performance on a uniform basis and to identify those institutions that need attention or additional interest by the supervision.

In CAMELS rating system, each financial institution is given a composite rating, based on the evaluation and rating of six core components of financial conditions and operations of one institution. These composite factors relate to:

- Capital adequacy
- Asset quality
- Management ability
- Income quality and level
- Liquidity adequacy
- Sensitiveness to market risks.

Either the composite rating or sub-ratings are classified in a numerical scale from 1 to 5. We use CAMELS system at the BoA and therefore we implement five numerical scales.

The assessment 1 indicates the yield and the best practices, and the minimal degree of attention is required from supervision, while the assessment 5 indicates the poorer yield and practices and therefore, it requires the highest degree of supervisory inspection from the BoA. The composite assessment reflects the overall financial position of the institution, the law and regulation observance, as well as the management leading ability.

Also, the rating system ensures to the Banking Supervision Department a way to follow closely the types and seriousness of problems the institution may have, for different statistical or supervisory purposes. This monitoring is possible, since the composite rating provided according to CAMELS System is based on the assessment of some fundamental aspects of conditions and operations of financial institutions.

For example, liquidity is one aspect of operations an institution performs, on which a composite rating is made. Thus, the CAMELS system provides possibility to Banking Supervision Department to immediately identify all the institutions that are incurring liquidity problems, to measure the problem seriousness, as well as to determine the level of supervisory attention required.

CAMELS system has given proofs that it is an efficient method for supervisory agencies, in determining the health and security of financial institutions. The Bank of Albania has adopted this system since 1999.

The system undertakes some financial factors, of management and compliance, which are common to all institutions. According to this system, supervisory agencies try to ensure that all the financial institutions are assessed in a uniform way and even broader. They also try to ensure that supervisory attention be properly addressed to financial institutions that reflect either financial and operational weaknesses or negative performance.

The system serves also as a useful tool to identify the financial institutions that have problems, as well as to divide the institutions that have deficiencies into certain composite categories. Furthermore, the rating system

assists the Bank of Albania in attending the overall financial industry performance. As such, CAMELS system assists the Bank of Albania to fulfil its mission in maintaining the country's banking system stability and the public confidence in it.

In CAMELS rating system, each financial institution is given a composite rating, based on an assessment and rating of five core components, as stated above.

WHY IS THE SAVINGS BANK'S PRIVATIZATION IMPORTANT?

If we attentively observe Table 1, the weight the Savings Bank occupies in Albanian banking system is rather significant, especially if we refer to indicators of total deposits and treasury bills to the banking system.

The Savings Bank's privatization is a very important moment in the banking system history. Given the size and position of this bank to the banking system, it will determine the nature and efficiency of the banking system for a very long time.

The Savings Bank's privatization is important because it will bring the largest bank of the system in market economy flow and logic. Also, it will represent a fiduciary vote for Albanian economy long-term perspectives and for the banking system in particular.

The encouragement of competition in Albanian inter-bank market is a measure that has a long-term nature, which is considered as constant and supporter of monetary policy transmission.

II. MONETARY POLICY AND BANK OF ALBANIA OBJECTIVES

II.1. BANK OF ALBANIA OBJECTIVES.

Price stability and maintenance is the primary Bank of Albania objective.

Through its policies and functioning of the tasks provided by law, the Bank of Albania makes efforts to achieve its primary target, which means inflation rate control at 2-4%. Before compiling the policies to pursue, the Bank of

Albania defines its definitive objectives, intermediary targets, and the instruments to achieve these targets.

The Bank of Albania, in compliance with its main target and according to home banking market, encourages and supports the development of foreign exchange regime and system, financial domestic market, payment system, as well as it assists in improvement of monetary and lending conditions, supporting country's stability and economic development.

The other Bank of Albania targets, conditioned by its primary target, should encourage the liquidity maintenance, the solvency and the normal banking system functioning based on market principles.

Any other target and task assigned to the Bank of Albania is conditioned by accomplishment of its primary target.

II.2. MONETARY POLICY INSTRUMENTS

General overview on using monetary policy instruments

In order to achieve the main monetary policy target, price stability maintenance, the Bank of Albania determines instruments to operate with, and concretely, a number of instruments are available to it, such as: open market operations, supporting instruments, as well as the holding of minimum required reserve by banks in their accounts with the Bank of Albania. The open market operations are used to conduct interest rates in the money market, to manage liquidity position, as well as to signal the banking system on the Bank of Albania stance concerning its monetary policy.

The main open market instruments, by means of which the Bank of Albania is operating in the market since 2000, are the repurchase agreements and the reverse repurchase agreements with seven – day maturity. As part of open market operations, the Bank of Albania performs even structural operations, which are realized through outright securities' sale-purchase transactions. These transactions are initiated by the Bank of Albania and are executed through the rapid auctions and bilateral

agreements. The effect of such types of transactions in the market is permanent.

Supporting instruments, which were first introduced in February 2001, serve for providing and absorbing liquidities permanently, overnight ones or up to three months. Such instruments signal the monetary policy stance and guide the interest rates in the money market. The supporting instruments include overnight deposits and Lombard credit, and are applied upon the second tier banks' initiative. The overnight deposits are used by second tier banks to invest free liquidities to the Bank of Albania. Overnight credit instrument and Lombard credit are used to receive liquidity from the Bank of Albania temporarily, on one-day up to three-month maturity, against collateral placement. To sum up, we state:

The instruments used by the Bank of Albania aim at:

- Sending monetary policy signals to the market
- Managing liquidity in the system
- Monetary policy transmission mechanism enhancement
- Influencing of money market interest rates
- Inter bank market development encouragement
- The more active participation of second tier banks in the market
- Increase of opportunities and flexibility of Bank of Albania intervention in the market
- Increase of the variety of instruments to second tier banks.

The instruments used are summarized into three main groups, as follows:

- Open market operations
- Credit facilities
- Minimum reserve required

II.3. BANK OF ALBANIA LENDING TO COMMERCIAL BANKS

When commercial banks lack liquidity, meaning that their statement of account with the Bank of Albania falls under the permitted level of usage

of reserve required, they have some possibilities to withdraw the necessary liquidity. The main sources are the interbank market and Bank of Albania. Normally, Bank of Albania is the final source, from which banks may receive the necessary liquidity. The instruments used for lending to commercial banks by the Bank of Albania are: repurchase agreements, overnight and Lombard credit.

Repurchase and reverse repurchase agreements.

This instrument functions in both sides, in adding liquidity when it lacks and in withdrawing it from the market when it is in excess. Repurchase agreements imply an agreement by means of which the Bank of Albania sells securities to commercial banks and promises to repurchase them in the future, according to the predetermined conditions. Repo instrument is used in this case to cut down on the liquidity of the banking system.

Reverse repurchase agreement implies the agreement by means of which the Bank of Albania buys securities from commercial banks and promises to resell them in the future, according to the deadlines and conditions, as preliminarily agreed on. Reverse Repo instrument, otherwise named a collateralized loan granted to the banking system by the Bank of Albania, is used to temporarily increase the liquidity. Government treasury bills bought by commercial banks serve as collateral to these agreements.

Auctions are held every week and their maturity term is seven days. Bank of Albania and commercial banks are both parties in these auctions.

Their execution is done through standard auctions, which depending on the kind of policy tracked, are purchase or sale auctions. But, also the type of auction depends on the operational Bank of Albania objectives.

Therefore, auctions may be as having fixed interest rate or changing interest rate. Repo agreement interest rate is determined by Bank of Albania Supervisory Council and it is the rate to which all the other lending rates of Bank of Albania refer. Actually, Repo interest rate is

8,5%.

Overnight, one-month and three-month repurchase agreements are arranged through quick auction procedures.

OVERNIGHT CREDIT

The overnight credit is a short-term debt instrument, made available to commercial banks. It is a fully guaranteed credit, extended in order to assist banks that have short-term liquidity needs and assist them in their interest rate management. The overnight credit interest signals the desired ceiling rate of short-term interest rate. This rate is 2.5% higher than reverse repurchase agreement rate of seven-day maturity.

The Bank of Albania extends the overnight credits only in the form of collateral credit upon commercial banks' requirement or even automatically. The overnight credit instrument may be used only by banks and banks' branches having accounts with the Bank of Albania. Banks, which by the end of their operations result in lack of liquidity, they request overnight credits. On the other hand, in case it is observed that banks' current accounts turn out to be below the permitted level 95% by the end of the workday, the Bank of Albania accords automatic overnight credit and informs the respective bank on the approval of the granted credit.

The overnight credit maturity is one day (or it is postponed till the first workday when the following day is a holiday). The commercial bank returns the amount lent together with the interest calculated on annual basis.

LOMBARD CREDIT

Lombard credit is a debt instrument, whose aim is to assist commercial banks in overcoming their temporary problems of liquidity. It represents the final lending instrument and at the same time it is the credit of the highest interest rate. The Lombard credit interest is 6 percentage points (on annual basis) higher than the interest of (reverse) repurchase agreements of seven-day maturity.

Each commercial bank, after making use of all internal possibilities for liquidity, the interbank market, repurchase agreements, uses the Lombard credit once every three months. The greatest amount received through Lombard credit stands between 20% of the paid in capital and 2 % of Lek deposits, according to the latest balance sheet presented in Bank of Albania.

The credit is accorded on the same day when the request of commercial bank is submitted. In case of not returning the credit within the determined deadlines, the bank is not allowed to get another credit of whatever kind in the three following months. The maximum term of Lombard credit maturity is up to three months. The credit and the interest are returned to the Bank of Albania by the end of the term determined in approving the Lombard credit.

III. HOW DOES BANK OF ALBANIA SET THE INTEREST RATE?

In order to determine its base interest, (the interest of Repo/reverse Repo Agreement), the Bank of Albania relies on a number of indicators such as:

- **Macro-economic conditions of the country**
- GDP rate and forecasting related to it;
- **The observance of the Bank of Albania targets:**
- Consumer price index rate¹ and the expectancy of this basic indicator tendency
- (The meeting of Bank of Albania operational (quantity) targets, such as: (a) Bank of Albania net domestic assets; b) net domestic credit to government and c) Bank of Albania net international reserves),
- intermediate target and its prediction – the annual growth of money supply (of M3 monetary aggregate);
- **the conditions of the system liquidity²**

- money outside banks tendency and the expected tendency,
- deposit trend in the banking system,
- meeting the government's requirement in the primary market,
- credit to economy and its expectancies,
- transactions' volume in interbank market,
- liquidity level in the system (excessive or lack of liquidity);

- **the current level of interest rates in markets, the trends observed and the expectancies for change**

- treasury bill yield trend and the expected tendencies,
- real and nominal interests trend in deposit market and the expected tendencies,
- real and nominal interests trend in the credit market and their expected tendencies,
- interests trend in the interbank market,
- yield trend in the market of the government's two-year bonds;

- **The degree at which markets react to the previous signals of monetary policy and their reaction expectancy.**

- **Exchange rate trend and the expectancies related to it**

- Exchange rate trend in the international markets and domestic foreign exchange market, and the expectancies related to them,
- The speculative factors in the foreign exchange market (if a similar one has existed),
- Bank of Albania interventions in the domestic foreign exchange market,
- Currency remittances by migration, or tourism and their influence on the exchange rate, etc.

- **Budget deficit indicator and budget plan realization**

- The control in respecting the restrictions of direct credit extended;

- **Trade deficit indicator and their possible impact on price level;**

¹Bank of Albania, every week follows the weekly index of agricultural goods' price.

² These serve also for determining the direction of Bank of Albania's main instrument toward injecting or withdrawing liquidity.

- **Structural reforms**
- The privatization of strategic importance objects,
- Changes in taxation system
- Important changes in the labor market,
- Changes in the financial system, just like the creation of Deposits Insurance Agency, or as it may be in the future, the creation of Loan Recording Institute, etc.
- **External or internal factors forecasted to possibly influence on the price level**
- Power crisis
- Fuel oil price change in the international markets,
- Elections or local elections
- Crisis in the market of the neighboring or partner countries, which might exert influence on our country, (for example, the war in Iraq). — - Changes, such as Euro introduction,
- Market speculations, etc.

To conclude, we can say that, in order to determine its base interest, the Bank of Albania takes into account a number of indicators, with the definite aim of accomplishing and maintaining price stability. In determining the base interest, the Bank of Albania considers also the interest rate stability maintenance. The frequent changes of monetary policy stance may cause interest rate fluctuations and market disorders concerning its signals. Therefore, the Bank of Albania takes the decisions on base interest rate under conditions when the expectancies of the above indicators forecast stability of this situation.

As it is stipulated in the regulation “On repurchase and reverse repurchase agreements”: fixed repurchase interest rate for standard auctions shall be approved by the Supervisory Council of Bank of Albania, with the proposal of Research and Monetary Policy Departments.

In discussing the base interest rate, Supervisory Council members present their expectations and opinion for possible market reaction towards

monetary policy signals.

Fixed repurchase interest rate serves as a maximum/minimal level for multi-price auctions.

IV. RELATIONS WITH THE STATE BUDGET

The relations of Bank of Albania with the Budget of Albanian state, generally take place in the following areas:

1. Bank of Albania has the right to operate as a fiscal agent for the Republic of Albania Government account, according to the conditions and terms stipulated in the agreement concluded every year between the government and the Ministry of Finance. For this purpose, “Government deposit in Lek” account is opened at Bank of Albania, where are recorded in credit all the other income and finances in favor of the Government and in debit are recorded all its expenditures and payments charged. No interests are paid for this account. The bank may debit this account in case its statement is in deficiency. Otherwise, when the debit amount is greater than the account statement, the operation will be carried out partially, as far as the account statement allows. “Government Deposit” account is not permitted to have a debiting statement.

2. The performance of state budget cash box functions through the banking system. Each time commercial banks perform operation for the account of the state budget, pursuant to the agreements with the Ministry of Finance, they bring about relevant reports of these operations to the Bank of Albania. When the income reported surpasses expenditures, the difference between them is posted to credit of “Government Lek Deposit” account and vice-versa, when the expenditures surpass income, the difference is posted to debit.

Bank of Albania is obliged to perform the operations on debiting the statement of this account pursuant to orders and authorization

of the government's representatives (Ministry of Finance).

3. Bank of Albania credit to Government. Pursuant to law "On Bank of Albania" (article 30), Bank of Albania can grant direct credit to Government of the Republic of Albania. This credit is disbursed and is payable only in Lek, whereas its maturity term should be not more than six months. All the other similar credits and loans are guaranteed (collateralized) by government securities (treasury bills), with interest rates according to market percentage. For every direct credit accorded to government by the Bank of Albania, a written agreement must be concluded between the Government of the Republic of Albania, represented by the Ministry of Finance, and the Bank of Albania. This agreement determines the principal amount of credit, its maturity, the applied interest rates and the terms and conditions of the other possible expenditures. Within six months following the day of the credit granted, the Ministry of Finance, in cooperation with the Bank of Albania decide on the repayment terms and conditions of this obligation, as follows:

The converting of credit obligation into treasury bills issued in the primary market and bought by the Bank of Albania or 2) the credit repayment on the due date.

It is important that the limitations provided by law be taken into account in granting the direct credit. In concrete terms, the principal amount of the disbursed credit and the non-disbursed amount of the Bank of Albania credit granted to government of the Republic of Albania, must not surpass the value of 5% of the annual average of the state's budget income for the three last fiscal years. Only in extraordinary situations can the Bank of Albania surpass these limitations, with a special act, always considering that this surpassing does not clash the main objective of the monetary policy for price stability maintenance.

4. The Bank of Albania profit depositing during the year. Bank of Albania deposits every month its net income (the difference of the incomes and expenditures according to the budget plan approved) to the state budget. For this reason, at year start, the Internal Loan Management Committee approves a schedule with the respective amounts and terms of executing the operation. The procedures for depositing the Bank of Albania income into the budget during the new exercise year, starts with "Deposit from the planned profit of the year". The first transferring of BoA net income to a new financial year must not be more than 90% of the value and it is performed after January of the said year.

After the year-end, the Bank of Albania calculates the real net income of the year (according to provisions provided by the law "On the Bank of Albania" on this issue) and posts it into the state budget income within four months since the close of the fiscal year.

CENTRAL BANK AND ITS INDEPENDENCE¹

THE LECTURE HELD BY THE GOVERNOR OF THE BANK OF ALBANIA, MR. SHKËLQIM CANI IN THE "ISMAIL QEMALI" UNIVERSITY, VLORA, ON MAY 8TH, 2003.

1. REASONS IN FAVOR OF A CENTRAL INDEPENDENT BANK

Arguments in favor to the idea of "a central independent bank" are numerous.

The most widespread and important argument or conviction is that "central independent banks are accompanied by a lower inflation rate"². Many authors have approved this argument, and they have also tried to find the correlation between the indicators of central bank independence and the low inflation rate³. On the basis of this argument there is a well-known practical example of "Germany's central bank". *"Monetary policy of Germany during the past hundred years reflects a brilliant example for assessing the empirical facts on the execution of rules and regulations and on central bank independence in compiling monetary policy"*⁴. In most studies, this bank is classified as the most independent bank. Authors stress that monetary practice, which influences on inflation rate, must be delegated to an agent (institution) whose preferences must be conducted toward inflation and not social interests; toward long-term resolutions and not be influenced by short-term interests. This means that politicians accept to delegate to other persons, non-politician ones (technician) the right to compile monetary policy. This restricts the politicians' operating space. Central bank, as an institution, is presented to be more conservative and tends to be more forward looking than politicians. Therefore, the reason of "delegation" is price stability maintenance. In this way, the circumstances in which this objective is sacrificed are reduced so as to reach the other

objectives, mainly for the shortest-term period, such as economic growth, employment growth etc.

In general, it is accepted the idea that the best strategy is the central banker nomination, who should be more conservative than the average population. This relates to the far-sightedness and creates continuity in unstable political environments, were the replacing of governments takes place frequently and their objectives might be different.

An independent monetary policy might urge initiatives or oblige government to apply a strict fiscal discipline. Contribution might be given to a stable long-term growth.

2. WHAT IS CENTRAL BANK INDEPENDENCE?

In other words, what is the definition of the central independent bank? Even for this issue, the materials are not unique and provide many definitions.

A certain material of Monetary and Exchange Affairs Department held in IMF stresses that three necessary preconditions exist for a real autonomy of central bank. First, an autonomous central bank must have a clearly defined objective, which is called price stability. Second, the central bank must have the adequate authority (juridically and actually) and the appropriate instruments to manage banking system liquidity in order to fulfill its primary responsibility. Third, central bank activities must

¹ The Lecture held by the Governor of the Bank of Albania, Mr. Shkëlqim Cani in the "Ismail Qemali" University, Vlora, on may 8th, 2003.

² Alberto Alessina, Lawrence H. Summers, "Money, Credit and Banking" Journal, vol. 25, no. 2, May 1993, page 151.

³ Other authors find the relations between central bank independence and meaningless inflation results. However, as we stressed, our aim is to prove whether a central independent bank is needed or not.

⁴ "Rules, discretion and central bank independence: The German experience 1880 – 1989" Bernhard Eschweiler, Michael D. Bordo, WP No. 4547, National Bureau of Economic Research.

be disclosed and the information must be regularly reported so that central bank might be responsible for monetary policy and inflation results⁵".

According to the above paragraph, it is understood that a central bank is considered independent when it meets the three defined preconditions.

Friedman suggests "a basic meaning" about central bank independence. According to him "Central bank must be an independent branch of government, must co-ordinate with legislative, executive and legal branches. Therefore, it will have the same mandate as the one given to the judicial power. It will apply laws approved by the government and its activities might be changed by government only if the law (or its mandate) is changed."⁶

Alan S. Blinder stresses: "In my opinion, central bank independence implies two things: first, central bank is free to determine the way it will track its objectives, second, it's difficult that its decisions be turned back by government or by any of its sections."⁷ As it is noticed, this definition presents two elements of central bank independence. But, before determining what central bank is independent for, the author determines the level where independence starts to be measured. According to the author, a central bank might not determine the objectives on its own, but it independently decides how it will reach these objectives; so to have political and instrumental independence. According to Blinder, this is in compliance with a country's democratic organization, where politicians and those elected by people take decisions such as determining the objectives, whereas institutions are set up toward the kinds of objectives they will track and are free to determine the policies and the instruments for achieving them. Another element related to the central bank independence is the irreversibility of its decisions, that's to say in order to be independent, central bank must also be

authoritative in applying the policies and decisions it takes, under the function of accomplishing the objective.

Other authors, who have dwelt on government-central bank relations, reflect that the meaning of the term "central bank independence" is clear. This simply means that the government in power has not the formal means in influencing on central bank decisions over monetary policy⁸.

3. CENTRAL BANK INDEPENDENCE MEASUREMENT

Central bank independence depends on several different factors starting from the independence acknowledged by law and considering the personality and reputation of central bank heads or the traditions and mentality of a certain country. This makes the quantitative measurement of central bank independence very difficult, even impossible due to some factors. On this ground, researchers have established many indicators for the quantitative measurement of central bank independence determining before hand some kinds of independence.

Therefore, we can talk about the legal independence of a central bank. Legal independence implies the independence acknowledged to the bank by law or in its status. Legal independence consists of two components, political and economic independence. The first implies the independence from political intervention in tracking the key objective (objectives), as sanctioned by law to the central bank. The second implies the independence from government's intervention as acknowledged by law. In most cases, this aspect of independence depends on legal limits existing in central bank loaning to government. Legal independence has other components such as independence in compiling policies, instrumental independence

⁵ MAE Operational Paper (MAE OP/98/1) "Elements of central bank autonomy and accountability", February 1998, IFM, page 2.

⁶ According to the quotation from "Central Bank Independence: What is it and what it will do for us? Geoffrey E. Wood, Terence C. Mills, Forrest H. Capie, no. 41993, page 11.

⁷ According to the quotation written in the book "Central Banking in Theory and Practice", Alan S. Blinder, 1998, page 54.

⁸ According to the quotation taken from "Central Bank Independence: What is it and what it will do for us? Geoffrey E. Wood, Terence C. Mills, Forrest H. Capie, no. 4, January 1993.

and staff independence. The first determines if the central bank is independent in compiling the policies on its own; the second if it is independent in applying the policies compiled on its own or by other institutions. In other words, is the central bank able to choose the instruments it wants to, in applying a certain policy? The third relates to choosing its staff. How independent is bank in recruiting the staff, does government intervene in this issue? It is obvious that this relates to the heads of bank's staff. But all these elements, which practically are easier to be measured from the quantitative viewpoint, present partially bank's independence.

