

**BANK OF ALBANIA**

# **ECONOMIC BULLETIN**

**Quarterly edition**

**June 2004**

*The articles in this publication do not represent the official opinion of Bank of Albania. Please refer to these articles as personal opinions of their authors.*

*If you use data from this publication, you are required to cite the source.*

*Published by: Bank of Albania, Sheshi "Skënderbej", Nr.1, Tiranë.*

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*Printed by the printing house at Bank of Albania*

*1000 copies*

# QUARTERLY ECONOMIC BULETIN

JUNE 2004

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# “CASH ECONOMY IN ALBANIA AND THE CENTRAL BANK’S PROGRAM TO REDUCE IT”

## 1. INFORMAL ECONOMY AND CASH USE IN ECONOMY

One of the important problems of the economies under transition and furthermore of those under development is the presence of informal economy or unofficial one. Meanwhile, the more developed the governmental and economic structures of a country, the lower the informal part of the economy. This is due the fact that such economies already possess both the legal framework and the high level of its implementation, the multi-level control throughout the work stages, the full and strict systems of information that serve the transparent methods reflecting economic activities as well as the required culture and sense of work responsibility.

What does informal economy represent? There are various definitions to determine informal economy. The academic dispute on that issue is sharp. However, in dealing with this major issue there are convergences on the idea that this kind of economy implies operations carried out by the economic agents that remain officially unidentified or hidden.

The co-existence degree between the formal economy and informal one, among different countries in transition is assessed to be on different levels. Studies have showed that the size of informal economy does not appear of a declining tendency as long as concrete and credible actions, coordinated with all the participants to the market, are not taken by the government. If governments result to be both serious and efficient in this field, this is directly

### Box 1 Some definitions of different scholars

- *Informal economy is the whole economic activities that contribute to the GDP calculation but that are not recorded (E. Feige).*
- *Informal economy is the economy that generates incomes, which are not recorded in the official statistics (Tanzi).*
- *The production and trading of goods and services, legal and illegal ones, that “escape” from the official assessment of GDP, make up the informal part of economy (P. Smith).*

### Table 1 The most frequent activities of the informal economy\*

reflected on the decrease of fiscal evasion as well as on the increase of the state balance incomes, as a result of collecting liabilities (taxes and duties).

All this is fulfilled if: (a) the real economic activity of market agents is identified, that is to be controlled and under the control of governmental authorities (customs & taxation authorities); (b) the incomes to be deposited into the state budget towards an identified economical activity are legally collected; (c) all are equal before law, that helps and stimulates the economic development of the country under the conditions of a liable competitiveness.

The high level of informality makes difficult the task of government to collect the budget incomes, which are necessary for the performance of public services, indispensable for all. But among "all" these, there is the "informal group", which also needs public services, indeed more than the others, and unfortunately gives no contribution. We have to do here with a vicious circle, which can be verified in the undeveloped economies or throughout those under transition, where efforts to reduce the informal sector of economy do not exist at all or seem to be few. If we refer to the models of the countries that are reliable candidates to join the EU, the path towards reduction of informality does not appear as a vicious circle anymore, but as a classic spiral, the perimeter of which has been diminishing the more approaching to the summit. That means the efforts of economic agents are properly coordinated by the respective governments, leading to the continuous reduction of the informal sector of economy.

However, the assessment on informal economy is a hard working process. For a given country, one should assess on a range of figures and information to attain a rather real assessment on the size of informal economy. The presence of informal economy is clearly translated by the quantity of currency that circulates outside banks. If the efforts to minimize informal economy result to be efficient, this will be reflected also on the formalization of the ways that currency traverses, precisely through the banking system, being entirely official and identified by the state statistics. A significant number of economists point out the fact that the operators of the informal part of economy are the ones who more than

anyone else prefer to perform cash operations. They prefer to pay and get paid in such a way, establishing that "informal environment" of economy, allowing them to "cover" the actual activity. Thus, they "escape" in a totally unfair and arbitrary way from fiscal duties.

Further, we will focus on dealing with this issue, that is cash economy in Albania, the main factors that stimulate it, bringing to the attention of this audience several ways that would lead to the reduction of its dimensions, through the program the Central Bank has already initiated some months ago for this propose, known as "Beyond cash" program.

## 2. ALBANIA'S CASE AND CASH ECONOMY

If we refer to the case of Albanian economy, we would observe that the presence of informal economy results to be on warrant levels. Estimates show that a considerable part of economic activities is "hidden" or unrecorded. They differ from the INSTAT estimates (about 30 per cent of GDP), the report published on (Financial Times, December 18, 2002, World Report), where the latter is estimated to be at about 50 per cent of GDP. Albania, in comparison with other countries of the region, even with the closest neighbor countries such as Bulgaria, Romania, Macedonia, as well as Moldavia is placed on a lower position regarding the reduction of informal economy. Alongside with informal economy exists and flourishes cash economy, too. Data on the indicators of currency outside banks against M3 aggregate show that Albania has the highest level of this indicator among the countries under transition. The MOB/M3 ratio is ranging between 30 per cent, while in transition countries of the region this ratio is about 20 per cent, in transition countries of Central Europe is about 10 per cent and in the developed countries, about 7 per cent.

Table 2 Currency outside banks/M3 (in %)

Table 2 (continuing)

Source: IFS 2002 Different bulletins of the Bank of Albania.

Chart 1 Currency outside banks to M3 (in %)

The COB/M3 indicator shows the level of cash transactions compared with those that are performed through the banking system. Although the end of 2003 resulted of a lower indicator, that is about 27.9 per cent compared with the previous year, when this indicator was proved to be 31,4 per cent, Albania still remains a cash economy. Reasons are to be found on those who motivate and stimulate the establishment and enlargement of the informal sector of the economy, on the whole.

The majority of businesses and individuals continue to perform the majority of financial transactions outside banks, causing costs to the economy. Thus, cash economy has a result, the decrease of banks ability to channel the financial assets (deposits) towards investments in the form of loans. Another consequence, directly related with the Bank of Albania, is connected with the fact that, the huge quantity of currency in circulation considerably diminish the efficiency of the monetary policy decisions.

The factors that stimulate a broad cash economy are often underlined and mentioned in the important materials and documents prepared by the Bank of Albania's technical staff. These factors are found both within and outside the banking system. Elements of the banking system infrastructure, such as:

- asymmetrical allocation of the banking system with an over-concentration in Tirana and in some other important cities;
- lack of some banking services that facilitate the performance of transactions from both individuals and businessmen;
- slowness in performing payments inside and outside the country (at least up to December 2003, when the AIPS system has not started functioning yet – today's payments inside the country are performed in the same day);
- acceptance of many demands by banks, etc.,

are often mentioned by businesses and individuals as factors having a negative impact, enhancing at the same time their position away from banks. This urges them to mostly prefer cash operations than those of other alternative means of performing transactions.

On the other hand, there are other factors that stimulate the cash economy:

- thus, businesses in the broad informal market, independently of the quality of banking services, try to not channel their financial operations through banks to shirk their obligations against government. As long as the fiscal authorities have the right to obtain information from banks on the financial movement of their customers, some businesses, particularly those who act in the informal economy, are stimulated to avoid operations with banks, independently of the facilities they may offer;
- those businesses that operate in the informal economy might try as well to shirk taxes, and consequently the operations with banks, to ensure their positions in the market, supposing that the majority of competitive businesses avoid them;
- legal, infrastructure and public order issues make difficult the task of banks to introduce products and advanced payment instruments, such as ATMs or credit cards;
- individuals and businesses might not feel very confident to immediately use new payment instruments, if these instruments have not proved previously a solid reputation;
- lack of a right mentality among the public on the use of non-cash instruments and priorities given by these means of payment, encourage the performance of cash operations;
- the low level of incomes for a part of the Albanian population does not make indispensable the use of non-cash instruments. Some categories, such as simple employees of public administration, teachers of all levels of schools, students, pensioners, etc. receive incomes that get consumed rather fast.
- lack of necessary infrastructure in both trade and services (devices that accept cards, bank checks or postal checks), does not support the non-cash use in the simple and daily purchases of the individuals who operate in a reality where the cash use became a common practice.

We are witnesses of such examples that among

public administration, employees receive their salaries in cash and not through current accounts that each of them might have. The obligations in favour of AEC (Albanian Electro–Energetic Corporation), Albtelecom, Water supply, make citizens waste time and move around with amounts of money, up to respective counters, that health insurance reimbursement is turned into a nightmare for individuals, moving from one structure of the state to another. All this pace up and down has a meaning, that is the overloaded presence of cash economy in Albania.

Let us present some other facts that reflect more explicitly the fact that dimensions of cash economy in Albania are really high. We refer to the high weight of cash payments performed by both import and export businesses and to the high weight of emigrants' remittances in cash, too.

According to the data that the Payment Balance Sector (year-end 2003) collects through the reporting forms of banks for the totaling of the current account transactions (goods category), it results that only 41,1 per cent of payments for imports are channeled through the banking system, while the other part (58,9 per cent) is performed in cash. Meanwhile, for exports also the situation appears to be almost the same: payments for exports channeled through the banking system account for about 40.2 per cent, while the remaining part (59,8 per cent) is performed in cash. These facts are positioned rather close to the results reflected even through a survey that Bank of Albania has conducted

with businesses (operating in foreign trade) on the payment instruments (2002).

This information shows that businesses operating in Albania continue to be positioned rather away from the banking industry. Although one can believe that the foreign trade activity is performed through banks, virtually data do not support this opinion, on the contrary they show that trade transactions in most cases do not pass through the banking system, but outside it through cash operations.

Regarding the way the Albanian families receive money from emigrants' remittances, among the frequent cases we found that cash way is mostly encountered. The survey conducted by Bank of Albania with Albanian consumers, during September 2003, showed that receipt of emigrants' remittances through official ways (banks or Western Union), is done only for about 23 per cent of the inspected cases. This means that the weight of unofficial ways (from the emigrants themselves or through their acquaintances) appears to be on high levels, being estimated at 76 per cent.

The high commissions applied from both the Western Union bureaus and banks; the amounts somewhat low of remittances; the obligation to complete many formalities for the amounts of remittances exceeding 5000 USD (diverse verifications to comply with law provisions on prevention of money laundering), are the reasons that lead citizens to rather choose unofficial ways of receiving remittances.

Chart 2 Allocation of the ways of emigrants' remittances

In front of this reality, where the cash use became a widely common practice, being as a result of the large presence of informal sector in economy, and supporting its expansion, it is up to the active participants and regulators of the economy to act accordingly without wasting time.

### **Why do we say without wasting time?**

During the first years of transition (1991 – 2000), the presence of a cash economy seems to might have been more “justified” under the conditions of Albania. This judgment is based on some aspects of economic and social development of the country during that period. “The hunger” of the agents pertaining to this undeveloped market, to become developed, led to the quick expansion of economic activities that was reflected on the increasing incomes, on a high demand for goods and services and on an increasing money demand.

In front of this image of the market, a banking system almost unprepared was supposed to supply the needs of the real economy. The undeveloped banking infrastructure, the weak banking market, the minimum services it offered, the low level of banking knowledge, were not able to cover an effective and oriented movement of currency towards the banking system. This one, along with other reasons that are related with infrastructure on the whole, with the incomplete legal framework and the event of informal economy are regarded as the most inherent reasons that motivated the acquisition of a wide ground from cash economy.

It appears as from some time now that the relationships between the real economy and banking system developments have completely changed in comparison with the first period of transition in Albania. The Albanian banking system is already assessed and has proved to be able to meet the demands of economy. The expanded banking infrastructure and the establishment of the necessary regulatory and legal ground that provides relevant stipulations to act in, as well as the countries aiming to join the developed Europe, are very important elements that sustain the development of non-cash economy.

There are currently in Albania 16 commercial banks, different from non-bank financial institutions, many foreign exchange offices and

bureaus, all of them licensed and supervised by the Bank of Albania. A major part of them have established their own branches in other important cities, giving thus the opportunity to households and businesses to operate through them.

In the conditions where the development of banking system is going through the advanced technology (RTGS, January 2004), the Bank of Albania considers the reduction of cash use in economy as one of the important economic issues of the country.

The declared amount of currency that moves through formal channels will help the monetary policy in decision-making, as well as the active circulation of currency in the economy and the decline of both corruption and fiscal evasion, and evidently it will help the reduction of informal sector of the Albanian economy.

## **2.1 CASH REDUCTION AND PREVENTION OF MONEY LAUNDERING**

The reduction of cash economy helps to fight against money laundering. This is due to the fact already explained above, that is the broad use of cash in economy is to a larger extent the expression of informal economy. The latter, by covering up the real economic activity, covers for a major part the real source of money and the wealth of both individuals and businesses.

Thus, to know the way the currency has traced to reach up the limits of banking system means to know the source of money that individuals and businesses try to channel through banks.

Law no. 8610, dated 17.05.2000 “On the Prevention of Money Laundering”, changed by the Law No. 9084, dated 19.06.2003, “On some additions and changes to the Law No. 8610, dated 17.05.2000 “On the Prevention of Money Laundering”, aims the prevention of laundering of penal acts’ product and of the performance of criminal activity in financial and economic field. This means that all the bodies being established by law, including banking system as well, have the legal obligation to take part in the struggle against money laundering.

It will be a success that banks would draw as much as possible currency that circulates outside the banking system. But it would be

considered a greater success, if it becomes verified that this money does not originate of terrorism, abuse, corruption, traffic, fiscal evasion, economical crime and other penal acts. At this point, the role of banking system is rather important, indeed a primary one.

Before the amount of money being cash or non cash (banking transactions) infiltrates or follows the way into banking system, to be invested in different kinds, there should be well-known the origin and source of their establishment. The doubtful cases and financial transactions or operations that exceed the limits established by law, become rather carefully verifying and recording objects.

**Box 2 Some requirements of the law on the prevention of money laundering**

*It become reported to the General Department for the Prevention of Money Laundering, on the cases of financial operations, in cash and/or transfer of funds for the amounts of or over Lek 20 billion or of the corresponding value in foreign exchange.*

*There are saved the operations of or more than Lek 2 billion or of their corresponding value in foreign currency, performing the process of individual identification.*

*It become saved and reported to the General Department for the Prevention of Money Laundering, even in case of financial operations under the above previewed amounts, in case there are well-based doubts of money laundering*

The circulation of "laundered" money, throughout the banking system of our economy, composes an other important condition, to follow the way for a quick integration.

**3. BANK OF ALBANIA AND THE PROGRAM ON REDUCTION OF CASH IN ECONOMY.**

Bank of Albania considers the reduction of cash use in economy, as a complex issue. By this definition we would like to emphasize that it is not only the institution of Bank of Albania that takes care for such a problem, since the banking system it is not the only one actor that will actively take part in this direction. It is clear that

the inclusion of all the important participants of the economic development of the country and the performance of a collaboration among interested people, would be the key point of success in implementing this program.

**Box 3 Program or Campaign?**

*- Cash reduction in economy cannot be succeeded through a sensible campaign but through a specific program. It is a complex issue that includes and activates important operators of the Albanian economy, state and society. Campaigns are small components of this program.*

*- The program is an entity and coordination of actions and measures based on an extensive plan.*

*- The duration of the program would be for a relatively long period of time.*

*- The most important aspect of campaigns consists in producing intensive signals of sensible and educating impact. In case of programs, sensitive and promotional steps are undertaken after a concrete success that in our case helps for cash reduction is performed. As a concrete success we may qualify the establishment of ATMs, or the distribution of banking bureaus as homogenously as possible throughout the country: after all these are accomplished, micro-campaigns should make the public, businesses, etc., sensitive to the use of non-cash banking alternatives, and make them also aware of the priorities they offer for users.*

The program is as ambitious as careful.

Its primary stage was closed in November 2003, with a round table held among institutions. During this stage, meetings and discussions were held among the Ministry of Finance, Ministry of Economy, Bank of Albania and commercial banks, AEC, Albtelecom, Albpost. This stage is considered, mainly for governmental institutions, as the period where they become sensitive to the concern of a broad use of cash in our economy. Albanian Government is rather interested to minimize the phenomenon, as this has directly an impact on finding efficient ways towards the economic growth of the country. This happens because the money is channeled through official ways and becomes usable

through banking system. In this way, parts of the economic activity of the country are turned from “unidentified” into “identified” ones. This element makes that the Albanian Government (Ministry of Finance and Ministry of Economy) rightly consider itself as the closed collaborator of the Bank of Albania for the implementation of this program. In this view, the study on informal economy conducted by the Ministry of Economy in collaboration with the OECD will also help to reach the targets of the “Beyond Cash” program, that is the reduction of cash economy.

The further stages of the program have to do with the performance of concrete operations from all the operators of this program. Understandingly, the performance of some of them might be of a longer term, while some others must be performed more quickly as long as it is estimated that preconditions on the application of measures or the commitment of concrete operations exist.

Thus, the minimum targets of this program for 2004 are projected to be:

- 10 per cent of the public sector’s employees shall have banking accounts (to receive salaries, incentives, etc.);
- liberalization of the state budget’s operations that are expected to be performed within April ’04;
- installation of a great number of ATMs, etc.

### HOW CAN BE CASH REDUCED IN THE ALBANIAN ECONOMY?

Following this presentation the operations and the impact they might generate towards cash reduction will be treated in minute details. We could not leave without including here the role of each operator in this important movement.

Banks, businesses and individuals are one side of the relation that emerges to serve cash reduction, while government with the administrative bodies concerned (the General Executive Board of Taxation and the General Executive Board of Customs), has a determinant role in regulating this relation in favour of non-cash system.

**State administration** can operate in some important directions, thus fulfilling the regulative role that the state has to play in this broad

relation. Let us list some of these directions:

- payments and receipts in favour of state budget should be maximally performed through the banking system. This measure intends to involve business in effectuating banking transfers only. Thus incomes are channeled and obligations of respective parties (business/state - fiscal aspect) as well, in a totally official way. It indispensably requires the opening of banking accounts but also their real use from the businesses. In this way, the money flow into unknown channels that often serve as a source of corruption and fiscal evasion is reduced;
- a successful liberalization of the state budget’s operations is also a precondition that would help the further steps to be taken within the program on cash reduction;
- obligation of opening accounts and performing banking transfers in respect with fiscal authorities should belong not only to big businesses but also to Albanian business on the whole, without neglecting both small and midsize companies;
- stimulation of using widely non-cash payment instruments, such as for instance the use of check. A great stimulation should be applied in this direction for small businesses not for the amounts, but simply for their huge number.
- at the beginning of the paper we quoted the example of the public administration’s employees receiving their salaries in cash. It is deemed that it is time the settlement of obligations as salaries and other remunerations of the state administration be performed through banking accounts. Although the incomes for this category of employees are still low, it is estimated that this is an important step to make also the employees of public administration customers of banks. Banks, through the consolidation of this relationship, may offer to these “preferential” and “safe” customers diverse banking services and bonuses against using alternative instruments of non-cash payment. It could be treated here the project of transferring the pensions through banking accounts as well;
- installation and functioning of clearing system is a step that helps the relationship: bank – customer (business or individual) – taxations and customs charges – statistical information system. This means that the way a banking

transaction passes through is traced based on a full system, which finally serves all: the state, banks, central bank, individuals and businesses;

- revision of legal and regulatory framework that helps the issue still being under discussion today;
- settlement of monthly obligations (power supply, water supply, health reimbursement) of public administration's employees through banking transfers. The waste of time, cases of neglecting in fulfilling these obligations and the circulation around with cash from one counter to another are aspects that can be avoided through this way (banking transfer). For the rest of population, the use of banking checks or postal checks is a way of channeling this obligation through banking account.

**Commercial banks** are operators that play a rather important role in the relationship economy–customer–cash. A bank, as a financial mediator, considers the performance of cash transactions, at a considerable quantity, as a very hard task, since the acceptance and disbursement of cash is a high cost service for banks. In fact, in most cases, banks offer this as a free service to their customers. This sacrifice to offer an alternative of cash payment in the bank against a cash payment shows the immediate interest of banks. Thus, it is time for the banking system to be more aggressive, especially now, where the banking market is expected to be more competitive with the presence of Raiffeisenbank. It is said that the latter will offer new banking services that evidently aim at drawing the currency in the banking system.

Generally speaking, we would say that the less cash that circulates in economy, the more successful the banking system, the more visible the development. It is indispensable for this purpose to reach some important points of the program, related with:

- the active presence of banking agencies close to the offices where periodical obligations and other obligations of fiscal nature are paid;
- the presence of banking agencies near the communes and small municipalities. In these areas the postal offices of Albpost must be active in performing banking transfers;
- the establishment of an electronic system that

will check on-line the situation of electronic cards, a step that would encourage the broad use of credit and debit cards. The establishment of ATMs, credit and debit cards and clearing system are steps serving as preconditions for the reduction of cash in economy, therefore banks must lead towards their fulfillment;

- d) the increase of banking services and the decrease of the commissions applied by the banking system. It is time the banking system increases the number of financial instruments at the disposal of individuals, such as for instance deposit receipts;
- e) the increase of marketing of banking business. For a vast majority of population bank is still identified as “savings box”, meanwhile many other aspects of banking business remain almost unknown. Raiffeisenbank is expected to be rather active in this field, too.

**Business** is an important part of the relationship government–business–bank, established on the basis of understanding, regulation and observance of rules from all and to all equally.

There is a group of businesses having a regular relationship–history with banks and both taxation and customs authorities. This is an elite business group which has been increasing in Albania. It draws and assimilates very quickly the new discovery of banking technology that at last aims at using non-cash practices. Meanwhile, there is a significant group of businesses which still is not familiar with banks. Banking marketing should approach this group, to explain the benefits and costs from the services offered by today's banks.

**Public** is an omnipresent operator of this program. First, it should well-understand the target of the program, then know and use the contemporary payment instruments, increasing the quantity of transactions performed through the banking system. In fact, the Albanian public has showed even before that it has no difficulties in assimilating new services and products. We can mention here as an example the cases of using widely the mobile telephoning, the Internet (the expansion and the high degree of frequenting Internet Cafés), and also the broad use of T-Bills service. Even in case of non–cash use or of new facilitating products and services offered by banks, the public is expected to be ready to

quickly assimilate them.

It is important that ***the large public and particularly the business***, taking every day the risk of carrying and transporting the cash, having the inability in well-administering the money and the costs that accompany this phenomenon, feel the presence of bank as a reliable institution.

Banks should be present in the economy to show to the large public what they are able to offer, in order that they may play a natural role in the everyday life of people.

At last, it would be a real success if expressions, such as "I would like to have an appointment with my banker to consult on this or that priority that I may benefit from this or that banking service, etc..", become as familiar as possible for all of us.

## **INSTEAD OF THE END BUT NOT THE END.....**

To live within an economy where currency mostly circulates in cash, this is not an indicator showing the country's development. Furthermore, this phenomenon sustains and becomes sustained by a broad informal sector of the economy. Notwithstanding the efforts towards the development and integration, we notice, unfortunately, that we live in such a reality that should be changed. The program qualified "Beyond Cash" is a good step towards the reduction of cash economy.

The issue of meeting the targets of this program is closely related with the macroeconomic and institutional stability, as well as with the infrastructure development.

If the macroeconomic aspect may be considered somewhat stable, there is still much to do with the legal and institutional aspects.

This concerns mainly the implementation of law and the insurance of public order that have an impact on the business activity in general and on the banking one in particular. A full and implementing legal framework, equal to all, has an impact on the country's economic development under the conditions of a honest competition, decreasing the fiscal evasion, the corruption and the amounts of money gained through illegal activities.

Meanwhile, the infrastructure improvements constitute another precondition that helps to meet the targets of "Beyond cash" program.

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# “BANK OF ALBANIA MONETARY POLICY INSTRUMENTS”

## INTRODUCTION

The drafting and implementation of monetary policy is the main duty of the Bank of Albania, and, undoubtedly, it is the activity that draws more attention to the public. The monetary policy is oriented to achieving the target of inflation control. But, the concrete work performed by the Bank of Albania on inflation control is unclear to the public at large.

