

**BANK OF ALBANIA**

# **ECONOMIC BULLETIN**

**Quarterly edition**

**December 2004**

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# QUARTERLY ECONOMIC BULLETIN

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# THE 7-YEAR CHALLENGES OF THE BANK OF ALBANIA MANAGEMENT

SPEECH BY GOVERNOR ARDIAN FULLANI AT HIS FIRST PRESS CONFERENCE

Considering the today meeting with you as my first official public presentation as governor, I want to thank you for your interest and confidence on the Bank of Albania. I deem once more necessary to state my personal commitment and of the staff I lead that Bank of Albania will be always open aiming the further strengthening and well-functioning of the already established communicating bridges. My present message is, this communication will not be solely institutional with me, but simultaneously with the Institution of the Bank of Albania as well. That is, I will assure a transparency, a clear and on going communication for the high power of media make possible the spread of our understandable messages to the public.

Nowadays, Bank of Albania is seen as a consolidated, reliable and transparent institution. It has implemented an accurate and efficient monetary policy, contributing to the intensification of macro-economic equilibrium in fully accordance with the national programs of the domestic economic progress. I would like to introduce, deeming on these aspects, some of the ideas on their further improvement, pointing to my already declaimed opinion, that of continuance.

Firstly I would like to deal with **the institutional progress of the Bank of Albania**. I perceive the independence of the central bank institution as a crucial issue. Of the same importance, I deem the further openness of the institution, considering accountability increasingly fully and more contemporary. Central bank is not only an independent institution but also mainly and parallel responsible, that is really transparent on decision-taking, policy – making and their succeeding. I shall ensure, throughout my term, the decisions be taken out of the executive and policy's impact, while Bank of Albania will fully meet its legal duty on providing the respective advises and expertise to the economic decision-taking process in the country.

**To maintain price stability** will be the main objective of monetary policy throughout my term. Adopting inflation targeting regime in the future, recognized as “targeted inflation”, will serve to consolidate prices stability maintenance. This regime better suits to the forthcoming changes occurring in the Albanian economy, particularly to the financial sector expansion and progress. Operational framework will also further progress aiming its functioning based only on market principles.

The second important pillar for the Central Bank is seen **the banking system stability**. Bank of Albania shall encourage the development and consolidation of a sound banking and financial system for the country economic progress. This will lead not only to the real crediting of economy from banking system, but also to the increase of intermediate financial efficiency and of the financial and banking services. Cash money direction into banking channels, thus contributing to economy formalization will revest a new dimension.

**Raising banking and financial supervision on contemporary levels** under these conditions is deemed of a priority importance. This implies the indispensable review of the present regulative base to approach it as close to the best known standards, as well as to change supervision process into a really oriented process to risk and becoming proactive. An open and direct communication with banking industry and other important financial institutions, will be the essentials of these objectives

**Re-dimensioning of analyzing and researching capacities**, to evade the descriptive character and make clear the key point of economic phenomena, are crucial to meet the above listed commitments. Hence, Bank of Albania will initiate the establishment of consultative forums from academic field representatives, analysts and researchers. This

would lead to the comparison with neutral third parties, through supplying not only their own experience, but also an alternative point of view for a well informed decision-taking.

Bank of Albania will pay particular attention to **efficient administration of human resources** to achieve the international standards of model institutions. It will be changed into an attractive institution for the experts.

Bank of Albania primarily will increase **the mutual relationships with all international**

**partners.** It will be a real partner in the discussing table, arguing on the economical-financial policies, through presenting its solution alternatives, being elaborated not only on the economic logic base but also on the Albanian reality.

Bank of Albania identifies European Central Bank as the institution that represents not only the organizational and operation model, we aim to quickly approach, but also the possibility on a real collaboration related to particular directions of the Bank of Albania functioning, and also to strategic objectives of the country economy.

# ECONOMIC DEVELOPMENTS DURING THE SECOND SEMESTER OF 2004 AND EXPECTATIONS FOR YEAR 2005

## I. GOVERNOR STATEMENT

The second part of 2004 has generated a larger economic activity, marking a certain general impulse, especially after a relatively quiet start of the year. The acceleration of production growth is reflected almost in all the economy sectors, while the major objectives of the economy have been achieved in conformity with the overall programme of the country's economic and financial development.

At international level, this semester coincided with an acceleration of the confirmed tendencies in the first part of the year, especially with regard to US dollar performance and oil price rise. The Fed monetary policy has changed the monetary policy tendency, during this period, through some successive increases of the core interest rate, in attempting to prevent the inflationary pressures in the economy. On the other side, the European Central Bank, considering the inflation performance and the strong pressure against the Euro has deemed unreasonable to change the core interest rate, keeping it at the level of 2 percent for almost a year and half.

Annual inflation in December resulted 2.2 percent, while the average annual inflation was only 2.9 percent. The maintenance of inflation within the targeted range was mainly attributed to the stable macroeconomic situation, the control of domestic demand of the economy and monetary indicators stability.

Year 2004 was characterized by the achievement of fiscal objectives in terms of budget expenditures and budget deficit, and also by a more uniform allocation of fiscal expenditures. Government demand for loans has been distinguished by a rising level during the second semester, however remaining within the projected levels. Also, the annual rate of the change of current budget expenditures was stable. The implementation of a prudential fiscal policy has

provided the appropriate conditions to better control inflation rate.

During the second half of 2004, the Bank of Albania monetary policy has kept an easing tendency, aiming above all at reducing the borrowing cost in the economy. Bank of Albania has twice cut the core interest rate, in July and November, by 0.25 percentage points. These cuts have brought the core interest rate to the lowest historical rate, by 5.25 percent.

The banking system was characterized by an accelerated lending activity to the economy during 2004. The credit balance increased by LEK 9.2 billion during June-November 2004, being 51 percent higher than the balance growth in the first semester of the year. Lending to the economy is given an ever-increasing importance in the assets structure of the banking system, constituting a considerable source of the demand for monetary assets. The credit/deposit ratio increases on a continuous basis, an indication that positively introduces the function of the intermediation role of the banking system in supporting the economic development. The balance credit rise marked during the eleven-month period of the year the value of LEK 15.3 billion, reflecting a rise of 30 percent relative to the yearend of 2003.

The easing monetary policy of the Bank of Albania has helped smooth the appreciation pressure of the Lek exchange rate. The differences between interest rates in foreign currency and those in domestic currency incurred a decline during 2004. However, the rising foreign currency inflows on one hand, and the reduction of imports volume on the other one, have created a temporary difference between the foreign currency supply and demand during the summer period. This misbalance has exerted a significant pressure on the appreciation of the Lek exchange rate, fostering the foreign market volatility. The exchange rate volatility through this temporary

rise of foreign currency supply has imposed the necessity of the Bank of Albania intermediation to the foreign market during the summer period, towards purchasing the foreign currency.

Though trade deficit increased, the current deficit in the third quarter has been lower than in the previous quarters, thanks to increased and positive balances of income, services, and particularly current transfers. The current transfers balance is estimated at USD 295 million, being higher than the one of the first two quarters, and nearly 44 percent higher than the one of the third quarter of the previous year. Overall, the balance of payments performance during 2004 was positive. The gross foreign reserve level, at the end of this period, was estimated at USD 1 billion and 244 million, adequate to cover 5.1 months of imports of goods and services.

Based on the aforementioned developments, we may conclude that year 2004 contributed generally in further consolidating the country's macroeconomic equilibrium. Although full data for the yearend of 2004 are not yet available, there is a crystallization of the idea that the primary targets projected in the medium-term plan on the country's development have been met satisfactorily. According to the latest estimations, the Albanian economy grew by 6 percent under the conditions of a low inflation rate, far closer to the bottom level of the targeted band. The structural reforms, through their problematic concerns, have progressed during 2004.

All this consolidating process has created the premises for a better stability in the future. The development program of the country for year 2005 already exists, part of which are the primary targets of monetary policy.

The primary target of monetary policy for 2005, projected in the monetary program, remains the maintenance of the annual inflation rate within the two-to-four percent targeted range. This target is supposed to be met through the control of the monetary supply growth at an approximate level with the nominal growth of GDP, presuming that the velocity of currency circulation in the economy is stable. In this light, the annual growth rate of money supply for year 2005, projected in the

monetary program, is 9.4 percent. This rate is in compliance with the provided demand of the economy for money, coming from its real growth by 6 percent.

The Bank of Albania monetary program is designed in line with other policies of the economy, where its harmonisation with the government fiscal policy is highlighted. The Bank of Albania estimates that like in the past years, even in 2005, the country's economic development will be in conformity with the overall development program objectives. The last developments of the banking system consolidate the optimism that it will fulfil to the best of its knowledge the role of financial intermediation in the economy. We deem that its consolidation will continue with accelerated rhythms throughout this year, providing to the large public more credits, more services and more security in the savings conduct.

## **II. ECONOMIC PERFORMANCE DURING THE SECOND SEMESTER OF 2004**

### **II.1 WORLD ECONOMY**

World economy entered the stage of a mature development cycle during the second semester of 2004. The high growth rates at the end of 2003 and in the beginning of 2004 are followed by a moderate growth during this period. Oil price rise was a factor that negatively impacted the economy growth rates. Oil price reached the highest point in October, but since that moment it marked a fall, being followed by an increase of optimism and stock exchange indexes. World trade increased by 8.5 percent during 2004<sup>1</sup>, being both a supporting factor and sign of economy growth. On the other hand, the economic growth is assisted also by macroeconomic policies, which maintain promoting trends at international level. Thus, the low borrowing rates and the high investment level have positively impacted the development of world economy. Independently of the high oil price, inflationary pressures have been low. The secondary effects of price rise waned because of the high competitiveness.

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<sup>1</sup> Data of the World Trade Organization.

**Table 1. Main indicators of world economy (in percentage).**

	GDP – 3 <sup>rd</sup> Q	Unemployment	CPI
United Kingdom	3.0	4.6 (September)	+1.2 (October)
France	2.0	9.9 (October)	+2.1 (October)
Germany	1.3	10.8 (November)	+1.8 (November)
Italy	1.3	8.1 (April)	+2.0 (November)
Japan	3.9	4.7 (October)	+0.5 (October)
USA	4.0	5.5 (October)	+3.2 (October)
Euro area	1.8	8.9 (October)	+2.2 (November)

\*Source: "The Economist" magazine, December 4-10, 2004.

In the United States, the economic activity performance resulted positive during this semester. Based on the most recent estimations, the growth being translated in annual terms of GDP was 4 percent in the third quarter, from 3.3 percent it was in the second one. The base of growth during this period was the increase of personal consumption. Employment increase during this year was one of the reasons of personal consumption increase. Evaluating that economic growth of the United States appears of stable bases, FOMC decided to rise by 0.25 percentage points the core interest rate on December 14, reaching the level of 2.25 percent. This was the fifth rise of core interest rate from Federal Reserve during this year. However, financial markets continue to be worried about the structural problems of the American economy. USA monthly deficit trade reached the record of USD 60.3 billion in November, due to the demand at record levels for oil and consumer goods. Also, budget deficit for the fiscal year 2004, closing on September 30, marked the value of USD 412.6 million, about 3.6 percent of GDP and about 9.4 percent more than the previous year. These deficits have oscillated the confidence of investors in the long run value of USD, being reflected in the reduction of foreign exchange rate against strong foreign currencies.

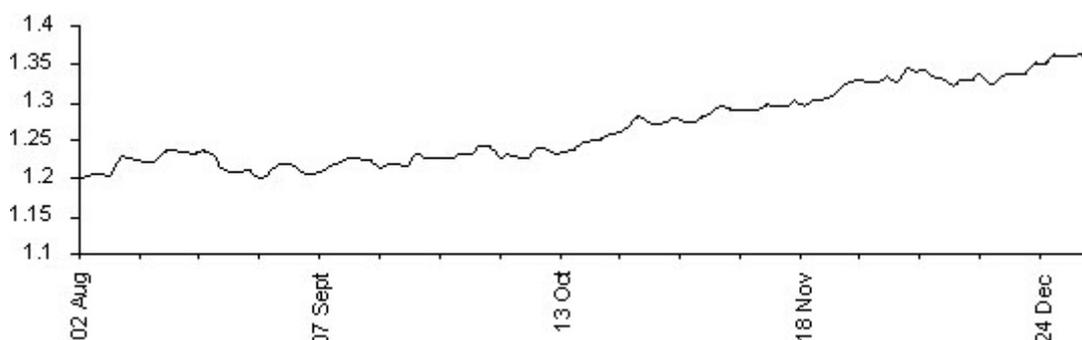
Real GDP growth rate for the euro area was only 0.3 percent during the third quarter. The performance of this economy, during the second half of the year, did not follow the same rhythms as in the first half. Net exports contribution during the third quarter resulted to be negative due to considerable increase of imports. Exports

represent nearly one fifth of the European economy, a level about 2 times higher than the one of USA. Thus, the euro zone economy is more sensitive to Euro appreciation, which reached 7 percent during the last four months. The negative impact of euro appreciation in exports led to the decrease of confidence from the business. Another factor influencing the economic slowness is the decrease of private consumption, which is believed to be the consequence of high price of oil and unemployment rate, being evaluated at about 8.9 percent. The euro area countries have started to cut taxes, promote personal consumption, but further aggravating their fiscal position. The budget deficit ration to GDP for 2004 is estimated to reach the level of 2.9 percent, from 2.7 percent it was in 2003. Inflation in the euro area was 2.2 percent in November, from 2.4 percent in October, reflecting the oil price movements. Annual rate of energy group index increase from 6.4 percent in September 2004 to 9.8 percent in October 2004. Data from the labour market show that the increase of annual wages in the euro area has been moderate during the third quarter of 2004, a fact that will help the control of inflationary pressures over the mid-term period.

#### *EXCHANGE RATES*

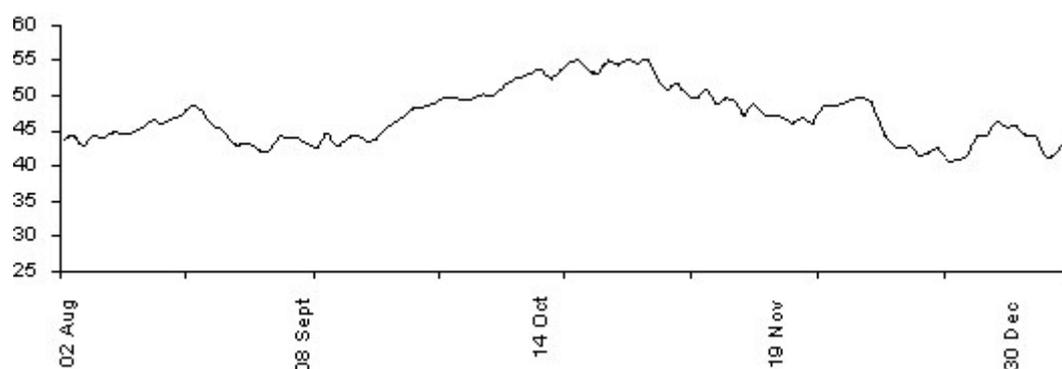
US dollar has continued to be depreciated at accelerated rhythms against all the foreign currencies, during the last two months of 2004. In the last days of December, one Euro was exchanged with US\$1.36. Till now this is the highest historical rate of the Euro exchange against US dollar.

Chart 1. Exchange rate of euro and US dollar, August – December 2004.



Source: Bloomberg.

Chart 2. Crude oil price, August – December 2004.



Source: Bloomberg.

Current account deficit in United States was the main factor impacting the US dollar depreciation. American exporters welcome US dollar weakness; meanwhile the leaders of European countries became worried, as European producers started to feel the Euro strengthening. US dollar has reached the lowest levels of exchange against the other foreign currencies as well, during the month of December. One dollar is exchanged even with 104.5 Japanese yen and with 1.9 British pound.

#### *OIL PRICE*

After reaching a culmination of USD 55 per barrel in October, oil price recorded a fall, but always remaining at high historical levels. The world supply of crude oil is 1 percent higher than the daily consumption; such a difference makes the markets nervous in the event of production interruption. The main geopolitical issues over the last months are related with the events taking place in Iraq and with the disagreements in

Russia between Yuko Company – the highest Russian company of oil production – and Russian Government.

OPEC Member States, in the meeting of December, decided to reduce the production to 1 million barrels per day. However, the decision did not have strong effects on the price, as it shall not immediately enter into force. OPEC produced 28 million barrels per day, about 1 million more than the ceiling production. The decision to turn the production at ceiling levels was made to avoid giving opportunities to oil consumer countries to create stocks, which would lead to price cut.

## II.2 ALBANIAN ECONOMY

The available statistical information for purposes of real economy analysis continued to be rare even during this semester, thus making considerably difficult the analysing ability of the

Bank of Albania. Available information results to be poor and disclosure period is furthermore of delay from the closure of the surveyed period. We are obliged, under these circumstances, to make use of that small quantity of information we may own, which mainly consists in the sales index and in some general estimations related to agricultural production.

Economic activity in the country has been distinguished by a significant growth during the third quarter of the year. The sales volume of non-agricultural sector, relative to both the previous quarter and the same quarter of the last year, increased considerably. Hence sales index, during the 9-month period of 2004 increased by 4.7 percent, compared to the same period of the previous year, compensating the fall noticed in the first quarter. The slowness of industry sector is balanced by the good performance of services sector (trade, hotels and restaurants) and that of construction. Positive developments are noted particularly in the services and construction sectors whose sales increased by 6.2 percent and 7.1 percent respectively during the 9 months of year. Albanian economy is eased by appropriate weather conditions, which have positively impacted the agricultural production and energy situation. Agricultural sector production is expected to be higher than the one forecasted at the beginning of the year, making that the contribution of this sector on GDP growth rises from 0.7 percentage point to 1 percentage point.

increased by about 30 percent during the eleven-month period of the year, being simultaneously oriented toward longer maturity terms. This development attests to a higher support of the banking system towards increasing producing capacities of the Albanian economy.

Lek was generally characterised by a depreciating tendency, being facilitated by the increase of confidence in the domestic currency, by positive interest rates, and the decline of imports in energy and agricultural products. However, the balance of payments marked positive developments, being followed by a growth of foreign reserve of the Bank of Albania. Trade balance deficit in nominal terms has continued to increase, being impacted by USD depreciation against Euro. Nevertheless, exports during 2004 marked a growth almost two times higher than imports, reflecting a better performance of the external sector of the economy.

Unemployment progressively decreased, while budget expenditures up to November resulted to be within the expected limits, without infringing the supply increase. Oil price rise in international market, though being reflected in the oil and transport price in Albania, does not seem to have caused additional unbearable cost for the domestic business and consumers.

Based on the so-far developments and waiting for the confirmation of fourth quarter data, we estimate that the target of growth by 6 percent

**Table 2. Real growth of GDP.**

	2002	2003	2004*
Economy	4.7	6.0	6.0
- Industry	1.8	2.7	3.1
- Agriculture	2.1	3.0	3.0 (3.8 revised)
- Construction	8.7	11.3	10.6
- Transport	9.7	10.8	10.1
- Services	5.1	6.4	6.4

Source: Ministry of Finance.

Economic growth, from macroeconomic viewpoint, has been revitalized under the conditions of a relative stability of internal and external equilibriums. Inflation results 2.9 percent at average level, closely to the middle limit of the Bank of Albania targeted band. Monetary developments have moved within the established equilibriums. Credit balance of the economy

of the Albanian economy during 2004 has been achieved.

#### II.2.1 ECONOMY SECTORS PERFORMANCE

Sales volume in the economy<sup>2</sup> has been distinguished by an increase during the third quarter of 2004. Sales index on economy has

<sup>2</sup> Agricultural sector sales are not included in this estimation.

recorded an increase of 14.6 percent compared to the second quarter, and an increase of 9.1 percent compared to the third quarter of the last year. Sales during the 9-month period of 2004 resulted about 4.7 percent higher than those of the same period of the last year. The sector having the highest weight of economy sales, the one of trade, hotels and restaurants, is developed at satisfactory level, marking a growth for all the compared periods and impacting significantly the total sales performance.

9-month period of the year. Electric energy production increased by 7.1 percent during the 9-month period of the year, while consumption of electric energy increased by 3.9 percent. The utilization of electric energy by the non-household consumers raised by 10.3 percent. Based on the good performance of electric energy production and distribution and for lack of full data, we estimate that the sales of this sector have resulted from the fall of water and oil sales.

**Table 3. Sales performance per sectors (in percentage).**

	Sales weight (% of total)	Jan – Sept 2004/2003	Q3 '04 / Q2 '04	Q3 '04 / Q3 '03
Total economy	100.0	4.7	14.6	9.1
Industry	26.0	-0.6	3.0	0.0
Construction	12.8	7.1	10.7	3.2
Trade, hotels, restaurants	44.0	6.2	23.7	18.0
Transport and telecommunication	11.8	5.0	17.8	1.8
Other services	5.5	15.1	3.3	14.7

\*Source: Institute of Statistics.

Tracing the performance of the last year, it was noted even during 2004 a progressive increase of sales throughout the quarters for all the sectors of economy.

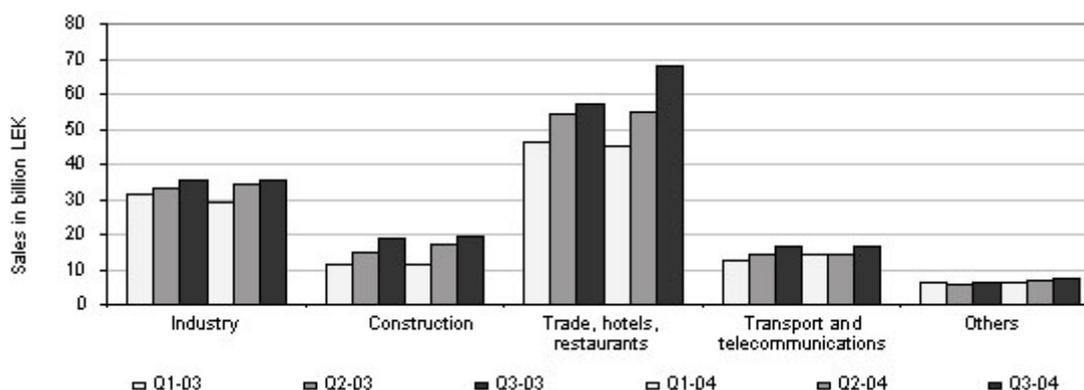
#### INDUSTRY

Sales of the industry sector represented by the processing industry, extracting industry and energy, water and gas industry, resulted to be at the same level with the previous year during the

#### CONSTRUCTION

During the third quarter of 2004 construction sales have marked an increase of about 11 percent compared to the previous quarter. The highest level of sales for this sector was achieved in August, a growth of 25.3 percent compared to the average monthly sales of the 9-month period of 2004. The sales growth in the third quarter led to construction sales growth by 7.1 percent during

Chart 3. Sectors sales per quarters.