The most important is the central bank real independence measurement which, as the term suggests, means how independent is the central bank in reality, regardless of the effective legal provisions.

If in the developed Western countries, legal independence measurement is considered as a good approach to central bank independence, this can not be said about other countries. In the second group, central bank independence depends considerably on real independence. The first factor counting for this change is these countries' tradition and culture in respecting laws. *There is no doubt that Albania can not be classified in those countries that show respect for law or rigorously execute it.*

According to Cukierman⁹, the endeavors for setting up the indicators of central bank independence are concentrated much on the legal independence of developed countries, and this happens because it is practically possible to be performed. The other factors are mostly considered to fulfill legal independence indicators for these reasons:

Firstly, central bank laws usually are incomplete, in the sense that they do not clearly determine the limits of the responsibilities between central bank and political authorities, in all the cases. Informal practices, tradition and the like fill these gaps.

Secondly, even when law is clear, the actual practice deviates from it. In reality, considering

the fact that ultimately no one avoids executing law or makes any alteration in interpreting it, law can not manage to determine all the possible events in practice.

In fact, legal independence presents what independence level the legislators thought to grant to central bank, so legal independence is one of the main components of independence, but it is not the case that a legally independent bank is really independent.

4. REAL INDEPENDENCE MEASUREMENT

However, legal independence is not the real independence. The more so, this becomes valid in countries like Albania where, without intending to be harsh, the feeling and desire to respect law are not strong.

As explained above, measuring real independence is more difficult than measuring the legal one, because of the nature of factors influencing on real independence. These factors are difficult to be quantitatively measured, and on the other hand, the difficulty increases if comparing countries. The practices in different countries are different and if standardization in formulating a law can be reached, the standardization in behavior can hardly be realized. However, researchers have still developed certain indicators in quantitatively measuring real independence.

A) GOVERNORS' TERM OF OFFICE STANDARD AS AN APPROACH TO REAL INDEPENDENCE.

To measure real independence, Cukierman has offered the indicator known by the name "the governors' term of office standard". The criterion for interpreting this indicator is, the longer the governor's term of office, the more independent the central bank. In particular, it is at least required that the mandate of the governor should not coincide with the election cycle and be longer than that. This is explained by the fact that in this way there is little possibility for government to exert influence on central bank governor. In many countries, bills are drafted

⁹Central Bank Strategy, Credibility and Independence: Theory and Evidence", Alex Cukierman, 1992, chapter 19.

in such a way that even the Council members' term of office is not terminated all at once, so that replacing them can not be associated by the influence of the government in power.

In the meantime, the governor or the Council members might not terminate their term of office for different reasons. They can be discharged, resign or become unable (sick) to perform their duty and in the worst case might die. In reality, due to this, the term of office is shorter than the legal mandate¹⁰.

In spite of what law predicts, the traditions and practices of central bank –executive power relations might be of such that things in reality become different from what law determines, although the activities apparently seem in full compliance with law provisions. As a classical example, the materials present Argentina's case. In Argentina, the legal mandate of the governor's term of office is 4 years. But, a tradition exists. Every time the executive power or the Minister of Finance is changed, the governor is supposed to resign. This led that the governor's real term of office was 10 months in the '80s. The more so, the Argentinean governors observed this tradition as well. Above all, this procedure presents the regularity from the legal viewpoint.

Cukierman set up two indicators for measuring real independence:

The governor's average actual term of office and the presumption used is that above a certain level, the differentiation level is so high that the result is a low level of central bank independence;

The indicator set up according to the answers of a questionnaire delivered to the main bankers of different banks in the world. This questionnaire ensures the information from professionals who give their answers based on their real practice.

According to Cukierman and other authors, the first indicator "term of office standard" is considered a very good approach for the real

independence of a central bank in the group of most developed countries.

The indicator at interval values (0,2; 0,25) shows the limit of governor's big circulation from the small one. The interval extremes correspond to a 4-5 year term of office. This is based on the fact that in general, election cycles last 4 year and it is difficult to apply long-term policies for short-term term of office.

HOW DOES THE CASE OF ALBANIA STAND?

We remember that a bank is highly assessed as an independent bank (1) when governor's legal mandate is 8 years and over. The legal mandate in Albania has been 6 years according to the law of year 1992 and 7 years according to the law of year 1996 which actually is approximate to the maximum level. On this ground, this element is highly appreciated in measuring Bank of Albania legal independence.

HOW LONG HAS THE GOVERNOR'S REAL STANDING IN POSITION LASTED?

Considering the date of the approval of "Bank of Albania" law, by the end of April 1992¹¹ as the "birthday" of central bank in Albania, up to now¹², Bank of Albania has had five governors, of different terms of office. On the average, every one of them was in charge for nearly 27 months from 84 months predicted by the legal mandate.

As it is noticed the difference is big. The indicator's value is 0,46, considerably far from the determined limit. Compared to the classification offered by Cukierman starting from this indicator, Albania stands at the end of those developing countries.

However, even a low ratio of governor's circulation is assessed not to be always the sign of a high real independence of central bank. A governor might not be disposed simply because he fawns on the executive. Considering Albania, this element is thought not worthy analyzed due to the fact that governors' circulation is so often that the servile behavior observed in this case is not valid.

¹⁰ In 1998, a member of Supervisory Council of Bank of Albania, nominated in 1997, resigned.

¹¹ The first governor of Bank of Albania was nominated in May 1992.

¹² The last period considered is May 2003.

The concept of the real independence as reflected by the indicator of governor's circulation is made complete by another factor: Has there been any changes of governors within 6 months since the election?

If there has been any change, this reflects a low independence of the central bank. Cukierman and Webb set up this indicator (1995) after they noticed that there is a more considerable upward tendency on the average, to replace the governor after the political transition rather than in other periods. The six-month period, during which the governor's political instability is increased, is called "the political period" by the authors.

It is of great interest to consider if there has been any replacement of governors in Albania within "the political period".

The nomination of the first governor was in May 1992, two months after the elections held in March 1992. But in this case, it can not be said that the above principle is applied, because in

April 1992 the central bank was founded and it is clear that a governor had to be nominated for it. Despite that, the person who was nominated as governor in December 1991 had the position of the General Director of Albanian State-owned Bank, from which Bank of Albania was founded.

In May 1996, the election sequence¹³ was held. However, the same person held the governor's position even after elections. Governor's replacement occurred a year later, in April 1997.

By the end of June 1997¹⁴, elections were held again, and at the end of August of the same year a new governor¹⁵ was nominated. This nomination was preceded by an amendment to the effective law "On Bank of Albania" in July 1997.

The amendment referred exactly to the board of directors of Bank of Albania. So the number of the members of Bank of Albania Supervisory Council increased from 7 to 9. The way of proposing and nominating the Supervisory Council members changed as follows:

Member	The executive law		Amendment	
	Proposed	Nominated	Proposed	Nominated
1. Member	Ministry of Finance	Parliament	Ministry of Finance	Parliament
2. Member	Governor	Parliament	Governor	Parliament
3. Member	President of the Republic	Parliament	President of the Republic	Parliament
4. Member	Government	Parliament	Government	Parliament
5. Member	Governor		Parliament	Parliament
6. Member	Deputy-Governor		Parliament	Parliament
7. Member	Deputy-Governor		Parliament	Parliament
8. New Member			Government	Parliament
9. New Member			Supervisory council	Parliament

Directors	The executive law		Amendment	
	Proposed	Nominated	Proposed	Nominated
Governor	Supervisory Council	President	Supervisory Council	President
First Deputy-Governor	Governor	President	Supervisory Council	President
Second Deputy-Governor	Governor	Council of Ministers	Governor	Council of Ministers

¹³The election cycle in the Republic of Albania is 4 years.

¹⁴ The elections were held in June 29, 1997. They were untimely elections which were held as part of the political resolution in overcoming the crisis that Albania experienced at year-end 1996 and at the first half of year 1997.

¹⁵ The nomination is dated August 30, 1997.

Drejtuesit	Liqi ekzistues		Amendamenti	
	Propozohet	Emërohet	Propozohet	Emërohet
Guvernatori	Këshilli Mbikëqyrës	Presidenti	Këshilli Mbikëqyrës	Presidenti
Zv. Guvernatori i parë	Guvernatori	Presidenti	Këshilli Mbikëqyrës	Presidenti
Zv. Guvernatori i dytë	Guvernatori	Këshilli i Ministrave	Guvernatori	Këshilli i Ministrave

The next important amendment related to article 49 of the effective law, which deals with the suspension or discharge of the Supervisory Council members. The amendment, in article 2, adds: "Members of Supervisory Council are suspended of their duty till the Assembly of People, the Supervisory Council approves whether they are suspended or have quit the job for which members of the Supervisory Council from the corresponding organ have been proposed, as determined in article 42 of the law "On Bank of Albania". The Supervisory Council of Bank of Albania, at least part of it, appointed in compliance with the law approved in 1996, according to the amendment of August 1997, was contradictory and as such there should be a replacement. Therefore, August 1997 marks the replacement of Governor, deputy governors and almost of the whole Supervisory Council of Bank of Albania. This change, as it is noticed, occurs within the six-month period.

In June 2001, the general elections were held again and their results were not accompanied by any governor replacement. Albeit, it should be noticed that elections in June did not change the political force in power. So, there was the same power ongoing.

In theory, it can be said that in two elections out of three¹⁶ the governor was changed (with the Supervisory Council decision). To conclude or to forecast the future behavior related to changes of Bank of Albania heads after elections, these depicted cases, although the sole ones to be analyzed, are relatively a few. It can not be said convincingly which of them will turn back to tradition. However, it is thought that the best abilities for a conversion into tradition side with the case of year 1997. The cases of 1996 and 2001, when the governor was not replaced can not be completely considered as

an "indifferent" attitude of the executive towards central bank or as its approving attitude towards bank independence, because the elections in 1996 and 2001 left the same political force in power, so there was a unilateral power "ongoing". Bank of Albania senior functionaries were nominated when the corresponding political forces were in power during their first term of office, and even though they were not the representatives of this force, apparently there was "no reason for replacing them".

The elections held in June 1997 changed the political force in power at the other side of political spectrum. Therefore, there is much more possibility for this case to convert to tradition. This idea is emphasized by the fact that certain factors operate in Albania and they are:

- the past mentality to put everything under control;
- "a high level of militantism" which often transforms even the parliament into a fictive mechanism, which in turn is continuously dominated by a political force¹⁷;
- lack of cooperation among political forces and of "political agreement" in respecting the basic laws;

According to Culierman and Webb, governors' replacement within political period is three times higher in developing countries than in the developed countries (the index is 0,1% in industrial countries and 0,34 in developing countries, whereas the average index for 1950-1989 period is 0,24). As a result of the above analysis, this change is noticed in 50% of all the cases in Albania.

Therefore, there are considered as positive elements the highlighting of the governor's term

¹⁶ The elections in 1992, 1997 and 2001.

¹⁷ In the pluralist parliaments history of this decade in Albania (the parliaments stemmed from the elections of year 1991,1992,1996, 1997 and 2001), the majority of them were under one political force control.

of office in the Constitution and the amendment, made in June 1998, to the law "On Bank of Albania" passed in 1997 in which it is explicitly stressed that the Supervisory Council appointed in 1997 will precede till the end of its mandate. This amendment became an obstacle to a possible reappointment of the Supervisory Council from the very start on the pretext of passing again the corresponding law, in December 1997.

B) OTHER FACTORS INFLUENCING ON CENTRAL BANK INDEPENDENCE.

As stressed above, the difficulties of quantitatively measuring central bank independence result from the effect of other factors that can not be measured. Some of these factors and their possible effect in central bank independence, in Albania, are arranged as follows:

POLITICAL INSTABILITY.

It is believed that political instability has an effect in central bank independence. It is not clear if their link is close, that's to say more instability means less or more independence for bank, but a certain effect exists.

On one hand it is argued that the higher the political instability in a country (that's to say the more often the elections and changes in government), the less independent the central bank is, and this is because every group coming to power aims at appointing his folks in key positions of state administration.

This behavior is more conspicuous when the political life is polarized in a country.

On the other hand, it is argued that when the party in power feels that it will soon be disposed, it is interested in intensifying the institutions independence, especially that of central bank, aiming at limiting the operating space to the opposition in case it comes to power.

It is concluded that not respecting the rules and regulations of the political game and of the disposing powers causes strong effects of political instability in central bank independence.

In our opinion, in Albania, both situations

described above have existed and have had their own effects in Bank of Albania independence. More or less, it can be said that political instability is noticed, as an aftermath of 5 elections and 2 referendums for the Constitution held within a 10-year period (normally there should have been two elections). Also, at the time when the political forces in power felt they would be disposed due to untimely election, their target of the day was "respecting institutions and technocrats", including Bank of Albania. But, on the whole, political instability influenced toward bank independence reduction.

FINANCIAL MARKET DEVELOPMENT.

Generally, it is a well-recognized idea that the wide financial markets and the existence of considerable intermediation leads to greater central bank independence. The reason is that the supervision of financial institutions is linked to central bank authority. The greater the financial sector, the wider central bank authority so that increasing its prestige. This implies that countries of developed markets have more possibility to have independent banks than countries of undeveloped countries.

In case of Albania, it can be said for sure that central bank independence is damaged by low level of financial intermediation and capital market deficiency. This makes financial sector share be not considerable in domestic economy and consequently central bank activity and decisions have not their absolute effect. This makes Bank of Albania position inferior to government.

DOMESTIC DEBT.

The existence of a government's big domestic debt causes political class to be not interested in an independent central bank. Firstly, there does exist the tendency toward not partially paying the public debt through inflation and this initiative tends to be stronger if the debt is greater. Secondly, the greater the government's share (as a borrower) in capital markets is, the lower central bank real independence is likely to be. In Albania a relatively big domestic debt exists and this restricts central bank real independence as well.

OPERATIONS IN OPEN MARKETS.

A central bank has a higher independence if it has the necessary space and abilities in adequately intervening in the open market, in case it is needed. But this ability is considerably limited and consequently bank's independence is also limited if governmental debts are not tradable.

In practice, in Albania, treasury bills issued by government (Ministry of Finance) turned into a non-tradable instrument. Foreign banks show no conspicuous interest in entering the primary market, the more so the secondary trade of treasury bills leaving a limited number of customers in the market and the dominance of a sole bank. On the other hand, government has required that bank should re-invest the maturing portfolio. This faced banks to non-liquid investments, by withstanding liquidity deficiency. In such circumstances, Bank of Albania has intervened by offering REPO or buying securities from commercial banks portfolio, in order to avoid liquidity problems upsurge in the banking system. The extreme case is that of four governmental bonds issued against the unpaid debts of agricultural co-operatives. These bonds were transferred to another state bank of favorable liquidity position, by administrative command. But, this bank as well, was soon obliged to put these bonds on secondary market, which after unsuccessful endeavors to be sold, were passed to Bank of Albania portfolio and actually the bonds are paid off by the budget.

COUNCELLOR'S FUNCTION

In some countries, the official duty of the governor is the function of government's economic councilor. This function allows him to periodically address to parliament or cabinet for such issues as policies in labor and fiscal markets.

In Albania, Bank of Albania does not actively participate in compiling or giving advice about policies out of monetary or foreign exchange field. Although law recognizes to Bank of Albania its right in advice giving, it rarely exercises this function. A step taken toward this direction was the participation of Bank of Albania Governor in the Committee of Economic Policies conducted by the Prime Minister.

PUBLIC'S OPPOSITION TO INFLATION.

Another important indicator of independence is public's support for price stability target. It is believed that if the public tends to contradict the inflation, central bank is more authoritative, its decisions have more chance to be widely supported and consequently its independence level increases. The conclusion achieved is that central bank independence is strongly associated with the society's support for the objective of price stability. The most typical case of such a behavior is that of German people. According to Issing (1993)¹⁸ "It is not by chance that Germans, which had experienced two cases of hyperinflation during XX century, have chosen an independent central bank model engaged in price stability". The shared memory of a past inflation seems to exert influence on the independence that will be given to the central bank in the future. On this ground, it is noticed that the periods after financial crisis or high inflation situations are accompanied by endeavors to grant more independence to central bank. A similar movement was noticed in Albania too, where besides all, the review of the law on central bank by the end of 1997 was due to the economic crisis that our country underwent in the first half of year 1997 and the high inflation rates.

Does there exist an opposition to high inflation in Albania? The answer is no, either in wide public, or in financial regions. The most negative aspect in this direction is the mentality of the people who although economically worn out, have lost every feeling of swapping "sacrifices to their own welfare" for an economic development in the future. It can be openly said that, in order to maintain the macro-economic equilibrium and to ensure a low inflation rate, Albanian authorities commitment to past, but to the present as well is mostly achieved by the need of ensuring agreement with international institutions, mainly IFM, and of obtaining the necessary finances from them.

PERSONALITY AND REPUTATION OF CENTRAL BANK AND GOVERNMENT DIRECTORS.

The real independence of central bank is also the outcome of day-to-day politics, institutional and personal interaction of the directors and

¹⁸ According to Guy Debelle, "Central Bank Independence: A Free Lunch?" page 12.

government, or in a narrow sense of the Ministry of Finance which exerts influence in one or another direction. The governor's tradition and personality might considerably influence on central bank behavior.

From the working experience in Bank of Albania, it is observed that this institution's directors and Ministers of finance personality have really influenced on institutions' behavior. If the bank has tended to respect its independence, this can be clearly revealed if tracking the language used in the institutions' documents and correspondence. If governor's personality has been stronger than that of the Minister of Finance (or of any other member of government) the language used in documents has been curt, cool and clear. Otherwise, a laconic language with many gentle terms is used. It might be a success that the governor underwrites from Bank of Albania, texts such as, "According to the law "On Bank of Albania, not Ministry of...., is the authority which determines the policy related to...."

A similar order intervenes in the powers which Bank of Albania has as an institution and in its independence to exercise its duties and powers"¹⁹.

Another noticed factor in Albania, which has influenced in this personality, is the support given to these directors by the political force in power. If the political force in power has vigorously supported the Minister of Finances, it is noticed a "humble" behavior of the governor and the vice-versa.

This factor (governor's personality) becomes extremely important in case of Albania, where the executive continuously attempts or exerts pressure to limit central bank independence in practice although the law sanctioning central bank independence is passed. The latest case in this direction is the decision of the Council of Ministers, which by ignoring the special laws that control central bank activity, intervenes in bank's payment policy. This is an obvious violation to its independence, in a narrower sense to its economic independence. Facing such events, and in circumstances lacking a setting which

rejects the executive's violations to central bank independence, the governor and his personality is the sole factor which can obstruct such a thing.

THE QUALITY OF CENTRAL BANK RESEARCH DEPARTMENT.

The quality of central bank research department gives bank the possibility to have its independent attitude compared to other economic research institutions within the public sector and to increase its weight compared to the government and especially to the Ministry of Finance.

In Bank of Albania, the Research Department was set up in 1998. It can not be said that the quality and the standards of homologue banks are achieved by the researchers' work. However, the research and the analyzing work of this entity have transformed Bank of Albania into a central reference institution of receiving information and explaining the phenomena occurring in Albanian economy. This was insured by this entity qualitative development. The positioning of the research entity and consequently of Bank of Albania have given to this bank a greater support in strengthening its institutional independence. But it is understood that this support is far from being absolute.

OTHER CHARACTERISTIC FACTORS FOR DEVELOPING COUNTRIES.

In transition economies, as a result of their economies' specific characteristics, other factors are added to the factors influencing on central bank real independence and they relate to:

- Choosing exchange rate regime. If different exchange rate regimes are chosen from the free float, it is clear that narrower frameworks within which central bank must operate are determined.

In Albania, such a limiting factor is not present since the regime applied is the one of free exchange rate. The more so, according to the effective law, it is Bank of Albania competence to determine this regime;

¹⁹ Since the quotation in inverted commas belongs to a real document, the references leading to the document's identification are deleted due to the confidential effect.

- The role played by bad loans. As a result of the endeavors to set up the trade mechanism, the damage of the existing mechanism of the planned economy, and the lack of experience in business loaning, state-owned banks soon faced up a high rate of bad loans. This reduces central bank independence. On one hand, central bank requires meeting the international rules and regulations for a mature and prudent banking activity, on the other hand, it is obliged to undertake “saving” actions for banks as a result of the effects that they can have in economy when banks go bankrupt or close down.

The same thing happened in Albania. The domestic banking system is always characterized by the monopolies’ existence or banking activity dominance; banks that have the monopoly pose most problems from the viewpoint of the bad loans high rate, capital deficiency, the suffering of continuous losses, etc. The strict execution of the effective rules and regulations, from the central bank would require their close-down all at once, which would practically leave the country without a banking system, at least till two years ago. Facing this situation, central bank has operated by adopting a reforming program of the banking system and allowing the violation to some of its rules and regulations, till problem banks are consolidated within the determined terms. Recognizing this problem, the government from its side, has not reacted to Bank of Albania requirement for the resolutions to the issues, even when it had the possibility, reducing in this way the independent behavior of the central bank.

- Financial system maturity. This examines four characteristics of the financial system: i. Do there exist restrictions to foreign banks? That’s to say, if they are legally treated not the same way as domestic banks; ii. Is the financial system competitive? iii. Is there an active share trade, which can insure adequate liquidity? Iv. Are there a variety of financial instruments that can be owned by the public?

The financial systems that have reached maturity (that’s to say when there is a

considerable part of the public in financial wealth) imply that the public considerably influences in achieving price stability. This increases central bank role in fulfilling the objective and improving its independence because the public is more vulnerable to the effects of real interest rate policy.

In the case of Albania, as above explained, the financial market is in its first steps and public participation is almost completely lacking, the more so it is felt the slight influence of financial institutions. If from the real and legal viewpoint, the treatment of banks in Albania is the same, regardless of their origin, it can be said that the other three characteristics operate on the contrary to central bank independence. Competitiveness in banking and financial market is lacking. The share market is completely undeveloped and in the same way financial instruments where the public can invest are lacking, too. Since many years, the only best alternative for financing (with the exception of pyramid-selling schemes) is depositing in banks and the less in treasury- bills.

