

E C O N O M I C
B U L L E T I N March
2005

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*If you use data from this publication, you are requested to cite the source.
Published by : Bank of Albania, Sheshi "Skënderbej", No.1, Tirana, Albania
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*Printed by: Printing House of Bank of Albania
Printed in : 640 copies*

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FINANCIAL MARKETS TRUST GROWTH

SPEECH OF THE GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI DELIVERED AT THE VTH INTERNATIONAL CONFERENCE OF THE BANK OF ALBANIA, "THE CENTRAL BANKING IN THE TIME OF INTEGRATION"

Ladies and gentlemen,

It is a great pleasure to share with you some opinions and ideas regarding the current status of the financial market and its perspective in Albania. As the new Governor, I could have discussed more general issues however, I decided name my speech, "Financial markets trust growth" guided by my vision that the building of a developed financial market only serves better our fundamental objectives, especially our ambitions in the field of monetary policy as well as other economic policies.

Bank of Albania is happy with the results of its monetary policy during the last 13 years. However, to be sincere, inflation has had its fluctuations because of periods of fall in economic growth. Nonetheless, its return to acceptable levels has been fast and, in some cases we have been surprised by the low rates.

We believe that there is room for improvement in the measurement accuracy of prices and the weight different groups occupy in the basket of goods and services offered to the consumer. A number of goods have yet to be included in the basket while some price fluctuations are difficult to be justified. However, the consumer price index has been taken for granted, uninfluenced by the central bank, serving as an indicator with which the final objective of monetary policy is measured.

Supposing that inflation rates have been correct, most may believe that the Albanian economy is flexible, as it manages to bring the inflation rate to normal levels in a short period of time. This is an argument which I want to believe. The lack of flexibility, observed in some other economies, does not seem to apply to Albania. Here, I have in mind the long hiring and lay off procedures or the variety of rules connected to the goods and services markets. Most importantly, the adoption of a flexible exchange rate regime has been one of the main contributors, which is directly responsible for the high mobility rate of the Albanian economy.

Coming back to the good performance of monetary policy, Bank of Albania to a certain degree agrees that among other things, in some cases we have been a bit lucky. The Albanian economy still lacks a number of characteristics and in so much the channels of monetary policy transmission are not fully functional.

On the other hand, the financial sector is still fragile and needs further reforming and a high level of alertness. The development and the opening

of the market will bring a higher rate of exposure making it more difficult to maintain financial stability. This is the reason that makes me consider the growth of financial market stability one of my ambitions as Governor of Bank of Albania.

Differently from many other countries, Albania has a poor history in terms of financial institutions and instruments heritage. Our tradition does not compare to that of developed countries.

Even though by archive data the first attempts to create a national bank date to the beginning of last century, the institutions of the time have mainly functioned to ease reciprocal transfers with other countries. Even after the creation of the National Bank, we have to say that the financial institutions in Albania did not have a main role in the economic and financial life of the country no matter the admirable progress in the consolidation of the economic environment in general. Moreover, during the long years of economic centralization, the banking system was typical to that of East European countries. A single bank carried the functions of a central and commercial bank, while the deposits of the population were saved in savings institutions. A small bank was specialized in crediting farms and agricultural cooperatives. I believe that even during this long period, for a number of reasons, the financial sector in Albania did not compare to East European models, including the countries of the region in terms of intermediation and flexibility.

On the other hand, I have to comment on the other segments of the financial sector because we are all witnesses that historical facts are very few in this context, the only development being the existence of a state owned insurance company, which had a limited role in the insurance field which did not include any other role in intermediation.

No doubt, true reforms were first presented at the beginning of the 90s, which peaked in the middle of 1992 when the first law on the central bank and the banking system in Albania was approved.

From the middle of 1992 and on, the banking system has developed to 16 active banks and another one has received a preliminary license.

By discussing about the financial sector in more detail, I would like to add that lately there are developments in other segments as well. The number of operators in the insurance field has grown. At the same time, we have the first operator in the pensions field, as well as there is a modest number of small financial operators in the crediting field, mainly in the form of savings and loans associations and non-bank financial institutions.

Taking a quick look, it seems we have a financial sector that is vitalizing year by year. However, it is obvious that qualitative developments pertain to the banking sector. Actually, I believe, we have a banking sector towards which public confidence is growing. Geographical coverage is especially increasing lately in terms of banking services. There are positive developments

in the structure of payments as well. It is a pleasure to recognize that business – bank relationships are on a higher level.

The Automated Electronic Clearing House will be another move forward. This system will ease payments in small amounts among individuals, no matter geographical distances, and will lay safe foundations for more advanced developments in the field of electronic payments.

During this period, in cooperation with the Ministry of Finance, we have taken concrete steps in the direction of reducing the size of the informal economy which is clearly reflected in the monetary reports.

However, I think that the challenges before us are greater in number and larger in scope. I believe that the level of financial intermediation is low. On the other hand, agriculture the sector with the highest potential is still not covered by the banking business. The penetration of electronic cards in daily life is in modest levels.

Here at Bank of Albania we have come to the decision that the banking business needs to become more flexible, especially its regulative framework. For this reason, we have thought about a re-evaluation of the regulatory framework on the functioning of the money market, crediting policies and exchange market. I would hope that the banks take a more proactive role. Of course, the regulations will part of a more general evaluation, not only inside the country but of the international specialized institutions and organizations as well.

How about the other part of the financial sector?

As I mentioned above, there is an increase in the number of operators in the market. However, I realize that their operational activity is still far from best practices and standards. Moreover, their legislative, regulatory, and supervisory framework is not complete. For this reason, I believe that the challenges are many and corrective measures must be immediate. I judge that it is in the interest of insurance companies to be more supervised because only in this way they will achieve standards similar to those of the banking system. Their road towards the process of creating an efficient financial market becomes more difficult if actual practices are not changed. In this way, they will continue to be at the periphery of the financial system. It is now time for us not to be content only with the increase in the number of operators, but to aim building a regulated financial sector, with values, flexibility, and transparency.

The other financial institutions as well, including intermediaries and specialized facilitators, I judge they have room for more intermediation and I would appeal to them as well to cover their activity by the legal framework and full, contemporary supervision.

Confidence in a market may not be decreed by the monetary authority, and it may not even be imposed. This is a difficult process which requires continuous

work. It requires rules and exact knowledge of them by all actors. Confidence requires swiftness, transparency, loyalty, and careful supervision. Only in this way its actors will increase reciprocal trust and that of the organizers and market supervisors.

A central bank is as credible as the banking system. It is difficult to understand that a volatile market, insufficient number of financial instruments, low competition, may achieve credibility, entice investors and push forward the formalization of the economy which in the end would increase public confidence towards the financial market. So, monetary confidence is an axiom which is proven everyday, only if we have a liquid financial market, open and transparent.

Market forces are more effective when the number of the participants is large and when the principles of the market are known and used in the right way from all of them. In the mean time, market feelings are like the waves of the sea. They come and go. The more the market develops the stronger they become. We can see such waves in economies where developed financial markets are the driving forces. It is important for us to initiate and implement wise monetary, fiscal, and other economic policies aiming to accommodate these waves in a proper way.

I don't want to get into details during my speech on specific segments of the financial market, where we are the main organizers and actors. I will not analyze the possibilities of actively involving other financial institutions in the market as well.

What I want to spend more time discussing deals with a debate which has been going on lately at Bank of Albania. By now, it is widely accepted that the treasury bonds market has room for enlargement and deepening. On the other hand, we are all witnesses that during the last ten years, Bank of Albania has opened its counters to directly sell treasury bonds to individuals.

Bank of Albania in no case during the debate has expressed that individuals should be excluded from the primary market and they should be given the possibility to buy bonds only from the secondary market.

So, it is my belief that the increase in interest by the population on treasury bonds has been a natural process, which on top of everything mirrors the increase in the understanding of the public on investment and the strengthening of public confidence on the economy in general.

I believe that it is now time that such business transfer toward the banking system. During discussions held lately, the banks are interested in this business and are ready to get involved in it. Of course, I agree with the idea that there is need to proceed gradually and studiously, so that the share of individuals in the bonds market not decrease. I understand the costs faced by the banks, as well as I understand the principle that every service has a price. I judge that at this moment, small investors have understood that one cannot win at no cost at all.

On the other hand, I believe that the experience of past years has been sufficient in getting individuals familiar on the profits that can be made through treasury bonds investments. As a result, I think that the pace of growth during this period will be kept and will make more stable the contribution of the general public on the financing of public debt.

However, I wish to explain the auditorium that with what I said above I do not mean only the primary treasury bond market. On the contrary, I would encourage the banks to become more aggressive towards the secondary bonds market. Make it clear to the public that whoever is interested may sell its bonds at any moment as well as every individual that possesses savings may at any time reach the banking sector not only to deposit but to buy treasury bonds as well.

I find it reasonable that even the role of financial intermediaries needs to grow in general. The amount of money in circulation is large. This shows that business income continues to be kept under the pillow or gets converted in non-intelligent ways, especially real estate. The Ministry of Finance itself will open counters to directly sell treasury bonds to the public. The government needs to have its own portfolio of treasury bonds to correct inaccuracies and changes in its plans, which have imposed on it the alternative of borrowing from Bank of Albania.

I may not forget to mention to the banking system that the inter-banking market may and should be improved. In our days, commercial banks exchange large amounts of liquidity with the central bank. But, such exchange needs to be intensified among commercial banks as well. This would ensure more financing and investment possibilities for individuals and companies including banks.

The banks may as well pay more attention to currency and treasury bonds markets towards achieving their enlargement and deepening. In this way, except from presenting new financial instruments, it would as well be necessary to further advance in the use of current instruments. Such improvements would benefit the economy in general, including individuals, companies, banks, the central bank, and the government. In this way, individuals would have more opportunities in which to invest their savings, companies would better exploit new business activities, banks would profit more, the central bank and the government policies would become more efficient.

Monetary policy would become more effective by earning public trust, achieving improvements in the banking system and the deepening of the financial markets. A more effective monetary policy would make prices more stable. Stable prices would guarantee lower interest rates and higher economic growth.

The high economic growth is a pleasant phenomenon because it is the main indicator which shows we are getting closer to the rest of Europe. Actually, Albania is a more or less open country, which continually approaches Europe and moreover integrates with it.

However, there are still many things to do, even though; I see positive signs in the Albanian economy. The payment system will become even more efficient. While, public trust in the banking system will be consolidated further. At the same time, monetary policy will become more effective and more appropriate towards absorbing shock events. At the same time, a successful monetary policy will make sure Albania is prepared for all sorts of cooperations with European and non-European countries.

Risks and threats to the financial system will become more evident once it improves. Faster and larger money exchanges in Albania, among individuals, banks, companies, financial market, the central bank, and the government carry on them a higher exposure rate among parties. This is a financial stability matter.

Lastly, I believe that there are a number of issues on which we need to get in more detail during the workings of this conference. One more time, I hope that during the conference there will be valuable and interesting presentations, not only on the economy of our country but that of other countries as well.

I am confident, as you already know that many other challenges lie ahead.

Thank you.

INTERVIEW GIVEN BY THE GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI, TO THE VOICE OF AMERICA, WASHINGTON, ON MARCH 4, 2005*

At the beginning of the week, the International Monetary Fund has completed the revision of the program on the poverty reduction and has decided to prolong this program till the end of 2005, granting to Albania another fund of about USD 6 million. The Governor of the Bank of Albania, Mr. Ardiان Fullani, has attended this meeting held by the International Monetary Fund Board.

INTERVIEW GIVEN BY THE GOVERNOR OF THE BANK OF ALBANIA,
MR. ARDIAN FULLANI

Voice of America: Mr. Fullani, besides the positive estimations of the Board on the macroeconomic stability, the sound monetary policies and maintenance of low inflation, the International Monetary Fund emphasizes that the maintenance of high development rates will require important changes in the infrastructure, the strengthening of government and state of rule. What do these changes imply, could you give us some details about them?

Ardian Fullani: It's worthy saying that the climate already existing at the International Monetary Fund and the World Bank, I would say a climate, as we may say in Albanian, of successful history. This is a great consideration expressed towards Albania today. This gives Albania the opportunity to estimate with diligence the causes of achievements, but to take into consideration at the same time what should be done in the future. What it is presumed is the fact that Albania has achieved good macroeconomic results, a strong and stable growth, a fiscal consolidation, as well as a stable growth of the domestic currency value and a significant progress in the structural reforms.

What is very important and needed for the future is specifically the continuation of structural and institutional reforms so that Albania has the opportunity to open a new chapter with the International Monetary Fund and the World Bank. For this purpose, some conditions will be considered: situation of the balance of payments, situation of the channeling of funds from donor countries, fiscal situation and fiscal consolidation, and history with the International Monetary Fund. In this sense, I would like to say that the matter we are discussing today with the Fund is that of reaching an understanding. So, the Fund is not yet today in a role of tutorship but we are playing the role of sharing the same opinion on Albania's economic development.

This is a partnership role, a very important one, and to me is the backbone to which we have to maintain ourselves strongly for the development of our future relationships with the International Monetary Fund. In this view, our

* Publication date: March 7, 2005.

goal is to determine what new agreements we will have to sign with the Fund. What is understood today is that Albania is enough mature to reach a new agreement and this agreement would give Albania more flexibility. Of course, this would be achieved only going ahead with strong structural and institutional reforms, but this would give Albania the opportunity for a large participation, made for the first time, in the capital markets.

Voice of America: While you are speaking about a new phase in which Albania is prepared to enter in relation with the International Monetary Fund, let us focus for a while on the economic and financial problems that exist today in Albania. One of the major problems is the development of business using cash transactions. How much this would impede the country's development and the banking system in general?

Ardian Fullani: One of the topics we had discussed with the International Monetary Fund and the World Bank was definitely the development of the banking and financial system. Discussions started with indisputable estimations, very positive ones, on the new management of the Bank of Albania, the prospects and the new vision this management has for the development of the banking and financial system in Albania. Here it is the new thing. It consists in the fact that we will see a closer and better spirit, a more cooperative one, in the banking system and the development of the financial system in Albania. In what sense I say that? That is we have to fight more to further develop the banking system.

Voice of America: How can you withdraw the cash the people have in their hands to channel it through banks? Have we to do here with a backwardness of banks, or is it the interest of business of being developed by using cash, to evade taxes?

Ardian Fullani: Of course, the situation is very complex and all your sayings are correct. What we attempt to do today as the Bank of Albania is to create an appropriate climate with the business and the private banking system. In what sense this would work? In the sense of absorbing money and not through slogans, through insensate conferences, but through more indispensable instruments: creating the business structures, payment structures, and services.

What we are fighting for today is that the banking system should go to the client, to say to him: "Come to me, not because I am the best but because I give you confidence, not because I guarantee you the transfer of funds but because I will serve you, I will give you an opportunity to manage your money better, and I will give you an opportunity that your life in relation with business becomes easier."

Voice of America: Another problem that relates definitely to the service provided by the banks is the crediting. Crediting shows now low levels in Albania. Is there an opportunity to expand it and what can you do as a central bank to assist commercial banks in the lending activity?

Ardian Fullani: Of course, this is connected also with the first point we mentioned above, with the relationship between banks and businesses that we are establishing to open another opportunity of cooperation, which will make the banking system more useful to serve everyone. Our new philosophy as a central bank is that the banking system be close to everyone, close to the clients, so that all may use it. This did not happen before, to be honest, because of many obstacles, and evidently we have in view here the situation of the law on land, we have in view the tightening regulations of both the Bank of Albania and the banking system, we have in view also a non-efficient environment of the business itself.

While today we have a completely different climate where the relationships between banks and businesses are being developed towards crediting to the economy. This means that banks increased their presence all over the country, banks are being consolidated and banks are looking forward to reaching stable soundness. Banks are reinvesting their capital in technology and basically banks are creating a wide network of payments. Great importance is given to electronic payments, credit cards, because we believe that they will be an important step towards cash reduction in the economy, but also towards the smoothing of the informal economy.

GREETING SPEECH

OF THE GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI
DELIVERED AT THE FIRST CONGRESS OF ACCOUNTANTS AND
FINANCIERS, AT "PALLATI I KONGRESEVE", ON FEBRUARY 10, 2005

Dear friends and colleagues, greetings to you all!

Honestly I feel well being invited to take part in the first event of such magnitude of Albanian accountants. Moreover, I feel well being among lots of my colleges and friends, noticing also many newcomers among you.

Along the past years, we have frequently had the chance to debate about issues on accounting evidences. Along the planned economy collapse at end of 80's and along two or three first years of the subsequent decade, besides other things, created a kind of stagnation even in terms of financial accounting. The large economic transformation, rapid emergence of private enterprises, new concept of asset management and public enterprises, yet-unconsolidated state, lack of international experiences and numerous other causes created a confusion, which, I think, in spite of the years passing by, continues to accompany us even nowadays.

From my present position, I feel well to emphasize that banking business was among the first one to invest and was rapidly updated to international practices of this direction. Therefore, the accounting balance sheets and financial statements of these institutions are almost unified in advanced international patterns, making their accountability, transparency and reliability gain contemporary magnitude.

On the other hand, various decision-making circles, groups of economic opinion, national or international monitoring institutions have the idea that current accounting evidence in various segments of economy leaves much to be desired. Furthermore, frequently it serves as a leverage to materialize the endeavors for fiscal evasion, why not even for other illegal activities.

I understand that, above all, we have to do with an ethical professional problem, an intentional deformation which creates the premises to keep alive and increase informal economy endlessly.

I think that today's initiative is a positive development of major size, which above all will serve for a better evaluation of the accountant's figure. We should all accept now, without exception that for a higher responsibility and ethics of accounting expert, investment is needed. It is true that more support is needed to accounting expert and also more investments are needed in terms of training and qualification.

More attention should be shown to introduction of new up-dated literature on accounting and financial analysis techniques in general.

I am convinced that investment in knowledge on accounting experts will bring about a fast and safe return of your role in economy.

To sum up this brief presentation, I take advantage of the opportunity to appeal that it's the time now to have a unified standard of accounting evidence in economy, completely in compliance with International Financial Reports Standard (IFRS). Our financial statements should be accurate, fair, and easily comparable. Our accounting balance sheets should reflect genuinely the accounting position at end of the accounting period.

It would be much easier for the banking system to set up its lending policies if the balance sheets and financial reports were true, standardized and publicly known. Also, the equity market, we have largely dwelt with, would have a real development stage. A business may be capitalized only when it is fair and open, implying ethics and professionalism on your side.

You should think that your product constitutes basic documents from which the much desired statistical information will spring to make further generalizations and nourish the country's macroeconomic statistics.

On the other hand, fair balance sheets would better assist relevant authorities to control the information, evasion and undeserved profits.

I strongly believe that you will take more advantage out of this.

Therefore, I do not hesitate to once more congratulate you on this initiative and ensure that you will always find an open window of communication and mutual cooperation at the Bank of Albania.