Is the Bank of Albania able to really impact on the price level in economy? If yes, what concrete instruments does it use to control inflation? How are these instruments related to inflation target? Which are the concrete details of their functioning? These are the main questions, which this lecture is going to answer.

The lecture starts with a brief description of inflation impact on economy, then goes on underlining the importance of its control by the central bank. It continues with a presentation of theoretical monetary policy framework and finally it deals widely with the role of monetary instruments in implementing monetary instruments.

## I. CENTRAL BANK AND INFLATION

The economic literature of the last decades converges in one point: **the most important contribution that a central bank may render to economic development of a country is the achieving and maintaining of price stability.** This consideration, largely based on the economic experience of the recent times, is due to the constant concentration of central bank's work on the controlling of inflation. Most of central

banks in the world have as the main target of their activity the price stability. Even the Bank of Albania, being the central bank of the Republic of Albania, shares the same concern and the same target with other central banks. According to Law No. 8269, dated 23.11.1997 “On the Bank of Albania”, *“the primary objective of the Bank of Albania is to achieve and maintain price stability”<sup>1</sup>*.

Before analyzing the function of monetary instruments and their role in fulfilling the Bank of Albania primary target, first I would deem reasonable to treat, rather briefly, the effects of inflation on economy.

### I.1 WHY SHOULD INFLATION BE FOUGHT?

It is certified that economies have a better performance of economic growth, employment rise and living standards improvement when inflation is low. The studies on the link between productivity and inflation have indicated that the higher the inflation, the lower the economic growth in real terms.

Precisely the negative link between inflation and economic growth rates has enabled the central banks (with few exceptions) to make the low inflation the main goal of their monetary policy.

**A question that naturally needs an answer is: Why low inflation is favorable for economic growth?** In the ultimate analysis, the statistical link does not certify the causality! The link between economic growth and inflation may be accidental or the causality may be on the reverse, that is the economic growth may be the one that provokes low inflation. This is really a difficult question and, so far there is no theory to explain this link clearly and without ambiguities.

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<sup>1</sup> The Bank of Albania has other objectives as well. Referring once more to the Law “On the Bank of Albania” we notice the even the following objectives: “In compliance with its primary objective and based on the domestic banking market, it shall encourage and support the development of the foreign exchange system and regime, domestic financial market, payment system, and assists in the improvement of monetary and lending conditions, supporting the country's economic development and stability. The other Bank of Albania objectives, conditioned by its main objective, must encourage the maintaining of liquidity, solvency and the normal functioning of the banking system, on the basis of market principles. **But, the law is explicit in determining the priorities of objectives: The main Bank of Albania objective is to control inflation rate.** All other objectives mentioned above are conditioned by the observance of the primary objective.

<sup>2</sup>Lecture by the Bank of Albania Governor, Prof. Dr. Shkëlqim CANI at the Economics Faculty of the University of Agriculture of Kamza

*"The target of our work in Federal Reserve is to reduce inflation to that point that it does not constitute a factor in economic decision-making any longer. If we are successful, the allocation of resources will be closer to the optimum, providing positive consequences on the economic growth and the standard of living."*

*Gary H. Stern  
President, Federal Reserve Bank of  
Minneapolis*

**However, the economic reasoning suggests that there are, at least, two channels through which the inflation influences the real economy progress:**

- Unlike high inflation, the low inflation results in a better allocation of resources, since the signals sent by the determining-price process may be interpreted more easily and accurately;
- Low inflation contributes to financial stability.

#### **A. ALLOCATION OF RESOURCES**

Relative prices represent the primary factor that orients the allocation of resources.

- A change in the relative prices, that results from an increase/decrease in the demand for a certain product, should shift the economic resources from the activity in which the prices have dropped (relatively) to the activity in which prices are raised. Meanwhile, the rise of general price level, the inflation, should not change the allocation of resources in such way. **But, in an inflationary environment, it is hard for economic agents to distinguish a change in relative prices from the rise of general price level, that is inflation.** Such a conclusion is drawn frequently in the cases when inflation is high. Furthermore, high inflation frequently means even a variable inflation, which increases the insecurity even more. **As a result of it, the resources would be directed to faulty**

**uses during inflationary periods.**

- **Except what mentioned above, inflation may constitute a problem in estimating the real interest rate.** The real interest rate (nominal interest rate corrected with inflation) is the relative price of the present goods to the goods to be produced in the future. The real interest rate leads the decisions of individuals for consumption or for saving, as well as the decisions of firms for investments. It is not given visibly as a market price but is calculated from individuals by subtracting or adding the expected inflation from/to nominal interest rate. When inflation is variable, the task to determine real interest rate becomes even more difficult. **The inappropriate allocation or management of resources under such conditions would impact adversely on the economic growth and the standards of living, since the resources are not well-used.**
- Without a general indexing, inflation may result in unforeseen transfers of property. **If the taxing system is not indexed with the price change, inflation may lessen the incentive for investments and work<sup>2</sup>.** Also, **inflation impacts on the reallocating of resources, from the category with fixed income (employees, pensioners) to those with income indexed with inflation (producers and merchants).**

All these effects are less sensitive when inflation is constantly low. The more successful a central bank is in decreasing inflation, the more economy approaches to the optimal use or management of resources, which would impact directly on the economic growth and the raising of the standard of living.

#### **B. FINANCIAL STABILITY**

The second reason why inflation hinders the economic growth is that it impacts on financial stability. A low inflation economy is less likely to experience pronounced oscillations in assets' prices and in the expectations on these prices. The problems related to bad evaluation of assets'

<sup>2</sup>It is known that the most widespread form of taxing system is the progressive one, meaning that the categories of people having highest income must pay higher taxes compared to their income. For example, concerning the monthly income up to 10.000 Lek, 10% is the tax paid, concerning income over 10.000 Lek, 12% is the tax paid. If we assume that due to inflation effects (supposing 10% inflation rate) your income is increased from 9.500 Lek to 10.450 Lek, you will not pay 10% tax any longer, but 12%. To avoid such reduction of the real income, the taxing system is recommended to be indexed with the inflation, that is the taxation categories of people change upon inflation change.

prices and forecasts on them are not very different from the confusion on changes in relative and general prices as described above. Investors and lenders may misinterpret the signals received from prices and may draw wrong conclusions. Under these circumstances, the financial sources are not used properly. The financial stability is indispensable for a sound economy.

- **Decisions on lending, which determine the use of financial sources may be closer to the optimal level in a low inflation economy.** This conclusion arises from the idea that bankers and their customers do usually perform a better work for evaluating the business performance in a climate of relatively stable price;
- **Financial stability raises the ability of an economy to smooth possible shocks:** increase of electrical energy prices, sharp technological changes, unforeseen developments in the economies of partner trading countries and so on. Such events bring about misuse of resources but a sound financial system may “absorb” such shocks, avoiding them to damage the economic activity. Under such circumstances, the real growth would be impacted less than under the conditions when the financial sector would extend and widespread the shock effects. Furthermore, it is likely that the shock effects and the proper reactions be identifiable easier in a non-inflationary environment.

## 1.2 WHY SHOULD INFLATION BE ACCEPTED?

Notwithstanding the above exposé and the consensus agreed upon negative consequences of inflation on economic activity in the long run, the practice shows that no central bank has a 0 inflation rate as its target. In technical terms it is stated that price stability target is translated into a positive inflation target, in low levels, but not 0. In the following, we will briefly present some reasons why low inflation should be accepted in economy:

- As it was stated above, inflation presents a general rise of price level in economy. But, economy is under constant movement: the consumers’ tastes change while technological innovations introduce new

products into the market or reduce production cost. All these factors are a source of changes in the relative prices of goods in the economy, which has as a consequence the reorientation of resources in economy towards more profitable products. **The relative price movement exerts pressure on price level rise**, for a simple reason: the prices have a certain resistance to decrease not to rise. Normally, you may see a price trebled, but it is difficult to find an example of reducing the price in one third. **If monetary policy would be oriented towards a zero inflation level, it would hinder the relative price movement and the restructuring of economy in accordance with the new reality.** This movement is larger in a developing economy. Therefore, the developing countries, one of which is Albania, accept higher inflation targets than the developed countries.

- The discussion on negative inflation effects must be put into a comparative background. **So, deflation (the opposite of inflation or the reduction of the overall price level) is more harmful to economy than inflation.** Under a situation when prices drop day in day out, the decisions for consumption would decline, pending lower and more favorable prices. Likewise, deflation increases the real borrowing cost and, consequently, the decisions of companies for investments. The decline of consumption and investments would undoubtedly lead to an economic activity slow-down. **Thus, if the central bank targeted a 0 inflation, it would take the risk of deflationary situations.**
- **It is frequently said that inflation disguises the qualitative aspect of goods and services.** The need to be competitive or merely the accumulation of experience in respective areas enables the companies to supply ever more qualified products in the market. But the qualitative change is not totally reflected in product prices. For example, though a mobile phone may have the same price in the market, its technology, function and quality are much more advanced today than two years ago. **From this viewpoint, we may state that the tolerating of a low inflation level is “the price” that the society should pay to guarantee the existence of economic**

### **incentive for technological innovations.**

Finally, we can state that while negative inflation effects in economy are already known and largely accepted, no central bank equalizes the price stability with the maintaining of 0 inflation. Practically, the developed countries<sup>3</sup> target an inflation of around 2 per cent. For the developing countries, the inflation-targeted band is larger. In Eastern Europe, Albania included, the inflation target fluctuates generally around 3-5 per cent band.

## **II. MONETARY INSTRUMENTS AND MONETARY POLICY**

So far we have already made clear that low inflation may have obvious impacts over the growth and economic development, through its effect on the use of real resources and financial stability.

One of the few points, upon which many macro-economists agree, is that **inflation is first of all and mostly a monetary phenomenon**. It occurs due to the creation, over a long-term period, of money at such a extent as to exceed the production of goods and services in economy. Furthermore, the consensus that money supply is determined by the central bank in the long run is agreed. In this way, **with an appropriate policy, the central bank may manage to maintain low inflation rates in the long run**. In a broad sense, the central bank must have the responsibility to grow money, in compliance with low inflation levels. If the central bank

accomplishes such a duty, the country will have considerable economic benefits.

The right and obligation to control the creation of money in the long run allow sharp fluctuations in the short run mobility of money. In the past the monetary aggregates were used to connect the short-term period to the long-term one. Though the impact of monetary aggregates on the price level in economy is not put under discussion, the solidity and coherence of this relationship are smoothed. The short-term relation between money and economy has been weakening.

Therefore, **the optimal time horizon, in which the monetary policy should operate, is the mid-term period**. Central banks show little importance to the interpretation of short-term movements and the reaction to them. **An important consequence of the long-term prospect of central banks is their need for real independence**. The economic policies of governments have frequently proved to be policies limited by the mandate of a government. The guaranteeing of macroeconomic stability and inflation control requires long-term policies, beyond political considerations. The concept of central bank's independence from politics has found academic and practical consensus all over the world.

### **II.1 TRANSMISSION MECHANISM**

In order to make a successful intervention, the central bank should clearly know how to transmit its monetary policy in economy. The

Figure 1. Monetary policy transmission mechanism<sup>4</sup>

<sup>3</sup>Here, we would mention U.S.A., Countries of Western Europe, Canada, Australia, New Zealand, Japan, etc.

<sup>4</sup>The breaking lines present the links, the solidity of which is supposed to have a secondary impact on the transmission mechanism. This scheme should be regarded only as an orienting scheme, to structure the following discussion. It does not claim to be a complete scheme of all possible links of transmission mechanism.

transmission mechanism includes the channels, through which the monetary policy instruments impact on the real economic activity and fulfill the inflation target. Generally speaking, the transmission mechanism may be summarized in the following scheme:

Referring to the above scheme, we can briefly analyse the functioning of transmission mechanism.

1. The implementation of monetary policy starts with its instruments. The central bank is able to control accurately only the use of such instruments. Moving from the left to the right of the scheme, the monetary policy impact becomes weaker.
2. The monetary policy instruments define the liquidity level in the interbank market and impact on the nominal interest rate of interbank market<sup>5</sup>. Also, the liquidity level has an impact even on the exchange rate.
3. The change of nominal interest rates, in a short-term period, is transformed into a change of real interest rate. The change of real rates influences the aggregate demand level in economy. In particular, the real interest rates impact on their two component parts:
  - Consumption. The level of interest rates impacts on the decisions of individuals for consumption/investments. The increase of interest rate raises savings in economy, by reducing consumption, and vice versa. A second channel through which the interest rates impact on consumption is the so-called *wealth effect*. The cut of interest rates raises the value of financial assets of individuals, increasing their property and inciting their consumption.
  - Investments. The decrease/increase of real interest rate decreases/increases the real borrowing cost, impacting on the level of investments in economy. But there are also two other ways, through which the change of

interest rates impacts on investments level. (a) *Narrow credit channel*: decrease of interest rates suggests liquidity growth, which means more funds available to economy, and vice versa. (b) *Broad credit channel*: cut of interest rates leads to rise of the financial assets value, which means that the level of collateral available to firms is raised and, consequently, the possibility to have loans.

4. The change of interest rates impacts on the expectations of economic agents on inflation. Such expectations are a very important input in the mechanism of price setting, especially for those economies that function on the basis of long-term salary contracts. The change of interest rates gives to the public signals about the central bank's policy on inflation. The level of public confidence in the central bank makes possible that it reacts by modifying inflationary expectations, yet without the appearance of the real effects of interest rate change. The more reliable the monetary policy and the more credible the central bank, the stronger this channel and the easier the inflation control.
5. The change of interest rates impacts on the exchange rate level<sup>6</sup>. The mechanism through which this impact is made possible is the so-called UIP – (Uncovered Interest rate Parity)<sup>7</sup>. According to the latter, the currencies that have relatively high interest rates are expected to appreciate, and vice versa, the currencies that have relatively low interest rates are expected to depreciate. In the developed countries this is carried out through the international capital mobility. In Albania, though international short-term capital inflows are lacking, this effect is realized through the considerable quantity of the foreign currency existing in economy. In concrete terms, during 2003, the difference of interest rates between lek and foreign currency has constantly exerted pressure on lek appreciation.
6. The exchange rate impact on inflation makes up the one called the exchange rate channel.

<sup>5</sup>The way how the monetary policy instruments impact on the interbank market interest rates will be clarified further on.

<sup>6</sup> The effects described in the footnotes 4 and 5 make up the one called interest rate channel.

<sup>7</sup>Though the literature putting in question the effects of this mechanism is being expanded recently, these studies remain merely in the form of empirical ascertainment, meaning that the effect of this mechanism remains present, but it is lessened by a number of factors such as the expectations of economic agents and the frequently speculative nature of foreign exchange markets.

This channel may be divided into three parts:

- The change of exchange rate impacts on imported inflation level<sup>8</sup>. Imported inflation means the inflation that comes in the economy due to the consumption in economy of imported goods. Understandingly, a depreciation of lek would increase their price and, consequently, it would increase the imported inflation, too. The Albanian economy is an economy with a small productive base, and therefore much exposed to this channel.
  - The exchange rate impacts on the competitiveness of the exports of a country, the trade balance (net exports) and the aggregate demand<sup>9</sup>.
  - The exchange rate exerts a psychological impact in setting the prices in economy<sup>10</sup>. In this way, it impacts on inflationary expectations and on real inflation.
7. The change of consumption, investments and trade balance impacts on the aggregate demand level. This illustrates a very important fact. In fact, the monetary policy is an instrument that consists in controlling the aggregate demand in economy. But, what is more important for inflation and that finally determines its level is the output-gap or the difference between the current product and potential product<sup>8</sup>. If this difference is positive, the aggregate demand exerts pressure on inflation. If this difference is negative, the domestic economic activity level is not a source for inflationary pressures.

The transmission mechanism is very important in drafting and implementing the monetary policy. It describes the way how monetary policy functions in all its aspects, starting from monetary policy instruments to their impact on inflation. Meanwhile, given the transmission mechanism, the drafting of monetary policy pursues the reverse path, that is it starts from inflation targeting to the defining of the overall monetary policy framework and to the using of monetary policy instruments for its enforcement.

## II.2 OVERALL MONETARY POLICY FRAMEWORK

The monetary policy is conceived and put in concrete form through the intermediate and operational objectives and the framework of its instruments.

The monetary policy operates in economy with a certain delay<sup>12</sup>. This delay is conditioned by the transmitting of monetary policy decisions to the financial markets and by the response of markets and economy to them. The less developed the financial markets and the weaker their relation with the real sector activity of economy, the longer the period of time. Therefore, the central bank should react to expected inflation developments and not to current inflation performance, since the latter is beyond the capacity of its influence. This obliges the central banks to develop the instruments and procedures that allow it to react in advance on expected inflation developments. **The central banks use other indicators to assess the need for monetary policy intervention and its effectiveness. These indicators are known as *intermediate objectives* and *operational objectives*.**

**The intermediate objective<sup>13</sup> realizes the link between inflation target and an indicator, which may be used as an early signal of its level.** In theoretical terms, the intermediate objectives should meet two prerequisites: (i) they should have a strong and stable relation with the final objective and (ii) the intermediate objectives must be under the central banks control.

However, the intermediate targets may not be under the complete control of authorities either. Furthermore, time delays do exist, making the control of monetary authorities on the level of intermediate objectives weaker. For these reasons, there is **a need to identify the operational objectives, which establish a link between a central bank's instruments and its intermediate objectives.** As a rule, the

<sup>12</sup>Various studies have indicated that the time space during which the monetary policy impact appears as complete ranges from 6 to 24 months.

<sup>13</sup>The intermediate objective is often known as nominal anchor, since it is announced and serves to orientate the expectations of economic agents.

performance of operational objectives may be monitored at a very short frequency, usually daily or weekly. The operational objectives may be divided into two large groups:

- Quantitative targets, which aim at controlling the liquidity of the banking system or of another monetary aggregate being under the complete control of the central bank; and,
- Qualitative targets, such as interest rates in the interbank market.
- The intermediate and operational objectives change according to the monetary policy regime applied. Further on, we shall tackle the main regimes of monetary policy that the world practice suggests, their implications on defining the intermediate and operational objectives, the Bank of Albania monetary policy regime and the framework of its objectives.

### 1.3 MAIN MONETARY POLICY REGIMES

The main monetary policy regimes are:

- Exchange rate targeting;
- Monetary targeting;
- Inflation targeting.

Exchange rate targeting<sup>14</sup>

In this regime, the central banks aim at controlling the exchange rate, the latter being considered as the main determinant of economic developments. The pegging of the national currency against a foreign currency (or a basket of foreign currencies) meets the price stability target<sup>15</sup> and promotes trade exchanges, thus reducing the exchange rate insecurity.

Depending on the strength of the central bank's commitment to preserve the exchange rate, these regimes may move from managed exchange rate regimes to currency board exchange rate regimes, or to the adopting of a foreign currency.

#### **Box 1 Possible variants of exchange rate targeting:**

*Managed floating - The central bank aims at controlling the exchange rate fluctuations, but without making any formal commitments to the public.*

*Soft peg<sup>16</sup> - The central bank is committed to maintain a fixed exchange rate by defining it in the form of a relatively significant band.*

*Hard peg - The central bank is committed to maintain a fixed exchange rate, at a narrow band.*

*Currency board - It is an extreme form of pegged exchange rate regime. It includes a solid mechanism of institutional commitments by means of which a central bank is committed to issue local currency only if the corresponding foreign currency quantity enters into its foreign exchange reserves, at a fixed rate.*

*Adoption of a foreign currency – Practically a country gives up the sovereign right to issue national currency and a foreign currency is recognized as legal tender for all transactions carried out.*

The maintaining of a fixed exchange rate requires from the central bank to be continuously present in the foreign exchange market and ready to purchase and sell foreign currency at fixed rates. From this viewpoint, this monetary policy regime does not require the setting of intermediate and operational objectives.

#### MONETARY TARGETING<sup>17</sup>

The theoretical basis of this monetary policy regime is the monetarist perception that inflation is a monetary phenomenon. Given that, the central bank aims at controlling inflation by controlling the level of monetary assets in

<sup>14</sup>Many regional countries, such as Bulgaria, Macedonia, Croatia, Bosnia, Baltic countries, etc. adopt this strategy.

<sup>15</sup>Generally, the exchange rate is pegged against a hard currency, such as American dollar or euro. Upon the pegging of exchange rate against the foreign currency of another country, the inflation of that country is also imported. Euro and US dollar are featured by relatively low inflation rates, therefore even this monetary policy regime ensures a price stability, although this is not the primary target declared by the central bank.

<sup>16</sup>The exchange rate level and the tolerance band that accompanies it may change depending on time. In this case we have to do with *crawling peg*.

<sup>17</sup>This strategy is being adopted by such countries as: GFR, USA, Czech Republic, Romania, Ex-Yugoslavia, etc. A tendency to avoid this method is being observed recently.

economy. The monetary policy target is the approximation of monetary supply to the economy demand for real monetary assets.

Such regimes require the control of the level of monetary aggregates as their intermediate target. As a rule, the intermediate target is the increase of monetary supply. This monetary policy regime may accept both types of operational targets. Either the control of base money level or the control of interest rate level in the money market impact on money supply expansion. Both these variables may be controlled over by the monetary policy instruments.

#### INFLATION TARGETING<sup>18</sup>

Inflation targeting is currently the most fashioned regime among the developed countries. From the conceptual viewpoint, the monetary policy decisions under this regime are based on inflation forecasts, using all accessible information. The adopting of this regime requires an in-deep study of the transmission mechanism and its breaking down into an integrated model of equations. Inflation targeting is the most accurate monetary policy regime, since it uses all the knowledge on the way the economy operates and the dynamics of interaction of its sectors.

The intermediate objective of this regime is inflation forecasting<sup>19</sup>, whereas the interbank market interest rates are used as operational objectives.

**The Bank of Albania applies the monetary targeting regime<sup>20</sup>. To achieve its inflation target, the Bank of Albania uses the annual growth rate of money supply as its intermediate objective.** It aims at ensuring an increase of the quantity of total money, so that the money demand comply with the money supply and the real growth of economy with the inflation target. In case of discrepancy, inflation would be raised and/or exchange rate would be depreciated (if the money supply exceeds the demand); or disinflation and/or appreciation of exchange rate (if the demand exceeds the

supply). The control on money growth to maintain price stability means that Bank of Albania sees in the monetary assets level a significant explanation of price level.

### III. BANK OF ALBANIA MONETARY POLICY INSTRUMENTS

Initially, the main monetary policy instrument of Bank of Albania was the control on the minimum level of interest rates of state-owned banks and controls on banks' credit. These instruments are included in the group of direct instruments. They are, in fact, administrative measures that limit certain aspects of the financial market. As such, they are harmful and wherever the financial market development reaches such a level, indirect monetary policy instruments substitute them.

The repurchase agreement and the reverse repurchase agreement (Repo and reverse Repo) were introduced in 2000, and became prevailing gradually. In September 2000, the Bank of Albania eliminated the control of deposit interest rates, passing entirely into indirect monetary policy instruments. The advantage of these instruments is that they operate in compliance with the logic of the market, without causing deformations on it. The central bank impacts on the financial market activity, being merely a participant in it<sup>18</sup>.

#### *Box 2 Indirect instruments of monetary policy*

*For a relatively long period of time (1992-2000), two main instruments were employed for the implementation of monetary policy, the credit limit and the obligatory percentage of time deposit interests in lek. These instruments were merely two administrative decisions of the Bank of Albania which consisted in the limited growth of credit balance by the commercial banks and in the obligation of the state-owned banks to observe the minimum level of the interest rate for time deposits in lek announced by Bank of Albania.*

**Credit limit.** *The undeveloped banking system and the lack of a formal developed*

<sup>18</sup> This strategy is adopted by such countries as: New Zealand, Australia, Canada, Czech Republic, Hungary, Turkey, etc. The European Central Bank is supposed to apply a very modified version of it.