\*Source: Institute of Statistics.

the 9-month period of the year compared to the same period of the last year.

#### *TRANSPORT AND TELECOMMUNICATION*

Transport and telecommunication sector has marked an increase of 5 percent in terms of sales volume, during the 9-month period of 2004, compared to the previous year. During the third quarter, sales of this sector grew by 18 percent respective to the last quarter. Work volume in ports for the above-mentioned period increased by 7 percent. Imports, constituting the highest weight of goods volume in ports, increased by 5 percent, while exports by 29 percent. However, it is noted that the work volume in railway transports, for January – November, 2004, has suffered a considerable fall to 20 percent in goods and 16 percent in travellers, compared to the same period of the previous year.

#### *AGRICULTURAL SECTOR<sup>3</sup>*

Year 2004 has been distinguished by positive developments regarding agricultural, animal and agro-industry products. According to the estimations of the Ministry of Food and Agriculture, agricultural branch is expected to increase by 3.8 percent during 2004 compared to the initial forecast of 2.9 percent. Thus, the contribution of agricultural sector production growth on GDP growth for year 2004 is estimated at about 1 percentage point compared to the

initial estimation for a contribution of 0.7<sup>4</sup> percentage point.

The highest growth of agricultural production is facilitated by the favourable weather conditions and based on the improvement of the technology employed by farmers and on the growth of investments (particularly in agro-industry sector). The abundant production of domestic vegetables and crops have competed the imports, compared to the previous year, and has also impacted the decline in prices of these goods during the major part of the year.

Agro-industrial production, representing nearly 20 percent of the domestic gross agricultural product, increased by 12 percent during 2004. According to agro-industry survey for the third quarter, the processing of agricultural products considerably increased.

Thus, during the third quarter the production of fish conservation, fruit and vegetables, milk processing, as well as the production of olive oil, alcoholic beverages, ham, and of water and fresh beverages, considerably increased, too.

Although the increase of these processed products during the third quarter is explained by the seasonal nature of their production, the agro-industrial production for the third quarter grew by 18.3 percent in annual terms, which reflects the good performance of this branch.

**Table 4. Agricultural product during 2004.**

	Weight on Gross Agricultural Product	Forecast July 2004/2003 (%)	Estimation December on 2004/2003 (%)
A. Agriculture	80	2.9	3.8
A.1. Animal	37	4.3	4.9
A.2. Crops	43	1.8	2.9
B. Agro-industry	19	10	12
C. Fishery	1	10.7	10.7
Total	100	4.1	4.9

<sup>\*</sup>Source: Ministry of Food and Agriculture.

<sup>3</sup> This sector includes branches of agriculture, agro-industry and fishery.

<sup>4</sup> This contribution is computed by using the growth rate of 3 percent and the sector weight on GDP of 21.8 percent.

**Table 5. Performance of agro-industry during 2004 (change in %).**

	Q3'04 (in billions of LEK)	Q3/Q3 2004/2003	Q3/Q2 2004
Agro-industry production	9.9	18.3	44.5
Meat and its products	0.7	41.0	25.6
Conserved products	0.2	5.6	40.7
Milk and its products	1.4	15.3	-18.0
Wheat flour and bread	1.8	-5.5	4.9
Alcoholic beverages	1.1	59.6	51.5
Water and fresh beverages	2.4	126.6	179.5
Other	1.6	-25.0	141.1

\*Source: Ministry of Food and Agriculture.

## II.2.2 FISCAL SECTOR

Fiscal policy and indicators resulted in general within the projected frame for the period January – November of 2004. According to the Ministry of Finance 92.2 percent of revenues are collected up to the end of November and about 90 percent of the projected expenditures are performed for this period. Thus, budget deficit, by the end of November, amounts to about LEK 24.8 billion, from LEK 32 billion being forecasted. Compared to the same period of the last year (January – November), revenues increased by 11.3 percent, expenditures by 9.1 percent, while budget deficit declined to 3.3 percent. In GDP terms budget revenues have maintained almost the same level with that of the last year, approximately 21.7

percent, while expenditures have reached the level 24.8 percent of GDP, marking a fall of 0.7 percentage point compared to the same period of the last year. The control of both budget expenditures and budget deficit within the projected levels made that inflationary pressures become less vulnerable to the fiscal sector.

### BUDGET REVENUES

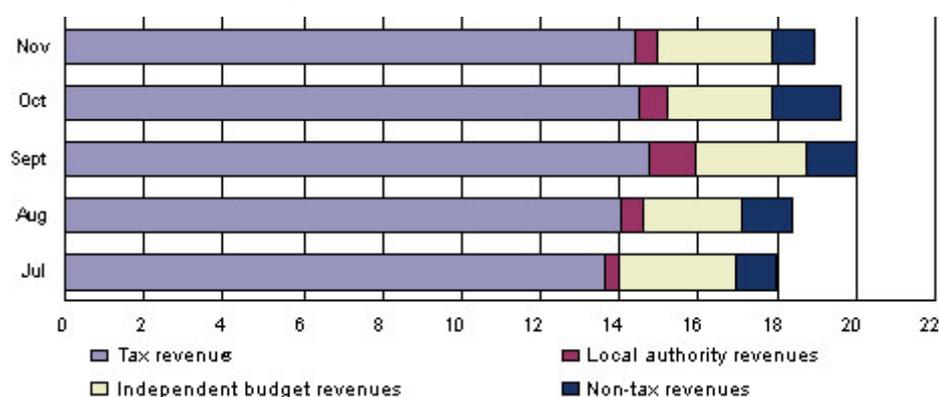
Budget revenues have marked an increase for all their components during the period January – November 2004. Tax revenues level, by the end of November, amounted to LEK 149.2 billion, while customs tax income resulted about LEK 111 billion, attaining the projected level of the annual budget by 97.7 percent and 96.4 percent, respectively.

**Table 6. Fiscal indicators (billions of LEK) and the relative difference (in percentage).**

	July - Nov 2004	Difference with 2003	Jan - Nov 2004	Difference with 2003
Revenues	79.4	15.7	165.4	11.3
Expenditures	95.7	12.0	190.2	9.1
Deficit	16.3	-2.9	24.8	-3.3

Source: Ministry of Finance.

Chart 4. Structure of monthly budget revenues (billions of LEK).



Source: Ministry of Finance.

Tax revenues remain the main source of budget revenues. They represent 85 percent of total revenues up to November. Unlike the previous periods, the value added tax exceeded the projected level, being performed at 103.2 percent. However, local government revenues are performed at 85.4 percent.

financing are performed at 48.3 percent. However, capital expenditures performance is expected to considerably increase in December, and in the next year, due to the use of a part of revenues from the Savings Bank's privatisation for strategic investments. Current expenses constitute 90 percent of total expenses (January – November 2004).

**Table 7. Tax and customs revenues (in billions of LEK).**

	November	Plan	Achievement (in %)	Annual plan
1. Tax revenues	149.2	154.9	96.4	170.6
1.1 Tax and Customs	111.0	113.6	97.7	125.6
- Value Added Tax	53.3	51.6	103.2	57.2
- Tax on income	14.7	13.8	106.2	15.2
2. Revenues from Local Government	9.1	10.7	85.4	11.3
3. Budgeted revenues. Independent	29.1	30.6	95.1	33.7
4. Non-tax revenues	13.8	18.7	73.7	20.8

Source: Ministry of Finance.

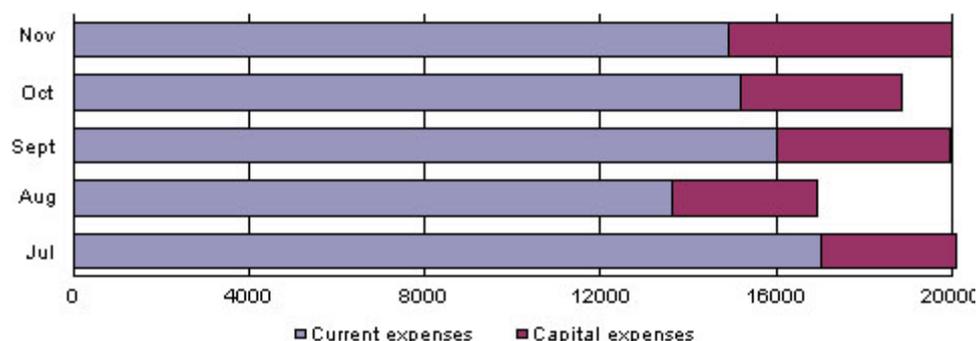
#### BUDGET EXPENSES

Budget expenditures have during 2004 the same features as in the previous year: during the 11-month period of the year current expenses are performed at 97.7 percent of the plan, while capital expenditures only at 67 percent. From the latter, expenditures covered by foreign

#### FISCAL DEFICIT

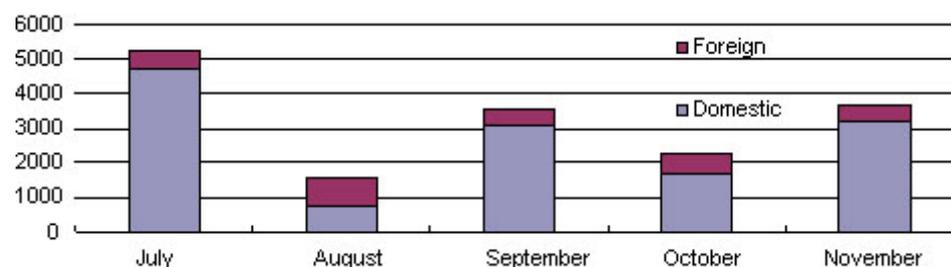
Fiscal deficit, during January – November, resulted nearly 77.5 percent of the projected level. Compared to the same period of the last year, fiscal deficit declined at 3.3 percent. The major part of deficit is financed by internal source, mainly as domestic borrowing.

Chart 5. Budget expenditures structure (millions of LEK).



Source: Ministry of Finance.

Chart 6. Budget deficit financing for 2004.



Source: Ministry of Finance.

### II.2.3 LABOUR MARKET

Labour market indicators speak for a positive performance of employment during the second part of 2004. Due to emigration, year 2004 is characterized by a fall of labour force number and of employment, particularly during the first quarter of the year, and dynamics of quarter's progress is positive. The number of employed persons during the third quarter is grown at 1 thousand other recorded persons. The number of unemployed persons has been declining as well; hence the unemployment rate is reduced from 15 percent at the beginning of the year to 14.6 percent during the third quarter. In other terms, this means that the number of unemployed persons decreased by 3 thousand persons during that period.

agricultural sector. The number of employed persons in private agricultural sector has remained unchanged during the 9-month period of 2004. The total number of employed persons in this sector is 534 thousands persons.

The change of minimal salary approved in the third quarter of 2004, from LEK 10060 to LEK 10080, is reflected also in the average salary in public sector increased by 3 percent. The unemployment payment increased at the amount of LEK 4360.

### II.2.4 EXTERNAL SECTOR OF ECONOMY

The balance of payments closed the third quarter by a positive balance. Foreign reserves increased by about USD 95 million during this quarter. The

**Table 8. Labor market indicators (in thousands of persons).**

	2002				2003				2004		
	Q.I	Q.II	Q.III	Q.IV	Q.I	Q.II	Q.III	Q.IV	Q.I	Q.II	Q.III
Total labor force (in thousands)	1096	1093	1094	1094	1096	1093	1092	1091	1080	1081	1080
A. Total employed (in thousands)	918	917	919	921	926	927	928	927	919	921	922
i) public sector	189	188	187	187	185	185	184	182	179	179	177
ii) private non-agricultural sector	6	203	206	208	207	208	210	211	206	208	211
iii) private agricultural sector	526	526	526	526	534	534	534	534	534	534	534
B. Unemployed (in thousands)											
i) total unemployed	178	176	175	173	170	166	164	164	161	160	158
ii) unemployment payment benefits	13	13	12	11	11	11	11	11	11.7	12.3	12
C. Unemployment rate (in %)	16.2	16.1	16.0	15.8	15.5	15.2	15.0	15.0	14.9	14.8	14.6

\*Source: Institute of Statistics, Conjunction, September 2004.

Employment structure per sectors reflects a continuous increase of employed persons in private non-agricultural sector during 2004, and a decrease of employed persons in public sector (mostly noted during the third quarter). The change of this ratio is due to public enterprises structuring process, which has diminished the number of their employed persons, and due to the Savings Bank's privatisation, raising the number of employed persons in private non-

current deficit was about USD 26 million, while capital and financial account balance resulted to be a positive one (about USD 30 million). The trade deficit has been rising compared with the two first quarters of the year, as well as compared with the third quarter of the previous year. However, the current deficit in the third quarter was lower than the previous quarter of the year due to positive and increased balances of income, services and current transfers.

**Table 9. Balance of payments (in millions of USD).**

	Q1'04	Q2'04	Q3'04	Jan - Sep '04	Jan - Sep '03
A. Current account	-77.9	-108.4	-25.7	-212.1	-261.2
A.1. Goods	-317.9	-358.0	-405.8	-1081.7	-957.6
A.2. Services	-6.1	0.7	27.1	21.7	-44.1
A.3. Revenues	36.3	32.1	59.4	127.8	133.2
A.4. Current transfers	209.9	216.9	293.6	720.4	607.3
B. Capital account	34.0	25.7	33.6	93.3	113.1
C. Financial account	22.9	203.2	-4.3	221.8	124.8
D. Reserve assets	-14.9	-117.4	-95.3	-227.6	-78.5
E. Errors and omission	29.9	-3.0	85.9	112.8	90.7

Source: Bank of Albania.

### *CURRENT ACCOUNT*

Current account revenues of Albania during the third quarter of 2004 amounted to USD 787 million, while expenditures to USD 813 million. About 38 percent of payments of the whole 9-month period of the year entered as current payments, while expenditures had a more uniform spread, representing 36 percent of the 9-month period expenditures. This quarter is characterised generally by higher imports of goods than the two previous quarters, lower goods exports, as well as higher inflows/outflows in services category. Current inflow transfers marked also an increase during the third quarter due to the growing number of emigrants turning back to homeland for vacations.

Travelling services continue to cover the major weight of services category. They have provided either for the third quarter or for the whole 9-month period of January – September about 70 percent of the total income and have represented 60 percent of services expenditures. Revenues from non-residents travelling in Albania for the third quarter (about USD 190 million) increased by 14 percent compared to the same period of the previous year, while expenditures of resident travellers abroad declined about 20 percent, remaining at the level of USD 130 million. Transport services, though being at lower levels than those of travelling, have marked an increase in both inflow and outflow directions compared with the third quarter of the last year. An increase of income from other services is also noted while payments for these services remained at the level of the last year.

Positive balance of employment revenues (USD 60 million) increased by about USD 10 million

compared to the third quarter of the last year. Income from employees' compensation has the highest weight in this category, which is estimated at USD 48 million for the third quarter. Income flows from portfolio investments, reserve and other investments have marked changes, compared to the third quarter of the previous year.

Balance in the current transfers category is estimated at about USD 294 million, being higher than the two previous quarters and about 44 percent higher than the one of the third quarter of the previous year. Emigrants' remittances (USD 282 million) are followed by transfers in the form of technical assistance (USD 7 million), of goods (USD 5 million) and of other transfers (USD 22 million).

### *CAPITAL AND FINANCIAL ACCOUNT*

Net inflows of capital account amounted to USD 34 million during the third quarter of 2004, not reflecting any big difference in comparison with the previous quarters. Financial account balance shows that net financial inflows during the third quarter have been almost zero. Residents' claims to non-residents grew at the same level as residents' liabilities (USD 124 and 126 million, respectively). In terms of assets a holdings reduction of about USD 120 million was recorded as portfolio investments, while deposits of our banking system abroad increased by USD 234 million. In terms of liabilities, Albania has withdrawn about USD 72 million as direct investments and about USD 32 million as official and private debts. Residents' liabilities to non-residents increased due to borrowings as long-term credits and soft credits from abroad, which have raised the external debt of Albania at about USD 160 million. The new private loan for the 9-

month period of 2004 is nearly 5.5 times higher in comparison with the same period of 2003. The new figures of private debt are provided also due to a closer cooperation with crediting institutions, which have supported over the years the Albanian business. Services of foreign debt as principal payments amounted to USD 31 million during this period. Net inflows of foreign assets as financial capital are reflected in the monetary authority foreign reserves, which increased by about USD 228 million. At the end of the period, gross reserve level is estimated at USD 1 billion and 224 million, sufficient to cover 5.1 months of imports in goods and services.

### III. INFLATION DURING THE PERIOD OF JULY - DECEMBER

#### III.1 INFLATION PERFORMANCE AND COMPONENT GROUPS

Second part of 2004 was characterised by low inflation, within the 2-4 percent targeted range of the Bank of Albania. Annual inflation was 2.2 percent in December, while the average annual inflation was 2.9 percent. The achieving of inflation objective reflects, inter alia, the stable macroeconomic situation, the control of domestic

demand of the economy and the monetary indicators stability.

In accordance with the earlier warnings of the Bank of Albania, the falling performance of agricultural products prices is confirmed during the second half of the last year, thus further underpinning the confidence that domestic agricultural production of this year is higher in comparison with the previous years.

Regarding this impact, it remains to confirm in the future whether we have experienced a particular year, whose success was based on climatic conditions and on other casual circumstances, or we have to do with an increase of investments in green houses and agricultural techniques. If the second one will be verified as true, then there might be concluded the typical seasonal behaviour verified in the past will change somewhat, giving more opportunity to the levelling of monthly curved line of inflation.

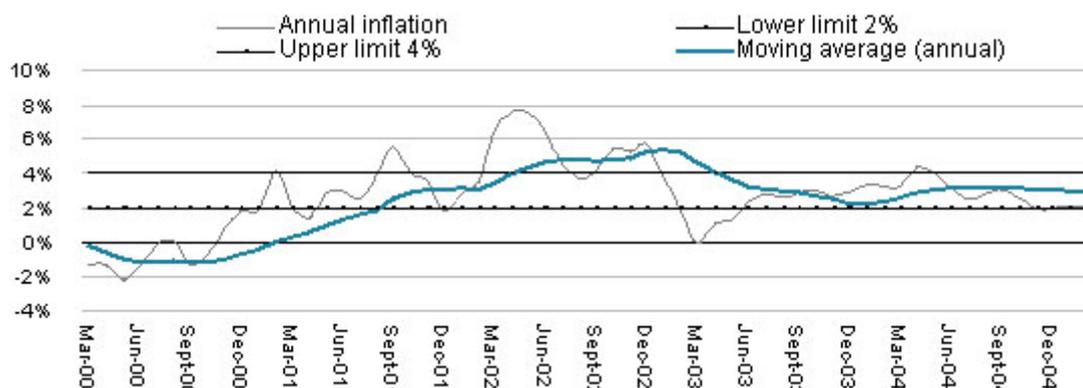
The continuous effect of the decline in agricultural price has been rather sufficient to absorb the upward impacts that accompanied the oil price rise and the delayed effects of the administered price changes (price rise of the electric energy and fixed telephony, respectively in January and April).

**Table 10. Annual inflation rate (in percentage).**

	2000	2001	2002	2003	2004
January	-1.3	2.2	6.5	0.0	3.3
February	-1.3	1.5	7.6	1.1	4.4
March	-2.1	2.9	7.5	1.3	4.0
April	-1.4	3.0	6.5	2.3	3.2
May	-0.1	2.5	4.6	2.8	2.6
June	0.1	4.0	3.7	2.6	2.9
July	-1.3	5.6	4.2	3.0	3.1
August	-0.7	4.1	5.5	3.0	2.7
September	0.9	3.5	5.3	2.8	2.0
October	1.8	1.8	5.8	2.9	2.0
November	1.9	2.8	3.7	3.4	2.2
December	4.2	3.5	1.7	3.3	2.2
Average	0.1	3.1	5.2	2.2	2.9

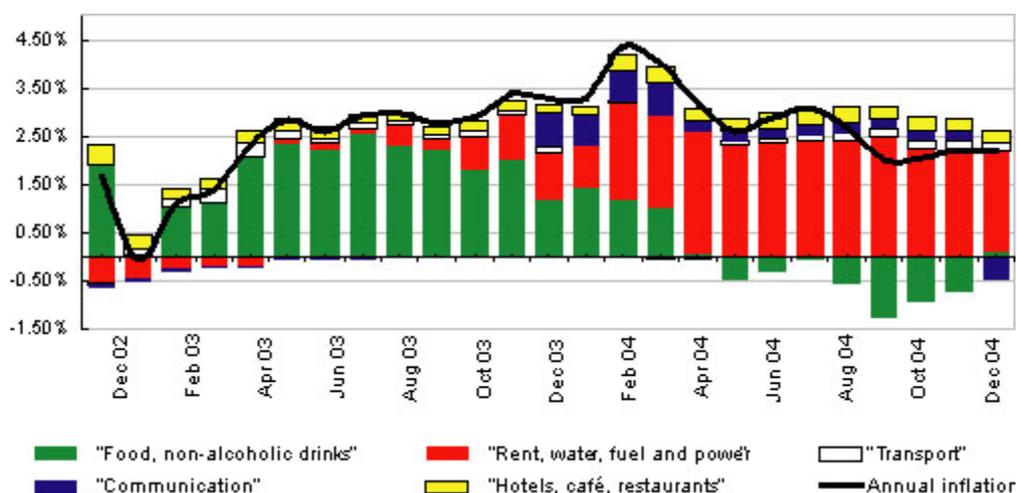
\*Source: Institute of Statistics.

Chart 7. Annual inflation (in percentage).



Source: Bank of Albania, Institute of Statistics.

Chart 8. Contribution of the main groups of CPI basket (in percentage point).



Source: Bank of Albania, Institute of Statistics.

Graph 8 reflects in a more detailed way the contribution that each group of price basket has provided to the annual inflation.

Treating in more details the performance of the main items of the basket, we may highlight:

- “Food and non-alcoholic beverages” item marked negative annual rates for the period May – November 2004. This progress is diametrically opposite with the past. However, the one thing to be noted is that the contribution of this group has been continuously falling. The one thing interesting has to do with the fact that the high weight of this group continues giving its “face” to inflation. Due to the high weight (42.6 percent) of

this group in the consumer price basket, it considerably affects the rate of total inflation. The high dynamics featuring the domestic economic development, during the last 3-4 years, has affected, among others, the behaviour of Albanian consumer; such an observation would impose changes in composing the price basket. Notwithstanding the fact that Albania is still considered a poor country, consumer behaviour is believed to be under an uninterrupted changing process, evidently towards a typical structure for consumer societies. A fall of the weight of this group would ease the high fluctuations of prices index from one month to the other, while the structure of this group might have gone through potential changes itself.