Finally, I would suggest to all of you that have chosen this fair profession to make the slogan "fair authenticity" as your own.

Thank you.

MONETARY POLICY MONTHLY REPORT

I. MAIN HIGHLIGHTS

- Annual inflation rate of March was 1.7 per cent, whereas monthly inflation rate was 0 per cent. Annual inflation rate during first quarter of 2005 was 2.5 per cent, close to lower limit of the targeted band of the Bank of Albania.

- March was characterized by a negative rate of foodstuff prices, and a relatively high annual inflation rate of "Rent, water, electricity" group, whose inflation was impacted by electricity price rise in January of this year.

- Growth of budget spending and exceeding of expenditure plan for February might have not exerted inflationary pressures until March.

- Monetary policy went on maintaining a smoothing direction, aiming at further cutting interest rates in the banking market and encouraging economy development through lending. Base interest rate cut by 0.25 per centage points at end of March was done under the conditions of low actual and expected inflation rates and in the presence of positive performance of monetary indicators.

- Monetary indicators performance during February was characterized by further shifting of money supply towards longer-term assets. The ratio of currency outside banks at end of February reached to 25.4 per cent, marking its lowest historical level.

- Annual rate of money supply growth in February reached to 15.1 per cent, against 13.7 per cent of this indicator at end of January. Money supply growth was based mainly on growth of deposits in foreign currency, while annual rate of M2 aggregate reflected a slight growth due to moderate performance of Government demand for money.

- Credit to economy during two first months of 2005 had a positive performance. Credit balance was increased by about ALL 6 billion, reaching the level of ALL 76 billion. February of this year was presented as the period with the largest growth of credit balance, by about ALL 4 billion.

- During March, the Lek interest rates went on falling in the Treasury bill market and in lek deposits market.

- Developments in foreign exchange market indicated a stability of the Lek value versus the main currencies, euro and usd. Appreciation of the Lek on yearly basis against two main currencies has smoothed inflationary pressures

from imported consumer goods and has served as an amortizer of oil price rise.

II. INFLATION IN MARCH

Annual average inflation rate during first quarter of 2005 was 2.5 per cent, being close to lower limit of the Bank of Albania targeted band. The highest annual rate for this quarter was marked in January (3.3 per cent) while February and March marked obvious reduction of annual inflation rate.

Table 1 Annual inflation rate
(in percentage)

	2001	2002	2003	2004	2005
January	2.2	6.5	0.0	3.3	3.3
February	1.5	7.6	1.1	4.4	1.8
March	2.9	7.5	1.3	4.0	1.7
April	3.0	6.5	2.3	3.2	
May	2.5	4.6	2.8	2.6	
June	4.0	3.7	2.6	2.9	
July	5.6	4.2	3.0	3.1	
August	4.1	5.5	3.0	2.7	
September	3.5	5.3	2.8	2.0	
October	1.8	5.8	2.9	2.0	
November	2.8	3.7	3.4	2.2	
December	3.5	1.7	3.3	2.2	
Average	3.1	5.2	2.2	3.0	2.5

Source: INSTAT.

Annual inflation rate of January got away from relatively low rates recorded over the second half of 2004, due to power price rise by 25.7 per cent. February and March went on being featured by negative rates of foodstuff prices and by a smoothing of inflationary pressures caused by managed price movements. During the first quarter of the year fiscal policy did not exert inflationary pressures, while the base interest rate cut by 25 per centage points by the Bank of Albania, at end of March, was based on the performance and expectations for controlled levels of inflation and monetary indicators.

Chart 1 Annual inflation
(in percentage)



Source: Institute of Statistics and Bank of Albania

The exchange rate, which went on scoring points in favor of the lek even during the first quarter of the year, was another factor that impacted positively on absorption of inflationary pressures by import prices.

II.1 INFLATION AND CONSTITUENT GROUPS

March of 2005 was characterized by further reduction of annual inflation (1.7 per cent), while on a monthly basis the consumer prices did not mark any change in comparison to February. Consumer price developments continue to be determined significantly by inflation performance of groups “Rent, water, fuels and energy”, “Foodstuff and non-alcoholic beverages” and “Communication” (Chart 2).

For about ten months (May’ 04 – March’ 05), excluding December 2004, the group of “Foodstuff and non-alcoholic beverages” has recorded negative annual inflation rates, marking downward pressure on overall consumer price index. Lower foodstuff prices were due to better situation in agricultural market. On the other hand, exchange rate developments and lower prices of these products in partner markets have facilitated their reduction.

The group “Foodstuffs and non-alcoholic beverages” contributed by – 0.7 percentage points to annual inflation of March, marking a turning point of the trend in comparison to previous March, when the contribution of this group to annual inflation rate was 2.3 percentage points.

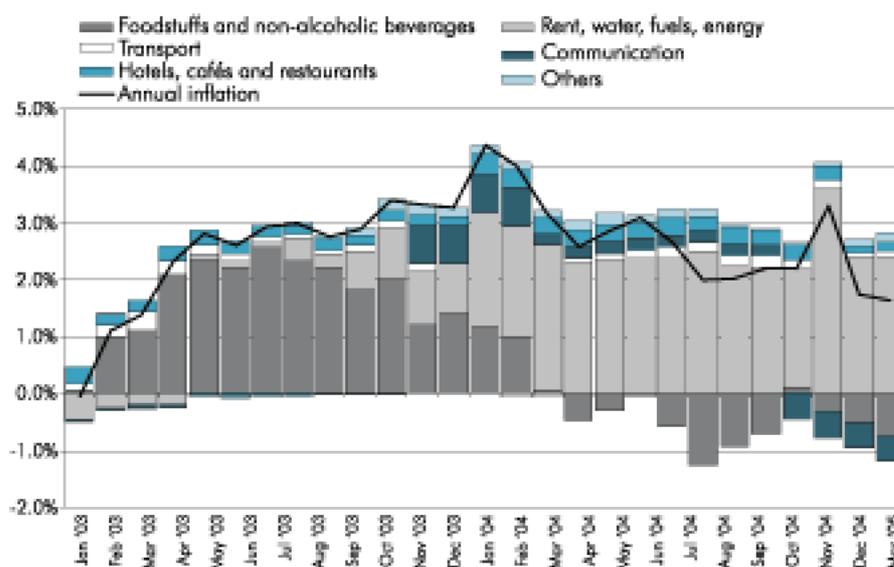


Chart 2 Contribution of main groups to annual inflation (in percentage points)

Source: Institute of Statistics and Bank of Albania

While the group “Foodstuffs and non-alcoholic beverages” exerted downward pressure on overall price level, the group “Rent, water, fuels and energy” went on increasing annual inflation rate even during the first quarter of 2005.

The group “Rent, water, fuels and energy” contributed by 2.4 percentage points to formation of annual inflation rate over March. High annual growth rates were recorded almost in all sub-groups of this group (Table 2).

Table 2. Contribution to sub-groups inflation of the group "Rent, water, fuels, energy"

	Annual inflation	Contribution in (pp)
Rent, water, fuels, energy	9.9	2.4
1. Rent	5.9	0.1
2. Imputed rent	5.9	0.9
3. Fuels, energy	22.7	1.3

Source: Institute of Statistics and Bank of Albania

Inflationary pressures given by this group are counterbalanced not only by food price cuts on annual basis but also by negative inflation rate of the group "Communication". The "Communication" group has exerted a downward impact on inflation rate for the period of '04 – March '05, providing a stable negative contribution by – 0.5 percentage points.

The effect of fixed phone tariffs change is expected to diminish in April of this year, implying that after March, the contribution of inflation of this group will no longer be negative.

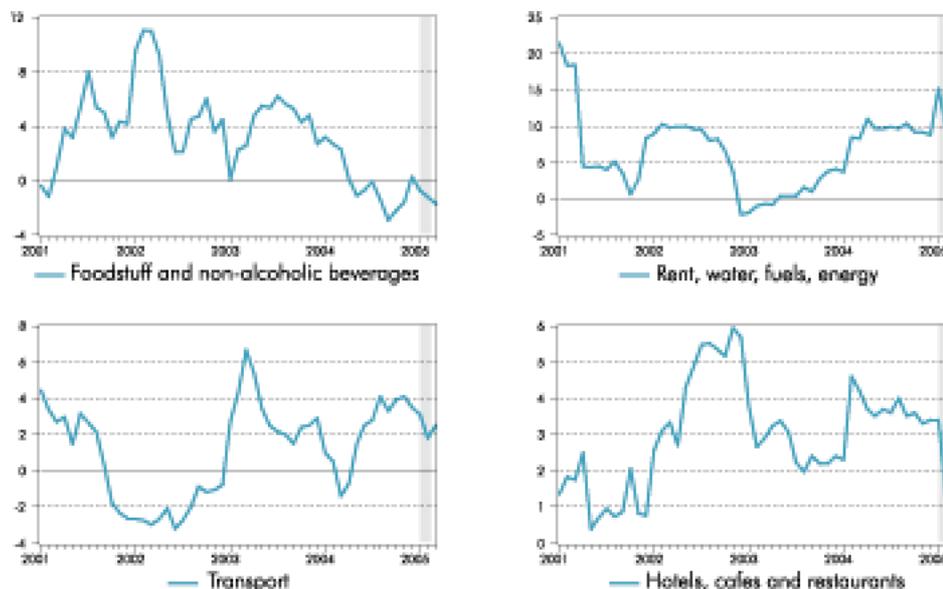
Prices of other groups of consumer basket fluctuated moderately, without causing changes in inflation structure. These groups provided a contribution of 0.3 percentage points to annual inflation of March (Table 3).

Table 3 Annual inflation, monthly inflation and contribution of main groups

	Inflation in (%)		Contribution in (pp)	
	Monthly	Annual	Monthly	Annual
Foodstuffs and non-alcoholic beverages	-0.2	-1.7	-0.1	-0.7
Rent, water, fuels, energy	0.0	9.9	0.0	2.4
Communication	0.0	-24.4	0.0	-0.5
Other			0.04	0.3
- Transport	0.8	2.5	0.04	0.1
- Hotels, cafes and restaurants	0.6	1.9	0.00	0.1
Total	4.0	1.6	4.0	1.6

Source: Institute of Statistics and Bank of Albania

Chart 3 Annual inflation of main groups of the CPI basket (in percentage)



Source: Institute of Statistics and Bank of Albania

Among these groups, it is worth mentioning the “Transport” and “Hotels, cafes and restaurants” groups. Annual inflation of “Transport” group was impacted by price rise of the subgroup “Services to personal vehicles”¹, which marked an annual and monthly inflation respectively of 7.3 per cent and 1.6 per cent. Oil price rise is assessed to have impacted on the inflation of this group.

II.1 MACROECONOMIC ENVIRONMENT AND CONSUMER PRICES

Annual inflation of March went on being below the lower limit of 2-4 per cent targeted band for the second consecutive month. In general, during the first quarter of the year, developments in demand and supply factors did not exert inflationary pressures. February and March, unlike January, were not characterized by important structural changes, which might have resulted in obvious consumer price fluctuations.

II.2.1 Demand factors

During March of this year, demand factors enabled the creation of a favorable climate for keeping inflation rate under control, without exerting inflationary pressures.

Fiscal policy and fiscal indicators. Year 2004 was characterized by a mature fiscal policy. Overall expenditures did not exceed the annual plan and their growth in December was also within the projections. Also, further to the tradition created, year 2005 has started relatively as a tranquil one, leaving the place to February when a monthly rise was recorded in budget expenditures. Personnel expenses marked a monthly rise of 20 per cent, while capital expenses also increased obviously during this month. This rise has made the total expenditures surpass the plan by 2.5 per cent over two months. Even though it is estimated at the moment that this rise in expenditures has not exerted inflationary pressures, budget expenditures should be treated prudentially over the coming period, particularly in the framework of elections of this year.

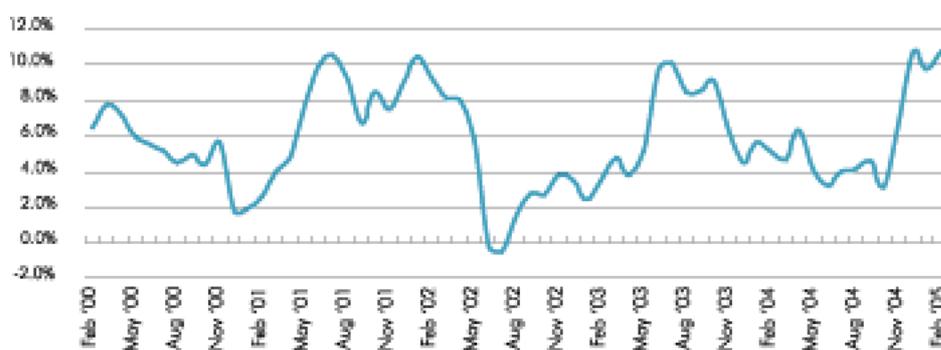


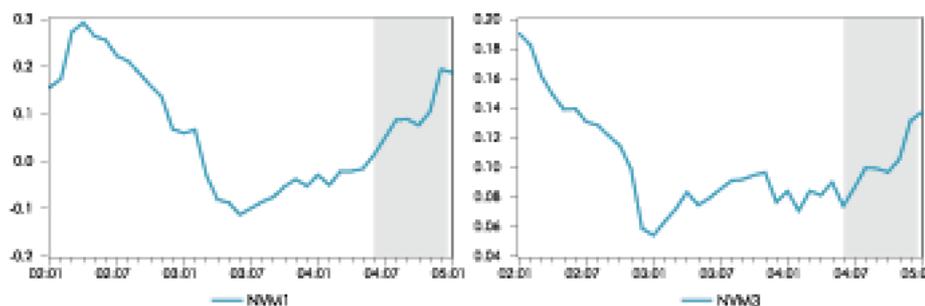
Chart 4 Budget expenditure rise

Source: Ministry of Finance

¹ This group includes even the oil price for vehicles.

Monetary policy and monetary indicators. The Bank of Albania continues to pursue a smoothing monetary policy, which is reflected in controlled base interest rate cut. Though in its historical minimum, this rate, due to low inflation, meaning positive interest rates in real terms, continues to be an attractive means for absorbing free funds and for concentrating them in the banking system. This development is evidenced even by decline of currency outside banks to M3 ratio. Also, growth of money supply, though higher than at end of 2004, is estimated as non-problematic, without ruining macroeconomic equilibriums and without providing incentives for inflation rise.

Chart 5 Annual changes of M1 and M3 monetary aggregates (in percentage)



Source: Bank of Albania

Exchange rate. During March, developments in exchange rate maintained the same lek appreciation trend, though in slower paces. In this month, the lek was appreciated in annual level by 9.8 per cent and by 3.1 per cent in comparison to the US dollar and Euro. The lek appreciation operates as an anti-inflationary factor, reducing import goods prices in domestic currency.

Other indicators of domestic demand. Domestic demand rise², good situation in retail market³, as well as wage rise in public sector did not generate inflationary pressures in the country.

11.2.1 Supply factors

During March of this year, the supply factors provided a stabilizing effect on consumer price performance, without misbalancing macroeconomic indicators stability.

Imported inflation. Low inflation rates in main partner countries of trading exchanges speak for an external economic-trading environment with non-inflationary tendencies. Given that our economy is import oriented, the lack of inflationary pressures conveyed through this channel, allows the formation of inflation rate as a consequence of operation of domestic factors.

² Estimated by retail sales index, which marked an annual growth of 14.6 per cent over the fourth quarter of 2004.

³ Over the fourth quarter of 2004, the index of retail sales volume recorded an annual growth of 16.4 per cent.

	June	Sept	Octob	Novemb	Decemb'04	Jan' 05	Febr
Greece	3.0	2.9	3.3	3.2	3.1	4.2	3.2
Italy	2.4	2.1	2.1	2.0	2.4	2.0	2.0

Source: Eurostat News Release

Table 4 Annual inflation of main trading partners (in percentage)

Performance of domestic agricultural production. Good situation in agricultural produce market has favored food price cuts. The most plentiful agricultural produce of 2004, which was mainly due to rise of investments in greenhouses, constituted a domestic factor, which, combined with external factors such as the downward trend of food prices in foreign market and the lek appreciation versus the euro and dollar, led to reduction of food prices and of overall inflation in the country. Though even in March the annual inflation rate was conditioned mainly by high annual inflation of the group "Rent, water, fuels and energy", the food prices cut has served as an equilibrating factor, exerting falling pressure on total annual inflation rate.

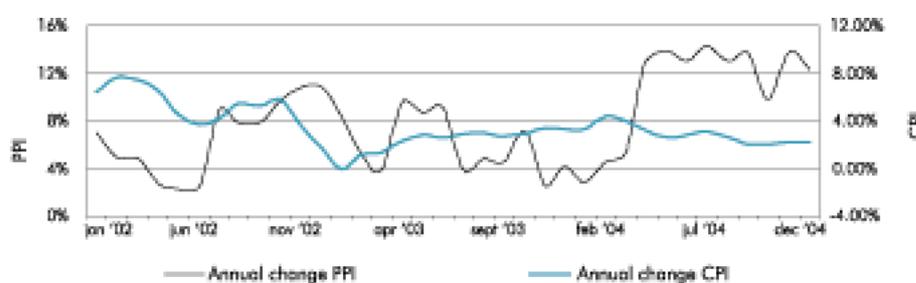


Chart 6 Annual CPI changes and CPI over 2002-2004

Source: Bank of Albania

Oil price. Oil price rise in international markets was a potential risk to the country's inflation, either during 2004 or during this quarter. As it has already been explained even in previous reports, a number of factors diminished the full reflection of this growth. The small weight this product occupies⁴ in consumer basket, the lek appreciation against the dollar and the adjustment of country's demand for this product⁵, have hindered the full transmission of price rise of this product to domestic market. Annual inflation of the "Transport" group was 2.5 per cent in March, being a little higher than the one recorded in February, but lower than the annual inflation of January.

III. MONETARY DEVELOPMENTS AND FINANCIAL MARKETS

III.1 MONETARY POLICY AND QUANTITATIVE OBJECTIVES

Further to easing monetary policy followed during the past year, the Bank of Albania impacted on further smoothing of monetary policy in February and March. This policy was based on low actual inflation levels and on optimistic forecasts for its performance in the future. Also, the monetary easing during

⁴ The subgroup of "Services to personal means of transport", including the oil price, has a weight of 1.6 per cent in the CPI basket.

⁵ During 2004 the oil import in the country declined by 2.4 per cent in comparison to 2003.

