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## QUARTERLY REVIEW OF ALBANIAN ECONOMY, FIRST QUARTER

JUNE 2005

### I. GOVERNOR'S SPEECH

First months of 2005, though under the conditions of incomplete data, seem to have maintained the paces observed recently. First quarter of 2005 is assessed as having maintained unchanged the main macroeconomic ratios present during the last quarter. This gives us the possibility to deem that Albanian economy is expected, for the rest of 2005, to continue further consolidation of the country's macroeconomic stability, in accordance with the objectives specified in the mid-term development program of the country for 2005 – 2007.

More concretely, during the year there is intended a stable economic growth at about 6 per cent, an annual inflation level within the 2 – 4 per cent band, an adequate level of foreign reserves, and a further narrowing of current account deficit. The economic growth for 2005 is expected to be sustained mainly by rise in the sectors of services, construction and further on by rise in the sectors of transport, agriculture and industry.

Budget revenues during 2005 are expected to mark an annual growth of about 12 per cent compared to 2004, maintaining the same relative level to GDP (22.5 per cent). On the other hand, while performing public spending, the increase of efficiency and better financing of sectors and priority programs is intended. Continuation of reforms in taxation and customs administration, as part of structural reforms of the country, associated with the efforts to restrict the informal economy extension, will increase the level of budget revenues and will create the possibility for raising the expenditures, particularly in the main sectors of economy.

The maintaining of inflation rate at low positive levels is the mid-term strategic objective of the monetary policy pursued by the Bank of Albania. Low positive inflation levels ensure market stability and support economic growth. Even for 2005, the inflation target is expressed in maintaining the annual growth rate of consumer price index, estimated and published by INSTAT, within the 2-4 per cent band. Given the economic growth forecasts for 2005, the Bank of Albania inflation rate target, and monetary development trends, the Bank of Albania will aim at controlling the money supply growth at 9.8 per cent for 2005. The Bank of Albania will continue to maintain a floating exchange rate. Macroeconomic developments and inflation rate performance have supported the further monetary policy smoothing, following the cut of core interest rate at the end of 2004. Demand pressures have been lessening, balancing almost totally the effects of oil price rises in international markets and of administered prices in the country. The smoothing of inflationary pressures is reflected in low inflation rates during the first months of the year.

Also, inflation forecasting for the coming months indicate that inflationary pressures will remain weak in the first half of the year. Under these conditions, at the end of March, the Bank of Albania cut the core interest rate by 0.25 percentage points, leading it to the lowest historical level of 5 per cent. The banking system has reflected this reduction in cutting the interest rates of deposits, Treasury bills in Lek, and to a smaller extent, in decreasing the Lek credit interest rates.

The so-far achievements in consumer prices indicate that the general level of prices during 2004 and during the first quarter of 2005 is considerably conditioned on the foodstuff price performance, the administered price rise of electricity and the exchange rate developments. The falling prices of food products, caused by the rise of agricultural production supply, have exerted downward pressures on the annual inflation rate since May 2004. The fall of prices of these products on an annual basis is also evidenced in the first quarter of 2005, which is not typical for this period of the year. Electricity price rise in January allowed the inflation of the respective group, as well as total annual inflation, increase. Till the extinction time of price rise effect, so in January 2006, the contribution of electricity price rise is expected to remain within the level of 2.4-2.5 percentage points. On the other side, oil price rise failed causing a significant increase of inflation due to the small share of "Transport" group in the consumer basket and to the positive effect of Lek strengthening versus American dollar. During 2005, the Bank of Albania monetary policy will aim at promoting the economic activity through investment support from the private sector, without infringing the objective of achieving inflation target and financial stability of the banking system in the future.

During 2005 macroeconomic policies will focus on the external sector developments, particularly on current account deficit performance, which during 2004 stood at 5.3 per cent of GDP. Current deficit to GDP has been decreasing over the last three years. Meeting the target of tightening the current deficit may be complicated during 2005 as a result of exchange rates volatility, while overall position of balance of payments will continue being closely linked with the financing from privatization revenues. A positive signal given from year 2004 was the relative stability of imports, despite the Lek strengthening against Euro and American dollar for the most part of the year. On the other side, Albanian exports grew at a faster pace than imports, showing a slight increase of competitiveness in the European market. Year 2005 has begun with a sound foreign reserve position, covering 5.2 months of imports of goods and services, a little more than our objective for the year-end.

In general, year 2005 is expected to be a different year in terms of the Albanian economy development. The growth of tax revenues, as well as the rise of crediting to the economy, speak for a positive performance of the economic activity. The monetary indicators stability, the favorable financial conditions in the economy and the continuous enlargement of the banking system will further encourage this activity during 2005, allowing a more comprehensive use of financial potential of the Albanian economy. The Bank of Albania

deems that it's right time for the political authorities to capitalize over this moment, safeguarding the paces of structural reforms and designing concrete development policies and strategies. The Bank of Albania will continue to focus on designing and pursuing appropriate monetary policies to maintain price stability in the country and on providing the required conditions for the financial system development according to the most advanced standards.

## II. ECONOMIC ACTIVITY

### II.1 WORLD ECONOMY DURING FIRST QUARTER 2005

Year 2005 is expected to be characterized by positive developments, more or less similar to the developments highlighted during 2004. The supporting policies, the strengthening of corporations' financial condition and the financing facilities will positively affect the pace of economic growth. Notwithstanding the generally positive developments, the global economic growth is becoming further the less balanced. The world economy growth continues to be sustained by the growth of the United States and China, while the economic activity in the euro area and in Japan continues to be slow, away from the projected levels.

	GDP		Unemployment rate		CPI		Budget deficit (% of GDP)	
	2004	2005*	2004	2005*	2004	2005*	2004	2005*
USA	4.4	3.6	5.5	5.3	2.7	2.7	-4.3	-4.4
Euro area	2.0	1.6	8.8	8.7	2.2	1.9	-2.7	-2.6
France	2.3	2.0	9.7	9.5	2.3	2.0	-3.7	-3.1
Germany	1.7	0.8	9.2	9.4	1.8	1.5	-3.7	-3.5
Italy	1.2	1.2	8.3	8.0	2.3	1.8	-3.0	-3.5
Great Britain	3.1	2.6	4.8	4.7	1.3	1.7	-3.0	-3.1
Japan	2.6	0.8	4.7	4.5	-	-0.2	-7.1	-6.9
China	9.5	8.5	-	-	3.9	3.0	-	-

\* Forecasts of International Monetary Fund, World Economic Outlook, April 2005

Table 1 Data on the economies of some countries for 2004 and forecasts for 2005

Data on the beginning of 2005 indicate that the American economy will continue marking positive developments during this year, though the growth rate is expected to be lower than the one of 2004<sup>1</sup>. The real growth of gross domestic production is expected to range between 3.5-4.0 per cent, being more modest than the growth evidenced during 2004<sup>2</sup>. Price index of personal consumer goods, except for foodstuffs and energy, is expected to be about 1.5-1.75 per cent higher than the previous year. Labor market is expected to show improvement throughout 2005. Modest developments at the beginning of 2005 are noticed in the growth rate of industrial production, in consumer expending and in trade deficit, which, in January was around 5 per cent higher than in December 2005.

<sup>1</sup> For the American economy estimations are conducted by the Federal Reserve staff, February 2005.

<sup>2</sup> GDP growth rate for 2004 was 4.4 per cent.

The United States monetary policy tightened further during the first months of 2005. FOMC, during the three meetings of this year, raised the core interest rate by 25 percentage points, leading it to the level of 3.0 per cent. The draft-budget for the fiscal year of 2006 highlighted the objective of halving the fiscal deficit in 2009. The basic assumption on which the deficit reduction is based is the interruption of further defense expending for military operations in Iraq and in Afghanistan.

The euro area economic growth was a modest one over 2004. Forecasts for year 2005 place the economic growth within the 1.2-2.0 per cent band or a little lower than the growth of 2004<sup>3</sup>. The average rate of the Harmonized Index of Consumer Price is expected to range between 1.6 and 2.2 per cent. The growth of exports, based on foreign demand strengthening, will continue being the basis of economic development. During this year the domestic demand and labor market are expected to gradually become stronger. The latest data and different surveys of the euro area economic activity suggest that the economic activity marked a modest growth during the first months of 2005. Confidence indexes give different signals. Industrial index and service sector index marked a decrease during the first months of the year, while consumer confidence index remained unchanged.

Low interest rates, set mainly according to the core interest rate which remained at the level of 2 per cent since June 2003, have contributed to the monetary expansion in the euro area. However, the latest monetary and credit data suggest a slowdown of this expansion during the first months of 2005. The fiscal situation continue being a concern. The fiscal perspective is worsened for some countries of the euro area, since fiscal deficits are not projected to decrease and there are expectations for a further increase in certain countries.

Oil price rise continued in the first months of 2005, exceeding the top level reached in October of the last year. In March 2005, an unprocessed oil barrel<sup>4</sup> costed above 57 USD. The so-far oil price rise effect on global growth and on inflation have been manageable, partially due to the strong growth of world demand, partially due to the improvement of central banks confidence in their anti-inflationary policies.

In March, Organization of Petroleum Exporting Countries decided to increase oil production by 500,000 barrels a day and the relevant agreement entered into force immediately. World oil consumption is expected to increase to 86.1 million barrels a day during the fourth quarter of 2005, a period during which is the top demand is recorded<sup>5</sup>.

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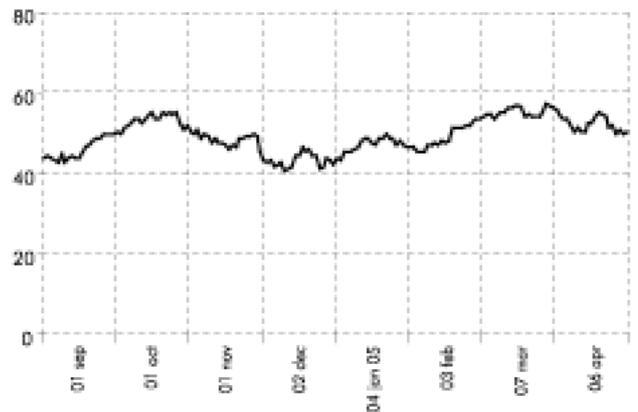
<sup>3</sup> For the euro area economy estimations are conducted by the European Central Bank staff.

<sup>4</sup> US light crude.

<sup>5</sup> International Energy Agency forecasts.

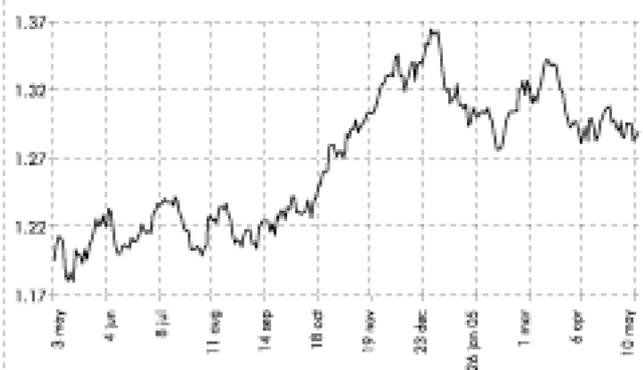
Exchange rate markets fluctuated during the first months of the year. Euro dhe American dollar were depreciated and revalued during the last months, reflecting the signals that have come from respective economies. The American dollar is appreciated versus the Euro during the month of March and at the beginning of April due to the continuous rise of the difference between interest rates in the euro area and in the United States. But, signals given by the American economy during the first half of April for a potential slowdown of the economic activity, led to the reduction of stock market yield and of long-term debt. This reduction is believed to have negatively affected, at least temporarily, the US dollar performance. In the second half of April, the US dollar regained its lost scores since expectations on the euro area economic growth were revalued as being lower than initial projections. At the beginning of May, 1 Euro was changed by 1.28 USD, being about 4 per cent lower than the value of Euro at the beginning of 2005.

Chart 1 Performance of unprocessed oil price per barrel in USD



Source: Bloomberg.com

Chart 2 Performance of exchange rate USD/EUR



Source: European Central Bank, May 2005

## II.2 ALBANIAN ECONOMY DURING FIRST QUARTER OF 2005

### II.2.1 Real sector

#### II.2.1.1 Agriculture branch

Agriculture branch grew by 4.4 per cent over 2004. This growth was higher than projections at the beginning of the year and higher than the growth of the previous three years. Year 2005 is expected to experience a much higher growth (4.7 per cent), approaching to the growth rate of year 1998. The agro-industry sector, which is assessed as having increased by 10.2 per cent during 2004, is expected to give once again the major contribution to this growth. In concrete terms, for year 2005 it is expected that agriculture sector grows by 3.1 per cent, agro-industry sector by 12 per cent and fishery sector by 10 per cent. This growth will be sustained by different stimulating policies. The help consisting in reducing fuel price that is used in agriculture will lead to the reduction of agricultural work cost, to the rise of mechanization degree and the increase of farmers' interest in the agricultural production. Also, the extension of plots of land, the improvement of seed quality and the rising interest of farmers in having a higher earning rate, adopting the most advanced technologies, confirm the expectations for a growing agricultural production. Based on these projections, the presence of domestic agricultural products in the market is

expected to increase, which will exert downward pressures on agricultural product price level.

Table 2 Evaluation of agricultural production over 2004 and expectations for 2005

	Growth 2004 (%)	Growth 2005 (%)	Weight (%)
Agriculture	3.2	3.1	81.6
Plants	3.3	2.5	44.2
Animal farming	3.1	3.8	37.4
Agro-industry	10.2	12.0	17.3
Fishery	7.9	10.0	1.1
Total	4.4	4.7	100.0

\*Source: Ministry of Agriculture and Food

During the first quarter of 2005, the so-far estimations indicate that farmers are more oriented towards cultivating vegetables, mainly greenhouse vegetables, fruit-trees and producing animal products, while interest in the production of cereals is characterized by a falling trend. The bad weather conditions and low temperatures observed even throughout the spring postponed the sowing process of spring plants, a process which still continued during the month of May. However, the postponement of sowing time is believed to have no effects on the production level of 2005, since sowing is going ahead rapidly.

Agricultural production growth during 2004 consisted mainly in the growth of fruit production, the doubling of olive production and the growth of animal products. The growth of production in animal farming sector by 31 per cent has come as a result of high growth of egg and milk production, which enabled the market to supply its needs with these products. The rise of rentability remains the main factor influencing the growth of animal products.

The 2004 investments are sustained at 36 per cent by foreign investments, at 23 per cent from the State budget and at 41 per cent from farmers themselves. The farmers have used 90 per cent of their funds, while 10 per cent of these investments are financed through bank credits. The financing from banks has occupied a considerable place in the investments made in agro-industry sector. During 2004, for the first time the size occupied by the processing of agricultural and animal products from the farmers themselves was estimated at 75 per cent of the processing industry production.

### II.2.1.2 Energy

During the first quarter of 2005 the country was supplied with electricity at about 25 per cent more than the fourth quarter of the previous year, while the supplied quantity was about 7.4 per cent higher than in the first quarter of 2004. The domestic electricity production marked an increase of 6 per cent compared to production of the first quarter of 2004. The hydro-electric stations remain the largest domestic producers covering about 99 per cent of total production. Imports recorded an increase of 14 per cent during this quarter in comparison to the first quarter of 2004, while electricity exports marked a very high level, representing about 17 per cent of total production. The ratio of network losses to the used electricity quantity was lower than in the first quarter of 2004.

### II.2.1.3 Transport

Investments in transport sector amounted to ALL 2 billion during the first quarter of this year and marked a decrease of about 10 per cent compared to the investments made in the first quarter of the last year. The decrease has mainly come as a result of domestic investments decline by about 26 per cent, while foreign investments increased by 24 per cent, approaching to the level of domestic investments.

Air transport as well as sea transport marked an increase of the activity indicators during first quarter of the year. In this period, the number of passengers that have used the air transport increased by 15 per cent, while the number of flights increased by 23 per cent. Sea transport marked an increase of about 5 per cent during this quarter. According to the records in the main ports of the country, the volume of imports grew by 4 per cent and that of exports by 12 per cent. The volume of merchandise transport in Durrës Port, the main port in the country processing about 77 per cent of total merchandise volume in ports, decreased by 3 per cent.

On the other side, transport in the ports of Vlora, Saranda and Shëngjin increased by 41, 79 and 41 per cent, respectively. Railway transport evidenced a slight decrease in merchandise transport and a sharper decrease in the number of passengers.

### II.2.2 Fiscal sector

During the first quarter of 2005, State budget received the sum of ALL 45.4 billion, about 1.2 per cent more than the plan, while expenditures are highly performed at about 98.4 per cent in comparison to the plan, or ALL 46.8 billion in absolute terms. In comparison with the same quarter of the last year, revenues as well as expenditures grew in absolute nominal terms.

Tax revenues, which provide about 90 per cent of the overall revenues, have recorded a growth of 9 per cent in comparison to the first quarter of the last year. In comparison with the same period of 2004, during the first quarter of this year more revenues from the highest tax categories, such as value-added tax, income tax and excise tax, were provided.

Revenues from the independent budget, mainly due to the revenue growth from social insurance, were estimated at about 12 per cent higher than in the first quarter of 2004, while the level of non-tax revenues and of local government revenues marked significant changes.

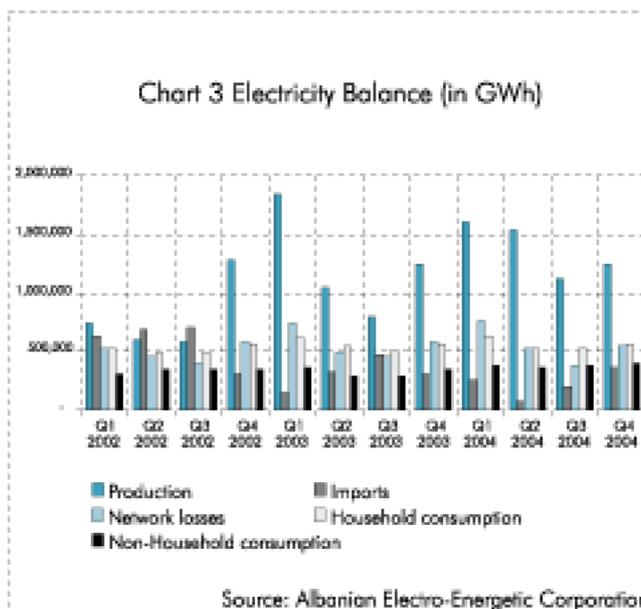
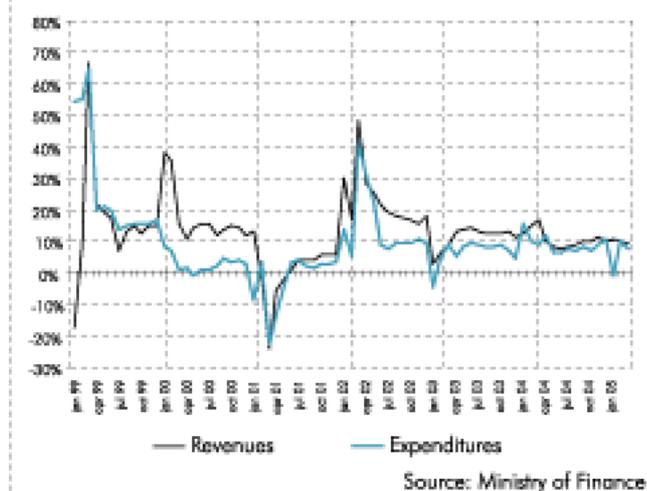


Chart 4 Annual growth of budget revenues and expenditures (cumulative data)



During first quarter of 2005, overall expenses were about 8 per cent higher than expenses of the same period of the previous year. In annual terms, current and capital expenses marked the same growth rates. In current expenses category, the main items recording an annual growth during the first quarter are: personnel expenses (12 per cent), operative expenses (10 per cent) and social and health insurance expenses (12 per cent).

Total capital expenses, including foreign-financing and domestic-financing, totaled ALL 5 billion or about 3 times more than in the first quarter of 2004.