**Table 11. Annual inflation rate and the contribution of “Food and non-alcoholic beverages” group on total inflation.**

	Annual inflation 2003	Contribution (pp)	Annual inflation 2004	Contribution (pp)
July	6.2	2.56	-0.1	-0.05
August	5.6	2.33	-1.4	-0.58
September	5.3	2.21	-2.9	-1.25
October	4.3	1.82	-2.2	-0.94
November	4.8	2.01	-1.6	-0.70
December	2.7	1.20	0.3	0.12

Source: Bank of Albania, Institute of Statistics.

- Prices index of “Rent, water, fuels and power” group systematically increased throughout 2004. Electric energy price rise, in January 2004, had a direct impact on the rising direction, contributing at an average of 2.3 percentage points on the annual inflation rate (Table 12).

2004 affected the inflation of “Communication” group. Following this reduction, the group contribution on total annual inflation has been lowered from 0.7 percentage point during the period December 2003 – March 2004 to 0.2 percentage point during the period April – November 2004. The contribution of this group was in December negative

**Table 12. Inflation annual rate and the contribution of “Rent, water, fuels, power” group on total inflation.**

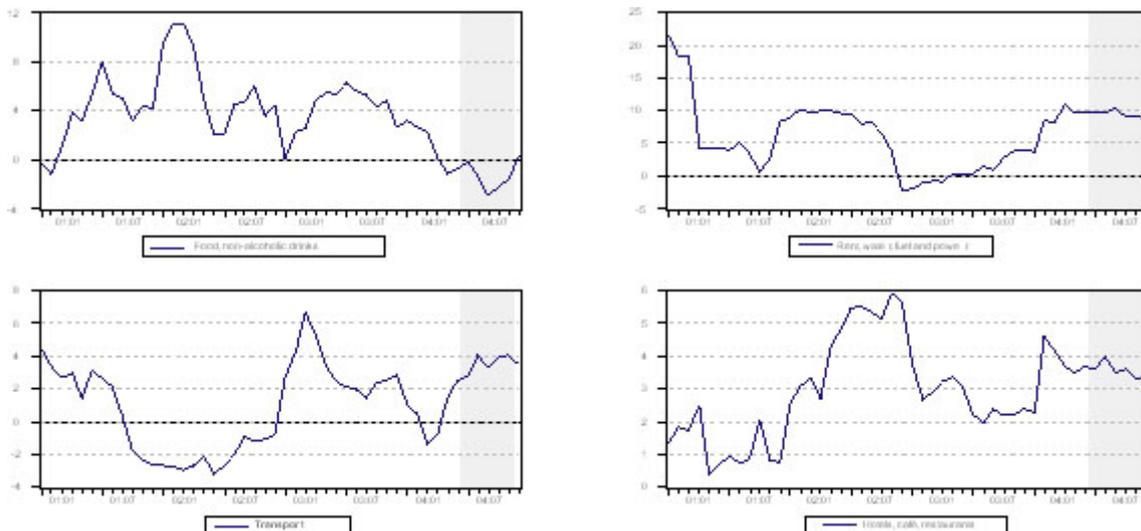
	Annual inflation 2003	Contribution (pp)	Annual inflation 2004	Contribution (pp)
July	0.4	0.10	9.9	2.39
August	1.6	0.39	9.7	2.37
September	1.0	0.23	10.4	2.49
October	2.8	0.68	9.2	2.24
November	3.8	0.91	9.2	2.22
December	4.1	0.95	8.8	2.08

Source: Bank of Albania, Institute of Statistics.

- Decisions on the rise of the administered price of fix telephony at 68.8 percent in December 2003 and later the reduction at 28.5 percent in April

at -0.46 percentage points, reflecting that the annual inflation rate is no longer impacted by the price rise of December 2003.

Chart 9. Annual inflation of the main 4 groups of CPI basket (in percentage).



Source: Bank of Albania, Institute of Statistics.

- Inflation of the other groups of CPI basket is moderately fluctuated during this semester. "Clothes and footwear" group marked a decline of annual inflation, while an increase was marked by "Hotels, café and restaurants" and "Education service" groups.

by a more uniform spread of budget expenses. Government demand for loan has been increasing during the second semester, but nevertheless remaining still within the forecasted levels. The annual rate of current budget expenses change has been stable. The implementation of a prudential fiscal policy has provided the conditions for a better control of inflation rate.

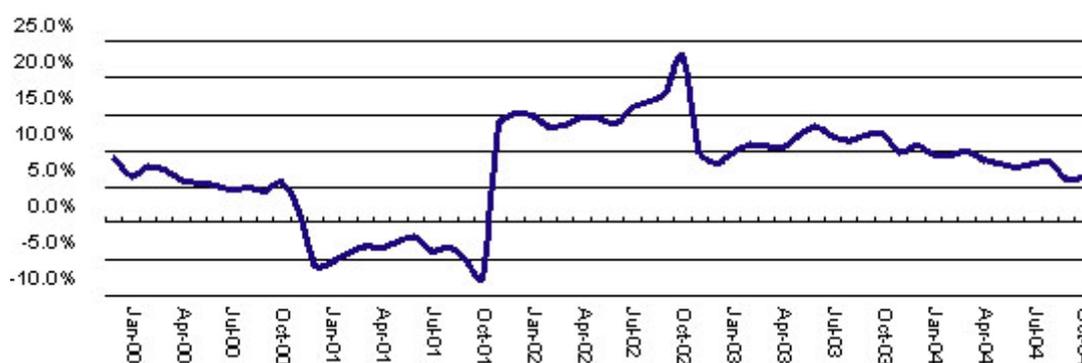
### III.2 MACROECONOMIC ENVIRONMENT AND CONSUMER PRICES

Maintaining inflation at low level is undoubtedly a result of favourable macroeconomic conditions and of adequate and prudential monetary and fiscal policies, in addition to the favourable developments in both agricultural production and foodstuff prices.

Monetary policy of the Bank of Albania has maintained the easing direction even during the second semester, aiming at reducing the borrowing cost in the economy. However, the low rate of inflation has provided a real positive interest rate, making possible the channelling of deposits in the banking system and preserving liquidity ratios in the system. The easing monetary policy is applied without infringing the monetary balances. The second semester of this year is characterised by higher growth rates of monetary aggregates, but without generating inflationary pressures on the economy.

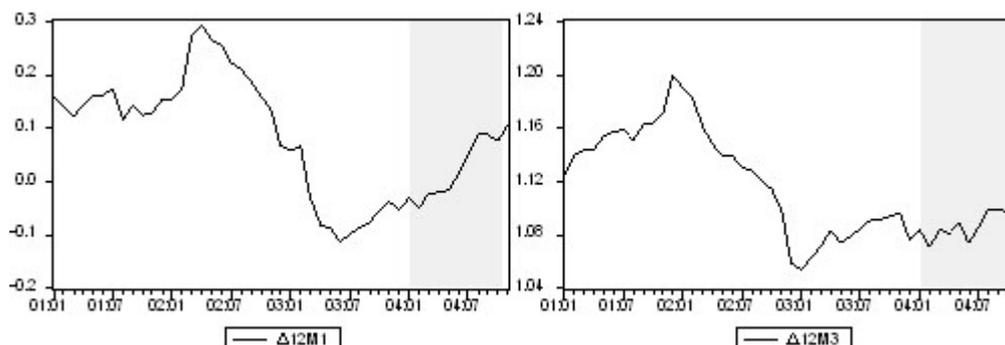
Year 2004 has been distinguished by the accomplishment of fiscal objectives in terms of budget expenses and budget deficit, as well as

Chart 10. Annual change of current expenses.



Source: Ministry of Finance.

Chart 11. Annual changes of M1 and M3 monetary aggregates (in percentage).



Source: Bank of Albania.

The continuous appreciation of Lek against Euro and US dollar has been an important factor in the moderate performance of inflation<sup>5</sup>. Lek appreciation during the summer period is due to some extent to the same factors impacting the low rate of inflation during this period: shifting of imports in the market due to domestic product growth. Lek appreciation, being also combined with low rates of inflation in partner countries, has equilibrated the inflationary impulses that are generated by imported inflation<sup>6</sup>.

in the international markets<sup>7</sup>. On the other hand, the adaptability of internal demand<sup>8</sup> for this product made that domestic price was not subject to full rise.

During the third quarter of 2004, Production Price Index marked an increase in annual and quarterly terms.<sup>9</sup> Theoretically, the Production Price Index growth, in the framework of the increasing capacity usage, signals the risk of cost shifting into consumer prices. Nevertheless, such a

**Table 13. Annual inflation of main partner countries (in percentage).**

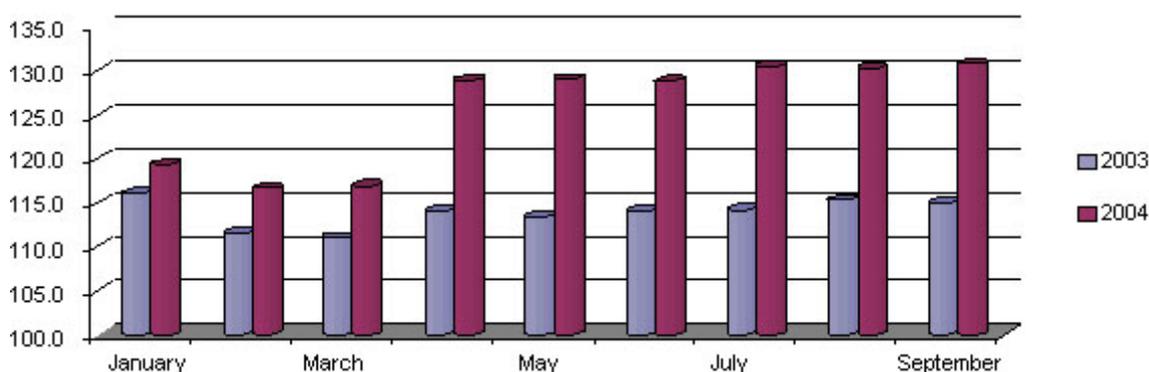
	May	June	July	August	September	October	November
Greece	3.1	3.0	3.1	2.8	2.9	3.3	3.2
Italy	2.3	2.4	2.2	2.4	2.1	2.1	2.0

Source: Eurostat News Release.

On the other hand, supply factors have not generated considerable pressures on consumer price rise. The impact of oil price rise was moderated in the domestic market. Oil price rise in the foreign markets at about 29.7 percent, during the period August – October 2004, was reflected in the inflation increase for “Transport” group at 4.1 percent. Nevertheless, the continuous appreciation of Lek against US dollar has smoothed the oil price rise impact on inflation

phenomena is not confirmed yet, and as for the lack of empirical analyses in this respect, it cannot be concluded yet whether this shifting process shall be certified at a second time or not. A possible cause in the non-transmission of this effect to consumer prices shows that the Albanian economy still owns unexploited capacities. The increase of competitiveness in the economy has also exerted a restricted impact on consumer price rise.

Chart 12. Performance of Production Price Index during 2003 and 2004.



Source: Institute of Statistics.

<sup>5</sup> Lek is appreciated at 13.2 percent against US dollar and 5.3 percent against Euro, at annual rate.

<sup>6</sup> Such an inflationary pressure was oil price rise.

<sup>7</sup> Lek is appreciated at about 8.2 percent during the second half of 2004.

<sup>8</sup> Domestic oil consumption for the third quarter of 2004 is reduced by 14.5 percent annually and by 40 percent relative to the previous quarter.

Source: Institute of Statistics, The conjuncture for the third quarter of 2004.

<sup>9</sup> Source: Institute of Statistics, CPI. CPI increase was 1.26 percent relative to the previous quarter, and 13.53 percent relative to the previous year.

The slight increase of public sector salaries as well as the decrease of unemployment rate<sup>10</sup> did not bring about significant changes in consumer dynamics and did not generate considerable inflationary pressures.

The accomplishment of Bank of Albania inflation objective for 2004 has given a positive contribution to the Albanian economy development, aiming at maintaining macroeconomic balances.

## IV. MONETARY DEVELOPMENTS AND FINANCIAL MARKETS

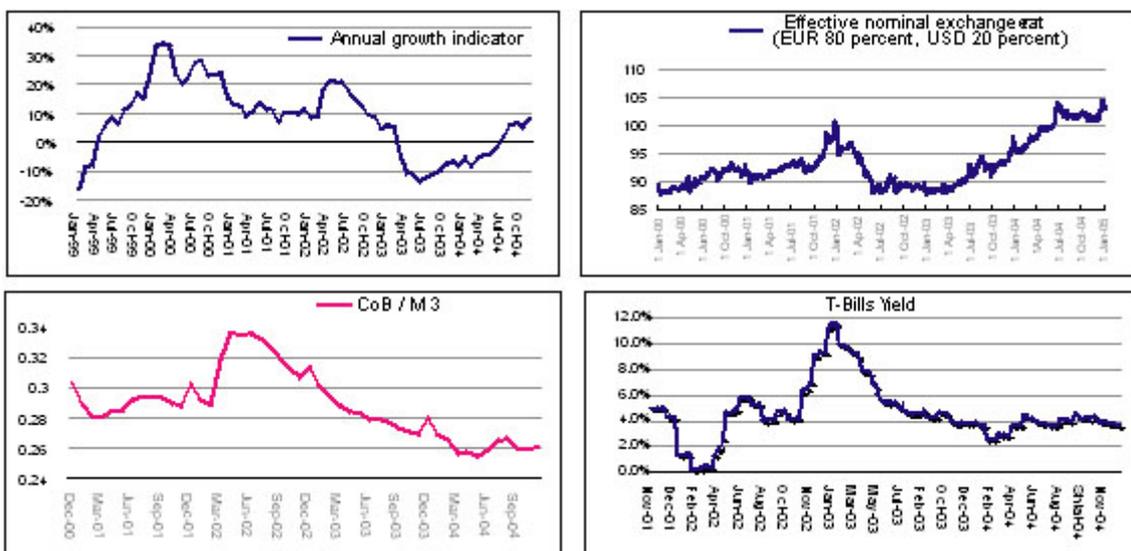
### IV.1 MONETARY POLICY OF THE BANK OF ALBANIA

The Bank of Albania went on pursuing an easing monetary policy during the second half of 2004. This policy was conditioned by positive macroeconomic developments in inflation and monetary indicators. During the second half, the annual inflation rate fluctuated within the lower band of 2 - 4 per cent target, while expectations on inflation were stabilized in low levels.

The satisfactory agricultural production and appreciating tendencies of domestic currency during 2004 limited inflationary pressures on the side of supply over the second half of the year. The low inflation resulting brought the real interest rate to previous levels even after the base interest rate cut. On the other hand, though the annual change of real M1 passed to positive direction, reflecting upward tendencies, its annual growth rate remained low compared to the historical mean. The ratio of currency outside banks to monetary supply was stabilized around the average of 26.1 per cent during the 11-month period. In the meantime, the ratio of demand and supply to monetary assets in lek, M2, was shifted to demand side, favoring the lek appreciation over this period and helping the control of inflationary pressures.

Developments in monetary indicators and positive expectations on inflation performance created conditions for continuing the easing monetary policy even during the second half of 2004. The Bank of Albania cut the base interest rate twice, in July and November, by 0.25 percentage point. These cuts brought the base interest rate to its lowest historical levels, 5.25 per cent.

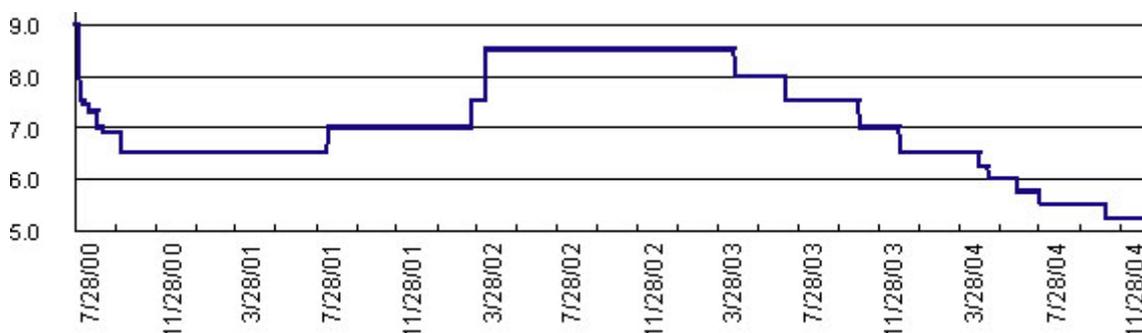
Chart 13. Main monetary indicators.



Source: Bank of Albania.

<sup>10</sup> Data provided from Institute of Statistics for the third quarter of 2004.

Chart 14. Base interest rate.



Source: Bank of Albania.

Also, in the framework of the easing monetary policy, the Bank of Albania changed the type of auction for withdrawing excess liquidity of the system during the third quarter, to variable price auction. The banks' reaction to these monetary policy movements was satisfactory. Due to time difference of conveying the effect, the changes of T-bill interests include the reaction of banks even to base interest rate cuts taking place over the first half of the year.

for foreign currency during summer months. This misbalance exerted obvious pressure on lek exchange rate appreciation, increasing even the fluctuation in foreign exchange markets. The exchange rate fluctuation due to this temporary growth of foreign exchange supply dictated the need of the Bank of Albania's intervention in foreign exchange market during summer months, in terms of purchasing foreign currency. During July – August, about Eur 35.3 million and Usd

**Table 14. System reaction after two base interest rate cuts<sup>1</sup> (in percentage points).**

	3-month	6-month	12-month
Deposits	(0.31)	(0.51)	(0.60)
Treasury bills	(0.73)	(0.96)	(0.90)

<sup>1</sup>The change includes the period of 28.07.2004 - 31.12.2004.  
Source: Bank of Albania.

The easing monetary policy of the Bank of Albania has helped even in smoothing the appreciating pressures of lek exchange rate. The spread between foreign currencies and lek interest rates declined over 2004. However, the increasing foreign currency inflows on the one hand, and the import reduction on the other created a temporary difference between supply and demand

17.5 million was withdrawn from the domestic foreign exchange market generating Lek 6.2 billion in the market. The upward demand for liquidity enabled the Bank of Albania not to sterilize these interventions through outright Treasury bill sales. The policy pursued and operations undertaken by the Bank of Albania made possible the observance of its quantitative objectives.

**Table 15. Meeting of quantitative objectives of the Bank of Albania.**

	December '03	March '04	June '04	September '04	November '04
Net international reserves (in millions of dollars)					
Objective	715.8	751.8	765.8	923.7	935.7
Actual	832.7	827.6	961.5	1043.6	1060.8
Difference	116.8	75.8	195.7	119.9	125.1
Net domestic assets (in billions of leks)					
Objective	96.0	83.0	85.0	70.0	74.0
Actual	72.0	66.4	54.7	55.4	56.7
Difference	-24.0	-16.6	-30.3	-14.5	-17.2
Net domestic credit to government (in billions of leks)					
Objective	280.9	272.8	270.1	279.1	282.4
Actual	266.8	272.6	263.6	272.0	276.2
Difference	0.0	-0.2	-6.5	-7.1	-6.3

Source: Bank of Albania.

## IV.2 MONETARY AGGREGATES PERFORMANCE

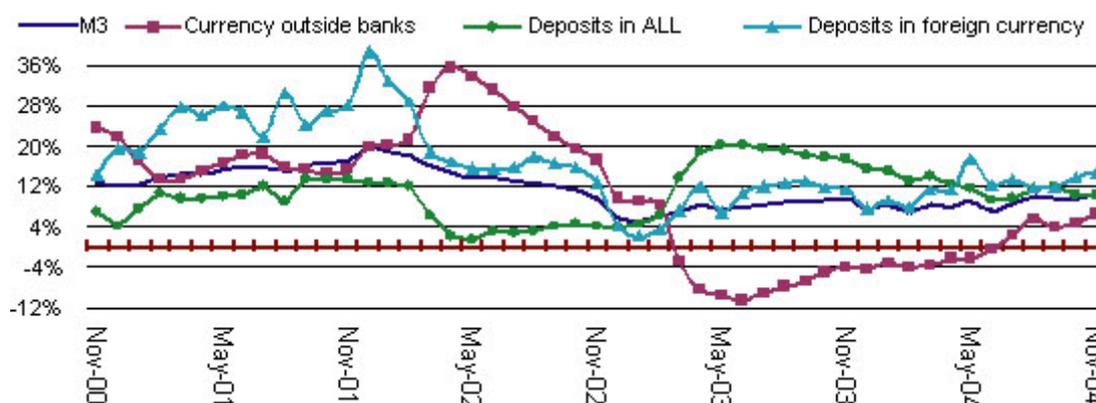
Monetary developments during the second half of 2004 were generally performed according to the Bank of Albania monetary program. Reflecting even the positive performance of economy over this period, the monetary equilibriums established in the first half of the year are maintained, while the economy demand for monetary assets and monetary aggregates have been increased. The annual growth rate of money supply in November reached to 10.5 per cent, from 7.4 per cent it was in June. The money supply growth during this period was based on the growth of two of its components, M2 aggregate and foreign currency deposits. Developments in the time and foreign currency structure of money supply indicate a stability tendency. During the period of June – November the ratio of currency outside banks to M3 fluctuated to almost constant levels, whereas the ratio of deposits in foreign currency to monetary supply was stabilized at high historical levels.

of currency outside banks to positive levels. In November, the annual growth rate of currency outside banks reached to 6.8 per cent, from -0.5 per cent it was in June, reflecting stabilization of time structure of money supply, after a long period of its shifting to long-term assets.

In November the ratio of currency outside banks to M3 marked the level of 26.0 per cent, remaining almost unchanged from its level at end of first six-month period. This sustainability reflects mainly the financial stability achieved and the presence of positive real interest rates continuing during two last years. In spite of the sequential base interest rate cuts, the interest rate of deposits in lek remained in acceptable levels, keeping stable the ratio of currency outside banks to M3.

Performance of deposits in lek during second half of the year had a stability trend, marking also a slight upward tendency. In November, deposits in lek marked an annual growth of 10.5

Chart 15. Annual rates performance of monetary aggregates.