<sup>19</sup> The main function of the intermediate objective is the early assessment of monetary policy timeliness, so as to provide the appropriate time to it to react.

<sup>20</sup> Recently the Bank of Albania has announced to the public its commitment to adopt the inflation targeting regime in a mid-term period.

*lending market made obligatory that Bank of Albania, starting from mid of 1992, control the quantity of credit extended to non-governmental sector, through applying credit limits in a particular way to every bank affiliated to the banking system. To ensure a kind of flexibility and to encourage banks to initiate simple forms of interbank transactions, the marketable limits were viewed as reasonable.*

*The problems faced were numerous, especially with regard to the Reporting and supervision of the observance of the limits permitted. The new credit to the private sector started to grow at accelerated rates, and at the end of 1993, it occupied approximately 11 per cent of total credit, compared with just 4 per cent it was in the preceding year. For many objective and subjective reasons, the observance of such limits became impossible, in most cases, thus reducing the efficiency of this instrument.*

*The borrowing increase in the informal sector of economy reduced gradually the demand for loans from the banking system, while, starting from May 1995, a new investment alternative was added in the banking system, treasury bills. Thus the role of credit limit declined significantly, especially after the crisis of 1997, when, either due to banking supervision rates or to skepticism characterizing the banking system vis-à-vis the private business in general, this instrument started losing its significance when in 1999 its application was definitely abandoned.*

**Interest percentage.** *Upon starting to make efforts for the stabilization of economy in mid of 1992, the according of a real percentage of changing deposits in lek was estimated to be an essential key in achieving success, especially for mobilizing the financial assets and investments. The first movement was the increase of the minimum percentage for time deposits in lek, from the low levels of 4 – 8 per cent to 22 – 32 per cent (respectively for 3-month and 12-month deposits). The effect of such an increase was obvious during the first three years of transition. The restraint of money hemorrhage corresponded to an increase of deposits in the system, while inflation was significantly restrained by dropping constantly until reaching one-digit level at the end of 1995. The period of 1996*

*– 1997, when pyramid schemes emerged, corresponds with a total collapse of the role of interest percentage and of the monetary policy of that time, until arriving to another period of a large increase of administrative percentage of interests on lek time deposits. Developments evidenced in inflation over the period of 1999 – 2000 were unusual, and their consequence was a continuous smoothing of the conditions of monetary policy throughout the whole this period. In this way, we come to the third quarter of 2000, when banks, in their reaction, were not observing the continuous reduction of administrative percentage from the Bank of Albania any longer.*

*Under these circumstances, the re-conceiving of the whole present operational framework was taken into account, and it was decided that the Bank of Albania monetary policy be based only on the implementation of market instruments. The role of the base percentage in economy was given to repurchase agreement interest rate (Repo), as transactions that would be carried out on regular basis in weekly auctions and that would be held by the Bank of Albania.*

### III.1 CURRENT MONETARY INSTRUMENTS

The current framework of the Bank of Albania monetary instruments is designed according to that of the European Central Bank and is very similar to it. The framework of instruments is made up by:

- Open market operations;
- Standing facilities of the Bank of Albania; and
- Required reserve.

#### II.1.1 OPEN MARKET OPERATIONS

Open market operations include:

- Repurchase and reverse repurchase agreements (Repo and reverse Repo<sup>19</sup>);
- Outright transactions
- Bank of Albania interventions in the foreign exchange.

The function of these operations consists in managing the liquidity and interbank market interest rates. The repurchase agreement (known

as Repo) is the main Bank of Albania instrument. It transmits even its monetary policy. The function of Repo is double: (i) it is used for managing the liquidity level in the system and (ii) it serves as orienting for the interest rates level in economy.

#### *REPURCHASE AND REVERSE REPURCHASE AGREEMENTS*

Repurchase and reverse repurchase agreements play a primary role in transmitting the monetary policy. They aim at regulating the interest rate in the market, managing the market liquidity and transmitting to banks signals on the monetary policy to be applied by the Bank of Albania. The open market operations are exclusive to the Bank of Albania. It determines the type of instrument to be used and the relevant prerequisites on executing it.

Before trying to comprehend how the central bank manages to control the liquidity level and the interbank market interest rate, let us see what does Repo represent and how it is realized in practice.

#### INSTRUMENT TYPE

Repurchase agreements are open market operations where the Bank of Albania sells securities to commercial banks and repurchases them on a pre-specified date following the terms and conditions of the agreement. The difference between the purchasing price and the selling

price represents the interest that the Bank of Albania pays to commercial banks. Reverse repurchase agreements are open market operations where the Bank of Albania purchases securities and sells them back on a pre-specified date following the terms and conditions of the agreement. In this case, the difference between the selling price and the purchasing price represents the interest that commercial banks pay to the Bank of Albania for the loan given to them.

Two points should be highlighted here:

- **Instrument's maturity term**, which in Albania may be one week, one month or three months.
- **Instrument's interest rate**. The interest rate of weekly Repo serves as base interest rate in economy. The repurchase agreements having a longer maturity term serve as fine-tuning and structural instruments of market liquidity. Their interest rate do not suggest the monetary policy stance.
- **Legal nature of instrument**. Treasury bills that are traded through (reverse) repurchase agreements have initially been purchased by the Bank of Albania or the commercial banks in the primary or secondary Treasury Bills market.

Chart 1. Repo's weight in the Bank of Albania's full operations

**According to the purpose of their employment, open market operations are divided into the following categories: (i) primary market operations, (ii) fine-tuning operations and (iii) structural operations.** The interest percentage of fine-tuning and structural operations does not serve as a monetary policy signal. The Bank of Albania performs such operations in the form of auctions and accepts the interest rate emerging out of them (obviously within the specified limits).

Repurchase agreements are the main open market instrument and can be employed in all three aforementioned operations, whereas outright transactions are used for fine-tuning and structural purposes only.

### III.1.2 STANDING FACILITIES OF THE BANK OF ALBANIA

Standing facilities are:

1. Overnight deposits and loans
2. Lombard loans

These instruments describe the Bank of Albania's lending extended to commercial banks. By overnight loans and Lombard loan, Bank of Albania extends loans to commercial banks (injects liquidity), whereas by overnight deposits Bank of Albania borrows money from commercial banks (absorbs liquidity from the market). The function of these instruments consists in supporting the main instrument of Repo. These

#### *Box 3 Essential features of repurchase agreements*

##### *A. The primary market operation*

*The primary market operation is the (reverse) repurchase agreement with one week maturity. This operation is also the Bank of Albania's most important instrument for implementing the monetary policy. The main features of the (reverse) repurchase agreements can be summarized as follows:*

- The purpose of their employment is to steer market interest rates, manage the liquidity situation and indicate the monetary policy stance.*
- They are auctions with a fixed offered amount and variable prices or fixed price auctions with no pre-specified offered amount.*
- The Bank of Albania Supervisory Council approves the fixed interest rate of repurchase agreements. This interest rate acts as a floor or ceiling rate for variable price auctions.*
- Repurchase agreements are employed to withdraw liquidity from the banking system, while the reverse repurchase agreements are employed to inject liquidity into the system.*
- Auctions for these types of agreements are organized on a standard and weekly basis.*
- This instrument has a maturity of seven days.*
- All commercial banks having an account with Bank of Albania are entitled to submit auction bids.*

##### *B. Structural operations*

*The instruments employed in open market structural operations are (reverse) repurchase agreements with one month and three months maturity, as well as outright transactions. The features of the (reverse) repurchase agreements with one month and three months maturity can be summarized as follows:*

- The purpose of their employment is to adjust structural positions and manage the liquidity situation (temporary augmentation or reduction).*
- They are executed through quick auctions with no pre-specified auction date.*
- The interest rate for these agreements uses the market interest rate at the time of auction as a reference.*
- The Bank of Albania has the right to refuse auction bids that differ substantially from the current rates in the money market.*
- All commercial banks having an account with Bank of Albania are entitled to submit auction bids.*

### *C. Fine-tuning operations*

*To execute open market fine-tuning operations, (reverse) repurchase agreements with one day, one month and three months maturity, as well as outright transactions are employed. The operational features of the (reverse) repurchase agreements with one day maturity can be summarized as follows:*

- The purpose of their employment is to adjust market's unexpected fluctuations.*
- They are quick auctions with non-standardized frequency.*
- Their interest rate uses as a reference the fixed interest rate of (reverse) repurchase agreements with seven-day maturity, which is approved by the Bank of Albania Supervisory Council.*
- All commercial banks having an account with Bank of Albania are entitled to submit auction bids.*

instruments specify the band in which the interbank market interest rate may fluctuate. The interest rate on the overnight deposit facility is currently 3.0 percentage points lower than the Repo interest rate, whereas the interest rate on the overnight loan facility is currently 2.5 percentage points higher than the Repo interest rate. The interest rate on the Lombard loan facility is currently 6.0 percentage points higher than the Repo interest rate. It is extended only in specific cases, when lack of liquidity in a bank seems to have a permanent nature.

As a rule, standing facilities are initiated by commercial banks. In this way, they determine a band within which the interest rates may fluctuate. No bank would accept to receive loans in the interbank market with an interest rate higher than overnight loan interest rate, given that it may receive easily the overnight loan facility from the Bank of Albania. Also, no bank would accept to invest funds at a interest rate lower than that of the overnight deposit, given that it may deposit such funds in the form of overnight deposit at the Bank of Albania.

### **III.1.3 REQUIRED RESERVE**

The main function of this instrument consists in controlling the money supply growth, and using the facility provided by the central bank to average the daily level of the required reserve, it performs even the function of stabilizing the interbank market interest rates.

## **II.2 ROLE OF REPURCHASE AGREEMENTS IN THE TRANSMISSION MECHANISM**

### **II.2.1 ROLE OF REPO IN MEETING THE OPERATIONAL OBJECTIVE**

In general, as we underlined above, the operational objectives are of two types: quantitative objectives and qualitative objectives (of interest rates).

Quantitative operational objectives of liquidity are used under the conditions of monetary targeting regime. Through the mechanism of money multiplier, they put a link between the intermediate target (money supply level) and operational objectives (liquidity level in the system and base money level). From this viewpoint, Repo is used to achieve the desired liquidity level, by absorbing or injecting liquidity.

Operational objectives in the form of interest rates are generally interbank market interest rates (interest rates with which commercial banks obtain and extend loans with one-another). So, they are not directly repurchase agreement interest rates. From this viewpoint, the Repo interest rate is only an orienting rate for market interest rates.

Initially, the Bank of Albania has used Repos (which were introduced on July 2000) exclusively to manage the market liquidity. The interbank market development has made the Bank of Albania pay a great attention to the role of Repos in managing the market interest rates. But, how does a central bank manage to keep the interbank market interest rates close to Repo interest

rates? (Changes are insignificant).

First of all we should discuss a little bit about aggregate liquidity position in the banking system. This concept is the arithmetic sum of individual positions of banks' liquidity. So, one or many banks may lack liquidity/have excess liquidity, while other banks may have excess liquidity/lack liquidity, but the whole banking system will either lack liquidity or have excess liquidity.

A. **Let us assume that the system lacks liquidity.** Under these conditions, the central bank, forecasting accurately the liquidity needs in the system and injecting the desired liquidity level in the system, makes the interest rates of interbank transactions be close to interest rate of repurchase agreements. **A bank would accept to borrow only at interest rates that are close to that of Repo (usually lower); otherwise it will refer to the Bank of Albania.** From this viewpoint, the Repo interest rate is the marginal rate of the borrowing. If the central bank does not forecast accurately the liquidity level requested by the banking system, we may have deviations of market interest rates from Repo interest rate.

B. **Let us assume that the banking system has excess liquidity.** In this case, the central bank is transformed into absorber of liquidity. Let us also assume that the central bank would make an accurate forecasting of liquidity and would withdraw accurately the quantity

supplied by banks. **Even in such a case, the interbank market interest rate level would approximate to that of Repo. A bank would not accept to extend loans in the interbank market at a interest rate lower than the one based on which the Bank of Albania withdraws funds.** In this case, the Repo interest rate is the timely cost of holding excessive funds for the banking system. If the liquidity forecasting has not been accurate, we may still have deviations of interbank market interest rates from Repo interest rate.

In both cases, the interbank market interest rates will be close to Repo interest rate. However, even in the case of wrong liquidity forecasting from the central bank, the standing facilities mentioned above restrict the movement of interbank market interest rates.

### III.2.2 HOW IS THE REPO INTEREST RATE CHANGE TRANSMITTED TO ECONOMY?

Turning back to monetary policy transmission presented above, we should emphasize that the interest rates, having a larger impact in transmitting the monetary policy decisions to economy, are the interest rates of long-term instruments.

But, Repo interest rates are only short-term interest rates. How do they impact on long-term interest rates? Here the concept of *yield-curve* of interest rate is useful. It is known that long-term instruments have higher interest rates, mainly due to the higher risk they represent. (Line 1 of the chart).

Figure 2. Interest rate curve

Instrument:                      Short-term      Mid-term                      Long-term

By changing the Repo interest rate, Bank of Albania wants a parallel shifting of the interest rate curve. In other terms, by decreasing/increasing the Repo interest rate by 0.5 percentage points, Bank of Albania wants that the lek deposits interest rate, bonds and treasury bills interest rate, as well as all interest rates in economy be decreased/increased by 0.5 percentage points. Graphically, this would be illustrated by the shifting of line 1 to line 2 of the chart. The passing of the interest rate curve to position 3 is the most undesirable reaction of

the financial system to a monetary policy tightening.

The practice shows that financial markets are rather complex. The inflationary expectations are the primary factor determining the form of interest rate curve. If the public does not perceive the monetary policy as the right one, the public reaction may turn the monetary policy invalid. Therefore, central banks are very prudential in adjusting their monetary policy instruments with the economic reality and the expectations of market age.

# USEFULNESS OF CONFIDENCE INDEXES FOR THE CENTRAL BANK.<sup>1</sup>

## 1. INTRODUCTION

The constructing of confidence indexes<sup>2</sup> is preceded by regular or periodic surveys conducted among various operators, who are estimated to play an important role in the country's economy.

The work for constructing confidence indicators, otherwise known in the world, at random, as confidence indexes, has started some years ago at the Bank of Albania (October 2001). Initially, the group of businesses pertaining to the sectors of manufacturing industry and construction was surveyed (October 2001). This survey may be considered as the first proof in terms of constructing the confidence system by the Bank of Albania. It has been conducted regularly, on a quarterly basis, since July 2002, including even the services sector.

In June 2003 the first pilot survey was carried out among the consumers. Just like in the business survey, the consumer survey was conducted during 2003 and 2004 on a quarterly basis, indeed simultaneously with the business surveys.

The constructing of confidence indexes is another serious effort made by the Bank of Albania, consisting in the performance of the analyses of economic facts and phenomena, as realistically and contemporarily as possible. In this view, the project is presented simultaneously as being "ambitious" and "mature".

Ambitious, because it aims at calculating the confidence indicators according to European standards. Therefore, having the support of GTZ, the work team committed to this project is assisted by German experts of the Institute for Economic Studies and Research, IFO, which is

well-known for this area on a world-wide scale.

Mature, since gradually it intends to reach the real confidence indicators with no hurry. Reaching mature indicators means that not only the Bank's decision-makers but also the public have both a satisfactory level of confidence in them. This would have an impact even on the growth of public confidence in the messages given by the Bank of Albania.

## 2. IMPORTANCE OF CONFIDENCE INDICATORS

The importance of constructing confidence indicators is closely related to the fact why these indicators are useful. The goal of setting confidence indexes consists in knowing the tendencies of the real economy sector, in collecting information as comprehensively as possible for the analyses that assist the Bank of Albania in decision-making, as well as in assessing the results generated from an entirely observing process. (Quarterly surveys "**On the business and consumer confidence indicators**").

The necessity of designing a confidence indicators system relates to:

- Development of the forecasting systems for a short-term future in the real sector of economy;
- Filling some gaps of the present information system, especially for the one of statistics of the real economy sector (economic activity, employment, prices, investments, competitiveness, financial situation, savings, public perceptions on inflation, etc...);

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<sup>1</sup> Lecture held at University of Gjirokastra, by Prof. Dr. Shkëlqim Cani, Dr. Evelina Çeliku, May 2004.

<sup>2</sup> Business Confidence Index (BCI) & Consumer Confidence Index (CCI).

- Support given to the assessment on inflationary pressures of production origin (output prices, increasing or decreasing productive activity);
- Producing a range of data for a sufficient period of time to enable the performance of statistical and econometric analyses;
- Comparison of survey data with those coming out of official statistics and the analysis of the resulted variance, the reliability degree of surveys and the official statistics themselves. Possible areas for further improvements of statistical system, mainly of the indicators reflecting the short-term (quarterly) developments up to mid-term (six-month) ones may be studied here;
- Adding a special section of questions in the questionnaires on more specific issues in which the Bank of Albania is interested to obtain information on business and consumers.

The world experience of establishing a series of confidence indexes has shown the existence of a **strong linear correlation between the forecasts based on the confidence survey and the factual indicators of the real economy sector.**

### 3. THEORETICAL AND PRACTICAL CONSIDERATIONS ON CONFIDENCE INDICATORS

- The confidence indicators are the ones being generally referred to by all the real economy analyses, presently in the world. We should underline here that they always play a supplementary role in the statistical information. They only orientate and are not determinant in decision-making.

- The purpose of designing and conducting analyses on the information they provide is associated with the fact that **the speed of information flow in the statistical system, however large it may be, reaches its users and designers of analyses and strategies, phased out in time.** This phenomenon occurs more or less in all countries, even in those being economically more developed. In the conditions

of our country, the intensity of being faced with is so obvious. The information and data on real economy reach with a time lag of 3 to 6 months.

- Under these conditions, it is appropriate to measure the feeling of businesses and consumers for the past situation and to take into account their forecasts on short-term periods.

- The indicators that gauge this feeling are simple in calculation, but have a special importance for the information they produce. The two most valuable aspects of confidence indicators are:

- a) quantity;
- b) quality.

**The first aspect (quality)** has to do with a percentage value resulting from a simple difference between the value that the positive alternative has obtained and that of the negative alternative, on a specific question. Responses are relative or compared with the previous period (in our case – compared with the previous quarter or the previous six-month period on investment performance).

Being methodologically more explicit, we will provide an example of establishing one of the indicators.

Hypothetical example:

The following answers have resulted out of all the answers received on the subject of “business activity”:

60 per cent report that the activity has increased, compared to the previous quarter;

25 per cent report that it has not changed, compared to the previous quarter;

45 per cent report that it has decreased, compared to the previous quarter.

Calculation:

The indicator assessment will be made through the one called “business tendency balance”, one of the very important indicators in the confidence indicators system resulting as a difference between positive and negative answers. In concrete terms, it would be  $60 - 45 = 15$  percentage

points<sup>3</sup>.

Interpretation:

If in the following quarter, where survey will be repeated, the number of positive answers was higher than 15 percentage points, the estimation, according to “Business confidence”, would be that the activity is increased by “x” percentage points compared to the previous period<sup>4</sup>.

The same methodology would be applied even for gauging the degree of investment activity, output price expectations, sales volume (according to the changes in the inventory situation), employment issues, etc. This point is already sorted out since the first survey of the BCI and CCI.

The second element of the quantitative aspect is the determination of aggregated indicators on sectors and overall economy, a step already achieved either for the BCI or CCI.

The third element is the determination of the base period that allows the shifting from the confidence indicator to confidence index. To realize this element, series of at least 3-year data should be available, so that the economic cycle is studied carefully. However, as long as our series is still new, we may proceed by constructing indexes in the form of a chain and year on year.

**Second aspect (quality)** has to do with the analysis of this figure, which is just a difference, in itself. What sign does it take? How is its trend? Going to the most important part, what tendencies does it indicate for the coming period? Such moments are studies about the following indicators: general business climate”, “business sectors” (activity, inventory, prices and employment situation, savings and consumption trends). The conclusions drawn highlight a feeling of the businesses and consumers in general on the above indicators, i.e., they belong to the whole sample.

## 4. BUSINESS CONFIDENCE

### 4.1. SOME CRITERIA AND METHODOLOGICAL STEPS

The definition of sampling, i.e., which businesses will be selected, is the first step.

The fulfillment of this requirement of the survey is related to the fulfillment of some elements which, in this concrete case, are realized as follows:

- The survey is conducted on the recorded businesses from the sectors of manufacturing industry, construction and services;
- Survey is conducted on the basis of a panel, maintaining the principle of comparability based on the same time frame, with a review margin year on year by about 8-10 per cent;
- Businesses belong only to the private sector of economy for the above branches;
- The surveys cover big-sized and mid-sized businesses. This is required to ensure the panel timeliness. Also, the principle of sampling is ensured, which is very important at the moment of analysis and conclusions drawing on the tendencies of the economic activity of sectors and economy;
- Small-sized firms are inspected only once and belong to the services sector (December 2002). They will continue to be surveyed only once a year to complete the information brought by big-sized and mid-sized businesses. The fact that small-sized businesses are less stable in their activity makes the process of surveying and comparing the results difficult;
- The sample size is conditioned by the fact that the businesses surveyed for each sector contribute to 70 per cent in the production (the figure of business) of the relevant sector;

<sup>3</sup>In principle, it is operated like this, either for the BCI or for the CCI, but this calculation is more complex for the CCI, due to more numerous modalities in answers (see: Consumer Confidence).

<sup>4</sup> Currently, the comparison is made not only to the previous period, but mostly to a basic period, thus creating an index. It may be made even against the same period of a year ago (year on year).

- The survey is extended geographically all over the country, being focused on areas having a higher economic activity;

These are basic principles. In consequence of applying these principles in our surveys, a sample of about 600 businesses has resulted for the three sectors altogether. However, to come to this point constant changes are reflected, with the purpose to continuously improve the quality of the confidence indicators.

#### 4.2. STEPS IN CONDUCTING THE SURVEY

- a) The sample is determined as a result of implementing the sample's methodological criteria established by the Bank of Albania's work team in cooperation with INSTAT's experts;
- b) The on-the-spot survey is totally conducted by INSTAT (a testing survey is also conducted preliminarily to see the level the questions are comprehended by the businesses);
- c) The training of the interviewers is managed in a constant cooperation (INSTAT and the Bank of Albania);
- d) The control on the questionnaires is carried out by the Bank of Albania's work team;
- e) The recording of data is performed by the information sector at the Information Technology and Statistics Department of the Bank of Albania;
- f) The elaboration and analysis of results are carried out by the Bank of Albania work team, which consists of staff from Research Department and Monetary Policy Department.

The Survey Office at the Information Technology and Statistics Department of the Bank of Albania is engaged in attending this project.

#### 4. 3. THE FORMULATION OF BUSINESS CONFIDENCE QUESTIONNAIRES<sup>5</sup>

To achieve the goal of the survey, given the indicators to be calculated later for analyzing the data, it was deemed that the questionnaire should be divided into three permanent sections, and when necessary a specific section is added.

**First section (General information).** It ensures a general information on the firm's activity and on the field of its activity in three large sectors, production, construction and services, according to the nomenclature applied in the Republic of Albania for classification of enterprises (NACE).

**Second section (Assessment on the general business climate).** It aims at assessing the current situation of business in the country, lists the factors that have brought about this situation and forecasts the situation for the next three months, according to business opinion.

**Third section (Assessment on business activity).** This section is divided into some boxes. In each box, the private businesses have given their judgment on the current situation and their forecasts for the next quarter. The boxes are: on the firm's activity, investments, inventory, output prices, employment, competition and its financial statement.

So, the most important element of this survey is the expectation on overall microeconomic indicators of businesses, which by being aggregated show the tendencies at macroeconomic level.

**The specific section<sup>6</sup>** may be used for specific research purposes. According to the needs, a section of questions for collecting more specific information may be drafted. Such a section deals with issues such as: informal lending market (BCI); the way of remitting and assessing the

<sup>5</sup>The questionnaires used in the business confidence surveys are found in Annex A1 of this paper. The basic questionnaire used presently by IFO, which takes into account the standards stipulated in the EU, has served as a model for the BCI questionnaire. It is understandable that some amendments or adjustments that relate to economic and social conditions in Albania are made. Certain questionnaires are used for each sector, with the basic questions being the same.