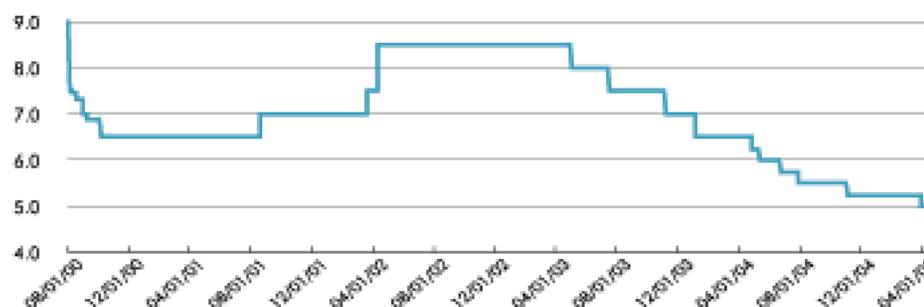
this period was based on favorable reaction of monetary indicators, reflected in the controlled performance of equilibriums and growth rates of monetary aggregates.

Even during February – March of this year, the Bank of Albania transmitted its monetary policy through operations for managing liquidity in interbank market. Unlike the same period of the previous year, the Bank of Albania accommodated the seasonal growth of excess liquidity, making possible only its temporary withdrawal by means of weekly repo instrument.

Permit of high liquidity levels in the banking system was aimed at exerting pressure for interest rate cuts in money market. Responding to this policy, interest rates of treasury bills and deposits in Lek of all maturities declined. Along liquidity pressures, interest rate cut reflected even the stabilization of inflationary expectations, as a result of price stability over the last months. This fact made interest rate cuts be particularly obvious for long term maturity instruments, bringing about the smoothing of interest rates time curve.

The latest data on inflation and current and expected economic developments indicate that inflationary pressures are low and oriented mainly to supply side. Based on this estimation, the Bank of Albania decided to undertake another easing step in monetary policy by cutting the base interest rate by 0.25 percentage point at end of March. The decision on base interest rate cut took into account the need of adjusting the current monetary conditions to inflation target in the presence of positive monetary indicators performance.

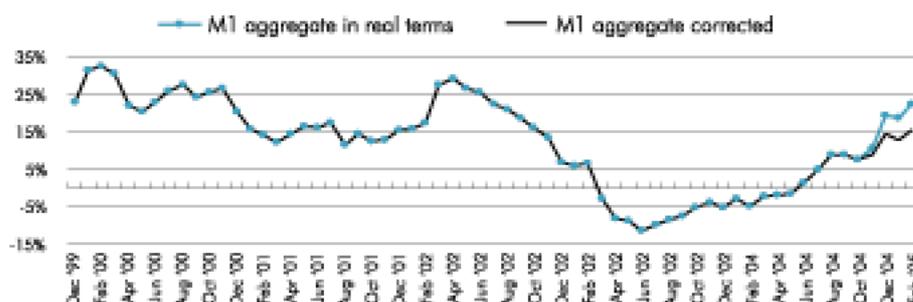
Chart 7 Base interest rate performance



Source: Bank of Albania

Performance of monetary indicators during February was characterized by further shifting of money supply towards longer term assets. The ratio of currency outside banks at end of February reached to 25.4 per cent, marking its lowest historical level.

This development has enabled a controlled rise of liquidity in economy. Though the annual growth rate of M1 aggregate reflected a growing trend in real terms, the value of this indicator in February resulted slightly below the programmed level.



* Series of M1 aggregate data is corrected with the deposits reclassification effect by Raiffeisen Bank.

Chart 8. Annual growth of M1 aggregate in real terms*

Developments in foreign exchange market speak for a stability of the Lek value against the main currencies, Euro and US dollar. Therefore, the contribution of “exchange rate” factor to monetary indicators performance during February and March was almost neutral.

The latest base interest rate cut is expected to be reflected in interest rate cuts of Treasury bill market, Lek deposit and lending market. The easing of monetary conditions will serve as a factor encouraging economic activity growth in the future.

Monetary policy pursued by the Bank of Albania made possible the meeting of its quantitative objectives until February.

	June '04	Sept '04	Dec '04	Jan '05	Feb '05
Net international reserves of the Bank of Albania (in million USD)					
Objective	765.8	923.7	941.7	985.3	1,029.0
Actual	961.5	1043.6	1,105.2	1,108.8	1,108.7
Difference	195.7	119.9	163.5	123.5	79.7
Net domestic assets of the Bank of Albania (in billion ALL)					
Objective	85.0	70.0	79.0	73.1	67.2
Actual	54.7	55.4	61.0	56.3	56.5
Difference	-30.3	-14.5	-18.0	-16.7	-10.7
Net domestic credit to government (in billion ALL)					
Objective	270.1	279.1	286.4	288.3	290.2
Actual	263.6	272.0	286.1	286.9	289.4*
Difference	-6.5	-7.1	-0.3	-1.4	-0.8

* Operative data
Source: Bank of Albania

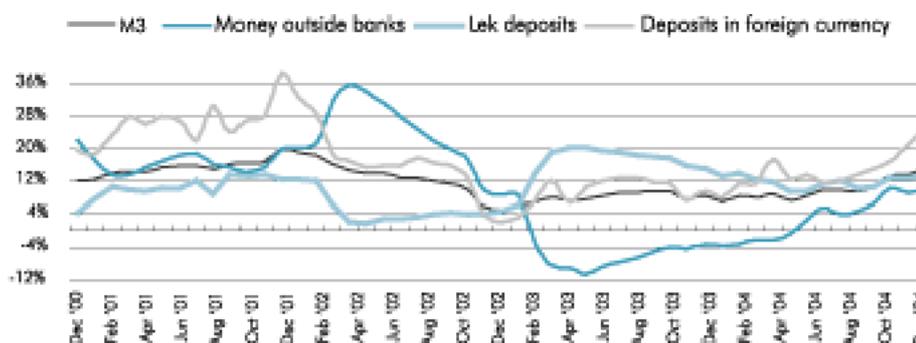
Table 5 Meeting of quantitative objectives of the Bank of Albania

III.2 MONETARY AGGREGATES – MONEY SUPPLY

In February the monetary indicators marked higher growth rates compared to the previous month. The annual growth rate of money supply for February reached 15.1 per cent, compared to 13.7 per cent resulted at the end of January. The growth of money supply was mainly supported by the increase of foreign currency deposits, while the annual rate of M2 aggregate reflected a slight rise due to the moderate performance of Government demand for money. The developments in the time structure of money supply are characterized by its shifting toward less liquid assets, this being reflected in the further reduction of currency outside banks ratio to M3. On the other hand, the relatively faster increase of foreign currency deposits against the other components of M3

is followed by the rise of the foreign currency weight component of money supply.

Chart 9 Annual monetary aggregate rates



Source: Bank of Albania

Money supply marked a monthly growth of about ALL 5.1 billion or 1.0 per cent during February. Deposits in foreign currency have given the main contribution to this increase, resulting in a monthly rise of ALL 2.6 billion or 2.1 per cent. The annual growth rate of foreign deposits, in February, raised significantly to 24.8 per cent, from 21.1 per cent resulted in the previous month.

Lek appreciation, compared with the same period of the previous year, has negatively impacted on the annual growth rate of foreign deposits. The performance of foreign deposits, due to the lack of exchange rate impact, is characterized by an upward trend, marking a high real annual growth of 32.3 per cent.

The high growth rate of foreign deposits has mainly reflected the faster increase of time deposits in foreign currency of individuals, which represent nearly 58 per cent of total deposits in foreign currency. The high flow of foreign currency deposits from individuals is an evidence of the increase of public confidence in the banking system. The increasing interest rates in US dollar have encouraged the investment in foreign currency deposits.

The significant growth of demand deposits in foreign currency of the private sector is also highlighted as a particular development of February. These have contributed by 35 per cent to the monthly increase of total deposits in foreign currency.

The indicator of currency outside banks marked a monthly decline of ALL 0.8 billion. However, the annual growth rate of currency outside banks in February slightly increased from 9.1 per cent to 10.1 per cent, mainly due to the highest annual rise of money supply in Lek, the M2 aggregate.

Currency outside banks has continued to be channeled in the banking system in a satisfactory way, supported by the stable performance of real interests in Lek. This trend is also encouraged by the channeling of public

administration salaries in the banking system. The ratio of currency outside banks to M3, in February, declined to 25.4 per cent, marking a fall of nearly 0.4 percentage points from the rate of the previous month.

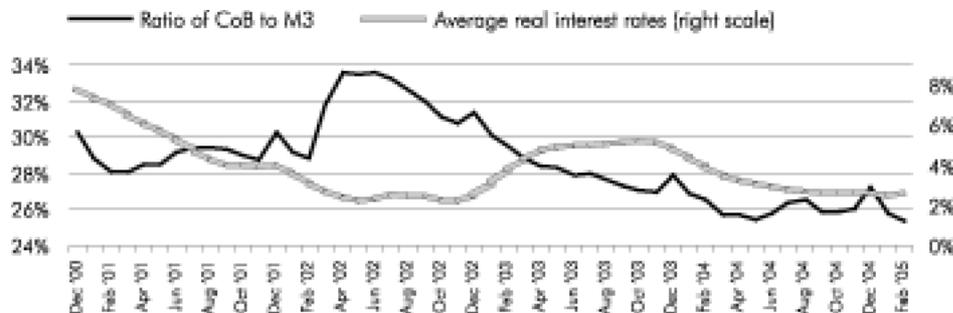


Chart 10 Ratio of CoB to M3 and average real interest rates (right scale)

Source: Bank of Albania

The growth of M2 aggregate and the channeling of currency outside banks in the banking system are reflected in the growth of Lek deposits. Their annual growth rate in February increased by 13.4 per cent, from 12.9 per cent resulted in the previous month. Lek deposits growth is particularly reflected in the positive performance of time deposits in Lek of individuals, which have recorded a rise of ALL 3.3 billion⁶ or about 94 per cent of the monthly increase of total deposits in Lek.

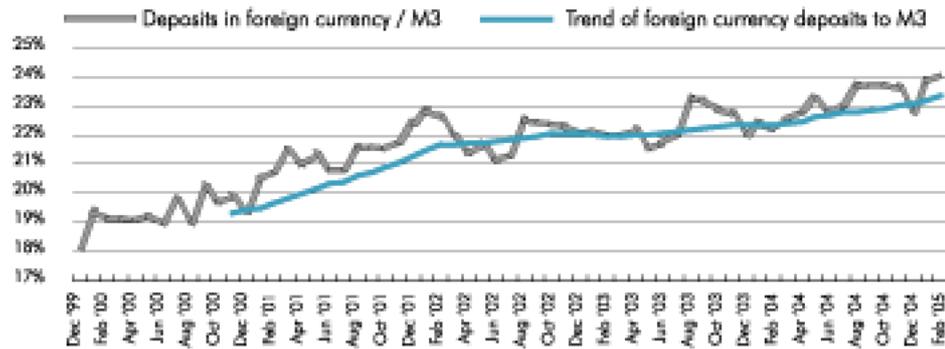
Notwithstanding the decline of nominal interest rates in Lek, the growth of deposits in Lek is estimated as satisfactory and reflects the increase of confidence in the domestic currency and in the real positive interest rates as well. The time structure of Lek deposits has known an unusual increase of demand deposits contribution, due to the shifting of the public sector deposits from time deposits to demand deposits, at about ALL 1.5 billion. This progress, along with the highest annual rate of currency outside banks, has affected the rise of annual rate of the most liquid aggregate – M1.

The annual growth rate of this indicator, in February, reached 22.3 per cent or 3.5 percentage points higher than in the previous month⁷. The highest growth rate of foreign currency deposits against a normal performance of monetary assets in Lek is reflected in the growth of their weight in the money supply. Following the upward long-term trend, the ratio of foreign deposits to M3 rose by 24.1 per cent in February.

⁶ Calculated excluding the effect of the shifting of time deposits in Lek to demand deposits from the "Raiffeisen" bank, in February, at about Lek 1 billion.

⁷ M1 growth is affected by the reclassification, since November, of LEK deposits according to maturity from the "Raiffeisen" bank. In absence of this effect, the annual M1 rate would result 15.6 per cent or 2.7 percentage points higher than in January.

Chart 11. Ratio performance of foreign currency deposits to M3



Source: Bank of Albania

Table 6 Performance of monetary indicators (in billions of ALL)

	February	Monthly change		Annual change	
	2005	Absolute	Percentage	Absolute	Percentage
Currency outside banks	132.0	-0.8	-0.6	12.3	10.2
Total deposits	388.0	6.0	1.6	55.9	16.8
- in Lek	262.5	3.4	1.3	31.0	13.4
- in foreign currency	125.5	2.6	2.1	24.9	24.8
Demand deposits	85.8	3.3	4.0	26.8	45.4
- in Lek	39.4	2.4	6.4	18.9	92.6
- in foreign currency	46.4	1.0	2.1	7.9	20.4
Time deposits	302.2	2.6	0.9	29.1	10.7
- in Lek	223.1	1.0	0.4	12.0	5.7
- in foreign currency	79.1	1.7	2.1	17.1	27.5
M1	171.4	1.5	0.9	31.2	22.3
M2	394.5	2.5	0.6	43.2	12.3
M3	520.0	5.1	1.0	68.2	15.1
Monetary base	174.5	0.1	0.1	18.7	12.0

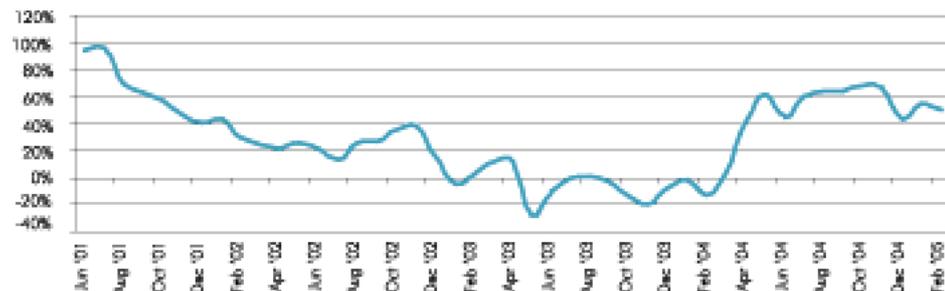
Source: Bank of Albania

III.3 ECONOMY DEMAND FOR ASSETS

III.3.1 Net Foreign Assets

The annual growth of net foreign assets in February has contributed by 50.8 per cent to the annual growth of money supply. The contribution of foreign assets has fallen again in February following the rise of January.

Chart 12 Contribution of net foreign assets growth to annual growth of M3



Source: Bank of Albania

In total, the monthly growth of foreign currency assets of the banking system for February amounted to USD 4.4 million. The rise of USD 15.8 million of net foreign reserve of the Bank of Albania has covered the fall of USD 11.3 million in foreign currency assets of the commercial banks. The highest increase of net foreign currency reserve of the Bank of Albania is noted in the demand to foreign governments.

The Euro appreciation against US dollar, at about 1.6 per cent, has impacted the foreign reserve of the Bank of Albania, increasing the value of Euro investments denominated in US dollar. Foreign assets of the banking system resulted to drop to about USD 11.6 million, excluding the effect of exchange rate. This fall is due to the decline of net foreign assets of commercial banks by USD 15.3 million and to the rise of these assets for the Bank of Albania by USD 3.7 million.

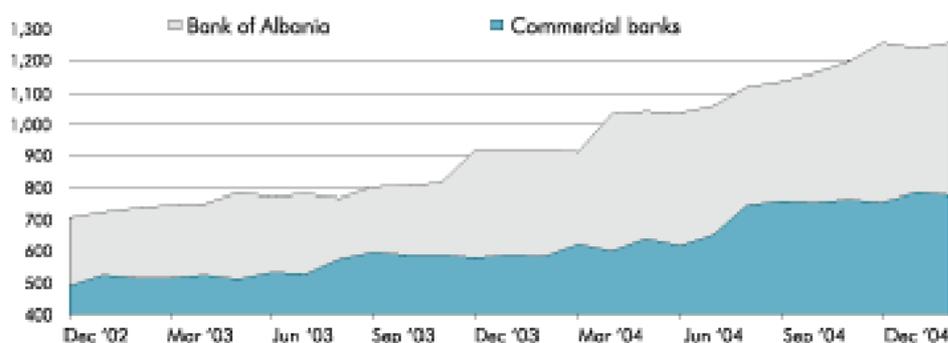


Chart 13 Net foreign assets rate of the banking system

Source: Bank of Albania

III.3.2 Government Demand for Monetary Assets

Like in every beginning of the year, government demand for monetary assets appeared to be a moderate one. From a budget surplus resulted in January, February recorded a budget deficit estimated at ALL 2.4 billion. The total financing of budget deficit up to February amounted to ALL 1.3 billion⁸. The main way of financing, for this month, has been the issuance of two-year bonds estimated at ALL 1.2 billion. The issuing of Treasury bills resulted to be low and Treasury bills portfolio was characterized by a fall in February, of

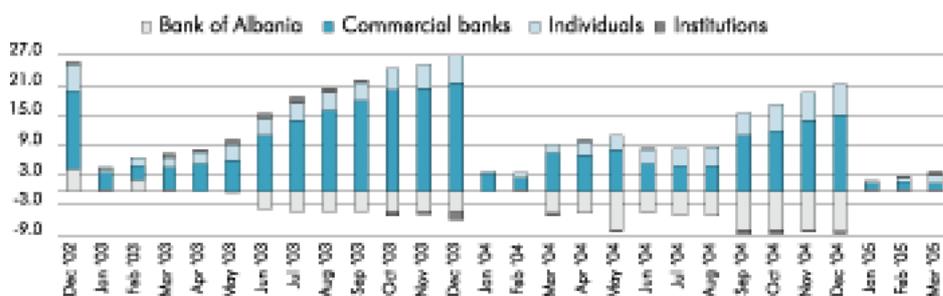


Chart 14 Cumulative performance of budget deficit financing (in billions of ALL)

Source: Bank of Albania

⁸ The difference between the budget deficit and the domestic financing of budget deficit represents the statement of account of the Government with the Bank of Albania.

ALL 0.1 billion. The commercial banks reduced their Treasury bills portfolio by about ALL 1 billion, while households, institutions and the Bank of Albania have slightly increased their respective portfolios.

III.3.3 Credit to economy from the banking system

Credit to economy during the first two months of the year showed a positive progress. Balance of credit increased by about ALL 6 billion reaching the level of ALL 76 billion. February of this year was presented as the period of the highest growth of credit balance, of about ALL 4 billion. This change reflects not only reflect the tendency of banks to extend more credit, noted throughout 2004, but also shows the stability of the recent tendency to credit in long-term maturity. The balance of both medium-term and long-term credits, by the end of February, represents about 66 per cent of total credit. The strengthening of bank-client relationships is growing the confidence of banks to further invest in the lending activity through increasing their role as financial mediators.