The financing of the deficit during the first quarter is covered mainly by long-term foreign sources. The growth of personnel expenses in the form of salaries and payments for social insurance due to the increase of minimum salary, of minimum pension, of unemployment payment, etc, during the third quarter of 2004, doesn't seem to have caused inflationary pressures during the second semester of 2004 and during the first quarter of 2005.

### III. INFLATION PERFORMANCE

In the first quarter of 2005, the annual rate of consumer price change was ranging to the lower limit of the targeted band of Bank of Albania. After marking a growth rate of 3.3 per cent in January, annual inflation rate lowered to 2 per cent in the subsequent months. Annual inflation rated at 1.6 per cent in March, while average annual inflation rate resulted 2.5 per cent during the first quarter.

Table 3 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	1.6
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: Institute of Statistics

Low annual inflation rates started being observed in mid-2004. The decline in foodstuff prices, associated with the smoothing of inflationary pressures from

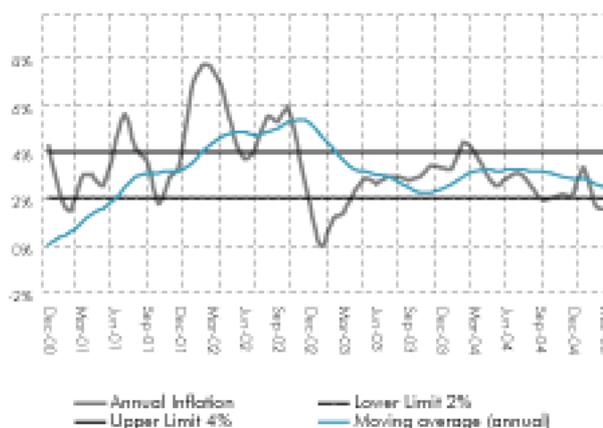
administered prices, made the annual inflation rates in this period become lower than those recorded in the same period of the previous year. Inflation rate stability is being stimulated by a prudential fiscal policy, while periodic cuts of core interest rate are appropriately made in size and in time without infringing inflation target. Low inflation growth rates in the country are partly attributed to the favourable developments in the foreign exchange market. The continuous appreciation of domestic currency, the Lek, has helped absorb the inflationary pressures from import prices.

### III.1 INFLATION AND CONSTITUENT GROUPS

During first quarter of this year, the factors that have exerted pressures on consumer price level were similar, in kind and in size, with those that came into play in the same period of the previous year. Like in the first quarter of 2004, annual inflation rate evidenced in the first quarter of 2005 is considerably defined by the contribution of groups: "Rent, water, fuel and energy", "Foodstuffs and non-alcoholic beverages" and "Communication" (Chart 6). Unlike the previous year, the last two groups recorded negative annual rates, exerting downward pressures on the general level of prices.

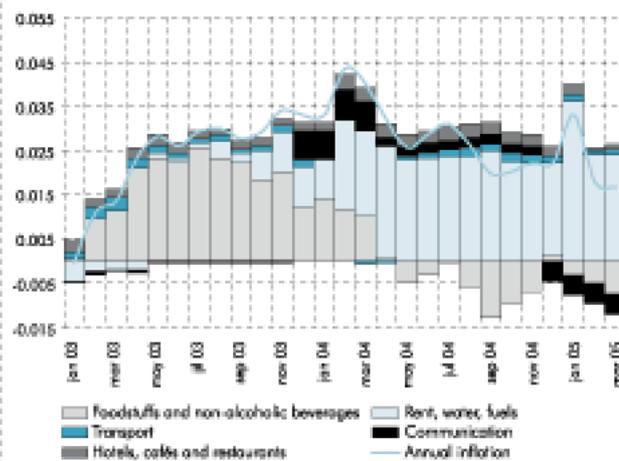
Since more than ten months (May '04 – March '05), except for December 2004, "Foodstuffs and non-alcoholic beverages" group has recorded negative annual inflation rates. Lower foodstuff prices have come as a result of the good condition prevailing in the agricultural market. Year 2004 has been a particularly good year in terms of agricultural production, which is assessed as having increased by about 4.4 per cent in comparison to 2003. The abundant domestic production, the fall of foodstuff prices in the partner countries, as well as the favorable developments in the exchange rate, made the prices of food products, mainly of agricultural products, consumed in the country, mark a sharp fall over this period. During January – March 2005, "Foodstuffs and non-alcoholic beverages" group impacted on the annual inflation rate by an average of – 0.5 percentage points, while the contribution of this group was estimated at an average of 1.2 percentage points during the first quarter of 2004. This group has contributed in the annual inflation and monthly inflation of March 2005, respectively by – 0.7 and –0.1 percentage points.

Chart 5 Annual inflation (in percentage)



Source: Institute of Statistics

Chart 6 Contribution of main groups in the annual inflation (in percentage points)



Source: Institute of Statistics and Bank of Albania estimates

Since more than a year, “Rent, water, fuel and energy” group has given the main contribution to creating the annual inflation rate. The rise of electricity prices for households in January, made the annual inflation rate mount to 3.3 per cent. Electricity price rise made the contribution of inflation rate of this group in the general inflation rate be considerable and higher than the contribution given in the first quarter of 2004, during which an electricity price rise was observed too.

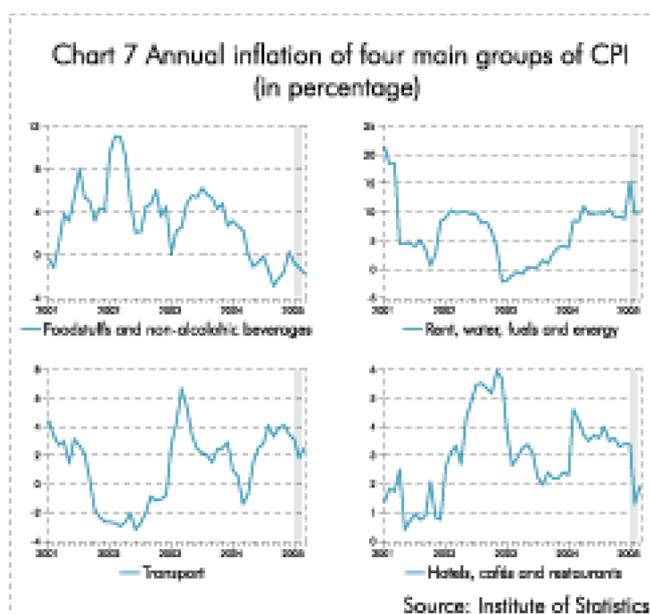
Table 4 Annual inflation and contribution in inflation of “Rent, water, fuel and energy” group

	Annual inflation (%)		Contribution in (pp)	
	2004	2005	2004	2005
“Rent, water, fuel and energy” group				
January	3.7	15.2	0.9	3.6
February	8.5	9.8	2.0	2.4
March	8.3	9.9	1.9	2.4

\*Source: Institute of Statistics, and Bank of Albania estimates

From May 2004 to March 2005, upward pressures exerted from “Rent, water, fuel and energy” group are counterbalanced by the negative inflation rates of “Foodstuffs and non-alcoholic beverages”, while, since December 2004, “Communication” group has also exerted downward pressures. This group has given a constant negative contribution of – 0.5 percentage points in the annual inflation during December ‘04 – March ‘05. For the subsequent months, “Communication” group is expected to give a positive impact, since the effect of price rise (in December ‘03) disappears in April of this year.

During January – March ‘05, prices of other groups of consumer basket fluctuated in a moderate way, without causing changes in the inflation structure. “Clothes and footwear” group and “Furnishing, house equipment and maintenance” group followed their downward trend, while other groups of the basket marked positive low inflation rates.



To annual inflation of March, these groups<sup>6</sup> gave a contribution of 0.3 percentage points. In the developments highlighted during this month, apart from the above-mentioned group we may specify “Transport” group, which marked an annual inflation of 2.5 per cent. Within this group, “Services to personal vehicles” sub-group<sup>7</sup> recorded the highest growth, with an annual and monthly inflation of 7.3 and 1.6 per cent, respectively. The increase of price index of this group is due to oil price rise.

<sup>6</sup> Basket groups without the groups of “Foodstuffs and non-alcoholic beverages”, “Rent, water, fuels and energy” and “Communication”.

<sup>7</sup> This group includes oil price.

	Inflation in (%)		Contribution in (pp)	
	Monthly	Annual	Monthly	Annual
Foodstuffs and non-alcoholic beverages	-0.2	-1.7	-0.08	-0.7
Rent, water, fuel and energy	0.0	9.9	0.00	2.4
Communication	0.0	-24.4	0.00	-0.5
Other			0.04	0.3
Transport	0.8	2.5	0.04	0.1
Hotels, cafés 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 estimates

Table 5 Annual and monthly (March) inflation and main groups contribution to inflation

### III.2 FACTORS INFLUENCING THE CONSUMER PRICES

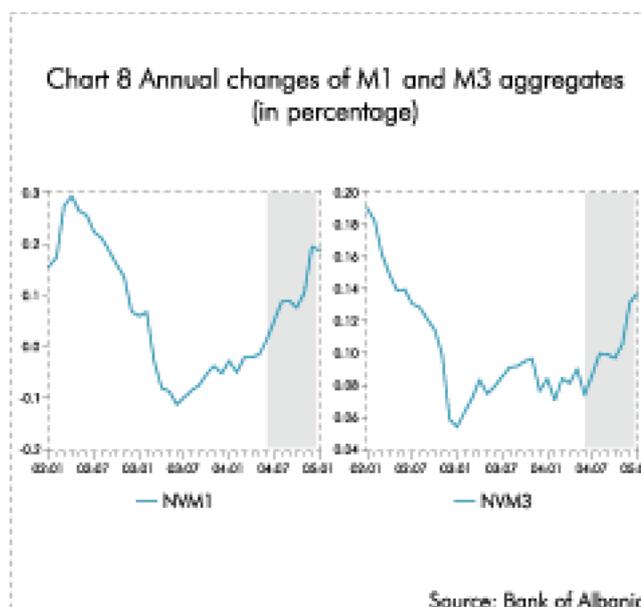
During first quarter of 2005, average inflation rate was 2.5 per cent. January marked the highest annual rate (3.3 per cent), while February and March were characterized by inflation rates lower than 2 per cent. Developments in demand and supply factors maintained generally the last year's features, meaning that this quarter was not characterized by important structural changes.

#### III.2.1 Demand factors

Demand factors, like in the previous year, allowed to create a favorable environment for inflation rate control, without exerting inflationary pressures.

During 2004 the fiscal policy has been a prudential policy in terms of implementation of its fiscal program. The fiscal indicators have met the projected levels being performed uniformly, without leaving room for unexpected shocks. During the first quarter of the year, budget expenses marked an increase in comparison to the first quarter of the previous year, but this increase is mainly concentrated in February and in March. Expenses growth, which has come mainly as a result of current expenses growth, has not exerted inflationary pressures during the said period. The harmonization of monetary policy with fiscal policy has helped create a safe macroeconomic environment to control and maintain inflation rate stability.

The Bank of Albania has continued to follow an easing monetary policy, which is reflected in the controlled core interest rate cuts. Core interest rate is one of the main channels of transmission of monetary policy influence on real economy. Interest rate cuts aim at lowering the borrowing cost in the economy. Due to low inflation rate, real interest continues to be positive, turning into attractive instrument to absorb free funds and concentrate them in the banking system, which is reflected in the reduction of the ratio of currency outside banks to money supply. Also, monetary supply growth has been controlled,



which allowed to maintain macroeconomic equilibriums and keep inflationary pressures under control.

Lek maintained strong positions versus foreign currencies – Euro and US dollar – even during first quarter of 2005. The Lek appreciation trend during this period was falling. Lek appreciation acts as an anti-inflationary factor, since it smooths down the inflationary pressures of imported inflation. In addition, Lek appreciation versus foreign currencies made the confidence in the domestic currency increase, which anchored inflation expectations at low levels.

The domestic demand<sup>8</sup> growth, the good condition of retail market<sup>9</sup>, and the increase of salaries in the public sector did not generate inflationary pressures in the country.

### III.2.2 Supply factors

Supply factors have exerted a stabilizing impact on the consumer price developments. During the whole quarter the Albanian economy is not characterized by internal or external shocks that might unbalance the stability of macroeconomic indicators.

Low inflation rates in the main partner trading countries speak for a external economic and trade environment of non-inflationary trends. The Albanian economy dependance on imports implies a significant dependance of this economy on foreign prices and exchange rate performance. The modest growth of consumer prices in the partner countries is weakened as a result of Lek strengthening against foreign currencies, meaning that the imported inflation pressures have been insignificant.

Table 6 Annual inflation of main partner countries (in percentage)

	June	September	October	November	December'04	January '05	February
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

Domestic agricultural production played a determinant role in the foodstuff price performance. Thanks to the considerable weight in consumer basket, price performance of these goods has shaped, for the most part, the inflation rate profile even during the first quarter of this year. The extension of the planted surfaces and the investment growth in greenhouses have influenced and are expected to positively influence the agricultural production volume and the supply of these products in the domestic market. The annual decline in prices of these goods served as a balancing factor in the electricity price rise at the beginning of the year.

<sup>8</sup> Estimated based on retail sale index, which recorded an annual growth of 14.6 per cent in the fourth quarter of 2004.

<sup>9</sup> Retail sale volume index recorded an annual growth of 16.4 per cent in the fourth quarter of 2004.

In 2004, production prices marked during the whole year high growth rates, which are not transmitted in the consumer prices. An explanation beyond the statistical discrepancies or inaccurate measurements, may be the argument that our economy operates below its potentiality. The growth and strengthening of competitiveness might have bound the producers to delay or smooth down the transfer of production cost rise in the final product prices.

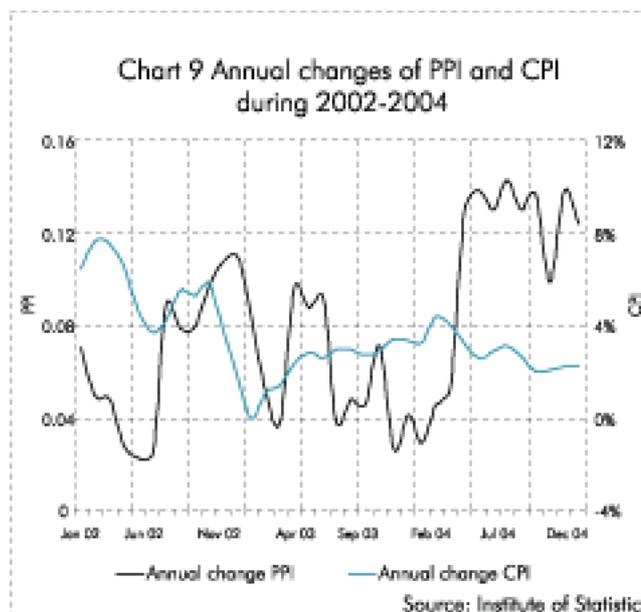
A potential risk for inflation in the country, either during 2004 or during this quarter, was oil price rise in the international markets. As it has been explained in the previous reports, a series of factors have eased the full influence of this rise. The small share this product<sup>10</sup> occupies in consumer basket, the Lek appreciation against US dollar and the conformity of domestic demand for this product<sup>11</sup>, served as barriers for the complete transmission of oil price rise to the domestic market.

#### IV. MONETARY DEVELOPMENTS AND FINANCIAL MARKETS

##### IV.1 MONETARY POLICY AND QUANTITATIVE OBJECTIVES

The Bank of Albania followed an easing monetary policy throughout 2004, cutting several times the core interest rate. Annual inflation recorded during the first quarter of this year, despite the pressure caused by electricity price rise, failed exceeding the upper limit of 4 per cent of the targeted inflation. In the absence of inflationary pressures during this period, the Bank of Albania adopted a neutral stance, taking care of creating appropriate conditions for reducing interest rates in the banking market. The easing of monetary policy is sustained during this period by a favorable reaction of monetary indicators, reflected in the controlled performance of equilibriums and of monetary aggregates growth rates.

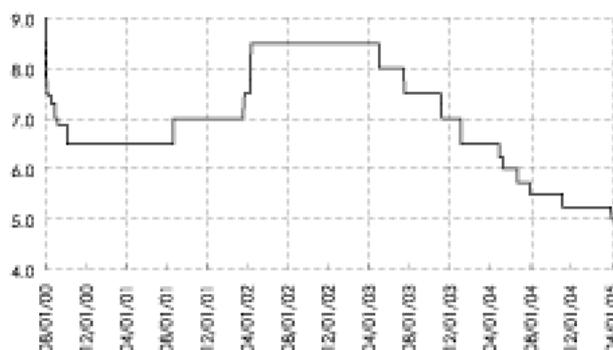
During the first quarter the interbank market is characterized by high levels of liquidity. Unlike the first quarter of the previous year, when inflationary pressures were higher, the Bank of Albania withdrew during this quarter, only temporarily, the seasonal excess liquidity, employing the weekly repos instrument. The permission of high liquidity levels in the interbank market aimed at creating downward pressures on interest rates. The latter ones have reacted in the expected direction. Interest rates decrease has been particularly evident for long-term instruments, leading to the leveling of time curve of interest rates.



<sup>10</sup> "Services to personal vehicles" sub-group, which includes oil price, occupies a share of 1.6 per cent in the CPI basket.

<sup>11</sup> During 2004 oil imports lowered by 2.4 per cent in the country compared to 2003.

Chart 10 Core interest rate performance



Source: Bank of Albania

In the end of March, the Bank of Albania decided to cut core interest rate by 0.25 percentage points, leading it to the minimum historical level of 5 per cent. This decision was made based on the need to adjust the current monetary conditions with the inflation target under the conditions of positive performance of monetary indicators. The ratio of currency outside banks to M3 lowered to 24.8 per cent in March, highlighting the lowest historical level in the last twelve years. This indicator marked a significant decrease of 2.4 percentage points during the first months of the year. The last cut of core interest rate is expected to be reflected in the further fall of interest rates in Treasury bills market, of deposits and credits in Lek. The easing of monetary conditions will serve as a driving factor towards enhancing the economic

activity for the rest of the year. The monetary policy followed by the Bank of Albania enabled to achieve its quantitative objectives till the month of March of this year.

Table 7 Meeting the quantitative objectives of Bank of Albania

	December '04	January '05	February '05	March '05
Net international reserves of the Bank of Albania (in millions of USD)				
Objective	941.7	985.3	1,029.0	1,072.7
Current	1,105.2	1,108.8	1,108.7	1,107.4
Difference	163.5	123.5	79.7	34.8
Net domestic assets of the Bank of Albania (in billions of ALL)				
Objective	79.0	72.3	67.2	61.3
Current	61.0	56.3	56.5	53.3
Difference	-18.0	-16.0	-10.7	-7.9
Net domestic credit to government (in billions of ALL)				
Objective	286.4	288.3	290.2	292.1
Current	286.1	286.9	288.9	287.8
Difference	-0.3	-1.4	-1.3	-4.3

Source: Bank of Albania

## VI.2 MONETARY AGGREGATES PERFORMANCE

Annual growth rate of money supply showed an upward trend during the first quarter of the year. Annual growth rate of M3 aggregate reached 14.4 per cent in March, increasing by 1.3 percentage points compared to the level recorded in December. The accelerated growth rate of money supply is attributed to the higher growth of deposits in foreign currency. M2 aggregate, the Lek component of money supply, knew a stable growth, as a result of the accelerated growth of credit to the economy, which has compensated the low demand of government for monetary assets.

The time structure of money supply continued to be oriented towards longer maturity terms, reflecting the increase of confidence in the banking system and the rising attractiveness of financial instruments and services provided

by the system. The ratio of currency outside banks to M3 lowered to 24.8 per cent in March, revealing the lowest historical level in the last twelve years. This indicator marked a significant fall of 2.4 percentage points during the first quarter of the year.

After its seasonal growth in the last months of the year, currency outside banks returned with velocity into the banking system. Its level decreased by ALL 8.7 billion or 6.3 per cent during the first quarter of the year. The return of currency outside banks into the system reflects the further channeling of financial transactions in the banking system. At the same time, maintenance of real interest rates on positive stable levels has been a determinant factor in keeping liquidity structure of money supply balanced.