<sup>6</sup>This is a section, which in different cases is included even in the consumer confidence questionnaires.

quantity of remittances from emigrants (CCI); and how much does the public comprehend the Bank of Albania signals (BCI); businesses, consumers and cash use in economy (BCI & CCI).

## 5. PERFORMANCE OF BUSINESS CONFIDENCE INDICATORS (2002 – 2004)

For all the sectors surveyed, a high level of cooperation between businesses and interviewers is observed. This is translated first in the high level of the responders, more than 95 per cent and in the harmony observed on results. This speaks for a somewhat satisfactory understanding by businesses of questions on economic indicators.

However, a characteristic is noticed, which penetrates almost all surveys: businesses are more optimistic for the short-term future and this emerges in higher expectations than the current values of the relevant quarter. So, there is a kind of assessment of the economic situation for future times with more positive colors than the ones they admit later on or than how much is proved to them.

This feature and other problems reflected during the survey and analyses results make these indicators continue being in the testing process.

Though the Bank of Albania has not announced the figures, it uses the information collected from the confidence indicators to supply its analyzing needs. We deem that it is not the appropriate time yet to extend their use further on, to attract other people's interest. The work process continues to be performed with seriousness, aiming at achieving their publication in the near future.

### 5.1. INDUSTRIAL PRODUCTION SECTOR

Businesses of the production sector have a certain spreading that justifies, to a certain extent, the weights of economic sub-activities, which are in reality different, within it.

It is known that the food industry, that of construction materials, and that of textile industry, count for a considerable weight in the sector of industrial output in the country, a fact that is confirmed even by the firms selected as samples of this survey.

Some brief comments of the information provided by business confidence indicators for the production sector lead us to the conclusion that the economic situation of industrial output business has followed, during 2003, a somewhat falling trend. The growth of the overall Albanian economy throughout 2003 seems to have been resulting from rather other sectors of economy, such as services, construction and transport.

Chart 1. Spreading by production sub-activities (in %)

The main obstacles in the development of industry, according to businesses opinions in this sector, drawn from the examination of their answers, are related in some periods of time to the problems of order and security and other aspects, such as relations with fiscal administration, differentiated law enforcement among businesses, etc.

Based on the analysis of indicators, it seems that the production decrease is mostly due to the decreased demand. A downward production activity in itself has caused a kind of impossibility to generate new job vacancies, a non-satisfactory financial position, a significant reduction of investments and a decline of exports level in this sector.

The decreased demand, particularly at the beginning of the fourth quarter of the year, has not exerted pressures on industrial output prices, and, consequently, on a part of the consumer prices.

Chart 2 Performance of the aggregated business confidence indicators in the production sector (2002-2004)

## 5.2. CONSTRUCTION

Construction businesses have had a positive performance in the second and third quarter of the years, and this is also proved during 2002-2004.

The main underpinning factors in this sector during 2003, based on the information provided by construction businesses, are:

- implementation of the legal framework;
- the country's political climate;
- peace and security.

The demand in this sector has somehow shrunk because of the soaring prices of buildings. This was then followed by a production decrease, which brought down the number of the employees working in construction firms. However, there is an on-going decline in inventories or a rise of

Chart 3 Performance of the aggregated business confidence indicators in the construction sector (2002-2004)

sales in this sector. Competition has been growing from one quarter to another; however, prices have not fallen.

### 5.3. SERVICES

According to the business confidence indicators of this sector, the annual performance of the services sector was quite volatile. The “best” quarters in terms of a growing economic activity (the overall climate & the business balance) were placed the second and the third, and among them the third quarter is yet the one with the best performance. The reason behind this is that services like hotels, restaurants and tourism in general are rather active in this quarter compared to the others.

Not surprisingly, a lower business balance was presented in the fourth quarter, according to the September '03 survey. (T3-'03).

In 2003 dominant factors were the ones related to:

a) legal and institutional framework, mainly translated in the taxation policy, intensified perhaps in the fourth quarter of the year (this factor was a prominent one even in the last year's survey).

b) order and security (mainly in the second quarter of 2003)

In all cases, the downward activity has been underpinned by a downward demand for services. A downward demand and a growing competition are translated in the downward trend of prices in this sector throughout the second half of 2003. Except for the third quarter, employment situation has deteriorated, a fact that corresponds to the low service-sector business activity at this time of the year.

### 5.4. BUSINESS CONFIDENCE INDICATORS FOR THE ECONOMY<sup>7</sup> AND DEVELOPMENTS FROM OFFICIAL STATISTICS

A cycle is being created, growing more in the third quarter of the year. This trend proves that Albanian businesses are quite perceptible. The trend of prices generally during 2002-2003 has been checked and it provides substantial information for the decision-making at the central bank. Employment has also followed the trends verified by official statistics. Factors bearing impacts on the economic activity are somehow justified through particular situations of economic and political developments in the country.

Chart 4 Performance of the aggregated business confidence indicators in the services sector (2002-2004)

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<sup>7</sup> The term economy implies three sectors (industrial production, construction and services), average-weighted with the corrected weights in the GDP.

Chart 5 (a-b) Economy (2002-2004)

5-a) Aggregated business balance

5-b) Aggregated business confidence indicator

It is quite evident that colors in the aggregated indicator of economy are given by the business balance. This indicator is referred to as the most complete and reliable one, since it bears even the slightest gaps between the current situation and expectations for a certain period of time.

## **6. CONSUMER CONFIDENCE**

Consumer confidence index is interpreted as a

forecast for the performance of a country's economy in the near future, since it tries to dictate changes in the economy's cycle. Therefore, a fall in the consumer confidence in the economy is regarded as a fall in consumption in the future and vice versa. This indicator is very important in some economies where consumer consumption occupies a considerable weight in the GDP, since it is one of the fewest to evaluate the consumer expenditures sensitivity.

### **Box 1 A few more words on consumer confidence**

#### *A brief history*

*The CCI dates back to 1967 in America when the University of Michigan broke the ice of setting up the index. The index set up is based on the Consumer's Survey results, and consists in a series of questions on the expected financial and economic situation of consumers. In the early 70s, the European Commission decided to include the Consumer Survey in the Survey Harmonization Program. The Survey Harmonization implies the unification of the questionnaire used in the surveys carried out by the EU countries. The countries that will soon join the EU are using the same methodology approved by the European Commission.*

#### *Advantages and disadvantages of the consumer confidence index*

- *The consumer confidence is a "leading" indicator in the business cycle.*
- *It provides information on consumer's assessments of the current and expected situation. Higher expectations on the future suggest that consumers are much more likely to spend now or in the coming months.*
- *The survey answers are classified as to the family incomes, age and as to the occupation of the family member who generates most of the incomes.*

*Despite all the information it provides, the consumer confidence should be treated carefully.*

- *Often consumers do not have the adequate information to accurately assess the employment and income increase in a six-month lag;*
- *The consumer confidence analysis provides information on planned expenditures, which do not necessarily turn into real expenditures. Nevertheless, it is quite difficult for a stronger consumer confidence to be accompanied by a decline of expenditures.*

## **6.1. CONSUMER SURVEY IN ALBANIA**

### **Questionnaire<sup>8</sup>.**

Being careful to maintain the comparability of results with the other countries and relying also on these countries' practices, it was deemed that the same questionnaire as the one provided in the EU manual to be used in conducting the consumer survey in Albania.

The questionnaire purpose is to evaluate the consumer confidence degree in the current and expected economic situation. Thus, it will give a clue on how consumers adapt they own

decisions to consumption and savings based on expectations.

Therefore, it is divided in two parts: the first part refers to the current economic situation compared to the previous quarter; the second part refers to expectations for the next quarter. The questionnaire includes 15 questions in total, three of which - the ones related to long-term investments – are asked once a year.

Questions aim at receiving answers on various economic indicators, such as unemployment, inflation and real incomes. More specifically:

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<sup>8</sup>The CCI questionnaire can be found in annex A1 of this paper.

### Calculation specifications of consumer confidence indicators.

Each of the questions obtains 5 possible optional answers – one of which is neutral. For each of the questions, the result is calculated as a difference between the percentage of positive answers with the negative ones. Since there is more than one choice of positive (negative) tendency, the choices are given different weights. Thus, the resultant of each question is calculated as follows:

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

where:

PP - choice percentage “greatly improved”;  
P - choice percentage “improved”;  
N - choice percentage “worsened”;  
NN - choice percentage “greatly worsened”.

Choices are given different weights in order to differentiate the overtones of questions.

Based on the results, three consumer confidence indicators are calculated. The indicators are calculated as to the arithmetic mean of the results arising from respective questions.

1. Consumer Confidence Indicator (CCI) takes into consideration the consumer’s current situation and financial expectations, the country’s current situation and economic expectations, employment degree in the future, gross savings and investments (habitat)

2. Current Economic Indicator (CEI) takes into consideration the consumer’s current financial situation, the overall current economic situation and possibilities for gross purchases.

3. Economic Expectations Indicator (EEI) takes into consideration the consumer’s financial expectations, the expected economic situation, unemployment and savings.

Their indexing is made through carrying out some surveys and calculating these indicators. For each question, an index is established; all these indexes are finally used to establish a sole index.

### Selection and distribution

About 1206 consumers were asked. The number is established according to the population and taking also into consideration the experience of other countries. The survey is carried out with families living in towns, since the consumption price index survey itself is done in the urban area. The population of towns participating in this survey stands for 86.4 per cent of the urban population in Albania, or 36.4 per cent of the whole population. The urban population occupies about 42.2 per cent of the whole population<sup>9</sup>. All these comparative data suggest that the geographical criterion has been somehow observed in the methodology of the survey.

The families are selected by chance, and the interviewing method is a direct or a face-to-face method.

### Survey results

Four surveys have been carried out until now on a quarter basis. However, this is a small number to check the adequacy of the survey results. In other words, it is soon to estimate whether those results provide an acceptable trend of the consumer’s behavior in the future or the perception of the economic situation. Some of the reasons are: first, Albanian consumers are not yet accustomed to such surveys. Therefore, it will take time before consumers become familiar to the questions and maybe grasp what is behind the question. Furthermore, there is always a comparison made between earlier periods and the later ones, and that’s why it is essential for this perception to be reflected in the consumers’ answers. An important role in the whole process is also played by the interviewers who get special training on thereof.

Second, as it was also mentioned above, the consumer survey aims at calculating other indicators as well, where other information sources are available and easily checked. For instance, the perception of the price increase can be checked through the consumption price index, or expectations on unemployment rise could be checked through the INSTAT’s data. Likewise, the economic growth is calculated through the GDP data. Since the statistical data

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<sup>9</sup> Based on the latest population census, in 2001: “Albanian Population in 2001”, INSTAT

on the real economy are generally produced rather late, the consumer results need a certain time to be verified.

Nevertheless, so far results from the four surveys comply with the statistical data, especially the data on inflation being as statistics with a higher frequency (every month). Based on this, we are quite confident that the surveys carried out now provide useful information on some economic indicators, on which statistical data either are not available or are produced quite late.

## 7. CONCLUSIONS

Confidence indicators are generally the vectors of economic activity trends. They complete the statistical information framework and help the decision-making in public institutions and private sector (businesses and investors).

The results of confidence indicators provide useful information about economic trends too, as to the sectors, assisting thus the right orchestration of sectoral policies.

The usefulness of confidence indexes data is also related to the information they provide on the country's regional economic developments. Regional development policy-makers would consider confidence indexes as underpinning elements in achieving long-term objectives, making thus safe steps forward in short and medium terms.

Despite the important role<sup>10</sup> they play in orientating the expected economic developments in the country, the figures provided by confidence indexes should be considered carefully under a wider economic-social-political development framework of a country.

The Bank of Albania has carefully studied the figures of business and consumer confidence indicators since 2002. Therefore, this period is considered a probationary period, aiming at creating a significant series of these indicators.

In this complicated process, we believe that the confidence indicators established are much more representative or qualitative for the current economic situations, while expectations – in most of the cases – are optimistic. This is not just a good will of businesses and consumers for better economic situations in the future, but also a fact that the available information at a certain period of time does not allow for complete forecasts. Even when this information is somehow ample, the limited general and economic knowledge of some of the businesses does not allow for satisfactory approximations on would-be economic activities. However, such a consideration is fading from one survey to another.

We believe that confidence indexes are on a consolidation track, and as such they can be employed by the Bank of Albania, in receiving mainly signals for short-term and mid-term future trends in economy.

The Bank of Albania continues to watch carefully these indexes and employ them for the purpose of internal analysis. The main objective, however, remains their continuous sophistication so that indicators of a higher quality and significance can be published and then exploited by public and private institutions, domestic and foreign businesses, and Albanian consumers themselves.

## 8. ANNEXES

### 8.1.

#### A 1: QUESTIONNAIRES

Business confidence  
Consumer confidence

### 8.2.

#### A 2: BUSINESS AND CONSUMER CONFIDENCE IN BUSINESS WEEK

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<sup>10</sup> See in the annex A2, results of confidence indexes published in economic reviews reputed on an international scale.

# THE NEW SALARY SYSTEM AT THE BANK OF ALBANIA<sup>1</sup>

## 1. INTRODUCTION

This paper dwells upon the new salary system at the Bank of Albania. This redesign outlines in detail the core part of the old salary structure.

The purpose, principles and objectives established by the Bank of Albania Supervisory Council on the salary policy at the Bank of Albania were taken into consideration when designing the new system. The new structure is conceptually based on the theory called “pay for performance”.

The new structure managed to:

1. Eliminate at maximum incomes without any work done, presented and accepted.
2. Highly protect and strengthen the rights won by each member of the Bank of Albania’s staff, aiming at a full harmonization towards the mutual interests between employees and institution.

The main reason to revise the old salary structure is the continuous orientation given by the Supervisory Council to design a new salary policy that would take into account the present development rate of Bank of Albania as well as the new realities of the labor market. Various flaws encountered during its application were also a stimulating reason to revise it.

Many of these flaws have been noticed also by foreign advisers to the Human Resources and Legal Department. The recommendations made by them have been reflected in all cases when possible.

The new salary structure established at the Bank of Albania aims at reaching the following goals:

1. Properly appraise the individual efforts and the contribution of the current staff, and link this appraisal with the wage allocated to each one. As a result, competition among staff members and their motivation for a qualified and better professional performance will be higher.<sup>2</sup>

2. Continuously motivate all the staff members and offer them opportunities for a horizontal as well as a vertical carrier. Everyone would first find itself exactly where he/she can do its best, and second, there will be one more reason to keep everyone interested at staying to work with Bank of Albania.

3. Keep working with BoA highly skilled and highly qualified employees through a competitive salary system being comparable with same or similar job positions of the present labor market<sup>3</sup>.  
4. Attract the most skillful specialists in the labor market and then motivate them for long-term job relationships with BoA by offering them employment security, fair compensation and opportunities for professional performance.<sup>4</sup>

*3. Flaws and problems of the old salary structure*  
According to the old salary structure, the general basic salary in the Bank of Albania was composed of the basic salary and some additional elements as illustrated in (Table 1):

According to this salary structure, all bonuses – at the best case possible – are of a smaller value or equal to the basic salary. However, they hardly reach the level of 50-70% of it. The fourth, fifth and seventh bonuses that concern the job performance are rather insecure. The first, second, third and sixth are automatically received. We underline that only a small number of staff receives the insecure bonuses.

This salary structure is being used for a

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<sup>1</sup> Mr. Artur Lama and Ms. Eralda Dume have given their assistance in this paper.

<sup>2</sup> Taken from the recommendations made by Mr. David L. Schannon and Mr. Iain Thomson, advisers to the Human Resources of the Bank of Albania. The FSVC sent them to assist the development of human resources strategy in the Bank.

<sup>3</sup> Taken from foreign advisers’ recommendations.

<sup>4</sup> Taken from foreign advisers’ recommendations.

Table 1 – Old salary structure at the Bank of Albania

relatively long period of time and has played an important role in the achievement of the Bank's objectives, but it has not yet succeeded to provide a suitable and differentiated treatment to the Bank's employees.<sup>5</sup>

Albeit interventions and continuous changes, flaws are apparent, some of which might even be considered as essential ones. They are briefly given below with respective arguments.

One obvious flaw of the old salary structure is found in the additional compensation for general work experience (Compensation 1 in Table 1)<sup>6</sup>.

First of all, the additional compensation on work experience for a profession different from the one the employee exercises in the BoA, is a non-effective labor cost. It does not present a fair appraisal and reward based on professional skills and qualifications that are essential to the achievement of BoA's objectives.

Here is an example that explains further this point: "Employee X is hired in the BoA as a Human Resources manager. Previously he has worked as a Human Resources manager in a commercial bank, as a financial manager in a private business company, as a book-keeper in a medical institution and as a cashier in the payment department of another commercial bank."

While his experience as Human Resources manager will be helpful to him after being hired in the BoA, the experience gained as a book-keeper or a cashier would not help him much to perform better in the BoA. Therefore the experience as Human Resources manager should be evaluated as an element related to his job position in the BoA and should be taken into consideration in the analysis of that job position. Since the rest of his work experience is not classified as helpful for a high performance in the BoA, it should not be taken into consideration.

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<sup>5</sup> Taken from the foreign advisers' recommendations

<sup>6</sup> The first and the second flaw were taken from the recommendations made by Mr. David. L. Schannon and Mr. Ian Thomson.

Second, the work experience in the old salary structure is treated as an external motivator and not as an internal one. Meanwhile, real motivators are only the internal ones. Therefore, the external motivators must be turned into internal ones, whenever possible.

Thus, the additional pay taken from such an experience is given “for free” – there was no need to demonstrate any value or work of any kind. Referring to Herzberg’s “Dual Factor” Theory, if one gets part of his salary for free (as it occurs with the pay increase because of overall work experience or experience in the bank), this could lead to job dissatisfaction (extrinsic factor) and not to job satisfaction (intrinsic factor).

On the contrary, if the work experience is considered part of the job content, for example as an element taken into account in the analysis of a job position and as a criterion for promotion, there will be a new view of motivation. In the second case, this would be converted into and classified as an authentic motivation.

The second flaw of the salary structure in question is found in the additional compensation based on the results of work performance.

These compensations, according to the old salary structure, are given by the Governor based on the propositions made by immediate supervisors and other senior officials of the Bank. Given the large number of the Bank of Albania’s employees and the fact that these compensations are allocated based on everyday work, such a method cannot be so efficient.

This is due to the fact that the Bank of Albania’s senior officials are, first of all, responsible to achieve the Bank’s institutional (not departmental) objectives and to guide all the Bank’s operations in a unstable environment, such is the Albanian case. Therefore they should focus on the allocation and the management of all the Bank’s resources and delegate more authority to lower management levels.

Allocating the employee’s rewards on work performance through delegating the right to managers in charge of departments is one opportunity of giving more authority to the respective managers. In this way, they will become more motivated to determine departmental objectives - arising from institutional objectives - as well as to charge duties to their staff and

evaluate properly their efforts for the accomplishment of these duties.

The third flaw of the old salary structure is that it does not provide any chances for a horizontal carrier forbidding thus (or even putting at disadvantage), above all, an adequate motivation of the skilled human resources, which, due to the limited real opportunities for promotion, do not have any chances for a vertical promotion.

In more concrete terms, certain members of the staff, according to the old salary structure, were entitled to a direct pay increase based on their overall work experience and experience in the bank. No matter what the job performance was, one was still entitled to such a right.

If we were to make just a superficial analysis of the whole situation, it would be quite evident that a horizontal carrier is provided to everyone and no criteria are required thereof. It is enough for an employee to have been paid for a certain period somewhere or in the Bank.

However, a thorough analysis would bring forth the fact that the carrier we are talking about does neither rely on nor is it explicitly supported by any specific form. It is not difficult to understand that because you have been paid somewhere that does not stand for a virtue, or criterion to lead to a direct annual pay increase. It generates no incomes and it does not affect, in any way, other income sources from which one can get what is paid to the employee. In the same way, formally, it does not help bring incomes to the institution.

In fact, this income is practically considered – under a certain a light – as worthless. Accordingly, it is not motivating or it could be even a harming one. This pay increase goes both to the one who has had a high performance and the one of a lower performance and who is not as committed as the first one.

No doubt that such a reward system provides everything but encouragement to the hard-workers, setting thus an unpleasant environment of equality.

This income would make perfect sense only if classified as a social element of salary. In other words, when salaries are very low, additional pay components are provided, so as to justify their

increase at a higher acceptable level. And in such a case, it would make sense. However, salaries at the Bank of Albania are far from being either of a social nature or low. And therefore, there is no reason why such an income should be applied.

Hence, general work experience does not have any value with regard to what we are discussing about. They may be taken into consideration only if associated with other job components (which add new value), however, aiming simply at offering another chance to benefit by comparing everyone's work with that of the others.

A total different meaning must be attached to this increase, which could serve as a powerful lever for the benefit of the institution and people who are interested. First of all, it should aim at: upgrading research works in the bank (being ever more dominant in a central bank); providing real opportunities and impulses to research-development oriented people, and enabling a bigger inflow of such skilled human resources from the respective labor market.

The fourth flaw of the existing salary structure is the meaning and evaluation made on the pay increase to the staff members having a scientific qualification.

The old salary structure provided, according to the scientific qualification, a material reward being however symbolic. The sum cash awards benefited is far from being encouraging. In addition, the meaning attached to them does not help a central bank's job.

A fifth flaw (inherited and which stands out even in several recent surveys) of the old salary structure would be the lack of a full regular vertical line in the salary system as well as the relatively low salaries of above positions in particular compared to the same or similar positions in the today's labor market.

If we were to draw a comparison between salaries of various managerial positions at the Bank of Albania with those of the same or similar positions outside, however comparable environments to the Bank of Albania, the differences would put at a disadvantage the Bank of Albania's managers. In fact, it should be the other way round, since the Bank of Albania, apart from being an unique and constitutional institution, is also very important with regard to

the object of its activity or the objectives to be achieved.

The Bank of Albania licenses, supervises and examines all commercial banks. Besides this fact, senior staff of these banks have higher incomes than their counterparts at the Bank of Albania. As a rule, the opposite would be acceptable.

The sixth flaw is the lack of an accurate and full classification of job positions at the Bank of Albania. Such a classification would provide a more accurate allocation of respective incomes in the form of pay increase.

A strange and quite unjustifiable paradox stands out in the old salary structure as far as job classification and relevant pay per job position is concerned. On one hand, there is a unification of those job positions bearing all a central bank's work load (and evidently there is a unification of respective salaries). On the other hand, there are "infinite" job positions of the same or similar importance they represent in accomplishing a central bank's objectives – and what is more, they are not to be compared to the earlier ones – that are treated differently at salary levels. In other words, all the bank's officers (the ones who really perform the day-to-day operations of the bank) are given an equal basic salary no matter the job description they have (being different according to the department profile). Nevertheless, maintenance staff (according to the job description), drivers or even cleaners – being either in the central administration or in the branches – are given a different basic salary.

Being rather more explicit, there is a differentiation for the earlier ones (department classification), in the old salary structure. Certainly, this is not enough to the today's development level of the Bank of Albania, let alone to its near future (considering the Bank's mid-term commitments). Furthermore, it does not depend on the employee's job description but on the structure he is a member of.

Worth mentioning is the fact that there are almost no criteria under which the present classification takes shape or they are not sufficient to draw the adequate conclusions.

Job development level at the Bank of Albania calls

for a new classification concept that should change the above-mentioned situation. A thorough classification, which allows for several evaluation criteria (eight from the maximum, two used in the old classification), is being processed and hopefully it will be soon implemented.

### 3. WHAT WILL BE THE SALARY SCHEME FOLLOWING ITS RESTRUCTURING?

The comprehensive restructuring of the salary system is deemed to be carried out in two stages. This would then depend on working out the above-mentioned problems and on establishing a more flexible system than the previous one.