- Foreign debt rate. A high rate of foreign debt increases the expenditures of transition. This makes the political pressure increase over central bank to increase the inflation, so that the restrictions imposed by similar debts are smoothed, reducing in this way central bank independence. In the case of Albania, the conditions of paying-off the foreign debt (long-term maturity, low interest rate) have no apparent effect on central bank independence, despite the relatively high rate of this debt;
- Lack of deposit insurance. In transition countries, banking systems are unstable. On the other hand, lack of a deposit insurance scheme faces the central bank to the risk of saving the banking sector in case of crisis. This provides the possibility of reducing central bank independence. Actually the law on deposit insurance is passed in Albania, and in the last months of 2002, the scheme of deposit insurance is due to start functioning;
- Need of financial resources. Transition economies are in need of financial support by the international committee

in order to realize transformation of economy. It is clear that this financial support is accompanied by laying down conditions to recipient countries and this is considered as a guaranteeing mechanism for the right use of funds. It is also made clear that the higher the level of fulfilling these conditions, the more "generous" the international community behavior is. On the whole, the conditions are as such that the recipient countries approach to Western standards, especially towards institutions' setting up and consolidation, including central bank, too.

As it is above mentioned, Albania as a country in need of foreign financing resources, faces up similar conditions, including the requirement for more independence to central bank. For us, this kind of "foreign impact" has a positive effect in increasing bank's independence.

C) OTHER FACTORS WEAKENING BANK OF ALBANIA INDEPENDENCE.

- Legal initiative. According to the effective procedures, the legal initiative that Bank of Albania might have is not directly represented to the People's assembly. By-laws or draft amendments are presented to a Ministry (according to the nature of the initiative and field they treat), usually to the Ministry of Finance. The respective Ministry, after having reflected its remarks, passes the legal document to the government for discussion. The same procedure is followed in the discussions of government, too and after that the document passes or not

in parliament according to the decision taken by the government.

As it is obvious, Central Bank of Albania has no direct communicating ability with the parliament to terminate its legal initiatives and depends on the space permitted by the government.

- Public relations. Because of an exaggerated feeling of keeping the banking secret, and perhaps for the sake of the nature of bank's directors, Bank of Albania has been rigid, probably to the extreme, toward public relations. Lack of communicating with the public and with the economists' setting too, has certainly influenced in reducing bank's real independence. The bank has not yet achieved setting up the supporting lobs of its independence in economists, members of parliament, politicians, etc. settings. In these conditions, every violation to bank's independence, which can be undertaken by the executive, encounters no strong resistance outside Bank of Albania institution.

In the last two or three years, there was progress in public relations, but time is not completely sufficient to support and understand monetary policy and the whole activity of Bank of Albania. "A more transparent policy can be more efficient"²⁰.

On the whole, the conclusion is that legal independence is not equal to real independence. If from the legal viewpoint, Bank of Albania enjoys a considerable independence, its real independence is at a low rate. All the factors influencing in this real independence as treated above, generally operate in a negative direction in our country.

²⁰ "Inflation target and inflation targeting", Laurenc H. Meyer, July 2001.

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MACRO-ECONOMIC STABILITY AND CENTRAL BANK'S ROLE¹

THE LECTURE HELD BY THE GOVERNOR OF THE BANK OF ALBANIA, MR. SHKËLQIM CANI IN THE "EQEREM ÇABEJ" UNIVERSITY, GJIROKASTRA, ON MAY 9TH, 2003.

The macro-economic stability is a concept often encountered in the nowadays-economic materials. The institutions of compiling and applying the economic policies of a country, in continuity lay the stress on achieving and preserving this stability. The more so, it is a constant priority to their work. This whole process, that in the institutions' language is called "public's educating", has made the macro-economic stability be accepted as an objective of indisputable importance. However, the economic reasoning makes us aware of the fact: a country's welfare and its growing rate depend on the economic growth. Therefore, two questions naturally rise up: "how come all this focus on macro-economic stability and which is the relation between this stability and economic growth?" In continuation of this reasoning: which is the role of central bank in macro-economic stability and how does a central bank fulfill its mission? The answers to these questions, which constitute the core of this theme, will be treated as follows.

I. ECONOMIC GROWTH AND MACRO-ECONOMIC STABILITY

At this point, we should be clear since the very beginning about: Macro-economic stability is closely linked to economic growth. Economic experience and theory has shown that the establishment and maintenance of the sectorial and intersectorial equilibrium is an indispensable condition of stable economic growth. The experience has shown that the imbalance development of economy's sectors can not continue for long. The apparent or hidden problems of a certain sector, sooner or later, will be transmitted to other economic sectors, infecting the whole economy and obstructing the country's long-term development. For this reason, the study of the relation between macro-economic stability and country's overall economic development and growth is a good starting point in clarifying central bank role and impact in domestic economy.

I.1 THE LINK BETWEEN ECONOMIC DEVELOPMENT AND MACRO-ECONOMIC STABILITY

The economic development is the final goal of the institutions related to compiling economy's policies. To be more precise, a country's

economic authorities do not consider the economic development separate from the social development. Social development in general outlines, implies the social welfare growth of a certain country's residents. From the economic aspect, social development differs from economic development because the first relates to the way of income distribution. Tax system aspects and nuances of a country, the priorities it has in the health, education, culture, etc. fields are all expressions of the country's social development policies. It is exactly these aspects of the parties political programs, which give them the corresponding colors, left or right. They have different priorities in treating these issues. Not being this theme's subject, economic growth and development will be regarded as separate from its social aspects.

A simple definition can be given to economic development; it is the situation of the country's economic growth, implying production growth and unemployment reduction. The country's economic growth is reflected by GDP growth, Gross Domestic Product. GDP is a synthetic indicator, which measures the production and incomes rate generated by the residents of a certain economy. It is understandable that production growth, with the exception of the extreme situations of technological revolutions, is associated by employment growth and unemployment reduction.

¹ The Lecture held by the Governor of the Bank of Albania, Mr. Shkëlqim Cani in the "Eqerem Çabej" University, gjirokastra, on may 9th, 2003.

Box 1. GDP and its measurement.

For GDP measurement, three methods exist:

- **Value added method.** According to this method, GDP is equal to the amount of the goods and services value added in all economy's sectors, produced by residents.
- **Expenditures method.** According to this method, GDP is equal to the amount of goods and services consumption by the consumers and government, investments and current account balance.
- **Incomes method.** According to this method, GDP is equal to the incomes provided by goods and service selling, employees' payment, firms' profit and indirect taxes and subsidies balance.

To sum up, these methods can be presented as follows:

I. VAT method

$$GDP = X VA$$

II. Expenditures method

$$GDP = C+I+(X-M)$$

III. Incomes method

$$GDP = W+OS+TSP$$

In which:

VA- is the value added in every phase of service or goods production. GDP measures the final services and goods in economy, with the exception of intermediate goods value.

C, I- is the economy's consumption (including government's consumption, too) and investments. X and M- are exports and imports respectively.

W- payments aggregate level in economy.

OS- the operating profit of firms and enterprises.

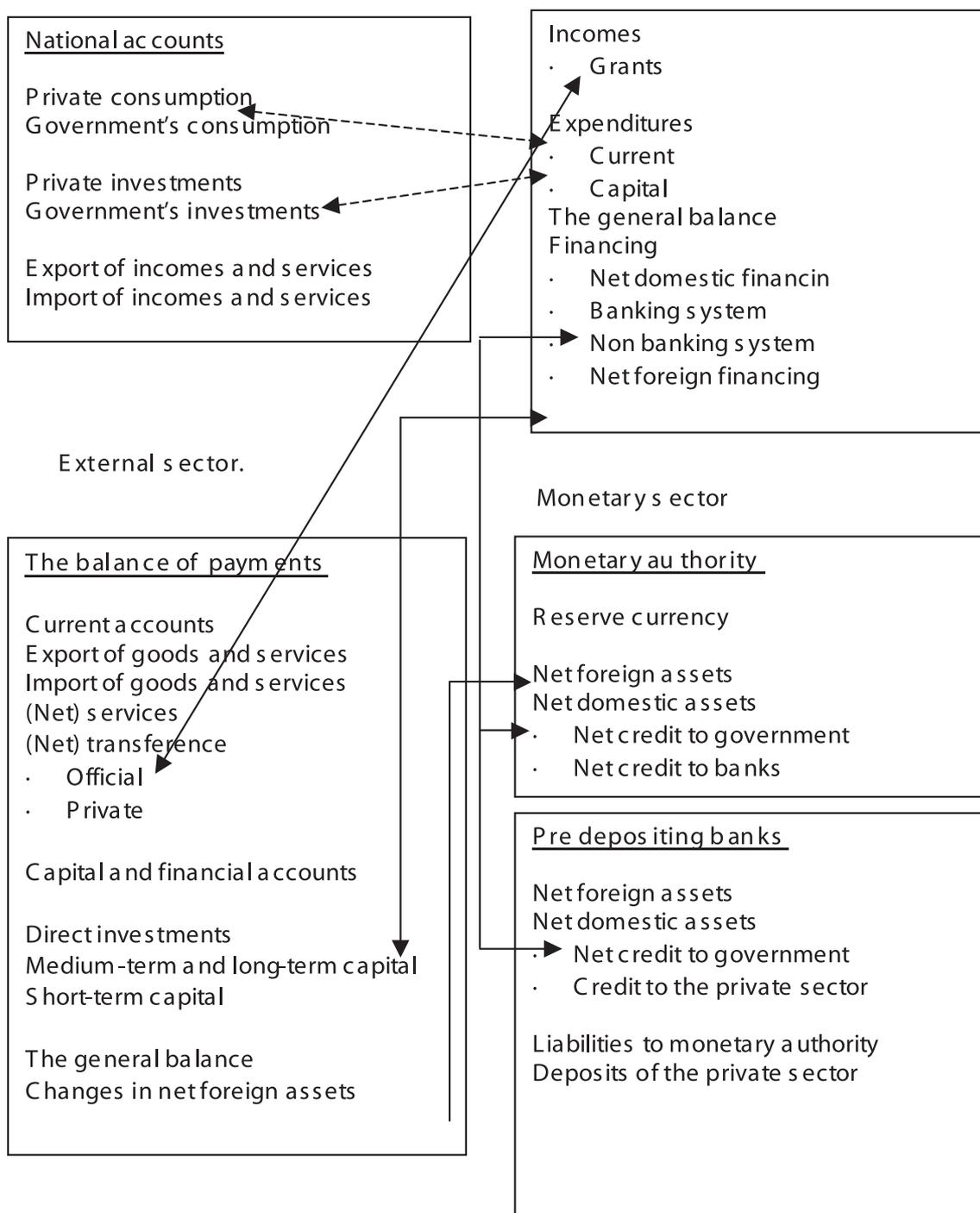
TSP- is the difference between indirect taxes and subsidies.

From the macro-economic viewpoint, the economy of a country is divided into four sectors, the real sector, and the external sector, the fiscal sector and financial sector. The domestic economic growth and the employment rate are a contribution to all these sectors. Economy's sectors are in an on-going relation with one-another. To better understand the importance of balanced economic development and the role of the macro-economic equilibrium in this development, let's refer to the relation among the economy's sectors. Later, the identities relating these sectors will help us in setting up a logical structure, which allows for ascertaining

the macro-economic equilibrium importance. As a beginning, it would be suitable to make a short description of the economy's sectors and later to dwell on their relations.

The real sector of economy synthetically includes the whole activity enabling national incomes provision, GDP. To make the understanding of this sector easier, we can regard this sector as the aggregation of all the economy's sectors. The economy's real sector annual flows are amounted in the national accounts system. The main voices of these statistics are reflected in the following chart:

Chart 1. The presentation of the economy's sectors and their relations².



² The arrows illustrate some of the relations existing among the economy's sectors. The relations that are identities are presented with unbroken lines, whereas the partial channel of influence is presented with broken lines.

The fiscal sector of economy includes the whole government's economic activity, its incomes and expenditures and the balance between them, budgetary deficit. The annual flows of this activity are summarized in the fiscal statistics.

The external sector of the economy includes all the transactions of a country's residents with the rest of the world. The integration and globalization process has adequately increased this sector's weight and its study worthiness. Now that the global trade is a widely accepted idea while the regional markets constitute an affecting reality, the macro-economic policies should get out the narrow frameworks of the country's limits. The economic activity and monetary flows included in it, is summed up in the balance of payments.

The financial sector of economy includes the whole financial intermediation process in economy. Its basic function is relating savings to investments. This sector's importance is indisputable since it enables all the other transactions by providing the payments means in economy. Otherwise said, we would not get far from the truth if we see the financial sector as an interconnector of other economy's sectors. The banking system constitutes the backbone of the financial system. In underdeveloped countries, capital market development and new financial institutions presentation which are closer and closer to the specific needs of a certain group of customers, banking system importance within the financial sector are declining, as a result of the financial innovations. However, banking system role is irreplaceable. This system is the typical representative of a financial mediator; it provides the payments needs in economy and is the main channel through which the monetary policy is transmitted.

In developing countries where other financial institutions are lacking or their activity is irrelevant, the banking system can practically be identified with the financial system. The case of Albania is a typical one in which the financial sector is reduced in the banking system activity.

Central bank is the basis of the banking system. It licenses, supervises and manages this system's activity. Central bank is responsible for money issuing, monetary policy compilation and application, the payments system organization and management. Among other roles of the central bank, we can mention the country's foreign exchange determining and regime, the role of the government's fiscal agent, etc. Each of these functions is a key function in the economy's trend. However, the compilation and application of monetary policy is the most important and inalienable function of central bank.

The banking system funds transfer and trend are reflected in the monetary condition, which is an aggregated summary of commercial banks and central bank balance sheets. This information, different from the economy's real and external sectors' information, has a monthly frequency. On this ground, it gives an earlier information on economy's condition by enabling central bank to react on time, against the real and expected developments.

Before starting to analyze the relations in the chart above and the role of the macro-economic stability in a stable economic growth, let's refer briefly to the theoretical **apparatus** which describes the relations of the economy's main sectors and the main kinds of macro-economic imbalances.

Box 2. Some basic relations of the economy's sectors.

$$\begin{aligned} \text{GDP (Gross Domestic Product)} &= C + I + (X - M) = A + (X - M) \\ \text{GNI (Gross National Income)} &= \text{GDP} + Y_f = C + I + (X - M + Y_f) \\ &= A + (X - M + Y_f) \end{aligned}$$

$$\begin{aligned} \text{GNDI (Gross National Disposable Income)} &= \text{GNI} + \text{Trf} \\ &= A + (X - M + Y_f + \text{trF}) \\ \text{Or: GNDI} - A &= X - M + Y_f + \text{Trf} \\ \text{GNDI} - A &= \text{CAB (current account)} \\ \text{Since GNDI} - C \text{ as determined} &= S \\ \text{GNDI} - C &= I + X - M + Y_f + \text{Trf} = S \\ \text{Then} & \\ \text{S} - I &= X - M + Y_f + \text{Trf} = \text{CAB} \end{aligned}$$

It is explained:

A	= Domestic absorption or domestic demand (C + I)
X	= Goods and service exportation
M	= Goods and service importation
Y _f	= Foreign incomes
Trf	= International transference
C	= Consumption
I	= Investments
S	= Savings

The relations among accounts show that in every sector where the expenditures surpass the incomes, the financing must come from other sectors' savings and when there are excess expenditures for the whole economy, this can be possible only by foreign financing. Together with the identities relating different sector accounts, they set up a schematic and quantitative representation of the most important economic process.

The national account framework constitutes two important relations, which stand at the core of macro-economic analysis. These relations are:

- The relation between income and demand aggregates and current account external balance;
- The relation between savings and investments aggregates and current accounts external balance.

The first relation existing between the national account aggregates and balance of payments can be reached out by determining GDP or GND.

$$\text{GND} - A = \text{CAB}$$

This equation creates the viewpoint basis of the absorption in the balance of payments. This means that the current account is more deficient each time a country expends more than it can afford to, or when it absorbs more than it produces. On the other hand, as it is noticed in the table, the relation between the aggregates of national accounts and the economy's external sector, current accounts is performed through savings-investments balance in an economy.

$$\text{CAB} = \text{S} - \text{I}$$

The *gap* between savings and investments can be considered as the country's foreign exchange resources (savings) use or as foreign borrowing increase. In a closed economy³, the savings aggregate equals to the investments aggregate. In an open economy, the difference between them is equal to current account balance. Therefore, if there are more investments than savings (the economy absorbs more than its incomes permit to), these investments must be covered by foreign savings, that's to say by

³ In a closed economy, with no foreign trade, the current account deficit is 0.

foreign borrowing. It is clear that the foreign borrowing can not last for an indefinite time. Sooner or later, it will lead to reducing the country's solvency, its currency depreciation and to high inflation. Inflation increase, currency depreciation and uncertainty increase in decision-making urge a favorable climate for economic growth. To put it simply, the case of Argentina is a concrete illustration of these developments.

A country can not keep on maintaining current accounts high deficits for a long period of time. In general, a stable position of current accounts is the one, which can be continuously financed by the expected financial inflows and at the same time, remains coordinated with a suitable economic growth, price stability and country's ability to pay off the foreign debt service. In order to reduce current account deficit, the country's incomes must increase or the absorption must reduce. The production growth (the incomes growth, too) requires this sector's unused producing capacities for a short period of time, whereas in a longer period of time, it would require suitable structural policies. The absorption might decrease by reducing consumption or investments. Often, this needs adopting the measures that cause social dissatisfaction.

Identifying the reasons for the economy's imbalances is the first step towards curing them. But which are the reasons for current account deficit?

Distinguishing consumption and investments according to their origin, into private sector consumption and investments and state sector consumption and investments, here are:

$$\begin{aligned} \text{GNDI} - A &= \text{CAB} \\ \text{GNDI} - (C + I) &= \text{CAB} \\ \text{GNDI} - (C_g + C_p) + (I_g + I_p) & \\ \text{GNDI} - (A_g + A_p) &= \text{CAB} \end{aligned}$$

According to the identities, it is obvious that the reason for a current account high deficit might also be the government's high activity. This is precisely the reason that the fiscal discipline is an important aspect to the macro-economic equilibrium.

Another aspect of fiscal policy influence on macro-economic equilibrium is the budgetary deficit and its financing, too. Government's expenditure increase beyond its solvency brings about an increased budgetary deficit. There exists at least three channels with which a high budgetary deficit influences over the imbalances in economy and as lastly analyzed, obstructs economic growth:

- the economy's borrowing increase causes high nominal and real interest rate. Interest rate increase restricts investments.
- in case central bank covers the budgeted deficit, the high budgetary deficit causes inflation.
- in case the banking system or other economy's agents cover the budgetary deficit, the budgetary deficit causes private investments reduction (the crowding-out effect).

In the sectorial framework of national accounts, the real sector is determined as summarizing households and private sector (in which the non-governmental sector, the non-banking sector are included). Like the other sectors, the private sector has budgetary liabilities which relate the gap between the incomes and expenditures of this sector and their financing. Private sector savings (S_p) constitute the difference between this sector's disposable incomes (GNDI_p) and consumption (C_p).

$$S_p = \text{GNDI}_p - C_p$$

The private sector's absorption might be written:

$$A_p = C_p + I_p, \quad \text{where } I_p \text{ is private sector's investments.}$$

$$\text{GNDI}_p - A_p = (S_p - I_p) \quad \text{or}$$

$$F_p = - (S_p - I_p), \quad \text{where } F_p \text{ is gap's financing}$$

The financial gap might be covered:

- by direct foreign investments,
- by net foreign borrowing of this sector,
- by the private sector borrowing provided by banking system (in other words, net credit of the banking system for the private sector).

These financial inflows, on the other hand equal to the private sector's outflows, and they are:

- the credit granted to the banking system by this sector (by means of deposit or money holding increase).
- Lending to government (in other words government's borrowing from non-banking sector, therefore the private sector).

These relations are important in order to understand how the private sector is influenced or influences by the other part of economy.

These relations or identities are always saved, but they do not explain the economy's different imbalances, their reasons and the causes of the different economic factors behavior, etc. these analysis are made in the sectorial analysis framework. Other factors such as (foreign exchange, interest rate and other external factors) should be taken into account in order to explain the current account developments. In conclusion, we can say that although the relation between incomes and absorption is important in designing macro-economic programs, it constitutes only an identity and does not provide any theory related to current account tendency. Due to this theme's aims, the focus was layed on the imbalances impact on one sector, on other sectors of the economy and on economic growth.

II. THE ROLE OF CENTRAL BANK IN MACRO-ECONOMIC STABILITY

World experience has reached the consensus that the mission of central bank is the achievement and maintenance of a low inflation. The most widespread opinion related to the answer of the question "What is the definition of a low inflation?" is "an inflation rate which is no more a factor in economic decision-making". If this goal is achieved, the allocation of the resources reaches the optimal point, meanwhile the economic growth and the standard of living increase.

Some questions rising up when mentioning this dedication to a low inflation rate is mentioned, are:

Will an economic environment with a low inflation assists in the achievement of economic growth and the highest standard of living? If it will, how will it help? How does low inflation influence on financial stability? Can Bank of Albania reach and preserve low inflation rate? How much weight, if needed, should be given to the cyclical fluctuations in unemployment and economic activity during the time that Bank of Albania policies are determined? How should Bank of Albania apply a policy of low inflation?

An issue to be examined. Macro-economic stability in Albania in the period of deposit withdrawal.

The importance of macro-economic equilibrium and the interdependence of the economy's sectors can be illustrated by a concrete case from the last-years Albanian experience. Albanian banking system withstended a considerable deposit withdrawal during March-April 2002 period. Deposit withdrawal from the banking system caused liquidity deficiency in the system. In other words, banking system was not able to withstand deposit withdrawal by means of liquid assets. There were two implications of this situation:

- *if the liquidity problems in the system kept on going, the confidence on the banking system would have further shaken. It is hard to imagine all the possible consequences of a similar situation. After all, it is sufficient to say that an economy without an operating banking system is hard to imagine.*
- *Liquidity problems in the system caused difficulty in covering budgat deficit.*

This situation needed Bank of Albania intervention. The alternatives were the financing of the budgetary deficit and meeting banking system needs for liquidity or limiting budgetary deficit financing. The first alternative would produce inflation. The second alternative meant limiting budgetary expenses, reducing the rhythm of economic growth. Turning back to the first chart, I want to get your idea referring to the options presented above.

II. 1 WHY DO CENTRAL BANKS AIM AT INFLATION?

Monetary policy is one of the main responsibilities of Bank of Albania and certainly the activity that attracts most the attention. To put it simply, the target of the monetary policy is to achieve the maximal economic development. It is accepted that the most important contribution that Bank of Albania can give in this direction is the achievement and maintenance of a low inflation rate. However, the channels through which the inflation influences on economic growth are not still completely clear. Despite the focus on a low inflation in long-term periods, there is a belief according to which the monetary policy can improve the economic trend reducing the fluctuation in the business activity, therefore smoothing business cycles.