The return of currency into the banking system led to the increase of Lek deposits. Their level grew by about ALL 11.2 billion or 4.4 per cent during the first quarter of the year. Annual growth rates of Lek deposits have been stable over this period, fluctuating on an average level of 12.8 per cent. The stabilization of annual growth rates of Lek deposits reflects the stability of the return of currency outside banks into the system and the moderate demand for financial instruments in Lek (deposits and Treasury bills), a demand which was motivated by the differences of interest rates in Lek and in foreign currency. Growth of Lek deposits has come mainly as a result of the growth of time deposits from individuals whose annual growth rate knew a slight upward trend during the first quarter. Also, demand deposits in Lek from individuals and the private sector have continued to grow with velocity, reflecting the positive developments in the banking payment means and the high degree of their utilization from the public.

However, the low weight of these deposits to total deposits in Lek makes their contribution to increasing Lek deposits remain at modest levels. The stable growth rates of currency outside banks and time deposits in resulted Lek in a stabilization of M1 performance, the most liquid monetary aggregate. The annual growth rate of M1 aggregate fluctuated around an average level of 20.6 per cent during the first quarter of the year.

However, this high growth rate is not considered as a source of inflationary pressures, since it reflects a normal performance of growth rate of this aggregate

Chart 11 Annual rates of monetary aggregates

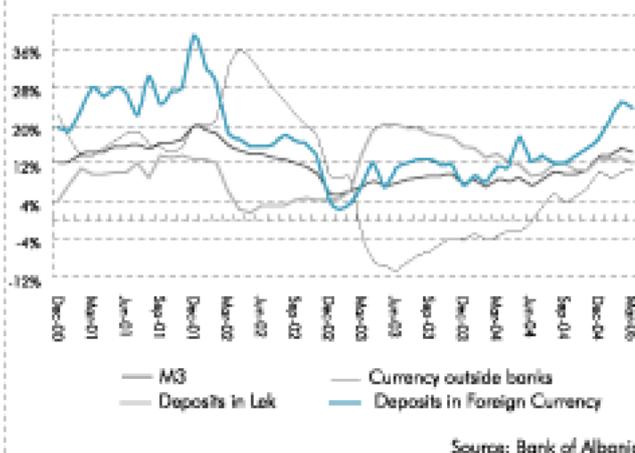


Chart 12 Ratio of CoB to M3 and average real interest rate (right scale)

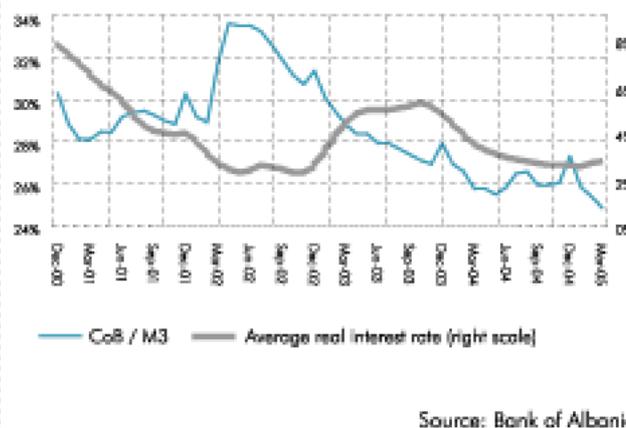


Chart 13 Ratio of foreign deposits to M3



Source: Bank of Albania

and carries in itself some reclassification effects<sup>12</sup>.

Foreign deposits have recorded the highest growth rate in comparison to other monetary indicators. Their annual growth rate at the end of March reached 23.9 per cent from 17.1 per cent it was at the end of December. The accelerated growth rate of foreign deposits may be considered partly as a return of their annual rates to historical levels of the previous years. It becomes clearer with the weakening of the negative effect of exchange rate of the last months<sup>13</sup>. However, even excluding from the analysis the exchange rate effect, foreign deposits showed a clear upward trend in the first quarter of 2005. Their annual growth rate with fixed exchange rates is estimated at about 31.2 per cent in March, against 28.0 per cent it was

in December. This growing performance of foreign deposits indicates the high levels of foreign currency inflows in the country, having emigrants' remittances as a main source. Also, foreign deposits performance is influenced by the narrowing of interest rate spread of Lek versus foreign currency.

With accelerated growth rates of foreign deposits, foreign deposits ratio to M3 turned back to its upward trend. The level of this indicator increased to 24.5 per cent from 22.8 per cent it was at the end of the year. The high growth rates of foreign deposits are mainly sustained by the growth of time deposits in foreign currency (about 90% of them are owned by individuals). The contribution of time deposits growth in the annual growth of total foreign deposits was around 73 per cent in March, increasing by 8 percentage points in comparison with the previous quarter.

Table 8 Performance of monetary indicators in November (in billions of ALL)

	March 2005	Quarterly change		Annual change	
		Absolute	Percentage	Absolute	Percentage
Currency outside banks	129.4	-8.7	-6.3	12.2	10.4
Total deposits	392.2	23.1	6.3	53.4	15.8
- in Lek	264.5	11.2	4.4	28.8	12.2
- in foreign currency	127.7	11.9	10.3	24.6	23.9
Demand deposits	88.0	10.4	13.4	23.8	37.0
- in Lek	40.8	6.1	17.6	17.1	72.1
- in foreign currency	47.1	4.3	10.0	6.7	16.4
Time deposits	304.2	12.7	4.3	29.6	10.8
- in Lek	223.7	5.1	2.3	11.7	5.5
- in foreign currency	80.5	7.6	10.4	18.0	28.7
M1	170.2	-2.6	-1.5	29.3	20.8
M2	393.9	2.5	0.6	41.0	11.6
M3	521.6	14.4	2.8	65.6	14.4
Monetary base	171.2	-7.4	-4.2	16.7	10.8

Source: Bank of Albania

<sup>12</sup> Exclusion of deposit reclassification effect from "Raiffeisen" bank lowered to 14.4 per cent the annual growth rate of M1 aggregate, placing it in line with the general growth of money supply.

<sup>13</sup> Lek appreciation against US dollar and Euro decreased the level of foreign deposits denominated in Lek, resulting in low annual growth rates during the last two years.

### IV.3 ECONOMY DEMAND FOR MONEY

#### IV.3.1 Foreign currency position of the banking system

The contribution of the annual growth of net foreign assets in the annual growth of money supply, though it resulted higher at the end of 2004, has been decreasing during first quarter of 2005. The contribution of foreign assets in the growth of money supply reached the level of 48.1 per cent in March.

The level of foreign assets of the banking system increased during January and February, while in March, compared to December 2004, decreased by USD 3.4 million. Their decrease is the result of the reduction of net foreign reserve of Bank of Albania by USD 18.4 million. This reduction has come as a result of Euro depreciation against US dollar by 4.85 per cent during the first quarter, which lowered the investment value in Euro denominated in US dollar. During this quarter, intermediations in the foreign exchange market were conducted from Bank of Albania, but only at low levels. However, the growth of net foreign assets by USD 15 million has covered, for the most part, the reduction of foreign reserve of Bank of Albania. Commercial banks have recorded a growth of foreign deposits at higher levels than crediting in foreign currency, influencing the growth of their net foreign assets.

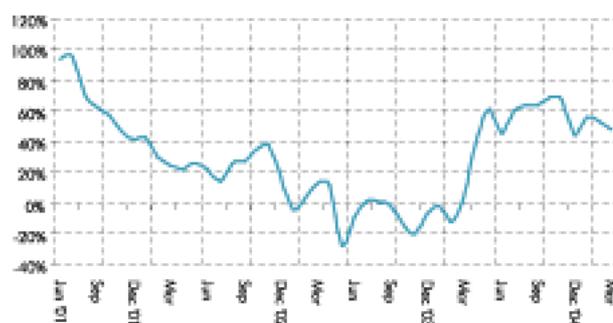
Excluding the exchange rate effect for the first quarter of 2005, foreign assets of the banking system resulted in a growth of about USD 43.3 million. This growth has come as a result of the growth of net foreign assets of commercial banks, by USD 30.3 million, as well as from the growth of these assets for Bank of Albania, by USD 13 million.

#### IV.3.2 Domestic crediting

##### IV.3.2.1 Government demand for money

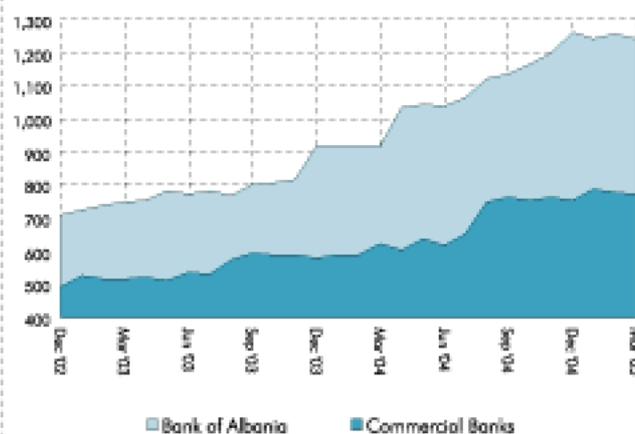
Government demand for monetary assets has been low during first quarter of 2005. According to Bank of Albania data<sup>14</sup>, budget deficit amounted to ALL 1.76 billion in March, while government

Chart 14 Contribution of net foreign assets growth to annual growth of M3



Source: Bank of Albania

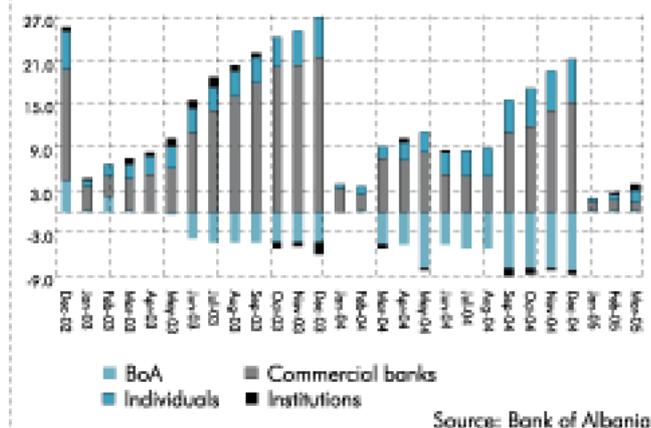
Chart 15 Level of net foreign assets of the banking system



Source: Bank of Albania

<sup>14</sup> These data differ from those of the Ministry of Finance, which keeps its balance sheet based on cash.

Chart 16 Cumulative performance of budget deficit financing (in billions of ALL)



borrowing reached the value of ALL 4.6 billion<sup>15</sup>. The issuing of two-year bonds constituted the main form of the financing of budget deficit, by ALL 4.3 billion. The issuing of Treasury bills has been at low levels, about ALL 0.3 billion. Commercial banks have reduced their Treasury bills portfolio compared to the end of 2004, by about ALL 2.9 billion. Households have raised their portfolio by about ALL 1.5 billion, while institutions and Bank of Albania increased their respective portfolio at low levels.

#### IV.3.2.2 Credit to the economy from the banking system

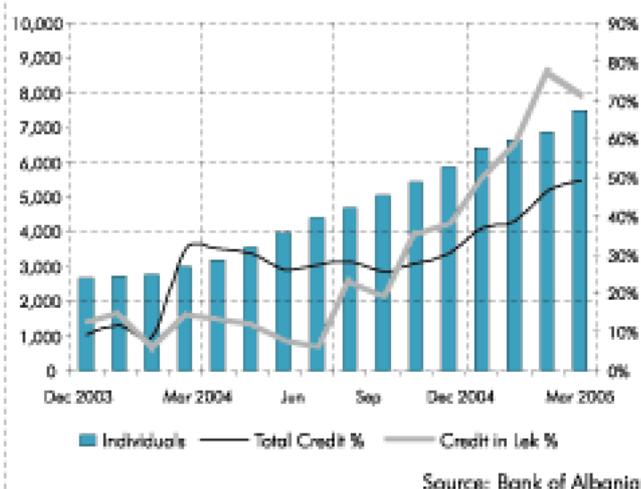
Credit to the economy experienced positive developments during the first quarter of the year. The credit balance increased by about ALL 10 billion during this period or about three times higher than the same period of the previous year. The boom observed over the last months in crediting to the economy is attributed to the changes in the credit time structure, particularly to the growth of credit with long maturity terms.

Table 9 Indicators of credit balance to the total (in percentage)

	2002	2003	2004				2005
			Q-1	Q-2	Q-3	Q-4	Q-1
Credit balance (in billions of ALL)	38.7	50.7	53.4	56.8	61.0	70.0	79.7
Short-term credit	53.8	46.0	41.6	35.4	33.9	34.0	34.1
Mid-term credit	30.1	33.3	35.4	37.8	37.2	36.0	34.5
Long-term credit	16.1	20.7	23.0	26.8	28.9	30.0	31.4
ALL	21.3	19.6	17	17	17	20.0	20.0
Foreign currency	73.7	80.4	83	83	83	80.0	80.0

Source: Bank of Albania

Chart 17 Credit to individuals (in millions of ALL) and annual credit growth (in percentage)



The entry of "Raiffeisen" bank in the lending market made banks become more active in the credit market, using new opportunities. The strengthening of relations between banks and their customers, between businesses and individuals, is believed to have played an important role in the growth of long-term credit volume. More attention is devoted from banks to individuals, as the continuous growth of credit portfolio for individuals proves it.

<sup>15</sup> The difference between the budget deficit and the domestic financing of budget deficit represents the account position of Government with Bank of Albania.

Besides the total credit, a positive growth rate was recorded by the credit performance in Lek, but without being able to gain ground against the credit extended in foreign currency, which continues to represent about 80 per cent of credit portfolio of the banking system.

The positive developments in the lending market are reflected in the improvement of the whole macroeconomic indicators, which speaks for a growing and improving commitment of banks to intermediation of funds.

	2002	2003	2004				2005
			Q-1	Q-2	Q-3	Q-4	Q-1
Money supply (in billions of ALL)	416.7	448.4	456.0	458.2	487.6	507.2	521.6
Domestic credit (in % to M3)	70.8	71.5	71.6	69.5	67.4	68.9	68.3
- Credit to government (in % to M3)	61.5	60.2	59.9	57.1	54.8	55.1	53.4
- Credit to economy (in % to M3)	9.3	11.3	11.7	12.4	12.6	13.8	15.2
Credit to economy (in % to total assets)	11.5	13.7	13.7	14.6	14.7	16.9	17.7
Credit to economy (in % to GDP)	5.7	6.8	7.1	7.4	8.0	9.0	10.0
Total deposits (in % to GDP)	42.2	43.4	44.1	44.1	44.4	47.2	48.6
Credit/deposits ratio (in %)	13.5	15.7	15.8	16.7	16.9	19.0	20.3

Source: Bank of Albania

Table 10 Performance of some main indicators

The first quarter of 2005 has further consolidated the downward trend of credit to trade sector, which was observed in the second part of 2004. Also, a greater support given by the credits of production sectors and the purchase of real estate, is observed. Such a position reflects the tendency of banks to offer new products, in conformity with the demands of businesses and individuals.

	2002	2003	2004				2005
			Q-1	Q-2	Q-3	Q-4	Q-1
1 Agriculture, hunting and silviculture	0.8	1	0.9	1.2	1.6	1.5	1.5
2 Processing industry	17	17	16.9	18.4	18.2	17.1	16.7
3 Construction	8.6	10	9.7	10.7	10.2	9.8	11.2
4 Trade, automobile and house equipment repairing	40.4	34	31.4	23.5	21.9	23.3	20.6
5 Hotel and restaurants	6	6	7.1	8.3	8.3	8.3	5.2
6 Real estate	9.1	13	13.7	14.8	15.6	9.8	14.7
7 Other	18.1	19	20.3	23.1	24.2	30.2	30.1
Total	100	100	100	100	100	100	100

Source: Bank of Albania

Table 11 Credit balance by economy sectors

During first quarter of 2005, a credit of about ALL 22 billion is extended in general at a level rather lower than the same period of the previous year. This fact highlights the idea that the high growth of credit balance has mainly come from the change in the structure of credit extended for longer maturity terms.

	2002	2003	2004				2005
			Q-1	Q-2	Q-3	Q-4	Q-1
New credit (in billions of ALL)	62.6	92.6	27.9	28.5	18.0	25.4	21.8
Short-term credit	44.7	63.1	67.1	63.6	61.1	57.5	53.3
Mid-term credit	13	22.2	20.3	23.9	21.7	24.0	22.4
Long-term credit	4.8	7.4	12.7	12.5	17.2	18.5	24.4
ALL	20.8	30.8	31.4	31.3	33.6	34.6	30.4
Foreign currency	41.8	61.8	68.6	68.7	66.4	65.4	69.6

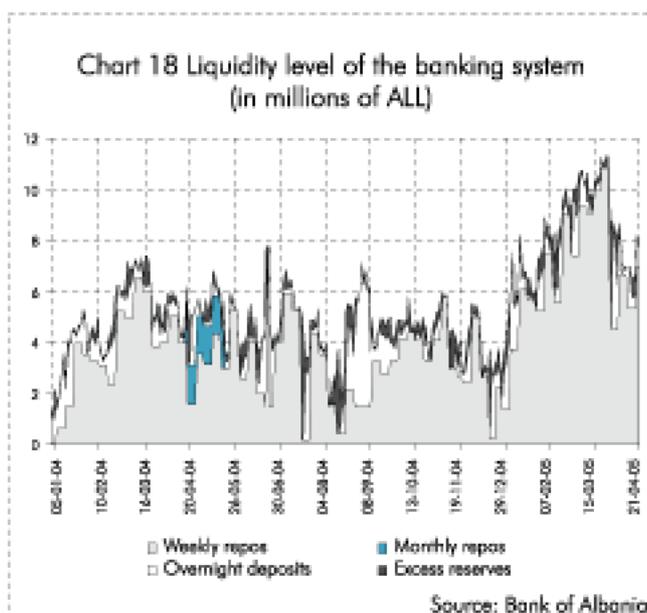
Source: Bank of Albania

Table 12 New credit indicators to the total (in percentage)

## VI.3 FINANCIAL MARKETS AND INTEREST RATE PERFORMANCE

### VI.3.1 Financial markets

The daily average liquidity level, during the first quarter of 2005, is estimated at about ALL 8.5 billion or two times higher than the daily average liquidity of the fourth quarter of 2004. Excess liquidity during this quarter is due to the low level of currency outside banks and to the high level of Lek deposits. The liquidity level growth during the first months of the year constitutes a reiterated trend during these last years.



During this quarter weekly repos with fixed price, whose weekly average level amounted to ALL 6.5 billion from ALL 3.5 billion in the previous quarter, were employed to withdraw excess liquidity.

Overnight deposit facility, whose average level amounted to ALL 0.9 billion from ALL 0.4 billion in the last quarter of 2004, was broadly used. The temporary withdrawal of liquidity for a longer period of time is done with monthly repos, which smoothed down the high liquidity level in the interbank market, but failed eliminating it permanently, causing pressures for decreasing interest rate. Overnight credit is not used at all during this quarter.

In the interbank market, the daily average level of overnight transactions during this quarter was ALL 0.65 billion from ALL 0.59 billion in the previous quarter, while the daily average level of weekly transactions remained unchanged, estimated at ALL 86 million.

In the primary market, portfolio of commercial banks in government securities, Treasury bills and two-year bonds increased by ALL 1.4 billion compared to the previous quarter. Portfolio growth is caused by the financing growth to government with two-year bonds, while the financing with Treasury bills, decreased. Even during this quarter, the demand of market players to invest in government securities continued to be higher than the announced winning amount in these auctions, leading to the rise of competitiveness and the decrease of Treasury bills yields.