The final model reflects a lower basic salary and compensation program closely biased by certain work components, recognized as important to enable relevant compensations. According to this model, the overall gross salary has a smaller, secure salary portion and a higher insecure portion (this depends on performance ratings). More specifically, the weight of basic salary and secure compensations will decrease, while the weight of insecure compensations will be increasing. Let us see in detail this transformation:

According to the old salary structure:

Gross salary = Basic salary + bonuses

*Basic salary* is a fixed amount.

*Bonuses* in most cases are a fixed amount, not based on performance rating

The same structure will be applied to the new one.

The salary scheme according to the old structure is presented as follows (Scheme 1)<sup>7</sup>:



Scheme 1. Old salary structure at the Bank of Albania

From the above scheme, we notice a bigger weight of basic salary in the gross salary (compared to the rest) and the low weight of compensations over it. We recall that all compensations are secure expect one (the performance rating) which is applicable only to a limited number of staff. Relying on the statistical data of the recent years, this compensation bears quite an insignificant weight on the overall salary.

Referring to the new model, the structure now is overturned (i.e. the weight of its components). This is reflected in the following scheme (Scheme 2)



Scheme 2. The new salary structure proposed by the Bank of Albania

*Basic salary* is a fixed amount, but ever smaller

*Bonuses* – ever less fixed amount, strongly based on performance rating bearing thus an ever-

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<sup>7</sup> The quadrangles size corresponds to each component weight

significant weight on gross salary.

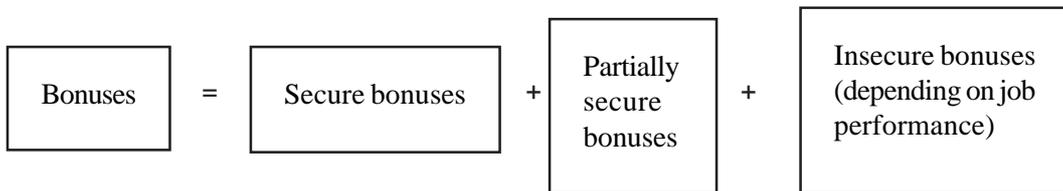
The structure of bonuses is also subject to changes. According to the old structure, bonuses were programmed as follows (Scheme 3):



Scheme 3. Structure of bonuses on salary and their respective weight in the old model

From the above scheme, we notice the considerable weight of secure bonuses and the low weight of the insecure ones (practically quite insignificant) based on performance rating.

However, the new structure of bonuses is as follows (Scheme 4):



Scheme 4. The structure of bonuses and their respective weight in the new model

An overturn of the old structure happens here, too. The weight of the secure bonuses goes down, whereas the weight of insecure ones and performance rating goes up.

Hence, we might say that the basic salary and bonuses ratios are overthrown in the new structure.

And most important, there is an overhaul of the total salary; a downsize of its secure component and an upgrade of the insecure components based on performance rating.

Table 2 – The new salary structure at the Bank of Albania

A diagram of the final structure would be the following (Table 2)<sup>8</sup>:

According to the above scheme, apart from the reduction of the size and weight of the basic salary in absolute value, there will be an increase of bonuses (to be around 150% and more over the basic salary), and there will be only one secure compensation (job classification bonus), a partially secure bonus that shall be benefited in the same way as the insecure bonuses (category bonus), and five other insecure bonuses. The last six bonuses depend on performance rating.

Most of the new structure is already under implementation. Meanwhile, its second stage is still under process at least from structural outlook, and it aims at giving the new structure its final shape.

#### **4. THE HIGHLIGHTS OF THE NEW SALARY MODEL**

The highlights of the new pay model focus on a new classification, which leads to the salary structure overhaul and to the proper structure itself.

The salary structure overhaul was first preceded by a classification and realignment of positions and their respective basic salaries. The realignment served only to the structure overhaul. In this context, all the positions were classified under classes, groups and levels. This realignment is the first highlight of the new pay model.

The introduction of class, group and level concepts is made for identification and classification purposes. In the old structure, there was a vertical classification of positions, without providing any single name to a certain number of them while they were given the same basic salary or its other components.

In order to make the identification of same position alignments easier (as to their importance), the "class" concept was introduced. This is a widely used concept for such purposes even in other structures (the present classification in the

Albanian public administration is an example of this). Class concept in the new structure stands for one or more positions of the same importance at the Bank of Albania. Class is a vertical classification of job positions. It is related to the basic material evaluation (basic salary) or other evaluations made to the positions or the respective position group.

There are ten classes in the new structure. Eight of them already existed, though not identified through this concept (however, they can be easily identified if paying attention to salaries given according to the old structure). The last two are realignments of the remaining positions of the same type (in total 20 basic salary levels), and they are related to auxiliary activities at the Bank of Albania.

These two classes were divided into 5 groups (vertical subdivision) considering the variety and the big number of auxiliary positions (for this matter even those which are not regarded as crucial for a central bank), as well as their relevant classification (spotted only through the basic salary). This realignment enabled the shifting from 20 basic salary levels of this type to only 5 of them. This quantity justifies also their low significance among all sorts of jobs that are performed in a central bank. Nevertheless, a further reduction of them is not to be excluded.

The introduction of class concept makes the introduction of categories<sup>9</sup> easier. Categories outline a new carrier style (horizontal carrier) at the Bank of Albania. This carrier was not in the old salary structure.

Each class is named either based on the highest position included in it or on the most outstanding features of the job that allows classification.

Thus, the basic salary of all employees is linked to classes and groups. Each class (with no groups) and each group (when available) has a definite basic salary, different from the rest.

A vertical (macro) division is found in the level concept. Different positions are classified under the same level. Though they cannot be classified under a class or group, they do have many

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<sup>8</sup> A more detailed information will be given below on each element of the new structure, which is being only partially implemented at present

<sup>9</sup> More details to be given as follows

features in common that make them stand out in the group from other classifications. For instance, there are many elements that bring about differences between the position of the “Governor” and that of the “Vice Governor”. However, compared to all positions in the Bank of Albania, what links them is much stronger than what sets them apart. Therefore, in many cases these positions are identified under a single term (administrators). The same logic would apply to other groups. “Directors of Departments” and “Vice Directors” have almost the same authority in managing departments. Also, the elements in common are much stronger than what sets them apart, compared to other groups above and below them. They stand prominently out of all lower positions. However, they do not have any of the administrators’ qualitative features, and consequently cannot be classified under the same level.

In the new structure, there are five (vertical) job position levels. There are two classes in each level.

Levels were mainly introduced – as it was the case of classes or groups – to treat constituent classes of one or each of them as a whole in order to achieve specific objectives of the new salary structure.

The three above-mentioned concepts suggest a vertical division of positions. They provide thus the ground for a vertical carrier at the Bank of Albania. However, this is not possible to all. The higher the hierarchy one wants to reach, the more difficult the climb. The reasons are easily understandable, since there cannot be three directors and eight vice directors in one department. The job description itself does not permit such a thing.

The introduction of category is thus the second highlight of the new structure. Actually, this is an adoption of a concept under the new organizing structure in the Bank of Albania and not the introduction of a new concept. This is a well-known concept widely recognized by various organizations.

Category is a division or a classification applicable to every position. It allows salary increase after certain periods of time, and based on work experience and, more particularly, on performance rating. Once one gets the category,

the respective salary increase is given through the bonus under the same name. Meanwhile, in case of poor performance, there shall be a downfall in categories or even declassification in any of them.

Such a division eliminates the two-forementioned bonuses (according to the old salary structure) – *the one for general work experience and the other for bank work experience*. The category is a horizontal division of each class (or group). As such, it does not offer particular promotion in responsibilities (as it is the case of vertical carrier); however, it offers professional promotion.

The reason why category concept was introduced is a multiplex one:

- Category excludes totally the two-forementioned bonuses, given for free. Thus, classification turns out to be a real motivation. Nevertheless, attention has been paid to the fact that the sum cash awards benefited from classification should reach almost the same or similar value of what was benefited from the two excluded bonuses. Consequently, the same cash award is not offered for free, but against the work done. This practice is far from being based on the conception of old structure when this sum cash awards is considered as non-effective cost or as only reducing dissatisfaction.
- Introduction of categories gives space to another type of carrier that is the horizontal one. This may very well serve as a motivation to stay at (or to approach) the Bank of Albania for all those people who are productive in their job positions.
- The performance condition – set in order to move to a higher category – will stimulate work at all levels. No good performance, no move to a higher category.
- Introduction of categories offers an additional right not only to a certain group of people but also to the Bank of Albania’s whole staff. This is the right to make carrier. The only qualitative criteria of which is: high performance. This reflects also a commitment of the Bank of

Albania to upgrading and consolidating opportunities for the development of staff skills.

- There is a higher flexibility of the salary system, by “breaking it up” according to performance rating. Hence, we get the salary system overhaul based on the “pay for performance” requirements.

The following diagram presents the new structure and correspondence among levels, classes, groups and categories (Table 3)<sup>10</sup>:

The third highlight of the new model is only a “return to the origin”. This has to do with the re-introduction of the “chief officer” position. The main reason of the introduction of such a position is to offer more opportunities for a vertical carrier (besides the horizontal one) to those who do not have chances to be nominated in managerial positions and/or have significant professional skills. Another reason of the introduction of this position is also the fact that in departments with a large number of employees it may be necessary to make a rather more detailed classification of the staff members depending on the tasks assigned to them.

Table 3 – Levels, classes and groups in the new salary structure at the Bank of Albania.

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<sup>10</sup>The presentation of categories indicates in a approximate way even the period of time being a condition to receive a category or to pass into another category. We observe that the higher we go vertically (the much the vertical carrier done) the fewer the possibilities of making horizontal carrier. During discussion on the application of categories, it was decided to apply this model compared to another one that allowed an equally vertical and horizontal career for all job positions. The main reason was that the horizontal career was introduced, as a concept, even as a possibility or a right to career for those employees who had not any chances to make vertical carrier. Meanwhile, the adoption of the other model was far from this reason.

The three outlined highlights were related to the re-configuration of classification leading to salary system overhaul. The following ones, however, relate to the structure itself.

As we explained above, the salary scheme is the same as the one in the old structure: basic salary plus bonuses. The new structure, however, taking into account mainly the Bank of Albania's environment development or the obligation to accomplish at best duties and responsibilities, (a) reduces the basic salary levels, and (b) eliminates, re-designs or changes bonuses.

In the old structure, there were in total 28 basic salary levels, and bonuses were then added to them.

- (1) General work experience;
- (2) Work experience in the Bank;
- (3) Department classification (or division);
- (4) Job performance;
- (5) Scientific qualification;
- (6) Job position hardship;
- (7) Participation in projects.

The gross salary according to the new structure is made of the basic salary plus the following bonuses (Table 2):

- (1) Job position classification;
- (2) Job category;
- (3) Job performance;
- (4) Management level;
- (5) Job performance (different from the above one);
- (6) Scientific qualification;
- (7) Participation in projects, research works, and activities.

Only the first bonus from all the above ones in the new structure is not based on performance rating. While all the others are in a way or the other decisively based on it. Hence, we get the salary system overhaul according to the "pay for performance" concept.

We will now briefly dwell upon each of them.

(1) **Bonus on job classification** is not implemented yet and still under process. This bonus is based on the classification of all

positions at the Bank of Albania, according to the scores one gets in eight criteria considered as adequate to make this classification. This classification includes and substitutes (by entirely improving them) the two bonuses of the old structure: *the department classification bonus and general work experience bonus*. Such a bonus is a fixed amount and calculated based on the scores of each position. There is a possibility that this bonus might suppress completely the basic salary and serve itself as a primary criterion in determining the basic salary.

(2) **Bonus on job category** is the second new bonus, already implemented. This bonus substitutes the two bonuses of the old structure that were obtained naturally and for free. The substitution of these bonuses was actually one of the main problems to be faced with when designing the new structure, since they had quite a considerable weight in the old structure. The bonus on category is a fixed amount for each category, and different categories have different amounts. This bonus is based on job performance.

(3) **Bonus on job performance** and others of the same nature have undergone significant changes, and their explanations deserve a separate paper. The amount is flexible. The benefited sum for a certain period of time depends only on performance. Below you may just have a brief outline, since it will be dwelt upon in a separate paper.

First, this bonus has a different "content". The content is rather more simplified and straightforward, giving more explicitly and correctly what is going to be achieved. Thus, criteria and requirements to benefit this bonus are divided into two groups. Also two forms are provided: one for university graduated employees and one for the maintenance staff.

Second, this bonus has a different managing "owner". Under the old structure, this was given by the Governor based on the suggestions made by the heads of departments (immediate supervisors). However, under the new structure this is given by the heads of departments themselves (or units of the same levels). The latter have the full authority to determine the bonus amount based mainly on the accomplishment of the work schedule for the performance evaluation period, as well as on other

elements included in the form.

Third, this bonus has a new “target”. Under the old structure, this bonus was applied to university graduated employees only, whereas under the new one, it applies to the maintenance staff, too.

Fourth, this bonus has a new “validation period”. Under the old structure, it was officially repeated once in twelve months. However, under the new one, it is repeated every six months (the tendency is to actually apply it every month). And the purpose is quite simple: anticipate the reflection period when poor performance is observed.

(4) **Bonus on managerial levels** is a new bonus applied for the first time. It is addressed to all levels of management at the Bank of Albania. This bonus is given by the Governor, in cooperation with administrators, and it is based on work quality. The amount is flexible and based only on performance.

Two were the main reasons for its application.

I. The enlargement of the staff spectrum that are entitled to bonus on job performance, from which they are excluded. This seems quite moot as the arguments thereof do not seem to be exclusive (exclusive arguments are those arguments to which one cannot respond with counterarguments of the same qualitative level).

II. Necessary equal consideration of the decentralization put forth as far as bonus on job performance is concerned. It is a matter of delegating to the heads of departments the right to approve it. Such a configuration is more than indispensable to particularly stop a manager’s behavior, who plays the “good one” at the expense of work. Upon verification of such a case, the Governor may penalize/criticize him according to his abusive behavior.

(5) **Bonus on performance** (different from the above) is a new bonus under process. This bonus shall aim at evaluating the performance of a macro level (under the objectives and tasks of the Bank of Albania). It will be different from the two above-mentioned ones as far as the object of work set to benefit it is in place. Meanwhile, like the two other bonuses, it will be a fixed amount and based only on performance.

(6) **Bonus on scientific qualification.** There is a diversity of ideas about this bonus and its concept. For the time being, the amounts determined by the Supervisory Council decision No. 03, dated 19.01.2000, are still in force. The amounts are fixed and based on performance.

(7) **Bonus on participation in projects, research works, and activities.** This bonus is the existing one; however, it is designed to better specify its purpose. Thus, its new concept does not limit the variety of activities, which for diverse reasons are not named under the word “projects” (the only name that enabled this bonus). Consequently, every staff member working on a research/study, conference or activities (no matter under what name) that require overtime work (beyond the daily eight-hour) for more than a month, and present a specific interest for the institution. The purpose, which it was designed about, is hence preserved and not restricted to potential interpretations. At the same time, it expands the spectrum of people who can benefit it without putting restrictions with regard to the form, presentation or formal name of the work that enables this benefit. This bonus is also a fixed amount, and it is benefited against the work done.

In the present stage of implementation of the new salary structure, an eighth bonus is also to be applied, called **bonus on maintaining the same level of the present salary.** This bonus has a purely technical character; however, it is believed to be eliminated once the final model of the new salary structure is approved. The purpose this was introduced was to equilibrate some aspects of the present stage of implementation of the new salary structure.

## 5. CONCLUSIONS AND OBJECTIVES

As a conclusion, we might say that the final model of the new salary structure allows to achieve in practice the objective undertaken. It designs and breaks up the salary based on job performance, as well as on the value attached to each job position in a central bank’s hierarchy.

In the future, it’s up to us to better arrange the relationship between the basic salary and bonuses, by reducing as much as possible the social part of it “at the expense” of the part based

on performance. This fact allows a better and accurate connection of the work done with the salary. By reducing the amount of the secure salary and raising the amount benefited from bonuses (that must be ever more based on traceable objectives of work) there will be a higher commitment to perform a quality work and a higher psychological value of the money benefited through work, too.

A full vertical structure of the salary model remains another task to be fulfilled. This will be done according to the importance attached to each job position in the Bank of Albania's hierarchy and to the pay offered to each of them in the today's labor market. However, the vertical structure we have today is not complete

compared to the respective salary market. Salaries of various managerial positions at the Bank of Albania are lower than those of the same or similar positions outside, however comparable environments to the Bank of Albania. And this non-compliance becomes stronger the higher we go in the hierarchy.

The vertical structure is improved in the new structure. Nevertheless, giving the dynamics of the environment, where comparisons may be drawn, it will continue to be under our focus in the future.

The new salary structure will be based on a compensation system that will aim more and more towards a performance driven pay.

# BANK OF ALBANIA HEAD OFFICE BUILDING, TIRANA

## OVERVIEW

Once the new Albanian state was consolidated in '20 – 30s, along with the urban planning of cities, particularly of Tirana, the organization and development of public administration started to be applied according to most advanced models of Western Europe.

From this viewpoint, even the Albanian banking system started to be conceived and framed according to financial model of the Western countries, so as to be ready to precede the financial relations that had arisen and changed rapidly in the state that had a few years ago won the independence.

During this period the first banks were built in the main cities of the country, such as in Durrës, Vlorë, Korçë, Elbasan, etc. Such buildings, with their striking architecture and urban position in the very centre of the city, remain to this day the most perfect works in the area of architecture and administrative construction.

From this viewpoint, it was deemed appropriate to locate even the Bank of Albania head office's building, due to its importance in the financial and banking system, as a central bank, in the buildings that would format the central square of our capital, Tirana.

The Bank of Albania's building is included in a well-studied urban plan, due to its location. The difference of the Bank's façade from the other buildings of Kavaja street points out the urban environmental variety at the entrance of the central square of the capital, presenting a very important administrative construction.

The building construction terminated in 1938. Vittorio Ballio Morpurgo, a famous Italian architect of that time, designed the building plan. Its architectonic style corresponds to "Rationalism", a trend which flourished in Europe

during the first half of the previous century.

This style is distinguished for its enormous volumes and strong lines in the façade. It has been mostly applied in governmental buildings, aiming at expressing the strength and power of Western governments of that time. In this respect, even the Bank of Albania's building is one of the memorable buildings of its kind, at that period.

## An overview on Rationalism in architecture

After the World War I, Europe had to face big problems in reconstruction, accompanied by a demographic boom and, consequently, by a large demand for housing. Therefore, "**Protorationism**", which until that time was dedicated to the solution of abstract aesthetic problems, emerged. During this period, representatives of this trend started to deal with the solution of practical problems of production in series, of usage of new construction materials, prefabricated ones, in order to provide competitive and economically advantageous products. This was also the beginning of real "**Rationalism**", being defined as the rational use of environment based on available resources.

The first experiment in these new architectonic forms, that introduced structural components of glass, steel and concrete, began in industrial constructions and had as a first protagonist **Walter Gropius**, being educated at Protorationalist School of architect **P. Behrens**. In 1919 Gropius established in Weimar “**BAUHAUS**”, on the basis of rationalist experiences, a school of architecture and applied arts, which not only gathered the famous intellectuals and artists of this epoch such as **Kandinsky** and **Klee**, but also established the basis of modern design and a center of debate on architecture.

The utopists and architects of abstract architecture such as **Tatlin**, the neoplasticists such as **Rietveld**, and the painters represented by **Malevic** and **Mondrian** were influenced by the study of formal perfection, chromatic balancing and abstract composition.

**Bauhaus** participated with much success in prestigious expositions of the time, among which “**Werkbund**” in Stuttgart in 1927, where all rationalists projected the prototype area of future

way of living. For the first time the projects of the futurist **Sant Elia** were executed, from which complete premises of modern comfort emerged.

The rationalists’ ideas through German avant-gardists influenced even the Russian architecture of that time (after the October Revolution).

The rationalists’ ideas still survived and succeeded in being executed even by **Le Corbusier**, the famous representative of this architectonic period, who was trained in Bauhaus and who initially was completely an utopist, then he was distinguished as a consequent developer of methodological programs of design.

While Adolf Hitler regards the brilliant experiments of rationalists as a degeneration of art, in Italy the opposite takes place. Upon Mussolini’s rise to power, architecture and its developments are put under control. Mussolini launches the thesis that **Fascism is a house of glass**, where everything is transparent, and on the basis of this principle, almost all the existing architectonic trends enter into competition to select and provide development opportunities to that trend that represents at best his ideas.

For Mussolini the awakening of conscience on golden-years Rome and the construction of a new glorious society on the basis of this bright period were of importance.

In this spirit, it is worth mentioning the establishment of **Gruppo 7** in Italy in that period, which was created as a reaction against “**Academism**”. This group, being oriented toward two important epochs of art, antiquity and renaissance, carried out the actualization process with the modern world architecture.

This ethic and aesthetic philosophy is almost the same as Mussolini’s ideological philosophy, therefore the modern fascist movement emerged in Italy, which, by absorbing the necessity of something new ceased from having relationships with former artistic movements regarded as chaotic, was oriented to golden historical periods of Italy and sought the right of absolutism based on totalitarianism and universalism. It was accepted immediately by Fascism.

In **Casa del Fascio** the whole program of the movement is materialized, and it is regarded as the highest stage of civilization process. **Giuseppe Terragni** represents and leads the Italian modern trend based on **rational architecture**. They incorporate the materialization of an individual (Mussolini) with the ideology solidified by matter. Everything is underlined by monumentality and ignorance, by personal incomprehensibility as human individuals connected to ideological system.

## BANK OF ALBANIA HEAD OFFICE BUILDING

The location of this building of Rationalism times in the central square of Tirana, with the name of “Skenderbej”, our famous warrior of the Middle Ages, has fully justified the respect of the citizens of Tirana and all Albanians.

The building was conceived on a polygonal plan, **split in two functional sides**: the main arched building, where the Bank’s representative function would be exercised and its operating part. The latter would be constructed on both sides and the backside of the main building, but its construction was interrupted by the outbreak of the World War II.

The main building structure has been set up in the form of an arch, constrained by its location in the main square of the city. Its main entrance includes a grand portal, supported by strong columns, involving the entire height of the façade and decorated by baked clay mural bas-reliefs in its typical colour, which gives the building a very dignified appearance, on the whole.

In the organization and functioning of the Bank’s activity, the two parts of the building were supposed to be accompanied by an apartment building for the Bank’s employees. Its location was planned to be as close as possible to the Bank.

According to the urban study of those years, it was planned that this building, of which the project was designed by Morpurgo, the same architect, would be constructed next to the Albanian Parliament (now the Puppet Show).