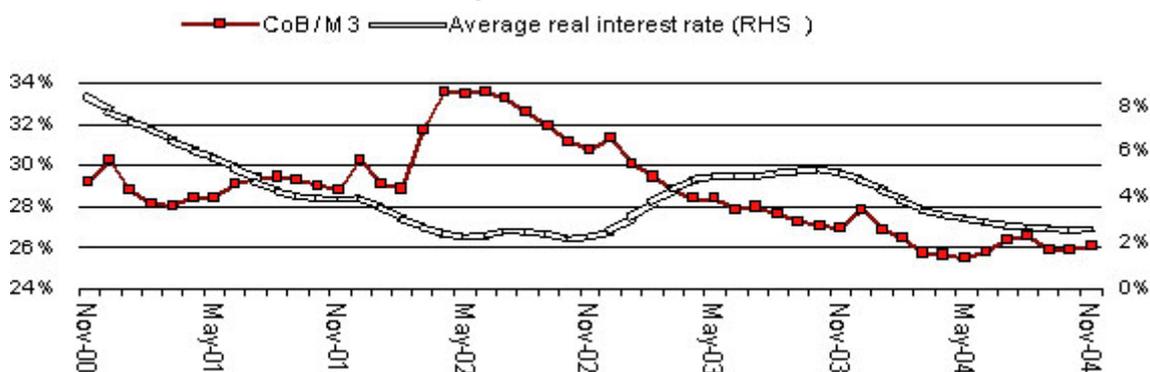


Source: Bank of Albania.

The performance according to forecasts of government and economy demand for money during this period, as well as the liquidity injection through Bank of Albania's foreign currency purchases in summer months are reflected in higher growth rates of M2 aggregate. This growth is reflected either in the growth of currency outside banks or in deposits in lek, stabilizing the annual growth of both components and their weight in monetary supply. The second half of the year marked the return of annual growth rates

per cent. Their satisfactory performance is a result of growth of demand for monetary assets in lek and rise of confidence in domestic currency. Positive spread between real interest rates in lek and in foreign currency established a preference for lek investment instruments (deposits and Treasury bills). So, even the Treasury bills portfolio of households in the second half of the year marked a rise of Lek 2.4 billion, which is about 43 per cent higher compared to the same period of the previous year.

Chart 16. Ratio of CoB to M3 and average real interest rate.



Source: Bank of Albania.

The upward tendency of annual growth rates of currency outside banks and demand deposits in lek is reflected at higher growth rates of M1 aggregate. The annual growth rate of this indicator in November reached to 10.5 per cent<sup>11</sup>, from 1.3 per cent it was at end of first six-month period. Upon the stabilization of the time structure of money supply, the annual growth rate of M1 aggregate has been approached to its historical mean, in line with the growth rate of overall money supply.

The significant foreign currency inflows in summer season, in the presence of a stable exchange rate during the period of July-November<sup>12</sup> have brought about higher annual growth of deposits

in foreign currency. In November, the annual growth of deposits in foreign currency was 15 per cent against 12.6 per cent in June. On the other hand, the appreciation of the lek exchange rate continues to reduce the growth of deposits in foreign currency, expressed in terms of lek. In absence of this effect, the annual growth rate of deposits in foreign currency during 5 last months would be presented as stable, on an average level of 26 per cent. The high growth rate of deposits in foreign currency is associated with further growth of their weight in money supply. However, the acceleration of the annual growth of M2 aggregate during this period has made possible that the upward trend of the ratio of deposits in foreign currency to M3 be smoothed over.

**Table 16. Performance of monetary indicators in November (in billions of leks).**

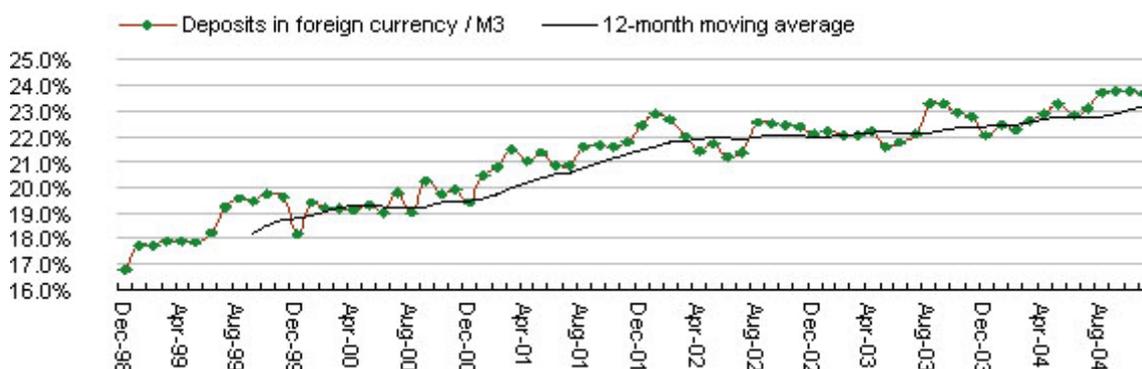
	November	5-month change		Annual change	
	2004	Absolute	Percentage	Absolute	Percentage
Currency outside banks	128.9	10.6	9.1	8.2	6.8
Total deposits	366.3	26.4	7.8	39.0	11.9
- in lek	249.1	13.6	5.8	23.7	10.5
- in foreign currency	117.2	12.8	12.4	15.3	15.0
Demand deposits	73.1	8.1	12.6	11.2	18.2
- in lek	28.3	6.0	25.3	6.7	30.8
- in foreign currency	44.7	2.1	5.1	4.6	11.4
Time deposits	293.2	18.3	6.7	27.8	10.5
- in lek	220.7	7.6	3.6	17.1	8.4
- in foreign currency	72.5	10.7	17.1	10.7	17.3
M1	157.2	16.6	11.8	14.9	10.5
M2	377.9	24.2	6.9	31.9	9.2
M3	495.1	37.0	8.1	47.2	10.5
Base money	169.6	9.5	6.1	13.3	8.5

Source: Bank of Albania.

The alteration of the Hamilton Bank's regulation has brought about a shifting of deposits in lek from time deposits to demand ones, by about Lek 2.5 billion. In absence of this effect, the annual M1 growth rate in November would result to 8.7 per cent.

<sup>12</sup> In November, the lek exchange rate against foreign currencies, Euro and usd, combined with the relevant weight of deposits in euro and usd to total, resulted at the same level with that of June.

Chart 17. Performance of deposits in foreign currency to M3 ratio.



Source: Bank of Albania.

### IV.3 DOMESTIC DEMAND

#### IV.3.1 NET FOREIGN ASSETS

Net foreign assets of the banking system during the second half of the year rendered a significant contribution to money supply growth. Their contribution to annual growth of M3 has been constantly rising during the second half of the year and in November it reached to 66.8 per cent. The Bank of Albania purchases in foreign exchange market, growth of foreign currency deposits with commercial banks, converting of Raiffeisen Bank's capital into foreign currency and the euro appreciation against the dollar have been primary factors impacting on foreign assets growth.

The net foreign assets of the banking system were increased by 304.9 million dollars<sup>13</sup> during the period of June-November. This growth was influenced by the growth of net foreign assets of the Bank of Albania and of commercial banks.

So, the net foreign reserves of the Bank of Albania increased by 158.9 million dollars, whereas the net foreign assets of commercial banks increased by 146 million dollars.

Excluding the exchange rate effect, the growth of foreign reserve of the Bank of Albania is 108.2 million dollars, whereas the net foreign assets growth of commercial banks is 121.4 million dollars.

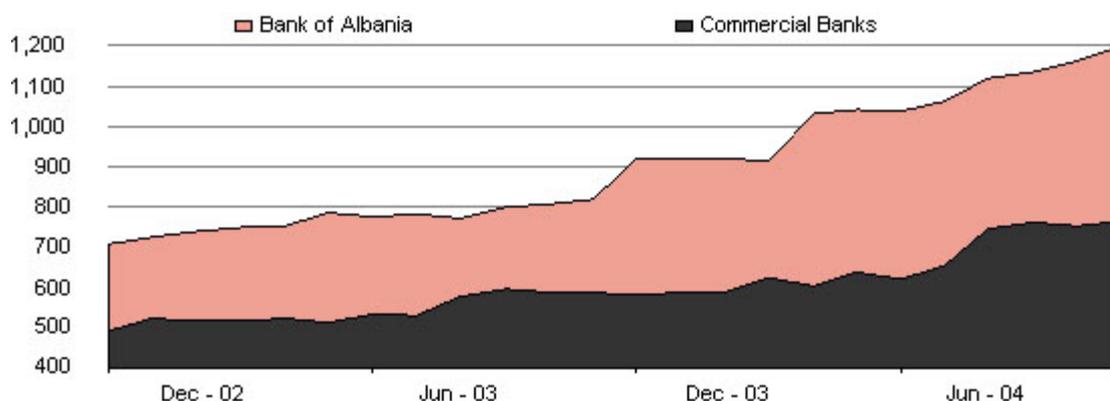
Chart 18. Contribution of net foreign assets growth to M3 growth.



Source: Bank of Albania.

<sup>13</sup> Estimated at fixed rate of December '03, the growth of these assets is 229.6 million dollars.

Chart 19. Performance of banking system net foreign assets (in millions of USD).



Source: Bank of Albania.

#### IV.3.2 GOVERNMENT DEMAND FOR MONETARY ASSETS

Government demand for monetary assets has been growing during the second half of the year. In November, the fiscal accounts mark a budget deficit of Lek 19.2 billion. The total financing of budget deficit in November reached to Lek 21.8 billion<sup>14</sup>, from Lek 9.4 billion in June. Out of this financing, Lek 21.6 billion was in the form of domestic financing, mainly from the banking system. The issuing of Treasury bills and two-year bonds were the main forms of financing. During July-November, the commercial banks increased the Treasury bills portfolio by about Lek 3.9 billion. The households increased their

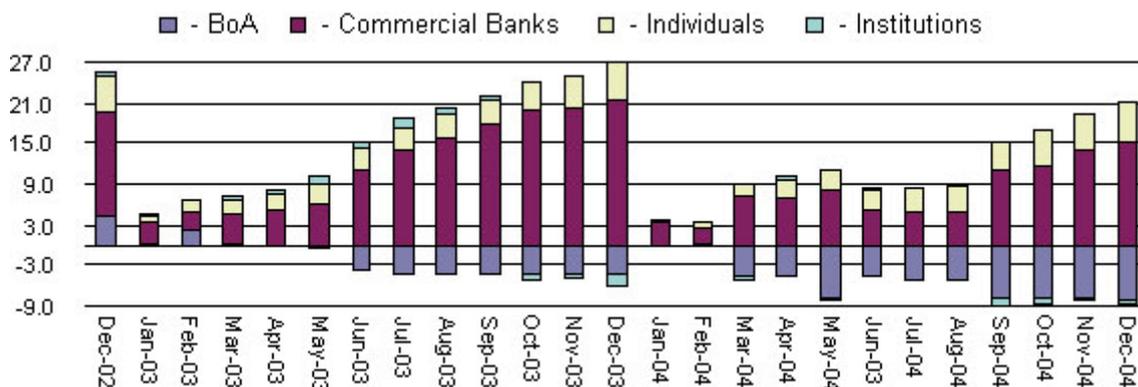
portfolio by Lek 2.4 billion, whereas the institutions decreased it by Lek 0.5 billion. The Bank of Albania did not have any change in its Treasury bills portfolio.

The issuing of government bonds since June has ensured a financing of Lek 5 billion. Meantime, the deficit financing was covered even by revenues from privatization of the Savings Bank (presently Raiffeisen Bank), which for June – November were used at Lek 4.9 billion<sup>15</sup>.

#### IV.3.3 CREDIT TO ECONOMY

Banking system is featured by high rates of lending to economy during 2004. Credit balance

Chart 20. Cumulative performance of budget deficit financing (in billions of lek).



Source: Bank of Albania.

<sup>14</sup> The difference between budget deficit and domestic budget deficit financing represents statement of Government account with the Bank of Albania.

<sup>15</sup> Out of the "Converting of SB's for external debt", an extra amount of Lek 1.5 billion has been used as domestic financing.

increased by Lek 9.2 billion during June – November 2004, being 51 per cent higher than the growth of balance in the first half of the year. Credit to economy is occupying an ever growing weight in the structure of banking system assets, constituting an important source of demand for monetary assets. The credit/deposit ratio is constantly growing, an indicator that positively presents the function of the intermediating role of the banking system on economy development sustainability.

The credit balance structure by currencies is featured by high level of credit in foreign currency. At end of November 2004, the structure of lek-foreign currency credit balance resulted 18 by 82 per cent. Balance of credit in foreign currency, in euro and usd, constitutes respectively 69 per cent and 31 per cent of total of credit as of end of November. Compared with end of first half of the year (48 and 52), this structure has undergone an underlined shifting in favor of the euro.

**Table 17. Performance of some main indicators<sup>16</sup>.**

	2002	2003	2004			
			Q-1	Q-2	Q-3	November
Money supply (in billion lek)	416.7	448.4	456.0	458.2	487.6	495.2
Domestic credit(in % to M3)	70.8	71.5	71.6	69.5	67.4	68.0
- Credit to government (in % to M3)	61.5	60.2	59.9	57.1	54.8	54.7
- Credit to economy (in % to M3)	9.3	11.3	11.7	12.4	12.6	13.3
Credit to economy (in % to total assets)	11.5	13.7	13.7	14.6	14.7	15.8
Credit to economy (in % to GDP)	5.7	6.8	7.0	7.4	7.3	8.1
Total deposits (in % to GDP)	42.2	43.4	44.1	44.1	44.4	44.8
Credit/deposit ratio (in %)	13.5	15.7	15.8	16.7	16.9	18

Source: Bank of Albania.

**Table 18. Performance of credit balance indicators, in percentage.**

	2002	2003	Q-1 '04	Q-2 '04	Q-3'04	November'04
Credit balance (in billion lek)	38.7	50.7	53.4	56.8	60.9	66.0
Short-term credit	53.8	46.0	41.6	35.4	34.0	33.3
Mid-term credit	30.1	33.3	35.4	37.8	37.0	36.9
Long-term credit	16.1	20.7	23.0	26.8	29.0	29.8
Lek	21.3	19.6	17.0	17.0	17.0	18
Foreign currency	73.7	80.4	83.0	83.0	83.0	82

Source: Bank of Albania.

Growth of credit balance during 11 first months marked the value of lek 15.3 billion, constituting a growth of 30 per cent in comparison to year end 2003. Meantime, the foreign currency credit balance is under the exchange rate effect of the lek with two foreign currencies, USD and euro. The lek appreciation versus the usd and euro, at most part of 2004 has negatively impacted on credit balance growth. Speaking by figures, the exchange rate effect of currencies, Usd and euro on the reduction of credit balance for the whole 2004 is estimated at about Lek 3.6 billion. Excluding this effect, the balance of credit to economy would have been increased by about Lek 19 billion.

The new credit extended during July-November reached to Lek 32.5 billion. The gradual shifting of new credit towards longer maturity terms has been a positive development of lending during 2004. So, 40 per cent of the new credit extended in the second half of 2004 is mid-term and long-term credit against the value of 29 per cent marked by this indicator in the same period of the previous year. Also, one of the most striking features of bank lending market during 2004 is the growth of new credits in lek. New credit extended in lek is about Lek 30 billion or 33 per cent of total new credit. The new credits extended in lek constitute 37 per cent of the total new credit during July-November. In spite of an

<sup>16</sup> This ratio is established to annual GDP for 2004.

orientation and interest of banks to lend in lek, their effect on lek credit portfolio growth is slight. This is so because most credits in lek are extended in short-terms.

For June-December the lek was depreciated by 2.7 per cent against the euro, whereas it is appreciated by 8.7 per cent against the dollar. However, during this period the effects of some

**Table 19. Performance of new credit in years (in billions of lek).**

	2002	2003	Q-1 '04	Q-2 '04	Q-3 '04	Jan-Nov '04
New credit (in billions of lek)	62.6	92.6	27.9	28.5	18.0	88.8
Short-term credit	44.7	63.1	18.7	18.1	10.9	56.2
Mid-term credit	13.0	22.2	5.7	6.8	3.9	19.9
Long-term credit	4.8	7.4	3.5	3.6	3.1	12.7
Lek	20.8	30.8	8.80	8.9	6.0	29.6
Foreign currency	41.8	61.8	19.10	19.6	12.0	59.2

Source: Bank of Albania.

The banking credit during the second half of the year is assessed to have undergone changes even in terms of economy sectors. Upward tendencies are noticed in increasing lending to agricultural sector and processing industry. During 2004, it is estimated that trade sector has undergone a decline in terms of banking system financing. During three last years this sector has been the most credited economy sector.

specific factors were weakened, such as increase of domestic production or increase of foreign currency supply from tourism and remittances, long term domestic factors maintained and reinforced the lek positions. Such factors constantly evidenced in the Bank of Albania surveys are:

- Constant consolidation of economic stability of the country. This stability has

**Table 20. Balance of credit by economy branches (in percentage).**

	2002	2003	Q-1 '04	Q-2'04	Q-3'04	Nov '04
1 Agriculture, hunting and silviculture	0.8	1	1.0	1.2	1.6	1.6
2 Fishery	0.2	0	0.1	0.1	0.1	0.1
3 Extracting industry	0.2	1	0.2	0.2	0.3	0.2
4 Processing industry	17.0	17	16.9	18.4	18.2	18.6
5 Production, electrical power distribution, gas, water	3.3	3	3.0	3.3	3.2	3.2
6 Construction	8.6	10	9.7	10.7	10.2	10.7
7 Trade, vehicles and house articles repairing	40.4	34	31.4	23.5	21.9	22.2
8 Hotels and restaurants	6.0	6	7.1	8.3	8.3	7.7
9 Transport and telecommunication	2.4	1	2.0	1.5	1.6	1.4
10 Financial activities	-	0	0.1	0.7	0.7	0.4
11 Real estate	9.1	13	13.7	14.8	15.6	9.1
12 Health and social activities	0.5	0	0.5	0.5	0.5	0.5
13 Collective, social and personal services	4.2	8	4.2	4.5	5.3	5.2
14 Other	7.3	4	10.1	12.2	12.7	19.0
Total	100	100	100.0	100.0	100.0	100.0

Source: Bank of Albania.

#### IV.4 EXCHANGE RATE

Even though some of the factors impacting on lek appreciation during early summer period (June) have been always weakening, the lek has been in strong positions against the euro and dollar even during the second half of the year.

enhanced confidence in Albanian financial system and in lek monetary assets.

- Lek real interest rates higher than foreign currency interest rates. This difference has encouraged a high demand for lek. Even though lek interest rates have been declining, the low inflation rates have

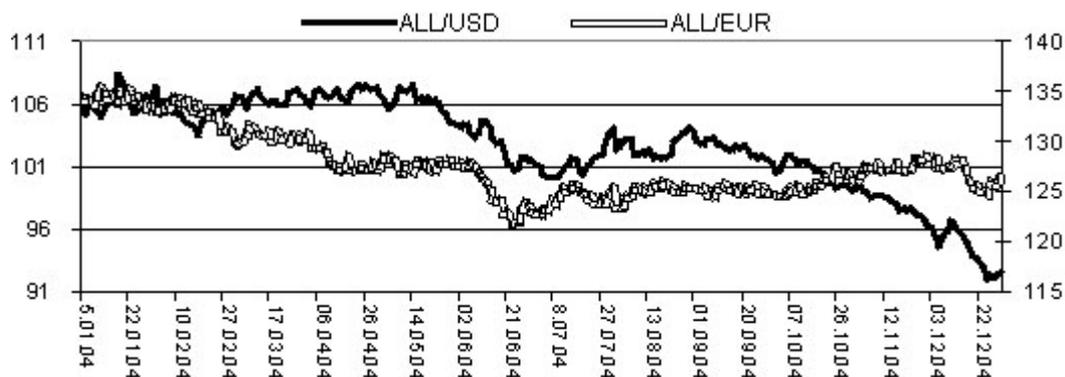
- maintained high real interest rates in lek. Consolidation of public finances and budget deficit has dictated a low demand of government for monetary assets. Also, the credit in lek remains in low levels, limiting to a certain extent the generation of monetary assets in lek.

## IV.5 CURRENCY MARKET AND INTEREST RATES

### IV.5.1 LIQUIDITY PERFORMANCE

Banking system has resulted with excess liquidity during the second half of the year. The

Chart 21. Exchange rate performance during 2004 (left scale lek/usd).



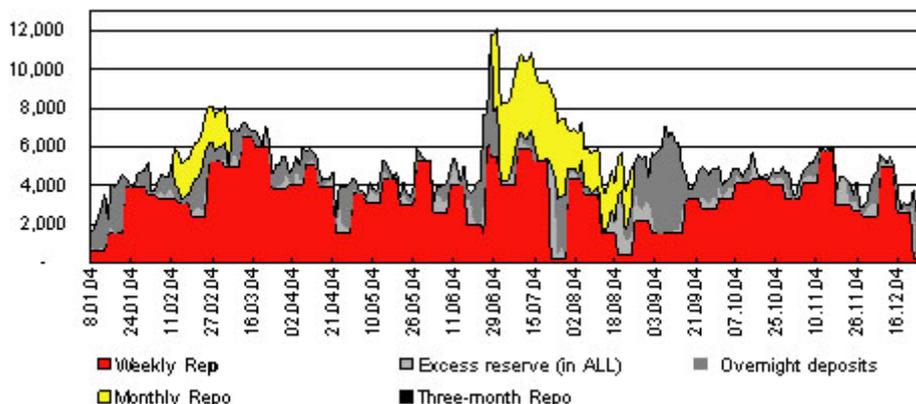
Source: Bank of Albania.

On the other hand, even the performance of the ratio of foreign currencies in international market has impacted on lek exchange rate, especially the exchange of the lek against the American dollar. So, the lek has been constantly appreciating against the dollar, whereas the exchange rate of the lek against the euro changed direction by mid of June. Since the beginning of the year, the lek appreciation against the euro and dollar is respectively 5.5 per cent and 12.3 per cent. The lek exchange levels at end of 2004 are 126.35 lek/euro and 92.64 lek/usd.

average daily liquidity has been stable at lek 5.2 billion, close to Lek 5.1 billion it was in the first half of the year.

The main instrument used for withdrawing liquidity was that of one-week and one-month repo. The average volume of one-week repo has slightly declined over the second half of the year, whereas the average volume of one-month repo has increased. One-month repos have been used in July and August as a long-term form of withdrawing excess banking system liquidity. The

Chart 22. Banking system liquidity (in millions of leks)<sup>17</sup>.



Source: Bank of Albania.