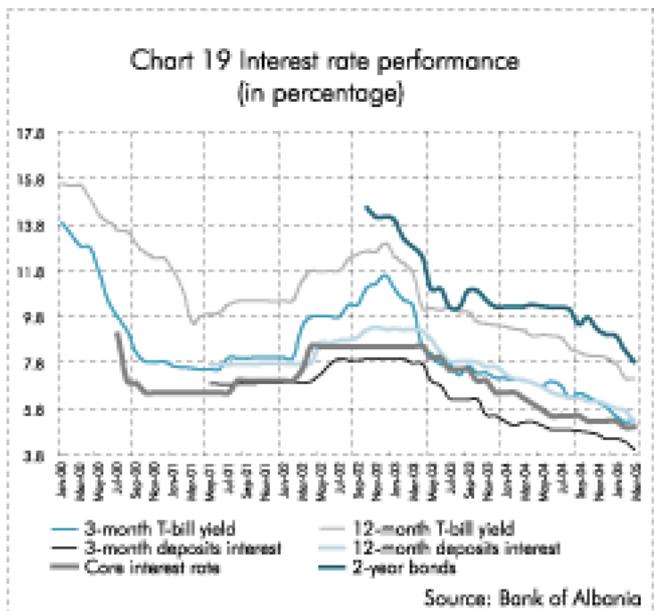
### IV.3.2 Interest rates

At the end of the first quarter of 2005, core interest rate was cut by 0.25 percentage point, reaching the lowest historical level of 5.0 per cent. Interest rates in the money market in general, followed the same trend, revealing at the end of third quarter their lowest historical values. The fall of interest rates

was backed up by an excess liquidity being at stable levels over the whole period.

From one quarter to another, interest rate spread with core interest remained in general at constant level with a slight narrowing trend. The banking market has reacted either to the monetary policy signals or to the developments within the market, such as rise of competitiveness, controlled inflation level, financial stability of market agents, etc.

Although nominal interest in Lek have shown the tendency to decrease, real interest rates during first quarter of 2005 increased due to the further decrease of inflation rate. At the end of the first quarter of 2005, real interest rate reached 4.1 per cent from 2.9 per cent it was in the same period of the previous year.



Source: Bank of Albania

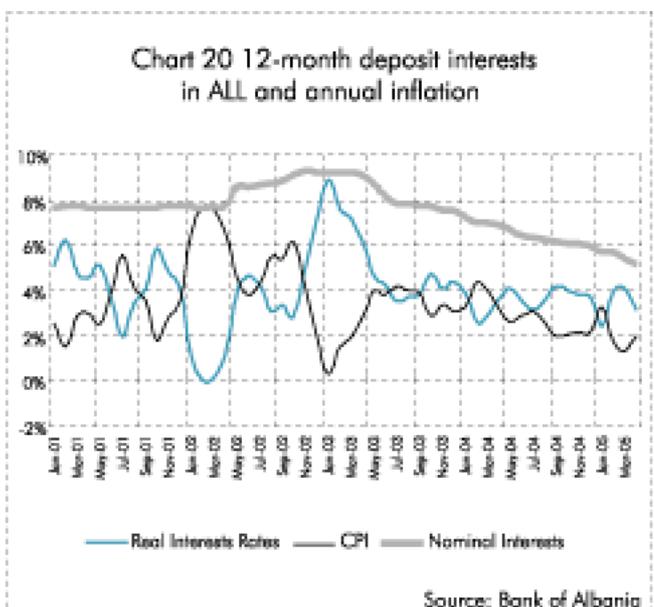
	Core interest	Primary market			Deposits market (in ALL)			Interbank market
	REPO	3-month T-bills	6-month T-bills	12-month T-bills	3-month	6-month	12-month	Overnight
March-04	6.50	7.04	8.36	9.26	5.21	6.57	7.03	3.70
June-04	5.75	6.82	8.18	9.00	4.89	6.10	6.52	3.27
September-04	5.50	6.30	7.56	8.43	4.83	5.79	6.26	3.07
December-04	5.25	6.09	7.22	8.10	4.48	5.41	5.99	3.42
March-05	5.00*	5.24	6.51	7.14	4.16	4.85	5.44	2.95

\*Repo change from 5.25 per cent to 5.00 per cent was made at the end of the month.  
Source: Bank of Albania

Table 13 Interest level in markets at the end of each quarter (in percentage)

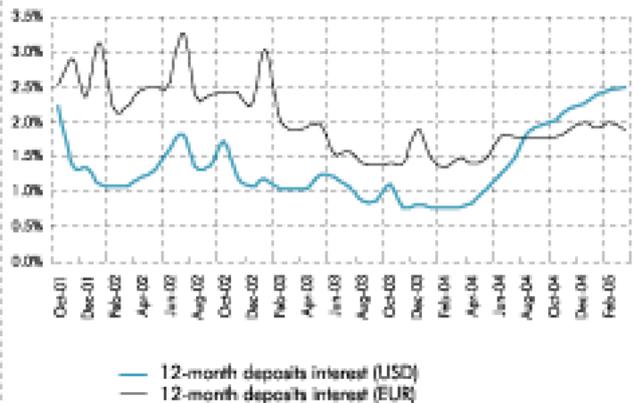
Lek credit market, unlike the other markets, is characterized by interest rates fluctuations. Such fluctuations are mainly caused by the change of the lending structure and the low level of competition. However, in March, there was noticed a tendency of the banking system towards the cut of interest rates for credits in Lek, lowering to 14.62 per cent, approximately 0.41 percentage points lower than February's rate. Foreign deposits market was characterized by an upward tendency of interest rates in US dollar, which have been influenced by the Fed's tightening policies and by LIBOR interests growth in the international markets. The annual interest rate of deposits in US dollar reached 2.49 per cent, being 0.22 percentage points higher than the one recorded in December 2004.

Interest rates of deposits in Euro remained almost at the same levels, with few fluctuations



Source: Bank of Albania

Chart 21 Average weighted interests of deposits in foreign currency



Source: Bank of Albania

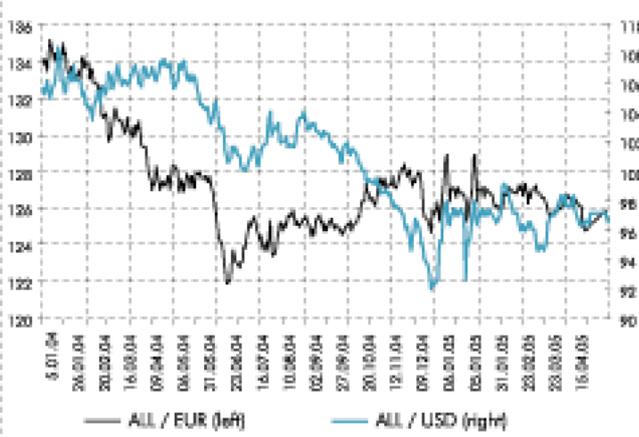
according to terms, influenced by the EURIBOR interests performance in the international markets. The annual interest rate of deposits in Euro reached 1.90 per cent or 0.07 percentage points lower than in December.

The fall of interest rates in Lek led to the narrowing of the difference between the interest rates in Lek and those in foreign currency. At the end of March, there was an approximation between interest rates of deposits in Lek and those in foreign currency, as well as a narrowing of spread between them.

During first quarter of 2005 there was noticed a downward trend of interest rates of credits in US dollar for all terms as well as of credits in Euro. At the end of March, the average weighted interest rate of credits in Euro reached 8.06 per cent from 8.17 per cent it was at the end of the previous year, while interest rate of credits in US dollar reached 7.18 per cent from 7.79 per cent.

IV.3.3 Exchange rates

Chart 22 Lek exchange rate performance



Source: Bank of Albania

Despite some fluctuations in the exchange rate, the foreign exchange market stabilized during the first months of the year. For the first quarter, the Lek was slightly depreciated, respectively by 0.43 per cent against Euro and by 2.55 per cent against US dollar. It is noticed that Lek has stabilized at the levels of year-end 2004, without sharpening the appreciation against US dollar and the depreciation against Euro. Although this period of the year knew a growth of the demand for foreign currency, a balanced demand and supply was observed during this year. In annual terms, Lek continued to be appreciated against the two main currencies, US dollar and Euro. In March the annual appreciation of Lek against US dollar is 9.82 per cent, while against Euro is 3.11 per cent.

## DEVELOPMENTS IN THE EXTERNAL SECTOR OF THE ALBANIAN ECONOMY IN THE FIRST QUARTER OF 2005

### BALANCE OF PAYMENTS OVERVIEW

The current account deficit for the period January-march 2004 was USD 56 million or 23 per cent bigger than the deficit of the same period last year. This period was characterized by higher current expenditures as well as higher current revenues. Total current transactions amounted to USD 1.7 billion, of which USD 863 million were expenditures and USD 807 million revenues. Almost 60 per cent of current expenditures were payments for imports of goods which stood at USD 521 million, whereas the two bigger revenue groups were services and current transfers with respectively USD 265 million and USD 332 million. Current account deficit was totally financed through capital and financial net inflows which amounted to USD 66 million.

### CURRENT ACCOUNT

Foreign trade volume, i.e. imports plus exports, for the first three quarters was USD 680 million representing almost 41 per cent of total current transactions. Trade deficit was USD 363 million or 14 per cent bigger than the deficit of the same period last year. Imports stood at USD 521 million and were three times bigger than exports. Imports consisted mainly of consumption products, investment-related products and raw materials used for processing. Exports went up by 16 per cent compared to the same period last year. The growth in exports was triggered mostly by growth in re-exports (textiles and footwear) which make up 81 per cent of the total exports. The balance in services for the first quarter was negative by USD 37 million. Travel is the main source of revenues (USD 196 million out of USD 265 million of total revenues), while travel and transport represent the two bigger expenditure groups (with 63 and 18 per cent of the total expenditures each). Expenditures for tourism have increased faster than revenues compared to last year. Income account has ended the period with a positive balance of USD 46 million. The biggest share of inflows comes from compensation of employees working abroad (around 56 per cent). The rest of inflows is due to interests on portfolio investments or reserve investments from resident abroad. Current transfers, like in the previous years, have been shaped from emigrants' remittances. During the first quarter of 2005 remittances are estimated at USD 255 million, being 25 per cent higher than in the previous year.

### CAPITAL AND FINANCIAL ACCOUNT

Net capital and financial flows were USD 66 million and have totally financed the current account deficit. Capital transfers were recorded at USD

47 million while the difference between external financial assets and liabilities was USD 19 million.

Capital imports, performed mainly through absorbing foreign direct investments and extending long-term credits and loan facilities from abroad, brought about an increase of Albania's financial liabilities to the rest of the world, by about USD 64 million. Foreign direct investment inflows amounted to USD 54 million. Foreign credit disbursements, standing at USD 22 million, also contributed to the growth of the country's external liabilities. Albania's financial claims to the rest of the world increased by about USD 44 million. Stock of financial assets as portfolio investments have increased considerably (USD 56 million) reaching USD 201 million by the end of March. While, foreign assets owned by the banking system in the form of foreign deposits decreased by about USD 10 million.

## MONETARY AUTHORITY RESERVES

The reserves of the monetary authority (BoA) grew by USD 13 million. At the end of March the stock of foreign exchange reserves was USD 1.4 billion or 4.9 months of imports of goods and services.

Table 1 Balance of payments  
(in millions of USD)

Balance of payments in millions of USD	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005
Current Account, nie.	-45.8	-114.2	-30.8	-167.3	-56.2
Merchandise: Exports, fob	136.5	156.5	148.7	161.7	158.5
Merchandise: Imports, fob	-454.4	-514.6	-554.5	-671.5	-521.5
Trade Balance	-317.9	-358.0	-405.8	-509.8	-362.9
Services: Credit	220.4	248.3	273.6	261.1	264.7
Services: Debit	-208.2	-267.4	-280.0	-299.2	-301.7
Income: Credit	42.8	41.8	68.1	51.0	51.4
Income: Debit	-5.3	-8.3	-6.1	-8.6	-5.0
Private Unrequred Transfers	207.8	212.9	298.9	314.3	280.2
Official unrequred Trans., nie	14.6	16.7	20.4	23.9	17.1
Capital Account	34.0	25.7	35.6	37.0	46.6
Financial Account	31.0	220.4	-16.4	151.8	13.4
Direct Investment, nie	35.0	176.7	71.9	57.7	54.0
Portfolio Investment, nie	-1.3	4.0	119.8	-126.1	-56.3
Other Capital, nie	-2.7	39.7	-208.0	220.2	15.7
Net Errors and Omissions	-10.2	-14.6	101.1	39.1	2.8
Overall Balance	14.9	117.4	95.3	60.6	12.7
Reserve and Related Items					
Reserve Assets	-14.9	-117.4	-95.3	-60.6	-12.7
Use of Fund Credit and Loans	6.0	0.0	5.9	0.0	6.1
Memorandum Items					
Total Change in Reserve Assets of which: Revaluation	-2.6	-113.9	-103.2	-123.4	20.6
	-12.3	-3.6	7.8	62.8	-33.3

Source: Bank of Albania  
\*/ Use of Fund Credits and Loans is not included.

## THE OPENING REMARKS OF GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI

“Stress-Testing” workshop organized from International Monetary Fund  
and Bank of Albania

Tirana International Hotel, April 5, 2005

*Dear participants and guests,*

I accepted with pleasure the invitation to open this workshop “On Stress-Testing”, having also in mind that the topic you are going to discuss in these three days, is an important issue in enriching the tools of the supervisory institution on identifying in advance areas or developments of potential fragility, and acting in accordance to prevent adverse situations for the licensed institutions.

Life has shown us that risk is everywhere. Certain things are not sure of happening at all, some others that will happen for sure are not known when or where. The activity of individual people, of entire families, of businesses, of the government, are affected considerably by what is really going to happen in a moment, tomorrow, the day after tomorrow and so on. Is there any way of completely avoiding any risk, in our life, in our activity, etc.? The answer to this question is one of the few risk-free statements: no, there isn't any. It is then unavoidable to live with risk, to understand and to accept it, to manage it.

Banking is a business activity, where risk is Inherent. This is obvious when you think of a normal bank balance sheet composition, or when you try certain ratios when assessing their liquidity position. Banks intermediate among entities that avail their liquidities for a certain period of time and others that need liquidity to continue to perform their life, services and activities. These groups have different risk attitude, that is formed as part of their previous experience. They express their risk attitude by choosing a certain bank, a certain product, a certain maturity structure, a certain currency, or by keeping out of the banks at all. It is rather a consequence of a limited choice, and in many cases, of limited knowledge. As such, it means less risk awareness capabilities by clients, and as a consequence, less stimulus for banks themselves to carefully monitor their risks.

Hence, it is important that banks (and other financial institutions), set up their systems to identify, measure, monitor and manage risks. Systems here, first of all mean people and procedures that are an indication of how well the bank management, including its board of directors, understand the risks associated with its business nature and size. Certainly, this work becomes more efficient if supported by information technology, at the scale that is sufficient for the size and the complexity of the bank business. From a practical point of view, in those financial systems where the size of certain financial institutions is of a systemic importance, the development of a risk management program is paramount. Besides the bank management, whose responsibility, I repeat, is of primary nature, the supervisory authority has a clear interest and responsibility in making sure that individual banks (and other financial

institutions) understand what they are doing. This interest stems not only from their legal obligation, but also is an instrument in ensuring the public that the financial institutions are managed in a sound and safe manner. In the end, all this gives a remarkable contribution toward the goal of reaching and maintaining financial stability.

History and practice have shown that having a good supervision function is very important, but not enough. It is the market that could very well and in a timely way, discover behaviours that indicate imprudent risk taking by financial institutions. In a market that functions under normal conditions, competitive factors force its players to look at each other to identify what can be done better. This is much stronger if complemented by greater transparency and accountability. Under a deep and developed market, the work of the supervisors, from the viewpoint of identifying in time imprudent risks that financial institutions are taking, becomes easier. On the other hand, open and developed markets, usually mean more complex products with more complex risk features that require more complex systems to support and monitor them. This requires greater and more skilful supervision.

While the market well-functioning and transparency, are elements that help supervision, these elements do not substitute it. Firstly, while developed markets mean more capacities to analyse past and future events, the risk is that they still may miss the global picture, as individual institutions do not have the data and most of the times, the need, to analyse the financial stability of the system as a whole. Secondly, what individual financial institutions analyse and expect from the future developments, is frequently what they want. One should also remember that financial institutions of a certain important size that expect similar events, have the power to move the market in one direction. Based on specific elements of any national or regional market, this does not necessarily show a reduction in the level of risk. Moreover, the systemic risk in this case, is still very high.

It is then important to provide the supervisor with the necessary analytic tools, to use the global data of their supervised financial institutions, for setting up models that will provide for a global analysis. By what we do and who we are, we are more concerned with what will happen if something extreme occurs. What if the exchange rate moves adversely? How is that affecting the credit portfolio of X bank, that is lending mostly in foreign currency? How big is this issue for the banking system as a whole? What are the developments in the interest rate that could negatively impact the balance sheet of one financial institution and of the entire system? What about the combination between the interest rate risk and the concentration risk, and its impact in one institution that holds most of the treasury bills in circulation?

All these questions are important in the case of Albania. The financial market is developing, but there is a long way to go. Banking sector is the most important part, with its assets counting for around 90 percent of the financial system. Looking at the size of the banks, the system continues to be asymmetric. However, when you look at products and services that banks offer

to the public, the picture is more balanced. Lending is still low compared to other countries in the region, but is increasing quickly. Around 80 percent of the lending portfolio is in foreign currency. Investments of liquidity in securities is increasing. As of the end of 2004, return on equity stood at 21.1 percent, while return on assets was 1.28 percent. Capital adequacy ratio stood at 21.6 percent. As of the beginning of 2004, state is no longer controlling any bank capital. Even though the Albanian economy is a small one, the potentials for expansion are real as the economy is very much opened and the region is more and more integrating into the European Union economic area. As such we expect more positive developments in the financial sector and the banking sector in particular. While the situation for the system as a whole is satisfactory, there are certain challenges out there, that need greater awareness among the industry and a careful monitoring from the Bank of Albania.

Hence, due to the structure of the banking system and the expected tightening competition environment, individual small banks are expected to experience difficult times ahead. We expect to see a lowering of their profit margins, which may hamper their attempts to position themselves better in the marketplace. On the other side, they will be forced to find new ways of increasing their financing and their incomes. From its side, Bank of Albania will pay particular attention to these banks, as in such difficult times, the procedures and the controls in the high earning bank activities (like lending) tend to relax. At the same time, as a central bank we believe that there are possibilities for consolidation taking place in the banking system. We believe that through this process, higher profile international banks could enter the growing Albanian market or existing small and middle sized banks could position themselves better in the marketplace.

Bank of Albania wants to see a higher intermediation level of the banking system and a greater impact in the economic development of the country. We will encourage the banking system to lend more to sound businesses and to those areas of the economy that appeal to them with solid and continuous progress. However, in every instance, we shall insist that banks maintain strong loan underwriting and administration processes, in order to ensure a balanced and solid growth of the activity. Due to the currency composition of the loan portfolio, it is important that banks pay particular attention to 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 mean problems, if not prepared in advance to cope with that. On the other side, Bank of Albania wants to see higher levels of lending in domestic currency. This, along with other information, will improve its ability to forecast better the developments in the transmission mechanism and in performing its monetary policy. Looking at a broader macrofinancial 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.

New developments of the banking and financial system, pose new challenges. It is important that these challenges are well identified, well understood and

well acted upon. We want to do this in cooperation with the banking system. Opening communication lines and transparent and fruitful discussion of the new developments will help each side to understand the problems better and to act quickly to amend the situation, within the regulatory framework. We will continue to improve our supervisory processes, with the aim of making the supervision completely risk-oriented and proactive. We will invest considerable time and money in upgrading the quality of our staff. We intend to make our regulatory framework compliant with the best international standards as much as possible under our specific local conditions.

*Dear participants,*

I believe that this workshop is going to help us in expanding our knowledge about risk in the financial and the banking sector, and in promoting stress-testing as one of the techniques. Stress-testing, used separately and together with other techniques, is a valuable tool in verifying the endurance of our financial institutions and financial system. In the Bank of Albania, we have a lot of interest in knowing your experiences. Hence I would encourage you to provide this workshop with your real examples. I believe you will also enjoy Tirana, a city that is changing quickly, even for those who live here. You will understand a little more about this country and its people, and this could prove as interesting as to make you wish to come back again. Last but not least, I would like to thank the International Monetary Fund, Mr Driessen and his colleagues, for supporting and developing this joint workshop in Tirana and for providing their valuable theoretical and practical expertise.