Table 7 Indicators of credit balance to the total (in percentage)

	2002	2003	2004	January '05	February '05
Credit balance in billions of ALL	38.7	50.7	70.0	72.0	76.0
Short-term credit	53.8	46.0	34.0	32.0	34.0
Medium-term credit	30.1	33.3	36.0	35.0	35.0
Long-term credit	16.1	20.7	30.0	33.0	31.0
Lek	21.3	19.6	20.0	20.0	20.0
Foreign currency	73.7	80.4	80.0	80.0	80.0

Source: Bank of Albania

Sectoral distribution of credit to economy during the first two months of the year shows that banks' preference toward production sectors is being consolidated. During the last months it is noted the tendency to reduce credit portfolio for trade, while credit balance granted to less developed branches of the economy, as processing industry and agriculture, has been increasing. In total, about 25 per cent of the new credit to economy is given to these two sectors.

Table 8 Credit balance by economy sectors (in percentage)

	2002	2003	2004	Jan'05	Feb'05
1 Agriculture, hunting and silviculture	0.8	1	1.5	1.4	1.5
2 Fishing	0.2	0	0.1	0.1	0.2
3 Extracting industry	0.2	1	0.3	0.2	0.8
4 Processing industry	17.0	17	17.1	15.5	16.1
5 Electricity, gas and water production and distribution	3.3	3	2.8	4.1	3.2
6 Construction	8.6	10	9.8	9.6	11.3
7 Trade, automobile and home items repairing	40.4	34	23.3	21.3	19.9
8 Hotels and restaurants	6.0	6	8.3	7.5	5.3
9 Transport and telecommunication	2.4	1	2.0	1.9	1.8
10 Financial activities	-	0	0.2	0.4	1.1
11 Real estate	9.1	13	9.8	16.7	14.8
12 Health and social activities	0.5	0	0.5	0.4	0.4
13 Social, personal and collective services	4.2	8	4.8	6.4	6.7
14 Other	7.3	4	19.3	14.4	17.1
Total	100	100	100.0	100.0	100.0

Source: Bank of Albania

III.4 MARKETS AND INTEREST RATES PERFORMANCE

III.4.1 Liquidity performance

The first three months of the year are characterized by a considerable and increasing excess liquidity in the banking system. The reasons of this rise were the channeling of currency outside banks and the growth of Lek deposits in the banking system, as well as the low demand of Government for financing, these tendencies being observed in every beginning of the year. The daily average level of liquidity for March was estimated at ALL 10.2 billion, from ALL 9.3 billion resulted in February. The most employed instrument to withdraw liquidity continued to be the one of weekly repos, with fixed price and unlimited amount. The daily average level of the weekly repo for March was ALL 8.9 billion, from ALL 6.5 billion resulted in February.

Overnight deposit has been less used during this month compared to the previous month. The average value invested in overnight deposits for March was ALL 0.72 billion, from ALL 0.79 billion. Under these conditions of excess liquidity, the facility of overnight deposits is rarely used. The daily average of overnight credit resulted to be ALL 3 million, from ALL 8 million in the previous month.

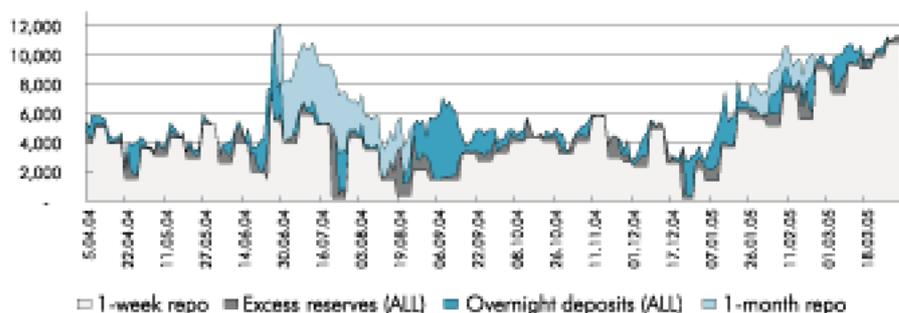


Chart 15 Banking system liquidity level (in millions of ALL)

Source: Bank of Albania

The short-term needs for liquidity are supplied in the interbank market. The average level of transactions for March in this market recorded the value of ALL 0.69 billion or ALL 0.08 billion more than in the previous month.

The weekly average investment in government securities, Treasury bills and two-year bonds for the month of March amounted to ALL 11 billion, resulting ALL 3.47 billion more than in the previous month. Notwithstanding the growth of securities investment the average ratio of the earned amount to the total provided from the participants, in government securities' auctions, for the month of March, was 62.7 per cent, from 67.7 per cent resulted in February. Excess liquidity growth in this market is also supported by the reduction of deficit financing with Treasury bills from commercial banks⁹. Meanwhile, the demand to invest in government securities has impacted the increase of competitiveness and the fall of their yields.

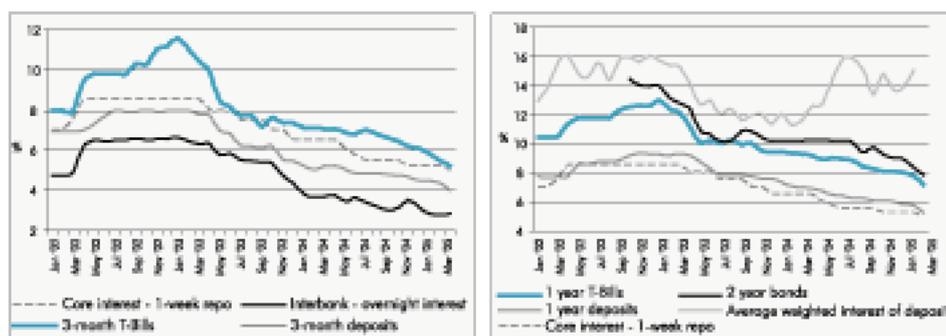
⁹ Mature investments have exceeded the value of new investments.

III.4.2 Interest rate performance

The interest rates in Lek have continued to decline in the money and deposits market during March, but not in that of credit. The fact that credit interest rates have moved to the opposite side with the general trend, might be an indicator of low competitiveness and of loan concentration in the hands of particular borrowers. Furthermore, the major part of credit is granted in foreign currency, which considerably weakens the efficiency of this important channel for the transmission of monetary policy. The expansion of credit market in Lek will naturally raise the degree of banking system reaction to credit interest rates in Lek. Presently, banks are likely still indifferent to the crediting alternative in Lek.

Under the conditions of a low inflation rate and of an excess liquidity in the market, the easing of monetary policy being reflected through the cut of the core interest rate by 0.25 percentage points (from 5.25 to 5.00 per cent) was considered as a move that would not jeopardize the inflation target and the market position.

Chart 16 Interest rates in Lek



Source: Bank of Albania

In the interbank market, the interest rates of overnight transactions that cover the main weight in this market fluctuated within the 2.70 – 3.00 per cent range. These values have been close to those of February and January, while the further reduction of core interest rate is expected to impact the decline of the rates applied by this market.

Interest rates dropped more significantly in the primary market. The highest change is noted in the Treasury bills yield of twelve-month maturity, which by the end of March declined to 7.14 per cent or 0.60 percentage points lower than the yield of the end of February. The value of twelve-month yield by the end of March is 0.97 percentage points lower, compared to December. The decline of yield is even deeper regarding the two-year bonds. In March, the yield lowered to 7.85 per cent, from 9.00 per cent in December.

The interest rates of deposits in Lek also reduced compared to Treasury bills yield. The interest rate of twelve-month deposits, at the end of February, was 5.72 per cent or 0.09 percentage points lower than that of January and 0.27

percentage points lower than that of December. The cut of interest rates for Lek deposits has not depreciated the savings, as these last ones are supported by the low rate of inflation.

The real interest rate for twelve-month deposits in February reached 3.95 per cent, while in January¹⁰ this rate recorded 2.52 per cent and 3.79 in December. The preliminary data of March show a further cut of interest rates for Lek deposits. According to these data, the annual interest rate has lowered to 5.24 per cent and real interest rate to 3.58 per cent.

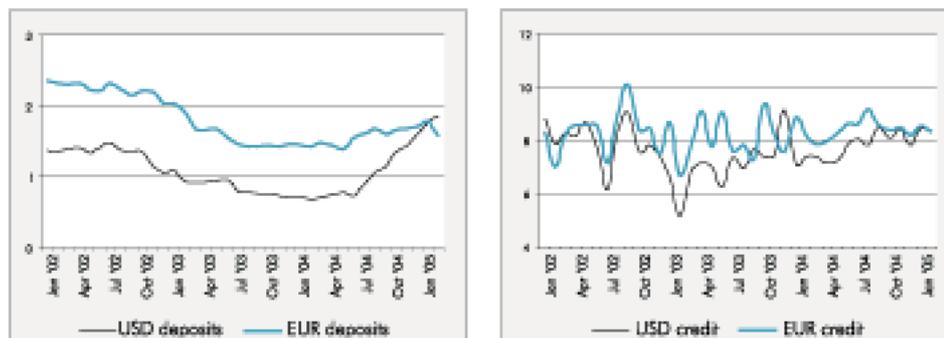
	December' 04	January' 05	February' 05	March' 05
Interbank market				
Overnight	3.18	2.84	2.82	2.84
One-week	5.76	5.55	5.40	5.40
Primary market				
3-month	6.09	5.85	5.50	5.24
6-month	7.22	7.11	6.97	6.51
12-month	8.11	8.04	7.74	7.14
Two-year bonds	9.00	8.95	8.35	7.85
Deposits market				
1-month	3.39	3.55	3.68	
3-month	4.48	4.49	4.36	4.02*
6-month	5.41	5.36	5.18	4.79*
12-month	5.99	5.81	5.72	5.24*
Weighted average	5.00	5.06	4.95	4.75*
Credit market				
0-6 month	10.98	11.82	12.39	
6-12 month	13.73	14.91	14.45	
1-3 year	20.42	16.69	19.69	
Over 3 – year	12.89	13.57	12.87	
Weighted average	13.71	13.88	15.03	
* Preliminary data Source: Bank of Albania				

Table 9 Interest rates in Lek (in percentage)

The average weighted rate of credit in Lek rose by 15.03 percentage points in February, resulting 1.15 percentage points higher than the rate of January. This indicator does not show any obvious trend, but it fluctuates from a month to another based on the weight that covers the portfolio of a certain bank or the maturity in the credit extended in the considered period. Regarding the foreign currency, the interest rates in our banking system follow the developments that occur in the international market and specifically, both LIBOR and EURIBOR interest rates. The average interest rate of deposits in USD increased by 1.86 per cent or 0.10 percentage points more than in January and 0.25 percentage points more than in December. The opposite occurred with deposits rates in Euro. For them, the average weighted rate reduced by 0.19 percentage points compared to January and by 0.12 percentage points compared to December, coming down to 1.59 per cent.

¹⁰ In January, the cut of real interest reflected the rise of the administered prices that led to the increase of inflation rate by 3.3 percent.

Chart 17 Interest rate in foreign currency (weighted average for all terms)



Source: Bank of Albania

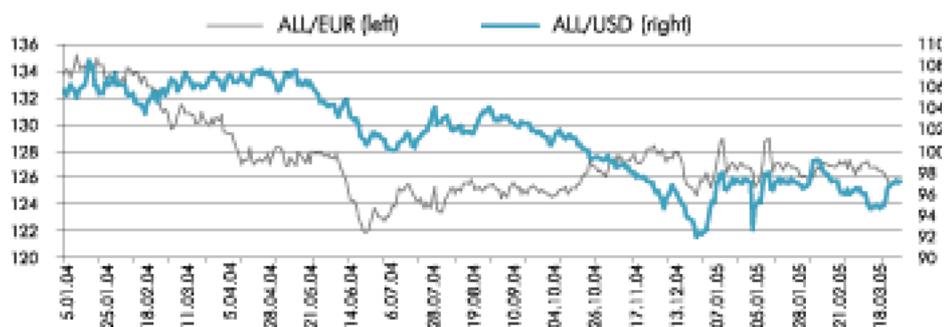
Interest rates for the credit extended in USD and Euro reached approximately equal values. The average weighted rate of credit in USD resulted to be 8.32 per cent in February, or 0.12 percentage points lower than in the previous month. The Euro interest rate resulted to be 8.35 per cent or 0.16 percentage points lower than in January.

III.4.3 Exchange rate

The foreign exchange market has been relatively quiet during the first months of the year. In these months it is noted a restriction of the tendencies being reflected on the exchange rate against both the foreign currencies, Euro and USD, up to the end of the year. Notwithstanding the fluctuations, Lek is exchanged at the same levels as those of the yearend 2004, thus avoiding to deepen the appreciation against USD and its depreciation against Euro. Since the beginning of the year Lek is slightly depreciated, by 0.43 per cent against the Euro and by 2.55 per cent against US dollar, respectively.

For the month of March it is noted a Lek appreciation against Euro estimated at about 0.9 per cent. Lek is depreciated against US dollar by 1.07 per cent. At the end of March, Lek is exchanged at the rate 125.81 ALL/EUR and 97.15 ALL/USD. Lek, compared to the previous year, continues to be appreciated against both the main foreign currencies. In March, the annual appreciation against US dollar is 9.82 per cent, while against Euro is 3.11 per cent.

Chart 18 Lek exchange rate performance



Source: Bank of Albania

EXTERNAL SECTOR DEVELOPMENTS OF THE ALBANIAN ECONOMY DURING 2004*

The overall balance of payments for 2004 resulted in an outstanding of USD 288 million. Net capital flows marked a record level of USD 531 million and they fully made possible the financing of current deficit, leading as well to the growth of foreign exchange reserve.

The main highlights in the external sector of the Albanian economy can be summarized as following:

- The reduction of current deficit, compared to the last year, either in absolute value or as a percentage of Gross Domestic Product (GDP).
- Stable growth of exports, in spite of the worsening situation of competitiveness (exchange rate developments).
- Improvement in the ratio of coverage of imports from exports.
- Inflows as foreign direct investments doubled.
- Increase of financial liabilities to non-residents, mainly due to the growth of foreign direct investments inflows and of private borrowing.
- Increase of domestic claims to non-residents, mainly appeared in the form of deposits' growth of resident units abroad.
- Increase of foreign reserves stock of the monetary authority and of adequacy coefficient of foreign reserves for imports of goods and services.

In estimating the results of this analysis, there should be taken into account the fact that an important part of the growth in transactions volume reflects the annual depreciation rate (calculated over the average monthly exchange rate) of the reporting currency – US dollar against Euro (7.7 percent) and of domestic currency, Lek (15.7 percent) recorded in 2004. A huge number of transactions between residents and non-residents are performed in Euro¹ and not in the reporting currency of the balance of payments.

I. CURRENT ACCOUNT

The favorable economic situation of the country is partly reflected also in the field of foreign transactions. Current transactions are estimated at about USD 6.2 billion or 24 percent higher than the previous year. Current deficit is estimated at about USD 404 million or 0.6 percent lower than 2003 (in absolute value the reduction of current deficit is estimated USD 2.5 million), equal to 5.3 of GDP from 7.1 percent in 2003. The improvement of current

* Prepared by Balance of Payments and Surveys Section.

¹ For instance, according to the General Customs Department estimates, around 57 percent of transactions for goods imports are performed in the European currency, Euro, 39 percent in US dollar and 4 percent in other currencies.

deficit position is due to the increase of transfers without remuneration and to the reduction of deficit in services, and to the fluctuations noted in US dollar exchange against both Euro and Lek. Meanwhile, trade deficit in goods deepened and net investment incomes reduced.

Despite the growth of transactions volume that characterized the developments in exchange of goods and services, throughout 2004, the indicator of Albania's economic openness showed a falling tendency². Albania's economic openness for this year is estimated at 62 percent, from nearly 66 percent in 2003. Although Albania is considered as one of the most accelerated economies in the region during 2004, having an economic growth of 6 percent for the second year consecutively, the degree of economic openness still leaves much to be desired in comparison with other countries of the region.

I. 1 FOREIGN TRADE

Trade transactions (imports plus exports) have represented during 2004 more than 45 percent of current services between Albania and the world. The general trade volume amounted to USD 2.8 billion, with an annual growth of USD 588 million or 25 percent compared to the previous year. The growth has been quicker for exports. Goods exports' income amounted to USD 603 million, being 35 percent (23 percent in Euro) higher than those of the previous year. Signs of the European economy (main trade partner of Albania) improvement, though being slow, as well as the efforts for structural reforms in the country, seem to give the first effects. In spite of competitiveness worsening (real exchange rate is estimated at 7.3 percent during this year compared to 4.5 percent of depreciation for the same period of 2003), goods export is characterized by a promising growth during the last two years. Exports contribution to GDP is estimated for this year at 7.9 percent, with an annual growth of 0.1 percentage points. The Albanian economy still remains an imports-oriented economy, which represented 78 percent of foreign trade volume. Goods imports' expenses are estimated to be high, around USD 2.2 billion. The annual nominal growth of USD 411 million or 23 percent (12 percent in Euro) shows that even this year has followed the pronounced upward trend that characterized imports during 2000s. Growth of lending activity to the economy has helped in maintaining the purchasing power of Albanian citizens at relatively high levels.

The analysis of import structural dynamics highlights the continuous growth of capital goods imports, and that of raw material imports for the active processing industry in the country. Thus, annual imports growth, to a large extent (33 percent), is due to the high imports in machineries and equipments as well as in vehicles. The high demand of private sector for capital goods is a positive indicator for investments level, the renovation of technological base and of its productivity. The most advanced sectors in terms of technological

² Calculated as the ratio of trade volume in goods and services to GDP.

base renovation are those of Information Technology and Communication and the construction industry.

Notwithstanding the positive developments that characterized goods export during this year, its structure continues to have a low degree of diversification. There is still no evidence of marketing strategies of the Albanian businesses towards foreign markets. Hence, goods export performance for this year is considerably determined by the changes in the processing industry of the country (ordered merchandise). Exports of this category performed about 75 percent of the annual income in exports of goods. Nevertheless, the growth of domestic exports with mainly regional markets is a promising one, stimulated by the free trade agreements in the region. Of an annual growth of around USD 48 million, the latter have increased the representative level in total exports to 25 percent, from 23 percent in the previous year.

In absolute value, imports growth is on an annual basis followed by a modest growth of exports. However, during the last two years exports growth has been more promising. The degree of coverage of imports from exports for this period reached 28 percent, from 25 percent in 2003.

Trade deficit of 2003 amounted to about USD 1.6 billion or 19 percent higher than the one of the previous year. Trade deficit position against GDP is estimated to have improved, to 21 percent, from 23.4 percent in the previous year. Imports came down to 2.3 percentage points against GDP, from 28.9 percent of GDP in the previous year. The reduction of domestic needs for electric energy, stimulated by the favorable weather conditions as well as the improvement of distribution network and the good administration of electric energy, followed by a prudential fiscal policy, might be the factors that were behind the improvement of net trade position in GDP.

I. 2 DEVELOPMENTS OF THE OTHER ITEMS OF CURRENT ACCOUNT

Net services export for 2004 was estimated at – 24 million USD, being rather lower than the one of -82.7 million USD, recorded at the end of 2003.