<sup>17</sup> It includes: repo, overnight deposit and current account in lek minus overnight credit.

repo auctions have taken place mainly according to the fixed-price type, but by mid of August to mid of September one-week variable price repos have also been employed. This auction type is used to facilitate the implementation of monetary policy decisions in terms of interest rate cut.

Overnight credit facility has had a more significant use in comparison with first half of the year. Its average daily level reached to lek 265 million, from lek 36 million it was in the first half of the year. The increased use of this facility is also due to functioning of AIPS payment system by March of this year. The use of overnight deposits facility has fluctuated at the same levels with those of the first half of the year.

Interbank market has increased the level of transactions. Hence, the average level of overnight transactions reached to lek 0.48 billion, from lek 0.33 billion it was in the first half of the year. Also, one-month interbank transactions with an average level of lek 57 million have taken place.

The total supplied by the banking system and households for investment in Treasury bills auctions continued to be higher than the one requested from the Government, particularly for Treasury bills of 6- and 12-month maturity. The increased competition for these investment alternatives impacted on the increased pressures for reducing interest rates in the primary market.

#### IV.5.2 INTEREST RATE PERFORMANCE

Reaching lowest historical levels of Treasury bills

yield and interbank market interests was a feature of the second half of 2004. Meantime, the lek time deposits interests reached lowest levels in the 12 latest years<sup>18</sup>. The declining tendency of interests was due to easing monetary policy of the Bank of Albania. Lek deposits interest rate cut and foreign currency deposits interest rate rise have led to narrowing the spread between them. So, concerning time deposits, the Lek-usd interest spread declined from 4.7 percentage points it was at end of first half of the year to 3.8 percentage points at end of November. At the same time, the lek-euro interest spread dropped from 3.8 percentage points to 3.5 percentage points.

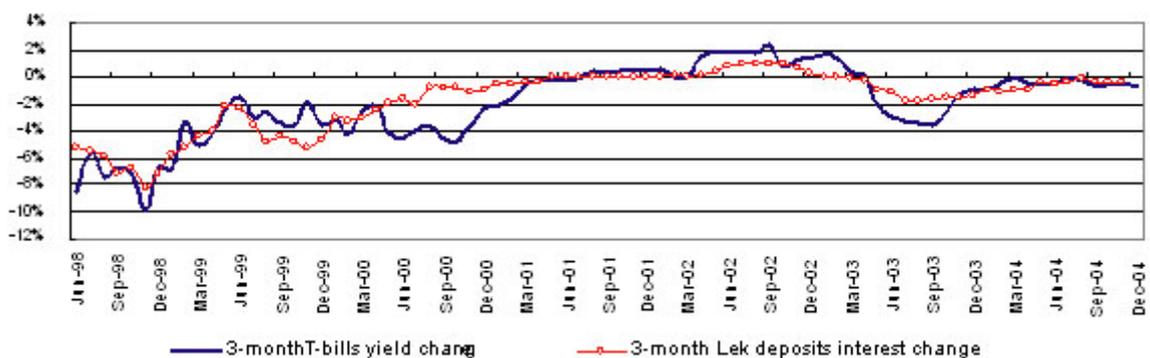
In spite of nominal interest cuts, the low level of inflation impacted on maintaining real interest rate. Real interests of 12-month lek deposits fluctuated around an average level of 3.75 per cent from 3,44 per cent it was in the first six-month period.

Easing policy of the Bank of Albania is more reflected in interest rate cuts of 6- and 12-month deposits. Also, the average weighted yield of 3-, 6- and 12-month Treasury bills dropped obviously during 2004, easing the cost of government debt.

It should be stressed that time differences of conveying the reactions to Bank of Albania signals are various for the three maturity terms.

This fact and the expectations on inflation may be translated into further interest changes by commercial banks for one or some of maturities.

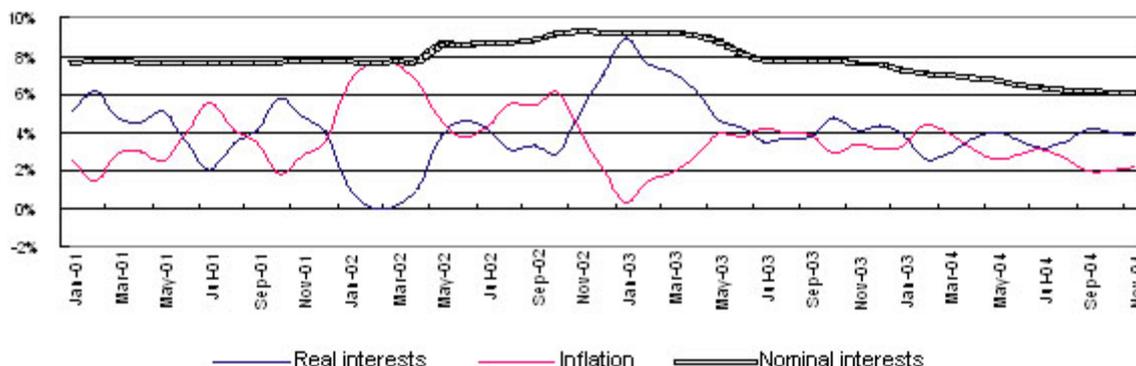
Chart 23. Six-month weighted average interest spread of three-month lek deposits and three-month Treasury bills yield.



Source: Bank of Albania.

<sup>18</sup> Since July 1992.

Chart 24. Real and nominal interests of 12-month deposits in lek.



Source: Bank of Albania.

**Table 21. Banking system reaction to monetary policy during 2004 (in percentage points).**

Period	6-Mi <sup>19</sup>	6-m I	2004 (change)	2004 (level)
Base interest rate	1.00	-0.75	-1.75	5.25
Deposits in lek				
3-month	-0.77	-0.4	-1.17	4.5
6-month	-1.01	-0.61	-1.62	5.5
12-month	-1.13	-0.60	-1.73	5.9
Treasury bills yield				
3-month	-0.46	-0.79	-1.25	6.1
6-month	-0.59	-0.96	-1.55	7.2
12-month	-0.49	-0.90	-1.39	8.1

Source: Bank of Albania.

In general, during the second half of 2004<sup>20</sup> downward changes are noticed in loan interest rates. The lek loan interest rates<sup>21</sup> have reacted in line with monetary policy signals. This was associated even with rise in loans in lek at lek 2.5 billion in the second half of 2004.

approximations made to these rates. In November, the average weighted interests of loans in Usd reached to 8.45 per cent and of loans in euro to 8.49 per cent.

Second half of 2004 is featured by rise of

**Table 22. Lek loan interest rates (in percentage).**

	June '04	November '04	Change
	a	b	c = b-a
Credit of up to 6 months	11.94	11.98	0.04
Credit of 6 months – 1 year	17.33	15.05	-2.28
Credit of 1-3 years	19.37	19.02	-0.35
Credit over 3 years	15.23	12.72	-2.51

Source: Bank of Albania.

Meantime, interests of foreign currency credits have reflected downward tendencies due to increased competition in this market. Excluded are interest rates of six-month loans, which were slightly increased mainly as a result of

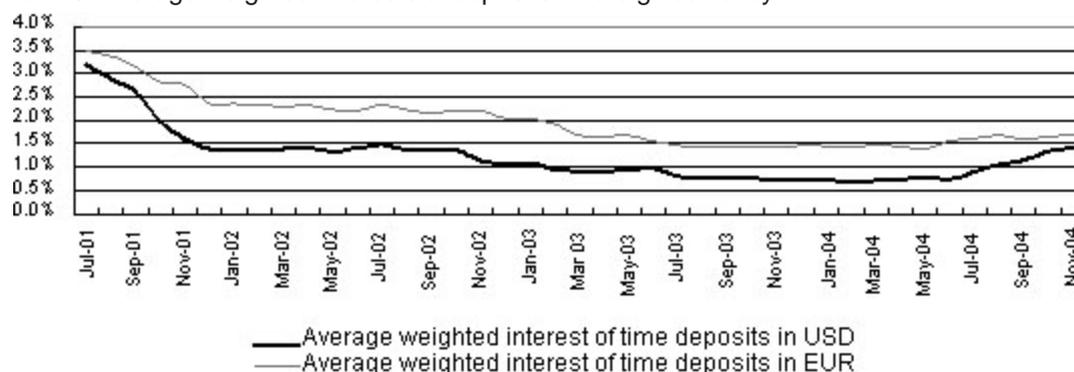
interests of foreign currency deposit, particularly of those in dollars, respectively by 0.7 percentage points for time deposits in Usd and 0.12 percentage point for time deposits in euro.

<sup>19</sup> It includes even the end of 2003, since the effect of the decision made in this period is observed at start of 2004.

<sup>20</sup> Latest data are as of November 2004.

<sup>21</sup> Excluding 6-month maturity loans.

Chart 25. Average weighted interests of deposits in foreign currency.



Source: Bank of Albania.

At end of November, the average weighted interests of time deposits in Usd and euro reached respectively to 1.42 per cent and 1.68 per cent. The interest rates in Usd are raised for all maturities, influenced by rapid rise of libor interests, due to tightening policy of Fed. Also, there has been slight rise in all terms of euro deposit interests, impacted by fluctuations of euribor interests and competition in the market.

of inflation within the programmed levels. This situation, combined with positive developments in domestic agricultural and energy production during 2004 has resulted to inflation levels within the Bank of Albania target and has stabilized the inflationary pressures. Capitalizing on these developments, the Bank of Albania went on pursuing an easing monetary policy, bringing the economy borrowing cost to minimum historical levels.

## V. ALBANIAN ECONOMY IN 2005

Constant consolidation of macroeconomic stability during recent years constitutes a good basis for the development of Albanian economy over 2005. The budget deficit has had a downward tendency, while the domestic deficit financing has been maintained within the programmed values. On the other hand, the situation and monetary conditions have also been under control, contributing significantly to maintaining

### FISCAL SECTOR

General fiscal indicators presented in the budget of 2005 speak for a moderate fiscal policy stance, stressing its positive contribution to maintaining of macroeconomic stability in the country. During 2005 the budget spending in ratio to GDP is projected to mark a decline by about 0.7 percentage point, reaching to 26.3 per cent. This will be reflected in the reduction of capital expenditures from 5.1 per cent to 4.7 per cent of GDP. From a realistic viewpoint, budget revenues are projected almost unchanged, to 22.3 per cent of GDP.

Table 23. Main macroeconomic indicators.

	2002	2003	2004	2005
Monetary indicators (in percentage)				
GDP growth	4.7	6.0	6.0	6.0
Annual CPI (average)	5.2	2.4	2.9	3.0
Nominal GDP (billion lek)	677.7	746.6	841.8	919.7
Fiscal indicators (in percentage to GDP)				
Fiscal deficit	-6.9	-4.7	-4.9	4.0
Domestic borrowing	3.2	2.7	1.9	3.1
Monetary indicators (in percentage)				
M3 growth	7.0	9.5	12.4	9.4
Growth of credit to economy	32.1	28.5	31.3	39.6
3-month T-bills interests	11.2	7.3	6.1	...

Source: Bank of Albania, Institute of Statistics, Ministry of Finance.

In line with the policy of fiscal consolidation expressed in the Mid-term Draft-Budget for the three-year period, the budget deficit in 2005 is projected to be reduced to 4.0 per cent of GDP, from 4.9 per cent that is the expected realization for 2004. The main part of this deficit will be faced by domestic financing, which is planned to reach to Lek 28.3 billion or about 3.1 per cent of GDP, from 3.8 per cent it was in 2004. The decline of privatization revenues in 0.5 per cent of GDP, will make the domestic financing in 2005 be sustained mainly in domestic borrowing, which is projected to be lek 23.3 billion or 2.5 per cent of GDP. Financing of domestic borrowing of Government from banking system is projected to lek 17 billion or 1.8 per cent of GDP, whereas the rest is expected to be faced by households and other private subject.

#### *MONETARY SECTOR*

The primary target of monetary policy for 2005, included in the monetary program is the maintaining of annual inflation rate within the band of 2 – 4 per cent. This target will be intended to be reached through control of money supply growth at levels close to nominal GDP growth, under the assumption of stable performance of the velocity of money circulation in economy. On this basis, the annual growth rate of money supply for 2005 projected in the monetary program is 9.4 per cent. This rate is consistent with the meeting of economy demand for money that derives from its real growth by 6 per cent, serving as an intermediate instrument of monetary policy for achieving inflation target.

The monetary program provides a shifting of the structure of using financial resources by government in terms of the private sector of economy. Government demand for money is projected as low, about 1.8 per cent of GDP, while the growth rate of economy demand is expected to be accelerated significantly, with the growth of credit balance by 2.3 per cent of GDP. The reduction of the spread between interest rates of loans in lek and in foreign currency as a result of easing monetary policy pursued by the Bank of

Albania is expected to be associated with a larger contribution of credit in lek to overall credit balance rise. The rise of overall credit balance by lek 27.2 billion will be due to the growth by lek 6.5 billion of credit balance in lek and lek 20.7 billion of credit balance in foreign currency.

The monetary program has projected shifting of time structure of money supply towards less liquid assets. This development will be reflected in further reduction of the ratio of currency outside banks to M3 aggregate, reflecting positive developments in the banking system and a set of measures planned in the framework of the program of cash reduction in economy during 2005. The ratio of currency outside banks to M3 is expected to mark a reduction by 0.7 percentage point, reaching at the level of 26.5 per cent at end of 2005. In consequence, a low growth rate is expected for indicators of currency outside banks and M1 aggregate, while the contribution of deposits in lek to money supply growth is expected to mark an obvious increase. The annual rate of growth of deposits in lek at end of 2005 is projected to reach to 10.7 per cent, representing the component with the highest growth rate in money supply. Upon stability of foreign currency inflows from emigrant's remittances, the ratio of deposits in foreign currency to M3 aggregate is expected to follow a stable performance, remaining unchanged at 22.2 per cent. Based on this assumption, the annual growth rate of deposits in foreign currency for 2005 is forecasted to be 9.9 per cent, remaining in line with annual growth rate of money supply.

Satisfactory growth of deposits in lek will enable the commercial banks to finance the whole government and economy demand, maintaining at the same time an excess liquidity position. The monetary program for 2005 does not foresee any participation of the Bank of Albania in primary market or direct crediting by it. However, depending on the performance of liquidity in the banking system, the Bank of Albania may deem necessary the undertaking of these operations at certain moments.

# MONETARY POLICY DOCUMENT FOR 2005

## INTRODUCTION

The Bank of Albania, as the monetary authority of the Republic of Albania is the responsible institution for designing, approving and applying the monetary policy. The monetary policy is designed in view of achieving the primary objective of the Bank of Albania: to ensure and maintain price stability.

The monetary policy, alongside the fiscal policy, is one of the fundamental macroeconomic policies. It aims at managing the monetary variables of the economy – the money supply and interest rates level – in view of achieving the objective of price stability in a medium term. The monetary policy is applied through the intermediation of the Bank of Albania in the financial markets. In generic terms, the monetary policy includes: the legal grounds on which it relies; the framework of objectives; the theoretical mechanism used to design it; as well as the instruments used to apply the monetary policy. The purpose of this document is to define and publish the principles on which the monetary policy is designed and applied in the current year.

Considering the importance the proper understanding of the monetary policy decisions has to the public, the channels of communication between the Bank of Albania and the public on the monetary policy decisions are as well an integral part of the monetary policy. This document suggests a summary of the major communication means used by the Bank of Albania in communicating the monetary policy.

## LEGAL GROUNDS

Pursuant to Article 161 of the Constitution of the Republic of Albania, the Bank of Albania is granted "... the exclusive right to independently apply the monetary policy."

Pursuant to Article 3, paragraph 4a<sup>1</sup>, of the Law No. 8269, dated 23.12.1997 "On the Bank of Albania", the main task of this institution is to "independently design, approve and apply the monetary policy of the Republic of Albania, in accord with its primary objective."

Pursuant to Article 3, of the Law No. 8269, dated 23.12.1997 "On the Bank of Albania", the primary objective of the Bank of Albania is to "ensure and maintain price stability."

Pursuant to Article 43, paragraph a, of the Law No. 8269, dated 23.12.1997 "On the Bank of Albania", the Supervisory Council of the Bank of Albania has the following competencies: "To approve the monetary policy of the Republic of Albania, determining the limits of Bank of Albania's transactions in the open market, interest rates for deposits with the Bank of Albania and discount and lending rates of the Bank of Albania, as well as the level of reserves and required reserves that commercial banks should hold with the Bank of Albania."

The Bank of Albania coordinates its monetary policy in conformity with the needs of the country's economic development and with the strategies designed on this policy. In particular, a special attention is given to the coordination with the fiscal policy, as an important determinant of the country's economic developments.

Simultaneously and without infringing the principle of the coordination of the country's economic policies, the Bank of Albania independently determines the approval of monetary policy by the Supervisory Council of the Bank of Albania and its implementation through monetary instruments. The monetary policy decisions shall not go against the need of achieving the objective being mandated by law, which is to ensure and maintain price stability.

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<sup>1</sup> According to the ammendment made to the Law No. 8893, dated 25. 07. 2002.

Designing, compiling and applying of the monetary policy of the Bank of Albania are all based on a proper understanding of the role the monetary policy may play through the analysis of monetary policy impact on the economy. The estimation of this role relies either on the contemporary theoretical thoughts or on the foreign and Albanian practices.

## MONETARY POLICY ROLE IN THE ECONOMIC DEVELOPMENT

The monetary policy aims at influencing the economic variables through changing the short-term interest rates. It includes all the theoretical, analyzing and operational aspects related to this process. The central bank is in a position to influence the short-term interest rates through the recognized monopoly of making money: physical money and reserves of commercial banks.

In a short term, a change of the monetary supply or interest rates in the money market puts into motion a range of mechanisms that influence the overall economic activity: production, occupation and level of prices. Meanwhile, **in the long term, that is after all changes and corrections in the behavior of economic agents take place in the economy, the change in the quantity of money would be reflected only in a change at the level of prices, without infringing the real variables of the economy: production, revenues and employment.**

On the other hand, the world experience and the general consensus of the economic scholarship suggest that fluctuations in the level of prices, inflationary and deflationary situations are harmful to economy.

Price stability sustains the economic growth potential in a long term through the positive influence it has on the allocation of resources and on the country's financial stability.

## ALLOCATION OF RESOURCES AND SOCIAL WELFARE

The allocation of resources in the economy, the decision-making on investments, production and consumption are subject to the relative prices of products. Ratios between these prices provide

efficient information on the products or more profitable activities, orienting later on the allocation of resources toward them. But, in an inflationary environment, it is difficult for the economic agents to distinguish a change in the relative prices from a rise of the overall price level, i.e., from inflation. As a consequence, during the inflationary periods, the production factors may be oriented to wrong uses, evading their optimal allocation.

Inflation makes difficult the assessment of the real interest rate, which regulates the decisions of households on consuming or savings, and those of companies on investments. Furthermore, fluctuations of inflation rate make the creditors ask for an inflation premium to compensate the risk of keeping nominal values for long-term periods. By reducing this risk, the monetary policy impacts positively on the extension of the financial intermediation and on the mounting of effectiveness through which the financial markets allocate the resources in economy. Such a situation will result to increased investments in economy.

Inflation impacts on the reallocation of resources from the categories of fixed revenues (employees, pensioners) to the categories of revenues indexed with inflation (producers and traders). Also, in absence of a fiscal system indexed with inflation, the latter may result to disproportional increase of fiscal obligations, thus diminishing the motivation for investment and work.

## FINANCIAL STABILITY

Financial stability is necessary for a sound economy. It fosters the capacity of an economy to mitigate the effect of possible shocks: energy price rise, great technological changes, contingent developments in the economies of the trading partner countries, and so on. Such events bring about misuse of resources, but a sound financial system may absorb these shocks, ceasing their harmful impact on the economic activity. Under these conditions, the economic activity would be less influenced than it would have been under the conditions when the financial sector would enlarge and disseminate the effect of shocks.

An economy with low inflation seems to have little chance to know pronounced fluctuations in the prices of assets and in the expectations of

these prices. The problems related with the misevaluation of the prices of financial assets and the expectations on them, are almost similar to the problems related with the evaluation of the changes of relative prices under the conditions of inflation, a situation described above. The investors and creditors may misinterpret the signals they receive from prices. Under these circumstances, the financial resources are not exploited properly or the protection from this risk would require an additional financial cost.

Based on the aforementioned arguments, the Bank of Albania estimates that the maintenance of price stability constitutes its most essential contribution toward achieving wider economic objectives: economic growth and standard living growth.

## INFLATION TARGETING FOR 2005

The Bank of Albania is interested to publicly explain its mandate, which is the interpretation of price stability, serving its transparency and fostering its accountability. This process helps the orientation of public expectations toward inflation targeting. Simultaneously, the Bank of Albania informs on the ways and instruments it will use to achieve this goal, which is inflation targeting.

Achieving price stability means achieving low positive inflation rates or changes in consumer prices. Maintaining price stability means being able to ensure low positive inflation rates for relatively long periods of time.

The Bank of Albania has already determined in its three-year strategy "Medium-Term Development Plan of the Bank of Albania (2003-2005)" the inflation targeting for this period. The strategic objective of monetary policy over medium-term period is that of maintaining low positive inflation rates that ensure market stability and sustain the economic growth.

In concrete terms, the Bank of Albania is committed to continue maintaining the inflation rate within the two-to-four percent targeted range for year 2005. Inflation targeting is estimated as the annual growth of consumer price index measured and published by INSTAT.

## LEVEL OF TARGETING

Maintaining inflation in low levels will positively contribute to the Albanian economy development.

First, since it is a positive inflation rate, it takes into account the technological evolution of products and their quality progress. Also, many studies have proved that inflation performance has an internal statistical tendency to record positive values. In fact, an inflation level close to zero may correspond to a deflationary situation.

Second, the low inflation rate helps in maintaining positive real interest rates. Positive real interest rates help in channeling the public savings in the banking system, contributing to the stability of this system and the maintenance of its ability to supply the needs of the economy and government for monetary assets.

Third, such an inflation rate is consistent with the needs of the Albanian economy development, as an economy in transition. It eases the relative price mobility, providing a positive contribution to the instructive role this mechanism has on the allocation of funds in economy. Most of the developed countries define price stability as an inflation level of about 2 percent. Since Albania is a transition country, a higher inflation level reflects a higher structural risk in the Albanian economy as well as a larger mobility of relative prices.

Fourth, being at the same level with inflation targeting during the last four years, it will have a positive impact on the stabilization of inflationary expectations in economy and the increase of confidence in economic decision-making. On the other side, such an inflation level and the monetary policy required to attain it shall impact positively on the economic growth rates, as it has been proved over the recent years.