## CURRENT SITUATION

Currently, the head office of the Bank of Albania consists of its main building in the form of an arch and two small annexed premises (to be pulled down after reconstruction), being

ARCH. VITTORIO BALLIO - BANCA NAZIONALE D'ALBANIA A TIRANA



PARTICOLARI DEL PORTICO D'INGRESSO, DEI MOSAICI DI GIULIO ROSSO E DELLE SCULTURE DI SIAGIN



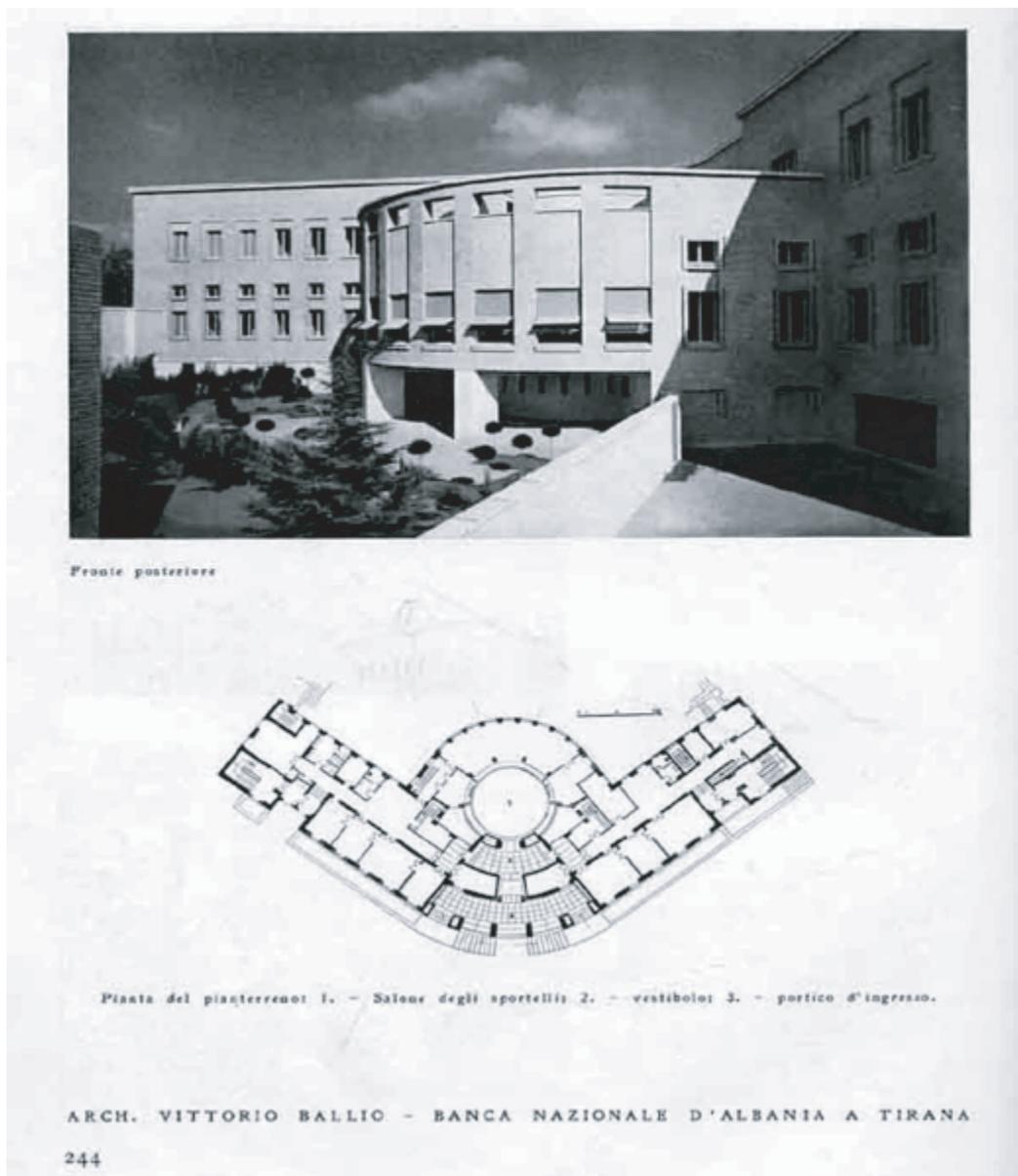
constructed in various subsequent periods to face the increased number of the employed staff.

The big changes that occurred in the beginning of 90s imposed the establishment of prestigious democratic institutions, one of which was the central bank of the country. Therefore, in April 1992, the Bank of Albania was created, to which, just like its sisters all over the world, reliable functions were entrusted for the economic and financial development of the country.

Along with the issuing of the national currency, the Bank of Albania enjoys other privileges, among which the more highlighted are the planning and implementation of monetary policy

and the banking system supervision. Regardless of the above, what is more remarkable is just the fact that over the years the Bank of Albania has been growing professionally, and it is not exaggerating one could say that nowadays this institution is one of the avant-garde centres of economic thought and research.

Due to the specific conditions of big restrictions in the area we are facing today, it results that the Bank's daily activity is braving artificial obstacles, which are impacting, in one way or another, on the Bank of Albania performance. Generalizing the consequences, we would mention:



1- The building, with its existing total surface, cannot afford the activity carried out by the central bank.

2- The existing building is amortized, **physically** almost in all its architectonic elements (*mainly in the refining of internal premises*), and **morally and physically** in its installation elements (*conditioning-ventilation, information technology, functional system of power supply, etc.*).

3- It cannot afford the increased number of employees and the creation of necessary conditions to conduct the Bank's activity according to a typology of updated internal

infrastructure.

4- It does not ensure a security level complying with the requirements of the time, in certain premises in particular and in the whole building in general.

To solve the above problems, the Bank of Albania, along with the reconstruction of the existing building, has decided to construct a new building as close as possible to the existing one (65 years old).

*Eng. Niko SHTREPI  
Tirana, on April 2003*

## NEWS: APRIL-JUNE 2004

*THE CHALLENGE OF 2004: THE REDUCTION OF CASH AND ITS SUBSTITUTION WITH BANKING OPERATIONS - GOVERNOR'S LECTURE AT THE FACULTY OF ECONOMICS, UNIVERSITY "ALEKSANDER XHUVANI", ELBASAN.*

On April 1, 2004 the Bank of Albania Governor, Mr. Shkëlqim Cani, held a lecture at the Faculty of Economics, University "Aleksander Xhuvani", Elbasan. The lecture subject was: "The Challenge of 2004: Reduction of Cash and its substitution with banking operations".

In the introduction, Mr. Cani presented the causes of cash circulation in the Albanian economy and its interdependence with the informal and unofficial economy. The Bank of Albania considers the reduction of cash in economy as a complex issue, not belonging to the central bank only. The Bank's program on the reduction of cash and its substitution with banking operations requires the cooperation of most important actors of the economic development. Mr. Cani listed some of the ways that would reduce cash in economy: payments and revenues in favor of the state balance should be maximally performed through the banking system; a considerable encouragement in this direction should be given to the business in employing different banking payment instruments such as checks, etc; the installation and implementation of a clearing system; the review of the legal and regulative framework; clearing of monthly fees (power, water, telephone, health reimbursements) for public administration employees through banking transfers.

*GOVERNOR'S LECTURE AT THE FACULTY OF ECONOMICS, UNIVERSITY "FAN NOLI", KORÇA.*

On April 2, 2004, the Governor, Mr. Shkëlqim Cani, held a lecture with students of the Faculty of Economics, at the University "Fan Noli" in Korça. The main topics discussed during this lecture were the central bank and the banking system in Albania. Initially, Mr. Cani theoretically explained the banking system, focusing on the

central bank's basic functions, as well as those of a universal commercial bank. The Governor outlined some major developments in the banking system in the last seven years: "The macroeconomic stability and reforms in the financial sector have improved during the post-pyramid scheme period of 1996 – 1997". These improvements are related to the privatization of certain state-owned banks and new private banks entering in the Albanian banking market, which have influenced the financial intermediation, as well as the progress in the development of banking services.

Another characteristic worth mentioning is the increased number of private banks, where currently there are 16 of them. The banking activity has been developing together with the growing number of banks in the market, consequently increasing the number of the saving accounts. By the end of 2003, the system's total assets resulted in 373.6 billion lek or 50% of GDP. On the other hand, the number of saving accounts has continually increased from 178.2 billion lek during 1998 to 323.2 billion lek in 2003.

Another characteristic of these positive developments in the banking sector is the improvement of the loan market. There are two main attitudes to be noticed in this market: first, the continuous increase of lending activity to the private sector and second, the decrease of bad loans towards the total of credits. During 2003 the banking market was characterized by important developments; the prominent one bearing major impacts on the banking system was the privatization of the Savings Bank by a well-known bank, Raiffeisen Bank. During this year, two banks started to operate on domestic capital. The financial situation of the banking system during the last few years has been satisfactory.

The Albanian banking system has been continuously resulting with profits, guaranteeing

thus its liquidity, as well as supplying the crediting needs of the economy.

*GOVERNOR PRESENTS THE ANNUAL REPORT 2003 IN PARLIAMENT.*

On April 6, 2004, the Governor presented the Annual Report 2003 in Parliament. The observance of the main macroeconomic objectives defined in the National Strategy of Social and Economic Development enabled a further enhancement of the country's macroeconomic equilibrium during 2003.

In 2003 the Albanian economy seems to have turned back to satisfactory economic growth rates. Preliminary estimates indicate that GDP in real terms increased by 6 per cent in 2003, compared to 4.7 per cent in 2002. The economic activity growth is verified in all sectors of economy, however, being more prominent in construction, transport and services.

The year we left behind recorded a slight improvement of the employment situation. The number of the employed people continues to rise, while the chronic problems of Albanian transition, such as emigration and informality of labor market and of economy in general, affect the reduction of total labor forces and make it more difficult to explain the efficiency of policies and country's economic developments in employment. However, the unemployment rate reduction by the end of first nine-month period was indistinct, according to official sources, reaching the level of 15 per cent, from 15.8 per cent it was at the end of 2002.

Year 2003 was featured by a low inflation, within the Bank of Albania inflation targeting. The inflation rate as of December resulted to 3.3 per cent, within the Bank of Albania targeted rate, while consumer prices rose by 2.37 per cent on average throughout 2003. Whatever the factors, this low inflation rate originates from the control over the domestic demand due to appropriate monetary and fiscal policies.

Unlike the previous years, 2003 was featured by a more rational allocation of fiscal expenses. The government demand for loans was more uniform during 2003, avoiding the concentration of deficit financing in December. The total annual deficit was 19 per cent lower than it was in the previous year, reaching the level of 4.4 per cent of GDP. However, some problems, such as revenues

collection at 93 per cent, and especially the realization of capital expenditures only at 62 per cent of the plan are also to be mentioned. For the first time over the transition period, the public savings reached a positive value, due to the consolidation of public finances, especially in the expenditures.

The public savings have impacted on the growth of 0.8 percentage points of the domestic savings, compared to 2002, enabling that at the end of 2003 the domestic savings be estimated at 13.8 per cent of GDP. Total investments were 22.3 per cent, recording a slight growth from a year ago. The investments rise during this year is mostly attributed to private investments rise, since public investments carried out during 2003 were about 11.7 per cent lower than in the previous year. 2003 was featured by an intensive activity in the country's external sector.

This is reflected in the significant increase of current incomes and expenditures. Current account deficit declined by 2 percentage points compared to the previous year, reaching 6.7 per cent of GDP. The overall payment balance position was positive, enabling that the country's foreign currency reserve become continuously increased. For the first time in December, their overall level exceeded the amount of USD 1 billion.

*GOVERNOR'S LECTURE AT THE FACULTY OF ECONOMICS, UNIVERSITY "LUIGJ GURAKUQI", SHKODRA.*

On April 9, 2004, the Governor held a lecture with the students of the Faculty of Economics, at the University "Luigj Gurakuqi" in Shkodra, with the subject: "Economy in the Bank of Albania Annual Report – structure and data".

Governor Cani started his lecture with an overview on the content of the Bank of Albania Annual Report, as one of the most important publications of the Bank, which provides through analysis and concrete figures a general view on the country's economic development, monetary policy, foreign exchange market, banking supervision, the Bank's monetary operations, payment system development and all other Bank of Albania's activities throughout 2003. Furthermore, Governor Cani went on presenting the Bank of Albania Annual Report of 2003, which was presented in Parliament a few days ago. He underlined, inter

alia, the most prominent events of the Albanian economy over the past year, providing details on the development of real, monetary, fiscal sectors and going on presenting the performance of inflation, monetary policy and supervision applied by the Bank of Albania throughout 2003. A particular attention was also attached to the innovations that occurred over the past year regarding payment system development and the Bank's prospects for 2004.

#### *THE GOVERNOR MEETS THE INTERNATIONAL MONETARY FUND MISSION.*

The Governor met on April 14<sup>th</sup>, 2004 with the International Monetary Fund Mission, headed by Mr. Julio Escolano – the new chief of Mission – who was accompanied by Mr. Jan Peter Olters, resident representative of the IMF in Tirana, Albania.

The meeting focused mainly on issues, such as macroeconomic developments, monetary policy, banking system, foreign exchange, interbank payment system, etc. Governor Cani stated that the inflation rate throughout 2003 was 3.3 per cent, a figure estimated within the 2-4 per cent targeted range. The economic growth was estimated at about 6 per cent. The 2004 forecasts are believed to remain at the same levels. The banking system performance following the Savings Bank's privatization was another important issue referred to.

The Governor said: "At present, the banking system seems consolidated and does not face any serious threats". In his speech, the Governor informed the Mission on the positive performance of Real Time Gross Settlement project, as well as on the commitment of Bank of Albania, commercial banks, Ministry of Finance and World Bank to implementing Automated Clearing House project in 2004.

Topics on cash replacement campaign and introduction of banking transactions in economy were also widely discussed in the meeting. The Governor emphasized the Bank's willingness to co-operate with other institutions – mainly the Ministry of Finance and Ministry of Economy – supported by a stronger banking infrastructure from commercial banks – in successfully accomplishing the "Beyond cash" program. One of the first steps of this program is expected to be the payment of public administration

employee's wages and public company's bills through banks.

#### *RAIFFEISEN ZENTRALBANK, THE NEW OWNER OF THE SAVINGS BANK*

On April 15<sup>th</sup>, 2004 the Governor announced the successful finalization of the Savings Bank's privatization, approving Raiffeisen Zentralbank as its new shareholder. In the meeting held yesterday, an important decision made by the Supervisory Council was the decision on allowing the Savings Bank to restart its lending activity following a 6-year suspension from 1998.

Given the relevance of the Savings Bank in our banking system, as well as the historical role it has played in the Albanian public savings, its taking over by a credible, financially sound and with the adequate experience investor in banking network was of great importance.

The efforts made in this respect by the Albanian Government, the Savings Bank itself, the Bank of Albania and international financial institutions which assisted this process had a positive outcome since the Raiffeisen Zentralbank represents a very good choice for the Bank's future. The new shareholder is expected to enhance competition in our banking market. While the Savings Bank itself will be developed much better in administration, organization and information technology.

Savings Bank's relations with customers, commercial banks and Bank of Albania are expected to improve significantly according to the best western banking standards. After approving the new shareholder and lifting the lending activity restriction, the Savings Bank will be evidently active in crediting the economy and particularly the private sector.

#### *GOVERNOR'S MEETINGS DURING THE SPRING MEETING OF THE INTERNATIONAL MONETARY FUND AND THE WORLD BANK*

During his visit in USA April 22-26, 2004, the Bank of Albania Governor, Mr. Shkëlqim Cani, and simultaneously Governor of Albania at the International Monetary Fund, took part in a number of meetings with the representatives of the IMF, WB and FSVC.

The developments of the Albanian economy in

general and the monetary ones in particular were the main topics of discussion with the representatives of the IMF. The Governor made a presentation, for the representatives of the IMF, on the latest developments of the economy and on the performance – for the fifth year in order – of the inflation target, as well as on the Bank of Albania's preparations to move to an inflation targeting regime in mid-term period. Mr. Cani, on behalf of the Bank of Albania, requested and received the support of the IMF representatives for this process. An important topic of discussion was the "Beyond cash" program of the Bank of Albania and the serious commitment of all authorities and the banking system to this process.

In the meetings with the World Bank representatives, the discussion was mainly focused on the Bank of Albania's initiatives to reduce cash in economy and develop a modern payment banking system. After the successful accomplishment and the start of functioning of the "Real Time Gross Settlements" project financed by the World Bank, the Bank of Albania has finalized the functional technical requirements for the new payment project, named Automated Electronic Clearing House. Based on the positive experience of the previous project, the World Bank representatives guaranteed the Governor on financing this project.

*MEETING WITH MR. ANDREW SPINDLER,  
(FSVC).*

The first meeting of Mr. Cani took place in New York with Mr. Andrew Spindler, Director of the Financial Services Volunteers Corporation. The Governor, in his speech, made a presentation of the main developments of the Albanian economy during the last year and the challenges for a stable development and reforms towards European Integration.

As far as regards the collaboration with the FSVC, the Governor highlighted the positive development of banking supervision, audit, statistics and the management of human resources in the Bank of Albania. "Under this process - stated Mr. Cani - the technical assistance of FSVC has played an important role, too, for which I thank you". Mr. Spindler expressed his assessments on the steps that the Bank of Albania has undertaken in the reforming process towards the standards of modern central banks, establishing thus its

physiognomy throughout the integration process of Albania.

The technical assistance of FSVC in the future will be mainly concentrated on the banking supervision, banking system restructuring, etc, through advisors and missions of technical assistance. At the same time, FSVC will cooperate with Bank of Albania regarding the assessments of research works and studies. The Governor invited Mr. Spindler to attend the Fifth International Conference of the Bank of Albania that will take place in October 2004.

*MEETING WITH MR. BIAGGIO BOSSONE AND MR.  
AGHDAEY HORMOZ (WORLD BANK).*

In the meeting with the Executive Director of the World Bank for Albania, Italy, Greece, Malta, Portugal, San Marino and East Timor, Mr. Biaggio Bossone, and in the meeting with Mr. Aghdaey Hormoz, chief financial officer, the Governor briefed first the economic developments in Albania.

According to Mr. Cani, "the Albanian economy has recorded an increasing rate of the Gross Domestic Product in 2003, estimated at 6 per cent, an inflation rate of 3.3 per cent, an increase of foreign reserve exceeding 1 billion USD or 4.7 months of imports, etc. Mr. Bossone, in turn, stated that "Albania has marked a positive success within a short period of time, but still remains a lot to do with regard to coordinating the work among institutions and to achieving the commitments undertaken. It would be rather important for your country to have a development strategy, where the work of institutions converges into the same target".

The difficulties of establishing institutions, especially the independent ones, the need of communicating and debating the ideas, the transparency and indispensability of publishing information from all relevant institutions, were other topics of discussion during the meeting between the Governor and Mr. Bossone.

*MEETING WITH MR. LUIGI PASSAMONTE (WORLD  
BANK).*

In the meeting with Mr. Luigi Passamonte, Special Assistant to the President of the World Bank, the main topic was the Convergence project. The project aims at giving the opportunities to all the representatives of the

market to extend their ideas and coordinate them into a general strategy of the country development. The project, which will be fulfilled with the assistance of the World Bank, will be finalized by an assessment of the ideas presented and the design of a general plan on their implementation.

*MEETING WITH MR. MICHAEL DEPPLER, DIRECTOR OF EU 1 DEPARTMENT.*

Governor Cani made a presentation on the main developments of the country's economy and the expectations after privatization of Savings Bank by Raiffeisen Zentralbank. The new situation of banking system will provide the conditions for a more aggressive banking market in supplying banking products. The banking system in cooperation with the Ministry of Finance and Ministry of Economy have restarted the program on the reduction of cash circulation outside the banking system.

Mr. Deppler stated that the IMF confirms its assessments on the positive performance of the Albanian macroeconomic situation and the willingness for a broader technical assistance of IMF to FSAP. This assistance will ensure an assessment of banking system from both the IMF and WB.

The discussion on the way of using the funds ensured from the privatization of the Savings Bank presented a great interest in the meeting. The participating parties confirmed that the income will be used as it was agreed on the previous agreements and commitments between the Albanian party and IMF.

*MEETING WITH MR. CARLO PADOAN, EXECUTIVE DIRECTOR OF IMF FOR ALBANIA, ITALY, GREECE, MALTA, PORTUGAL, SAN MARINO AND EAST TIMOR.*

Inflation development, resulting 3,3 per cent in 2003, which is within the targeted rate of Bank of Albania, was the introductory topic during the discussion between Governor Cani and Mr. Padoan. In his speech, Mr. Cani stated that the expectations for the 2004 inflation are promising to keep under control an inflation within the 2 - 4 per cent targeted range. "After the privatization of the Savings Bank - continued the Governor - the banking system has made a rather positive step towards the further development which is

deemed to increase the banks' aggressiveness in the system by providing various services".

Mr. Padoan stated that the International Monetary Fund assesses as positive the macroeconomic development in Albania and emphasized that the Albanian economy is on the right track.

At the end of the meeting, Mr. Cani and Mr. Padoan discussed also on the appointment of the New Executive Director of IMF.

*MEETING WITH MR. STEPHAN INGVES, DIRECTOR OF MONETARY AND FINANCIAL DEPARTMENT, IMF.*

Governor Cani thanked the IMF on the Technical Assistance Missions in Albania and then focused on the discussion about the technical assistance within the framework of FSAP.

Mr. Cani discussed on the implementation of Inflation Targeting Regime in the mid-term period, as a priority of the Bank's monetary policy and in this respect he stated that the long-term technical assistance of the IMF will help the successful fulfillment of this project. The privatization of the Savings Bank, the capital required for opening a bank in Albania, legal and administrative issues of banks' liquidation, etc, were other topics of discussion. Another issue discussed during the meeting was also the IMF assistance on the evaluation of the analyses and studies of the Bank of Albania, on the enhancement and consolidation of the Research Department.

*MEETING WITH MRS. CAROL CARSON, DIRECTOR OF STATISTICS DEPARTMENT.*

Mr. Cani began with an overall description of the economic developments in Albania and the data system. The Albanian economy has recorded an economic growth in the recent years, the inflation was kept under control, the exchange rate of lek against the foreign currencies has been relatively stable and the inflation rate has recorded a modest fall. Mr. Cani brought forth some of the main facts of 2003; the economic growth is estimated to be at 6 per cent, inflation 3,3 per cent, budget deficit decreased by 5,6 per cent of GDP, being very close to the data of the countries that will join the European Union on May 1, 2004, etc. Mr. Cani thanked Mrs. Carson for the technical assistance that IMF has

provided to the Bank of Albania in the statistics area. Both parties considered as very important the steps that Albania should make in improving the methodology and coherence for the national data, the study of informal economy level, the data of the balance of payments, the inclusion of Albania in the system of SDDS data, etc.

*THE CONCLUDING MEETING WITH THE IMF MISSION.*

The Governor of the Bank of Albania, Mr. Shkëlqim Cani, held today the concluding meeting with the International Monetary Fund Mission, headed by Mr. Julio Escolano – Chief of Mission – who was accompanied by Mr. Jan Peter Olters, permanent representative of the IMF in Tirana.

The Chief of Mission, Mr. Escolano, appreciated the achievements made by the Bank of Albania in the context of the Memorandum of Economic and Financial Policies signed between Albanian authorities and the International Monetary Fund. One of the main developments is the fact that inflation rate has remained within the 2 - 4 per cent targeted range, as well as a relatively stable exchange rate, modernization of financial and banking system, etc.

According to the Memorandum, monetary policy of 2004 aims at keeping inflation within the Bank's targeted rate. Most prominent developments are expected to be: crediting growth, a wider range of services provided by the banking system, relatively low pressures on inflation, foreign currency reserves covered by more than 4 months exports, possible improvement of current account deficit, etc.

Governor Cani recognized the high level of cooperation between the Bank of Albania and the International Monetary Fund regarding the Memorandum, as well as the strong willingness of the Bank in accomplishing its commitments under this Memorandum. "Given the latest developments in inflation, macroeconomic indicators and performance of euro and American dollar interest rates, the Supervisory Council is considering to slightly reduce the base interest rate" – stated Mr. Cani. Cash reduction program was another important issue in the today's meeting. The Governor stated that Albanian authorities are strongly involved in a mid-term program for the reduction of cash, and the banking system is quite willing to welcome a

great flow of costumers.

*ON THE DECISION OF THE SUPERVISORY COUNCIL OF THE BANK OF ALBANIA ON CUTTING THE BASE INTEREST RATE*

The Supervisory Council of the Bank of Albania, in its meeting held on April 28, 2004, analyzed, among other issues, the compatibility of the present monetary policy with regard to the last performance, forecasts and expectations of inflation. Assessments were carefully made on: the developments of inflation market during the last period, particularly the figure of March; the performance of the main macroeconomic indicators, particularly the last developments of exchange rate, as a result of which lek was considerably appreciated against both euro and American dollar; the presence of a still high difference between the interest rates of lek investments compared to those in euro and American dollar; the moderated stance of both basic policies in economy, monetary and fiscal ones, which, according to the main indicators, are believed to have followed non-expansionist developments; the forecasts and expectations for a return of inflation within the targeted band, including the first data on the food products' prices for April, 2004.