*Thank you and enjoy.*

## SPEECH OF THE GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI

Meeting with the members of the Economic and Financial Commission  
Tirana International Hotel, April 6 2005

*Dear members of the Economic and Financial Commission,*

I am here today, making my first appearance as the Governor of the Bank of Albania, to share with you the assessment of the bank regarding the economic developments for 2004, to present our point of view on the future perspective of the Albanian economy, as well as to present other crucial aspects of the bank activity during this period. Bank of Albania is an institution, which plays a crucial role in decision making with regards to economic and financial policies, as well as to the creation and preservation of the financial stability in the country. For this purpose, in the name of this institution which I govern, I welcome every opinion, comment or suggestion with regard to the past, the present and the future of the institutional development, monetary policy and banking supervision.

### ALBANIAN ECONOMY DURING 2004

According to the assessment of the Bank of Albania, the development of the Albanian economy during 2004 has been in line with the objectives of the strategy for the economic development of the country. The Albanian economy is supposed to have been increased with 0.6 percent in real terms, thus preserving the average pace of development during the last 5 years.

The growth of the Albanian economy continues to be generated by the dynamic development of the private sector. The sectors that have contributed mostly in preserving the annual growth are: Services, Construction and Transport, which have contributed roughly 75 percent of the general economic growth. Even though the demographic changes during the last years, make it difficult to give a clear statistical picture of the movement of labor force, the unemployment rate is estimated to have decreased from 15% by the end of 2003 to 14.6% by the end of 2004.

The economic investments during 2004 have been at the same level compared to 2003, thus making up 25.4% of GDP. These investments are represented mainly by private investments, which make up about 80% of the total investments. The financial sector has always supported this development through the increase of crediting and the range of the services offered. The credit to the economy has increased roughly 34% during the last two years and it has been accompanied with increases in the long term crediting also.

The fiscal indicators show that the fiscal policy during 2004 has been sound, in line with the Medium term Budget program for the period of 2004 – 2006. In terms of GDP, the budget indicators are similar to the indicators of 2003, where can be highlighted the stable budget deficit at 4.9%. These indicators have remained below the forecasted levels of 2004 budget, thus presenting

the need for a more cautious follow up of its two main phases: its design and implementation. Capital expenditures remain a problem which deserves a great attention in the future, given their importance to the development of the country's infrastructure capacity.

The economic situation in the country has been favorable with regard to the foreign transactions. Current deficit had a significant decrease compared to two previous years, thus reaching 5.3 % of GDP. This development is the outcome of the decrease of the trade deficit, which dropped at 21% of GDP in 2004, compared to 23.4% of GDP in 2003. Foreign reserves in Albania are enough to cover roughly 5.2 months of imports of goods and services.

The year 2004 has been distinguished by appreciating pressures of Lek, due to the macroeconomic stability of the country, the increased confidence on the domestic currency and due to the increasing of the seasonal effects. Compared to one year ago, Lek appreciated by 7.2% towards EUR and by 15.7% towards the USD. According to our estimation it is believed that the main factors in LEK appreciation must be looked in: the continual consolidation of the economic stability; interest differential between lek and other currencies; the consolidation of public finance and budget deficit which has dictated a low demand of the government for money; and the stable remittances.

Even with the late positive developments, the economic growth and macroeconomic stability of the country, are parameters, which we believe cannot be treated as resolved issues. The high trade deficit requires the need for stable and long term financing sources, especially attracting foreign direct investments.

The fiscal policy should continue to preserve its positive contribution in strengthening the macroeconomic stability, which is expressed through the reduction of budget deficit, the increase of revenues and establishing priorities in accordance with National Strategy for Economic and Social Development in conducting expenditures. We believe that the development of the financial sector should be balanced in all its segments, which requires the completion of the privatizing process and the harmonizing of supervisory and regulatory legislation, in accordance with the best practices of the developing countries.

#### MONETARY POLICY AND INFLATION DEVELOPMENTS

Bank of Albania has fulfilled its objective in controlling the 2-4% inflation margin. The annual inflation rate by the end of 2004 was 2.2% while the annual average rate was 2.9%.

The favorable developments during 2004 have established a positive environment for inflation control. Two crucial macroeconomic policies, monetary and fiscal policy, have contributed towards economic stability, thus preventing pressures on inflation rate. Budgetary spending during 2004 has been relatively stable throughout the year, thus preventing the increase

of inflationary pressures in respective periods of time. Domestic credit to government was 2.0 of GDP during 2004 compared to 2.9 % in the previous year.

The conducted monetary policy during 2004 has maintained the same easing pace followed during 2003. Bank of Albania decreased 5 times the repo rate during 2004, with 1.25 pp a total effect. The loosening monetary policy has been in line with the inflation developments of 2004 and the positive expectations for inflation in the near future. It is worth mentioning that these developments have been perceived correctly by the public, which is anchoring its inflation expectations in line with Bank of Albania explicit inflation objective. This has been reflected in the interest of the public to deposit their savings in Lek, thus creating appreciating pressures for Lek.

The weak inflation pressures by fiscal policy, the good managing of the money supply and the appreciation of Lek have created the environment for a moderate growth of the consumer prices during 2004. Bank of Albania believes that this favorable situation will continue even during the next year. This situation it will be supported by favorable monetary conditions and by the controlled domestic demand. Judging upon the available information and the lack of shocks phenomena, consumer prices (annual changes) for 2005 are expected to remain within 2-4% Bank of Albania's inflation objective. The controlled level of inflation has preserved a positive real interest rate of the lek, despite the continuing decreases of the nominal interest rates in their historic minimums. The positive real interest rate has raised the public confidence on depositing their savings in the banking system, thus, further lowering the relative level of currency circulating in the economy.

## BANKING SYSTEM DEVELOPMENT

At the end of 2004 there is a satisfactory financial situation of the banking system. There are positive revenues for 2004, about 5.11 billion lek or 0.66 billion leks higher revenues than a year before. The higher net result isn't due only to the increases of banking system's assets but also to productivity increases of the assets and the capital. This is reflected in the high values of the profit indicator (RoA and RoE). The qualitative loan indicator (the ratio of non performing loans to outstanding loans) is 4.2 % compared with 4.6 % in 2003. A lower level of this indicator shows an improvement in the loan quality and a limited exposure of the banking system to credit risks.

The supervisory process has tried to be proactive and continuous in assessing banking activity risk. As part of the tasks from Supervisory Development Plan, a document designed in collaboration with World Bank, there is the "Operational Policy of the Supervision" document where the supervision rules of the banks are defined.

During 2004, banking system in Albania has been characterized by dynamic developments in the increases of the number of the banks operating in the market as well as wide spreading of the banks in different regions

in the country. There were 16 banks at the end of 2004, from which 2 of them are fully domestic owned and 14 others are foreign owned. A further consolidation for the banking system it was the approval of 100% transferring the ownership of Savings Bank to Raiffeisen Zentralbank, as a final step to privatize this bank. Also, a second bank with fully Albanian capital entered in the Albanian market, Banka Popullore sh.a and an application for another bank, owned fully by Albanian capital is received. Recently, this application has been initially approved according to the conditions set in the law "Depository banks in the Republic of Albania".

#### OTHER ACTIVITIES OF BANK OF ALBANIA

During 2004 there were no changes in the Bank of Albania's legislation. In the meantime, there is in process the revising of the law "Depository banks in the Republic of Albania", aiming further improvements in banking system legislation, in line with the country's perspective of joining the EU.

In the previous fall, Bank of Albania renewed some of the members of the Supervisory Council (7 members) and elected new administrators for this institution. This process did not affect the normal activities of the Bank of Albania, this being an indicator of the BoA consolidation.

Inter-institutional cooperation has been another aspect that has characterized the BoA's performance. Bank of Albania has been open and ready to design and implement programs for the development of the country, has offered counseling to government on economic affairs as well as has been an active part of all negotiations with international parts.

On the other hand, I stress that we've organized meetings with different parties of economic interests which has helped us to better understand the weakest points as well as to clarify the participants on these meetings for the advantages and the mutual profits.

We have determined to keep on our efforts for further cooperation with national and international bodies even for 2005. In this aspect, we are working on to finish on time the project of small payments and to continue with another project with World Bank for creating a loan information register. In the mean time, we are keeping under pressure the banking system not just to spread geographically, but also to increase the quality and the inventory of the payment instruments.

*Honorable members of the Commission,*

At the end of my speech, allow me to highlight once again the willingness of the institution I govern, to fulfill all the obligations as stated from the Republic of Albania Constitution and from the law "On Bank of Albania". We will reach this by further improving the monetary policy and monetary operation framework as well as by deepening our knowledge about the functioning and interdependent relations that characterize Albanian economy. I believe, 2005

it will be a successful year on the research work, especially on increasing the forecasting power on inflation developments and on improving Bank of Albania's management. I would like to quote that our policy outlook remains that of adopting inflation targeting, which imposes us serious engagement on the cautious assessment of the required preconditions. In this regard, we will run the entire respective thesis, for which we need the support and the understanding of the Assembly and other state institutions.

I would like to guarantee the Albanian Assembly that our latest steps as well as the expected ones are in line with our national outlook for a faster integration with EU.

It is clear for us that there is no real integration without financial integration. Our country needs more revenues, more political stability, and more cultural and social integration. Of course, financial integration is of such importance as well. In addition, I believe that the role of the institution I govern, the banking system role and the financial sector role are very crucial and the challenges ahead are a lot.

## ADDRESS MADE BY THE GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI

Opening, extension and modernization of the primary and secondary treasury bill market

Tirana International Hotel, April 8, 2005

*Honored ladies and gentlemen!*

First of all I have the pleasure to thank you for your willingness in finding the time to take part in this work meeting. I would also thank your technical staff for the devotion shown in dealing with this issue, which constitutes one of our priorities at the Bank of Albania.

At the Bank of Albania conference on “Central banking in the time of integration” I launched, inter alia, the idea of the need for qualitative developments in the banking and financial system and this as closely connected with the need for further increasing the intermediation role of this system in the economy. It is understandable that the implementation of this idea would simultaneously require the giving of more possibilities to the banking system, so that this system carries out its role better and more actively.

The topic we are discussing today is in this line. I am strongly convinced that the treatment of this issue did not appear as something unexpected, but it is a logical result of the positive developments taking place so far and the banking system awareness to be more active in its role for raising public confidence in the system. In the line of this logic, the raising of confidence would bring about its positive effects even on increasing their banking activity, which will be in compliance with their objective to be in the market with as much dignity as possible.

In this discussion I will not focus on the technical aspect of cause explanation and process implementation, which I consider as exhausted by discussions made between respective technical staff, but I will focus on what we intend to reach and on the shortest and safest way to complete this process successfully. Also, I would like to clarify that the individuals will continue to participate in the primary market of securities and this market will continue to be organized by the Bank of Albania.

What we intend to reach through this process is:

1. The realization of a smooth transition process, at the smallest cost possible, in terms of maintaining the participation of individuals in the primary market.
2. The reduction of the time which is needed for the realization of treasury bill primary market auction.
3. The increasing possibilities to apply into practice the principle “Delivery versus payment” for operations that will be performed in the secondary and retail Treasury bill market. Here I take into account either the facilitating of procedures or the increased safety for using

these securities as collateral and for encouraging the interbank and lending market.

4. The last but not the least is to increase the possibility of commercial banks to be more present into the market, making it more liquid and solvent.

How we think this process will be realized:

1. The Ministry of Finance and the Bank of Albania must review the regulatory basis that covers the part of treasury bills issuance and more concretely the Agreement concluded by them "On issuance of treasury bills in the form of registration".
2. The Bank of Albania must review the Regulation "On the secondary and retail treasury bill market in Albania".
3. The Commission of Securities must review that part of the regulatory basis which is related to the licensing process of the securities register.
4. The commercial banks should proceed with the Commission of Securities, with the purpose to ensure the licence for maintaining the register of individual's securities.
5. The Bank of Albania will prepare, after the completion of this process, the strategic plan of the movement of individuals from its windows to the windows of commercial banks. The time available to the Bank of Albania will also be used for testing the stance of "individual" investors in advance.

In this framework, we would also like to inform you that the Bank of Albania is working for considering, at the shortest time possible, the possibility of increasing the participation amount of individuals, through the Bank of Albania, in the primary treasury bill market, as well as the application of a commission on new operations they will carry out with it. The new level and commission will affect only the individuals that would like to use the Bank of Albania to participate in the primary market.

Thanking you again for your attention, I would like to pass on to the discussions about the steps we deem to make. At the end of this meeting, I propose we come out with a concrete plan of actions for a successful implementation of this process.

## SPEECH OF GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI

The Inter-Balkan Forum of Banking Associations  
Adriatic Hotel, Durrës, on May 20, 2005

*Ladies and Gentlemen,*

It's a great pleasure to participate in this prestigious event of the banking system of Balkan region. My pleasure is great due also to another reason, because I had for years and years governed the Albanian Association of Banks and in addition I had given my personal contribution in initiating and organising this meeting in Albania. I would like to thank you again for having accepted today my invitation already proposed last year for organising this meeting in Albania. Of course, my delight is great but also my responsibility today to present myself as Governor of the Bank of Albania; therefore please consider me as being yours.

In this spirit, I would like sincerely to begin my speech with the wishes: successful and fruitful proceedings of the meeting.

Another issue of particular relevance that I would like to discuss about in this meeting is regional cooperation. This cooperation is an important factor preceding the regional cooperation process with the rest of Europe.

I am confident that you share the same opinion with me, that in this way our region will be more reliable and efficient in fulfilling its European dream.

Further on I would like to give you an overview on some different issues of importance for the future of the Albanian banking system. In diverse meetings organised by the Bank of Albania with the banking community and other actors on relevant opportunities, a range of problems were highlighted and evidenced of which I think there is still room for a joint commitment, of both the Bank of Albania and, of course, the banking system.

In my capacity of Governor of the Bank of Albania I would like to ensure the banking community that the institution I govern is open for an institutionalised co-operation with the banking system by channeling it through the Albanian Association of Banks. We have a great consideration on this Association and we hope that its role will further be enhanced in the future, particularly on the principled topics that will characterize the development of the banking system and that of the financial system in general in the years to come.

*Honored bankers,*

I hope you share the same opinion with me that we become recently witnesses of a qualitative development of the Albanian banking system. I use the opportunity to express that positive assessments on the banking system have been given also in the report prepared by the World Bank and

International Monetary Fund after the completion of their assessment made on the Albanian financial system (FSAP-Financial System Assessment Program). Of course, this is good news.

Conclusions of FSAP, of this important international passport, are an indication of our earliest conclusions that the Albanian financial system is characterized by a supervised and effective banking system and by other segments that are still in the first development stages where regulation and supervision remain a priority. Regardless of what I mentioned above, sincerely feeling myself as a part of the banking system I would envisage that it needs better and faster motivation to reach higher contemporary standards in all the aspects of the banking activity.

The banking system has experienced remarkable developments recently. After the licensing of Popular Bank, with Albanian capital, the number of banks increased from 15 to 16, and a preliminary license is granted to Union Bank (Albanian capital), which is expected to raise the number of banks to 17 over 2005. The system assets have further increased by 14 percent while there was an increase of banking products and an expansion of their network. During this year there will be sold the public shares of both the Italian Albanian Bank and United Bank of Albania, which will lead to an increase of effectiveness and banking competition, paving the way to the processes of selling, merging and acquisitions towards a new consolidation of the banking system.

The lending activity increased by 38 percent where one can distinguish, *inter alia*, the significant growth of medium-term and long-term loans compared to short-term loans.

The map of coverage of the country with the banking system has further expanded, including new areas ever covered before. At the end of 2004, the total number of branches reached 88, or 11 branches more than the end of the previous year, while the number of agencies recorded for the first time a full three-digit number, 100 and the number of the employed people increased by 26 percent.

The high increase of the number of branches relative to that of agencies shows that banks are not interested only in providing the service of collecting deposits but also in providing other products like crediting to the economy. These developments, besides their positive contribution in enhancing the financial intermediation, speak for a better perception of investing potential from banks in Albania. An outstanding development is mainly related to the client service, which is accompanied through electronic terminals by the increasing number of electronic cards in circulation. Banks offer already debit and credit cards in co-operation with international companies such as Visa and MasterCard. Six banks provide the ATM service and the number of ATMs reached 108 by the end of February 2005.

The banking system results to have a profit level, which has been increasing to Lek 5.1 billion. Return on equity (ROE) was estimated at 21 percent while

credit quality is only 4.2 percent from 4.6 percent in the previous year. In any case, we must say that credits are still new and do not have adequate history to show their performance.

However, problems and challenges, which the system is facing, are still enormous and in this context the role of the association of banks, I think, will be important to overcome them.

#### CREDIT TO THE ECONOMY AND CREDIT REGISTER

Credit to the economy has recently known a great development. High growth rates impose us to be prudent in the other direction, that is portfolio quality. Enhancing competitiveness and consequently, enhancing the credit level is bringing about a rising trend of weighted risk assets and some banks are already close to the minimum level of 12 percent.

The client's identification on receiving and using the credit and other obligations he/she has to the banking market is vague, incomplete without giving the opportunity the banking system to have a history on the client's activity. That's why I believe that a centralized register, which unlike the previous years became now a necessity, is needed.

I would like to highlight that Bank of Albania has included the project of establishing the credit register in its short-term plans and we are deeply committed to execute it within the next year. I use the opportunity to emphasize that this register will be under the administration of Bank of Albania and the participation of banks member of the system will be compulsory. Only in this way, evasion in the statistical information will be avoided, its integrity will be ensured and at the same time available for each bank member of the system.

On the other hand, we are aware of the fact that issues dealing with credit are more complex. They have to do with many other obstacles that arise from lack of collateral register, inaccuracy of mortgage, lack of knowledge and the non-functioning on a correct basis of the judiciary system and law, particularly with regard to technical problems that relate to the knowledge and execution of collateral.

For this purpose, we shall take the initiative to set up an ongoing communication with the judiciary system, with the intent to organise an open conference in autumn of the current year. The main objective remains enforcing legal initiatives that would bring about the modification of legal and sub-legal basis.

#### MODIFICATION OF REGULATORY BASIS OF BANK OF ALBANIA

I have stated even previously that Bank of Albania aims at reviewing its regulatory basis with the sole intent to simplify it and to ease its implementation.

For this purpose I have insisted on a continuous basis that the first contacts among mutual technical staffs to raise the banking system concerns on

the regulatory framework enforcement should be established. After several discussions we come to the conclusion that the group of the following regulations should be subject of necessary modifications, and I would ensure you that work at the Bank of Albania has already started for this purpose.

#### METHODICAL GUIDELINE "ON FOREIGN EXCHANGE RISKS";

Observations: inclusion in the calculation of the open position of off-balance guarantees which include as unused credit limit, the financing commitments made and received, and registering of collateral estimated in foreign currency and received for guaranteeing the credit (all banks in the matrix). These are commitments that remain in force and for which, according to the current regulatory framework interpreting, the bank is required to create a real position (within the balance).

It is proposed: to reformulate the methodical guideline, excluding the guarantees.

#### GUIDELINE "ON BANK REGULATORY CAPITAL";

Observations: To make clearer systemization for the items being deducted from the additional capital, explaining that on which size deductions are to be calculated. To make clearer in the regulation even the inclusion of yearend profit in the regulatory capital only after confirmation from the certified public accountant and by approval from the Audit Committee.

It is proposed: to take into consideration both observations and submit a draft-decision for changing the regulation.

#### REGULATION "ON CAPITAL ADEQUACY";

Observations: Classification of countries where reference is made to OECD member countries is a bit confused and another time, a list of 29 members is presented, while collateral in cash is not taken into consideration as a deductive element in the calculation of weighted risk assets. Concept of mortgaged credits that are weighted by 50 percent is very restrained and subject of confusion.

It is proposed: to take into consideration the observations and submit a draft-decision for changing the regulation.

#### REGULATION "ON MARKET RISK";

It is proposed: to review it in the framework of new recommendations of Basel II.