## FORM OF TARGETING

**Inflation targeting will be kept within the two-to-four percent targeted range for year 2005.** As it has been explained before, inflation is frequently subject to the influence of supply factors or the increase of administered prices. These sources of price mobility are out of monetary policy influence. Although the monetary

policy is prudential even towards these factors, they are not subject of continuous intermediations from the monetary policy. For this reason, the definition of inflation targeting in the form of a band shall positively impact on the monetary policy stability over the medium-term period.

#### OTHER MEASUREMENTS OF INFLATION

The Bank of Albania shall employ other measurements of inflation, in view of increasing the quality of decision-making. These measurements provide a broader framework in making more realistic decisions. Other categories of inflation are:

- **Core inflation.** The Bank of Albania will work on a continuous basis during 2005 to set up the time-series of core inflation and refine the methodology of its calculation. By setting up and testing the time-series, the core inflation will have a significant input in the process of monetary policy decision-making.
- **Average annual inflation rate.** This category represents the average annual inflation rate for the last twelve months, providing valuable information about the expectations of consumer price developments. As such, the average annual inflation rate will be an important vector in the process of monetary policy decision-making.

#### INTERMEDIATE AND OPERATIONAL OBJECTIVES

The control on inflation is based on control of other indicators, which on the one hand are strongly related to inflation target, and on the other hand are under a more direct control of the Bank of Albania. These are the intermediate and operational (quantitative) objectives. Intermediate objectives are orienting (indicators), while operational ones are followed rigorously. These objectives, together with the primary Bank of Albania target constitute the Bank's framework of objectives.

**The annual growth of money supply (M3) is the intermediate objective for 2005.** The defining of M3 annual growth as an intermediate objective is based on the argument that inflation, being in general a monetary phenomenon, is

impacted by monetary supply growth. Therefore, the Bank of Albania aims to control the increase of monetary assets in economy so that the supply of monetary assets corresponds with the need of economy for real monetary assets. **Given the expectation of economy growth for 2005, the Bank of Albania inflation target and the monetary development trends, the Bank of Albania aims to maintain the money supply growth at the level of 9.4 per cent for 2005.**

The Bank of Albania will continue to maintain a free floating exchange rate. The ALL value against foreign currencies will be freely determined in the exchange market, in response to demand and supply laws. The Bank of Albania will be present through special interventions in foreign exchange market, aiming at smoothing the short-term fluctuations of the Lek exchange rate, which are contrary to long-term tendencies and observance of net international reserve objective. Identification of monetary policy operational objectives completes the framework of monetary policy objectives. They establish a closer link among monetary policy operations, its primary and intermediate objective, achievement and maintenance of price stability. Net domestic assets and net international reserves of the Bank of Albania constitute the operational objectives for 2005. A quantitative level is specified for each of these objectives, by means of which the work done for their achievement is controlled. The Bank of Albania follows and manages, to the effects of monetary policy, even the net domestic credit to government, though it is not its operational objective.

- **Bank of Albania net domestic assets** represent the amount of the Bank of Albania claims, excluding its foreign currency claims on non-residents. More concretely, here are included the Bank of Albania claims on Government (net), as well as the Bank of Albania claims on commercial banks. An upper limit is established on these claims, meaning that the Bank of Albania may not increase the position of net domestic assets beyond the limit established.
- **Bank of Albania net international reserves** represent the Bank of Albania net foreign assets minus all foreign

currency holdings of commercial banks with the Bank of Albania (foreign currency required reserves plus foreign currency excess reserves). To establish a lower limit, the accruals are based on the last foreign exchange rate of December 2003.

- **Net domestic credit to Government** represents total banking system claims on Government minus Government deposits either at the Bank of Albania or at commercial banks. The establishment of an upper limit is aimed to maintain the budget deficit crediting by the banking system under control and within the required levels. **The upper limit of domestic budget deficit financing is Lek 23.4 billion for 2005.**

These quantitative levels will be reviewed along the year, in compliance with the performance of monetary developments and corrective measures projected by the Bank of Albania in the monetary program.

The Bank of Albania, under the conditions of the extension and rise of Albanian banking market competitiveness, will pay a considerable attention to control on inter-bank market interest rates. Though the inter-bank market interest rates will not serve as an operational objective of the Bank of Albania, they are an indicator of monetary situation in economy and an important determinant of economy progress.

## MONETARY POLICY INSTRUMENTS

The Bank of Albania will employ indirect monetary policy instruments to achieve its objectives. The monetary policy instruments will be oriented toward the meeting of Bank of Albania operational objectives. In compliance with monetary policy principles for 2005, previously defined in this document, the Bank of Albania does not have any concrete commitments to interventions in foreign exchange market.

- **Open market operations**<sup>2</sup>

Open market operations tend to manage the economy interest rates, the liquidity situation in the market, as well as to signal the monetary policy.

Open market operations include:

- **Repurchase agreements and reverse repurchase agreements;**
- **Outright transactions;**
- **Foreign exchange market operations.**

**The main instrument** used to transmit monetary policy signals is the interest rate applied in the one-week repurchase and reverse repurchase agreements<sup>3</sup>. **The interest rate applied by the Bank of Albania in these operations plays the role of core interest rate in economy.** The Supervisory Council of the Bank of Albania decides on the core interest rate and the Bank of Albania uses it in weekly auctions of repurchase agreements (repo). This rate determines even the interest rate of overnight deposits and overnight loans of the Bank of Albania. It impacts on the interest rates of the inter-bank market, of the Lek deposits with commercial banks, as well as of the T-bills and the Lek extended credit to economy.

- **Standing facilities**

Standing facilities impact on the liquidity situation of the banking system, and impede significant fluctuations of interest rates. Standing facilities are always possible and exclusively performed through the initiative of commercial banks. Commercial banks are the sole counterparty of the Bank of Albania in these operations.

The standing facilities provided by the Bank of Albania are:

- **Overnight deposit;**
- **Overnight loan;**
- **Lombard loan.**

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<sup>2</sup> The attached glossary presents a more detailed description of monetary instruments.

<sup>3</sup> Transactions of repurchase and reverse repurchase agreements are respectively recognised as repo and reverse repo.

- **Required reserve**

The required reserve is an instrument by means of which the Bank of Albania obliges commercial banks to hold a required reserve with the Bank of Albania either in Lek or in foreign currency. Through this instrument the Bank of Albania aims to adjust the money supply, liquidities and interest rate in the banking system as well as to preserve the system security.

Depending on the Albanian financial market conditions and monetary policy needs, the Bank of Albania will go on reviewing its monetary policy instruments over 2005. These reviews will aim at enhancing the efficiency of their usage.

#### **TRANSMITTING THE MONETARY POLICY DECISIONS**

The monetary policy and the decisions made on its implementation are transmitted to the public through the following documents:

- Monetary policy document, which prescribes the main principles of this policy adopted for one year.

- Monetary policy statement, which describes the monetary developments over the previous six months and the expectation on the forthcoming six months.
- Opinion on the economy situation over the quarter, where quarterly economic and monetary developments are given.
- Monthly Report of Monetary Policy, which describes the monthly monetary developments and an assessment on the stance to be held in the future.
- Publication of the decisions of the Bank of Albania Supervisory Council on interest rates, within 48 hours from the making of the decision.
- Press Conferences of the Bank of Albania Governor, to transmit and address the monetary policy decisions.

The monetary policy transmitting is performed also through the publication of all regulations and other acts that have to do with the instruments applied on monetary policy implementation.

## GLOSSARY

### - **Repurchase agreements/ reverse repurchase agreements**

These agreements constitute an instrument employed by the Bank of Albania to either *temporarily* withdraw or inject liquidity in the banking system. **Repurchase agreement** is an instrument used *to temporarily* reduce banking system liquidity. The **reverse repurchase agreement** is an instrument used to *temporarily* increase liquidity in the banking system or the banks' ability to increase lending or currency in circulation. Repurchase and reverse repurchase agreements of one-week maturity are executed through **standard auctions**. **Quick auctions** are employed in the case of one-day, one-month and three-month agreements.

#### • **Outright transactions**

The Bank of Albania reduces liquidity in the market through outright sale transactions and increases it through outright purchase transactions. These transactions are executed in the form of purchasing or selling Treasury - bills of up to one-year maturity or debt securities of high credibility.

#### • **Foreign exchange operations**

The foreign exchange operations are performed

by the Bank of Albania through purchasing and selling foreign currency in the market. These operations are carried out to fulfill the defined policy of this Document.

#### • **Overnight deposit**

The overnight deposit assists commercial banks to operate under the conditions of excess liquidity, through depositing it with the Bank of Albania solely for one day. It also helps in withdrawing excess liquidity from the banking system and in mitigating large short - term interest rate fluctuations. Overnight deposit interest rate represents the lowest interest rate in the market, which is supplied by the Bank of Albania.

#### • **Overnight loan**

Overnight loan is a fully collateralized loan extended to assist commercial banks to satisfy their overnight liquidity needs and to mitigate short-term interest rate fluctuations. The interest rate on the overnight loan is higher than the core interest rate.

#### • **Lombard loan**

Lombard loan is used to assist commercial banks to satisfy their temporary liquidity needs. It is a fully collateralized loan of up to three-month maturity. The interest rate of this loan represents the highest interest rate established by the Bank of Albania.

# EXTERNAL SECTOR DEVELOPMENTS DURING THE NINE-MONTH PERIOD OF 2004

The overall payment balance, during the nine-month period of 2004, resulted in a surplus of USD 228 million. The capital inflows have been completely adequate to cover the level of the current deficit.

Main highlights of the external sector of the Albanian economy may be generalized as follows:

- Reduction of the current deficit, relative<sup>1</sup> to the previous year, either in absolute value or in percentage of GDP.
- Stable exports growth irrespective of the competitiveness aggravation (exchange rate developments).
- Improvement in the ratio of coverage of imports by exports.
- Inflows as foreign direct investments doubled.
- Growth of financial liabilities to non-residents, mainly due to the growth of foreign direct investment inflows, and of private borrowings.
- Growth of the country's claims to non-residents, mainly expressed in the growth of deposits from the resident units abroad.
- Growth in the stock of the monetary authority foreign reserve and of the foreign reserve adequacy coefficient for imports of goods and services.
- USD depreciation versus Euro and Lek persists. The USD depreciation effect should be taken into account especially for the transactions performed in other currencies (Euro).

## I. CURRENT ACCOUNT

Current transactions are estimated at about USD 4.3 billion or 21 percent higher than the preceding

year. In addition to external trade in goods and services, current transfers have also contributed to this growth. The current deficit is estimated at about USD 212 million or 19 percent lower than the previous year (in absolute value reduction of current deficit is estimated at USD 49 million). The improvement of the current deficit position was due to the growth of unrequited transfers, to the surplus in services and to the fluctuations observed in the exchange rate of USD versus Euro and Lek. While the trade deficit in goods was deepened, net income from investments declined.

### I. 1. EXTERNAL TRADE

External trade volume, imports plus exports, for the nine-month period of 2004, was estimated at about USD 1.97 billion, representing nearly 45 percent of the total current transactions. Expenditures for imports of goods amounted to USD 1.5 billion or USD 242 million more than the same period of the previous year. Income from exports of goods increased by 36 percent, reaching the value of USD 442 million.

The analysis of the structural dynamics of imports highlights the continuous growth of imports in capital goods as well as imports of raw material for the active processing industry in the country. Also, the demand for foodstuffs remains high.

Exports structure suffers from the low degree of diversification. Thus, in this nine-month period nearly 76 percent of the exports volume is made up by exports of the above-mentioned subgroups of goods.

In absolute value, the imports growth, on a yearly basis, is accompanied with a modest growth of exports. However, during the last two years the

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<sup>1</sup> All comparisons are made with the nine-month period of 2003.

exports growth has been more promising. The degree of coverage of imports by exports reached 29 percent during this period, from 25 percent it was during 2003.

## **I. 2. PERFORMANCE OF THE OTHER ITEMS OF CURRENT ACCOUNT**

Following the successive deficits, recorded during the last two years, the balance of services in this nine-month period returned to positive figures (USD 22 million).

Exports of services continue to be submerged by tourism activity. According to the Bank of Albania estimations, tourism has generated nearly USD 492 million as a flow of income in services or about 11 percent more than the exports of goods, as a consequence of increase either in the number of tourists or in their daily expenses.

Meanwhile, the Albanians have spent in their trips abroad nearly USD 395 million or 58 percent of the total remittances from emigrants. Tourism income increased faster than the expenditures in comparison with the previous year. At the end of the nine-month period, the positive balance of this category was estimated USD 98 million, from 35 million it was in 2003.

Services of transport and those of insurance follow the developments in the trade activity of goods. The growth of imports volume has led to the growth of service imports in these categories. Simultaneously, the increasing participation of the resident trans-expedition companies, which offer services to the external trade, grew as well the income of this category. However, at the end of the nine-month period, the deficits in transport services and insurance are estimated to be higher than the previous year, by 13 percent and 33 percent, respectively.

“Other services” category has recorded a surplus of USD 13 million. Exports of this category are estimated at USD 126 million, from which 39 percent represent communication services, mainly the telephony.

Positive income balance, at the end of the nine-month period, is estimated at about USD 128 million. Nearly 63 percent of income or USD 92

million are labor incomes, which are estimated as a part of emigrants’ remittances, presuming that a part of general number of emigrants belongs to the category of seasonal or frontier workers. Incomes of this category are estimated at 7 percent higher than the previous year, due to the rising demand for labor force in Greece, a neighboring country, during the organization of 2004 Olympic games. The other part of incomes that come from investments recorded a decline, making that the surplus of the “income” category reduces by 4 percent relative to the previous year.

Current transfers, like in the passed years, have been made up through emigrants’ remittances. Emigrants represent the major source of financing the deficit in the trade of goods and services, at 64 percent. During the nine-month period of 2004, inflow of emigrants’ remittances was estimated at USD 679 million, being 21 percent higher than the previous year. However, considering the currencies these transfers are made, we can say that even for this item, the exchange rate effect is significant.

Emigrants’ remittances (USD 679 million) are accompanied with official transfers, mainly in the form of technical assistance (USD 28 million), which are estimated as being declined (23 percent).

## **II. CAPITAL AND FINANCIAL ACCOUNT**

Capital movement, during the nine-month period of 2004, marked a net inflow of about USD 327 million, thus making possible to fully finance the current deficit, and they have led to the foreign reserve growth. Capital transfers marked USD 93.4 million or USD 20 million less than in the nine-month period of 2003, while the financial account was closed with a positive balance of USD 223.6 million. These capital imports performed for the most part through absorbing the foreign direct investments and through granting long-term credits and loan facilities from abroad, brought about the growth of financial liabilities of Albania to the rest of the world, by nearly USD 441 million. This growth is estimated at 78 percent higher than the one of the previous year.

Foreign direct investments are estimated at USD

284 million during the nine-month period of 2004. These capital inflows became a dominant factor in the growth of financial liabilities and in the capital and financial transactions performance in the country. This year they are reflected mainly in the form of privatization of the banking system, with an inflow 2.2 times higher than the same period of the previous year.

Another important factor in the growth of financial liabilities has been the granting of long-term credits and loan facilities from abroad, which increased Albania's external debt by USD 160 million. This debt includes Use of Fund Credit and Loans of USD 12 million. To a considerable extent (47 percent), the borrowings are used by the private sector and are estimated 5.5 times higher than the same period of the previous year. External debt services in the form of principal payments, during this period, amounted to USD 31 million.

Financial liabilities in the form of non-resident deposits in our banking system dropped about

USD 4.4 million during this nine-month period. Liabilities in the form of trade credit increased by USD 16 million, this being reflected even in the growth of imports during this period.

Albania's financial claims to the rest of the world increased by USD 207.4 million or about 86 percent more than the previous year. About 60 percent of this growth is recorded during the third quarter, mainly due to the growth of deposits from the resident units abroad. This large inflow of deposits from inside to outside is mainly attributed to the Raiffeisen Bank's capital conversion and to a displacement in the form of investment – from portfolio investments into deposits. Portfolio investments dropped about USD 122 million during this period.

Foreign assets inflow in the form of financial capital was reflected in the growth of monetary authority foreign reserves, by about USD 228 million. The gross reserves level was estimated at USD 1 billion and 244 million, sufficient to cover 5.1 months imports of goods and services.

**Balance of payments  
in millions of USDs**

	First nine months 2003	Q1 2004	Q2 2004	Q3 2004	First nine months 2004
Current Account	-261.2	-77.9	-108.4	-25.7	-212.1
Merchandise: Exports, fob	324.3	136.5	156.5	148.7	441.7
Merchandise: Imports, fob	-1281.9	-454.4	-514.6	-554.5	-1523.4
Trade Balance	-957.6	-317.9	-358.0	-405.8	-1081.8
Services: Credit	521.7	196.7	237.9	255.4	690.0
Services: Debit	-565.8	-202.8	-237.2	-228.3	-668.4
Income: Credit	150.0	41.6	40.4	65.2	147.2
Income: Debit	-16.8	-5.3	-8.3	-5.8	-19.5
Private Unrequired Transfers	564.8	196.8	200.5	281.7	679.0
Official Unrequired Transfers	42.5	13.0	16.4	11.9	41.3
Capital Account	113.1	34.0	25.7	33.6	93.4
Financial Account	124.8	22.9	203.2	-4.3	221.7
Direct Investment	128.3	35.0	176.7	71.9	283.6
Portfolio Investment	-20.9	-1.3	4.0	119.8	122.5
Other Capital*	17.4	-10.8	22.5	-196.0	-184.3
Net Errors and Omissions	90.7	29.9	-3.0	85.9	112.8
Overall Balance	78.5	14.9	117.4	95.3	227.6
Reserve and Related Items					
Reserve Assets	-78.5	-14.9	-117.4	-95.3	-227.6
Use of Fund Credit and Loans	11.1	6.0	0.0	5.9	11.9
Memorandum Items					
Total Change in Reserve Assets	-120.9	-2.6	-113.9	-103.2	-219.6
of which: Revaluation	42.4	-12.3	-3.6	7.8	-8.0

Data source: Bank of Albania

\* Use of Fund Credit and Loans is not included.

## BANK OF ALBANIA STATEMENT ON THE FINANCIAL SYSTEM STABILITY IN ALBANIA

The Bank of Albania observes that in the second part of 2004, positive developments in the banking system, mainly associated to the consolidation of competitiveness conditions in the country, were highlighted. The stability in the increasing of bank branches number is accompanied with a quicker movement in terms of introducing contemporary payment instruments, especially debit and credit cards activity. The operation of more than 76 cash withdrawal automated machines is enriched also with the efforts exerted to establish terminals of debit and credit card sales, initially close to the important social institutions.

Among the main financial indicators of the banking system for the last period, we may mention:

systems, to the foreign exchange activities and funds investment, etc. A special attention is to be attached to the lending activity, where there is a necessity for improving and completing the proceedings, for identifying and developing the ways that allow the information exchange between banks on the borrowers and their quality data, etc.

- **Leading structure responsibility.** The bank's leading structures, including the Board of Directors, the audit committee and executive managers, are responsible for establishing the conditions and applying the aforementioned requirements.

- **Public role.** In this process it is important the customers and public in general

Indicator	June '04	November '04
Capital adequacy	26.97%	25.12%*
Shareholder capital (in millions of Leks)	23,291.71	26,471.70
Net outcome (in millions of Leks)	2,550.61	4,950.70
New credit (in millions of Leks)	56,400.00	88,800.00
Bad loan, net / net loan	1.02%	1.28%
Bad loan, gross / total balance	0.61%	0.64%

\* At the end of September 2004.

The Bank of Albania considers as important for the present the issues raised in the same document, published in August 2004, on the developments during the first semester of the last year. Considering the importance we give, we deem necessary to underline these elements, more specifically:

- **Strengthening of control systems.** Banks should strengthen on a continuous basis their identification and risk management systems, under the conditions when the market competition is increasing. The emphasis is to be put on the adaptability of the necessary practices for monitoring the main and delicate activities of banks, that relate mainly to the information technology and communication

are informed and they should play their role. The customers and public have the right to ask for transparency of action in the banking practices, an equal treatment among the client's categories, and also to conduct a continuous monitoring for their claims and their financial liabilities with the bank. Through exercising their rights, the customers and public in general exercise a controlling role on the banking activity and contribute in conducting it pursuant to the best practices.

- **Cash reduction in the economy.** The banking system may play a more active role in the common goal toward the reduction of cash transactions and informal economy. The expansion of the banking system and its further approximation to the public, as well as the entry

of new products that promote new ways of payment and provide the desirable comfort, are developments strongly supported by the Bank of Albania in order to further continue with them in the future. We think that this process would be more successful if there would be a stronger commitment from all the relevant governmental institutions.

Further, the Bank of Albania draws the attention of the banks, other institutions of the country and the public on the following issues:

- **Implementation of standards.** International standards in terms of regulatory framework and conduct of banking activity have known new developments. These developments are related to the final publication of the document "New Basel Accord" (known as Basel II) and to the developments in terms of accounting standards and financial statements reporting (known as IAS/IFRS). The obligations that arise from the domestic legal framework requirements, from the diversity and origin of the banking institutions that operate within the country, and

by the necessity that their activity be more and more oriented towards the best international standards, make unavoidable the impact of these changes in the banking and financial system activity in our country and its relationships with the third parties.

- **Harmonization of actions.** Banks and other financial institutions, which have a role to play in implementing into practice the standards, mentioned above, must have a clear strategy on the way they fulfill this role and their objectives. The Bank of Albania deems that it is necessary to institutionalize a common discussion process, where to discuss on the issues that will emerge in the preparatory stage, in order that issues be not only understood, but also their solution be harmonized and stable in time.

Finally, the Bank of Albania expects that during 2005 the banking and financial system consolidates the so-far achievements through continuing a stable activity, giving a more significant contribution in the country's economic development.

## NEWS, OCTOBER – DECEMBER 2004

### ***MR. ARDIAN FULLANI IS ELECTED GOVERNOR OF THE BANK OF ALBANIA***

With decision No. 152, dated 28.10.2004, the Parliament of the Republic of Albania has elected Mr. Ardian Fullani Governor of the Bank of Albania. At the same time, with decision No. 148, dated 07.10.2004, and decision No. 159, dated 18.11.2004, Mr. Ardian Fullani, Mr. Fatos Ibrahimi, Mr. Andis Harasani, Mrs. Elisabeta Gjoni, Mr. Ksenofon Krisafi and Mrs. Tefta Çuçi were elected members of the Supervisory Council of the Bank of Albania.