Services export continues to be dominated by the tourism activity. According to the estimations of the Bank of Albania, tourism has generated about USD 673 million as income in services or nearly 11 percent more than the goods export. In addition to the impact of fluctuations in the exchange rate of the reporting currency - American dollar against Euro, in which Albania benefits mostly the exports income from the services provided for tourism³, the annual growth of tourism income is also affected by the volatility shown in the estimated indicators (increased number of foreigners and emigrants as well as a moderate increase of daily expenses).

³ According to the estimations of the Balance of Payments Sector, 80 percent of foreign currency inflows are in Euro (including citizens coming from the European Union countries, from Kosovo and Montenegro).

Meanwhile, Albanians have expended in their travels abroad about USD 560 million or 58 percent of total remittances. Tourism income, compared to the previous year, increased more than the expenses of the same service category. At the end of the year, the positive balance of this category is estimated at USD 112 million, from 33 being in 2003.

Transport and insurance services follow the developments of the trade activity of goods. The growth of import volume brought about the growth of services import of these categories. Simultaneously, the ever-greater participation of the resident transportation companies that supply services in foreign trade has considerably increased the income of these categories. However, deficits of transport and insurance services, by the end of the year, are estimated to have increased compared to the previous year, at 21 and 9 percent, respectively.

“Other services” category has recorded a deficit of USD 11 million, remaining to almost the same deficit level as the previous year. The current deficit is mainly due to the increase of the deficit of Government expenses and of the deficit in cultural activities and business categories. Meanwhile, income being generated from telecommunication services increased significantly, a category that is closed in a positive balance sheet of USD 574 million, from 27 being recorded during the previous year.

Positive balance of income, by the end of year, is estimated at about USD 168 million. This surplus is attributed to the income deriving from seasonal and frontier workers. Net revenues of this category are estimated to be 12 percent higher than the previous year, being affected as well by the rising demand for labor force in the neighboring country, Greece, during the organization of the 2004 Olympic Games. The other part of income provided from investments, marked a decline, thus surplus of “income” category slightly reduced (1.3 percent) relative to the previous year.

Current transfers, like the previous years, have been shaped as a result of emigrants’ remittances. The latter represent the main source for the financing of deficit in trade of goods and services, and during 2004 they are estimated at USD 972 million, being 25 percent higher than those of the previous year. However, considering the currencies in which these transfers are performed, we can say that even in this item the exchange rate effect is significant.

Emigrants’ remittances (of USD 972 million) are followed by government transfers, mainly as technical assistance (of USD 46 million), which are estimated to decrease (at 9 percent).

II. CAPITAL AND FINANCIAL ACCOUNT

Capital movements, during 2004, recorded a net flow of about USD 531 million, totally making possible the financing of current deficit, and led to the growth of foreign reserve. Capital transfers marked USD 132 million or 25 million lower than the yearend of 2003, while the financial account is closed

in a positive balance sheet of USD 399 million. This capital import, being performed for the major part through foreign investments and the extension of long-term and soft loans from abroad, gave rise to the growth of Albania's financial liabilities to the rest of the world, by about USD 588 million. This growth is estimated to be 70 percent higher than the one of the previous year.

Foreign direct investments, for year 2004, are estimated at USD 341 million. These capital inflows became a dominant factor on the increase of financial liabilities and on the developments of capital and financial transactions of the country. In 2004, they are mainly presented in the form of banking system privatization, with an inflow of 92 percent higher than the previous year.

Another important factor on the increase of financial liabilities has been the extension of long-term and soft loans from abroad. This includes also the use of loans and credits in the Fund estimated at USD 12 million. Foreign borrowing is used to a considerable extent (34 percent) from the private sector and is estimated 6 times higher than year 2003. Foreign debt services as payments of the principal, amounted to USD 48 million during the period.

Financial liabilities as non-residents' deposits in our banking system grew by about USD 3.4 million. Liabilities as trade loan grew by about USD 23 million, this being reflected in the growth of imports for this period.

Albania's financial claims to the rest of the world increased by USD 159 million or nearly 27 percent more than the previous year. Around 45 percent of this increase is performed during the third quarter, mainly due to deposits' growth of resident units abroad; this high inflow of deposits from inside outside is mainly due to both the conversion of "Raiffeisen" bank's capital and the shifting as investment – from portfolio investments to deposits. Thus, the rise of portfolio investments is estimated at about USD 3.6 million by the end of the year and that of deposits, at USD 90 million.

Net inflows of foreign currency assets as financial capital were reflected in the growth of foreign exchange reserve of the monetary authority, by about USD 348,6 million. The foreign reserve estimated at USD 1.374 by the end of 2004 remains at acceptable levels covering nearly 5.2 months of imports. Foreign reserves of the Bank of Albania are considerably affected by the impact of exchange rate. Foreign reserves, due to this impact, grew by about USD 54.8 million during 2004.

Table 1 Balance of Payments
(in millions of USD)

Balance of Payments						
in millions of USD						
	1999	2000	2001	2002	2003	2004
Current Account	(132.9)	(163.1)	(217.9)	(420.8)	(406.7)	(404.2)
Merchandise: Exports, fob	275.1	255.4	304.6	330.2	447.2	603.3
Merchandise: Imports, fob	(937.9)	(1,076.4)	(1,331.6)	(1,485.4)	(1,783.5)	(2,194.9)
Trade Balance	(662.8)	(821.0)	(1,027.0)	(1,155.1)	(1,336.3)	(1,591.6)
Services: Credit	266.7	448.1	533.5	585.0	719.7	940.7
Services: Debit	(165.4)	(430.0)	(444.2)	(590.3)	(802.4)	(964.7)
Income: Credit	85.6	115.9	162.5	146.9	194.8	196.5
Income: Debit	(10.3)	(9.1)	(13.4)	(20.6)	(24.4)	(28.3)
Private Unrequied Transfers	188.4	438.6	542.6	575.0	781.7	977.8
Official Unrequied Transfers	165.0	94.4	28.1	38.2	60.3	65.4
Capital Account	67.5	78.2	117.8	121.2	157.0	132.3
Financial Account	36.8	182.5	97.0	201.6	190.9	386.9
Direct Investments	41.2	143.0	207.3	135.0	178.0	341.3
Portfolio Investments	-	(25.0)	(23.4)	(36.8)	(22.5)	(3.6)
Other Capital*	(4.4)	64.5	(86.9)	103.4	35.3	49.3
Net Errors and Omissions	131.3	15.0	136.1	121.3	147.4	161.3
Overall Balance	123.6	131.9	145.0	28.6	99.6	288.3
Reserve and Related Items						
Reserve Assets	(123.6)	(131.9)	(145.0)	(28.6)	(99.6)	(288.3)
Use of Fund Credit and Loans	20.9	19.3	12.0	5.3	11.1	11.9
Memorandum Items						
Total Change in Reserve Assets	(97.4)	(130.6)	(131.0)	(97.1)	(178.0)	(343.0)
of which: Change due to Exchange Rate	(26.2)	(1.3)	(14.0)	68.5	78.4	54.8
*/ Use of Fund Credits and Loans is not included						
Source: Bank of Albania						

ESTIMATION ON THE FINANCIAL SITUATION OF THE ALBANIAN BANKING SYSTEM FOR THE FOURTH QUARTER OF 2004

During 2004 banking system assets recorded an increase of ALL 52.8 billion (or 14.1 percent), about ALL 18.5 billion higher than the increase of assets performed in 2003. Although during 2004 a new bank, the Popular Bank, entered in the market, its impact on the growth of banking system assets was only ALL 4 billion. This shows that banks in the country are marking progressive growth rates from one year to another.

The last quarter of 2004 showed a growth of assets for the group of banks (G3) by ALL 9 billion compared to the third quarter, for the group of banks (G1) by ALL 3.5 billion, while the group of banks (G2) showed a decline by ALL 0.45 billion. The domestic banking system continues to focus on the large banks (G3), which represent 83 percent of total assets of the system. However, considering another indicator of concentration, H index (Herfindahl), which focuses on the specific weight of each bank, its declining values speak for a reduction of this phenomenon over the years.

During 2004 the credit balance of the banking system marked a growth by ALL 19.3 billion or 38 percent compared to the yearend 2003. This growth is attributed not only to the large banks of the system but also to some of banks belonging to G1 and G2 groups.

The fourth quarter is distinguished for a growth of new credit relative to the previous quarter, although this element reduced by ALL 3.6 billion or 12 percent, compared to the same period of the previous year. Factor to this reduction is the provision with new opportunities of investment from banks affiliated to the system, such as "other securities", which bring about high exchange rates and are estimated to having lower risk than crediting.

For the contribution of the group of banks in the credit balance growth during the fourth quarter, G3 and G1 groups are identified (by ALL 6.3 billion and 2 billion, respectively), while the impact of G2 group is estimated at only ALL 0.98 billion.

Short-term credit weight against the credit balance resulted to be 26.7 percent, from 40.3 percent it was by the end of year 2003, while medium-term and long-term credits showed a growth respectively by 5.7 and 6.1 percentage points against the credit balance of the banking system. These structural changes of credit portfolio must speak for a rising tendency of banks to finance and support the investment projects rather than the needs for circulation means of businesses, thus contributing in the economy growth.

"Bad loans/(gross) credit balance" indicator, which estimates the effectiveness of credit portfolio management, resulted to be 4.2 percent, from

4.6 percent it was at the end of year 2003. This decline is due to higher growth rate of credit portfolio, nearly 39 percent against the worsening rate of bad loans, nearly 25 percent. Thus, from outside it seems the improvement of this indicator comes rather as a consequence of quantity element impact than quality element impact which relates to the portfolio performance of bad loans.

Notwithstanding the foreign currency credit domination, the Lek credit shows a slight growth of its weight against the credit balance (at 19.5 percent from 17.9 percent in the yearend 2003¹). Based on the analysis conducted, it results that foreign currency credit, while inflow of borrowers' income is being in Lek, is estimated at 48 percent of total credit balance and 63 percent of foreign currency credit balance. Although, at a first glance, the system appeared to be exposed to the indirect credit risk, hypothetical scenarios that take into consideration the Lek depreciation result in an inconsiderably decrease of capital adequacy rate for the banking system.

Net profit of the banking system at the end of 2004 is about ALL 650 million higher than the previous year. This good performance is underpinned not only by the growth of assets volume and in general of the banking system activities but also by the growth of rentability.

G1 rentability resulted to be the highest one among the three groups, in contrast with the ordering throughout 2004, which relates rather to occasional elements. Whereas G3 rentability, though being lower but estimated as good, is an indication of their stability.

Finally, the growing of effectiveness indicator level, or its worsening, relates mainly to the positive developments of the system, which consist in structural improvement, broadening of activities or enhancing of competitiveness.

Year 2004 continues to know further increase of the shareholder capital levels in the banking system, amounting at the end of the year to ALL 26 billion or about ALL 4 billion more than in the yearend 2003. The system indicator² is mainly influenced by the group of large banks (G3) estimated at about ALL 2 billion and of small banks (G1) at about ALL 1.2 billion, while the contribution of medium banks (G2) is estimated at only ALL 0.8 billion.

The essential element of the shareholder capital – paid-in capital, - continues to keep the main weight (nearly 72 percent) in the shareholder capital of the system, with a contribution of ALL 5 billion or about ALL 1 billion more than its contribution in the yearend 2003. A new bank was added to the system throughout the year and some banks raised their paid-in capital, contributing positively to the increase of indicator levels for the system. Also, considerable profit levels impact positively on the capital (ALL 5.1 billion), although their positive effects become waned due to the negative effects of revaluation debit differences (ALL 5 billion) as a result of US dollar depreciation against Lek.

¹ As a consequence, by the end of 2004, the weight of foreign currency credit is estimated at 80.5 percent, from 82.1 percent it was in the previous year.

² Shareholder capital.

Capital adequacy ratio for the banking system in the yearend 2004 is estimated at 21.6 percent or about 7 percentage points lower than in the yearend 2003. The decline of capital adequacy ratio is due to higher growth of assets classified according to risks (about ALL 33 billion or 52 percent) than the growth rates of regulatory capital (about ALL 3 billion or 15 percent). The last quarter of the year consolidates the declining tendency of capital adequacy ratio mainly due to the growth of investments the banks conduct in higher risk activities.

Capital adequacy analysis according to the groups of banks in the system distinguishes the group of small banks (G1) with significant decline of capital adequacy ratio compared to the yearend 2003, although this group continues to maintain the highest level of capital adequacy ratio, whereas the two other groups of banks evidence insignificant decline of indicator but mark lower levels. The significant decline of indicator in G1 is due to the considerable growth of crediting level of two banks of the group, while the group of medium banks (G2) and large banks (G3) includes some active banks in lending, which continue to contribute to more effective levels of the capital adequacy ratio.

Capital adequacy analysis for banks of the system continues to distinguish for a bank capital adequacy ratio levels very close to the minimum required levels, while other banks of the system keep the capital adequacy levels over the minimum required levels (12 percent).

Year 2004 consolidated the ongoing growth of bank activities aiming at higher risk investments, a growth that followed the declining tendency of the capital adequacy ratio, while the banks of the system showed capital adequacy levels over the minimum required levels (12 percent).

Liquidity indicators confirmed even during 2004 a satisfactory liquidity situation. The facilities offered by the Bank of Albania on liquidity provided the opportunity to absorb excess liquidity from banks of the system as well as to supply the needs of the banking system. At the end of the period that we are analysing, the indicator of liquid assets against total assets for banks of the system maintained a satisfactory level (over 27 percent). We distinguish in the system some banks with higher levels of indicator, which are due to the modest levels of lending activity of these banks.

The indicator of short-term assets against short-term liabilities for the system is estimated at 97 percent at the end of this year or around 10 percentage points lower than the yearend 2003. The decline of the indicator is due to higher growth rates of short-term liabilities rather than short-term assets.

Although the indicator shows a decline, it continues to maintain a satisfactory level for the system (nearly 100 percent), which speaks for a good liquidity management. There are some banks in the system that have reached low values of the indicator but the satisfactory level of liquid assets in the total of their assets does not expose the latter to the liquidity risk.

Finally, according to the hypothetical testing of the banking system capacity to absorb losses that may be caused by shocks, as a consequence of undesirable developments of certain indicators, certain banks without capital adequacy are identified. However, the perspective of increasing the minimum required capital up to ALL 1 billion over the medium-term run 2005-2008 is estimated as a preliminary protective measure for the whole banking system in the future.

THE DOCUMENT "ON BANKING SUPERVISION MISSION"

DECISION

NO.11, DATED 09.02. 2005

On
The document "On Banking Supervision Mission"

The supervision function is carried out by the Bank of Albania, as a central bank, pursuant to Law "On the Bank of Albania" No. 8269, dated 23.12.1997 and Law " On Banking Law in the Republic of Albania" No . 8365, dated 02.07.1998.

Supervision mission

The Bank of Albania, in implementation of legal responsibilities as the supervisory authority of banks and other entities performing financial operations licensed by it, aims at:

- Ensuring a sound banking activity in full harmony with/and in implementation of the relevant legal and regulatory framework, with the purpose to prevent financial crises and to protect depositors;
- Maintaining stability of the banking system and further, monitoring market developments and recommending necessary measures, so that banks be adjusted to these developments and be managed continuously according to best principles;
- Enhancing public trust to banking system and promoting market discipline, requiring enhancement of banking system transparency;
- Impacting on the development of fair competition in banking system and further, ensuring equal transparency of licensed entities and their clients;
- Offering a constant professional communication to financial market operators and other institutions that impact on the Bank of Albania's activity, in the framework of improving the functioning of financial market and its operators.

The Bank of Albania will carry out its supervision function through:

- a) Constant building and improvement of the regulatory supervision authority, so that it is in harmony with the best international principles that are applicable in practice;
- b) On site inspections and analysis of licensed institutions' indicators, and undertaking of corrective operations for sorting out various problems;
- c) Orientation of the supervisory process to risk identification the licensed institutions are faced with, recommending relevant solutions;
- d) Setting up policies that aim to orientate the banking system toward desired developments;
- e) Cooperation with financial institutions that supervise, with other financial institutions within the country as well as with supervisory authorities of other countries;
- f) Constant improvement of supervisory capacities.

In implementation of the requirements of supervisory function, the Bank of Albania will aim to increase integrity levels, professionalism, efficiency and transparency.

A REVIEW OF ALBANIAN MONETARY TARGETING REGIME WITH INSIGHTS INTO THE FUTURE

ERJON LUÇI* AND FATOS IBRAHIMI**

In this paper we try to analyse whether the monetary targeting regime currently applied in Albania may become inadequate in light of upcoming economic developments. Although its performance thus far has been satisfactory, alternative regimes like inflation targeting could be more appropriate to preserve price stability in the future. We then, concentrate on requirements, problems and the possibility of switching from the actual regime toward a full fledged inflation targeting regime.

1. INTRODUCTION

An effective intermediate target should comprise all the necessary information for forecasting inflation. This may not be the case for monetary aggregates. For this reason, Albania like many other countries, is considering eventually abandoning the reliance solely on monetary targeting and probably moving towards an inflation targeting regime in conducting its monetary policy. The Bank of Albania has already started to announce the end year objective of inflation to the public. However as Mishkin (2002) argues, just reporting an inflation objective might be insufficient to classify a country as inflation targeting. Going from this implicit inflation target regime toward an explicit inflation target regime requires several other important elements which bear some costs if certain conditions are not met beforehand.

In this paper we try to scrutinize the feasibility of inflation targeting (IT) implementation in midterm by describing the potential problems that might emerge in adopting a formal inflation targeting in Albania. The paper is organised as follows. The next Section gives a general outline of monetary policy in Albania. Section 3 analyses the potential difficulties of communication that the actual regime of monetary targeting may have in conducting monetary policy. Section 4 summarises some of the benefits and the problems that characterise the inflation targeting regime. In Section 5 we concentrate in more detail on problems that are mainly related to Bank of Albania ability in adopting IT regime. Section 6, looks at other threats to IT regime beyond Bank of Albania control. We briefly consider some alternative regimes in Section 7. Section 8 concludes.

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** The views expressed in this paper are those of the authors and do not necessarily reflect those of the Bank of Albania.

2. GENERAL OUTLINE OF MONETARY POLICY IN ALBANIA DURING TRANSITION

Albania has been particularly successful in bringing inflation down. From 237 percent in 1992, inflation was reduced to just 6 percent in 1996. The inflation caused by the uncertainty after the collapse of pyramid schemes was rapidly reduced as well. McNeilly, et al. (1998) attribute the success of Albania in achieving low inflation to the early price liberalisation associated with supporting policies for fostering competition and an early aggregate supply increase in goods and services alongside a restrictive monetary policy implemented by the Bank of Albania (BoA).