Focusing again on the problem of banking supervision I would like to underline that we, Bank of Albania as a supervisory institution, are determined to have at a possible maximum level a simple and easy supervision for

being implemented, associated with a significant improvement of the on-site inspection. We shall intend that expectation and prevention power of our supervision gains new dimension. To this end we are in a process of finalising the negotiations with European partner institutions for launching a twinning project for the further consolidation of supervisory capacities of the Bank of Albania.

#### ANTI CASH CAMPAIGN

Recent developments have impacted cash reduction in the economy. On the other hand, we have carried out an intensive public activity, of clarifying and promoting nature where meetings of another nature were held too, in which we, all of us as a banking system, have been concretely engaged. Allow me to remind you the meetings we have organized with business and utility services business and also that on the primary market of Treasury bills.

Using this opportunity I would like to bring again to your kind attention the problems raised even beforehand. I hope that now, on the eve of finalising the Automated Electronic Clearing House project, each bank separately and the Association itself are seriously thinking to raise the profit level from this facility that Bank of Albania offers in this moment. I would appreciate if from the Association will have some comments or potential reactions on the system preparations and the possible assistance and co-operation of Bank of Albania in this direction.

After the completion of this project, I deem that we must think more seriously about the numerical and qualitative addition of electronic payments. For this purpose I would envisage to start thinking from now about future projects in the payment infrastructure. I personally will insist that even in this direction all of us as a banking system look forward to the European Union directives, in order that each future step is oriented toward the country integration in the European Union.

Few times ago, I have been informed about a new EU initiative, which requires to set up, within a certain period of time, among others a unified payment system within the euro area, including payments with cards. Presently, small and medium businesses in the euro area have not the same payment opportunities as they have in their respective countries on a national scale.

Such a case includes credit cards, which cannot be employed equally across the borders. For this purpose I would suggest that respective experts from the Association and Bank of Albania be as soon as possible informed about this project, making the relevant suggestions in this direction.

I personally remain consistent in my position that in Albania we have to adopt the most advanced solutions in all the infrastructure projects that we are going to implement. I believe that we do not need to examine old-fashioned models, which, in addition to the initial cost, will continuously require other funds for maintenance and modification.

Besides the developments in the field of payments I would welcome from you a broader commitment even in other directions. I think that the system must further expand its geographical coverage, aiming at including also areas, which, though having at first sight the appearance of being inactive, have large financial potentials in the form of thesaurised savings outside the system.

Also, the service level should be further improved. Now the public administration has become a client of the system and I think that there are real opportunities to resolve the utility services payments through the banking system.

Also, I hope that the system will be aggressive and will keep promises to the public to put its windows at the service of selling Treasury bills directly to the interested public. We, as Bank of Albania, have kept our promises and very soon we will introduce as a first step a commission that is presumed to cover the transaction cost while we will accompany this move by the ban of cash flows receipt at the windows of Bank of Albania. We shall request the individuals that their participation in the auctions, through windows of Bank of Albania, will become possible only upon presentation of a banking document, which certifies that the client has deposited a certain amount as a guarantee in one of the banks pertaining to the system.

Another direction on which banks must further focus relates to an aggressivity of broader propaganda and clarification. I think that still the majority of common people show a certain hesitation to refer to banks. I believe that they have a feeling of non-confidence that the bank shall not resolve their problems. Many individuals, though in an absurd way, are still in search of a "friend" to negotiate with the bank.

As mentioned above, I understand that above all the reason behind might be our poor tradition in addition to the high degree of informality and a lot of other objective and subjective reasons.

However, I think that the cause might be even the lack of detailed clarifications, and lack of informative publications, and lack of the propaganda in the public environment as well as in media.

I think that in the propaganda spaces in the media more space should be given to the clarifications of special products, while launching of new products should be accompanied by standard advertising campaigns.

*Dear participants,*

Allow me that before closing my speech to express again my high appreciation on the Albanian Association of Banks, ensuring that Governor of Bank of Albania will always be its decent partner in the long path of institutional co-operation.

I sincerely hope that this meeting of banking associations is an important step towards establishing a fruitful regional co-operation.

I am personally committed, in future contacts with my colleagues of the region's countries, to dedicate a special room to this co-operation, hoping that I will find on them a well-understanding and full support.

I again wish you successful and fruitful proceedings of this meeting.

*Thank you.*

## SPEECH OF GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI

The EBRD 2005 Annual Meeting and Business Forum  
Belgrade, on May 22, 2005

*Ladies and Gentlemen,*

It is a great pleasure to participate in this prestigious event of the EBRD Annual Meeting and Business Forum. For this purpose, I would like to thank the organisers of this meeting who provided us such an opportunity to present our achievements and ambitions for the future.

Allow me first to tackle an important issue, which within the context of this meeting, I believe, is of paramount importance. I mean by that the regional co-operation, an initiative that has been completely supported by the European Central Bank. We have already taken the first steps in this regard through establishing bilateral relationships in banking supervision with National Bank of Macedonia, Central Bank of Montenegro and Banking and Payment Authority of Kosovo. Meanwhile, we are in the process of negotiating with National Bank of Bosnia and Herzegovina, National Bank of Serbia etc... I estimate that regional co-operation is an important forerunner of the integration process of the region with the rest of Europe; therefore I will not stop working to encourage a regional co-operation of high standards among the financial systems of Balkan countries.

I hope that you share the same opinion with me, because only in this way, our region will be more credible and efficient to have its European dream. On the other hand, a developed and financially integrated region will be more attractive for foreign strategic investors, opening up the path toward regional development projects, particularly infrastructure ones where region's banks might be directed in financing and investment.

Further on I would like to give to you a short overview on the latest Albanian banking system achievements. After many years of difficult transition, in this late spring of 2005 the banking system is growing on a stable basis.

*Dear participants,*

I would like to ensure you that recently there are many qualitative developments of the Albanian banking system. I use the opportunity of this event to express that positive assessments on the banking system have been given also in the report prepared by the World Bank and International Monetary Fund after the completion of their assessment made on the Albanian financial system (FSAP-Financial System Assessment Program). Of course, this is good news.

Conclusions of FSAP, of this important international passport, are an indication of our earliest conclusions that the Albanian financial system is

characterized by a supervised and effective banking system. Regardless of what I mentioned above, sincerely feeling myself as a part of the banking system I would envisage that it needs better and faster motivation to reach higher contemporary standards in all the aspects of the banking activity.

The banking system has experienced remarkable developments recently. After the licensing of Popular Bank, with Albanian capital, the number of banks increased from 15 to 16, and a preliminary license is granted to Union Bank (Albanian capital), which is expected to raise the number of banks to 17 over 2005. The system assets have further increased by 14 percent while there was an increase of banking products and an expansion of their network after the successful privatisation of the Savings Bank from Reiffeissen Bank, Austria. During this year there will be sold the public shares of both the Italian Albanian Bank and United Bank of Albania, which will lead to an increase of effectiveness and banking competition, paving the way to the processes of selling, merging and acquisitions towards a new consolidation of the banking system.

The lending activity increased by 38 percent where one can distinguish inter alia the significant growth of medium-term and long-term loans compared to short-term loans.

The map of coverage of the country with the banking system has further expanded, including new areas ever covered before. At the end of 2004, the total number of branches reached 88, or 11 branches more than the end of the previous year, while the number of agencies recorded for the first time a full three-digit number, 100 and the number of the employed people increased by 26 percent.

The high increase of the number of branches relative to agencies shows that banks are not interested only in providing the service of collecting deposits but also in providing other products like crediting to the economy. These developments, besides their positive contribution in enhancing the financial intermediation speak for a better perception of the investing potential from banks, in Albania.

An outstanding development is mainly related to the client service, which is accompanied through electronic terminals by the increasing number of electronic cards in circulation. Banks offer already debit and credit cards in co-operation with international companies such as Visa and MasterCard. Six banks provide the ATM service and the number of ATMs reached 108 by the end of February 2005.

The banking system results to have a profit level, which has been increasing to Lek 5.1 billion. Return on equity (ROE) was estimated at 21 percent while credit quality is only 4.2 percent, from 4.6 percent in the previous year.

These positive developments on the banking system were accompanied by a sound macroeconomic environment. For several years the economy is

growing at 6 percent while inflation was kept under control within the two-to-four percent targeted range of the Bank of Albania. The fiscal consolidation has been on track while current trade deficit has been financed mainly by remittances and foreign direct investment inflows. The Bank of Albania has played a crucial role in providing this macroeconomic environment. Since early 2003, we cut several times the core interest rate bringing it at its minimum historical level, 5 percent. In taking any monetary policy decisions we had considered the further invigoration of economic activity, keeping always an eye on inflationary developments and financial stability as well.

As I would like to often mention in the IMF premises, Albania is considered as a successful story. The Board of directors have recently declared that Albania is enough mature to sign a new three-year agreement by the end of this year. The new arrangement will be a more flexible one leading Albania to a better access in the international financial market.

Of course, what I mentioned above was just a brief resumé regarding the current situation of the banking system and the overall economic performance. There is no doubt that Albania's attractiveness has further enhanced, and partially this reflects also the increase of confidence in the Albanian banking system.

Using the opportunity of this very prestigious forum, I would like to share my voice with that of the Albanian representatives present in this panel, expressing that my country is more open, more consolidated, ready to absorb more ambitious projects and, of course, global projects.

I wish you successful and fruitful proceedings of this meeting.

*Thank you.*

## SPEECH OF THE GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI

The Black Sea Business Day, Yerevan, Armenia

June 6, 2005

*Distinguished Ladies and gentlemen,  
Dear participants,*

It's a great pleasure for me having the opportunity to participate in this regional meeting of Black Sea countries. I have always appreciated this initiative as a special opportunity for all the countries being involved in.

In my long career, I have realized that the success of this business consists generally in the ability it has to gain public confidence. Nevertheless, the overall economic, political and social environment of the country is playing also an important role. During my career, I have been witness of many events, which directly or indirectly have damaged the banking system.

The monetary collapse of the banking system at the end of the communist era, the flourishing and degenerating of the fraudulent investment schemes, as well as many other social, political and economic problems that have associated the Albanian transition, made the banking system "suffer" for a long time. However, the reputation of the Albanian Banking system is in place recently. It's enough if I just refer to the latest problematic episode occurred in Albania, in early spring of 2002, when due to the lack of public information and to political speculation with the introduction of the deposit guarantee scheme, the confidence of households was traumatized, leading to a considerable deposit run from the banking system.

Having a look at all the statistical indicators, it results that the banking system at that time was sound and growing continuously. But, all this was insufficient since the memories of year 1997 (the collapse of fraudulent schemes) were still present and households' sensitivity to them was very high.

Besides the recent significant achievements I would like to stress that still there is a high potential of fragility in our economy and the entire region as well. As a consequence, I think that we have to be much more prudent and much more diligent when speaking about the financial stability of the country. This episode suggests, inter alia, the necessity to associate the reforms with concrete preparatory steps and, certainly, combined with back-up plans in the case of failure. For this purpose the market needs to be intensively prepared and elaborated since in early stages of the implementation of reforms. It is imperative that the decision-makers should themselves know in advance the market behavior and sentiments.

Last spring, a joint assessment of the Albanian financial sector conducted from both the International Monetary Fund and World Bank (FSAP) concluded that: the financial sector consists mainly of a regulated and supervised banking

system. The Stress-Test indicated that the level of different risk exposure to the banking system is rather low, an argument that supports this conclusion.

The banking system has experienced remarkable developments over 2004. After the licensing of Popular Bank, with Albanian capital, the number of banks increased from 15 to 16, and a preliminary license is granted to Union Bank, which is expected to raise the number of banks to 17 over 2005. The system assets have further increased by 14 per cent<sup>1</sup> while there was an increase of banking products and an expansion of their network. During this year there will be sold the public shares of both the Italian Albanian Bank and United Bank of Albania, which will lead to an increase of effectiveness and banking competition, paving the way to the processes of selling, merging and acquisitions towards a new consolidation of the banking system.

The lending activity increased by 38 per cent where one can distinguish inter alia the significant growth of medium-term and long-term loans compared to short-term loans.

The map of coverage of the country with the banking system has further expanded, including new areas ever covered before. At the end of 2004, the total number of branches reached 88, or 11 branches more than the end of the previous year, while the number of agencies recorded for the first time a full three-digit number, 100 and the number of the employed persons increased by 26 per cent.

The high increase of the number of branches relative to agencies shows that banks are not interested only in providing the service of collecting deposits but also in providing other products like crediting to the economy. These developments, besides their positive contribution in enhancing the financial intermediation speak for a better perception of the investing potential from banks, in Albania.

An outstanding development is mainly related to the client service, which is accompanied through electronic terminals by the increasing number of electronic cards in circulation. Banks offer already debit and credit cards in cooperation with international companies such as Visa and MasterCard. Six banks provide the ATM service and the number of ATMs reached 108 by the end of February 2005.

The banking system results to have a profit level, which has been increasing to Lek 5.1 billion. Return on equity (ROE) was estimated at 21 per cent while problem credits represent only 4.2 per cent, from 4.6 per cent in the previous year.

On the other hand, for the rest of the financial sector the FSAP reports indicates many problems, which simultaneously contain many themes

<sup>1</sup> Figures used in this speech are sourced from: Bank of Albania, "Banking Supervision Report 4-rth quarter 2004", European Commission "The Western Balkans in transition", Enlargement paper No. 23, December 2004, EBRD, "Transition Report 2004".

including essential issues such as their supervision. Although, due to their small dimensions, these problems do not present imminent risks for the time being, they still should be carefully examined and resolved.

Returning to the assessments made under FSAP in other countries similar to Albania (I mainly refer here to South East European Countries, SEEC) and to many other financial reports referring to this region, we realize that these problems are similar and these countries suffer more or less similar symptoms. If one has a look back to the history, it realizes that it cannot happen differently. The regional tradition is poor, of little inheritance in institutions, market rule and behaviour, and financial intermediation. However, today about 15 years after the big collapse of the communist regime it seems that South East European Countries (SEEC) have engaged in an irreversible process of their stabilization and integration with the rest of Europe.

Further on, I would like to give a brief overview on some of the main features characterizing the financial system of these countries.

- The Financial system in all the countries of the region is dominated by commercial banks. Other segments including either institutions or markets play a secondary role. Still the most favorite financing instrument remains the bank credit, while the financial intermediation degree continues being low.

The insurance sector is still in its infant phase and doesn't play any important role in the financial intermediation. Currently, this sector is being predominated by non-life insurance, particularly by vehicles insurance. Simultaneously, taking into consideration the size of the market, this sector is presented as fragmented, but having a clear trend of increasing number of the providers of this service (88 insurance companies all over the region in 2003).

Capital markets in the region are still in their embryonic development stage. Six stock exchanges operate in the region, while Tirana stock exchange is not yet effective. Anyway, these stock exchanges are all very small in terms of capitalization level and also smaller relative to market liquidity. Pension funds do not play any important role, since most of the countries of the region have not yet adopted the three-pillar pension schemes. The very restricted importance of non-banking financial services is mentioned also in the EBRD's assessment<sup>2</sup> on the non-banking financial sector in the region countries during 2004, which has given to these countries the average mark of 2, this value being somewhere in between extreme levels.

- Privatization of the banking sector has scored progress over the last years and gradually the major part of this sector is transformed into foreign ownership, though not being equal among the countries.

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<sup>2</sup> EBRD's transition indicators are ranging between 1 and 4+, where 1 indicates little progress in the financial sector reform. For the banking sector 4+ represents the full consistency of banking rules and regulations with BIS standards and a complete and developed group of banking services. For the non-banking sector, 4+ represents the full consistency of securities with international standards as well as a completely developed financial intermediation.

In early 2004, except for Serbia & Montenegro, the state ownership in the banking system constituted less than 15 per cent of total capital. This significant reduction of state capital came mainly as a result of privatizations, which were executed by strategic foreign investors. I personally estimate that the banking system privatization has considerably increased the efficiency of our monetary policies making them more market-oriented.

On the other side, it's so obvious that the number of banks in our region is still high. In 2002, the average number of banks in the Western Balkans countries was 26, very similar to the one of the new accession countries to the EU, where this average was 27. Comparing the size of economies of our region with the size of the new EU member countries, we understand that the number remains still high and thus leaves room for further consolidation. Maybe it's time to face a process of merging and acquisition, which can be stimulated through demands for a larger capitalization and through a growing competitiveness.

- Developments in the banking sector have contributed in enhancing significantly and continuously the financial intermediation in the region. This process closely follows the overall progress made in the economic transition and development of the region. However, the crediting growth is mainly oriented to consumers and less oriented to corporates.

Banking sectors of the countries of the region still remain relatively small compared to the new EU member countries. In the countries of the region, the banking system represents 46.9 per cent of regional GDP, while for the new EU member countries this figure was 64 per cent of GDP for year 2002. Anyway, there is a growth of financial intermediation in the region, although there is no significant growth in the total assets of the banking sector.

Credit/deposit ratio continues to increase from year to year and this fact shows the rising willingness of banks to enlarge their lending activity at a faster pace than the growth of savings. However, the average of credit/deposit ratio of the region is still below the level of the new EU member countries (76.2 per cent for the Western Balkans and 111 per cent for the new EU member countries).

Lending has been growing in the most markets of the region between 2001 and 2003.

The lending growth was generally accompanied by an accelerated growth in the consumer credit, while lending to corporates increased slowly. However, due to the low initial level of consumer credit, lending to corporates in 2003 still represented more than 75 per cent of credit portfolio of banks for the private sector and this amount was mainly extended in foreign currency. Another structural change in credit portfolio relates to the upward trend towards long-term lending, which at least in three countries of the region (Albania, Macedonia and Bosnia & Herzegovina) consisted of 50 per cent or more than total lending.

Despite the lending growth over the entire region, total credit in 2003 was only half of credit per centage in the new EU member countries (23.5 per cent compared to 47.5 per cent of GDP). This means that, notwithstanding their rapid expansion over recent times, the banking sector in the Western Balkans still plays a restricted role in financing the economy needs for investments.

One of the main reasons, which hold back the growth of financial intermediation, is the high spread through interest rates of deposits and credits. There are a lot of explanations to this situation as lack of efficiency and competitiveness among banks, high credit risk of the economies in this transition period, collateral problems, legal system operation, etc. However, it's worth noting that the spread between deposit interests and credits has declined in the recent years, showing a gradual improvement for the situation.

- The banking sector, according to international standards, is still small and fragile. Since economic and political stability has always been a questioned issue, this fact has given a negative impact on the long-term lending to the economy. Simultaneously, bad loans, especially in certain markets, are still high and profit rate in the main banking activities is still low. Also, some deficiencies of the judiciary system became an obstacle either in executing contracts or in using collateral and consequently, an obstacle for the further consolidation of lending activity.

The banking sector reform is making progress in the region, with an emphasis on the improvement of regulation and supervision of this sector. Now, efforts are concentrated on the improvement of legislation on the banking activity towards a broader focus on risks, which the banks are exposed to, and on the way a risk-oriented approach is adopted, either within the banks or regarding the banking sector supervision. Within the framework of banking system consolidation and in the context of low credibility to the banking sector inherited from the past, there have been important developments on the full application of deposit insurance schemes almost in all the countries of the region.

Apart from the positive developments in the banking sector reforms, there is still much to do in this direction. Structural reforms should not remain simply slogans. Everyone should find in them the list of present and future priorities that characterize the different economies of each country in the region. Referring to Albania, I think that many obstacles arise from lack of collateral register, inaccuracy of mortgage, lack of knowledge and the non-functioning on a correct basis of the judiciary system and law, particularly with regard to technical problems that relate to the knowledge and execution of collateral.

For this reason, I estimate that the undertaking of reforms in this direction is very important. The solution of these problems would help not only the banking system so as to be safer in the crediting process but also the high potential sector of the agricultural that would enhance its contribution in the total output.

Bad loans per centage remains still high, at a regional average of 14 per cent of the entire credit portfolio for year 2003, although there was an ongoing

improvement compared to the previous years, as a result of privatization of this sector and of the reduction of political influence in extending loans.