### ***THE GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI, MEETS WITH OFFICIALS OF THE FINANCIAL SECTOR ASSESSMENT PROGRAM***

During 9-10 November 2004, the representatives of the World Bank and International Monetary Fund, respectively the Chief of Financial Sector at the World Bank and the Assistant to the Director of Research Department at the International Monetary Fund, have been received in a special meeting by Mr. Ardian Fullani, the Governor of the Bank of Albania. Both representatives will be in charge to manage the Financial Sector Assessment Program (FSAP) that will be carried out in our country at the beginning of the next year.

FSAP is a joint program of both the International Monetary Fund and World Bank, aiming at identifying the strong and weak points of the financial systems of member states, defining the ways of major risks management, highlighting the needs for the technical assistance, thus contributing in the design of policies for the future. The detailed assessments of these institutions on the implementation of diverse international codes and standards are regarded as a core element to this program.

Discussions in the meeting mainly focused on the necessity to actively involve the banking system in this program and the role the Bank of Albania will have to play, particularly with the models and transparency of the supervision and monetary policy conduct, with a view to insuring a normal operation of important payment systems.

The Governor, in turn, expressed his willingness for a comprehensive collaboration of the Bank of Albania to implement the Financial Sector Assessment Program and ensured the other party that the organizing work within the institution would help in meeting in rapid and qualitative manner the Mission's requirements.

At last, both parties highlighted the successful collaboration achieved up to now between the respective institutions and expressed the assurances that the Financial Sector Assessment Program would provide not only a real assessment of the financial system situation in the country but also effective recommendations aiming at the strengthening and well-functioning of this system in the future.

### ***THE GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI, MEETS WITH THE EXECUTIVE DIRECTOR OF THE WORLD BANK FOR ALBANIA, MR. BIAGIO BOSSONE***

On November 16, 2004, the Governor of the Bank of Albania, Mr. Ardian Fullani, held a meeting with the Executive Director of the World Bank for Albania, Mr. Biagio Bossone.

Discussions between Mr. Fullani and Mr. Bossone focused on the most concrete fields of the World Bank assistance for the Bank of Albania, such as the financial aid in implementing the two modern payments systems, RTGS and

AECH, FSAP program on modernizing banking supervision as a very important instrument for the banking system consolidation, development and modernization of statistics of the Bank of Albania, management of human resources, etc. At the same time, Mr. Fullani emphasized that along with the development of the banking system, particular importance should be given to financial system progress, starting with the insurance associations, where the supervision should be enhanced.

Mr. Bossone, in turn, stressed the support of the World Bank and the certainty that the projects of cooperation between the Bank of Albania and the World Bank will continue to be successful even in the future, having the consolidation and stability of the Albanian banking system as the final target.

Mr. Bossone participated in the inauguration of the Automated Electronic Clearing House project, which is being implemented by the Bank of Albania with the financial assistance of the World Bank.

#### *ON THE IMPLEMENTATION OF THE AUTOMATED ELECTRONIC CLEARING HOUSE*

On November 16, 2004, at the premises of Sheraton Hotel, the project on the implementation of the Automated Electronic Clearing House (AECH), a new initiative of the Bank of Albania towards modernizing the payment system, financially sponsored by the World Bank and expected to be completed in June 2005, was launched. This meeting was attended by the Executive Director of the World Bank for Albania, Mr. Biagio Bossone, the resident representative of the World Bank in Tirana, senior representatives from the Albanian Parliament, Ministry of Finance, Ministry of Economy, commercial banks, American company "Montran", Albanian Chamber of Commerce and Industry, etc.

The Governor of the Bank of Albania expressed in his speech that the project aims at reducing costs, increasing the speed and enhancing security in the banking payments. The Executive Director of the World Bank for Albania, Mr. Biagio Bossone and Mr. Dimitris Karavias, Vice-President of the Albanian Association of Banks

(AAB) emphasized in their speech the importance of this project along with the ongoing support provided by their respective institutions.

In the meeting, objectives of the project were highlighted: further development and approximation of the Albanian payment system to the international standards, enhancing the effectiveness and security in performing non-cash payments, further reduction of cash use as payment means, improving the invoicing and settlement system of "utility" service companies, improving the pension and social benefits distribution, especially in the rural areas and ensuring a credible, safe and integrated payment system.

The system will be first established at the Bank of Albania and members will be almost all the commercial banks.

#### *GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI, MEETS WITH REPRESENTATIVES OF THE INTERNATIONAL MONETARY FUND*

The Governor of the Bank of Albania, **Mr. Ardian Fullani**, held his first official meeting with the representatives of the International Monetary Fund Mission, European Department, headed by **Mr. Julio Escolano**. The object of this mission consists in assessing the implementation of the agreement signed between Albanian authorities and IMF as well as in re-evaluating the effectiveness of all previous agreements, aiming at considering the adaptability of signing a new agreement with Albania.

Mr. Fullani emphasized that the Bank of Albania priorities will continue to be the country's general macroeconomic stability as well as the financial sector stability. The Chief of Mission, Mr. Escolano, stated that the importance of this mission is a particular one, due to the fact that there will be an estimation of the effectiveness of the agreements signed until now with the Albanian authorities. At the same time, he focused on some major issues which may be briefly summarized: prudential review of the expected growth of GDP; Albania's necessity to be assessed by a specialized agency; further improvement of the financial market; qualitative growth of the macroeconomic statistics, etc. These issues were discussed as well at the

experts level during the visit of the Mission in Albania.

*MONETARY POLICY CHALLENGES IN THE FRAMEWORK OF APPROXIMATING THE BANK OF ALBANIA TO THE EUROPEAN CENTRAL BANK*

The workshop on “Monetary policy challenges in the framework of approximating the Bank of Albania to the European System of Central Banks”, in cooperation with the GTZ, was organized on December 6, 2004, at the premises of Rogner Hotel.

The object of this workshop consists in defining a clear program for further steps to be undertaken in terms of technical assistance that European experts will provide in the framework of approximating the Bank of Albania to the European System of Central Banks, as well as the necessary steps for the implementation of this assistance. Particularly, issues on potential contributions and schemes of cooperation with European partners with a view to supporting a successful conduct of Albanian monetary policy were briefed in this workshop.

In his greeting speech, the Governor of the Bank of Albania, Mr. Ardian Fullani, expressed his commitment to approximating the Bank of Albania to the European System of Central Banks as one of his main challenges and mentioned some of the main steps to be undertaken by the Bank of Albania during this process. Mr. Fullani defined as the main steps: reviewing the legal and regulatory framework of the Bank of Albania; reviewing the organizational and institutional system; and improving the monetary policy and operational framework.

*GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI, MEETS WITH THE DIRECTORS OF THE COMMERCIAL BANKS OPERATING IN ALBANIA*

The Governor of the Bank of Albania, **Mr. Ardian Fullani**, held a meeting with the directors of the commercial banks on December 9, 2004, at the Bank of Albania premises.

In his speech, the Governor highlighted the importance of this meeting as a clear evidence of cooperation and responsibility of the Bank of

Albania towards the banking system and focused as well on the Bank of Albania expectations for the rest of the year 2004 and behind. At the same time, Mr. Fullani expressed his conviction that cash reduction in the economy alongside with the formalization of the Albanian economy will be effective through the new banking services, giving an important emphasis to credit cards development.

On the other side, one of the essential problems raised by the commercial banks was crediting to agriculture as one of the sectors of the economy still remaining less credited. Banks expressed their readiness to participate in funds management within the framework of development programs, as specialized institutions in this field, and that would at the same time contribute to enrichment of their information on such an important sector of the economy.

At the same time, directors of commercial banks expressed their goodwill to enhance their collaboration with the central bank, mainly in exchanging information and analyses, as well as their consistency with the laws and regulations to further support the financial intermediation in Albania.

*BANK - BUSINESS RELATIONSHIPS - A NEW CHAPTER*

The Governor of the Bank of Albania, Mr. Ardian Fullani, held a meeting with the business community of the country on December 13, 2004. This meeting aims at opening a new chapter of communication and cooperation, a new relationship based on reciprocal trust and benefit between both communities, the banking one and the business one.

Mr. Fullani focused on the importance of establishing a stable economic environment as an easing condition for businesses to make important decisions for a qualitative enlargement and increase of businesses, for finding potential clients, etc. At the same time, Mr. Fullani expressed the Bank of Albania commitment to protect the value of savings owned by business representatives.

Further, Mr. Fullani dealt with other important issues such as: lending to economy, foundation of credit information bureau, initiation of work for

establishing the **Automated Electronic Clearing House system, steps undertaken by the Bank of Albania toward cash reduction in the economy, as well as the need to get more information on the production performance, employment situation, expectations and** ambitions that businesses have for the future and for a range of other indicators that relate to the economic activity on a national scale, as a condition for the Bank of Albania to achieve more accurate conclusions on the current and expected developments of the country.

*MEETINGS OF THE GOVERNOR OF THE BANK OF ALBANIA IN THE CITY OF KORÇA*

On December 15, 2004, the Governor of the Bank of Albania held a regional meeting in the city of Korça with the directors of commercial banks branches, representatives of businesses and professors of the Economics Faculty of this city. The purpose of this meeting consists in launching

a new vision about restructuring of the Bank of Albania to which branches in different cities of the country are part.

This vision mainly focused on the re-dimensioning of functions of the Bank of Albania branches in the districts, transforming them from simple cash storerooms and distributors into advanced models of the Bank of Albania presence in the different districts of the country, attempting to make them genuine stations of collecting information on the economic-financial activity of the region. The restructuring process will aim at eliminating some actions that are beyond the central banking nature and that will be gradually absorbed by the commercial banks.

Mr. Fullani highlighted the importance of the joint commitment of the Bank of Albania and other actors in different regions of the country to create real opportunities for a geographically harmonized development, giving their real contribution in raising the welfare on a national scale.

## LEGAL EVENTS

OCTOBER- DECEMBER

### ELECTION OF GOVERNOR AND MEMBERS OF THE SUPERVISORY COUNCIL OF THE BANK OF ALBANIA

On October 7, 2004, the Parliament of the Republic of Albania approved the decision No. 148 "On the election of some members of the Supervisory Council of the Bank of Albania". Based on this decision, Mr. Ardian Fullani, Mr. Fatos Ibrahim, Mr. Andis Harasani, Mrs. Elisabeta Gjoni, Mr. Ksenofon Krisafi and Mrs. Tefta Çuçi were elected members of the Supervisory Council of the Bank of Albania.

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On October 28, 2004, the Parliament of the Republic of Albania approved the decision No. 152 "On the election of the Governor of the Bank of Albania". Based on this decision, Mr. Ardian Fullani was elected Governor of the Bank of Albania.

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On November 18, 2004, the Parliament of the Republic of Albania approved the decision No. 159 "On the election of a member of the Supervisory Council of the Bank of Albania". Based on this decision, Mr. Limos Malaj was elected member of the Supervisory Council of the Bank of Albania.

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On November 24, 2004, the Supervisory Council of the Bank of Albania approved the decision No.74, "On the election and appointment of the Bank of Albania Deputy Governors". Based on this decision, Messrs. Fatos Ibrahim and Limos Malaj have been elected and appointed respectively First Deputy Governor and Second Deputy Governor.

### MONETARY POLICY

On November 4, 2004, the Supervisory Council of the Bank of Albania approved the decision No.

68 "On the approval of reducing the interest rates of repurchase agreements and reverse repurchase agreements". The Supervisory Council of the Bank of Albania decided to cut the core interest rate by 0.25 percentage points. After this change, the interest rate applied to weekly auctions of repurchase agreements (Repo) is 5.25 percent. This level represents the new minimum historical rate for the core interest rate in Albania.

### MONETARY OPERATIONS

On November 10, 2004, the Supervisory Council of the Bank of Albania approved the decision No. 71 "On guaranteeing the amount up to LEK 29 billion of the Albanian government Treasury bills as part of the Raiffeisen Bank's portfolio, pursuant to Article 4, letter (ç) of the Law No. 8269, dated 23.12.1997 "On the Bank of Albania"". By this decision, the Bank of Albania becomes a warrantor for the amount up to LEK 29 billion of the Albanian government Treasury bills as part of the Raiffeisen Bank's portfolio. The price of the letter of guarantee will be 0.2 percent annually.

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On December 8, 2004, the Supervisory Council of the Bank of Albania approved the decision No. 76 "On a change in the regulations and procedures of the Albanian Interbank Payment System – AIPS". The change made in the "Regulations and procedures of the Albanian Interbank Payment System – AIPS" approved by the decision No. 103, dated 10.12.2003, consists in the definition that system operators, which settle the operations through the AIPS, will be the Bank of Albania and other institutions designated by the Supervisory Council of the Bank of Albania.

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On December 8, 2004, the Supervisory Council of the Bank of Albania approved the decision No.

77 "On the approval of a settlement operator of the AIPS". By this decision, the Supervisory Council of the Bank of Albania decided to approve in principle the VISA Company, as a system operator for settlement of operations through the AIPS. Settlements in the AIPS will be limited to the operations that VISA Company performs in Lek and on the account of banks operating in Albania.

## ISSUE

On December 8, 2004, the Supervisory Council of the Bank of Albania approved the decision No. 78 "On the approval of criteria for defining purchase and sale prices for banknotes and coins, other numismatic values, packages and catalogues", and of "Methods of calculating their prices". This decision aims at formalizing the policies for designing and approving general criteria that are followed by the Bank of Albania, in the procedures of defining purchase and sale prices for banknotes and coins for numismatic purposes.

## PRIVATIZATION

Law No. 9313, dated 11.11.2004 "On the privatization of Italian-Albanian Bank's shares, property of the Albanian State" and Law No. 9314, dated 11.11.2004 "On the privatization of United Bank of Albania's shares, property of the Albanian State". These two laws stipulate that the Ministry of Finance, in its capacity of owner, is entitled to transfer on behalf of the Albanian State the right of property by selling 40 percent of shares, respectively of the Italian-Albanian Bank and the United Bank of Albania. Simultaneously, the two laws provide the procedures to be followed during the selling shares' process.

## ECONOMIC POLICY

Law No. 9309, dated 11.11.2004 "On the ratification of the "Guarantee agreement between the Republic of Albania and the European Bank for Reconstruction and Development (EBRD) and the Loan agreement between the Albanian Power Corporation (KESH sh.a.) and the European Bank for Reconstruction and Development (EBRD) on the project of the thermal energy production in Vlora"". This loan, extended to the Albanian Power Corporation, is estimated at EUR

40 000 000 and will be used for the Thermo-Central construction in Vlora.

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Law No. 9310, dated 11.11.2004 "On the ratification of the "Agreement between the Council of Ministers of the Republic of Albania and the Government of the Republic of Italy for implementing the programme "Construction of the road line Lushnjë-Fier and supervision of works for two road lines Lushnjë-Fier and Fier-Vlorë"". The agreement provides the extension of a loan from the Italian Government estimated at EUR 24 350 000.

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Law No. 9311, dated 11.11.2004 "On the ratification of the "Loan agreement between the Council of Ministers of the Republic of Albania and the International Development Association (IDA), on the project of water resources management"". The loan extended is evaluated at SDR 10 200 000.

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Law No. 9337, dated 16.12.2004 "On the ratification of the "Loan agreement for development between the Council of Ministers of the Republic of Albania and the International Development Association (IDA), on the programme of the third stage of the loan aiming at poverty reduction"". The amount of the Loan agreement is evaluated at SDR 6 900 000.

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Law No. 9340, dated 23.12.2004 "On the ratification of the "Guarantee agreement between the Council of Ministers of the Republic of Albania and the European Investment Bank, on the financial contract for the project of the Thermo-Central construction in Vlora"". The financial contract, signed on September 29, 2004, between the Albanian Power Corporation and the European Investment Bank, consists in the extension of a loan estimated at EUR 40 000 000.

## FISCAL POLICY

Law No. 9326, dated 06.12.2004 "On some changes and additions in the Law No. 8438, dated 28.12.1998 "On the revenue tax"". The

Parliament of the Republic of Albania decided that each individual who earns revenues that are not retained by his proper employer should declare them to the Tax Office till January 30 of the following year. The taxation degree for the fiscal year starting from January 1 till December 31, 2005, will be 23 percent and for the other fiscal years, 20 percent. Also, every resident in Albania, bodies of central and local government, NGO-s, etc. shall be obliged to retain the tax of 10 percent from the gross amount of payments.

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Law No. 9328, dated 06.12.2004 "On some additions and changes in the Law No. 8976, dated 12.12.2002 "On the excises"". Additions and changes of the law are described in an annex attached to this law, which specifies the application of excises according to different categories.

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Law No. 9331, dated 06.12.2004 "On some additions and changes in the Law No. 8977, dated 12.12.2002 "On the fiscal system in the Republic of Albania"". This law brought about changes regarding the annual tax on road circulation and its application according to different types of vehicles.

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Law No. 9332, dated 06.12.2004 "On some changes and additions in the Law No. 7928, dated 27.04.1995 "On the value added tax"". Changes made in this law specify the application of value added tax, cases of exemption from the

application of this tax and the right of complaint to the Tax Appeal Commission.

## BUDGET POLICY

Decision of the Council of Ministers No. 863, dated 17.12.2004, "On some additions and changes in the Decision of the Council of Ministers No. 194, dated 22.04.1999, "On the approval of the salary structure of education employees, affiliated to the post-graduation education"". Increase of salaries to this category of employees was approved at an average of 8 percent, and financial effect to be afforded from the 2004 budget shall commence as from November 1<sup>st</sup>, 2004.

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Decision of the Council of Ministers No. 865, dated 17.12.2004, "On some additions and changes in the Decision of the Council of Ministers No. 306, dated 27.06.1999, "On the approval of the salary structure and level of graduated employees, affiliated to the Health Ministry system"". Financial effect arising from the application of this decision will be afforded from the budget of year 2004 and onwards, and shall commence as from November 1<sup>st</sup> 2004".

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Law No. 9339, dated 21.12.2004 "On the State budget for year 2005". The consolidated fund for year 2005 will be: LEK 169.854 million for incomes and LEK 212.011 million for expenditures of the State budget.

**BANK OF ALBANIA**  
**31 DECEMBER 2004**

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**SUPERVISORY COUNCIL**

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ARDIAN FULLANI	Chairman
FATOS IBRAHIMI	Vice Chairman
LIMOS MALAJ	Member
SULO HADËRI	Member
TONIN KOLA	Member
ANDIS HARASANI	Member
ELISABETA GJONI	Member
KSENOFON KRISAFI	Member
TEFTA ÇUÇI	Member

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**GOVERNOR**

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**ARDIAN FULLANI**

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**DEPUTY GOVERNORS**

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FATOS IBRAHIMI - First Deputy Governor  
LIMOS MALAJ - Second Deputy Governor

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**GENERAL INSPECTOR**

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**ELSA BIZHGA**

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**DEPARTMENTS**

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GRAMOZ KOLASI	Monetary Policy Department
ERJON LUÇI	Research Department
MARJAN GJERMENI	Monetary Operations Department
KLODION SHEHU	Supervision Department
SONILA TAÇI	Issue Department
LLAZI BALLIU	Accounting and Payments Department
SOKOL QERAXHIU	Information Technology and Statistics Department
DASHAMIR HALILAJ	Legal and Human Resources Department
ESMERALDA URUÇI	Public Relations Department
ELSA BIZHGA	Audit Department
ERGYS MISHA	Logistic Services Department
ALFONS THEKA	Printing House

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**BRANCHES**

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ERMIRA ISTREFI	Shkodra
VALENTINA DEDJA	Elbasani
ANILA THOMAJ	Gjirokastra
LILJANA ZJARRI	Korça
SHPRESA MEÇO	Lushnja



# LIST OF ALL SUBJECTS LICENSED BY THE BANK OF ALBANIA\*

## BANKS AND BRANCHES OF FOREIGN BANKS

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

License No. 1/1996, dated 17.07.1998

Approved by the Supervisory Council Decision of the Bank of Albania No. 89, dated 18.06.1998.

Certificate No. 1 "On Deposit Insurance".

Delegated Administrator: Giovanni BOGANI

Address: Rruga e Barrikadave, No. 70, Tirana, Albania

Tel.: 23 56 97, 23 56 98, 22 62 62

Fax.: 23 30 34

### 2. RAIFFEISEN BANK (JOINT-STOCK COMPANY)

License No. 2/1998, dated 11.01.1999

Approved by the Supervisory Council Decision of the Bank of Albania No. 163, dated 11.12.1998.

Certificate No. 2 "On Deposit Insurance".

Director: Steven GRUNERUD

Address: Rruga "Dëshmorët e 4 Shkurtit", No. 6, Tirana, Albania

Tel.: 22 45 40, 22 26 69, 22 54 16

Fax.: 22 35 87, 22 36 95, 22 40 51

### 3. UNITED BANK OF ALBANIA (JOINT-STOCK COMPANY)

License No. 3/1998, dated 11.01.1999

Approved by the Supervisory Council Decision of the Bank of Albania No. 165, dated 11.12.1998.

Certificate No. 3 "On Deposit Insurance".

Director: Abdul Waheed ALAVI

Address: Blv. "Dëshmorët e Kombit", No. 8, Tirana, Albania

Tel.: 22 84 60, 22 38 73, 22 74 08

Fax: 22 84 60, 22 83 87

### 4. DARDANIA BANK (JOINT-STOCK COMPANY)

License No. 5/1998, dated 11.01.1999

Approved by the Supervisory Council Decision of the Bank of Albania No. 164, dated 01.12.1998.

Certificate No. 4 "On Deposit Insurance".

Director: Beqir MEZELXHIU

Address: Blv. "Zogu I", Tirana, Albania

Tel.: 22 87 59, 25 93 50, 25 93 51

Fax.: 23 05 66

Telex: 2298 db banc ab

### 5. NATIONAL COMMERCIAL BANK (JOINT-STOCK COMPANY)

License no. 6/1998, dated 11.01.1999

Approved by the Supervisory Council Decision of the Bank of Albania No. 162, dated 11.01.1999.

Certificate No. 5 "On Deposit Insurance".

Director: Seyhan PENCAPLIGIL

Address: Blv. "Zhan D'Ark", Tirana, Albania

Tel.: 25 09 55

Fax.: 25 09 56

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\* Until 31 december 2004.

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

License No. 07, dated 12.09.1996

Approved by the Supervisory Council Decision of the Bank of Albania No. 9, dated 12.09.1996.

Certificate No. 6 "On Deposit Insurance".