Table 1 Albania main economic indicators

	1998	1999	2000	2001	2002	2003	2004
Real GDP growth (%)	12.7	8.9	7.7	6.5	4.7	6.0	6.0
GDP per capita (USD)	842	1,052	1,086	1,329	1,460	1,833	2,434
Unemployment rate	17.8	18.0	16.9	14.6	15.8	15.0	14.5
Inflation rate (Dec. to Dec.)	8.7	-1.0	4.2	3.5	2.1	3.3	2.2
General govt. balance (% of GDP, excluding grants)	-11.4	-12.1	-9.2	-8.2	-6.9	-4.5	-6.5
General govt. balance (% of GDP, including grants)	-10.9	-9.3	-8.2	-7.6	-6.3	-4.1	-5.85
Domestic debt (% of GDP)	36.2	37.4	42.6	39.5	38.8	38.0	37.2
Trade balance (% of GDP)	-22.8	-19.3	-22.3	-24.2	-23.9	-22.8	-21.5
Current account balance (% of GDP excluding grants)	-7.1	-7.9	-7.4	-6.2	-9.0	-7.6	-7.5
Current account balance (% of GDP including grants)	-3.9	-3.9	-4.4	-3.2	-6.5	-5.1	-5.5
External debt (% of GDP)	36.9	32.3	31.8	28.2	24.4	20.2	21.0
Exchange rate lek/usd (av.)	150.6	137.7	143.7	143.5	140.1	121.9	102.8
Exchange rate lek/euro (av.)	-	146.9	132.6	128.5	132.4	137.5	127.7
Foreign direct investment (% of GDP)	1.5	1.4	3.7	4.8	2.6	2.7	5.0

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

The BoA, initially, relied on direct instruments in conducting monetary policy. Before mid-1995 the supply of broad money (M3) was controlled by ceilings imposed on the total domestic credit expansion of the whole banking system. Credit ceilings consistent with targeted inflation rate and output growth were imposed on banks' total lending to the economy – including the government. Once the ceiling on the Central Bank's lending to the government was subtracted from the total ceiling, the remaining amount was divided among commercial banks by imposing sub-ceilings on a bank-by-bank basis. From 1995 the BoA tried to enhance its control over M3 through adjustments to bank deposit interest rates. As far as the interest rate policy is concerned, the BoA aimed at keeping interest rates imposed on SOBs' deposits positive in real terms in order to avoid outflows of domestic monetary assets and to prevent disintermediation (Fig. 1). In 1999 the BoA removed credit ceilings to second tier banks while issuing a rule that banks with a ratio of bad loans to total loans of over 20 percent could not extend new loans. In the second half of 2000, the BoA also completely removed direct control over the deposit interest rates switching to indirect instruments for conducting monetary policy. Currently the BoA tries to influence interest rates through open market operations in T-bills (e.g. repos).

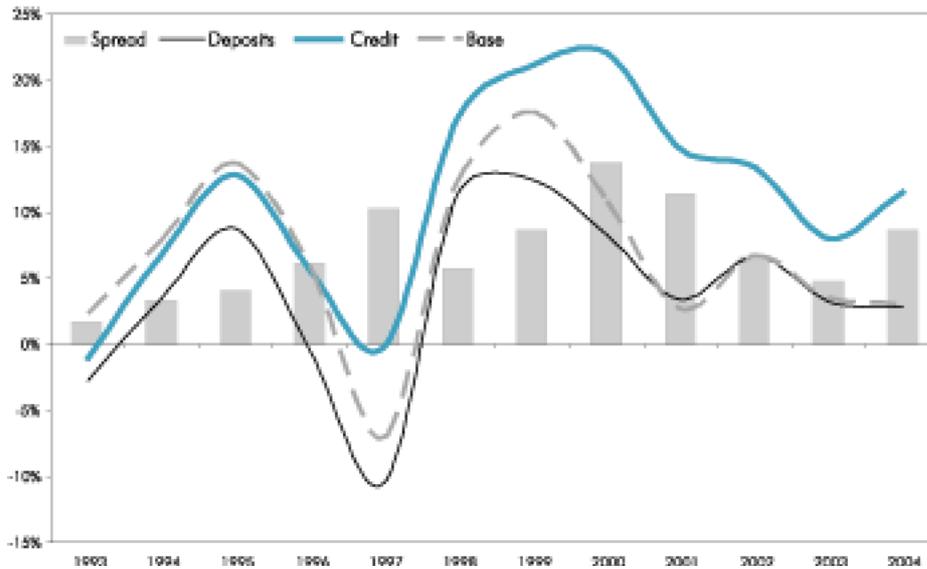


Chart 1 Real interest rates

So far this regime has shown impressive results in terms of price stability. Inflation has stabilized at moderate levels as measured both at the end and average period figures, though it sometimes has diverged from the target due to unforeseen shocks and speculative factors that have been mainly beyond the central bank's control (e.g. higher bread prices, electricity and telecommunication tariffs) as differences between headline and core inflation in Fig. 2 show. Monetary policy will continue to aim inflation within 2-4 percent target.

However, the bank is trying to foresee threats that may prevent the bank from reaching the target in the future and adapt its monetary strategy accordingly. These threats could be related to the effectiveness of the actual monetary policy regime and/or external threats. The rest of this paper will try to analyse both these issues in more detail.

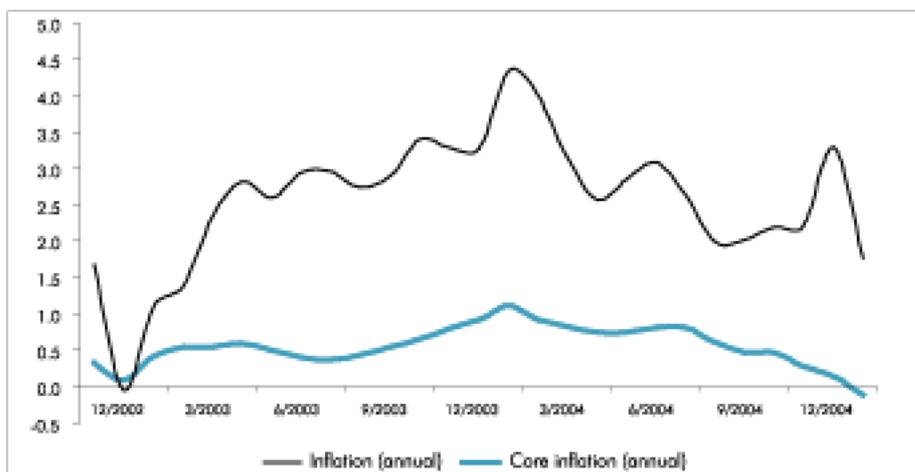


Chart 2 Consumer price inflation and core inflation.
Source: Çeliku (2005)

3. THE COMMUNICATION PROBLEM WITH THE ACTUAL MONETARY TARGETING REGIME

According to Estrella and Mishkin (1997), as inflation is brought under control the informative role of monetary aggregates diminishes because the velocity shocks' relative noise increases. This, according to them, could be an important reason why industrial countries and many emerging market economies do not rely on monetary targeting in the era of price stability. The velocity shocks could be attributed mainly to the instability of money demand that has increased especially with the advances and structural changes of the financial systems.

It is often claimed that Albania is one of the countries that has successfully relied on monetary targeting to bring inflation down. However, it is unclear whether this success can be attributed solely, or to a large degree to this strategy and whether it is going to remain successful also in the future, considering the flaw recognized by Estrella and Mishkin (1997).

The Bank of Albania (BoA) has pursued several objectives over the years such as, reducing inflation, increasing its international reserves, easing exchange rate volatility, improving financial system stability and finally boosting economic development. Regarding its main objective stipulated by the law, stability of prices, communication with the public is carried out by announcing the annual growth rate of broad money (M3) based on the monetary program designed at the beginning of each year and updated quarterly. The money growth is determined based on a quantity equation consistent with a certain level of annual inflation, and projections of the potential output growth and money velocity. This kind of monetary targeting is analogous to the targeting of nominal GDP. Some authors, (Taylor, 1985) argue that this regime works better in accommodating supply shocks since a decline in real GDP automatically leads to expansive monetary policy. In the recent years BoA has also made its official target inflation level public, which has led Stone (2003) to classify Albania as an inflation targeting lite country as compared to the full fledged IT countries.

As can be seen from Table 1, the strategy of targeting monetary aggregates apparently have worked reasonably well considering that the level of end year inflation has been brought under control twice, after 1992 and after 1997. Nonetheless, other observations can also be made. First, the actual growth rate of M3 until 2000 has diverged widely from its target. In contrast, the official inflation objective during the same period has most of the time been undershot. This raises doubts about the relative significance of the nominal anchor used in achieving low levels of inflation.

Second, although from 2000 M3 growth has been fairly close to its target, the growth rates have varied widely, from 5 to 13 percent, compared to the relatively stable inflation rates. This makes it very difficult for the public to understand the real intentions of BoA by merely relying on the announced M3 growth targets. For instance, the 3 percent objective level of inflation can

be associated with a wide range of targeted M3 growth rates, from 9 to 15 percent. This brings some support to Estrella and Mishkin (1997) argument, that monetary aggregates lose their informative function at low levels of inflation.

Year	Monetary Base		M3		Inflation	
	Projections	Actual	Projections	Current	Desired Level	Current Level
1993	-	-5.9	44.1	74.4	-	30.9
1994	-	-2.0	29.0	41.0	24.0	15.8
1995	-	-1.1	23.0	51.8	10.0	6.1
1996	-	2.6	22.0	43.8	12.0	17.4
1997	-	12.0	-	28.5	53.0	44.6
1998	-	14.1	23.0	20.6	10.0	8.7
1999	-	21.6	15.0	22.2	7.0	-1.0
2000	-	24.1	12.1	12.8	2-4	4.2
2001	11.4	18.1	15.4	19.9	2-4	3.5
2002	10.8	11.2	6.2	5.1	2-4	1.7
2003	-0.6	-1.9	9.5	8.3	2-4	3.3
2004	7.9	11.2	10.6	13.5	2-4	2.2
2005	5.7	-	8.3	-	2-4	-

Source: Bank of Albania

Table 2 Planned vs. actual monetary aggregates and inflation (end year, % change)

BoA has recognised the above problem in so far as the decisions about changing the monetary policy stance have been based on a wider range of information besides the M3 growth rates. In particular, from some time now, BoA pays particular attention to inflation forecasting which includes various extra information such as: inflationary pressures coming from exchange rate movements, price changes in different markets, including foreign markets, supply shocks, and so on. This running of monetary policy has very much the flavour of an inflation targeting regime. However, there are two important elements that distinguish Albania from formal IT regimes. These are the communication of monetary policy strategy including the publication and explanation of its inflation forecast and a formal mechanism that makes BoA accountable to the announced inflation target.

Although it may seem straightforward, the implementation of IT has several drawbacks too, especially for emerging market economies. In the following Sections we will try to analyse in more details some of the benefits and the problems that BoA may encounter by switching to a formal IT regime.

4. INFLATION TARGETING REGIME: PROS AND CONS FOR ALBANIA

As far as monetary aggregates do not contain all the necessary information to predict future inflation, relying on a monetary targeting regime could be suboptimal. For this reason, BoA has been considering switching to an inflation targeting regime in the medium term. This is based on the idea that the best intermediate target for a monetary policy that aims at controlling inflation is an inflation forecast (Cukierman and Liviatan, 1992; Svensson, 1997). An

inflation forecast, in contrast to monetary aggregates, is unrestricted in its coverage of information. Any information that could be relevant for the future inflation can be taken into account.

In the last decade there has been a large body of literature exploring the benefits of an IT regime compared to the other regimes, summarised in a series of paper by Mishkin et al. (1997, 2000, 2002). Some of the major benefits of IT are: the broader information base it utilises, its relatively higher flexibility with regard to supply shocks, the fact that it is easily understood by the public, improved accountability etc.

However, the adoption of an IT regime also poses several problems. The major problem for Albania is related to the increased risk that it may place on BoA's reputation compared to the actual regime of monetary targeting. As mentioned earlier, although the M3 targets have been missed repeatedly up till 2001 (see Table 1) inflation has decreased which shows that BoA's reputation at least has not deteriorated; at best it has improved. This is probably related to the low understanding of the public about the relationship between M3 and inflation, which leaves the bank more scope to explain the missing of the target. In the case of IT regime the missing of the target could be much more costly in terms of bank reputation.

In recent years, BoA's reputation in terms of reaching its inflation objective around the 3 percent level has undoubtedly strengthened. However, claiming that the level of actual reputation is adequate for adopting an inflation targeting regime would be premature. There are several problems that may restrict the BoA's confidence in meeting the low inflation objective and endanger its reputation in the future reaching the inflation targeting. Some of these problems are related to BoA and some others are related to external factors. Let us concentrate in more detail on some of these problems.

5. OBSTACLES WITHIN BANK OF ALBANIA

The problems related to BoA in terms of adopting IT are mostly technical and less institutional. BoA enjoys a relatively high level of independence and by law has price stability as its main objective. However, BoA's high degree of legal independence is not fully translated into actual independence which may still be lower from that stipulated by law. Some empirical evidence (Luci, 1999) suggests that BoA tries to keep its independence from government although the lack of appropriate instruments and the uncertainty about the transmission mechanism makes it difficult to reach its objectives. An important step in improving the real independence of BoA would be the complete abolition of government financing, which at the moment is at 5 percent (of the last 3 years' average revenues). This would better insulate BoA from government interference with its monetary policy and would increase pressures to the latter to consolidate further its fiscal policy by either increasing its revenues or reducing the expenditures. Adopting an IT regime may require some further amendments to the actual law but we do not foresee any particular

obstacle in this regard. As far as the technical part is concerned, a successful IT regime requires a good understanding of the monetary policy transmission mechanism, a rather good forecasting model for inflation, and an efficient communication framework with the public. While the bank has been working to improve all these components, a lot remains to be done especially in relation to the first two. The Research Department in collaboration with Monetary Policy Department and the Monetary Operation Department has compiled a list of technical problems that need to be tackled, which generally aim at improving our understanding of monetary policy transmission mechanism, of inflation sources, and of the functioning of the Albanian economy as a whole.

The work on these issues may require some time before good results are claimed. In particular two critical problems need to be tackled sooner rather than later to accelerate progress. These are: the inadequate technical expertise to build up the necessary tools for IT implementation, and the poor state of economic data. The former is being addressed through technical expertise of international institutions like IMF. However, to make technical progress sustainable over time, a strategy for developing in-house human capital is also being considered. Regarding statistical data drawbacks, several steps are being taken to improve data sources such as: carrying out surveys, interviews, and assisting INSTAT to improve national account statistics frequency and quality.

6. OTHER CHALLENGES IN ADOPTING IT

Provided BoA puts itself in a position for adopting an IT regime effectively, there may be other external problems that could prevent it from reaching the target. This might involve changes in the administrative prices and structural reforms in general, lack of fiscal discipline, dollarisation, a decrease in foreign remittances and the potential exchange rate volatility, financial system development and stability, etc.

Government-controlled prices could pose a serious threat at targeting the headline inflation. This has already caused difficulties for the BoA in the past. One solution to this problem is to target an inflation definition which excludes the administrative prices. However, this makes the target less clear to the public. Another solution may require the government to endorse a more precise plan for future price liberalisation so that BoA could adjust the final target accordingly.

Several authors (Masson et al., 1997; Stone, 2003) have pointed out the importance of fiscal discipline to the success of the IT regime. Although the fiscal discipline has been a crucial factor in bringing inflation down in Albania several future events, especially certain structural reforms, may force the government to relax its discipline. Among these events an important one is related to the method the new law on compensation is going to take place. If the government is going to cover most of the compensation expenses through its budget this would really put a lot of pressures on inflation.

A high degree of foreign currency substitution (euroisation, dollarisation) can cause serious problems for IT (Mishkin, 2000). Partial dollarisation has the potential to make inflation targeting regime, which requires some degree of exchange rate flexibility, vulnerable to financial instability (Mishkin and Sevastano, 2002). In Albania the level of dollarisation in terms of foreign deposits to total banking assets is around 20-36% (Sojli, 2003). The problems related to dollarisation need to be treated with caution in the prospect of the declining foreign remittances that so far has cushioned the impact of deterioration of current account deficit and have ensured a relatively stable exchange rate.

A sound financial system is important to the success of IT for several reasons. A sound financial system could better sustain the negative impact of eventual exchange rate volatility related to the high dollarisation. Also, considering the several objectives BoA is pursuing, it might be important to examine whether Albania has missed or could miss the inflation target if it conflicts with reaching other objectives such as financial stability. A sound financial system would put BoA under less pressure to trade off between its objectives.

The development of the financial system is also an important factor for the conduct of monetary policy. The actual level of financial development in Albania is far from being adequate for an effective monetary policy. The level of competition among banks at the moment is very low while the money and stock markets are virtually nonexistent. Thus, a lot remains to be done to increase the depth of financial system especially that of the money and stock markets.

The recent privatisation of the Savings Bank is expected to improve the competition of the Albanian banking system and boost credit to private sector. There are some concerns though, about the possibility of credit growth becoming 'excessive', looking at experiences of some other transition countries (Cottarelli, et al., 2004). This is a very critical issue which needs particular attention and further investigation (see Box 1).

Even so, Mishkin and Sevastano (2002) argue that the above mention problems are important issues for other monetary policy regimes too, under the IT regime the cost in terms of central bank reputation could be much higher.

Box 1: Potential credit growth

Fast credit growth, which not a long time ago was considered to be a great achievement, now is becoming a major concern among many transition countries, including Albania that so far has been lagging behind. The volume of credit to the private sector in Albania in percentage of GDP has remained virtually unchanged from the beginning of transition until recently at a low level of around 6%. Underdeveloped business culture and the low transparency of the newly emerging private enterprises seem to have been important obstacles for the expansion of banks' lending activities. Other problems with property rights, law enforcement and poor infrastructure in Albania have also contributed to this outcome. The inefficiencies that characterised SOBs led to the accumulation of a large amount of bad loans by these banks which in turn induced regulatory authorities to first constrain and then completely block their lending activities. At first sight, the delay in the privatisation of SOBs that could have enabled the freeing of their funds for lending seem to have been the main reason for the low level of credit in Albania. However, private banks that were not particularly restricted by regulatory authorities also have a large proportion of their funds not channelled to commercial loans.