INFLATION AND ECONOMIC GROWTH.

It is proved that the economies best develop toward growth, employment and standard of living, if inflation is low, rather than if it is at continuously high rates. The studies in which it is observed the relation between production or productivity growth and inflation, have shown that the relation between the first two and inflation is negative: therefore it is proved that the higher the inflation, the lower the economic growth in real terms.

It is exactly the negative relation between inflation and the economic growth pace which urge central banks (with certain exceptions) have as the main target of their monetary policy, keeping inflation at a low rate. Such activities show the great importance of this objective.

Another issue that can be spontaneously considered in continuation is: Why is low inflation favorable to economic growth? In the final analysis, the relation does not prove causality; the relation between economic growth and inflation might be casual, or the **causality might** derives from the other way round, that's to say the economic growth might be the one that provokes low inflation. This is a difficult issue and till nowadays there is no clear theory to give an explanation to it.

However, the basic economic reasoning suggests that there are at least two channels

through which inflation influences on real economy trend. Firstly, quite unlike high inflation, low inflation results in resources allocation as the signals provided by the determining prices process can be easily and accurately interpreted. Secondly, low inflation is favorable to financial stability.

RESOURCES ALLOCATION

The relative prices present a favorable factor to identifying resources allocation. For instance, a change in relative prices stemming from an overall demand shifting must shift the resources and production from the activity in which prices have fallen down (with relative respect) into the activity in which prices have risen up. Meanwhile the overall prices level increase, inflation, must not change the resources allocation in this way. But in an inflationary setting, it might be difficult for individual decision-makers to distinguish between inflation on one hand and a change in relative prices on the other hand. Confusing them happens often in cases where the high inflation is related to the changing inflation. Consequently the resources might be wrongly managed during inflationary periods.

In addition to what was above mentioned, inflation might constitute a problem in the real interest rate appreciation. The real interest rate (the one that considers or is fixed up by inflation) – the relative price of the actual goods compared to the future goods – is not conspicuously represented as the market price, but is estimated by the households adding or subtracting to the nominal interest rate the actual inflation.

When inflation is unstable, the duties of determining the real relative price get more and more difficult. The resources allocation or inappropriate management, on this ground would influence negatively on economic growth and standard of living, since the resources are not appropriately and best used. Moreover if the taxation system is not indexed with price changes, inflation might weaken work and investments promotion. In extreme cases, considerable resources might be used in order to smooth or strike out the consequences of high inflation. Without an overall indexing, inflation might result in unpredicted wealth transference.

All these effects are less significant when inflation is continuously low. The more success a central bank has in reducing inflation, the closer does the economy get to the optimal management and use of resources, and this would directly influence on economic growth and the standard of living increase.

FINANCIAL STABILITY.

The second reason why inflation favors economic growth is that it influences on financial stability. The economy with a low inflation is less likely to undergo underlying fluctuations in assets prices and in expecting these prices.

In the essence, the problems related to assets price depreciation and to their forecast, are not much different from the confusion about the changes in relative prices and the general ones as above described. Investors and creditors might misinterpret the signals received by the prices and might come to wrong conclusions. On this ground, financial resources are not appropriately used.

Financial stability is indispensable to a sound economy in many directions. Decisions on lending that determine financial resources use might be closer to the optimal level in an economy of low inflation. This conclusion derives from the idea that bankers and their customers usually do a better job in appreciating business trend in an atmosphere of relatively stable prices.

Financial stability increases economy's abilities in smoothing the possible shocks: power price increases, underlying technological changes, unpredicted developments in the economy of partner states in trade, and so on. Similar events bring about resources misuse but a financial system which can "absorb" these shocks without allowing them to damage the economic activity, assists in limiting the turbulence extend and durability. On this ground, the real growth would be influenced less than it would be in the conditions where the financial sector would increase and expand the shock's effects.

The more so, it is likely that the shock's effects and the appropriate reactions be easier identified in a non-inflationary setting.

II. 2 CENTRAL BANK INFLUENCE ON THE PRICES LEVEL

MONETARY POLICY AND INFLATION.

At this point, it is clear that low inflation might have apparent effects on economic growth and flourishing through its effect on real resources use and financial stability.

One of the few points that macro-economists agree on, is that inflation is firstly and above all a monetary phenomenon. It occurs as a result of issuing money for a long-termed period, at a level that surpasses the economy's ability to produce real goods and services. The more so, it is come into terms that money supply is determined by central bank in a long-termed period. In this way, by means of an appropriate policy, central bank might achieve or maintain low inflation rate. In a broader sense, central bank must have as its responsibility long-term currency growth in compliance with low inflation rates. If central bank achieves this responsibility in conformity to what was above mentioned, there would be important economic benefits for the country.

The right and duty to avoid long-term currency provision allows for underlying fluctuations in the short-term money movement. In the past, the monetary aggregates were used to link the long-term period to the short-term one.

Although the monetary aggregate impact on the price level in economy is indisputable, the strength and coherence of this relation are smoothed. The short-term relation between money and economy is weakening.

On this ground, the optimal time horizon in which the monetary policy must operate is medium-termed. Central banks give little attention to interpreting short-term movements and reactions toward them. A result of the central banks viewpoints importance is the need of their real independence. The government's economic policy, have often proved to be shortsighted, restricted by the time horizon of the governing mandate. Macro-economic stability guaranteeing and inflation control requires for long-term policy out of political considerations. The concept of central banks independence

from politics has found an academic consensus and a wide practical one all around the world.

CENTRAL BANK AND BUSINESS CYCLE.

A critical question, here, is: how can central bank achieve a low inflation and at the same time respond effectively to business cycle excesses in a setting where money supply is not worthy in short-term policy? After discussing about the pre-inflation issue, we can refer to two other aspects of this question: (1) Can monetary policy influence on the real activity in the short-term period? (2) And if it can, is it needed to?

Yet, no clear answers are provided to these questions. Generally, it is thought that the monetary policy has an effect on the economical real variables in the short-term period, but the extend of this effect is unclear whereas the interval that separates the different activities of the monetary policy from the effects is changeable. On this point, our knowledge about the short-term effects of monetary policy is insufficient to allow us for operating aggressively in many circumstances.

Central bank, in many cases, accepts to take a certain attitude. It estimates that monetary policy has real effects and the empirical evidences support this concept. But, because of the uncertainty of the durability and distance in time, the policy-makers must be prudent in their reactions toward the unexpected deficiencies in economic trend.

The main reason why prudence is indispensable in decision-making, is the situation's deterioration risk.

Why do the majority of the economists favor monetary policy activities? Since monetary policy has real effects in economy, it should be accepted that the fluctuation in the short-term period obstructs the long-term growth of economy. Otherwise put, the strong development cycles damage economy. On this ground, monetary policy must be performed, if it is possible, in such an anti-cycle way in order to moderate the tops and lows of the economy's development cycle.

When we say if it is possible, we should take into account the fact that central bank must not

lose the attention in an instant, toward its key objective, inflation control. The fulfillment of its other objectives is always conditioned by the non-violation of its key objective. The anti-cycle policy that would avoid or at least smooth this economic cycle's extreme points seems acceptable, but in any case it should be taken into account that this policy must be prudent. If policy-makers are wrong about the extend and time of these activities' effects occurrence, it might happen that these activities escalate economic decline or further increase inflation. The more so, if the policy is not accurately explained or applied, they might provide confusion on the long-term vision of policy-makers, disorientate the private decision-makers behavior and might have inflation uncertainty and premium added to trade interest rate.

III. THE EXPERIENCE OF BANK OF ALBANIA

Bank of Albania, took the shape of a two-level banking system central bank in 1992. Bank of Albania is an independent institution. According to the law "On Bank of Albania", its key objective is price stability achievement and maintenance. Bank of Albania aims at keeping inflation at 2 - 4%, in the context of foreign exchange flexible regime.

Now, as an institution of ten-year experience in compiling and applying monetary policy, Bank of Albania might look back on time and make an evaluation of its work.

III. 1 THE COMPILATION AND APPLICATION OF MONETARY POLICY

THE GENERAL FRAMEWORK OF MONETARY POLICY COMPILATION.

Bank of Albania, compiles and applies its monetary policy under the function of its mission fulfillment, price stability maintenance. Like many countries under transition, monetary policy is part of a broader program of the country's development, known as the financial program. This programming ensures the coordination of

the economic policy with adjustable programs and macro-economic stability.

The financial program represents a group of coordinated and all-including measures of economic policies, formulated in order to reach a certain group of macro-economic objectives or to maintain and improve the economic achievements. The measures included in the financial program are usually focused on monetary or fiscal policy. These policies are usually focused on the aggregate demand content and relative price adjustments, since they have the advantage of producing the effects for a relatively fast period. Despite the monetary, fiscal and income policies, which on the whole are used as policies of the demand management, of expenditures transference as well (for instance, through foreign exchange policy), the structural policies often become an important constituent of macro-economic development programs.

Monetary policy is conceptualized and made concrete through the intermediate and operational objectives and the framework of its instruments.

The key and definitive objective of Bank of Albania monetary policy is the price stability achievement and maintenance. The compiling and applying process of monetary policy keeps going by means of identifying the intermediate objectives.

In conception, the intermediate objectives must have a close relation to the definite objectives and be under central banks control. In order to achieve its objective of inflation, Bank of Albania uses the annual rate of money supply increase as an intermediate objective. From money demand viewpoint, money on the whole reflects the amount of the available liquid funds or which are at the private sector disposal to be expended. From money supply viewpoint, money on the whole provides the credit granted by the banking system in order to finance budgetary deficit and assists in the private sector and individual credit investment activity. Bank of Albania objective is to ensure money amount growth on the whole, in order to make money demand correspond to money supply and to adopt at best the economy's real growth to inflation.

In case of non-compliance, there will be inflation growth or/and foreign exchange depreciation (in case the offer is greater than the demand); or deflation or/and foreign exchange appreciation (in case demand is greater than offer). Money growth control in order to maintain price stability means that Bank of Albania observes at the monetary means level in economy an important explanation to its price level.

Intermediate objectives, too, can not be under the authorities full control. The more so, there are time delays that weaken the monetary authority control over the intermediate objectives level. On this ground, the need of identifying the operational objectives emerges. Their role is to establish a relation between Bank of Albania instruments and its intermediate objectives. The control on monetary basis level and interest rate in the money market considerably determines money supply expansion. Monetary policy instruments can control monetary basis and interest rate in money market.

MONETARY POLICY INSTRUMENTS OF BANK OF ALBANIA.

Principally, the monetary policy main instrument of Bank of Albania has been the control on interest rate minimal level of state-owned banks and is controlled over banks' credit. However, Bank of Albania has presented in continuation the indirect instruments of monetary policy. Repurchase and reverse re-purchase agreements (REPOs and reverse REPOs) became gradually dominating. In September 2000, Bank of Albania eliminated the control of deposits interest rate passing completely into indirect instruments of monetary policy.

Instruments framework of Bank of Albania is modeled on European Central Bank (ECB) and is much similar to that. The instruments' framework consists of:

1. Open market operations
2. Bank of Albania facilitating operations; and,
3. Reserves requirement.

Open market operations are the main instruments which Bank of Albania monetary policy rely on. In a reduced form, they include:

OPEN MARKET OPERATIONS

1. Re-purchase and reverse re-purchase agreements, REPOs and reverse REPOs;
2. Out-right transactions;
3. Bank of Albania intervention in foreign exchange;
4. SWAP, ETC.

These instruments' function is the liquidity and interest rate management in interbanking market. REPO is Bank of Albania key instrument that conveys its monetary policy as well. This instrument's interest rate serves as an orientation for interest rate level in economy.

BANK OF ALBANIA FACILITATING OPERATIONS.

1. Credit and over-night deposits;
2. Lombard credits.

III.2 MONETARY POLICY DURING THE LAST YEARS.

After the wide spread crisis that Albanian economy and society went through in 1997, Bank of Albania has tracked a tightening monetary policy. This tightening policy was evidenced in real interest high rate (presented in Table 1) that stabilized the exchange rate maintaining the requirement for financial assets in Lek and assisting the money velocity falling trend, consistent to the lowest inflation rate. A key instrument in ensuring positive return rates was Bank of Albania determining of deposits minimal interest rate⁴.

Loaning preventive limitations applied on state-owned banks considerably restricted non-governmental sector loaning, and had a high level of bad loans in their portfolio.

Table 1. Interest rate, 1996 – 2001 (annual percentage)

	1996	1997	1998	1999	2000	2001	2002
12-month deposit	19.1	27.8	16.5	9.1	7.7	7.7	9.3
The average Yield weighted in treasury bills.							
Deposits real rate	1.7	-14.3	7.8	10.1	3.5	4.2	7.2
3 month rate	14.5	32.4	27.4	14.5	10.7	7.7	11.2
6 month rate	18.4	31.2	28.4	18.6	13.0	9.8	12.0
12 month rate	18.8	32.8	29.3	19.5	14.0	10.5	12.6
Real treasury bill Yield. 12-month rate	1.4	-9.3	20.6	20.5	9.8	7.0	10.5

These instruments' function is supporting REPOs' key instrument. These instruments determine the limits where interest rate will set in motion in the interbanking market.

RESERVES REQUIREMENT.

The main function of this instrument is to control money supply increase.

While passing in the indirect instruments of monetary policy is an important step forward, monetary policy efficiency remains restricted as a result of efficient financial markets deficiency, which would enable transmitting of monetary policy decisions in real economy.

At the beginning of year 2000, Bank of Albania undertook a gradual smoothing of monetary policy, as a respond to low inflation rate and appreciating pressures toward exchange rate. In compliance with the monetary policy instruments of that time, monetary policy smoothing was performed through the gradual reduction of the termed deposit interest minimal rate in Lek of state-owned banks. The three-month interest rate for treasury-bills suffered a rapid decline, from 14,9% in January 2000 into 7,7% in August 2001, principally responding to Bank of Albania signals related to interest rate, government's borrowing reduction, the effect of a greater participation of private banks and non-banking investors in treasury- bills auctions.

⁴ Deposits minimum required rates were first determined in 1992.

Credit and deposits interest rates, also, fell considerably and so starting to exert a positive impact on the private sector lending activity.

Bank of Albania, with the exception of year 2000, has met its objective of inflation. Money circulation solvency is declining and money supply is growing with faster paces than nominal GDP growth. Competition growth in the banking system and private sector strengthening has made the credit for economy increase with fast paces, on the average by 33,5% per year. It is also assisted by budgetary borrowing decrease and interest rate decline in economy.

With this positive trend of economy, starting from the second half of year 2000, inflation has had a growing tendency. The main reasons of this growth were factors operating on offer's behalf. However, economic growth and domestic demand increase has made the last one be a source of inflationary pressures. In principle, the monetary policy must respond only to the inflationary pressures emerging from the

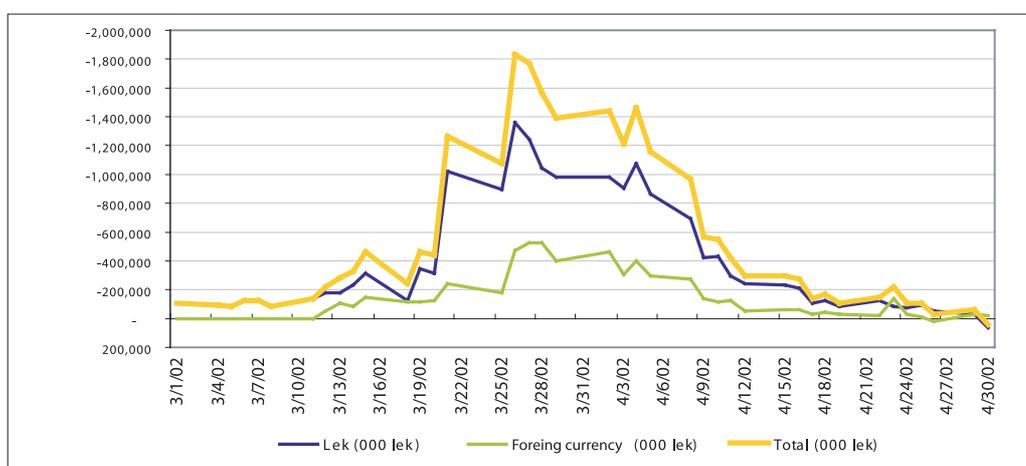
demand's behalf. The activity repeated and stretched out in time of the factors operating on the offer's behalf and the component of inflationary pressures domestic demand made Bank of Albania tighten the monetary policy in August 2001. The change of Bank of Albania operating framework made monetary policy tightening be performed by means of 0,5-percentage points growth of REPOs interest rate. Although monetary policy tightening was reflected only in an interest rate slight increase in the banking market, it managed to maintain the inflation rate of year 2001 within Bank of Albania objective.

However, year 2002 started with high inflation rates, over its objective. Deposit withdrawal in March-April period emphasized the need of Bank of Albania intervention. Bank of Albania intervened in interest rate increase and liquidity injecting, as well. Considering the complex character of the situation, monetary policy and Bank of Albania reaction toward these events will be treated in details as follows.

Issue to be examined. Monetary policy and the events of March-April 2002.

In March-April 2002 period, banking system faced up deposits withdrawal. This phenomenon occurred most intensively in the two last weeks of March and at the beginning was located in some regions of the country, mainly in rural regions such as: Vlora, Fier and Lushnje. Lek 23,4 billion deposits were withdrawn from the windows of the two greatest banks of the system, from which Lek 17,1 billion were deposits in Lek and Lek 6,3 billion were deposits in foreign currencies. Deposit withdrawal made money outside banks increase by Lek 14,6 billion during these months, resulting in inflationary pressures increase in economy. Banking system passed from an outstanding liquidity situation into a continuous liquidity deficiency during the rest of year 2002. During this period, 8,3% of the overall deposits were withdrawn. Liquidity deficiency in the system led to its impossibility to cover government's requirement for financing.

Chart 1. Deposit withdrawal in Savings Bank and National Commercial Bank, in thousands Lek.



This situation is much similar to the situation emerged in 1997. The Albanian banking system shock in spring 2002, is the second shock after the one that this system suffered in 1997. These periods are evidenced as the most difficult moments in banking system history. In these situations, Bank of Albania has intervened in managing crisis. This intervention resulted in interest rate increase and liquidity injecting in the market, as well. Bank of Albania took this attitude since banking system stability was considered indispensable to a wider stability of domestic economy and achievement of low inflation rate in a long-term time horizon. The interventions of Bank of Albania, as a liquidity provider, in the market assisted in meeting the banks' immediate needs of liquidity and preserving public's confidence on this system.

Bank of Albania undertook a throng of measures for managing the situation.

The aggressive increase of base interest rate was regarded as a key instrument that would assist in the situation's improvement. It assists in controlling inflation and urging liquidity return to the system.

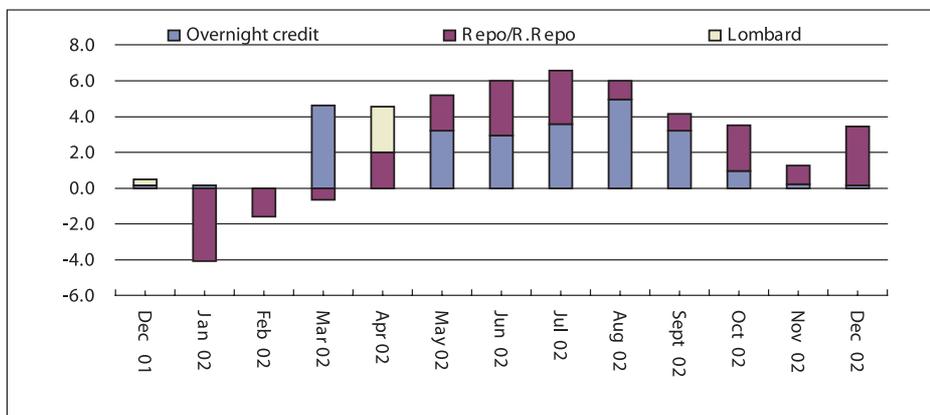
At the same time, evaluating that the principal factor in improving monetary indicators and increasing the reserves' level in the system was the return of the public's confidence on banks of the banking system, Bank of Albania made use of media in order to make clear to the public that the situation of the banking system was relatively sound.

On the other hand, banking system stability was also related to maintaining the confidence put in it. In this direction, the guaranteeing of the system's liquidity position had priority in Bank of Albania policy. It was engaged in meeting and facilitating the banking system needs for liquidity.

The Supervisory Council of Bank of Albania approved the budgetary deficit financing, within the limits allowed by law, 8% of the average normal budgetary incomes during the last three years. In the absolute value, this limit is Lek 9,7 billion. Liquidity position improvement during the months in continuation, made Bank of Albania reduce its participation in this deficit financing. At year-end, deficit financing was only Lek 1,8 billion.

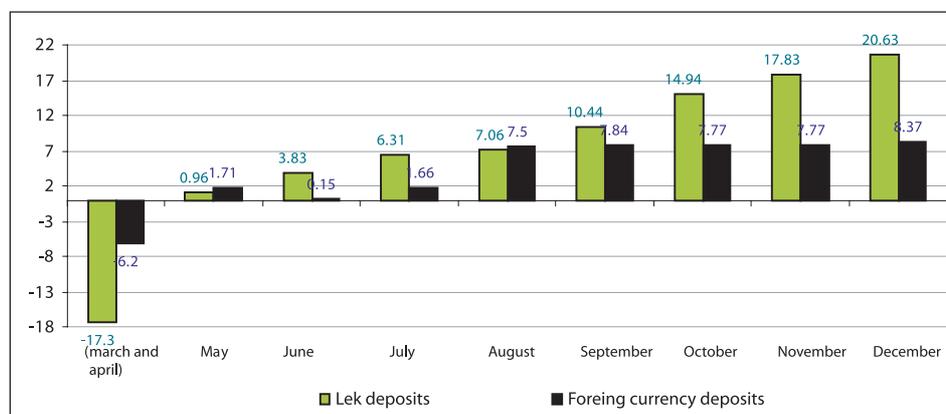
From the operational viewpoint, Bank of Albania changed the direction of the main operation, from REPO into reverse REPO, transforming Bank of Albania into an injector of liquidity in the market. It used the instruments of the Lombard credit, one-month reverse REPOs, and over-night credit facility as well, in order to temporarily inject the liquidity in the market. Liquidity's injection in the system, at normal conditions is an indication of a liberal monetary policy and at first sight, comes up against interest rate increase as a stringent measure of monetary policy. However, this attitude was conditioned by the need of guaranteeing the confidence in the banking system. Bank of Albania aimed at maintaining the stability and partnership of the banking system in applying monetary policy.