Director: Dimitris KARAVIAS

Address: Blv. "Zogu I", No. 55/1, Tirana, Albania

Tel.: 23 34 41/42/ 43/44/45/46/47

Fax.: 23 34 17

#### **7. NATIONAL BANK OF GREECE – TIRANA BRANCH (JOINT-STOCK COMPANY)**

License No. 08, dated 25.11.1996

Approved by the Supervisory Council Decision of the Bank of Albania No. 4, dated 14.03.1996.

Certificate No. 7 "On Deposit Insurance".

Director: Spiro BRUMBULLI

Address: Rruga e Durrësit, Godina Comfort, Tirana, Albania

Tel.: 23 36 23/24

Fax.: 23 36 13

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

License No.09, dated 20.02.1997

Approved by the Supervisory Council Decision of the Bank of Albania No. 9, dated 30.04.1996.

Certificate No. 8 "On Deposit Insurance".

Director: Ooi Kooi KEAT

Address: Rruga "Ded Gjon Luli", Tirana, Albania

Tel.: 23 75 67/68/69

Tel/fax: 23 75 70

#### **9. ALPHA BANK – TIRANA BRANCH (JOINT-STOCK COMPANY)**

License No.10, dated 07.01.1998

Approved by the Supervisory Council Decision of the Bank of Albania No. 01/03/96, dated 27.12.1997.

Certificate No. 9 "On Deposit Insurance".

Director: Andreas GALATOULAS

Address: Blv. "Zogu I", No.47, Tirana, Albania

Tel.: 23 33 59, 24 04 76/77/78

Tel/fax: 23 21 02

#### **10. AMERICAN BANK OF ALBANIA (JOINT-STOCK COMPANY)**

License No.11, dated 10.08.1998

Approved by the Supervisory Council Decision of the Bank of Albania 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.: 34 87 53/54/55/56

Tel/fax: 34 87 62

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

License No. 12, dated 15.03.1999

Approved by the Supervisory Council Decision of the Bank of Albania No. 22, dated 03.03.1999.

Certificate No. 11 "On Deposit Insurance".

Director: Ralf REITEMEIER

Address: Rruga "Sami Frashëri", Tirana e Re, P.O. Box. 2395, Tirana, Albania

Tel.: 23 04 99, 23 34 96

Tel/fax: 23 34 81

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

License No. 13, dated 16.04.1999

Approved by the Supervisory Council Decision of the Bank of Albania No. 45, dated 13.04.1999.

Certificate No. 12 "On Deposit Insurance".

Director: Petar Gavrillov KRASTEVI  
Address: Blv. "Zogu I", No. 64, Tirana, Albania  
Tel.: 35 64 23, 3 564 24  
Tel/fax: 35 64 22

## **13. EMPORIKI BANK OF ALBANIA (JOINT-STOCK COMPANY)**

License No. 14, dated 28.10.1999

Approved by the Supervisory Council Decision of the Bank of Albania No.105, dated 19.10.1999.

Certificate No. 13 "On Deposit Insurance".

Director: George CARACOSTAS  
Address: Rruga e Kavajës, Tirana Tower, Tirana, Albania  
Tel.: 25 87 55/ 56/ 57/ 58/ 59/ 60  
Tel/fax: 25 87 52

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

License No. 15, dated 28.08.2002

Approved by the Supervisory Council Decision of the Bank of Albania No. 66, dated 28.08.2002.

Certificate No. 14 "On Deposit Insurance".

Director: Kamal Abdel MONEIM  
Address: Rruga "Perlat Rexhepi", Al-Kharafi Group Administration Building, Kati 1&2" Tirana, Albania  
Tel.: 27 21 68, 27 21 62  
Tel/Fax: 27 21 62  
E-mail: creditbkalb@icc-al.org

## **15. "CREDINS" BANK (JOINT-STOCK COMPANY)**

License No. 16, dated 28.03.2003

Approved by the Supervisory Council Decision of the Bank of Albania No. 22, dated 26.03.2003.

Certificate No.15 "On Deposit Insurance".

Director: Artan SANTO  
Address: Rruga "Ismail Qemali", No. 21, Tirana, Albania  
Tel.: 22 29 16, 23 40 96

## **16. POPULAR BANK (JOINT-STOCK COMPANY)**

License No. 17, dated 16.02.2004

Approved by the Supervisory Council Decision of the Bank of Albania 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.: 27 27 88/ 89

## NON-BANK INSTITUTIONS

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

License 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, Edmond Leka  
Address: Rruga "Reshit Çollaku", Pall. Shallvare, Sh 2, No. 18, Tirana, Albania  
Tel.: 25 06 53  
Fax: 25 06 54

### 2. DINERS CLUB ALBANIA S.R.L.

License No. 2, dated 09.10.2000, on conducting the following financial activity:

- mediating in the conduct of monetary transactions.

Director: Vebi Velia  
Address: Blv. "Zogu I", VEVE Business Center, Tirana, Albania

### 3. ALBANIAN POST-OFFICE (JOINT STOCK COMPANY)

License No. 3, dated 18.04.2001, as a non-bank financial institution to conduct the following financial activities:

- offering payment services;
- acting as financial agent or advisor.

Director: Luiza Hoxha  
Address: Rruga "Reshit Çollaku", No. 4, Tirana, Albania  
Tel.: 22 23 15

### 4. CREDINS TIRANA (JOINT STOCK COMPANY)

License No. 04, dated 13.06.2001, as a non-bank financial institution to conduct the following financial activities:

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

Director: Mrs. Monika Milo  
Address: Rruga "Ismail Qemali" No. 21, Tirana, Albania  
Tel.: 22 29 16, 23 40 96

## **5. MOUNTAINOUS AREA FINANCING FUND**

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

- granting credit.

Director: Arben Jorgji  
Address: Rruga "Mustafa Matohiti" No. 12, Tirana, Albania  
Tel.: 25 06 33

## **6. "AK-INVEST" (JOINT STOCK COMPANY)**

License 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 (foreign currency included);
- acting as financial agent or advisor.

Manager: Ilir Adili  
Address: Rruga "Ded Gjon Luli", No. 2/3, Tirana, Albania  
Tel.: 24 01 47

## **7. "TIRANA LEASING SH.A."**

License No. 8, dated 09.11.2004, as non-bank entity to conduct the following activities:

- financial leasing.

Director: Fatos ALIAJ  
Address: Rruga Ismail Qemali, Samos Tower, Kati II, Zyra 2/1B, Tirana, Albania  
Tel.: 26 97 05, 26 97 06

**FINANCIAL INSTITUTIONS 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 INSTITUTIONS FROM APPLYING THE PROVISIONS OF LAW NO. 8365, DATED 02.07.1998 "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.

Exempted by the Bank of Albania's note No.1843, dated 01.08.2000

Director: Zana Konini

Address: Rruga "Ismail Qemali", P.32, Tirana, Albania

**2. BESA FOUNDATION**

Founded by Open Society Fund for Albania (SOROS).

Object of activity: Financing small and medium size firms.

Exempted by the Bank of Albania's note No. 2895/1, dated 19.01.2001

Director: Bajram Muça

Address: Rruga "Asim Vokshi", No. 35, Tirana, Albania

**3. ALBANIAN PARTNER ON MICROCREDIT.**

Shareholder: "Opportunity International" (East Europe).

Object of activity: Granting credit.

Exempted by the Bank of Albania's note No. 828/1, dated 08.04.2002

Director: James Reiff

Address: Rruga "Gjin Bue Shpata", No. 7/1, Tirana, Albania

## FOREIGN EXCHANGE BUREAUS

### 1. "JOARD" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA

License: No. 1, dated 01.10.1999  
Address: Rruga "Ded Gjon Luli", No.2, Tirana, Albania  
Brokers: Josif Kote, Pajtim Kodra

### 2. "AMA" FOREIGN EXCHANGE BUREAU S.R.L., DURRËS

License: No. 2, dated 01.10.1999  
Address: Rruga "Tregtare", Lagja 3, Durrës, Albania  
Brokers: Mirlinda Ceka, Ilir Hoxha

### 3. "ARIS" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA

License: No. 3, dated 01.10.1999  
Address: Rruga "Luigj Gurakuqi", Tirana, Albania  
Brokers: Ardian Goci, Ismet Noka

### 4. "UNIONI FINANCIAR" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA

License: No. 4, dated 01.10.1999  
Address: Rruga "Reshit Çollaku", Pall. Shallvare, Shk. 2/18, Tirana, Albania  
Brokers: Arjan Lezha (Manager), Albert Sara, Dhimitër Papadhopulli, Genta Angjeli (Agalliu), Piro Teti, Flora Simixhi, Petrika Mano (Manager), Lindita Shala, Mirela Bakalli, Anila Demiri, Emili Bakalli (Nako), Astrit Sferdelli, Mirela Kaiku, Erisa Emiri

### 5. "AGLI" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA

License: No. 5, dated 01.10.1999  
Address: Agency No.1: Rruga "Islam Alla", No.1, Tirana, Albania  
Agency No.2: Rruga "Kavajës", Tirana, Albania  
Brokers: Kujtim Nina (Manager), Agim Cani, Selim Luli

### 6. "EXCHANGE" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA

License: No. 08, dated 24.11.1999  
Address: Rruga "Durrësit" No. 170, Tirana, Albania  
Brokers: Ivan Pavlovski, Ervis Myftari

### 7. "UNISIX" FOREIGN EXCHANGE BUREAU S.R.L., KORÇA

License: No. 09, dated 26.11.1999  
Address: Blv. "Republika", Pall.4, Korça, Albania  
Brokers: Pandi Cunoti, Ernest Golka, Nikolin Bicka, Eli Bode

### 8. "EKSPRES J & E" FOREIGN EXCHANGE BUREAU S.R.L., DURRËS

License: No. 10, dated 26.11.1999  
Address: Lagja 11, Rruga "Prokop Meksi", Durrës, Albania  
Brokers: Kostandin Ekonomi, Entela Ekonomi

### 9. "ILIRIA 98" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA

License: No. 12, dated 25.02.2000  
Address: Sheshi "Skënderbej", Teatri i Kukullave, Tirana, Albania  
Brokers: Edmond Ymeri, Ali Topalli, Ilir Janku

**10. "SERXHIO" FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN**

License: No. 14, dated 07.04.2000  
Address: Lagja "Luigj Gurakuqi", Rruga 11 Nëntori, Pall. 70, No.14, Elbasan, Albania  
Brokers: Amarildo Canku

**11. "ALBTUR" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 15, dated 07.04.2000  
Address: Blv. "Zogu I", Pall. 32, Shk.1, Tirana, Albania  
Brokers: Albert Rahmani, Artur Rahmani

**12. "R & M" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 16, dated 22.05.2000  
Address: Rruga "Punëtorët e Rilindjes", Pall. 182, Tirana, Albania  
Brokers: Edmond Stepa, Miranda Stepa

**13. "TEUTA 2000" FOREIGN EXCHANGE BUREAU S.R.L., DURRËS**

License: No. 17, dated 22.05.2000  
Address: Lagja 4, Rruga "Skëndërbej", Ap. 950, Durrës, Albania  
Brokers: Qemal Hoxha, Arben Çuni

**14. "T & E" FOREIGN EXCHANGE BUREAU S.R.L., DURRËS**

License: No. 18, dated 11.06.2000  
Address: Lagja 4, Rruga "9 Maji", Durrës, Albania  
Broker: Shpëtim Hysa

**15. "SHIJAK 2000" FOREIGN EXCHANGE BUREAU S.R.L., SHIJAK**

License: No. 19, dated 24.11.2000  
Address: Lagja "Popullore", Shijak, Albania  
Brokers: Nazmi Ademi, Farije Ademi

**16. "R & T" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 20, dated 20.12.2000  
Address: Blv. "Zogu I", Tirana, Albania  
Broker: Renis Tershana

**17. "MANUSHI" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 22, dated 18.04.2001  
Address: Blv. "Zogu I", VEVE Business Center, Tirana, Albania  
Brokers: Roland Manushi

**18. "UNIONI SELVIA" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 23, dated 21.05.2001  
Address: Rruga e Saraçëve, Pall.124/1, Tirana, Albania  
Brokers: Leonat Zenelaj, Gani Xhaja

**19. "KALENJA" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 24, dated 29.06.2001  
Address: Rruga e Kavajës (next to Turkish Embassy), Tirana, Albania  
Brokers: Hair Shametaj, Fatmir Shametaj, Gëzim Dushkaj

**20. "TILBA" FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN**

License: No. 25, dated 30.09.2001  
Address: Lagja "Luigj Gurakuqi", Blv. "Qemal Stafa", Njësia No.12, Elbasan, Albania  
Brokers: Kristaq Bako, Vjollca Bako

**21. "ANAGNOSTI" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 26, dated 31.10.2001  
Address: Agency No. 1 - Blv. "Zogu I", Pall.97, Shk.3, Ap.28, Tirana, Albania  
Brokers: Jani Anagnosti, Odise Anagnosti, Edlira Anagnosti  
Agency No. 2 - Rruga "Kajo Karafili", No. 11, Tirana, Albania  
Broker: Fredi Cami

**22. "KO-GO" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 27, dated 12.11.2001  
Address: Rruga "Vaso Pasha", Pall.16, Shk.2, Ap. 9, Tirana, Albania  
Brokers: Mihal Konomi, Perparim Goxhaj

**23. "ALB-FOREX" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 28, dated 22.11.2001  
Address: Agency No. 1: Rruga "Abdyl Frashëri", No.3, Tirana, Albania  
Brokers: Almir Duli, Agim Xhemo  
Agency No. 2: Rruga "Mine Peza", Pall. 102, Shk. 1, Tirana, Albania  
Broker: Fatmir Baholli

**24. "L&N" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 29, dated 22.11.2001  
Address: Rruga "Muhamet Gjollështa", Tirana, Albania  
Broker: Leonora Mihalcka

**25. "EXHANGE ALOG" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 31, dated 22.11.2001  
Address: Rruga "Mine Peza", Tirana, Albania  
Brokers: Almida Sterio, Fatmir Tafaj, Eduard Andoni, Elida Hasamemi

**26. "BASHKIMI 2001" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 35, dated 12.12.2001  
Address: Rruga e Kavajës, Tirana, Albania  
Brokers: Bashkim Shametaj, Luan Shametaj, Ilir Mesini

**27. "ARJON 2002" FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN**

License: No. 36, dated 14.12.2001  
Address: Lagja "Kongresi i Elbasanit", Blv. "Qemal Stafa", Pall. 9-katësh, Elbasan, Albania  
Brokers: Arben Kovaçi, Besnik Lulja

**28. "ALAKTH" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 42, dated 18.01.2002  
Address: Rruga e Dibrës, No.105/1, Tirana, Albania  
Brokers: Kosta Papa, Arben Memko, Lorenc Konomi, Thoma Konomi, Aleko Plaku

**29. "FORMAT" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 43, dated 21.01.2002  
Address: Rruga e Durrësit, Pall. 85, Shk. 1, Ap. 1, Tirana, Albania  
Brokers: Diana Lemi, Egon Sinani

**30. "TRI URAT" FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN**

License: No. 44, dated 05.02.2002  
Address: Lagja "29 Nëntori", Elbasan, Albania  
Brokers: Fahri Sanco, Ismail Bejta

**31. "BESA 2001" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License No. 46, dated 15.02.2002  
Address: Rruga "Myslym Shyri", No. 25, Tirana, Albania  
Brokers: Belul Lleshi, Vladimir Avda, Mimoza Avda

**32. "MARIO" FOREIGN EXCHANGE BUREAU S.R.L., SARANDA**

License: No. 47, dated 14.03.2002  
Address: Lagja 1, Saranda, Albania  
Brokers: Vangjel Gramozi, Blerim Dhima

**33. "JAV" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 48, dated 20. 03.2002  
Address: Blv. "Zogu I", Godina e "Zërit të Popullit", Tirana, Albania  
Brokers: Ervin Lera, Ilir Gurashi

**34. "DROGU" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 49, dated 23.04.2002  
Address: Rruga "Vaso Pasha", Kulla 1, Kati I, Tirana, Albania  
Brokers: Shkëlqim Drogu, Kostandin Koteci

**35. "HYSEN-C" FOREIGN EXCHANGE BUREAU S.R.L., LAÇ**

License: No. 50, dated 23.04.2002  
Address: Lagja No. 3, Laç, Albania  
Broker: Cen Hyseni

**36. "UNIONI FIER" FOREIGN EXCHANGE BUREAU S.R.L., FIER**

License: No. 51, dated 08.05.2002  
Address: Lagja "15 Tetori", Rruga "Kastriot Muça", Fier, Albania  
Brokers: Gjergj Dulaj

**37. "TAXI EKSPRES" FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN**

License: No. 52, dated 20.05.2002  
Address: Rruga "Sami Frasheri", No. 1, Elbasan  
Brokers: Arben Sharra, Sokol Kaleci

**38. "MERO" FOREIGN EXCHANGE BUREAU S.R.L., DEVOLL**

License: No. 53, dated 22.05.2002.  
Address: Agency No. 1: Blv. "Fuat Babani", Bilisht, Devoll  
Agency No. 2: Kapshtica Custom.  
Brokers: Gezim Demcolli, Valter Miza, Genti Mahmutaj, Albert Haxhia, Edmond Miza

**39. "GLEAR" FOREIGN EXCHANGE BUREAU S.R.L., SHIJAK**

License: No. 55, dated 23.07.2002  
Address: Lagja "Kodër", Shijak, Durrës, Albania  
Ex.broker: Argjend Calliku, Afërdita Calliku

**40. "ALBA-POST" FOREIGN EXCHANGE BUREAU, TIRANA**

License: No. 56, dated 28.08.2002  
Address: Rruga "Reshit Çollaku", No. 4, Tirana, Albania

**41. "UNIONI BALLSH" FOREIGN EXCHANGE BUREAU S.R.L., BALLSH**

License: No. 57, dated 11.09.2002  
Address: Rruga "8 Nëntori", Ballsh, Albania  
Brokers: Luan Zenelaj, Lavdimir Zenelaj

**42. "ESLULI" FOREIGN EXCHANGE BUREAU S.R.L , TIRANA**

License: No. 58, dated 17.10.2002.  
Address: Rruga "Reshit Çollaku", Pall."Shallvare", Shk. 4/1, Tirana, Albania  
Brokers: Selim Luli, Kleomen Gjikhuri

**43. "AMERICAN GLOBAL CAPITAL FUND-WORLDWIDE INVESTMENT" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No.59, dated 26.11.2002  
Address: Rruga "Ismail Qemali", Noli Business Center, No.27, Tirana, Albania  
Brokers: Elda Skënderi, Vasil Llogoro, Arian Kokali

**44. "DENI&KRISTI-2002" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 61, dated 02.06.2003  
Address: Rruga "Myslym Shyri", Pall. 60, Ap. 3, Tirana, Albania  
Broker: Maksim Çeku

**45. "YLDON" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 62, dated 03.06.2003  
Address: Rruga "Qemal Stafa", Pall. 382/2/2, Tirana, Albania  
Broker: Ylli Ndroqi (manager)

**46. "BILLI" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 63, dated 16.02.2004  
Address: Sheshi "Wilson", Tirana e Re, Tirana, Albania  
Broker: Sybi Cenolli (manager)

**47. "REXHA F&E" FOREIGN EXCHANGE BUREAU S.R.L., DURRËS**

License: No. 64, dated 07.04.2004  
Address: Rruga "Mujo Ulqinaku", Lagja No. 5, Pall.619, Durrës  
Broker: Fatmir Rexha (administrator), Ermira Rexha

**48. "ALBA&ARBËR" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 65, dated 06.05.2004  
Address: Rruga e Kavajës, Pall. 3. Kati I, Tirana, Albania  
Brokers: Pëllumb Mehmetaj, Bukurosh Jaho (managers)

**49. "I.S.N." FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 66, dated 06.05.2004  
Address: Rruga e Kavajës, Pall. 3. Kati I, Tirana, Albania  
Brokers: Evzi Zemzadja (manager), Nexhmi Uka, Salandi Brojaj

**50. "ARIABA" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 67, dated 07.06.2004  
Address: Ruga "Abdyl Frashëri", Kati I, Shk. 5, Tirana, Albania  
Brokers: Agim Xhemo (manager), Astrit Hado

**51. "ALBACREDITS" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 68, dated 13.07.2004  
Address: Rruga "Ded Gjon Luli", No. 5, Tirana, Albania  
Brokers: Ermira Skënderi (administrator), Engjëll Skënderi, Burhan Kodra

**52. "ALB-KREDIT" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No.69, dated 19.07.2004  
Address: Rruga e Durrësit, No. 2, Tirana, Albania  
Brokers: Arben Cani (administrator), Vasil Marto, Rudina Muskaj, Valbona Kadriu, Teuta Koltarka, Hajredin Toca

**53. "IDEA - 2" FOREIGN EXCHANGE BUREAU S.R.L., KAVAJA**

License: No. 70, dated 02.09.2004  
Address: Lagjja No.2, Rruga "10 korriku", Kavaja, Albania  
Broker: Taulant Karkini (administrator)

**54. "O & G" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 71, dated 30.09.2004.  
Address: Rruga e Kavajës, Tirana  
Brokers: Pranvera Ago (administrator), Teuta Broqi

**55. "OMEGA" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA**

License: No. 72, dated 20.12.2004.  
Address: Rruga "Abdyl Frashëri", Pall.1, Shk.2, Ap.10, Tirana  
Broker: Mihallaq Peko (administrator)

## **UNIONS OF SAVINGS AND CREDIT ASSOCIATIONS**

### **1. "JEHONA" SAVINGS AND CREDIT ASSOCIATIONS UNION, TIRANA**

License: No.1, dated 27.06.2002

Head of the Executive Board: Vojsava Rama

This union consists of 41 savings & credit associations licensed also as special associations and technically assisted by the foundation "Movement for the savings & credit associations development".

### **2. "ALBANIAN SAVINGS AND CREDIT UNION" SAVINGS AND CREDIT ASSOCIATIONS UNION, TIRANA**

License: No. 2, dated 09.08.2002

Address: Rruga "Ismail Qemali", No. 32, Tirana-Albania

Head of the Executive Board: Zana Konini

This union consists of 91 savings & credit associations, licensed also as special associations and technically assisted by "Mountain Area Financing Fund".

## REPRESENTATIVE OFFICES OF FOREIGN BANKS

### THE REPRESENTATIVE OFFICE OF BANCA POPOLARE PUGLIESE IN ALBANIA

License: No. 01, dated 02. 07.2003

Representative: Giancarlo STASI

Address: Sheshi "Skënderbej", Pallati i Kulturës, Kati III, Tirana, Albania

Tel.: 25 67 82