	2002	2003	'04 -Q1	'04 -Q2	'04 -Q3	'04 -Q4
Domestic credit to M3	70.8	71.5	71.6	69.5	67.4	68.7
To government	61.5	60.2	59.9	57.1	54.9	55.0
To economy	9.3	11.3	11.7	12.3	12.5	13.7
Credit to economy as % of total assets	11.5	13.7	13.7	14.6	14.7	16.6
Credit/Deposit ratio	13.5	15.7	15.8	16.6	16.8	18.8
Credit to economy as % of GDP	5.7	6.8	6.3	6.7	7.2	8.2

Source: Bank of Albania

Bank of Albania has made continuous efforts to increase the intermediation level of the banking system. This has consisted in clarifying the regulatory framework that regulates the loan activity of banks. Some measures are already taken with the removal of required fixed amounts of collateral for the loan. It is now the responsibility of the bank to judge about the need of collateral and to make sure that its value is appropriate to cover the amount of the loan and any other cost related to its execution. However, in every instance, we shall insist that banks keep high and strengthen their lending administration processes, in order to ensure a balanced and solid growth of the activity. Due to the currency composition of the loan portfolio, mostly extended in foreign currency, banks are pushed to put particular attention on the cash-flow of their borrowers, as this may not be denominated in the same currency of the loan. Any unexpected adverse change in the exchange rate could lead to difficulties, if not foreseen in time.

Furthermore, Bank of Albania has tried to promote lending in domestic currency. Among others things it will improve the effectiveness of monetary policy transmission mechanism. Looking at a broader macro-financial picture, Bank of Albania has contributed to that goal by reducing its REPO rate to historic low levels and closing the lending interest rate differential between domestic and foreign currency.

Despite the easing of monetary policy and the lowering of the policy rate (the repo rate is lowered by 3.25 pps during the last 2 years), the spread of Lek-foreign interest rates on credit remains noticeable. Another factor that supports the interest in FX credit is the nature of the business activity. According to the statistics, the most credited sectors mostly operate with foreign currency. Bank of Albania will continue to support the growth of Lek credit to the economy. We expect Raiffeisen Bank to contribute to a greater expansion of Lek credit since it holds 67 percent of the Lek deposits of the banking system. Roughly, 86 percent of the deposits in this bank are

in Lek currency.

Regarding the credit growth over the medium term, we expect it to accelerate considerably starting from 2005, as Raiffeisen Bank begins its lending activity and adds more supply to the market. Although, the impact of this change in the overall bank credit to the private sector, is subject to different uncertainties that relate to the evolution of the institutional and legal environment within which the lending activity takes place. Problems in regulations and practices affecting the creditors' rights aggravate risk conditions in the economy, making it difficult to assess the speed at which the credit expansion will occur. Some preliminary estimates based on the performance in credit growth during the last 3 years, and the credit growth projections revealed by Raiffeisen Bank, and a certain degree of substitution to other banks credit growth, show an annual private sector credit growth at around Lek 30-35 billion, or 45-50 % for 2005.

In the medium term the credit growth is estimated to stabilise at about 3 to 4 percentage points of GDP annually. This is below the critical threshold of 5 percent; However, we are also taking into account the possibility of what has occurred in other countries in the region. To this end some measures are undertaken to get a closer insight of housing market which has already seen a considerable increase in prices in the last two years. If banking lending expands rapidly in housing loans the risk is that it may lead to a dangerous bubble. On one side, if most of the credit is extended in foreign currency it will make difficult for our bank to contract this loan expansion and probably to recur to some sort of direct measures which would mean a step back for the monetary policy. On the other side, it will put some strains on banking supervision to ensure the soundness of banking sector in case of a potential decline in housing prices.

(Source: Various documents of the Banking Supervision Department and the Monetary Policy Department, BoA)

7. ALTERNATIVE REGIMES

The other alternatives to IT and monetary targeting are exchange rate pegging and the so called just do it policy applied by FED (Mishkin, 2002). Exchange rate pass-through in Albania is thought to be high, though asymmetric, given the large proportion of imported goods in consumer basket (approx. 70%). This would make this regime an effective way of conducting monetary policy. However, exchange rate pegging so far has been rejected as a suitable strategy to Albania for different reasons. Initially due to insufficient international reserves and later on the bases of real exchange rate appreciation risks, especially when the fundamentals of RER remain still largely unknown.

While we believe that to leave the exchange rate being decided by market forces is the best strategy to follow, under certain circumstances intervention may prove an effective way to curb inflation, especially when spirals between exchange rate depreciation and unfounded inflation expectation are observed. However, in cases when the source of inflationary pressure is of structural nature such strategy could cause more harm than good.

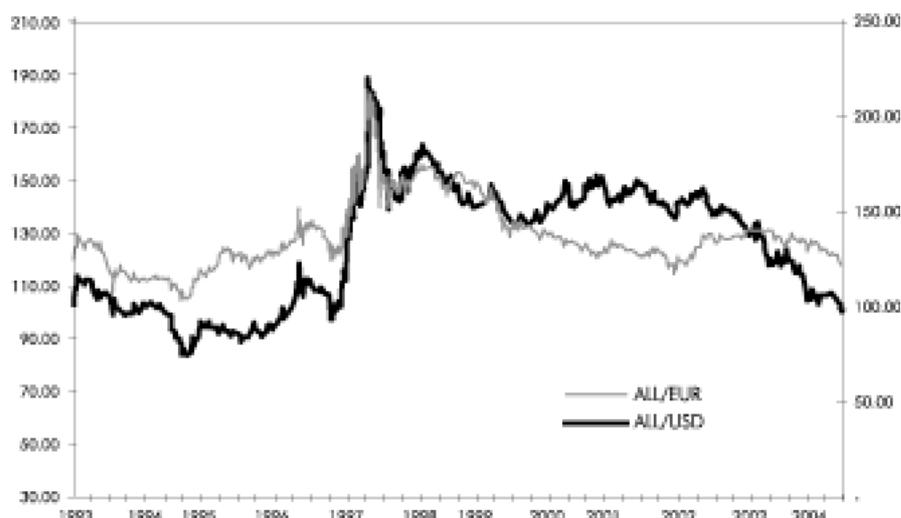


Chart 3 Exchange rate

Most of exchange rate discussion, however, refers to scenarios of controlling depreciation to curb higher inflation. From some time now though, Albania like several other transition countries is seeing appreciation of its currency instead (Fig. 3). While this has helped easing inflationary pressures, concerns about external competitiveness are raising. This has pushed BoA to occasionally intervene in the market and to reduce the local currency interest rates to prevent the lek from appreciating too strongly in nominal terms against the euro. However, it remains unclear whether this appreciation is a return to some kind of long term equilibrium supported by fundamental changes. This shows that exchange rate developments cannot be ignored that easily in monetary policy decision even if committed to the free floating regime.

The other 'just do it' strategy might characterise the actual Albanian monetary policy case rather well. Although there is an explicit monetary target and an implicit inflation target, as mentioned earlier, the way the monetary policy operates has a lot of discretion elements in it to achieve the main objective of low inflation, while allowing for some sort of supply shocks adjustments. The advocates of this regime oppose the US switching to a formal IT regime by simply saying 'if ain't broke don't fix it'. However, in the case of Albania maintaining the effectiveness of this strategy for a long time may not be viable considering that BoA does not enjoy the same degree of reputation as FED. According to Stone (2003) this kind of regime should come after a full fledged IT, and it is very difficult and risky for an emerging market country to switch directly to this strategy.

8. CONCLUSIONS

Albanian reliance on monetary targeting, although so far seem not to have experienced any serious problem, may prove to be insufficient to maintain low inflation in the future. In particular, the signalling power of monetary aggregates targeted by BoA may start to deteriorate. Therefore, alternative

regimes such as IT that could transmit central bank signals better may be considered. However, premature implementation of these alternative regimes could cause more harm than good to the reputation of the bank. In the particular case of IT, due to the more explicit and understandable target, there is a higher risk of damaging the reputation of the central bank compared to the other regimes. For this reason, its implementation should carefully assess all the necessary institutional and technical criteria and the adverse scenarios that could jeopardize the success of this regime.

From our short analysis we conclude that despite the difficulties BoA may be facing to comply with the requirements of this new regime, its implementation in medium term is viable, provided that in the meantime the work on this direction is intensified.

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BANK OF ALBANIA SIGNALS, PUBLIC EXPECTED INFLATION VERSUS FACTUAL ONE FOR 2004

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This analysis made first efforts to estimate inflation expectations from the quantitative viewpoint, and evidenced some of the main sources of their creation. The analysis is a reflection on indicator elaborations and results of inflation expectations for 2004, of roughly 1200 consumers and 540 businesses¹, comparing them to factual inflation figure of this year.

1. INTRODUCTION

One of the main issues on which the monetary policy should be clear, before and during the application of the decisions made for the analysis of its stance, is related to the fact of how and how much the economic agents, businesses and population in general absorb and understand signals that “it launches” during the decision-making process.

The monetary policy efficiency, especially under “Inflation Targeting” is closely related to the communication channel with public. Public and businesses not only absorb signals by using them to estimate the coming financial situation, but also through their behavior and perceptions on the market, they create some inertness or incentives that affect the monetary policy and other aspects of the country economic life in the future.

To what extent are those signals understood by businesses exercising an economic activity in the production, building and service fields or even by Albanian public at the simple role of consumer? To give an answer to this question, we will rely on the analysis of the information taken during the survey of businesses and consumers, in the special column created for this purpose in the respective questionnaires of the confidence indexes (BCI and CCI). The information taken from 540 businesses and roughly 1200 consumers, focuses on their opinions about questions such as: “How is the Bank of Albania information perceived by the public?”; “Does the published information on inflation affect future inflationary expectations?”; “What do the surveys suggest concerning the way of forming and using the agents expectations in their financial decisions?”.

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¹ Survey of December 2003 for business and consumer confidence indexes (BCI and CCI).

Through this effort we would like to understand whether the inflation history of the last years, which has had a low and stable annual rate (Chart 1), has been transmitted even to public and business expectations. So, in a certain way we would like to judge on the business and public confidence degree towards decisions made by the central bank. If the situation turns out positive (so that the Bank has a satisfying confidence), do the market actors (businesses and consumers) uphold these decisions by assimilating their economic effects at the right direction?

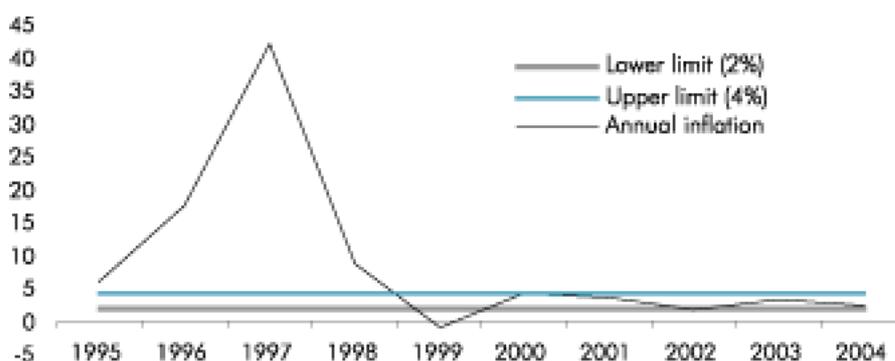


Chart 1 Inflation performance in Albania (1995-2004)

2. OUTCOME ANALYSIS

The survey outcomes are characterized by an asymmetry between expectations on inflation, based on the expected amount of wage rise that these two groups of the Albanian public forecasted to have during 2004 (Question 3, Table 1). To a certain extent, this is expected, as long as consumers and businesses make up two different groups of economic interest in the market.

Table 1 Outcomes of the answer's elaboration

QUESTIONS OF THE SPECIAL COLUMN	CONSUMER ANSWERS	BUSINESS ANSWER
1 Frequency of wage's review		
a. Every year	65.4%	24.4
b. Every 2 years	3.8%	7.14
c. Over every 2 years	1.1%	12.6
d. There no specific policy	29.7%	56.0
2 Factors inducing the increase of wages	(average degree of importance)*	(average degree of importance)
a. Forecasted increase of prices	4.3	2.6
b. Increase of prices in the past	3.9	2.3
c. Work age	3.2	3.2
d. Incitement of devation at work	3.7	3.7
e. Increase of wages by competitors	N/A	3.1
f. Increase of wages at the public sector	N/A	2.6
3 Current forecasted increase for the 2004		
a. 0%	29.2 (0.0)** %	31.8 (0.0) %
b. 1 - 5%	18.6 (26.3) %	50.4 (73.9) %
c. 5 - 10%	29.8 (42.1) %	17.8 (26.1) % (Over 5%)
Over 10%	22.4 (31.6) %	N/A
Dispersion statistical indicators***		
Average forecasted increase	7.89 %	4.17 %
Standard deviation of the average increase	3.61	1.97
Variance coefficient (in %)	45.7 (%)	47.19 %
4 Most attended information of the Bank of Albania	(average degree of importance)	(average degree of importance)
a. Increase of prices	4.0	3.3
b. Interest rates	2.6	3.2
c. Exchange rate	2.7	3.9
Note: *The higher the average degree of importance, the more relevant the factor in comparison to other listed factors. The average degree of importance was measured as a weighted average of the degree value with the respective frequency (number of persons that have chosen it). **in parenthesis are the normalized weights in percentage, after excluding the group (a). ***In accounting, statistical indicators on expectations for wage increase, because the group that is for a zero increase is a group qualitatively different from the others.		

For 2004, consumers expected an average increase of wages at the degree of about 7.9 per cent, while businesses argue that this increase could arrive at about 4.2 per cent. If we compare the allocation of expectations (chart 2 and 3) between these two economic groups, we can see their concentration towards extreme intervals, while business expectations are found accumulated at the interval of 1-5 per cent. This is also witnessed by the standard deviation values for the respective groups. Nevertheless, if we consider the variation scale, it is presented almost invariable even at high levels to both consumers and business (about 46 per cent). This means that average expectations on possible increases of wages over 2004, should be considered with reserve, starting by the assessment of these actors.

Chart 2 Forecasted increase of wages (2004)
-Consumers

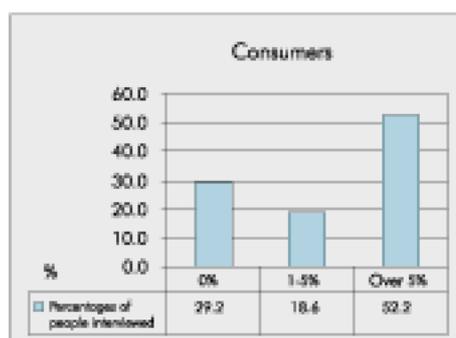
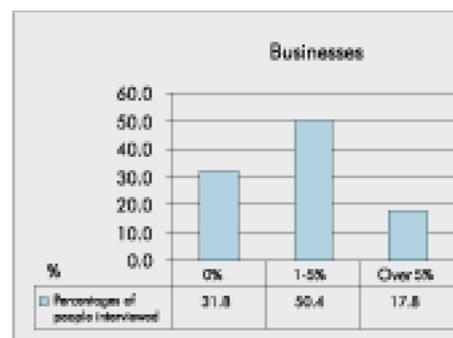


Chart 3 Forecasted increase of wages (2004)
-Businesses



If we refer to the estimations on the historical tendency of wage increase at the private sector, it is clear that after 1999, private businesses applied average annual growths that fluctuated around a value of 10 per cent. If we suppose that this increase continues at the same pace even over 2003-2004, it seems that expectations on wage increase for both groups are found within the historical values.

Economic activity	Year					
	1997	1998	1999	2000	2001	2002
Industry	9411	10792	12203	13230	14839	15882
Construction	8340	10617	10936	12489	13416	15014
Transport and communication	9350	11744	14503	16225	18124	23434
Trade	8819	9653	10901	10889	12856	13924
Services	7814	11856	10718	13012	13140	14453
Total	9063	10894	12118	13355	14820	16541
Growth (in %)		20.2	11.2	10.2	11.0	11.6

Source: www.instat.gov.al, ASN 1997-2002

Table 2 Wages according to sectors

Analysis of the enlisted factors influencing the potential increase of wages shows that:

- "The perceived inflation" is the primary factor, according to consumers, that would cause this increase. This is a fact complying with the economic theory on the consumer behavior. The presence of the perceived inflation shows that there is a sort of increasing inertia influencing the inflation figures, due to consumer expectations;
- The increase of prices in the past, definitely should be reflected on the actual indicator of inflation and according to consumers, it should be reflected on the increase of wages;
- The use of wage increase remains an incentive at work or an estimator of the work performed by consumers;
- Consumers once again consider the increase of wages due to the working age, an element that should accompany the wage scheme in both public and private sectors.

If both factors have a lower weight than that of the actual value (respectively 0.3 and 0.15), then the increase of wages due to the expected inflation could be roughly at 1.88 per cent. Meanwhile, due to the current inflation (November 2003 = 3.4 per cent), weighted with (0.55), the inflation resulted about 1.87 per cent. So, in total, the inflation perceived by consumer was expected to be about 3.7 per cent for 2004. This indicated that consumer expectations on inflation, were within the band, aspired by the central bank.

It seems that high inflation perception of consumers, contradicted to some extent the business opinion. Businesses considered the increase of wages, closely related to the fact that the latter boost the work incentives. On the other hand, even businesses (all from the private sector of the economy) consider that an increase of wages addresses more to a higher experience

at work. Competition and increases of wages in the public sector were also listed by businesses among the factors influencing the increase of wages. This policy resulted to be far off the wage-indexing problem for the effect of past and expected price increase. At some extent, it reflected lack of the real role of trade unions at the job market in Albania. So the right of negotiation and renegotiation was evidenced as too weak.

Nevertheless, if we go back to a weighted accounting of an increase of wages due to the increase of prices, we can note that even businesses have had a perceived inflation in 2004, although lower than that of consumers. If weighted factors for past and expected increases (of inflation and wages in the public sector) of prices would be respectively 0.2, 0.2 and 0.1 (because they are at the end of the rank), the perceived inflation for the business group would be about 1.27 per cent. While, due to the current inflation (November 2003 = 3.4 per cent), weighted with (0.5), it would result in roughly 1.7 per cent. In total, businesses would estimate the expected inflation, for the 2004, of about 2.97 per cent.

For both groups, by weighting their opinions concerning expectations on inflation², the expected inflation for the 2004 could result about 3.4 per cent, a signal indicating that, although this category of inflation resulted within the band of 2-4 per cent, the monetary policy during the 2004, should not skip it. Actually, it is obvious that during the forecasting process, these were carefully considered. By reflecting on the factual figure of the annual inflation rate, which resulted only 2.2 per cent in December 2004, one year later, we can assess that inflation resulted lower than public expectation and as well as by predictions of central bankers themselves on it, at the year-start (January 2004).

It is important to verify how public (business and consumer) expectations will be reflected on the inflation of the following year. Starting by the existence of a low negotiated power during the defining of wages, we can conclude that the transmission channel of public inflationary expectations at the level of wages and then of prices, is not complete. Hence we can explain the fact that the level of expectations is not fully reflected at the current level of inflation. Therefore, expectations on a more increased inflation by the public exist at relatively high levels, but they will not be fully transmitted through the income's channel.

Declaring a quantitative objective on inflation by a central bank, helps in the improvement of expectations converging (Castelnuovo, Altissimi & Palenzuela 2003)³.