To further reduce the borrowing cost in economy, the Supervisory Council of the Bank of Albania, decided to decrease by 0.25 percentage points the base interest rate (the interest rate of repurchase agreements). Thus, the base interest rate in economy becomes 6,25 per cent.

The cut of interest rate will make possible a better co-living of the monetary conditions in economy by observing the inflation target and the necessities of the country's development. The decision on cutting the base interest rate is expected to have an impact on the overall fall of interest rates in economy, supporting thus the lending activity to private sector. Likewise, narrowing the difference of the interest rates of the domestic currency with the foreign exchanges, mainly euro and American dollar, is deemed to have an impact on softening pressures on lek, underpinning thus developments in the real sector of the economy. Meanwhile, the Supervisory Council of the Bank of Albania considers that this is the adequate timing to take such a decision. A great care will be given to monitoring and analyzing the

economic-financial developments inside and outside the country in order to take the necessary actions in time and adequately.

#### *THE SUPERVISORY COUNCIL CUTS AGAIN THE BASE INTEREST RATE*

In the today's meeting, the Supervisory Council of the Bank of Albania examined the compatibility of the present monetary policy with regard to the inflation indicators performance, forecasts and the latest expectations.

Being mainly based on:

##### I. Developments in the real sector

- The current data on developments in the real sector suggest that the domestic economy is following its positive development trend. Data from sectors such as construction, transport, services and particularly agriculture refer to a 6 per cent forecast of economic growth.
- The private business is expected to get a higher support from the banks' lending activity, the balance of which for 2004 – according to the Monetary Program of the Bank of Albania – is expected to be about 28 per cent higher than last year.
- Such a support relies on the smoothing monetary policy of the Bank of Albania, which reduced the base interest rate by 2.5 per cent within a 13-month period, as well as the growing competition (more branches and a wider range of services) in the banking market following the Savings Bank's privatization.

##### II. Monetary and inflation indicators developments

Once the fixed phone fares and seasonal item prices went down, the annual inflation rate of April was, within the Bank's targeted rate, of 3.2 per cent.

Inflation expectations on the subsequent months and the 2004 year-end stay within the 2-4 per cent targeted range, publicly recognized by the Bank of Albania. Recent developments in exchange rates, which have brought about an appreciation of lek against euro and US dollar. A relatively big gap between interest rates of lek investments and euro and US dollar rates.

The volatile rise of fuel price in international market is expected to have a moderate impact

on our domestic market, to soaring prices in transport as well as in production links and service sectors. Nevertheless, the agricultural production growth to a higher level than the previous summers might make up for the inflationary impacts of fuel price.

Furthermore, these supply shocks can generally be accommodated to smooth the negative impacts on domestic production in a short-time period. In such cases, the counterbalance of impacts on prices should better be done more gradually throughout a mid-term period.

In order to further reduce the borrowing cost in economy, which would lead to promoting investments, and to lessen the shocks the economy might get from the rise of oil prices, the Supervisory Council of the Bank of Albania decided to cut the base interest rate (Repo's interest rate) by 0.25 percentage points. Now, the base interest rate in economy is 6.00 per cent.

It was mainly due to the April inflation rate and the expectations on subsequent months that Bank of Albania decided to cut the base interest rates twice by 0.25 percentage points in two weeks time.

Such a decision is expected to bring about the overall fall of interest rates in economy, such as rates of deposits, treasury bills, lending, underpinning by this way lending to the private sector.

Meanwhile, the further reduction of the gap between lek interest rates and foreign currency ones, mainly euro and US dollar, is deemed to have an impact on softening pressures on lek, underpinning thus developments in the real sector of the economy in order to achieve the economic growth objectives and a development stability.

#### *GOVERNOR CANI HELD A LECTURE AT UNIVERSITY OF VLORA*

The Governor of the Bank of Albania, Mr. Shkëlqim Cani, held on May 13, 2004 a lecture with the students of the Faculty of Economics, at University of Vlora. The subject of the lecture focused on the Bank of Albania's role in banking supervision and forthcoming developments following the Savings Bank's privatization from

the Raiffeisen Zentralbank.

According to Mr. Cani's statement, the establishment and operation of supervisory institutions aim at monitoring the markets and their products in order to provide an equal competitiveness climate to all the participants, establish determined standards of services and products, avoid abuses and interest conflicts, insure an equal dissemination of information and the adequate transparency level, etc.

In the context of financial markets, the Governor stated that supervision and regulation are necessary for two main reasons: to protect consumers (the public) and foster financial stability. This is the factor having a priority in avoiding economic, social and political crises that might have repercussions on the country's economy and security.

The Governor dwelt upon arguments such as why banking supervision is carried out by the Bank of Albania, mentioning: a satisfactory level of professional skills and financial sources in this field; a high level of independence from executive and political bodies; a relatively developed level of the financial market in general, where the banking market plays a major role; the central bank's necessity to have available real data on the banking system in order to implement its monetary policy, etc.

*THE GOVERNOR OF THE BANK OF ALBANIA, MR. SHKËLQIM CANI, MEETS WITH REPRESENTATIVES OF BUSINESS COMMUNITY, COMMERCIAL BANKS, CIVIL SOCIETY AND MEDIA IN THE CITY OF VLORA*

The Governor of the Bank of Albania, Mr. Shkëlqim Cani, met today with representatives of business community, commercial banks, civil society and media in the city of Vlora. The meeting focused on "Beyond cash" program, undertaken by the Bank of Albania, a program aiming at encouraging new actions and initiatives towards reducing cash in economy and channeling transactions into the banking system.

In his speech, Mr. Cani made an outline of the Bank's program and operational platform, underlining the positive impacts this initiative is expected to have on economy and people. Therefore, a good co-operation is required by all parties: the decision-making authorities, banks,

businesses, taxes and fiscal bodies and consumers. The role of the banking system in the campaign is more than indispensable through extending banking infrastructure, augmenting the variety of products and services and proving an effective co-operation with businesses. The implementation of AECH (Automatic Electronic Clearing House) – planned to be finalized by 2005 – will give a qualitative and quantitative impulse to these services.

On the other side, business is regarded as a major party in such an undertaking. A well-aware business will always bring forth the priorities offered by a banking system, the efficiency of its support, the higher reputation it gives to a business being a credible client in a bank, the security it gains from a strong, long-term relationship it has with a commercial bank. The business should apprehend that the only way to benefit from banking services – especially crediting – is through a banking account. Meanwhile, the support offered by the civil society and media will certify to a large extent the development of the entire program and make it successful. This, not because the public confidence in banks relies on media and civil society, but because the willingness and well-understanding about any new developments are so much dependent on the interest and the attitude of the public towards them.

Governor Cani emphasized that the local community of Vlora prefecture, which is distinguished for its significant business potential relying on banking infrastructure, and aiming at expanding on both intensive and extensive scale, should play a special role in this context. At present, there are about 8 branches of commercial banks operating in the city. Vlora is characterized by an open business community that supports the project of channeling financial transactions through the banking system.

*MEETINGS OF THE GOVERNOR IN SARANDA AND GJIROKASTRA*

Following his meetings in Vlora, where he introduced the Bank's program "Beyond cash", the Governor held yesterday and today meetings with representatives of business, commercial banks, civil society and media in Saranda and Gjirokastra prefectures. He put forward the Bank's concern on the cash size in economy, the reduction of which is a real challenge that

requires converged actions. In “Beyond cash” program, the Bank aims at coordinating all actors involved in the periodical payment system, which can potentially be channeled through the banking system and cutting thus, to a large extent, possible payments in cash. Here he underlined some of the common benefits of all the financial actors committed to undertake successful initiatives on cash reduction, such as: commercial banks will gain a greater number of clients and transactions, or in other words greater earnings and profits; the business will be provided the financial and logistic support from banks, showing oneself as a serious partner in business, not only in Albania but also abroad; the taxation and customs bodies would enhance the services to the business and increase their incomes.

The decision-making authorities would be much more productive with their mid-term budgetary policies in developing the country’s economy and improving the economic growth. Consumers would benefit from qualitative services when paying their dues in public institutions, e.g. Albtelcom, KESH (Albanian Electro-Energetic Corporation), water supply, or salaries and pensions, skipping thus long, tiring queues.

Governor Cani was well-supported by the banking and business community in this undertaking. However, representatives of banks in the district mentioned various problems, for instance: lack of electronic banking legislation, liberalization of budget accounts, channeling the salaries (budgetary and business) through banking accounts within a year time.

On the other hand, the business community’s concern had to do with the mortgage office, the way it operates, which in most cases causes many delays in completing crediting practices. The business representatives called for a banking system offering a wider perspective and co-operation. This implies specialized guidance and consultancy to local businesses. Another concern of theirs was the interference of the taxation officials. They required a higher level of transparency and honesty, since the law is one for all and fiscal dues are to be paid regularly.

*LECTURE BY THE GOVERNOR OF THE BANK OF ALBANIA, MR. SHKËLQIM CANI, AT THE FACULTY OF ECONOMICS, UNIVERSITY OF GJIROKASTRA*

The Governor held a lecture with the students of the Faculty of Economics, University of Gjirokastra. The topic of the lecture, which was held together with the Assistant Director of Research Department, Mrs. Evelina Çeliku, was: “The usefulness of confidence indexes for the central bank”. The purpose of establishing the confidence indexes of both clients and consumers, stated Mr. Cani, consists mainly in knowing the real economy sector trends and in collecting information, as complete as possible, for the analyses that assist the Bank’s decision-making through the results generated from an entire survey process.

According to the assessments of Business Confidence Index, for 2002 – 2004, businesses are more optimistic on the short-term future and this results on the expectations higher than the current values of the respective quarter. This means that there is an assessment of the economic situation for the future periods under a more positive light than the ones they admit later on or than what is proved to them. And that is why these indicators are still under testing process. Although the Bank of Albania has not published the figures, it makes use of the information received from the confidence indicators for its analyzing needs. We deem that, it is not time yet for their use to be extended further, to other interested people. The work process continues to be performed with diligence, in order to publish them in the near future.

Another confidence indicator that the Bank of Albania has started to create for about one year now is the one of Consumer’s Confidence. The index of consumer’s confidence is interpreted as the expectation for the performance of the economy for the near future, as it tends to dictate changes in the economy cycle. Thus, a lower consumer’s confidence in economy means a lower consumption in the future, and vice versa. For some economies, where the consumers’ consumption covers a considerable weight of the GDP, this indicator is rather important, as it is also among the fewest that measure the sensitivity of consuming expenses.

*FINANCIAL TIMES REPORT ON ALBANIA – MAY 18,  
2004 FROM LEYLA BOULTON  
PART OF THE INTERVIEW WITH THE GOVERNOR.*

In a success for structural reforms designed to make the economy more efficient, the state-owned Savings Bank, the largest in Albania, was sold in December to Austria's Raiffeisen Zentralbank for USD 126 million. Mr. Shkëlqim Cani, Governor of the Central Bank, expects Raiffeisen's arrival to invigorate competition in the foreign-dominated banking sector and to introduce basic services such as the ATMs and credit cards, virtually absent until now.

The Savings Bank, which holds 60 per cent of all deposits, will also resume lending after its former state managers piled up a mountain of bad loans. A successful instance of privatization could accelerate the country's progress in rebuilding a reputation, shattered by the pyramid crisis, as an attractive destination for foreign investment. "Albania is not a handkerchief-sized market but a regional center", says Mr. Nano. With inflation down to 3.3 per cent and growth projected this year at 6 per cent, the macroeconomic picture seems encouraging.

Yet a boom in construction and services has been underpinned largely by USD 700 million in remittances from Albanian workers abroad and by an informal economy which could be half as large as registered gross domestic product of USD 6 billion. "We are afraid that, in the near future, the remittances will come down so that means we will have to think about how we can increase exports and substantially cut imports," says Mr. Cani. In a campaign to curb the informal economy, the Central Bank and Finance Ministry hope to channel all official payments through the banking system by the end of next year. The law also says that any payment of more than USD 5.000 must be made through the banking system – a tall order in an economy where the vast majority of transactions are in cash.

*GOVERNOR CANI MEETS WITH THE EXPORT - IMPORT  
BANK PRESIDENT, MR. PHILIP MERRILL*

On May 24, 2004 the Governor of the Bank of Albania had a meeting with a delegation of the well-known American bank, EXIM Bank, headed by its President, Mr. Philip Merrill. The delegation was accompanied in the meeting by the vice

ambassador of the United States of America in Tirana, Mr. Steve Zate.

The meeting focused on the main developments of the Albanian economy, the progress of the Bank of Albania, the climate for private investments and the role of banking system in crediting, the financially supported projects by EXIM Bank in Albania, emigrants' remittances, etc.

"The Albanian economy, from a macroeconomic view, has recorded positive developments and the private sector has played an important role in this process. The private sector has extended a valuable contribution in succeeding at a positive economic growth throughout the recent years", stated Mr. Cani. On the other hand - continued the Governor - the Central Bank, through its policies, has tried to support the economic development and the progress of the private business, while commercial banks have considerably increased lending to this sector at 30-50 per cent year-in-year out.

Mr. Merrill, who visits Albania for the first time, after assessing the work performed by the Bank of Albania and its apparent progress, extended his interest on the standards that are implemented by commercial banks and the Bank of Albania throughout the banking activity.

Mr. Cani stated that Bank of Albania, in general, implements the international standards of modern central banks and mainly of the European Central Bank towards which we aspire. The principles and standards that the Bank of Albania implements are related to maintaining price stability and developing a banking system pursuant to the standards of a modern, safe, stable and reliable banking system. Related with the private investments climate, being either domestic or foreign ones in Albania, the Governor said that during the last years, notwithstanding the present problems that follow a developing country, the climate and infrastructure for private investments in Albania has considerably improved and in this aspect the support and positive "marketing" of the United States of America in Albania has an important role.

Mr. Cani stated also that the financially supported projects and the good reputation that EXIM Bank has in the international arena, are significant to the positive performance of the Albanian economy

and encourage foreign investors in Albania.

The subject on emigrants' remittances was the last issue of the today's meeting discussions. "Emigrants' remittances, that for 2003 recorded USD 780 million, still remain important financial sources for Albania, which balance to a certain extent the deficit of trading goods and services. Regarding transferring methods, the major part of them are transferred in cash and in the future they will be channeled through the banking system – an special issue to be treated in the "Beyond cash" program that will restart very soon", concluded Governor Cani.

#### *ON THE MEETING "CASH STARTS FROM ME"*

On May 26, 2004 the Bank of Albania and Ministry of Finance organized, under the auspices of the OSCE in Albania, the meeting with the topic: "Cash starts from me", as a restart of the Program on the Reduction of Cash Transactions and their replacement with banking business.

In the speech made by the Governor, the concrete commitments of the banking system were mainly underlined in order to make possible the success of the mid-term program in replacing cash transactions with banking transfers and operations. Pursuant to Mr. Cani, "The Bank of Albania is identifying the crux of the issues, or in other words, the main causes of this considerable impact of cash on economy and how the legal framework of payment system can be modernized in the country, paying special attention to the development and improvement of the legal and regulative part that supports the new instruments and actors of payment in the country".

Meanwhile, according to the Governor, the commercial banks must be prepared to face the inflow of money mainly in cash through banking transfers, as a result of the obligatory introduction of the operations related with payments to the Government or with receipts on its behalf of either public or private institutions and companies. The acceleration of the work is indispensable for the establishment of the Credit Information Office, regarding operations with the business, and application of necessary regulations to support its activity. Any delay of this process will bear impacts on the quantity and quality of banking products as well as on the lending process to business". Underlying his tour that took place in

some regions with businesses and banks, Mr. Cani stated that "the challenge of cash reduction exceeds the central institutions down to the banks' tellers, local business, branches of taxations and customs General Directories throughout the districts, public administration employees and the employed people in the private business. That is why, a few days ago, together with the staff of the Bank of Albania we had some meetings in Vlora, Saranda Gjirokastra and Korça, where I discussed broadly with the business, banks' branches and local community on "Beyond cash" program. Both banks and business community extended their absolute support; however, their conditions are clear: open and honest competition, diligence in implementing the law and mutual transparency of both public authorities and private business in carrying out the commitments and legal obligations.

#### *RISING CREDITS KEEP ALBANIA GROWTH ON TRACK - CENTRAL BANK*

Tirana, May 27 (Reuters) - Albania's central bank is optimistic it will meet its inflation and growth targets for 2004, citing a jump in lending by commercial banks as a key factor. Central Bank Governor Shkëlqim Cani said on Thursday commercial lending by 13 out of Albania's 16 banks had grown 58 per cent in the first quarter of 2004 compared with a year ago. "Our forecasts for inflation and economic growth (in 2004) are within the two-to-four per cent range and six percent respectively," Cani told Reuters in an interview. "The central bank remains optimistic the objectives will be met".

"We base our view on preliminary indicators showing better agricultural production, 58 per cent higher new credit during the first quarter of 2004 compared to 2003, and the improved electricity situation," Cani added. New credit to business in the first quarter totalled 27.9 billion lek (USD 266 million) compared to 17.5 billion lek (USD 166 million) in first quarter 2003. It is seen growing 39 per cent this year over the 91 billion lek total in 2003.

"An encouraging new development is that agro-processing businesses and livestock have received credits worth 144 million lek," Cani said of the sector that had had difficulty approaching banks because of unclear land ownership titles. Agriculture, construction and services account for most of Albania's 744.6 billion lek

(USD 7 billion/6.5 billion euros) gross domestic product in 2003 in current prices. Higher inflation figures recorded in the past months as a result of price rises by the state-owned fixed phone and electricity monopolies seemed to be “on the wane”, Cani said. Phone call price hikes were later cut back.

Year-on-year inflation shot to 3.2 per cent in January and 4.4 per cent in February. It fell to 4.0 per cent in March and came down to 3.4 per cent in April after the government backtracked. Seeking to boost credit and growth, the central bank cut the Repo rate by half a percentage point this year to six percent, but Cani saw little room for another cut. Over the past 13 months rates have fallen by a total of 2.5 percentage points.

However, he added, the instability of world markets might have negative influences in the small and open Albanian economy. “If these developments endanger our inflation goal, we see the possibility of changing our monetary policy,” Cani added. In what he also saw as an expected major development in the banking industry, Cani said banks will face stiffer competition and possibly falling interest rates once the Savings Bank, now owned by Austria’s Raiffeisen, starts lending to businesses.

“As a result, we might see the cutting of interest rates, especially for bigger clients,” Cani said. “In this way, Raiffeisen could cause problems for some banks that may have become accustomed to quieter activity, forcing them to become more coherent and competitive in the banking industry”.

## LEGAL EVENTS

NO. 1, JANUARY 26<sup>TH</sup> 2004

*DECISION OF COUNCIL OF MINISTERS NO. 1, DATED 07.01.2004*

On the approval of the contract between the Ministry of Finance and Raiffeisen Zentralbank, Austria, "On the sale of the Savings Bank's whole shares", changed with the decision of Council of Ministers No. 630, dated 18.09.2003, and proposed by the Minister of Finance.

*DECISION OF COUNCIL OF MINISTERS NO. 7, DATED 14.01.2004*

On the approval of the negotiations protocol between the Council of Ministers of Republic of Albania and the Government of Federal Republic of Germany, "On the treaties and international agreements", proposed by the Minister of Foreign Affairs.

NO. 2, JANUARY 27<sup>TH</sup> 2004

*DECISION OF THE COUNCIL OF MINISTERS NO. 45, DATED 22.01.2004*

"On the change of urban transportation fares", proposed by the Council of Ministers and the Minister of Transport and Telecommunications.

NO. 3, 30<sup>TH</sup> JANUARY 2004

*DECISION OF THE COUNCIL OF MINISTERS NO. 14, DATED 14.01.2004*

On the change to the decision of Council of Ministers No.351, dated 28.07.1999 "On the approval of food quotas in military hospitals", proposed by the Minister of Defense.

*DECISION OF THE COUNCIL OF MINISTERS NO.48, DATED 27.01.2004*

On the selection of the preferable bid participant "On the preparation and organization of the concessionary contract for the International Airport "Mother Tereza".

NO. 4, FEBRUARY 6<sup>TH</sup> 2004

*DECISION OF THE COUNCIL OF MINISTERS NO. 54, DATED 29.01.2004*

"On the procedures and the special financial treatment given to retired pilots" according to Article 100 of the Constitution and to Articles 3 and 8 of the Law No. 9128, dated 29.07.2003, proposed by the Minister of Defense and the Minister of Labour and Social Affairs.

NO. 7, FEBRUARY 25<sup>TH</sup> 2004

*LAW NO. 9173, DATED 29.01.2004*

On the ratification of the "Agreement between the Government of Republic of Albania and the Government of Federal Republic of Germany regarding the financial cooperation on the project "Social Investment Fund ADF-III-Northern and Eastern Albania", proposed by the Council of Ministers.

*LAW NO. 9174, DATED 29.01.2004*

On the ratification of the "Agreement between the Government of Republic of Albania and the Government of Federal Republic of Germany regarding the financial cooperation (The Research and Specialist's Fund, V-Year 2001)".

*LAW NO. 9175, DATED 29.01.2004*

On the ratification of the "Loan agreement between the Government of Republic of Albania and Islamic Development Bank, for participation in financing the reconstruction project of Vorë-Rinas-Fushë-Krujë national road".

NO. 10, MARCH 5<sup>TH</sup> 2004

**LAW No. 9176, DATED 29.01.2004**

On the ratification of the "Agreement between the Ministry of Finance, acting on behalf of the Albanian State, the International Finance Corporate (IFC) and the European Bank for Reconstruction and Development (EBRD), for the purchase of the INSIG's shares".

**LAW No. 9177, DATED 29.01.2004**

On the ratification of the "Shareholders agreement between the Ministry of Finance, acting on behalf of the Albanian State, INSIG and European Bank for Reconstruction and Development (EBRD)".

**DECISION OF THE SUPERVISORY COUNCIL No. 01, DATED 28.01.2004**

On the approval of the "Report of economic and monetary developments during the second half of 2003", based on the Law No. 8269, dated 23.12.1997 "On the Bank of Albania".

**DECISION OF THE SUPERVISORY COUNCIL No. 02, DATED 28.01.2004**

On the approval of tariffs for the use of Albanian Inter-banking Payment System - AIPS.

**DECISION OF THE SUPERVISORY COUNCIL No. 03, DATED 28.01.2004**

On some changes to the regulation "On the functioning of accounting system and treasury administration (ATMs)", approved by the decision No. 75, dated 25.09.2002.

**DECISION OF THE SUPERVISORY COUNCIL No. 04, DATED 28.01.2004**

On the change to the regulation "On the functioning of SWIFT system", approved by the decision No. 16, dated 01.03.2000.

**DECISION OF THE SUPERVISORY COUNCIL No. 05, DATED 28.01.2004**

On the approval of an amendment on the decision of the Supervisory Council of Bank of Albania "On the approval of the regulation "Evaluation

criteria of job performance of the Bank of Albania's employees".

**DECISION OF THE SUPERVISORY COUNCIL No. 06, DATED 11.02.2004**

On granting the license to conduct banking activity to "People's Bank".

**DECISION OF THE SUPERVISORY COUNCIL No. 07, DATED 25.02.2004**

On determining the pay rates of the Bank of Albania's employees.

**DECISION OF THE SUPERVISORY COUNCIL No. 08, DATED 25.02.2004**

On the approval of the "Monetary Policy Report for January 2004".

**DECISION OF THE SUPERVISORY COUNCIL No. 09, DATED 25.02.2004**

On the approval of the Bank of Albania's statement "Threatening to financial stability in Albania".

**DECISION OF THE SUPERVISORY COUNCIL No. 10, DATED 25.02.2004**

On the approval of the regulation "Money laundering prevention".

**DECISION OF THE SUPERVISORY COUNCIL No. 11, DATED 25.02.2004**

On the approval of the manual "The procedures on issuing indemnity order in the Bank of Albania", based on the Law No. 8269 "On the Bank of Albania".