Chart 2. The injecting of liquidity by Bank of Albania during 2002 (in billion Lek).



The monetary indicators in June showed that the phenomenon of deposit withdrawal from the system was surmountable. During this month, it was noticed the first signs of money return to the system. The high intensity of savings return into the system was marked in September and continued till the year-end. At the end of this month, deposit level on the whole, reaches to surpass the level of year-end 2001. While in November, it was managed to return the whole amount of deposits in Lek withdrawn during March-April period. This cycle for the deposits in foreign exchange was carried out within August.

Chart 3. Deposit condition decline in March-April 2002 and the cumulative growth for May-December 2002, in billion Lek.



The effect of Bank of Albania intervention for the situation recovery was reached at, sooner than in 1997. For 1997, Bank of Albania intervention stretched out in time because of the government's non-function, at the first half of the year. Its policy effect was present at the second half of 1997. The first results of the intervention were observed, at least six months since the beginning of banking system shock. Whereas Bank of Albania intervention toward banking system shock, in 2002, was performed on the right time and effectively by setting up and maintaining the financial stability in the country, as well as leading to the fast overcoming of the difficult situation of liquidity. The first results of the intervention were observed at least three months since the beginning of the banking system shock. This intervention was effective because it was made in the conditions of a stable macro-economic situation and sound banking system.

SEMI - ANNUAL MONETARY POLICY REPORT JANUARY - JUNE 2003

SPEECH OF THE GOVERNOR

Economic developments during 2003 are expected to perform according to the program. The most important targets of this program are: 6 percent economic growth, keeping inflation in the 2-4 percent level, maintaining the budget deficit to 6.4 percent of the GDP, and keeping the balance of payments in a favorable position, expressed by the increase of foreign currency reserve of monetary authority.

Despite the lack of data for a complete analysis of economy performance during the first half of the year, Bank of Albania believes that economy growth objective seems attainable. The available data show a positive economy performance during the first half of the year. This performance is, particularly in the macroeconomic aspect, represented in the observance of inflation objectivity, in the budget deficit maintenance within the predicted limits and in the strengthening of the domestic foreign currency position. In addition, the economy sectoral analysis, based on the available data, makes trustful the fulfillment of economic growth objectivity. The economic activity and the observance of economic growth objectivity will be positively influenced by the expected concentration of the government activity for the remaining part of the year, especially towards the capital expenditures and the invigoration of the private sector activity in the second half of the year.

The sales indicator for the first trimester of 2003 represents ameliorations compared to the first trimester of the previous year. Particularly, the sales index performance in the industry sector and in the services sector, show an invigoration of their economic activity. The agricultural sector continues to have a considerable contribution in economy. Agro-industry, one of its main

branches, has recorded positive upward rates. On the other side, the foodstuff price performance in the market and the seasonal factor performance until June 2003, suggest that the agricultural production is expected to maintain the upward predicted levels. During the first four months of 2003, the import and export volume of goods is presented 24 percent higher compared to the same period in the previous year, whereas the direct foreign investments have recorded an increase of 23 percent.

Monetary developments analyzes seems to support the assessment of a positive economy performance during the first half of the year. The economy credit has had a positive performance during 2003. The new credit given during the first five months was Lek 33.1 billion or 1.4 times higher compared to the same period in the previous year. The credit degree increase, though it reflects the efficiency increase and the enlargement of the banking system, is also an indicator of the economy enlargement. The positive credit performance is predicted to continue during all the year 2003, supported by the interest rate overall reduction, the competition increase in the banking system as well as by the increasing number of banks. On the other side, the credit increase offers premises for the enlargement of the banking sector.

The Albanian economy, even during the remaining part of the year, will be faced with challenges, which can influence its growing rate. Some of the main problems mentioned during 2002 and which influenced the slowing down of economy growth, like the problems in the power sector, world economy recession, the aggravated situation of liquidity in the banking system, etc, seem that will act in a more alleviated manner during 2003. Still problematic is the relatively nonsatisfactory level of households and foreign investments, which do

not create a basis for the support of long-term economic growth, the potential problems created by the local government election campaign in autumn of this year, the economic structural reforms performance and investments in the production technology. During the first five months of the year, only 63 percent of the planned capital expenditures are attained, which means that the economy is supported by less public investments. The Albanian economy was also influenced by the oil price fluctuations in the first part of the year, which reflected the conflict performance in Iraq, and from the completely different behavior of Euro-USD exchange rate in international markets and in the domestic market.

Inflation has been continuously within the objective of Bank of Albania. The average inflation has presented a downward trend, reflecting the amelioration of the basic factors, which have an impact on inflation, on monetary aggregates control, on the exchange rate depreciating performance and on the low pressures coming from the economy aggregate demand. Bank of Albania predicts the inflation to remain as such also at year-end, considering the up to date performance of these factors. However, the inflation level has been close to the limit up objectivity of Bank of Albania during May- June. The oil, water and power price rises, are assessed to have had an impact on the annual inflation increase in this period. Also, until April 2003, it is assessed that the highest imported inflation from the main trade partners, has had a considerable influence, which has consequently kept high the foodstuff group prices. These factors have generally acted from the supply direction, making thus the Bank of Albania intervention unnecessary.

The first months of 2003 were characterized by the reestablishment of monetary indicators' equilibrium. The money outside banks level has had a rapid decline, coming close to historical levels of its ratio against money supply. The monetary supply upward rate has been in continuous increase during 2003. Nevertheless, it remains relatively low, as a result of low economy demand for monetary assets. In May, the annual increasing rate of the M3 aggregate was 7.4 percent. The budget deficit financing from the banking system was Lek 4.5 billion until

June, being nearly 50 percent lower compared to the same period in 2002.

Despite the low increasing rate of monetary assets in totality, Lek deposits have had a very rapid increase as a result of return of money outside banks in the 3 system. During the first five months of the year, Lek deposits increased by Lek17.5billion against an increase of only Lek7.7 billion during all 2002. Deposits increase has enabled the system to pass the liquidity lack, and now its liquidity situation is presented as stable. Because of the high real interest rates that resulted from a low inflation in the first half of the year, the money quickly returned in the system.

Bank of Albania has carefully followed its quantity objectives. The net international reserves and the net domestic assets of Bank of Albania have often been within their targets. By the end of June, the international reserves were USD 27 million over their objectivity. Bank of Albania interferences in the foreign currency market have influenced its foreign currency reserves increase. Bank of Albania has been present in the foreign currency market during the first months of the year buying nearly USD 43 million during the first five months of the year. Also, the net domestic assets were Lek 27 billion below their objective in May.

Their high difference from their objective is as a result of the non-financed budget deficit from Bank of Albania and the money outside banks rapid return into the system. Meanwhile, the net government domestic credit level is surpassed in the first two months of the year, but later even this objective was achieved. The net domestic credit in May was Lek 5.3 billion below the objective, as a result of the low government borrowing.

The amelioration of liquidity situation and the monetary aggregates return to the historical levels, the domestic currency performance, the real interest rates performance and other factors led to the conclusion that the monetary policy alleviation was an adequate attitude. This alleviation was attained by means of some measures:

- Base interest rate reduction in April and July, respectively by 0.5 percentage

- points, reducing the interest rates by 1.0 percentage points. In response to the interest rate reduction by Bank of Albania, the banking system has reacted by reducing somewhat more the deposits and credits interest rates in Lek as well as the interest rates required for investments in treasury bills. Such a reaction from the banks was in compliance with the Bank of Albania policy;
- foreign currency purchase in the market.

The further attitude of Bank of Albania depends on the inflation performance and on the intensity of some factors, which have an impact on it:

- budget expenditures concentrations in the second part of the year;
- speculative elements which accompany the elections campaign and the year-end holidays;
- preoccupations connected with the power situation, etc.

These factors are predicted to act very soon from the supply direction. However, Bank of Albania will continue to monitor their activity intensity in order to evaluate the monetary policy suitability and its future attitude.

Thank you
Shkëlqim Cani
Governor

LENDING AND DEPOSITING ACTIVITY OF SECOND-TIER BANKS – NOVEMBER 2002 – MAY 2003.¹

After working on the opinions of the interviewed people and given the performance of indexes set up for the lending and depositing activity indicators, it resulted that:

LENDING ACTIVITY:

- Preference for credit to big business has grown;
- The average level of credit plan realization is about 90 percent, being thus lower than the one of the first half of 2002;
- The negative effect of electric power crisis on the lending activity is reduced;
- Risk of the lending process is considered to have diminished somehow and it is expected to maintain the same level even during the second half;
- The informal market size has shrunk as compared to the previous survey;
- The trade sector remains still the most preferable sector for lending;
- According to the opinions of the interviewed, it is expected:
- Growth of credit activity and particularly credit to business;
- The opinion that credit in foreign currency will increase is more emphasized than that of credit in lek;
- Lek and foreign currency interest rates are expected to fall.

DEPOSIT ACTIVITY:

- Deposit activity is classified as better against the previous six-month period;
- The difference in interest rates between Lek and foreign currency deposits, has spurred the growth of Lek deposits during this period;
- Deposit activity is expected to improve during the next six-month period;
- The specialists expect rise of Lek deposits level, whereas they are not very optimistic on the performance of

- foreign currency deposits;
- Lek deposits interest rates are expected to be stable while there are strong expectations for a downward trend in foreign currency interest rates.
- The Bank of Albania monetary policy during this six-month period has influenced the decision-making of commercial banks in reducing the interest rates of Lek deposits.

INFLATION EXPECTATIONS:

- Inflation is expected to maintain the same levels as during December 2002 – May 2003.

I. ANALYSIS OF LENDING PROCESS INDICATORS.

During this survey, 31 opinions were gathered on the banking system lending activity. About 77 percent of the interviewed in this survey are either managers in various branches or heads of departments. The average experience of the interviewed resulted 4.8 years in credit area.

During the first half of 2003, preference index shows an upward preference for the big business, while it is presented almost at the same levels for the medium and small business, as compared to the second half of 2002.

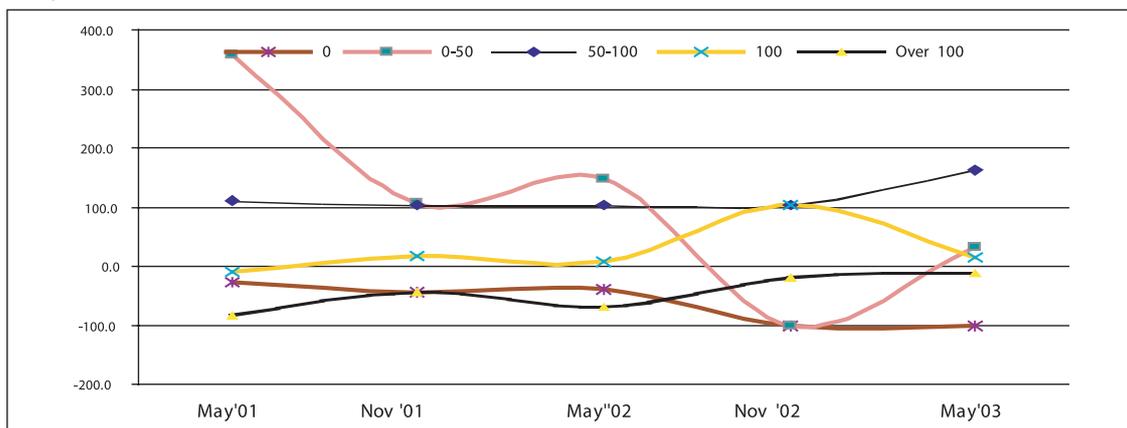
The average level of plan realization was 90 percent, declining by 7 percentage points compared to November 2002 survey. However, there is a significant rise in the average level of plan realization. The increase of credit demand by the business and the improvement of banks' services were emphasized by specialists as factors that have contributed to plan realization and surpassing. Among the reasons that have hindered the plan realization, we could point out problems in the real economy sector, legal restrictions for businesses, difficulties

¹ Klodiana Istrefi, Erjona Suljoti - Monetary Policy department, prepared the paper.

encountered by businesses in covering the required collateral, as well as partial functioning of the mortgage offices. The electric power crisis continues to be considered as a negative factor in lending. Also, the competition growth in lending market makes the plan realization rather

the first half of 2003. The impact of electric power crisis has diminished either in credit demand reduction or in credit repayment. In the future, the banks expect the electric power crisis not to have any impacts on the lending process.

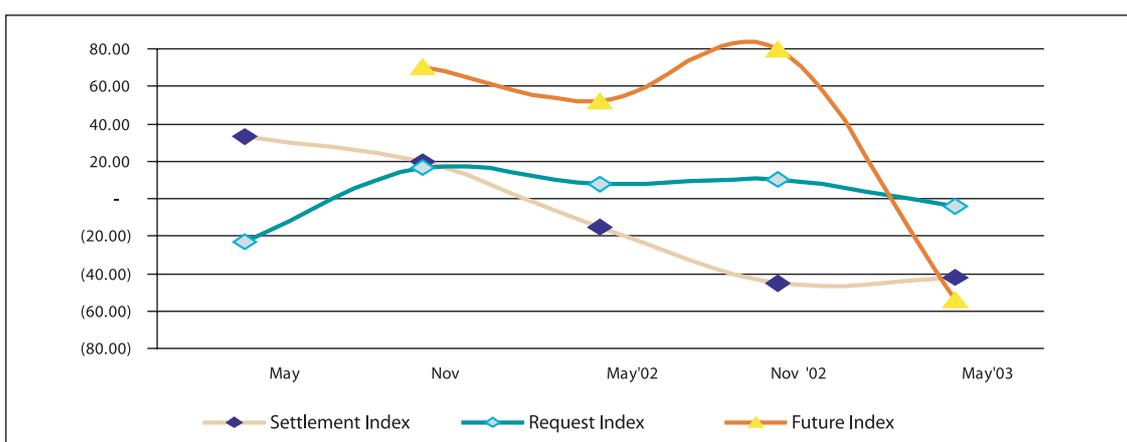
Graph. 1: Performance of credit realization index.



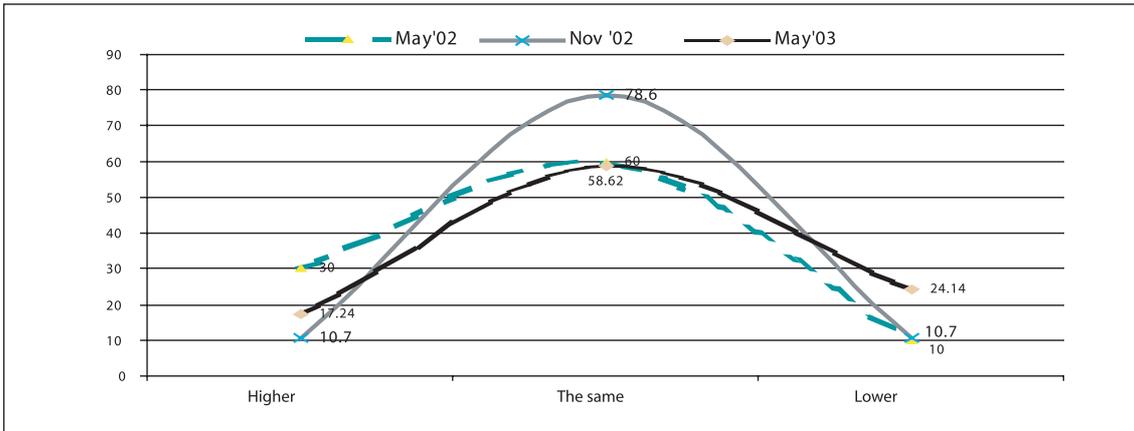
difficult. **The negative effect of crisis is reduced** due to measures taken by Albanian businesses for a normal performance of their activity, as well as due to improved electric power situation during

As expected from the results of the previous survey, the lending process risk is reduced as compared to 6 months ago. According to the opinion of the interviewed, this is due to political and economic stability characterizing

Graph. 2. The electric power crisis impact on the lending process.



Graph.3. Spread of opinions on current risk, in three surveys.



this 6-month period, further consolidation of businesses and the growing experience the banks have in this process.

Nevertheless, it is noticed from the graphic that compared to the previous 6-month period, the number of the interviewed, who refer to a higher risk level, has grown slightly. The ownership problems, the partial functioning of mortgage and execution offices, as well as the imposed tax obligations, are presented as the main factors which might have affected the increase of credit risk.

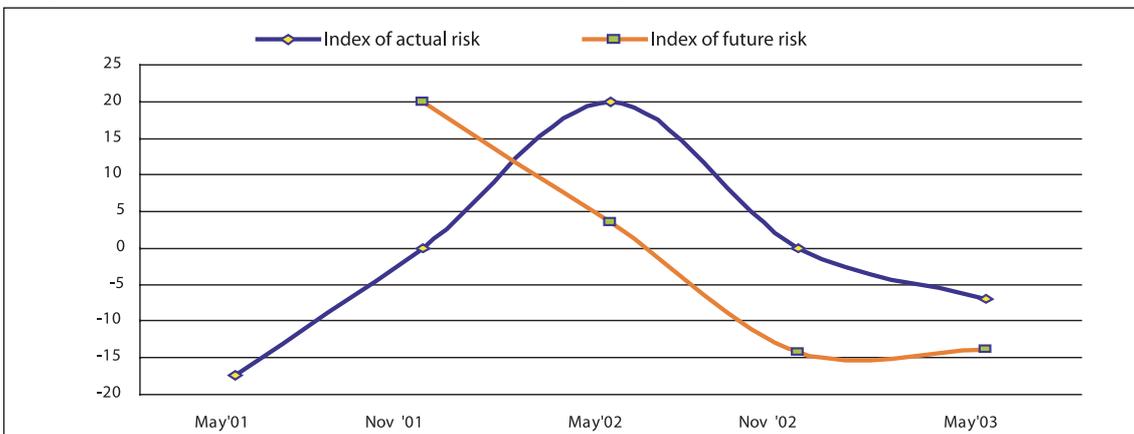
The level of credit risk will remain stable **for the next 6-month period**, as no changes are expected in the political and economic situation of the country. However, the negative figure of the index for this indicator reflects the risk downward trend. This is due to the consolidation of the bank-client relations, the strengthening

of the legal state, and generally the economic and political stability achieved. Whereas the specialists, who hold the view of risk growth, relate this mostly to the growth of political risk because of local government elections.

From the survey, it resulted that **Albanian businesses continue to reflect deficiencies in meeting the terms to receive a loan**. The lack of culture and tradition in client – bank relations, lack of necessary arguments to justify a loan, presentation of unreal balance sheets and other deficiencies are presented as the main problem

The informal market size has undergone a reduction compared to the previous survey. This resulted from the competition growth in the banking system, its further enhancement and the strengthening of the bank-business relations, business awareness on the financial

Graph. 4. Current risk index performance and its expectations.

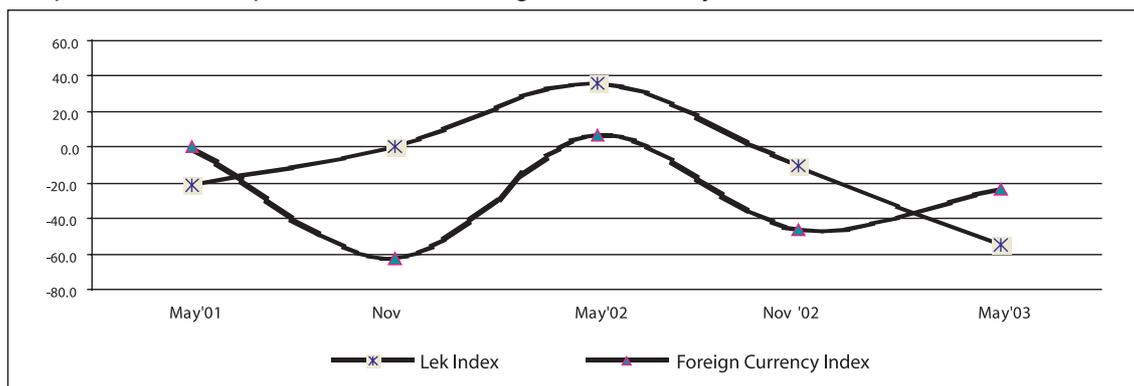


system advantages, interest rate reduction on loans supplied by banking system.

Trade sector is still the most favorable sector for credit, where banks prefer to engage also in the future. Preferences for construction and industry sectors are presented in similar levels.

will not rise in the future. Most of them anticipate a fall in the Lek interest rates. This fact is based on the reduction of core interest rate by the central bank, on the confidence increase in financial institutions, as well as on the promotion of the banking system competition. The interviewed, who anticipate a stable position of Lek interest

Graph. 5. The index performance according to the currency.



The service sector, compared to the same period of the previous year, is not presented in high preference levels, being ranked after the construction and industry sector. Agricultural and transport sectors are still far from bank preferences in the near future.

All the interviewed were optimistic about the future of lending activity in general, where priority will be given to the increase of credit to businesses. Also, it is expected that banks increase their lending activity in the local and foreign currency – however, the increase of the latter one has a greater support.

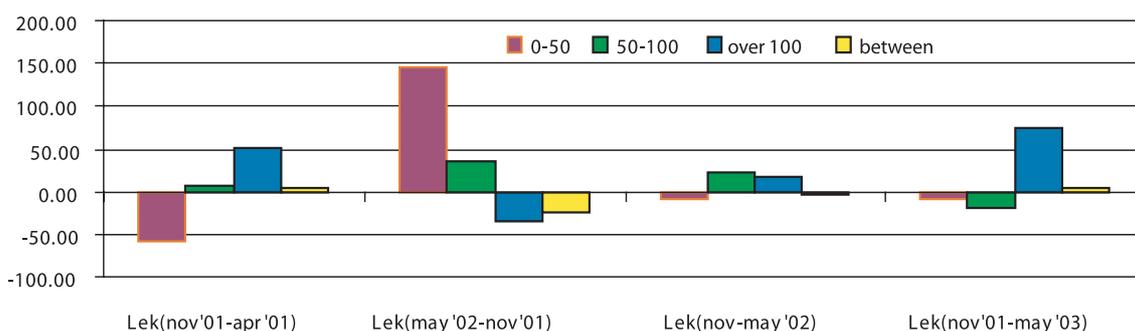
rates, refer to the high credit demand and to a potential hidden inflation.