However, earning rate increased further over the last years, except for one country, earning rate was everywhere positive throughout 2003. In some countries, earnings from basic banking activities were still low or negative in 2003, and mainly compensated by the earnings made through non-banking operations.

High-risk level in the banking operations is reflected also by the high capital adequacy ratios in the Western Balkans countries. The regional average of 27.5 per cent in 2003 is higher compared to the average of 14 per cent of the new EU member countries. Although these high rates may provide a certain security in terms of having a sound banking system, they confirm the high-risk level of lending and the high degree of liquidity and non-banking components in the balance sheet of banks. However, small and domestic banks have a higher rate compared to foreign banks and at the same time the average adequacy ratio decreased during the last three years, reflecting a better credit risk management.

- Economies of the region have only recently started being more closely integrated in the international financial markets. Cross-border lending and borrowing, or other forms of international financial flows are still relatively insignificant.

With the stabilization of the economy and the rescheduling of debts, the countries together with their financial sectors have started being gradually integrated in the international markets. Sovereign ratings given for these countries have accompanied and accelerated in some cases these developments.

While the financial sectors, and particularly commercial banks, have strengthened their international ties and have been gradually integrated in the international financial markets, the straightforward competitiveness from cross-border banking activities remains still restricted. Cross-border lending activity increased slowly in the countries of the region. However, even in this field there is room to move more quickly. The foreign capital penetration in the countries I refer to is still low and mainly reflects the inability of our financial systems to facilitate the absorbing of foreign investments in our economies. Albania has not yet a sovereign rating, making more difficult its accurate perception from the international market. For this purpose, I'm personally exerting all my influence in order that upon the completion of FSAP program our country be subject of a sovereign rating from one of the specialized agencies.

The performance of accelerated reforms associated by rapid steps towards modification of legislation would make the region's dream for the EU membership come true. If our countries will adopt laws not simply "per se" but to develop a full and comprehensive inventory, then I would say that we would successfully accomplish (even partially) our "homework" in the eyes of Brussels. This would enhance the confidence of the region, opening up the

path for more foreign direct investments, and qualitative investors. The latter ones will influence the domestic market but also will increase the attractiveness of the entire region. I believe that recent interest shown by some important international financial actors in Albanian Government's bonds, illustrates perfectly what I tried to bring in front of you.

*Dear participants,*

I think that the treatment and solution of these challenges should be framed in a common regional action plan. I have discussed on this idea even in some other international meetings as well as in different bilateral meetings with Governors of central banks of the region. They all agree in principle upon the intensification of regional cooperation, and concrete steps have already been taken in this regard, such as agreements in banking supervision signed with the National Bank of Macedonia and Central Bank of Montenegro. Meanwhile, we are in the process of negotiating with the National Bank of Bosnia and Herzegovina and National Bank of Serbia. We are taking the first steps, through these agreements, towards a modern supervision, especially when talking about the business activity of potential operators that have extended their activity all over the region.

This information would be very important and helpful for an effective supervision even based on the principle host to host country; a detail which I think is not included in the relevant Basel accords. I believe that under the conditions of our region this is of paramount importance, especially when talking about banks that are present in all the countries of the region and their market share is considerable.

I estimate that regional cooperation is an important forerunner of the integration process of the region with the rest of Europe; therefore I will not stop working to encourage a regional cooperation of high standards among the financial systems of Balkan countries.

For this issue I have the full support by the European Central Bank and the European Commission. This is also in compliance with the program designed by the World Bank, which is called Convergence, a very significant name, where the role of central banks and associations of banks can and should gain new dimension.

Before concluding my speech I would like to thank again the organizers and the hosts of this meeting for the excellent opportunity they provided us. I sincerely believe in the role of Black Sea Trade & Development Bank and I hope that its contribution will further increase in the future in promoting the cooperation among member countries in fostering the regional trade and in financing the projects that would serve the whole region.

*Thank you.*

## LUNCHEON SPEECH DELIVERED BY THE GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI

At "Banks and their role in fighting money laundering" workshop  
Tirana, June 22, 2005

*Dear participants,*

The subject of today's workshop is, as you well know, a matter of great concern worldwide. The way we fight money laundering (ML) and counter the financing of terrorism (FT), does not have an impact on us only, but also on our neighbours and any other country with which our citizens and companies perform trade and financial relations. In these last years, to this issue has been devoted considerable time and efforts by you, by Albanian authorities and by international organisations.

Besides meeting each other again and exchanging opinions on general issues, I want to use this opportunity to share with you some thoughts about the importance of the existence of a culture against ML in the institutions we represent. I will refer in this case to banks, meaning non-bank financial institutions as well. Following that, any consideration about ML will be valid also for the FT, for which I am convinced that our awareness and that of the public, is complete.

With the term "culture" on anti-money laundering (AML), I refer not only to the existence in the bank of structures responsible for AML and its related procedures. I am aiming at the need for the existence in any bank, of a real concern and of a positive pressure to make sure that those structures and procedures are applied to their real meaning, throughout the institution and down to any single employee. At the same time, I mean the real willingness of the bank for a careful and proactive role in the inter-institutional relationships, with the aim of leaving away the formalism and qualitatively improving the process of AML. I will be focusing in more details on these issues, as I proceed.

Prior to proceeding with more details, allow me to put myself in each of your's position. I feel I can do this, since I was one of you, as the executive director a commercial bank and head of the Association of banks.

We have shared common concerns about the speed and about the quality with which the legal requirements on AML were approved and implemented in practice. I still believe that a law is good when its requirements are applicable in practice and when they represent affordable costs for its subjects. I must say that the existing law on AML, needs to be revised under these considerations.

At the same time, we have often discussed about the concern that the way this process is being implemented is endangering to go in the opposite direction to our major objective of reducing the informal economy and bringing down the cash in circulation. While banks, as regulated, transparent and supervised

institutions, play an important role in this objective, they are not the sole institutions. A no less important role play other institutions, especially those of tax collection or other institutions of services. Special attention should be paid to the supervision of market segments out of the banking system but within the scope of law. The terms of executing different payments, on a household or company level, should favour the usage of bank instruments (like electronic cards, wires, etc.) and in some transactions (where involved big amounts) payments in cash should be completely forbidden. There are exactly these transactions that may represent the biggest risk of money that is laundered from illegal activities, including fraud and tax evasion. I believe that the preference of holding cash money is deep in our society's mentality and is also linked to a relatively low level of the average salary in the country. As a result, one can say with an appropriate level of confidence that most of the money that circulates in cash, is in the hands of many people, hence it represents a relatively low level of ML risk.

We have also discussed about costs that are encountered when adopting full compliance with the requirements of the regulatory and the legal framework. An effective system of AML, means advanced systems of information technology, especially on those parts that deal with the database of the clients, the aggregation of the information from any single point in the network, and those that enable the continuous monitoring and filtering of any bank transaction. For our institutions, especially for those that are not branches or subsidiaries of any stronger financial institution, those costs can be substantial and difficult to be absorbed.

Furthermore, we have been witnesses of a somehow difficult dialogue with the institutions that implement the law. I must say though that such a problem exists almost in any jurisdiction, including the most developed countries. But their attitude toward the abidance to the law, of constructive discussion of problems and of quick reactions in implementing changes, facilitates the solution of different problems.

*Dear bank directors,*

I do like though to consider the issue from what we as bankers, can contribute more in this process, in spite of above-mentioned difficulties. Furthermore, history shows that the cost of dealing with those difficulties, whatever their size in normal times, can be easily exceeded in instances of unusual events that are linked with scandals on ML.

Firstly, I want to say that we must be very careful not to allow such difficulties to distract our focus from the heart of the issue, that of being ensured at any time that our banks are clean and that they do not represent a place where dirty money and its creators or benefitors can not enter. If we do not act like this, the negative consequences can be unimaginable. We put in danger the reputation of single financial institutions and of the entire financial system; unwillingly, we have become instrumental of crime in reaching their goal of using the money generated from illegal activities; we have placed the reputation

of our sound clients in a very difficult position; we have lost confidence in front of the honest market players and have darkened our positive image in front of our international partners and partners of our clients; we are going to face in the future a higher cost on doing the bank business, represented not only from the loss of clients (which can prove to be fatal), but also from difficulties in expanding our activities; we can also expect to be subjects of penal actions triggered by the regulatory framework. The damage is multifold and exceeds any quantitative advantage in the volume of business we may have had from "outright" acceptance of any business offer. In the end, through rigorous application of AML requirements, we have protected our institution from a potentially very large damage. This is the key element of our duty, the feature of a good banker. By being active in AML, we are simply doing our job. Any negligence on this means we are not up to the requirements of our job.

We need to emphasize that the key element in the process, is the strong commitment to understand and implement it. It is very important for such commitment to come from the highest management structures of the bank. If such commitment is missing, this will be immediately shown at the structures of the bank that are directly involved in the AML process, whose functioning will be negligible and full of formalism. Within the institution, this commitment should be shown: in the preparation and approval of the internal procedures on AML (including those of knowing the client), in setting up the proper entities and appointing the responsible persons (on monitoring the AML implementation process) with the proper professional and hierarchical qualities, in rightly defining their rights and responsibilities, in giving them moral and material support, in providing qualitative and continuous training for the staff, especially for those that have direct contact with the client and analyse its ML risk profile and in keeping up a positive pressure in the institution for such process to be implemented and be continuously functioning. In one word, the climate that should exist within the institution for such issue (but not only) should favour in any instance the responsible actions being taken from the bank staff on AML.

In an inter-institutional level, the commitment to be active on AML goes beyond full compliance with the regulatory requirements. We must be mindful of the role we have in the mosaic of the institutions that are relevant on implementing the AML program in the society. Furthermore, we should be sensitive and helpful toward such institutions, especially when we know the difficulties they face in performing their functions. More concretely, I do not believe that the banking industry and other non-bank financial institutions, are giving their maximum contribution, if they suffice with fulfilling rigorously some quantitative mandatory requirements of the law, and not focusing also on some non-mandatory but very important requirements. For example, a very low number of suspicious transactions is currently reported at Anti Money Laundering Directorate (FIU), while the number of reports about transactions above the threshold required by law, is huge. In this instance banks are acting in accordance with the law requirements, but are not in compliance with spirit of the law. As we all agree that it is impossible for the banks to totally know and guarantee for the cleanness of each of their clients, then we must

accept the fact that the lacking of suspicious transactions reports means that the bank:

- has difficulties in setting up its structures to ensure the real analysis of the risk profile of its client;
- doesn't have a good understanding of the problem and has been adopting formalism in fulfilling the law requirements;
- is not taking a proactive role, to understand other relevant institutions difficulties and to come forward with reasonable and acceptable solutions, in accordance with the spirit of the law.

If a bank has chosen to act in formalism and if this gets a widespread adoption in the entire financial system, I think we really risk that this approach be counterproductive to the financial industry firstly. It would be somehow normal in this instance to think about lowering the minimum threshold required by law, as a possible solution to avoid formalism and to capture potential cases of ML that lie below the current threshold. Hence, we risk imposing on ourselves a development with a much higher cost of compliance and potentially more formalism, when we consider the difficulties that exist in analysing the reported information in AML Directorate.

In this context, I would like to highlight that formalism in terms of law implementation is unacceptable and harmful. In this case formalism is based on task performance and makes the control structures become dormant or inhibits their positive progress. So it is crucial that the law itself and regulations be as clear and implementable as possible in order to establish confidentiality and facilities in their implementation process.

Passing in the definition of the risk profile of the client, is the only way that would permit the compliance with the spirit of the law. This approach is based on a sound "know your client" policy of the bank, which should be a standard requirement nowadays. This approach has several advantages, where one could mention improved capabilities on tightening the system to prevent or detect cases of ML. Furthermore, it allows better distribution and focus of financial and human resources, resulting in a lowering of compliance costs. At the same time, it allows those institutions responsible for implementing the law and analysing the information, to focus on the full investigation of those transactions that represent higher risk of being ML.

Another delicate issue that I would to stress on in my speech is keeping and protecting the confidentiality on giving and managing the information on suspicious transactions. Our practice has shown that problems with this issue are complex. We have had cases of confidential information being public in the press, the next day they were filed. In another case, the employees of a bank that reported a suspicious transaction, were called and probed in the prosecutor office as being those the persons of actually being involved in ML. The reporting subjects and the institutions that implement the law, must define among each other certain procedures that would eliminate the occurrence of such case and that ensure the protection of confidentiality of the persons

that have filed the suspicious reports. As long as this element is not totally ensured, any other discussion on the matter risks being a purely theoretical one, without much practical values.

In conclusion, as a Governor, I must say that I would encourage a better cooperation among the institutions that are subject or that implement the law on AML. At the same time, Bank of Albania as the supervisory institution of its licensees will promote a stronger contribution by banks in Anti Money Laundering requirements implementation. In exerting our function, we shall not be limited to the verification of the existence and the functioning of the internal structures and procedures, but will deepen further on assessing the support the management structures of the banks, give to the real implementation of the AML internal policies.

The position of a central bank is, according to the law, very comfortable, but playing the proactive role of a responsible central bank, showing the concrete implementation of this responsibility, we will intensify our efforts together with the other actors of interest to enable a better implementation of the law on money laundering prevention.

Allow me to close this speech, thanking the co-organisers of this workshop, the Tirana office of FSVC and the Albanian Association of Banks. I thank in particular all the specialists of the commercial banks and of the non-bank financial institutions that took part in this seminar, for their valuable contribution on preventing money laundering in their institutions. I thank particularly the foreign experts, Mr. Farrell and Mr. Burnside, that accepted to share with us their valuable experience. I wish this workshop has also been for them an interesting event.

*Thank you.*

## SPEECH OF SECOND DEPUTY GOVERNOR OF THE BANK OF ALBANIA, MR. LIMOS MALAJ

At "Banks and their role in fighting money laundering" workshop  
Tirana, June 21, 2005

*Dear participant,*

In the framework of the measures to combat the money laundering, Bank of Albania in cooperation with FSVC and the Albanian Banks Association organizes the seminar on the topic: Banks and their role in combating money laundering.

It is a common fact that Albania, also assisted by international organization like IMF and EU has made intensive efforts to establish a legal framework, to set up needed structures and bodies, and is still working to train the staff that is to be involved into this matter.

Bank of Albania as the supervisory authority for the banks and non banks financial institutions has highly evaluated this sector due to its significant role in combating money laundering.

Experience has shown that the matter at question constitutes a high social threat, as, the laundered money has its origin from the crime and in most cases, its final destination is the financing of the criminal activities.

Besides, this problem is not limited in time and space. It may have a distant time origin and may be worldwide, at a various size and intensity.

It has been revealed that a strong commitment and cooperation among various factors at home is needed, but on the other hand we should also enhance the cooperation with the authorities in other countries.

We have strengthened our legal framework as well as relevant regulation regards money laundering prevention.

The measures so far, have established clear procedures which help identifying, registering, and reporting the suspicious transactions to the proper authority responsible for their further investigation.

The measures for such prevention have been subject to monitoring and evaluation not only by the national supervising authority, but also by the specialized international institutions.

As mentioned earlier, this process demands deeper measures to be taken by the banking and financial institutions themselves.

I would say that the main challenges to Bank of Albania and the banking system a follow:

Firstly as you may know the Albanian economy still remains cash-based, which provides a more favorable context for money laundering. Efforts have been made to minimize this reality. However, a lot remains to be done.

Secondly the banking network is ever expanding and this requires more efforts to train the staff, so as to fill the gaps and the present shortcomings.

Thirdly the banking system is offering more and more new products, the variety of credit cards to the electronic banking transactions, with the clients not physically appearing at the bank windows.

Considering all the above, the regulations and procedures, will have to be reviewed and the staff should be further trained. This is also the scope of this seminar.

I avail myself of the opportunity to thank, once again, the American Agency FSVC for its assistance through providing experts with great experience in the banking business, and particularly in the field of money laundering prevention.

And finally, I would like to thank the speakers, as the most valuable as such activities. Bank of Albania is grateful to them for helping with this seminar.

## THE EVALUATION OF DISSEMINATION STANDARDS OF STATISTICS IN THE BANK OF ALBANIA<sup>\*,\*\*</sup>

*This paper aims at providing an evaluation on the quality of data dissemination practices including the collection, compilation and final dissemination of financial and balance of payments data, through their comparison with International Monetary Fund's standards.*

### INTRODUCTION

The compilation and dissemination of economic data is increasingly becoming a determining factor in economic decision-making. In addition, countries aspiring to access international capital markets are advised to improve statistical data dissemination, because through it, they could build confidence with investors. Because of its importance, the process of data dissemination has drawn the attention of international organizations, which have built standards based on the best countries practices.

The International Monetary Fund, in October 1995 begun the work on creating the standards related to economic and financial data dissemination. These standards consist in two levels: GDDS standards (General Data Dissemination System)<sup>1</sup> in which participation is opened to all member countries of IMF and SDDS (Special Data Dissemination Standards)<sup>2</sup>, to guide members that have, or that might seek, access to international capital markets in the provision of their economic and financial data to the public. Both standards are expected to increase the availability of timely and comprehensive statistics and therefore contribute to the pursuit of sound macroeconomic policies; the SDDS is also expected to contribute to the improved functioning of financial markets.

Albania is a member of the GDDS project since 1999, being classified as a pilot country in this project. Through this system, the enhancement of the transparency of institutions producing statistics (Bank of Albania, Ministry of Finance and INSTAT) has been achieved, the priorities and plans for improvement related to existing shortcomings have been settled and the needed assistance is received in this direction. ROSC<sup>3</sup> (Reports on the Observance of Standards and Codes) missions have been created to evaluate the countries

*\* Articles published in this bulletin do not always reflect the Bank of Albania's official opinion. Please consider these articles as merely being the authors' personal views.*

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<sup>1</sup> Relevant reference: <http://dsbb.imf.org/Applications/web/gdds/gddshome/>

<sup>2</sup> Relevant reference: <http://dsbb.imf.org/Applications/web/sddshome/>

<sup>3</sup> ROCS – Reports on the Observance of Standards and Codes.

practices related to statistical data dissemination. They have visited Albania for the last time in May 2000. Besides the positive appraisal, the mission evidenced the building of a system of national accounts, the improvement of the legal framework and the coverage of economic activities, with particular reference to statistics of real and external sectors, as well as the efficient use of information sources, as further needs.

This paper aims at providing an assessment on the quality of the practice of data dissemination including the collection, compilation and final dissemination of financial and balance of payments data, through their comparison with the best international practices.

Standards of the IMF project DQAF (Data Quality Assessment Framework) have been used for this assessment, standards which cover institutional environment, statistical processes and characteristics of statistical products. A summarizing table of standard indicators used by DQAF is given in the Annexes.

The paper is divided into 6 parts, which relate to the assessed dimensions related to data dissemination, with the aim to assess the efficiency of the dissemination of the statistics of financial and external sectors in Albania.

## 1. PREREQUISITES OF QUALITY

The prerequisites of qualitative statistical data dissemination are the existence of a legal and institutional environment supportive of statistics, the existence of commensurate human and material resources, the relevance of the data that are disseminated and the good quality management.

### 1.1 THE EXISTENCE OF A LEGAL AND INSTITUTIONAL ENVIRONMENT SUPPORTIVE OF STATISTICS:

First, an environment supportive of statistics implies that the responsibility for collecting, processing, and disseminating a category of data is clearly specified by law.

i) The Law "On the Bank of Albania", clearly gives the right and responsibility to the Bank of Albania to compile and disseminate financial and balance of payments statistics, as well as obliges all banks, institutions, physical and legal persons, to report statistical data to the Bank of Albania. The Law "On official statistics" is also included in this framework<sup>4</sup>.

Second, data sharing and coordination among data-producing agencies are adequate.

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<sup>4</sup> Law No. 9180, dated 05.02.2004.

ii) This indicator implies both the existence of procedures of data exchange and the maintenance of contacts (e.g., regular meetings and workshops) with other data producing agencies to promote a proper understanding of data requirements, the common use of information sources, and to take into account reporting burden. In the Bank of Albania there exist such procedures described in the respective regulations, which cover, for the time being, the flow of statistics which are subject of current work. In order to lower the costs of reporting by entities it has been intended to achieve the coordination of the reports of commercial banks and savings and credit associations for supervisory purposes, balance of payments purposes and financial statistics purposes.