**DECISION OF THE SUPERVISORY COUNCIL No. 12, DATED 25.02.2004**

On the approval of balance and the profit allocation of the Bank of Albania for 2003.

**DECISION OF THE SUPERVISORY COUNCIL No. 13, DATED 25.02.2004**

On the suspension and prohibition from carrying out certain operations inclusive in the annex of

the Italian-Albanian Bank's license.

*DECISION OF THE SUPERVISORY COUNCIL No. 14,  
DATED 10.03.2004*

On the approval of the numismatic fund of Albanian coins and banknotes.

*DECISION OF THE SUPERVISORY COUNCIL No. 15,  
DATED 10.03.2004*

On the approval of some amendments in the Unified Reporting System.

*DECISION OF THE COUNCIL OF MINISTERS No. 253,  
DATED 30.04.2004*

On some changes and supplements to the decision of the Council of Ministers No. 416, dated 09.07.1998 "On the administration and allocation of the Ministry of Public Economy and Privatisation's revenues coming from privatisation of the commercial companies operating in non-strategic sectors".

*DECISION OF THE COUNCIL OF MINISTERS No. 269,  
DATED 23.04.2004*

On the approval of the development strategy of non-food industry.

*DECISION OF THE COUNCIL OF MINISTERS No. 269,  
DATED 23.04.2004*

On some changes and supplements to the decision of the Council of Ministers No. 711, dated 27.12.2001 "On the structure and pay rates of civil employees in the central administration institutions, the Presidency and Parliament, as well as some changes and supplements to the decision of the Council of Ministers No. 726, dated 21.12.2000 "On the pay packet of budgetary employees", changed with the decisions of the Council of Ministers No. 39, dated 26.01.2001, No. 158, dated 22.03.2001, No. 174, dated 30.03.2001, No. 197, dated 06.04.2001, No. 358, dated 31.05.2001 and No. 424, dated 11.06.2001.

*DECISION OF THE COUNCIL OF MINISTERS No. 242,  
DATED 16.04.2004*

On determining the number of employees in the ministries and budgetary institutions for 2004 and

on budget redistribution.

*DECISION OF THE COUNCIL OF MINISTERS No. 245,  
DATED 16.04.2004*

On a fund increment of the Ministry of Local Government and Decentralisation for computerising the civil status service.

*DECISION OF THE COUNCIL OF MINISTERS No. 234,  
DATED 16.04.2004*

On a fund increment for 2004, approved for the Ministry of Justice, on the coverage of budgetary expenses, on the foundation and functioning of the working team of experts, on the reform in the field of justice "Legal Reform Committee".

*DECISION OF THE COUNCIL OF MINISTERS No. 210,  
DATED 10.04.2004*

On the pilot program of delegating the 2004 investments function, on the pre-university education, to Municipality of Tirana for the territory under its jurisdiction.

*DECISION OF THE COUNCIL OF MINISTERS No. 200,  
DATED 16.04.2004*

On a fund increment to the Ministry of Transport and Telecommunication to cover the technical assistance payment for the Management Unit of Transports Projects and the General Management of Infrastructure.

*DECISION OF THE COUNCIL OF MINISTERS No. 202,  
DATED 16.04.2004*

On a fund increment to the 2004 budget, approved for the State Intelligence Service.

*DECISION OF THE COUNCIL OF MINISTERS No. 129,  
DATED 11.03.2004*

On a fund increment to the 2004 budget, allocated to the Ministry of Economy, for the indemnity of ex-employees of the cement production factory in Fushë-Krujë.

*DECISION OF THE COUNCIL OF MINISTERS No.  
151, DATED 18.03.2004*

On some changes and supplements to the

decision of the Council of Ministers No. 333, dated 29.05.2003 "On the pay packet of the State Police's employees".

**DECISION OF THE COUNCIL OF MINISTERS No. 157, DATED 18.03.2004**

On the supplement to the decision of the Council of Ministers No. 424, dated 09.07.1998 "On the creation and administration of the revenues coming from budgetary institutions".

**LAW No. 9191, DATED 10.04.2004**

On the ratification of the "Financial project agreement between the Council of Ministers of Republic of Albania, represented by the Ministry of Finance, the Albanian Development Fund, as an agent for implementation of the project, and Kreditanstalt für Eiederau (KfW) for the project "Social Investment Fund III".

**DECISION OF THE SUPERVISORY COUNCIL No. 20, DATED 24.03.2004**

On the approval of the regulation "On overnight loan".

**DECISION OF THE SUPERVISORY COUNCIL No. 21, DATED 24.03.2004**

"On some changes and supplements to the manual "On the bank's regulatory capital", approved with the decision No. 57, dated 05.05.1999, changed with the decision of the Supervisory Council of the Bank of Albania, No. 40, dated 16.05.2001.

**DECISION OF THE SUPERVISORY COUNCIL No. 22, DATED 24.03.2004**

On the approval of some changes to the regulation "On capital adequacy".

**DECISION OF THE SUPERVISORY COUNCIL No. 23, DATED 24.03.2004**

On the "Dismissal of the Head of Issue Department in the Bank of Albania".

**DECISION OF THE SUPERVISORY COUNCIL No. 26, DATED 14.04.2004**

"On authorizing the Savings Bank to conduct lending activity".

**DECISION OF THE SUPERVISORY COUNCIL No. 27, DATED 14.04.2004**

"On the approval of transferring the Savings Bank's whole shares to Raiffeisen Zentralbank".

**DECISION OF THE SUPERVISORY COUNCIL No. 28, DATED 28.04.2004**

On the "Approval of decreasing interest rates on the agreements of repurchase and vice versa".

**DECISION OF THE SUPERVISORY COUNCIL No. 29, DATED 28.04.2004**

On some changes to the regulation "On overnight loan".

**DECISION OF THE SUPERVISORY COUNCIL No. 30, DATED 28.04.2004**

On the document "Operative Policy of Supervision".

**DECISION OF THE SUPERVISORY COUNCIL No. 31, DATED 28.04.2004**

On the "Appointment of the Head of Issue Department in the Bank of Albania".

**DECISION OF THE SUPERVISORY COUNCIL No. 35, DATED 28.04.2004**

On the "Approval of decreasing interest rates on the agreements of repurchase and vice versa".

# LIST OF ALL ORGANIZATIONS LICENSED BY THE BANK OF ALBANIA LIST OF ALL SUBJECTS LICENSED BY THE BANK OF ALBANIA

## BANKS AND BRANCHES OF FOREIGN BANKS BANKS AND BRANCHES OF FOREIGN BANKS

### 1. ITALIAN - ALBANIAN BANK (JOINT-STOCK COMPANY)

Licence No. 1/1996, dated 17.07.1998.

Approved by 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 (JOINT-STOCK COMPANY)

Licence No. 2/1998, dated 11.01.1999.

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

Director: Ardian KAMBERI  
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. UNITED BANK OF ALBANIA (JOINT-STOCK COMPANY)

Arab Albanian Islamic Bank has changed its name by the decision No. 4315/7, dated 16.09.2003, of the Court of Tirana.

Licence No. 3/1998, dated 11.01.1999.

Approved by 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 (JOINT-STOCK COMPANY)

Licence No. 5/1998, dated 11.01.1999.

Approved by 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 (JOINT-STOCK COMPANY)**

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: (0)4250 956

**6. TIRANA BANK (JOINT-STOCK COMPANY)**

Licence No. 07, dated 12.09.1996.

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

Director: Spiro BRUMBULLI  
Address: Rruga e Durrësit, Godina Comfort, Tirana-Albania  
Tel: (04) 233 623 / 4  
Fax: (04) 233 613

**8. INTERNATIONAL COMMERCIAL BANK (JOINT-STOCK COMPANY)**

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 by 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 (JOINT-STOCK COMPANY)**

Licence No.11, dated 10.08.1998.

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

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

**11. PROCREDIT BANK (JOINT-STOCK COMPANY)**

Licence No. 12, dated 15.03.1999

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

Director: Pettier Gavrillov KRASTEVI  
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 by 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, dated 28.08.2002.

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

Director: Kamal Adbel 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, dated 28.03.2003.

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

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

16. POPULAR BANK, TIRANA (JOINT-STOCK COMPANY)

Licence No. 17, dated 16.02.2004.

Approved by the Supervisory Council Decision No. 06, dated 11.02.2004. Certificate No.16 "On Deposit Insurance".

Director: Edvin LIBOHOVA

Address: Rruga "Donika Kastrioti", Pall. 11/1, Kati I, Tirana-Albania.

Tel.: 272788; 272789.

## NON-BANK ORGANIZATIONS

### 1. TIRANA FINANCIAL UNION S.R.L. (WESTERN UNION)

Licence No. 1, dated 08.12.1999, on conducting the following financial activities:

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

Director : Niko Leka

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, on conducting 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. ALBANIAN POST-OFFICE (JOINT STOCK COMPANY)

Licence No. 3, dated 18.04.2001, on conducting the following financial activities:

- 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, on conducting 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. MOUNTAINOUS AREA FINANCING FUND

Licence No. 5, dated 29. 03.2002, on conducting the following activity:

- granting credit.

Founded by the Decision of the Council of Ministers of 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 activities:

- 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

**7. "AK-INVEST ." (JOINT STOCK COMPANY)**

Licence No.7, dated 31.12.2003, as a non-bank financial institution to conduct the following activities:

- offering payment services;
- mediating in the conduct of monetary transactions (including foreign exchange).
- acting as financial agent or advisor

Manager: Ilir Adili  
Address: Rruga "Ded Gjon Luli", No. 2/3 Tirana-Albania  
Tel.: 240 147

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

(These organizations are not licensed or supervised by the Bank of Albania but they have to report to the Bank of Albania).

#### 1. RURAL FINANCING FUND.

- Founded by the Decision of the Council of Ministers of Republic of Albania No. 207, dated 28.04.1999.
- Object of activity: Financing the rural area.
  
- Director: Zana Konini
- Address: Rr. "Ismail Qemali", P. 32, Tirana-Albania
- Exempted by the Bank of Albania's note No.1843, dated 01.08.2000.

#### 2. BESA FOUNDATION.

- Founded by Open Society Fund for Albania. (SOROS).
- Object of activity: Financing small and medium size firms.
  
- Director: Bajram Muça
- Address: Rr. "Asim Vokshi", No. 35, Tirana-Albania
- Exempted by the Bank of Albania's note No. 2895/1, dated 19.01.2001.

#### 3. ALBANIAN PARTNER ON MICROCREDIT.

- Shareholder: "Opportunity International" (East Europe).
- Object of activity : Granting credit.
  
- Director: James Reiff
- Address: Rr. "Gjin Bue Shpata", No. 7/1, Tirana-Albania
- Exempted by the Bank of Albania's note 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-Albania

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

Licence: No. 2, dated 01.10.1999.

Address: Rruga "Tregtare", Lagja 3, Durrës-Albania

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

Licence: No. 3, dated 01.10.1999.

Address: Rruga "Luigj Gurakuqi", Tirana-Albania

**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-Albania

**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-Albania  
Agjencia No.2: Rruga "Kavajës", Tirana-Albania

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

Licence: No. 06, dated 24.11.1999.

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

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

Licence: No. 07, dated 24.11.1999.

Address: Rruga "Konferenca e Pezës", Tirana-Albania

**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-Albania

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

Licence: No. 09, dated 26.11.1999.

Address: Bulevardi "Republika", Pall.4, Korça-Albania

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

Licence: No. 10, dated 26.11.1999.

Address: Lagja 11, Rruga "Prokop Meksi", Durrës-Albania

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

Licence: No. 11, dated 29.02.2000.

Address: Rruga "Ded Gjon Luli", No.2/3, Tirana-Albania

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

Licence: No. 12, dated 25.02.2000.

Address: Sheshi "Skenderbej", Teatri i Kukullave, Tirana-Albania

**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-Albania

**14. ALBTUR. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**

Licence: No. 15, dated 07.04.2000.

Address: Agency no.1, Bulevardi "Zogu I", Pall. 32, Shk.1, Tirana-Albania

**15. R & M. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**

Licence: No. 16, dated 22.05.2000.

Address: Rruga "Punëtorët e Rilindjes", Pall. 182, Tirana-Albania

**16. TEUTA 2000. FOREIGN EXCHANGE OFFICE S.R.L., DURRËS**

Licence: No. 17, dated 22.05.2000.

Address: Lagja 4, Rruga "Skënderbej", Ap. 950, Durrës-Albania

**17. T & E. FOREIGN EXCHANGE OFFICE S.R.L., DURRËS**

Licence: No. 18, dated 11.06.2000.

Address: Lagja 4, Rruga "9 Maji", Durrës-Albania

**18. SHIJAK 2000. FOREIGN EXCHANGE OFFICE S.R.L., SHIJAK**

Licence: No. 19, dated 24.11.2000.

Address: Lagja "Popullore", Shijak-Albania

**19. R & T. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**

Licence: No. 20, dated 20.12.2000.

Address: Bulevardi "Zogu I", Tirana-Albania

**20. DV-ALBA. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**

Licence: No. 21, dated 11.01.2001.

Address: Sheshi "Skënderbej", Tirana International Hotel, Tirana-Albania

**21. MANUSHI. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**

Licence: No. 22, dated 18.04.2001.

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

**22. UNIONI SELVIA. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**

Licence: No. 23, dated 21.05.2001.

Address: Rruga "Saraçëve", Pallati 124/1, Tirana-Albania

Tel. 376 274

**23. KALENJA. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**

Licence: No. 24, dated 29.06.2001.

Address: Rruga "Kavajës" (next to Turkish Embassy), Tirana-Albania

**24. TILBA. FOREIGN EXCHANGE OFFICE S.R.L., ELBASAN**

Licence: No. 25, dated 30.09.2001.

Address: Lagja "Luigj Gurakuqi", Bulevardi "Qemal Stafa", Njësia nr.12, Elbasan-Albania

**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., Ap. 28, Tirana-Albania

Zyra 2- Rruga "Kajo Karafili", No. 11, Tirana-Albania

**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-Albania

**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-Albania  
Agjencia 2: Rruga "Mine Peza", Pall. 102, Shk. 1, Tirana-Albania

**28. L&N. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**

Licence: No. 29, dated 22.11.2001.

Address: Rruga "Muhamet Gjollështa", Tirana-Albania

**29. TERBACI- GJ. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**

Licence: No. 30, dated 22.11.2001.

Address: Rruga "Muhamet Gjollështa", Pall. 215, Tirana-Albania

**30. EXCHANGE ALOG. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**

Licence: No. 31, dated 22.11.2001.

Address: Rruga "Mine Peza", Tirana-Albania

**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-Albania

**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-Albania

**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-Albania

**34. BASHKIMI 2001. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**

Licence: No. 35, dated 12.12.2001.

Address: Rr. "Kavajës", Tirana-Albania

**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-Albania

**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-Albania

**37. EURO TRAVELS INTERNATIONAL.. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**

Licence No. 40, dated 14.01.2002.

Address: Bulevardi "Bajram Curri", Pallatet Agimi Nr. 1, Tirana-Albania

**38. G&3. FOREIGN EXCHANGE OFFICE S.R.L., KAVAJA**

Licence No. 41, dated 15.01.2002.

Address: Rruga "Kajo Karafili", Kavaja-Albania

**39. ALAKTH. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**

Licence No. 42, dated 18.01.2002.

Address: Rruga e Dibrës, nr.105/1, Tirana-Albania

**40. FORMAT. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**

Licence No. 43, dated 21.01.2002.

Address: Rruga e Durrësit, Pall.85, Shk. 1, Ap. 1, Tirana-Albania

41. TRI URAT. *FOREIGN EXCHANGE OFFICE S.R.L.*, ELBASAN  
Licence No. 44, dated 05.02.2002.  
Address: Lagja "29 Nëntori", pranë filialit të postës, Elbasan-Albania
42. CROWN TOWN. *FOREIGN EXCHANGE OFFICE S.R.L.*, TIRANA  
Licence No. 45, dated 05.02.2002.  
Address: Rruga "Mihal Grameno", Pall. 10, Tirana-Albania
43. BESA 2001. *FOREIGN EXCHANGE OFFICE S.R.L.*, TIRANA  
Licence No. 46, dated 15.02.2002.  
Address: Rruga .Myslym Shyri., Nr. 25, Tirana-Albania
44. MARIO. *FOREIGN EXCHANGE OFFICE S.R.L.*, SARANDA  
Licence No. 47, dated 14.03.2002.  
Address: Lagja 1, prane ish-komitetit ekzekutiv te rrethit, Saranda-Albania
45. JAV. *FOREIGN EXCHANGE OFFICE S.R.L.*, TIRANA  
Licence No. 48, dated 20. 03.2002.  
Address: Bulevardi "Zogu I", Godina e Zërit të Popullit, Tirana-Albania
46. DROGU. *FOREIGN EXCHANGE OFFICE S.R.L.*, TIRANA  
Licence No. 49, dated 23.04.2002.  
Address: Rruga "Vaso Pasha", Kulla 1, Kati I (pas pallatit Agimi), Tirana-Albania
47. HYSEN-C. *FOREIGN EXCHANGE OFFICE S.R.L.*, LAÇ  
Licence No. 50, dated 23.04.2002.  
Address: Lagja nr. 3, përballë Komisarariatit të Policisë, Laç-Albania
48. UNIONI FIER. *FOREIGN EXCHANGE OFFICE S.R.L.*, FIER  
Licence No. 51, dated .05.2002.  
Address: Lagja "15 Tetori", Rruga "Kastriot Muça", Fier-Albania
49. TAXI EKSPRES. *FOREIGN EXCHANGE OFFICE S.R.L.*, ELBASAN  
Licence No. 52, dated 20.05.2002.  
Address: Rruga "Sami Frasheri", nr. 11(prane Shkolles "Edit Durhan")
50. MERO. *FOREIGN EXCHANGE OFFICE S.R.L.*, DEVOLL  
Licence No. 53, dated 22.05.2002.  
Address: Zyra nr.1 : Bulevardi "Fuat Babani", Bilisht-Albania  
Zyra nr.2 : Dogana Kapshtice-Albania
51. GLEAR. *FOREIGN EXCHANGE OFFICE S.R.L.*, SHIJAK  
Licence No. 55, dated 23.07.2002.  
Address: Lagja "Kodër", Shijak, Durrës-Albania
52. ALBA-POST JOINT-STOCK COMPANY FOREIGN EXCHANGE OFFICE , TIRANA  
Licence No. 56, dated 28.08.2002.  
Address: Rruga "Reshit Çollaku", No. 4, Tirana-Albania
53. UNIONI BALLSH. *FOREIGN EXCHANGE OFFICE S.R.L.*, BALLSH  
Licence No. 57, dated 11.09.2002.  
Address: Rruga "8 Nëntori", Ballsh-Albania
54. ESLULI. *FOREIGN EXCHANGE OFFICE S.R.L.* , TIRANA  
Licence No. 58, dated 17.10.2002.  
Address: Rruga "Reshit Çollaku", Pallati iShallvareve, Shkalla No. 4/1, Tirana-Albania

**55. "AMERICAN GLOBAL CAPITAL FUND-WORLDWIDE INVESTMENT" FOREIGN EXCHANGE OFFICE S.R.L., TIRANA**

Licence No.59, dated 26.11.2002.

Representative with power of attorney : Dashar Sheshaj, Vilson Ahmeti

Address: Rruga "Ismail Qemali", Parcela 167/187 "Euroapartment", Tirana-Albania

**56. UNIONI KUÇOVË. FOREIGN EXCHANGE OFFICE S.R.L, KUÇOVË**

Licence No. 60, dated 27. 03. 2003.

Address: Lagjja "Llukan Prifti", Kuçova-Albania

Tel. 03112515

**57. DENI&KRISTI-2002. FOREIGN EXCHANGE OFFICE S.R.L, TIRANA**

Licence No. 61, dated 02.06.2003.

Address: Rruga "Myslym Shyri", Pallati 60, Ap. 3, Tirana-Albania

Exchange-broker: Maksim Çeku.

**58. YLDON. FOREIGN EXCHANGE OFFICE S.R.L, TIRANA**

Licence No. 62, dated 03.06.2003.

Address: Rruga "Qemal Stafa", Pall. 382/2/2, Tirana-Albania

Exchange-broker: Ylli Ndroqi (founder and manager)

Tel. 343 476, 0692095681.

**59. BIBLI. FOREIGN EXCHANGE OFFICE S.R.L, TIRANA**

Licence No. 63, dated 16.02.2004.

Address: Sheshi "Wilson", Pallati i ri në kryqëzimin e Tiranës së re, Tirana-Albania

Exchange-broker: Sybi Cenolli.

**60. REXHA F&E. FOREIGN EXCHANGE OFFICE S.R.L, DURRES**

Licence No. 64, dated 07.04.2004.

Address: Rruga "Mujo Ulqinaku", Lagjia nr. 5, Pall. 619, Durrës-Albania

Exchange-brokers: Fatmir Rexha (founder and manager)

Ermira Rexha

**61. ALBA&ARBER. FOREIGN EXCHANGE OFFICE S.R.L, TIRANA**

Licence No. 65, dated 06.05.2004.

Address: Rruga "Kavajës", Pall. 3. Kati I, Tirana-Albania

Exchange-brokers (and managers): Pëllumb Mehmetaj

Bukurosh Jaho

**62. I.S.N. FOREIGN EXCHANGE OFFICE S.R.L, TIRANA**

Licence No. 66, dated 06.05.2004.

Address: Rruga "Kavajës", Pall. 3. Kati I, Tirana-Albania

Exchange-brokers: Evzi Zemzadja, Nexhmi Uka and Salandi Brojaj

Mobile Tel.: 068 20 35 265 Evzi Zemzadja (manager)

069 20 32 727 Salandi Brojaj

**63. ARIABA. FOREIGN EXCHANGE OFFICE S.R.L, TIRANA**

Licence No. 67, dated 07.06.2004.

Address: Rruga "Abdyl Frashëri", Kati I, Shk. 5,

Pranë Librit Universitar, Tirana-Albania

Exchange-brokers: Agim Xhemo (manager)

Astrit Hado

## **SAVING-CREDITING ASSOCIATION UNIONS**

### **1. JEHONA SAVING-CREDITING ASSOCIATION UNION, TIRANA**

Licence: No.1, dated 27.06.2002.

Head of the executive board: Vojsave Rama

This union consists of 41 saving-crediting associations licensed also as special associations. They are technically assisted by the foundation "Movement for the saving-crediting associations development".

### **2. "ALBANIAN SAVING-CREDITING UNION" SAVING-CREDITING ASSOCIATION UNION, TIRANA**

Licence: No. 2, dated 09.08.2002.

Address: Rruga "Ismail Qemali", No. 32, Tirana-Albania

Head of the executive board : Zana Konini

Tel. 25 19 10

E-mail: ffrural@albaniaonline.net

This union consists of 91 saving-crediting associations, licensed also as special associations. They are technically assisted by "Mountain Area Financing Fund".

## REPRESENTATIVE OFFICES OF FOREIGN BANKS REPRESENTATIVE OFFICES OF FOREIGN BANKS

THE REPRESENTATIVE OFFICE OF BANCA POPOLARE PUGLIESE IN ALBANIA

Licence: No. 01, dated 02. 07.2003.

Representative: Giancarlo STASI

Address: Sheshi "Skënderbej", Pallati i Kulturës, Third Floor, Tirana-Albania

Tel. +355 4 256 782

Pursuant to Law "On the Bank of Albania" No. 8365, dated 02.07.1998, Article 9, section 4 and 5, and the Regulation "On Granting a license for conducting banking activity in the Republic of Albania", approved with the Bank of Albania Supervisory Council decision No. 71, dated 11.09.2002, the Bank of Albania provides the right to Banca Popolare Pugliese to establish the Representative Office in Albania. The office will be entitled to perform the following activities:

- *organize studies on Albanian market*
- *advertise the financial activity*

The Representative Office of Banca Popolare Pugliese is not allowed to perform banking activity. The license is not time-limited and non-transferable.