The negative index figure reflects the expectation for a fall of the *foreign currency interest rates*. However, compared to 6 months ago, the number of people interviewed in this survey, who except the interest rates of foreign currency credit to remain constant, has grown considerably. This performance is affected by the recent developments in international markets.

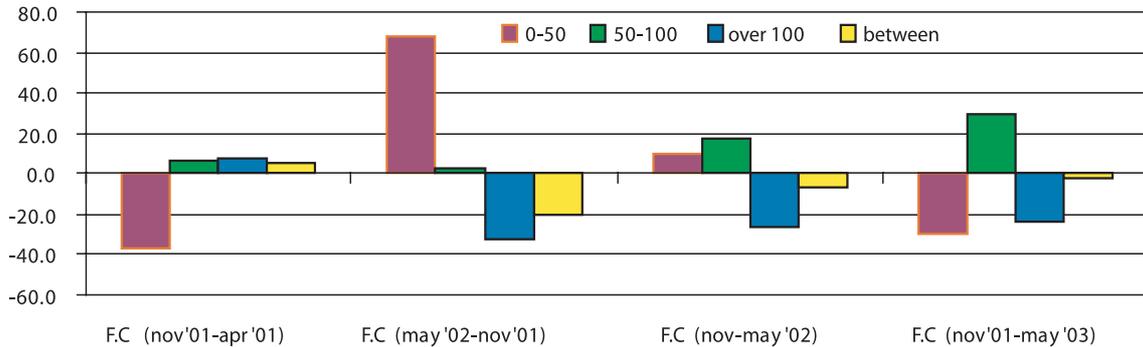
II. ANALYSIS OF DEPOSITORY ACTIVITY INDICATORS

All the interviewed think that *Lek credit interests*

Graph. 6. Performance indexes of target achievement for banking system Lek deposits.



Graph 7. Performance indexes of target achievement for banking system foreign currency deposits.



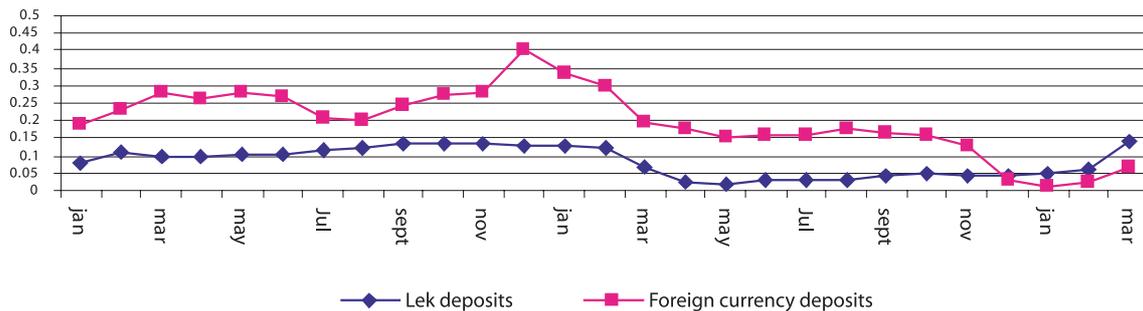
60 specialists from second-tier banks took part in the survey on deposit activity. The responding rate was nearly 92 percent.

Lek deposits targets are achieved at the level of 100 percent, whereas those of foreign currency deposits are achieved within the 50-100 percent range.

For the first half of 2003 the specialists assess

This is based on monetary survey data, according

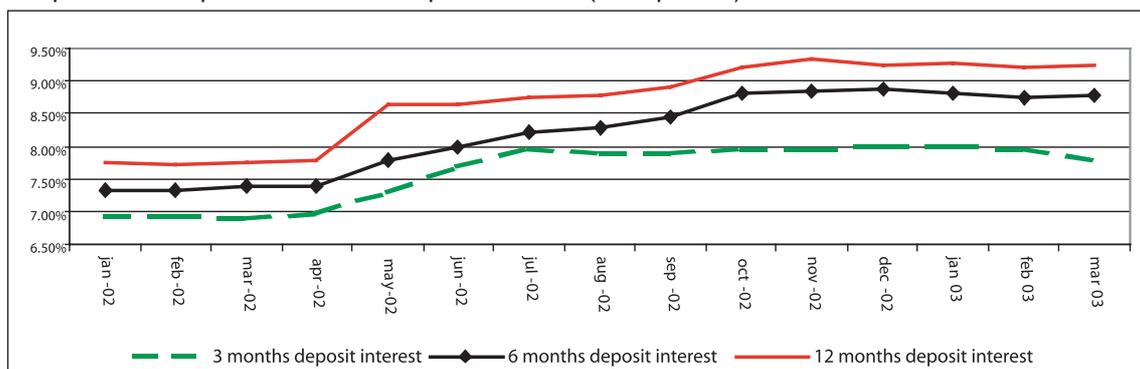
Graph 8. Deposit performance as of January 2001- March 2003 (annual changes).



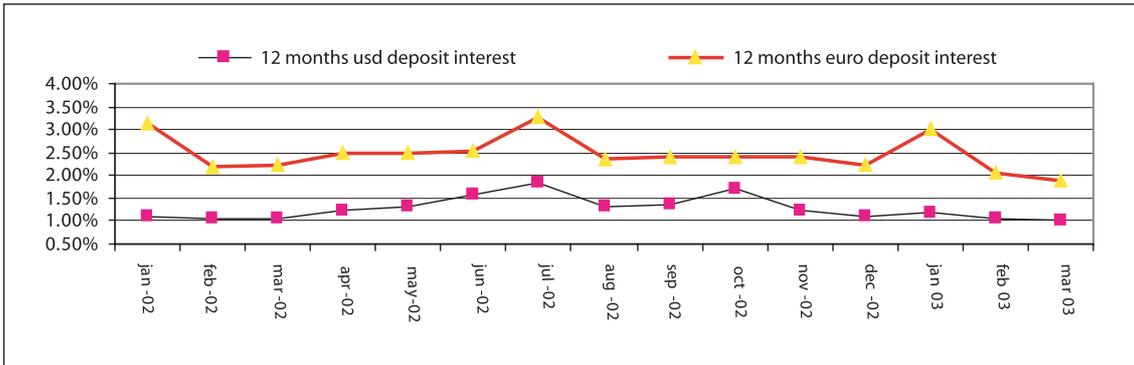
the deposit activity to have a better performance than in second half of 2002.

to which the growing rate of Lek deposits has recorded a rise during the quarter of 2003, whereas a low level of the annual growing rate is

Graph 9: Lek deposit interest rates performance (as reported).



Graphic 10: Foreign currency deposit interest rates performance.

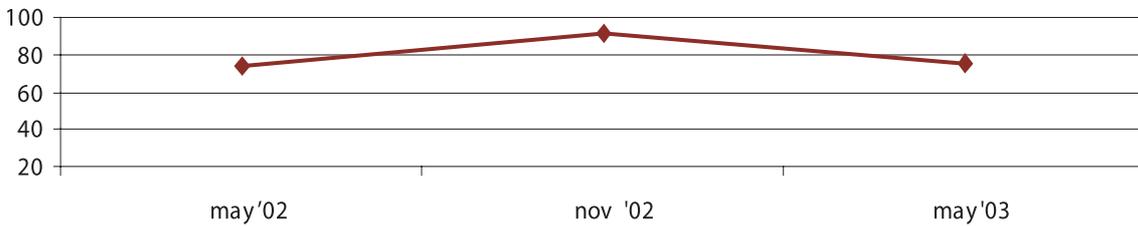


noticed for foreign currency deposits. Such a performance was expected even from the previous survey.

The main factors, which have positively influenced on deposit activity, are the high degree of confidence in the bank, the high service quality as well as the interest rates applied by banks.

results were various. During December 2002 – March 2003, the interest rates of Lek deposits have been in decline. The operative data show that this trend has also continued during April – May, as a response to the smoothing monetary policy of the Bank of Albania in April. The foreign currency deposit rates have also undergone a reduction.

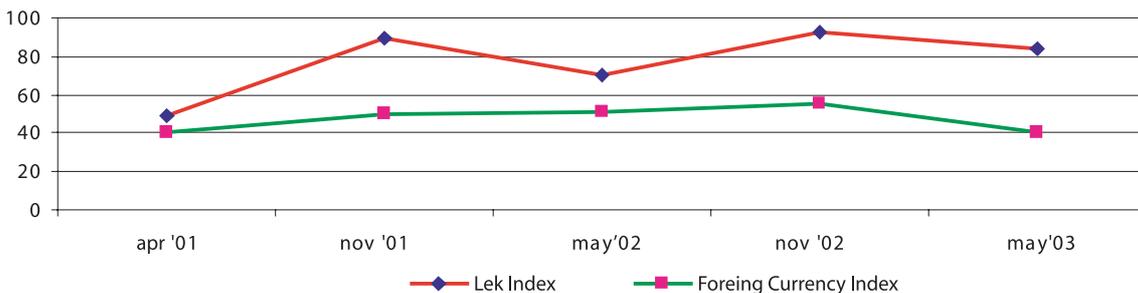
Graph. 11. Confidence index on future deposit activity.



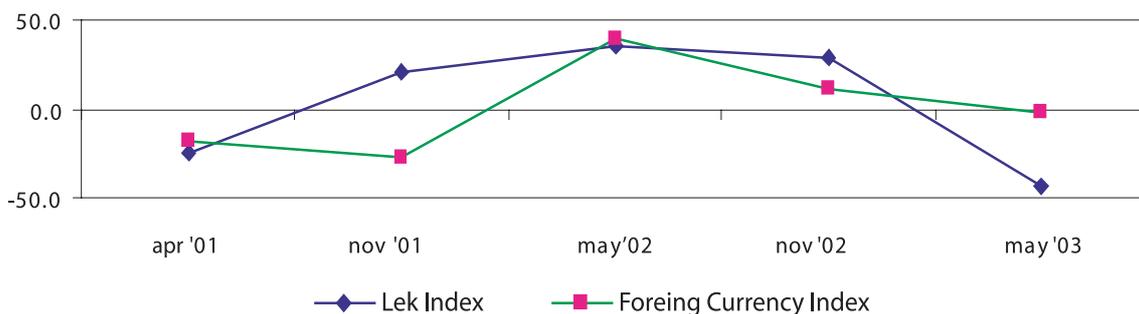
During the previous survey, some of the specialists of second-tier banks forecasted a rise in interest rates of Lek deposits and stability in interest rates of foreign currency deposits. The

Second-tier banks' specialists have generally expressed the view that the performance of the Bank of Albania deposit

Graph. 12. Confidence index on expectations of Lek and foreign currency deposits.



Graph. 13. Confidence index on expectations for interests of Lek and foreign currency deposits.

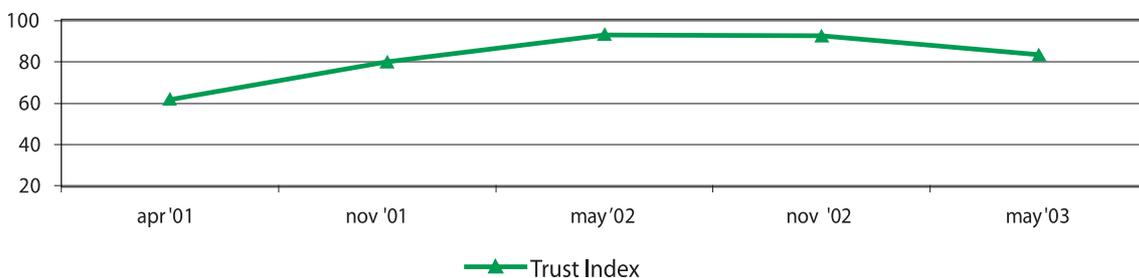


activity during the next six months will be the same as the present one. As far as Lek deposits are concerned, the opinions of specialists are spread equally between a higher and a constant growing rate of these deposits.

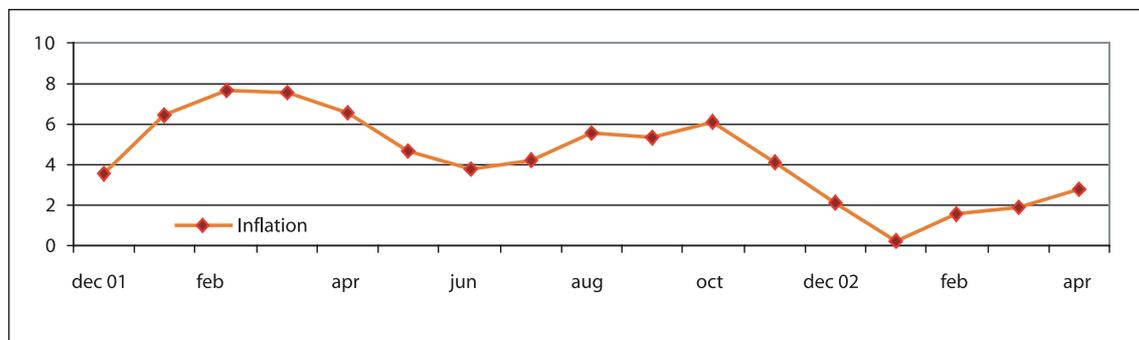
The general opinion expressed on the anticipated performance of foreign currency deposits is positive. Nevertheless, there are specialists who think that during the next 6 months there will be declines in these deposits.

The interviewed do not expect a rise of Lek deposit interest rates for the next 6 months. This might be due to the fact that the poll period corresponded to the period when all the banks had changed the Lek deposit interest rates in response to the Bank of Albania decision to

Graph. 14. Bank of Albania policy impact on deposit preference (in %).

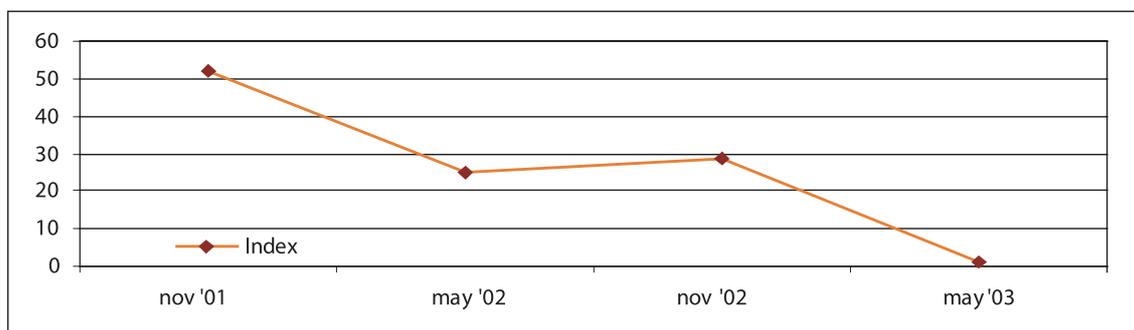


Graph. 15. Actual inflation performance until April 2003 (annual changes).



² The confidence index of monetary policy represents the confidence of specialists on Bank of Albania monetary policy influence on second-tier banks' decision-making process.

Graph. 16. Confidence index on inflation expectations during next six months.



reduce the Repo rate. The expectations on interest rates of foreign currency deposits are about their stability.

Among main factors, which will affect Lek deposit interest rates, will continue to be the central bank policy through Repo auctions and the inflation rate performance.

The confidence index² of monetary policy was also positive for the first half of 2003.

The level of interests in Repo auctions and the Bank of Albania interventions to regulate the market deformations are seen as efficient means that influence the banking system decisions.

III. INFLATION AND ITS EXPECTATIONS

The expectations of the interviewed bankers in the November 2002 survey on inflation

performance resulted appreciated. They assessed that inflation would remain in the levels of the previous six-month period. According to the actual data until May 2003, inflation has been at lower rates than those of June – November 2002 period.

About 48.8 percent of the interviewed foresee that inflation of the next six months will remain in the same levels as the current ones.

The rest of the opinions stands, almost equally, between fall and rise inflation expectancies.

According to bankers' opinion, the entry of agricultural production, the domestic currency appreciation and the Bank of Albania policy would maintain inflation at lower rates, while the local government elections, associated with increase of budget expenditures, electric power problems, as well as previous years experience are all expected to create premises for inflation rate rise.

MAIN NEWS

APRIL-JUNE 2003

**MEETINGS WITH INTERNATIONAL MONETARY FUND
EU1 SPRING MISSION**

(I) FIRST DEPUTY GOVERNOR MEETS IMF EU 1 MISSION

The first deputy governor of the Bank of Albania, Mr. Fatos Ibrahimi and the Bank of Albania directors held the first introductory meeting with the EU 1 Mission of the International Monetary Fund (IMF) on 14th April, under the framework of the PRGF. The resident representative of the IMF in Albania, Mr. Jan-Peter Olters, who held various meetings at the Bank of Albania on the occasion of the two-week visit 14-28 April 2003, headed the mission.

The main issues of the meeting were the developments of main macroeconomic indicators and forecasts until the end of 2003; the budget deficit development and performance; developments in foreign sector of economy and monetary policy.

Speaking about the main developments in Albanian economy during the previous year, Mr. Ibrahimi pointed out that the macroeconomic indicators were within the anticipations. Thus, the annual inflation of 2,1 percent was within the 2-4 percent BoA targeted range, the GDP growth was by 4.7 percent, the exchange rate was relatively stable with a depreciating trend against Euro and appreciating trend against USD.

As far as developments in the foreign sector are concerned, Mr. Ibrahimi said that there has been a decline of foreign direct investments during the previous year as a result of not fulfilling the forecasted income on privatization, increase of the trade deficit and growth of tourism income.

(II) GOVERNOR MEETS THE IMF MISSION

The Bank of Albania Governor, Mr. Shkëlqim Cani, attended in a meeting on 18th April 2003, the EU 1 Mission of the International Monetary Fund, headed by Mr. Hossein Samiei, who was also accompanied by Mr. Jan-Peter Olters, the resident representative of IMF in Albania. The meeting focused on the anticipated developments of the situation and on the macroeconomic indicators as: economic growth, exchange rate and inflation, privatization of the Savings Bank and various aspects of monetary policy.

The speakers shared the same opinion on the fact that the macroeconomic situation is generally stabilized and the main macroeconomic indicators are estimated to develop according to anticipations of year-start 2003, as no potential factors, which might significantly affect the opposite, are noticed.

According to the Governor, "the Bank of Albania target concerning inflation is to keep the rate between the 2-4 percent range, and despite the impact on the negative or positive side of potential factors, we hope to keep to the target; the average annual inflation is estimated to be about 3 percent."

"As far as economic growth is concerned, -the Governor stated that we keep to the initial assessment made with the Government and the Ministry of Finance for an economic growth of about 6 percent. Factors that influenced the non-meeting of the same objective last year are not considered as evident problems during the first four months of the current year, so the increase of GDP by 6 percent will probably remain a target in 2003".

"The exchange rate is considered as stable during 2003, -stated the Governor, - and it is

not expected to have any significant effects over the estimated inflation rate”.

(III) GOVERNOR HOLDS A FINAL MEETING WITH THE MISSION

On 28th April, the Governor, Mr. Shkëlqim Cani, and Bank of Albania managers, had a final meeting with the IMF Mission that visited Albania during 14-28 April 2003. The mission was headed by Mr. Hossein Samiei, who was accompanied also by Mr. Jan-Peter Olters, resident representative of IMF in Albania.

The Mission aimed at attending closely the fulfillment of commitments undertaken by Albanian counterpart, in the framework of the Memorandum on Economic and Financial Policies between the IMF and the Republic of Albania, under the three-year program of PRGF. During the meetings of the Bank of Albania managers with experts of the Mission, the main issues of the discussions were about developments in main macroeconomic indicators, developments in monetary policy, primary treasury bill market, developments in the banking sector and the real Bank of Albania independence.

The Governor introduced the Mission with the latest decision of the Bank of Albania Supervisory Council on the reduction of the fixed interest rate by 0.5 percent.

The reasons of the Supervisory Council decision, according to Mr. Cani, related to the following arguments:

- The annual inflation rate in March was 1.9 percent.
- The average annual inflation rate was 3.85 percent, thus being below the 4 percent targeted upper limit.
- Inflation is expected to decline in the next quarter.
- There is further improvement of monetary aggregates performance, liquidity situation, rapid return of money outside banks into the system, Lek deposits increase, etc.

Mr. Samiei stated that the reduction of REPO interest rates by the Bank of Albania was

welcomed by the IMF and was confirm to inflationary developments. According to him, all the forecasted targets on inflation indicators, budget deficit and quantitative indicators, are estimated to be attainable and appropriate with one another, and that is why there is an ongoing understanding between IMF and the Bank of Albania.

As far as the banking system is concerned, the speakers shared the opinion that the right path is being followed for restructuring process of the Savings Bank and diminishing the domination of this bank in the banking market before privatization.

GOVERNOR IN THE SPRING MEETINGS WITH THE IMF AND WB

The Governor of the Bank of Albania, Mr. Shkëlqim Cani, in the framework of the International Monetary Fund and World Bank Spring Meeting, had an official visit to the United States of America during 8-13 April 2003. The Governor had various meetings with high authorities of the above-mentioned institutions and with representatives of other institutions, such as the Federal Reserve and the Financial Service Volunteer Corps (FSVC). The first meeting, held on 8th April in the headquarters of FSVC in New York with the executive director, Mr. Andrew Spindler, focused greatly on the long established relations between the two institutions.

On 10th April, the Governor took part in the “Transformation of public sector banks” conference, in the focus of which was the exchange of the best practices on the treatment the authorities should give to the public segment of the banking system. The referees and experts of the WB argued and supported the idea that the privatization of banks with state capital is the best and most successful alternative to ensure a financially sound banking system, able to support economic development in the country. In the meeting with the Vice President and Member of the Governors` Board of the Federal Reserve - Mr. Ferguson, they discussed about the present economic situation in Albania. Mr. Ferguson expressed his interest in the macroeconomic performance of the country as well as in the structural reforms undertaken in Albania. He expressed his appreciation for the

macroeconomic stability that has characterized Albanian economy in these recent years, especially in the stability characterizing the consumption prices and exchange rate performance.