This means that, in the near future, even the Albanian public will be more oriented toward its expectations on inflation, although it is part of a process based on its confidence towards the Bank of Albania, and the transparency the latter has towards the public.

² Weighted elements are 0.3 for businesses and 0.7 for consumers (the weight of each group toward the total).

³ Actors support this conclusion, for a number of industrialized countries.

Box 1 Surveys of BCI and CCI and expectations on inflation.

Chart 4 presents an effort made for exploiting the surveys of BCI and CCI to measure the public inflationary expectations. Through this chart, we note a phasing-out in the expected and factual inflation tendencies. The modification of the questionnaire on inflation is expected to bring a clearer view of the expected inflation through surveys⁴. In addition, the increase in the number of surveys would enable the application of the expectation's quantification methodology, on more complete time-series making them more confident.

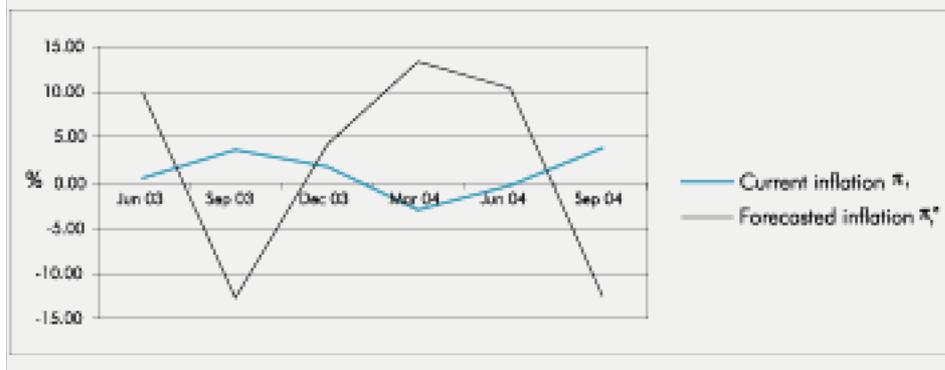


Chart 4 Forecasted inflation rate toward that realized

Question 1 on the wage review frequency offers more information concerning wage policies in our country. From the survey results, it comes out that, in general, companies do not apply defined indexing policies and this is especially highlighted in the construction industry, where 70 per cent of businesses affirm lack of reviewing policies. Even here is noted an asymmetry between consumers and employers. Therefore, 65.4 per cent of consumers affirm the need of annual basis indexing, while 56 per cent in average of businesses affirm the lack in reality of indexing policies.

The choice by consumers of annual basis indexing could express a sort of uncertainty for the future or knowledge of annual indexing practices at the public sector. The discrepancy with the business opinion witnesses, once again, the low negotiated power in the job market.

Public (consumer and business) opinion suggests that in lack of indexing policies or in presence of annual basis policies, it exists a high degree of wage flexibility. This fact is of a certain interest for the Bank of Albania monetary policy, as at the anchored expectation conditions, its monetary policy effects could be transmitted more rapidly at the wage level and consequently at the price level.

It seems as a positive signal the fact resulting from question 4, that the published inflation is information regularly attended by consumers. It is ranked first among indicators, the Albanian consumer is more interested in. This information holds up the fact that, by one hand, the educative aspect of the

⁴ Details on the method used for the measurement of expectations through surveys, and expected modifications on its application are found at the in-depth paper "Measurement of expectations" (R.Nasto, DK).

Bank of Albania is increasing annually, on the other hand, it seems that in the near future, this prepared public itself become an active part in understanding signals “transmitted” by the monetary policy.

Although the inflation indicator is attended even by businesses, it is ranked after the exchange rate. The high interest of businesses towards the exchange rate is explicable by its importance in defining costs, especially for businesses having an import activity, while the information on interest rates is interesting for the impact they have on the borrowing level for business.

Regarding the information on interest rates, it seems that consumers are still far off. The limited familiarization of the Albanian public with these rates is judged to be linked to the lending, currently limited in the Albanian economy, and to the lack of an active financial market.

3. CONCLUSIONS

This analysis addresses some preliminary ideas on inflation expectations and public perceptions, in relation to this indicator. We suggest that these ideas can serve as a comparative point for further studies at this aspect.

Asymmetry between consumer and business expectations is related to the different interests that these groups have on the market. On the other hand, the analysis verifies that the job contract’s market favors the employers, evidencing the very weak aspect of the trade unions. The wage-indexing problem against the expected increase of prices is not supported by businesses, while consumers require it.

This leads to the fact that the transmission channel of public inflationary expectations, regarding the wage level and then prices, is not complete.

The expected inflation perceived for 2004, would be about 3.4 per cent, within the margins forecasted by the central bank. Compared to the factual inflation, at the end of 2004 (2.2 per cent), it seems that expectations turned up stronger, a fact which verifies, to a certain degree, the overestimation of this indicator by the public.

For the Bank of Albania, as the institution responsible of the monetary policy, it is important the knowledge of the inflationary expectation level and their effect at the price level or in other terms, the knowledge of expectation-wage-price spiral elements.

While the present material brings out some conclusions on the first link of this spiral, it would be interesting to bring forward the study of the second link and concretely considerations on which the business setting-price behavior is based, in order to identify potential risks that the maintenance of the price stability in Albania is faced with.

It is interesting for the Bank of Albania that the attendance of the inflation indicator by the public, gives a very positive signal for the increasing degree of its awareness. Perhaps, the bank of Albania monetary policy would be at the same level as interested to the public awareness on interest rates. This fact is not witnessed by the information brought in by this analysis. There are signals given through the interest rates, which transmit messages for the maintenance of inflation at the forecasted levels.

We would recommend that such questionnaire should be applied not only quarterly to evidence tendencies and to estimate them quantitatively, as it is really done at the BCI and CCI surveys, thus creating, step by step, a sequence of expectations on inflation. It should be more quantitative at the end of the year, in order to get a specific information only on expectations and resources they would create over the next year. Such estimations could help in enriching the forecasted scenarios on inflation, by clarifying the expectation channel in the transmission scheme of monetary policy.

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Bank of Albania, Monthly Statistical Report, December 2004, www.bankofalbania.org.

Castelnuovo E., Nicoletti S., Rodriguez-Palenzuela R. (2003), "Definition of Price stability, range and point inflation targets: The anchoring of long term inflation expectations" ECB Working paper.273.

Nasto R., "Measurement of Expectations" (2005), Discussion Paper under process, Bank of Albania.

BANK OF ALBANIA OVER A THREE-MONTH PERIOD (JANUARY – MARCH 2005)

*“Monetary Policy Issues and Inflation forecasting”
– Workshop organized by
the Bank of Albania*

On January 26, 2005, at Tirana International Hotel was organized the workshop “Monetary Policy Issues and Inflation Forecasting”. The workshop aimed at organizing a discussion between experts from neighboring central banks and further, on issues such as monetary policy and inflation forecasting, transparency increasing, liquidity forecasting etc.

In his speech, the Governor of the Bank of Albania expressed some opinions on the monetary policy and inflation forecasting process of central banks and the Bank of Albania, in particular. Mentioning the satisfactory results that the monetary policy achieved over the last years, in terms of maintaining price stability, he emphasized the work initiated by the Bank of Albania with the assistance of FMN, in designing the richest structural models for inflation forecasting, that best match the actual and expected economic developments.

Meanwhile, Mr. Fullani expressed the objective of the Bank of Albania to keep the inflation in low levels and the commitment of the latter to further continue structural reforms, with the aim of enhancing banking sector intermediation and financial services provision.

In this view, he mentioned the strategy developed by the Bank of Albania, in close consultation with commercial banks, governmental institutions and the private sector, for increasing the use of the banking system in the regular conduct of business, in the framework of reducing cash in economy.

*Bank of Albania grants the
preliminary approval of the
license to exercise banking
activity in the Republic of
Albania to the proposed
“Union Bank” sh.a.*

On February 09, 2005, the Supervising Council of the Bank of Albania adopted the granting of a preliminary license to exercise banking activity in the Republic of Albania, to the proposed “Union bank” sh.a. The decision was based on the Supervision Department’s conclusions, that all conditions required by law No.8365, dated 02.07.1998 “On banks in the Republic of Albania” and other respective provisions issued by the Bank of Albania and the law No. 8269, dated 23.12.1997 “On the Bank of Albania” are met.

The object of the Union Bank company activity will be in conformity with the law “On banks in the Republic of Albania” and the license granted by the Bank of Albania.

*The First Congress of
Accountants and Financiers*

On February 10, 2005, at the Pallati i Kongreseve, was held the First Congress of Albanian Accountants and Financiers, the first event of such dimensions in Albania. At this Congress, professionals of the area discussed on important problems of accounting and finance, emphasizing the big challenges of the

future, concerning the unification of the accounting evidences in conformity with the International Financial Report Standards. This would provide a more real reflection of the accounting situation and would help to better control the informal economy and the fiscal evasion.

The use of modern payment instruments, their priorities and benefits to different interest groups, and their real contribution to reducing cash and informal economy, were the main lines of focus at the negotiating table held by the Governor of Bank of Albania, Mr. Adrian Fullani, with the public and private businesses and utility service representatives, at the premises of Sheraton Hotel, on February 25, 2005.

Meeting of the Governor of the Bank of Albania with businesses and companies of utility services

Benefits would include the Albanian economy in general, by reducing cash and informal economy, increasing deposits and volume of credit in economy, and further empowering and consolidating the local banking system, and business in particular. The latter records as its priority, lowering costs and improving the process of controlling the collection of bills, enhancing public services, and expanding and strengthening its relations with the bank.

On viewpoint, Mr. Fullani emphasized the steps made so far in the modern payment world. He drew the attention to banking payment products, already realized or expected to be realized within a short period of time, such as: the creation of the Automated Electronic Clearing House, where utility companies will be the main beneficiaries; the geographical expansion of banking services and branches; the introduction of Internet Banking; the provision of card payments within the country and abroad, either for Albanian citizens or foreigners, and the beginning of a cooperation between banks for the establishment of joint networks using plastic cards.

Finally, Mr. Fullani presented as a next challenge of the banking system, the establishment of a joint network for national inter-bank card payments, the extension of card penetration scale and the presence of payment terminals in points of sale – in other words - the creation of a “unique card” for the whole system.

On March 23, 2005, at the premises of the “Adriatik” hotel in Durrës, the Bank of Albania and the National Bank of Macedonia signed a Memorandum of Understanding in the banking supervision area. The Memorandum was signed by the Deputy Governor of the National Bank of the Republic of Macedonia Mrs. Emilija Nacevska and the Second Deputy Governor of the Bank of Albania, Mr. Limos Malaj. The Memorandum of Understanding in the banking supervision area represents a document, containing principles on the relations between these two institutions, in terms of cooperation and exchanging of information on the banking system situation in their respective countries. Principles will be applied in function of the relevant legislations in Albania and Macedonia. The Memorandum will serve also to integration and financial stability.

The signature of a Memorandum of Understanding in the banking supervision area between the Bank of Albania and the National Bank of Macedonia

*The Vth International
Conference of the Bank of
Albania "Central Banking in
the Time of Integration"*

On 24 - 25 March 2005, at "Adriatik" hotel in Durrës, was held the V International Conference of the Bank of Albania "Central Banking in the Time of Integration". In the conference participated many guests from local and international organizations, personalities of the academic and banking area, who launched ideas and discussed many important problems, in conformity with the Albanian economic reality.

Discussions in the conference focused on two specific themes of the central banking: the price stability, mainly on the monetary policy effectiveness, and the financial sector stability and development.

Speakers addressed many other important issues, such as the clarity of monetary policy channels and enhancement of the effectiveness of its instruments, the role of independence not only on monetary policy, but also on financial sector stability and development, the importance of a better coordination between monetary and fiscal policy, and that of the creation of a real financial market, where all actors know rules of game and obey them fairly.

The guests accepted that the banking system is a regulated and a well-supervised segment, which in the context of last developments has generated confidence to the public, but there is still room for a review of the legal and regulator framework, in term of enhancing foreign exchange market flexibility, credit policies and money market.

The Conference ended with the presentation of conference's conclusions by the Governor Fullani, where among others, he appealed for an increase in the spirit of cooperation not only within the country but also in the regional framework and further, in the path towards the development and integration.

*Bank of Albania lowered the
core interest rate by 0.25
point of percentage*

By the decision of March 30, 2005, the Supervisory Council decided to cut the core interest rate by 0.25 percentage points. After this change, the interest rate of repurchase agreements and reverse repurchase agreements went down to 5.00 percent, then representing a new historical minimum, since the period of its use as a main instrument of implementing monetary policy.

The reduction of the core interest rate aims at further enhancing the monetary stimulus, accumulated by the moderating steps of monetary policy followed over the last year. The reduction of the core interest rate is expected to influence the reduction of interest rates at financial market segments in lek: at inter-bank market, deposit market in lek, treasury bills market and in that of credit market in lek. The reduction of interest rates will stimulate the demand for credit in lek, by increasing its credit share, then creating the conditions for accelerating its pace in the future.

LEGAL EVENTS JANUARY – MARCH 2005

MONETARY POLICY

On March 30, 2005, the Supervising Council of the Bank of Albania adopted the decision No. 24 "On the approval of reducing the interest rates of repurchase agreements and reverse repurchase agreements". By this decision, the Supervisory Council decided to cut the core interest rate by 0.25 percentage points. After this change, the interest rate applied is 5.00 percent, representing a new historical minimum.

SUPERVISION

On January 26, 2005, the Supervising Council of the Bank of Albania adopted the decision No. 3 "On a change in the regulation on granting the license to exercise a banking activity in The Republic of Albania". The change made to the regulation adopted by the decision No. 71, dated 11.09.2002, consists in the substitution in the article 1, points 1.5 and 1.6, of the value 700 millions lek with the value 1 milliard lek. It represent, respectively, the minimum amount of the initial capital paid in cash for granting the license to this bank and the minimum amount of the initial capital granted and paid for granting the license to a branch of the foreign bank.

On January 26, 2005, the Supervising Council of the Bank of Albania adopted the decision No.4 "On defining the terms of fulfilling the request to increase the capital required by banks". Banks and branches of the foreign banks are obliged to deposit 50 per cent of the difference in the increased capital, according to the licensed activities, within 18 months from entering to force the decision No.3, dated 26.01.2005 "On a change in the regulation on granting a license to exercise banking activity in the Republic of Albania", while the remaining part, within 3 years from the entering to force of this regulation.

On February 09, 2005, the Supervising Council of the Bank of Albania adopted the decision No. 11 "On approving the supervision mission document". The document aims at defining the Bank of Albania mission as supervising authority of banks and of other subjects, and means to use for realizing its functions, aiming to achieve the highest level of integrity, efficiency and transparency.

On February 09, 2005, the Supervising Council of the Bank of Albania adopted the decision No.12 "On granting a preliminary approval of the license to conduct banking activity to the proposed "Union bank" l.t.d. The decision was made based on the Supervision Department's conclusions, that

all conditions required by law No.8365, dated 02.07.1998 "On banks in the Republic of Albania" and other respective provisions issued by the Bank of Albania, and the law No. 8269, dated 23.12.1997 "On the Bank of Albania", are fulfilled.

On March 30, 2005, the Supervising Council of the Bank of Albania adopted the decision No.28 "On the approval of the regulation on supervising banking transactions by electronic means". The new regulation includes organizational and technical conditions to realize banking services by e-banking, to perform verifications by the Bank of Albania for this service, and principles of e-banking activity risk administration.

MONETARY OPERATIONS

On February 09, 2005, the Supervising Council of the Bank of Albania adopted the decision No.13 "On approving the type-contract of repurchase and reverse repurchase agreements of securities". The agreement signed between the Bank of Albania and the second-tier banks, defines the rights and obligations of parties in the monetary instrument implementation process. Its design and approval make up a contribution in creating the inter-banking market towards the stimulation of the collateralized lending, in particular. The contract has a validity term of one year.

ISSUE

On March 09, 2005, the Supervising Council of the Bank of Albania adopted the decision No.18 "On the approval of the configurations of commemorative coins designs minted for numismatic purposes, in 2005". Configurations belong to coins with a monetary denomination of 10 lek. The subject of the coin view will be "Tirana, 85-years as a capital, 1920 – 2005" and "Objects of cultural inheritance".

On March 09, 2005, the Supervising Council of the Bank of Albania adopted the decision No.19 "On the way of assessing the numismatic values in the Bank of Albania, free of charge". The decision came out as a result of examining the proposal made by the Department of Issue and the Department of Accounting and Payments, pursuant to law No. 8269, dated 23.12.1997 "On the Bank of Albania"; to law No. 7661, dated 19.01.1993 "On the accounting" and to "The Bank of Albania Accounting Manual" adopted by the decision of the Council of Ministers No. 50, dated 26.01.2001.

On March 30, 2005, the Supervising Council of the Bank of Albania adopted the decision No.27 "On minting coins for numismatic purposes, for 2006". By this decision, the Supervisory Council approved the minting and technical data of coins in silver, with the domination of 50 lek, without legal tender, with subject "The Crimson Codex of Berat - Beratinus 1", for numismatic (commemorative) purposes.

BUDGET POLICY

Guideline of Ministry of Finances no. 8, dated 27.01.2005 "On the implementation of the State Budget for 2005".

ECONOMIC POLICY

Decision No. 1 dated 25.01.2005 of the Regulator Entity of Power "On the approval of power's market regulations". The authority approving the power's market regulations is based on law No. 9072 "On the power sector" and concretely on art. No. 54.

Decision No. 2 dated 25.01.2005 of the Regulator Entity of Power "On granting to the GSA I.t.d." the license to exercise the activity of qualified power provider. The term of license to exercise the power provider activity is 5 years.

Decision No. 3 dated 25.01.2005 of the Regulator Entity of Power "On granting a to the GSA I.t.d." the license to exercise the power importing activity. The term of license to exercise the power importing activity is 1 year.

BANK OF ALBANIA MANAGEMENT MARCH 31, 2005

SUPERVISORY COUNCIL

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

GOVERNOR

ARDIAN FULLANI

DEPUTY GOVERNORS

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

GENERAL INSPECTOR

ELSA BIZHGA

DEPARTMENTS AND OTHER UNITS

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
XHILDA KANINI	Information Technology and Statistics Department
DASHMIR HALILAJ	Legal and Human Resources Department
INA KRAJA	Public Relations Department
ELSA BIZHGA	Audit Department
AGRON SKËNDERAGA	Logistic Services Department
ALFONS THEKA	Printing House

BRANCHES

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

LIST OF ALL ENTITIES 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: *Giovani 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

* Up to March 31, 2005

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 KRASTEVE
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 TO 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 BANKING LAW 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 Pavllovski, 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 Saraçevë, 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 Gjolllesha", Tirana, Albania
Broker: Leonora Mihalcka
25. "EXCHANGE 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: Rruga "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