During 11-13 April 2003, Mr. Cani had frequent meetings with high authorities of the IMF and the WB, where we would point out the meetings with Mr. Franco Passacantando, executive director of the World Bank for the Southeast Europe, Mr. Pier-Carlo Padoan, executive director of the IMF, Mr. Michael Deppler, director of the EU1 Department in IMF, Ms. Carol Carson, director of Statistics in IMF, Mr. Alfredo Leone vice director of the MAE Department in the IMF, Mr. Paul Hillbers, IMF representative of the MAE Mission.

In these meetings, there were treated important issues of the present economic-financial development in the country, which briefly focused on macroeconomic situation in Albania, performance of the reforms and commitments undertaken by Albanian authorities in the framework of mid-term program in the development of the country, monetary policy and the future approach towards the interest rate and the exchange rate performance.

THE GOVERNOR MEETS THE AMBASSADORS OF THE USA

The Governor of the Bank of Albania, Mr. Cani, met the Ambassador of the USA in Croatia, Mr. Lawrence G Rossin and the Vice Ambassador of the USA in Tirana, Ms Elisabeth Shelton on 29th April.

The ambassador Rossin said that since his last visit in our country, he gladly noticed that Albania had generally made progress and moreover it had an ameliorated political climate for economic development in general. The participants shared the same opinion that the economic growth of 4.7 percent in the last year, though below the target of 6 percent, gives clear signals that Albanian economy is progressing, albeit the poverty problems as in every developing countries.

As far as the estimations for 2003 are concerned, the Governor stated that there are possibilities and arguments to achieve an

economic growth of 6 percent, but more care should be taken in improving the power situation, since despite the reform undertaken and the improvement of the situation compared to the previous year, the power supply should be increased for businesses even during winter. As far as the agricultural reform is concerned, which plays an important role in GDP, Mr. Cani said that it should be worked to create conditions for developing the purchase-sale land market, in order to create the necessary collateral, so that banks approach credit even in this important sector of domestic economy. Then the Governor gave a brief description of the main banking system developments, emphasizing the growing number of banks and their affiliates, the improvement of the banking services, increasing the credit to business each year, reducing the dominating position of the Savings Bank and restructuring its process before the privatization, etc.

GOVERNOR MEETS THE DIRECTORS OF COMMERCIAL BANKS

The Bank of Albania Governor, Mr. Shkëlqim Cani, had a meeting with the general directors of second-tier banks operating in Albania. The main aim of this meeting was exchanging ideas referring to a range of subjects on the recent decisions made by the Bank of Albania in relation to monetary policy and further development of the banking system and economy in Albania.

Discussing on the monetary situation, the Governor underlined the fact that the Bank of Albania believes that the problems caused in the previous year by the deposits withdrawal from the Savings Bank and the National Commercial Bank were recuperated. The overcoming of this situation has also affected the improvement of liquidity situation and other monetary indicators”.

Inflation was kept under control and its performance during the first four months of the year is in accordance with what was forecasted by the Bank of Albania.

Later, Mr. Cani declared to the banks’ directors that there are no pressures in the international market on increasing the interest rates, and all these factors influenced on the decision to

reduce the interest rate by 0.5 percentage points.

In the name of the Bank of Albania, the Governor required from second-tier banks to timely react on this last decision made by the Supervisory Council, while the Bank of Albania is reflecting whether there exist premises for further “attenuation” of monetary policy in the future.

“Cash” reduction in economy was one of the most discussed issues in the meeting. Governor Cani said that it is just the time to undertake a number of common measures in reducing “cash” in Albanian economy. In this process - said he - the Bank of Albania suggests that the fiscal authorities (taxations and customs) force all the subjects (either public or private) to effect through the banking system all their payments towards them, for amounts exceeding a certain limit.

The bank of Albania- explained he- is working on the ways to eliminate “cash” in economy, and apart from welcoming all the suggestions from commercial banks and the business community, it would like them to be counterparts in this important process of economic-financial development of the country.

The representatives of second-tier banks expressed their willingness in being part of the working team set up by the Bank of Albania for this purpose, undertaking the necessary steps towards the perfection of the banking system, aiming at their channeling into the banking system.

Another issue discussed in the meeting with managers of the banks was also the capital account liberalization. Governor Cani addressed the second- tier banks the message on the beginning of the capital account liberalization process, in accordance with the commitments undertaken by Albania in the negotiations with World Trade Organization and with the European Union. The Governor exchanged opinions with the managers of commercial banks on the time of implementation, respective commitments and effects of capital account liberalization.

The minimal capital to be paid by banks was another topic of discussion. The Bank of Albania

is preparing a research on establishing an optimal capital amount paid up in opening a bank. The interlocutors shared the same opinion that the banking system situation is assessed as relatively sound, the banking system is presented in surplus, the credit level is always going upward, bad loans are going downward and there are no threats to Albanian banking system.

THE GOVERNOR HELD LECTURES TO STUDENTS OF GJIROKASTRA

“The macroeconomic stability and the role of the Central Bank” was the topic of the lecture held by the Bank of Albania Governor to students of Economic Faculty, “Eqerem Cabej” University in Gjikastër, on 9th May 2003. The Governor said that in the process of economic development of a country, the institutions drafting and implementing a country’s economic policy often put their emphasis on achieving and maintaining this stability, which is a constant priority in their work. All this process, called “educating the public” in the language of institutions, has made the macroeconomic situation be regarded as an objective of undisputable importance”. However, said he, the economic reasoning makes us aware of one thing: the welfare of a country and its growing rate depend on economic growth. Speaking about economic development, Mr. Cani stated: “development is an economic growth situation of a country”, implying the production growth and the reduction of unemployment. The economic growth of a country is reflected through GDP growth, which is a synthetic indicator measuring the production and income level generated from the residents of an economy. It is clear that production growth, excluding extreme situations of technological revolutions, is followed by employment growth and unemployment decline.

IMPLEMENTATION OF RTGS PROJECT BEGINS

The official introductory ceremony on the initiation of “The implementation of the RTGS System – Inter-bank Payment System” project was held at the Bank of Albania premises, on 20th May 2003. The Bank of Albania Governor, Mr. Shkëlqim Cani, stated in the opening speech that “the setting up of this system is one of the steps undertaken by the Bank of Albania in the process of intensifying financial reforms in

Albania, strengthening the stability and increasing the efficiency of the financial sector in general and the banking one in particular. The system is based on the best international standards and practices, and the main effect is considered to be the qualitative enlargement of operational capacities for an efficient and safe exchange of monetary values. This enlargement will lead to the increase of domestic and foreign users' confidence in the capacity and stability of Albanian banking system". The main argument for setting up this system was that the present inter-bank and large value payment system in Albania is characterized by a high operational cost, long time in elaborating and finalizing the payment instruments.

Speaking about the objectives of RTGS project implementation, the Governor pointed out the eventual improvements in banking system, such as: the immediate settlement of large amount payments; creating facilities in increasing the daily liquidity administration efficiency from banks; reducing the banking system risk and building up a sound infrastructure to further encourage the developments of financial markets, thus enabling a more efficient monetary policy transmission.

During the ceremony, brief speeches were held by Mr. Eugen Scanteie, Chief of the Mission and Resident Representative of World Bank in Albania and by the Vice President of the Montran Company, Mr. Charles P. Walsh. Managers of Commercial Banks, Economic Parliamentary Committee, World Bank Mission in Albania, International Monetary Fund Mission, American Embassy in Tirana, etc., were also present in the project introduction ceremony.

GOVERNOR MEETS WORLD BANK REPRESENTATIVES

The Bank of Albania Governor Mr. Shkëlqim Cani had a meeting with the new-elected director of World Bank for the Southeast Europe, Ms. Orsalia Kalantzopoulos, with the accompanying delegation and Mr. Eugen Scantie, resident representative of the World Bank in Albania, on 27th May 2003. The meeting had an introductory nature on the World Bank projects mainly with the Bank of Albania. It also focused on some problems and commitments in the framework of the agreement on financial sector reform, where the Bank of Albania is

directly or indirectly committed in.

A discussion point was also the requirement of Albanian authorities for a thorough assessment of the financial sector in Albania by the WB and IMF expert team. In this framework, Mr. Cani stated that Albanian authorities had theoretically agreed to accept and stimulate such an assessment. The Bank of Albania has done a part of the self-assessment of the banking system. The representatives of the WB underlined that such a process is useful and requires the specialized expertise and human resources and certainly the proper time. In coordination with the IMF experts, once they have taken the official request of the Albanian authorities, they will consider every possibility in fulfilling this assessment.

The issue of preventing money laundering was another discussion point, where Mr. Cani stressed that the directly responsible authority is the Ministry of Finance, though this issue is continuously in the Bank of Albania focus, which supports its own work based on the act "On preventing money laundering", on the instruction based on this act and on the regulation "On the foreign exchange activity".

The representatives of the WB were already aware of the fact that most of the remittances (revenues from emigrants) are performed at a high cost outside the banking system, when this money could be channeled through the banking system.

The banking sector privatization, as part of the obligation and provision of Albanian Government on the third tranche disbursement possibility in the framework of the WB agreement, was another issue of focus.

GOVERNOR MEETS AGAIN THE SECOND-TIER BANKS' MANAGERS

The Bank of Albania Governor, Mr. Shkëlqim Cani had a meeting with the directors of second-tier banks operating in Albania, on 9th June. The main aim of the meeting was exchanging ideas and taking opinions from directors of commercial banks concerning the Bank of Albania Monetary Policy, reduction of "cash" in economy, capital account liberalization, minimal capital required for licensing banks and establishment of Credit Information Bureaus.

The second-tier banks' directors, estimated the frequent meetings organized by the Bank of Albania and concluded that Bank of Albania monetary policy is appropriate, stating that their reaction was generally in line with the decisions taken by the Central Bank. The interlocutors shared the same opinion, indicating that the present level of interest rate is appropriate for financial market developments.

As far as the reduction of "cash" in economy is concerned, after having studied thoroughly the respective research by BoA, Governor Cani, submitted a proposal to bankers on carrying out a common campaign between the Bank of Albania and the Bankers' Association for "Reducing CASH in economy". The campaign, which is going to be undertaken in several stages, will aim at making the public aware to put money in the banking system. On the other side, the fiscal authorities will not allow payments in cash from public and private subjects for sums exceeding a fixed limit, with the intention of channeling them through the banking system. The banks' directors agreed totally with the suggestion of Mr. Cani, and very soon a common working team will be set up in establishing the objectives and real steps of the Operational Plan, which will mainly include: public and authorities awareness of "cash" reduction in economy, increase of banks' affiliates and services (following a more flexible policy towards ATM and commission reduction), obligation to channel the payments of large public agencies and business companies, etc, exceeding a fixed limit, through the banking system.

GOVERNOR MEETS THE CHIEF OF THE MONITORING EU MISSION OFFICE

On 11th June the Bank of Albania Governor, Mr. Shkëlqim Cain met the chief of the Monitoring EU Mission, Ms. Victoria Walker. The main subject of the meeting was about the main economic developments in Albania and the Bank of Albania predictions of future developments in domestic economy. The Governor said at the beginning of his speech that in the previous year, Albanian economy had an increase of GDP by 4.7 percent and the inflation rate was within the targeted range of 2.1 percent. This inflation rate is estimated as relatively low compared to the other countries

of Southeast European region. The Lek/Euro and Lek/USD exchange rates have basically been stable, whereas the budget deficit/GDP ratio has been going downward. The first months of 2003- went on Mr. Cani – recorded low inflation rates and that is why the Supervisory Council of the Bank of Albania, decide to reduce the interest rates by 0.5 percentage points on 23rd April 2003. As far as the banking system is concerned-said the Governor- an increase of the banking competition is noticed in the recent years, due to the rise of the number of banks' branches, licensing of new banks, increase of services and what is more evident, the growth of aggressiveness in lending to private business. During the meeting, Mr. Cani introduced Ms. Walker with the main focus of the Bank of Albania in the coming months, highlighting the near campaign on cash reduction in Albanian economy, a campaign which will be organised in co-operation with Albanian Bankers' Association and which will focus on public education, reduction of banks' commissions, and reduction of cash transactions exceeding a fixed limit.

Ms. Walker thanked the Governor for the meeting and she stated that the EU Monitoring Mission appreciates the work and the role of the Bank of Albania in economic development of Albania.

GOVERNOR MEETS CITIGROUP REPRESENTATIVES

On the 18th June 2003 the Bank of Albania Governor, Mr. Shkelqim Cani held a meeting with a "Citigroup" delegation consisting of Mr. Guy Harrington, Chief of Developing Markets and Mr. David Ludlow, Chief of Financial Corporation and Banking Investments of the European Investment Bank in the Central-east Europe.

The main topics of the meetings were the Albania's economic developments in general and the financial and banking sector in particular. The Governor said that the macroeconomic indicators in Albania present a stable macroeconomic development, low inflation within the central bank targets, budget deficit under control, etc. As far as the banking system is concerned, Mr. Cani pointed out the banking competition growth, due to the increase

of the number of banks and their branches in the main cities of the country, and most important the inclusion of the Savings Bank, which holds 52 percent of the banking market, in the process of privatization. Concerning this point, Mr. Harrington said that "Citigroup" might be interested in assisting the Savings Bank management before the privatization process. The Governor said that the privatization of the Savings Bank shall be performed by an open international bid, where all the foreign banks fulfilling the terms of participation, are welcomed to present their interest.

GOVERNOR MEETS AAEF REPRESENTATIVES

The Bank of Albania Governor, Mr. Shkëlqim Cani had a meeting with a delegation of Albanian American Enterprise Fund on 18th June. The delegation consisted of Mr. Michael D.Granoff,

Head of the Directing Board, Mr.Domenick G.Scaglione, Honor President and Mr.Lorenzo Roncari, executive director of American Bank of Albania, where the Fond is representative of the shareholder of this bank. The talk was mainly focused on the developments in the banking sector in Albania and on the activity of the American Bank of Albania. The Governor said that the banking system is facing new developments towards the activity enlargement, growth of banking services and competition and that the Bank of Albania has intensified contacts with second-tier banks in the function of monetary policy discussion and the solution of various matters problematic to the banking sector.

Mr. Granoff said that American Bank of Albania will soon open two new branches in respect to its net enlargement and aggressiveness growth to extend its market.

LEGAL EVENTS

SUPERVISORY COUNCIL DECISION NO. 17, DATE 10.1.2003

On some amendments and alterations in the National Employment Service Statute, approved with decision no. 42, date 17.1.1998 by the Council of Ministers "On Approving the National Employment Service Statute". The statute has undergone some alterations in formulation and some amendments in the "Duties and responsibilities of the regional and national employment offices".

THE COUNCIL OF MINISTERS DECISION NO. 26, DATE 16.1.2003

On an amendment in the decision no. 602, date 2.11.2001 of the Council of Ministers "On electric power ceiling prices, for family and non-family users".

According to this decision, the electric power prices are subject to change for "family users", "special users" and "other users".

THE COUNCIL OF MINISTERS DECISION NO. 49, DATE 23.1.2003

On approving the agreement between the Government of the Republic of Albania and the Ukraine Government, on mutual promotion and protection of investments.

THE COUNCIL OF MINISTERS DECISION NO. 50, DATE 23.1.2003

On approving the agreement between the Government of the Republic of Albania and the Ukraine Government on economic and commercial co-operation.

THE COUNCIL OF MINISTERS DECISION NO. 51, DATE 23.1.2003

On approving the agreement between the Council of Ministers of the Republic of Albania and the Federal Government of the Federal

Republic of Yugoslavia on mutual promotion and protection of investments.

THE COUNCIL OF MINISTERS DECISION NO. 53, DATE 23.1.2003

On approving the agreement between the Republic of Albania Government and the Government of the Republic of Italy on cooperation in tourism area.

THE BANK OF ALBANIA REGULATION

On bank's authorized accounting experts. Includes, "General provisions", "Required documentation", "The approval or disapproval of accounting experts", "Examination of financial reports", "Opinion of the authorized accounting expert", "Evaluation of financial statements of a specific character", "Other examination procedures" and "Final procedures".

ACT NO. 8999, DATE 30.1.2003

On an amendment in the act no.8449, date 27.1.1999 "The customs code of the Republic of Albania", amended by the act no.8473, date 14.4.1999. The amendment relates to the Duty Free Shops.

MINISTRY OF FINANCE GUIDELINE. NO.2, DATE 8.1.2003

On the taxation system in the Republic of Albania.

Guideline on tax collection, payment methods and relevant tax collectors.

MINISTRY OF FINANCE GUIDELINE NO.3, DATE 27.1.2003

On simplified income tax.

It has to do with "simplified income tax on the taxpayers not registered or forced by law to register on the VAT". It also relates to

registration, declaration, keeping records, issuing the sale documents, taxation control, verification, as well as payment.

MINISTRY OF FINANCE GUIDELINE

On national tax to small business. It relates to tax management, its level. Establishing the business location, registration requirements and tax payment.

ACT NO. 9001, DATE 6.2.2003

On the ratification of "Regional operation program "CARDS 2002" between the Republic of Albania Government and the European Community Commission".

ACT NO. 9002, DATE 6.2.2003

On the ratification of the financial Agreement between the Republic of Albania Government and the European Community Commission, on the occasion of "CARDS 2002".

ACT NO. 9011, DATE 20.2.2003

On the ratification of the loan, finance and project Agreement between the Republic of Albania, Albanian Development Fund and KfW on the "Social investment fund, II project".

ACT NO. 9012, DATE 20.2.2003

On the ratification of the "Agreement between the Government of the Republic of Albania and the Government of the Federal Republic of Germany for financial co-operation on the "Social investment fund, ADF II" project".

ACT NO. 9013, DATE 20.2.2003

On the ratification of "Supplementary Agreement of Loan and Project between the Republic of Albania, Albanian Electro-Energetic Corporation and KfW on "Electric power supply in the South Albania" project".

ACT NO. 9023, DATE 6.3 2003

On establishing Export Promotion Agency (EPA).

It ratifies the creation of this agency, organization, functioning and its activity.

Bank of Albania regulation approved by decision no. 15, date 26.2.2003.

"On procurement of commodities, services and constructions at the Bank of Albania". The regulation establishes rules on procurement of commodities, services and constructions at the Bank of Albania.

ACT NO. 9036 DATE 27.3.2003

"On the ratification of "Convention between the Government of the Republic of Albania and the Government of the Republic of Moldavia on avoiding double taxation and preventing fiscal evasion of income and capital taxation".

ACT NO. 9041, DATE 27.3.2003

On an amendment to act no.8976, date 12.12.2002 "On the Excises".

ACT NO. 9042, DATE 3.4.2003

On the ratification of the "Loan, Finance Agreement and "Water supply, Kavaja II, Manskuria" project, between the Republic of Albania and the German Bank for Reconstruction and Development (KfW)".

ACT NO. 9043, DATE 3.4 2003

On the ratification of the "Loan, Finance Agreement and "Water supply in Central Albania, components Berat and Kuçovë" project between the Republic of Albania and the German Bank for Reconstruction and Development (KfW)".

ACT NO. 9044, DATE 3.4 2003

On the ratification of the "Loan, Finance Agreement and "Water supply in Central Albania, component Lushnjë" project between the Republic of Albania and the German Bank for Reconstruction and Development (KfW)".

ACT NO. 9050, DATE 17.4.2003

On the ratification of "Free Trade Agreement between the Republic of Albania and Romania".

The Bank of Albania regulation Decision no.33, date 23.4.2003

It determines the procedure on selling depreciated items at the Bank of Albania, aiming at income realization in Bank of Albania favor.

ACT NO. 9051, DATE 17.4.2003

On the ratification of "Convention between the Republic of Albania and the Kingdom of Belgium in avoiding double taxation on income and capital taxations and in preventing fiscal evasion".

ACT NO.9054, DATE 24.4.2003

On the ratification of the "Convention between the Republic of Albania and the Republic of France in avoiding double taxation on income and capital taxations and in preventing fiscal evasion".

DECISION OF THE COUNCIL OF MINISTERS NO.276, DATE 8.5.2003

On approving the development policy paper, for the second stage of credit, in support of the National Strategy on Economic and Social Development (NSED).

BANK OF ALBANIA
30 JUNE 2003

SUPERVISORY COUNCIL

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

GRAMOZ KOLASI - Chief of the cabinet

DEPUTY GOVERNOR

FATOS IBRAHIMI - First deputy governor
DHAME PITE - suspended - Second deputy governor

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RESEARCH - Ms. Teuta Baleta
MONETARY OPERATIONS - Mr. Marjan Gjermani
BANKING SUPERVISION - Mr. Eris Sharxhi (v/d)
ISSUING - Mr. Kamber Myftari
ACCOUNTING AND PAYMENTS - Mr. Llazi Balliu
TECHNOLOGY AND INFORMATION - Mr. Sokol Qeraxhiu
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LOGISTIC SERVICES - Ms. Doloreza Arapi
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GENERAL AUDITOR INSPECTOR

Ms. ELSA BIZHGA

BRANCHES

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Elbasani - Mr. Bujar Vyshka
Gjirokastra - Ms. Anila Thomaj
Korça - Ms. Liljana Zjari
Lushnja - Ms. Shpresa Meço

LIST OF ALL SUBJECTS LICENSED BY THE BANK OF ALBANIA

BANKS AND BRANCHES OF FOREIGN BANKS

1. ITALIAN - ALBANIAN BANK

Licence No. 1/1996, dated 17.07.1998.

Approved with the Supervisory Council Decision No. 89, dated 18.06.1998.

Director: Adrian FULLANI

Address: Rruga "Barrikadave", No. 70, Tirana - Albania

Tel.: 356 97, 356 98, 262 62

Fax: 330 34

2. SAVINGS BANK

Licence No. 2/1998, dated 11.01.1999.

Approved with the Supervisory Council Decision No. 163, dated 11.12.1998, Certificate No.2, "On Deposit Insurance"

Director: Edvin LIBOHOVA

Address: Rr. 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

Licence No. 3/1998, dated 11.01.1999.

Approved with the Supervisory Council Decision No. 165, dated 11.12.1998, Certificate No.3 "On Deposit Insurance".

Director: Abdul Waheed ALAVI

Address: Bulevardi Dëshmorët e Kombit. No. 8, Tirana - Albania

Tel. central: 22 84 60, 223 873, 274 408

Fax: 284 60, 283 87

4. DARDANIA BANK

Licence No. 5/1998, dated 11.01.1999.

Approved with the Supervisory Council Decision No. 164, dated 01.12.1998, Certificate No.4 "On Deposit Insurance".

Director: Beqir MEZELXHIU

Address: Bulevardi "ZOGU I" Tirana - Albania

Tel: 228-759, 259-350, 259-351

Fax: 230-566

Telex: 2298 db banc ab

E-mail: db@albaniaonline.net ; dardaniabank@hotmail.com .

5. NATIONAL COMMERCIAL BANK

Licence No. 6/1998, dated 11.01.1999.

Approved with the Supervisory Council Decision No. 162, dated 11.01.1999, Certificate No. 5, "On Deposit Insurance".

Director: Seyhan PENCAPLIGIL

Address: Bulevardi Zhan Dark. Tirana - Albania

Tel: (0)4250 955

Fax: 4250 956

6. TIRANA BANK

Licence No. 07, dated 12.09.1996.

Approved with the Supervisory Council Decision No. 9, dated 12.09.1996, Certificate No. 6 "On Deposit Insurance".

Director: Dimitris KARAVIAS
Address: Bulevardi "ZOGU I", No. 55/1, Tirana - Albania
Tel : 334 41, 42, 43, 44, 45, 46,47
Fax : 334 17

7. BRANCH OF NATIONAL BANK OF GREECE IN TIRANA

Licence No. 08, dated 25.11.1996.

Approved with the Supervisory Council Decision No. 4. dated 14.03.1996, Certificate No.7 "On Deposit Insurance".

Director: Vasilios FILIS
Address: Bulevardi "ZOGU I", No. 72, Tirana - Albania
Tel: 336 21, 336 22, 336 23, 336 24.
Fax: 336 13

8. INTERNATIONAL COMMERCIAL BANK

Licence No.09, dated 20.02.1997.

Approved with the Supervisory Council Decision No.9, dated 30.04.1996, Certificate No. 8 "On Deposit Insurance".

Director: Lee Chong Pa
Address: Rr. .Ded Gjon Luli., Tirana - Albania
Tel: 37567, 37568, 37569
Tel/fax.: 37570

9. BRANCH OF ALPHA BANK IN TIRANA

Licence No.10, dated 07.01.1998.

Approved with the Supervisory Council Decision No. 01/03/96, dated 27.12.1997, Certificate No. 9 "On Deposit Insurance".

Director: Andrea Antonios GALATOULAS
Address: Bulevardi "ZOGU I", No.47, Tirana - Albania
Tel.: 335 32, 333 59, 404 76, 404 77
Tel/fax: 321 02

10. AMERICAN BANK OF ALBANIA

Licence No.11, dated 10.08.1998.

Approved with the Supervisory Council Decision No. 105, dated 10.08.1998, Certificate No. 10, "On Deposit Insurance".

Director: Lorenz RONCARI
Address: Rruga .Ismail Qemali. No.27, P.O. Box 8319 . Tirana - Albania
Tel.: 48753/4/5/6
Tel/fax: 487 62

11. FEFAD BANK (JOINT-STOCK COMPANY)

Licence No. 12, dated 15.03.1999

Approved with the Supervisory Council Decision No.22, dated 03.03.1999, Certificate No. 11, "On Deposit Insurance".

Director: Emmanuel DECAMPS
Address: Rruga .Sami Frashëri., Tirana e Re, P.O. Box. 2395, Tirana - Albania
Tel.: 304 99, 334 96
Tel/fax: 334 81

12. FIRST INVESTMENT BANK - TIRANA BRANCH (JOINT-STOCK COMPANY)

Licence No. 13, dated 16.04.1999.

Approved with the Supervisory Council Decision No.45, dated 13.04.1999, Certificate No. 12, "On Deposit Insurance".

Director: Pettier Gavrillov KRASTEV
Address: Bulevardi "ZOGU I", No. 64, Tirana - Albania
Tel.: 564 23, 564 24
Tel/fax: 564 22

13. COMMERCIAL BANK OF GREECE (ALBANIA) (JOINT-STOCK COMPANY)

Licence No. 14, dated 28.10.1999.

Approved with the Supervisory Council Decision No.105, dated 19.10.1999, Certificate No. 13, "On deposit Insurance".

Director: George CARACOSTAS
Address: Rruga "Kavajës", .Tirana Tower., Tirana - Albania
Tel: 587 55, 56, 57, 58, 59, 60
Tel/fax: 587 52

14. CREDIT BANK OF ALBANIA (JOINT-STOCK COMPANY)

Licence No. 15, date 28.08.2002.

Approved with the Supervisory Council Decision No. 66, date 28.08.2002, Certificate No. 14, "On Deposit Insurance".

Director: Kamal Abdel MANEIM.
Address: Rruga "Perlat Rexhepi, Al-Kharafi Group Administration Building, Kati 1&2" Tirana-Albania.
Tel.: 272 168; 272 162.
Tel/Fax: 272 162.
E-mail: creditbkalb@icc-al.org

15. "CREDINS" BANK, TIRANA (JOINT-STOCK COMPANY)

Licence No. 16, date 28.03.2003.

Approved with the Supervisory Council Decision No. 22, date 26.03.2003., Certificate No.15, "On Deposit Insurance".

Director: Artan SANTO
Address: "Rruga Ismail Qemali", No.21, Tirana-Albania.
Tel.: 222916; 234096.

NON BANK SUBJECTS

1. UNIONI FINANCIAR I TIRANËS S.R.L. (WESTERN UNION)

Licence No. 1, dated 08.12.1999 to conduct the following financial activities:

- offering payment services;
- mediating in the conduct of monetary transactions;
- acting as financial agent or advisor .

Director: Niko Leka

Address: Rr. "Reshit çollaku", Pall. Shallvareve, sh 2. No. 18, Tirana-Albania.

Tel.: 250 653.

2. DINERS CLUB ALBANIA S.R.L.

Licence No. 2, dated 09.10.2000 to conduct the following financial activity:

- mediating in the conduct of monetary transactions.

Director: Vebi Velia

Address: Rr. Bulevardi "Zogu I", VEVE Business Center, Tirana - Albania

3. POSTA SHQIPTARE (JOINT STOCK COMPANY)

Licence no. 3, dated 18.04.2001 to conduct the following financial activity:

- Offering payment services.
- acting as financial agent or advisor.

Type: state-owned

Director: Aleksandra Çollaku

Address: Rr. .Reshit Çollaku. , No.4 Tirana - Albania

4. CREDINS. (JOINT STOCK COMPANY) TIRANA

Licence No. 04, dated 13.06.2001 to conduct the following financial activities:

- granting credit;
- offering payment services;
- mediating in the conduct of monetary transactions (foreign currency included);
- offering guarantees;
- acting as financial agent or advisor (excluding herein the services set forth in point 3/a and 3/b of Article 26 of the Law on Banks in the Republic of Albania).

Director : Monika Milo

Address : Rr. "Ismail Qemali" No.21, Tirana - Albania

Tel : 222916; 234096.

5. MOUNTAIN AREA FINANCING FOND..

Licence no. 5, dated 29. 03.2002 to conduct the following activity:

- granting credit.

Created according to the Decision of the Council of Ministers of the Republic of Albania.

Director: Arben Jorgji

Address: Rr. "Mustafa Matohiti" No.12, Tirana - Albania

Tel: 250633

6."ALBACREDIT S.R.L."

Licence No.6, dated 18.04.2003 as a non-bank financial institution to conduct the following activity:

- offering payment services;
- mediating in the conduct of monetary transactions (including foreign exchange).

Manager: Ermira Skënderi.

Address: Rruga "Ded Gjon Luli", No. 5 Tirana-Albania

Tel.: 230 956

Fax: 228 929

**THE FINANCIAL SUBJECTS NOT LICENSED BY BANK OF ALBANIA FOR THE CONDUCTION OF THEIR ACTIVITIES ACCORDING TO THE SUPERVISORY COUNCIL DECISION NO. 26, DATED 29.03.2000 . ON EXEMPTION OF SOME SUBJECTS FROM THE REQUIREMENTS OF THE PROVISIONS OF LAW NO. 8365, DATED 02.07.1998.
ON BANKS IN THE REPUBLIC OF ALBANIA..**

(These subjects are not licensed or supervised by Bank of Albania but they are obliged to report to the Bank of Albania according to the approved reporting system).

1. RURAL FINANCING FUND.

- Created according to the Decision of the Council of Ministers of the Republic of Albania No. 207, dated 28.04.1999.
- Object of the activity: Financing the rural area.
- Address: Rr."Ismail Qemali", P. 32, Tirana
- Director: Zana Konini
- Exempted with the document of the Bank of Albania no.1843, dated 01.08.2000

2. BESA FOUNDATION.

- Created by .Open Society Fond for Albania. (SOROS).
- Object of the activity: Financing small and medium firms.
- Address: Rr."Asim Vokshi", No. 35, Tirana
- Director: Bajram Muça
- Exempted with the document of the Bank of Albania no. 2895/1, dated 19.01.2001.

3. ALBANIAN PARTNER ON MICROCREDIT.

- Shareholder: .Opportunity International.(East Europe).
- Object of the activity : Granting credit.
- Address: Rr. "Gjin Bue Shpata", No. 7/1, Tirana
- Director: James Reiff
- Exempted with the document of the Bank of Albania no. 828/1, dated 08.04.2002.

FOREIGN EXCHANGE BUREAUS

1. JOARD. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA

Licence: No. 1, dated 01.10.1999
Address: Rruga .Ded Gjon Luli. No.2, Tirana

2. AMA. FOREIGN EXCHANGE OFFICE S.R.L., DURRËS

Licence: No. 2, dated 01.10.1999
Address: Rruga "Tregtare", Lagja 3, Durrës

3. ARIS. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA

Licence: No. 3, dated 01.10.1999
Address: Rruga .Luigj Gurakuqi. , Tirana

4. UNIONI FINANCIAR TIRANË" FOREIGN EXCHANGE OFFICE S.R.L.

Licence: No. 4, dated 01.10.1999
Address: Rruga .Reshit Çollaku., Pall. Shallvare, Shk. 2/18, Tirana

5. AGLI. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA

Licence: No. 5, dated 01.10.1999
Address: Agjencia No.1: Rruga .Islam Alla. No.1, Tirana
Agjencia No.2: Rruga "Kavajës", Tirana

6. ALBAKREDIT. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA

Licence: No. 06, dated 24.11.1999
Address: Rruga .Ded Gjon Luli. No.5, Tirana

7. GUDEN. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA

Licence: No. 07, dated 24.11.1999
Address: Rruga .Konferenca e Pezës. , Tirana

8. EXCHANGE. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA

Licence: No. 08, dated 24.11.1999
Address: Rruga "Durrësit" No. 170 and Rruga .Reshit Çollaku. , Pall. Shallvare Shk. 4, Ap.42, Tirana

9. UNISIX. FOREIGN EXCHANGE OFFICE S.R.L.,KORÇA

Licence: No. 09, dated 26.11.1999
Address: Bulevardi .Republika., Pall.4, Korça

10. EKSPRES J & E. FOREIGN EXCHANGE OFFICE S.R.L.,DURRËS

Licence: No. 10, dated 26.11.1999
Address: Lagja 11, Rruga .Prokop Mexsi. ,Durrës

11. MI & CO. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANË

Licence: No. 11, dated 29.02.2000
Address: Rruga .Ded Gjon Luli., No.2/3, Tirana

12. ILIRIA .98. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA

Licence: No. 12, dated 25.02.2000
Address: Sheshi "Skenderbej", Teatri i Kukullave, Tirana

13. SERXHIO. FOREIGN EXCHANGE OFFICE S.R.L., ELBASAN

Licence: No. 14, dated 07.04.2000
Address: Lagja .Luigj Gurakuqi., Rr.11 Nëntori, Pall. 70, No.14, Elbasan

- 14. ALBTUR. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANË**
 Licence: No. 15, dated 07.04.2000
 Address: Agency no.1, Bulevardi .Zogu I., Pall. 32, Shk.1, Tirana
- 15. R & M. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANË**
 Licence: No. 16, dated 22.05.2000
 Address: Rruga .Punëtorët e Rilindjes., Pall. 182, Tirana
- 16. TEUTA 2000. FOREIGN EXCHANGE OFFICE S.R.L., DURRËS**
 Licence: No. 17, dated 22.05.2000.
 Address: Lagja 4, Rruga .Skëndërbej., Ap. 950, Durrës
- 17. T & E. FOREIGN EXCHANGE OFFICE S.R.L., DURRËS**
 Licence: No. 18, dated 11.06.2000
 Address: Lagja 4, Rruga .9 Maji., Durrës
- 18. SHIJAK 2000. FOREIGN EXCHANGE OFFICE S.R.L., SHIJAK**
 Licence: No. 19, dated 24.11.2000
 Address: Lagja .Populllore., Shijak
- 19. R & T. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA**
 Licence: No. 20, dated 20.12.2000
 Address: Bulevardi “ZOGU I”, Tirana
- 20. DV-ALBA. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**
 Licence: No. 21, dated 11.01.2001
 Address: Sheshi “Skënderbej”, Tirana Internacional Hotel,Tirana
- 21. MANUSHI. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA**
 Licence: No. 22, dated 18.04.2001
 Address: Bulevardi .Zogu I., VEVE Business Center, Tirana
- 22. UNIONI SELVIA. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA**
 Licence: No. 23, dated 21.05.2001
 Address: Rruga “Saraçëve”, Pallati 124/1, Tirana
 Tel. 376 274
- 23. KALENJA. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA**
 Licence: No. 24, dated 29.06.2001
 Address: Rruga .Kavajës. (near Turkish Embassy), Tirana
- 24. TILBA. FOREIGN EXCHANGE OFFICE S.R.L., ELBASAN**
 Licence: No. 25, dated 30.09.2001
 Address: Lagja “Luigj Gurakuqi”, Bulevardi “Qemal Stafa”, Njësia no.12, Elbasan
- 25. ANAGNOSTI” FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**
 Licence: No. 26, dated 31.10.2001.
 Address: Zyra 1- Bulevardi Zogu I, Pallati 97, shk.3.ap28, Tirana
 Zyra 2- Rruga “Kajo Karafili”, No. 11, Tirana
- 26. KO-GO. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA**
 Licence: No. 27, dated 12.11.2001
 Address: Rruga .Vaso Pasha., Pall.16, Shk.2, Ap. 9, Tirana

- 27. ALB- FOREX. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**
 Licence: No. 28, dated 22.11.2001
 Address: Agjencia 1: Rruga .Abdyl Frashëri No.3., Tirana
 Agjencia 2: Rruga. Mine Peza, Pall. 102, Shk. 1, Tirana
- 28. L&N. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA**
 Licence: No. 29, dated 22.11.2001
 Address: Rruga .Muhamet Gjollështa., Tirana
- 29. TERBACI- GJ. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA**
 Licence: No. 30, dated 22.11.2001
 Address: Rruga .Muhamet Gjollështa., Pall.215, Tirana
- 30. EXCHANGE ALOG. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA**
 Licence: No. 31, dated 22.11.2001
 Address: Rruga .Mine Peza" , Tirana
- 31. EX-CHANGE BEBI&FLORI. FOREIGN EXCHANGE OFFICE S.R.L., FIER**
 Licence: No. 32, dated 26.11.2001
 Address: Lagja "Kongresi i Përmetit", Fier
- 32. GERSILDA. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**
 Licence: No. 33, dated 03.12.2001
 Address: Lagja nr.2, Rr. .Mihal Grameno., Pall.10, dyqani no.5, Tirana
- 33. CHANGE-ARIZAJ. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**
 Licence: No. 34, dated 03.12.2001
 Address: Rr. "Pandi Madhi", Pall.60/2, Ap.15, Tirana
- 34. BASHKIMI 2001" FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**
 Licence: No. 35, dated 12.12.2001
 Address: Rr. "Kavajës" ,Tirana
- 35. ARJON 2002. FOREIGN EXCHANGE OFFICE S.R.L., ELBASAN**
 Licence: No. 36, dated 14.12.2001
 Address: Lagja .Kongresi i Elbasanit., Bulevardi.Qemal Stafa., Pall.9-katësh, Elbasan
- 36. EURO 2002. FOREIGN EXCHANGE OFFICE S.R.L., DURRËS**
 Licence: No. 39, dated 20.12.2001
 Address: Lagja nr.11, Rr. .Ismail Qemali., Durrës
- 37. EURO TRAVELS INTERNATIONAL. FOREIGN EXCHANGE OFFICE S.R.L., TIRANË**
 Licence: No. 40, dated 14.01.2002.
 Address: Bulevardi .Bajram Curri., pallatet Agimi Nr.1, Tiranë,
- 38. G&3. FOREIGN EXCHANGE OFFICE S.R.L., KAVAJË,**
 Licence: No. 41, dated 15.01.2002.
 Address: Rruga.Kajo Karafili., Kavajë,
- 39. ALAKTH. FOREIGN EXCHANGE OFFICE S.R.L., TIRANË,**
 Licence: No. 42, dated 18.01.2002.
 Address: Rruga e Dibrës,nr.105/1, Tiranë,
- 40. FORMAT. FOREIGN EXCHANGE OFFICE S.R.L., TIRANË,**
 Licence: No. 43, dated 21.01.2002.
 Address: Rruga e Durrësit,Pall.85, shk.1,ap.1, Tiranë,

- 41. TRI URAT. FOREIGN EXCHANGE OFFICE S.R.L., ELBASAN,**
Licence No. 44, dated 05.02.2002.
Address: Lagja .29 nentori., prane filialit te postes Elbasan,
- 42. CROWN TOWN. FOREIGN EXCHANGE OFFICE S.R.L., TIRANË,**
Licence No. 45, dated 05.02.2002.
Address: Rruga .Mihal Grameno., Pall 10,Tiranë
- 43. BESA 2001. FOREIGN EXCHANGE OFFICE S.R.L., TIRANË,**
Licence No. 46, dated 15.02.2002.
Address: Rruga .Myslym Shyri., Nr.25,Tiranë
- 44. MARIO. FOREIGN EXCHANGE OFFICE S.R.L., SARANDË,**
Licence No. 47, dated .03.2002.
Address: Lagja 1, prane ish komitetit ekzekutiv te rrethit Saranda.
- 45. "JAV" FOREIGN EXCHANGE OFFICE S.R.L., TIRANË,**
Licence No. 48, dated 20. 03.2002.
Address: Bulevardi Zogu I Godina e Zerit te Popullit Tiranë.
- 46. DROGU. FOREIGN EXCHANGE OFFICE S.R.L., TIRANË,**
Licence No. 49, dated 23.04.2002.
Address: Rruga .Vaso Pasha. Kulla 1, Kati I (pas pallatit Agimi) Tiranë.
- 47. HYSEN-C. FOREIGN EXCHANGE OFFICE S.R.L., LAÇ,**
Licence No. 50, dated 23.04.2002.
Address: Lagja nr.3, perballe Komisarariatit te Policise, Laç.
- 48. UNIONI FIER. FOREIGN EXCHANGE OFFICE S.R.L., FIER,**
Licence No. 51, dated .05.2002.
Address: Lagja 15 Tetori, Rruga Kastriot Muca, Fier.
- 49. TAXI EKSPRES. FOREIGN EXCHANGE OFFICE S.R.L., ELBASAN,**
Licence No. 52, dated 20.05.2002.
Address: Rruga Sami Frasherit, 11(prane Shkolles .Edit Durhan..
- 50. MERO. FOREIGN EXCHANGE OFFICE S.R.L., DEVOLL,**
Licence No. 53, dated.05.2002.
Address: Zyra nr.1 : Bulevardi Fuat Babani, Bilisht.
Zyra nr.2 : Dogana Kapshtice
- 51. "GLEAR" FOREIGN EXCHANGE OFFICE S.R.L. SHIJAK**
Licence No. 55, date 23.07.2002.
Address: Lagja Kodër Shijak Durrës
- 52. ALBA-POST JOINT-STOCK COMPANY FOREIGN EXCHANGE OFFICE , TIRANË**
Licence No.56, dated 28.08.2002.
Address: Rruga "Reshit Çollaku", No. 4, Tiranë
- 53. UNION BALLSH FOREIGN EXCHANGE OFFICE S.R.L BALLSH**
Licence No. 57, dated 11.09.2002.
Address: Rruga "8 Nentori", Ballsh
- 54. ESLULI FOREIGN EXCHANGE OFFICE S.R.L , TIRANË**
Licence No. 58, dated 17.10.2002.
Address: Rruga "Reshit Çollaku", Pallati iShallvareve, shkalla No. 4/1.

55. "AMERICAN GLOBAL CAPITAL FUND-WORLDWIDE INVESTMENT" FOREIGN EXCHANGE OFFICE S.R.L ,TIRANË

Licence No.59, dated 26.11.2002.

Representative with power of attorney: Dashar Sheshaj, Vilson Ahmeti

Address: Rruga "Ismail Qemali", Parcela 167/187 "Euroapartment", Tiranë

56. "UNIONI KUÇOVË" FOREIGN EXCHANGE OFFICE S.R.L, KUÇOVË

Licence No. 60, dated 27. 03. 2003

Address: Lagjja "Llukan Prifti" Kuçovë

Tel. 03112515

57. "DENI&KRISTI-2002" FOREIGN EXCHANGE OFFICE S.R.L, TIRANË

Licence No. 61, dated 02.06.2003

Address:

Tel.

58. YLDON FOREIGN EXCHANGE OFFICE S.R.L, TIRANË

Licence No. 62, dated 03.06.2003

Address: Ruga "Qemal Stafa", pall. 382/2/2 Tiranë

Exchange-broker: Ylli Ndroqi (founder and manager)

Tel. 343 476, 0692095681.

SAVING-CREDITING ASSOCIATION UNIONS

1. JHONA SAVING-CREDITING ASSOCIATION UNION, TIRANË

Licence: No.1, dated 27.06.2002

Head of the leading board: Vojsave Rama

The members of this union are 41 saving-crediting associations licensed also as special ones. They rely on technical assistance by the foundation “ The movement for the saving-crediting associations development”.

2. ALBANIAN SAVING-CREDITING UNION SAVING-CREDITING ASSOCIATION UNION, TIRANË.

Licence: No. 2, dated 09.08.2002.

Address: Rruga “Ismail Qemali”, No. 32.

Head of the leading board : Zana Konini

Tel. 25 19 10

E-mail: ffrural@albaniaonline.net

The members of this union are 71 saving-crediting associations, licensed also as special associations. They rely on technical assistance by “Mountain Area Financing Fond”.

1. INBLEG SAVING-CREDITING ASSOCIATION, TIRANË

Licence: No. 70, dated 25.09.2002.

the necessary finances from them