Currently, the monetary and financial statistics sector is in the final phase of the inclusion of "other financial institutions" in the statistical indicators. For this purpose, it has been sought to use all existing data of bodies that license or supervise groups of financial institutions, such as the Supervisory Council of Insurance Companies. This kind of positive experience has been followed for the reports from savings and credit associations, by collecting the information from the respective unions (in which savings and credit associations are members). In the same way collection of information for balance of payments needs is being conducted.

It is worth noting that such working practices for the exchange of statistical information have been settled in collaboration with INSTAT and the Ministry of Finance.

iii) Third, individual reporters' data are to be kept in strict confidentiality and used for statistical purposes only.

This assertion is particularly important for the entities that are not supervised or licensed by the Bank of Albania, which cannot be subject to penalization for delays or deficiencies in reporting. The Bank of Albania ensures the confidentiality of individual data based on the Law "On the Bank of Albania", the "Code of Ethics of the Bank of Albania" and the "Regulation for Transparency and Confidentiality in the Bank of Albania".

Besides the protection by law, there exist procedures that prevent the dissemination of individual information. These rules prevent the illegal dissemination of information, e.g. by guaranteeing the security of databases, by limiting the number of personnel that have access to individual data, etc. In addition, the prevention of indirect dissemination of individual information is also taken into account. As regards the regulatory protection, the Law "On the Bank of Albania" and the above-mentioned regulations ensure the confidentiality of individual data by forbidding Bank of Albania's staff to disclose or transfer individual data to third parties for any purpose. However, in terms of regulatory basis it should be specified the "prevention of indirect disclosure of confidential information", e.g. in the case when a bank or group of banks has a dominant position in a given instrument which allows the disclosure of individual information even when the data are aggregated.

iv) Fourth, statistical reporting is ensured through legal mandate and/or other measures that encourage response.

The statistical reporting could be obligatory or not. More specifically, for monetary statistics, the entities that report so far are obliged by law to report to the Bank of Albania. Penalties are in place if problems are evidenced. The Law "On the Bank of Albania" also provides that every institution, physical or legal person, is obliged to report to the Bank of Albania (Article 27, Law "On the Bank of Albania"), but there is no indication of what would happen in case of non-reporting (i.e., penalties on entities which do not meet this requirement).

In the case that the law has no power to oblige the entities to report, the statistical agency is obliged to take a number of measures to make reporting more easily and lower the costs of reporting by entities. More specifically, for other financial institutions (for their inclusion in financial statistics) the reporting system has been built not only by using the existing legal basis but also by offering collaboration with entities or by adjusting statistical needs with their existing accounting systems.

## 1.2 RESOURCES – RESOURCES ARE COMMENSURATE WITH STATISTICAL PROGRAMS.

i) Human resources should be sufficiently qualified to perform their duties in accordance with statistical programs.

The number of statistical staff and their qualification is commensurate with the actual processes performed by the statistical units. Their basic qualification has been conducted principally through collaboration with IMF (IMF qualification courses, missions, distance assistance), work experience, as well as through different seminars organized by other international institutions. In this way, a staff capable to manage the conduct of work in statistical units has been created. More organized training programs remain to be conducted, in order to cope with future tasks.

In addition, it should be thought about a complete recruitment of staff in order to cope with the full coverage of the statistical spectrum, based on international standards, such as international investment position, external debt statistics, and other statistics of the economy.

Statistical units have a limited number of staff with a wholly statistical educational background. Ideas that relate to qualitative future developments of human resources should be clarified.

Salaries for the specialists of statistics are for the moment at the same level as those of the public administration in general.

Revaluations related to forms of the structure of statistics and its complete frame could be considered.

ii) Technology – Computing resources for compiling the statistics are adequate to perform required tasks.

In terms of the statistics technology development, several projects for the implementation of solutions for the statistical information are carried out in the recent years. Currently, the technology at our disposal is indeed what is needed for statistical requirements (including computers, programs and information storage) and for the moment at adequate levels for the requirements of statistical programs<sup>5</sup>. At the same time, further work for the development of technology should continue, to meet more advanced standards<sup>6</sup>.

iii) Physical facilities and other resources such as transport, communication, etc. are adequate to perform required tasks.

For the moment the physical conditions of work are not adequate as regards the physical conditions of offices and the distribution of staff according to the functions they perform. Their improvement will certainly bring better possibilities for the enhancement of the quality of statistical work. Meanwhile, there exist normal conditions of communication and transport for the implementation of duties.

iv) Funding for compiling the statistics is adequate to perform required tasks.

The funding for statistics is done according to the requests submitted and the problems to be solved. There are clear ideas relating to the needed budgets for the support of statistics in a mid-term period.

v) Measures to ensure efficient use of resources are implemented.

Mechanisms are in place for the different ways of periodic measurement of the quality of work of the statistics staff. On the other hand, a number of measures have been taken to improve the organizational aspects of the statistics personnel, such as the merging of these units in one department, to perfect the regulatory documentation, etc. In the framework of effective use of information sources, there is a closer collaboration with INSTAT for the enhancement of the quality of statistical surveys. On a national level, there is still much to do in order to provide the decision-making with effective and sufficient statistical information<sup>7</sup>.

On the other hand, for specific tasks, collaboration is being developed with foreign experts such as IMF and FSVC specialists.

### 1.3 RELEVANCE OF DATA:

i) The relevance and practical utility of existing statistics in meeting users' needs are monitored.

<sup>5</sup> We refer to: SARS – Automatic System of Statistical Reporting and “Time series”.

<sup>6</sup> As a reference, the SDDS project standards are mentioned; see <http://dsbb.imf.org> for details.

<sup>7</sup> SDDS standards are as an objective on international level; see <http://dsbb.imf.org> for details.

In the production and dissemination of statistics, any statistical agency should take into account user requirements and for this purpose appropriate ways should be found (e.g., through surveys, seminars, or with their feedback on public reaction, through contact persons). In this framework statistics in the Bank of Albania do meet the needs of internal users, IMF and in absence of an active reaction by the public, seek to comply with international standards of compiling and disseminating of data. Bank of Albania statistics staff take part in statistical meetings organized by international institutions and are active in seeking experiences of other countries related to characteristics of the statistics that are compiled.

On the other hand, the organization of meetings with external users such as academic institutions, media and the private sector would be a good test for the relevance of the published statistics. With the creation of this experience, gradually it should be necessary to design some respective procedures for the implementation of a periodic and structured process for the consultation with different users (including regional and international organizations).

#### 1.4 OTHER QUALITY MANAGEMENT – QUALITY IS A CORNERSTONE OF STATISTICAL WORK

First, in the Bank of Albania there is an already-consolidated mentality as regards the management of statistics, due to the fact that “quality creates confidence” and this is a cornerstone of statistical work. The Bank of Albania is insightful regarding the quality of information and is seeking for a better management of it. To the statistical units of the Bank of Albania is made available the appropriate documentation and information for the improvement of the quality of statistics.

Also, there are procedures of information review, taking into account users needs<sup>8</sup> and reviews of information sources.

## 2. ASSURANCES OF INTEGRITY

To assure the integrity of the disseminated data, the agency publishing them should guarantee professionalism, transparency and compliance with ethical standards.

### 2.1. PROFESSIONALISM:

- i) Statistics are produced on an impartial basis:

First, the terms or conditions under which the statistics are produced are in accordance with professional independence. This should be guaranteed

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<sup>8</sup> Normally requests are taken from major users, such as Monetary Policy Department, Supervision Department, Research Department and IMF. In some cases other requests have been made from external users.

by law or in the absence of a law or formal provision to support professional independence, there should be in place a recognized tradition respecting professional independence (a typical example in this case can be the fact that government agencies understand the importance of non-interference).

In this framework, the Bank of Albania by law has the right of producing and disclosing monetary and financial statistics and the balance of payments statistics. Thus, it guarantees professional independence and prevents interference by other parties, including government agencies.

Second, professionalism should be promoted and supported inside the agency producing statistics.

This criterion includes first the professional development of statistical staff in the Bank of Albania. This has been enabled through the on-job training or through seminars organized by the IMF about issues of the methodology of compilation of statistical indicators, as well as many other aspects related to statistics. The continuous collaboration with statistics specialists of the IMF has made possible the availability of the most recent literature regarding contemporary standards. In this framework is also included the support of IMF specialists for some of the plans of the Statistics Sector such as the fulfillment of SDDS standards, the inclusion of other financial institutions in financial statistics, the adoption of the new methodology for the Albanian financial data published to the IMF, etc.

Also, as regards the promotion and support for statistics staff, statistical units have been classified in the second category of salaries, differently from some years ago, (indicating the importance assigned by the Bank of Albania). It is worth noting that the employment of specialists and their development in career in the structure of statistics is based in their curricula in the field of statistics. Also, the initiatives for research analysis and choice of appropriate methodologies have been supported.

ii) Choices of sources and statistical techniques as well as decisions about dissemination are informed solely by statistical considerations. Independently from decision-making needs, the unit producing and disseminating statistics should have independence in the choice of its standards, methodology, periodicity and way of disclosure.

Statistical units in the Bank of Albania, enjoy quite sufficient independence in this direction. Generally, it is aimed to follow the broadly recognized standards, which have enough room for satisfying user needs.

Revaluations related to forms of structure and further improvements could be considered. Decisions on the dissemination of statistics are based only on statistical considerations and international experiences.

iii) Third, another criterion of professionalism is the possibility for the institution to react to the misuse and misinterpretation of statistics.

For this aim, to the data should always be attached a guide (methodology, metadata), which generally applies to the publications of the Bank of Albania. The misinterpretation of the published data could also be avoided through contacts with selected groups from the public such as the media, academic and scientific institutions, etc. Even though the presence of the Bank of Albania to the public has increased in the recent years, statistical processes in the Bank of Albania are scarcely known, taking also into account the scarce education of the public related to statistics in general.

Under the conditions of frequent changes of the statistical methodology, the building of the data history and repeated reviews of the series, it is very easy for the statistical indicators to be misinterpreted. Important initiatives in this direction are: seminars with journalists, different programs in collaboration with the media and particularly the First Conference on "Statistical Information in Albania"<sup>9</sup>.

The Bank of Albania continuously monitors the use of its publications in the media. In response to public articles, with respect to the raised problems, explanatory and informative articles on the Bank of Albania activities, clarifying articles in case of misinterpretations, participations in debates for financial and economic issues, etc. have been prepared.

## 2.2. TRANSPARENCY OF STATISTICAL PROCESSES:

i) First, the terms and conditions under which statistics are collected, processed, and disseminated should be available to the public.

Currently, in the Bank of Albania's website there exists a complete information on the regulatory basis on which the entire statistical process is performed. Furthermore, the preparation for the SDDS requires not only the listing and publication of these regulations but also, their possible review from this point of view.

ii) Second, the public should be noticed in advance on the internal governmental access to statistics prior to their public release.

For monetary statistics and balance of payments statistics there is no internal government access to the data prior to their publication.

iii) Third, the agency should identify the statistical data that are compiled and disseminated, in order for the public to clearly know what responsibilities are assumed by the agency.

The statistical data in the Bank of Albania carry the name (logo) of the Bank of Albania when they are released. In particular, in the case of common publications it should be clearly identified the part pertaining to Bank's statistics.

<sup>9</sup> The First Conference, "Statistical Information in Albania", organized by the Bank of Albania and INSTAT, was held in Tirana, during 2-3 November 2000. See [www.bankofalbania.org](http://www.bankofalbania.org) for details.

iv) Major changes in methodology, data sources and statistical techniques should be noticed in advance.

Currently, for the statistics in the Bank of Albania there is no such a policy. The users are informed about changes and explanations of changes only when publication comes to light.

### 2.3. ETHICAL STANDARDS – POLICIES AND PRACTICES ARE GUIDED BY ETHICAL STANDARDS

i) First, any agency that prepares and discloses statistical information has ethical standards, approved by the institution. In the Bank of Albania there is a regulation on ethics according to the standards. On the other hand, it is required from the employees to have a complete level of formation for the preservation of ethical standards and the avoidance of political interferences.

ii) Also, these standards should be well known from administrators and employees of the institution.

## 3. METHODOLOGY

This dimension in monetary and financial statistics is assessed through the comparison of the practices of the country with the best international practices. First, methodologies disclosed by the IMF are mentioned<sup>10</sup>. However, other standards of the best international practices are also referred<sup>11</sup>. The criterion of comparison includes concepts and definitions, coverage, sectorisation and classification of financial instruments and accounting rules. Supported by IMF standards, the Bank of Albania has approved the "Methodic of monetary and financial statistics, Bank of Albania July, 2003". Based on these standards, since December 2002, the compilation of monetary statistics according to the new standards has initiated. Currently, the publication on the internet of these standards and the creation of "bridge-tables", which would enable the link between the old standard and the new standard, is in process. On the other hand, in collaboration with the IMF, the tables for publication in the IFS<sup>12</sup> according to the new standard<sup>13</sup> have been prepared. Finally, it is worth noting that although the system of assessment DQAF, and the standards of SDDS and GDDS are limited to only cover the "depository corporations" sector, the inclusion of "other financial institutions" in monetary and financial statistics is under way.

The balance of payments is compiled in the methodological framework defined in the international standards of the IMF in the Balance of Payments

<sup>10</sup> They include "Monetary and financial statistics manual, IMF" publications of 1984, 2000, "Balance of Payments Manual, IMF, Fifth edition, 1993" as well as other additional documentation.

<sup>11</sup> They include standards such as "European system of accounts 1995 (1995 ESA).

<sup>12</sup> International Financial Statistics, publications of the IMF.

<sup>13</sup> Note that in this collaboration Albania has been chosen as a pilot country, having been esteemed for doing a qualitative work.

Manual No. 5. In this framework, the standard components of the balance of payments are classified and sectorised in accordance with those recommended by the manual. The statistical table of the balance of payments is based on the principle of double entry, observing, in all cases, the concept of residency. Uniform principles are also used for the evaluation and time of recording of transactions that are recorded in the balances as well as the inclusion of all transactions (free exchanges and transfers). However, in practice, as a consequence of limits in the data sources, the recording of transactions in due time is not always possible. Even the deviations from the most detailed categorizations of the manual are always subject of revision and improvement. In this framework, it can be mentioned the entry of the new reporting form of banks, and consequently the detailing of the items of the balance of payments, and plans of the sector for additional detailing and updating of the reporting form in the future.

The balance of payments in Albania covers in principle all transactions between residents and non-residents, however, some illegal activities remain not covered. For informal imports of goods (smuggled goods) in Albania estimates are conducted.

#### 4. ACCURACY AND RELIABILITY

This dimension relates to the assessment of the accuracy and credibility of the data sources and statistical techniques used.

##### 4.1. DATA SOURCES:

i) Source data are taken from comprehensive data collection programs that take into account country-specific conditions.

The existence of a relatively small number of banks and the grouping of the savings and credit associations in two unions<sup>14</sup> has allowed conducting a good control of monetary statistics on the sources of information. Accounting records (in the form of balance sheet) of commercial banks, Bank of Albania and savings and credit associations serve as such sources for monetary statistics. In the design of those tables, the major requests of monetary and financial statistics, which regard to the sectorisation and classification of financial instruments, have been taken into account. As regards the other financial institutions, it has been intended that the reporting information have the needed details to comply with the statistics requirements, but at the same time to be met within the existing possibilities of reporting by the institutions.

The existence of an office that administers the reports and controls them on the basis of an approved full documentation and the use of the same information for bank supervision, not only enables consistency in reporting,

<sup>14</sup> According to yearend report of 2004, Bank of Albania has licensed two unions. "Jehona" Union, composed of 42 members of savings and credit associations and "Albanian Savings and Credit Union", composed of 90 members of savings and credit associations.

but also creates room for the timely signaling of monetary statistics for both the accuracy of statistics and new issues appearing in the bank balances.

As regards the statistics of the balance of payments there is no strict rule that clearly defines the sources of information in order to fill in the table of the balance of payments. Sources vary from one country to another based on the specificities of each economy and on the legal and regulatory framework adopted in different countries. Currently, the Office of the Balance of Payments collects the information from customs for the imports and exports of goods, from the Albanian Electro-Energetic Corporation for the import of electric power, from some different forms of the banks for different items such as services, income, private transfers and financial accounts, using also reporting of some public and private agencies. In addition, the information is received from the Ministry of Finance for official transfers and government debt, from the Ministry of Economy for grants, etc. Statistical surveys are the broadest source of information and as such, they are conducted in compliance with the best practices. Generally, it has been aimed for the sample chosen for the survey to be a representative of the intended population and as much updated as possible.

ii) Source data reasonably approximate the definitions, scope, classifications, valuation, and time of recording required.

Generally for monetary statistics the data are appropriate with regard to the above-mentioned criteria. Since for other financial institutions the existing data (that is without claiming changes in the accounting and valuation rules) are being used, attention has been focused on the deviations from the standard and the use of alternative statistical techniques for their adjustment.

As regards the balance of payments statistics, although the used methods of collection (based on reporting forms and surveys) are in conformity with the guidelines of the 5<sup>th</sup> BoP Manual of the IMF, the data that are collected are not always sufficient to meet a broader coverage. Hence, it always remains a problem for the private sector the gathering of information related to a part of services, flows of liabilities, incomes from emigrants, foreign direct investments, etc.

iii) The data should be reported on a timely basis.

Deadlines of reporting for the entities that report to the Bank of Albania are fixed taking into account their real possibilities and the requirements of the statistical standards for their timely dissemination. In monetary statistics this is done almost entirely for the data of the central bank (accounting balance), but sometimes there are problems in meeting the deadline from the commercial banks, especially for the end of the year. Also, the savings and credit associations are required to submit a quarterly reporting. Based on their weight in the credit and deposit activities, it has been deemed that the current periodicity is sufficient for both supervisory and statistical purposes.

#### 4.2. ASSESSMENT OF SOURCE DATA:

i) Source data reported by entities are routinely assessed, and the results of the assessments are monitored and made available to conduct statistical processes.

For monetary statistics this task is performed by the Office of Reporting Administration. Also, through the SARS database, the automatic control of the consistency of individual reports is implemented. The documentation of this control is regularly kept by this Office and is made available to the Supervision Department.

Also, the compilation of the monthly data for the monetary authority is monitored on a quarterly basis by the Audit Department.

### 5. SERVICEABILITY

#### 5.1. PERIODICITY AND TIMELINESS:

##### i) Periodicity

The periodicity of reporting for banks and savings and credit associations, as well as their dissemination, is on a monthly basis and in compliance with the standards of data reporting of SDDS and GDDS. However, savings and credit associations report on a quarterly basis. The statistics of the balance of payments are disseminated on a quarterly basis and this periodicity is in compliance with GDDS and SDDS standards.

##### ii) Timeliness

As regards the timeliness, the data for the banking system are reported 40 calendar days from the last date of the month. Though in compliance with the GDDS standards (2-3 months), the timeliness according to SDDS standard has not been met, especially for the data of December, however the data for the central bank are disseminated in time. It is worth noting that by using the internet as a means of publication, a reduction of timeliness for the statistical indicators has been achieved. The data of the balance of payments are reported in about 2 months from the reference date, being so in compliance with GDDS and SDDS standards.

#### 1.1. Integrity:

The integrity of monetary and financial statistics indicators and that of the balance of payments statistics is assessed within a group of statistical indicators in a given moment in time or, through different sources, e.g. among the balance of payments and government indicators or monetary and financial statistics indicators.

i) Statistics should have integrity within a group.

In monetary statistics, given that the financial sector data have not yet been compiled regarding the check of integrity within a group, the check integrity is limited only in the comparison of the data of commercial banks and the Bank of Albania data.

As regards the balance of payments, the concepts, definitions and classifications are the same in both quarterly and annual statistics. A good control criterion would be the comparison of balance flows with the changes of stocks in the "International Investment Position", which is not yet compiled in the Bank of Albania.

ii) Statistics should have integrity within a reasonable period of time (as a rule five years).

Consistency within a period of time means the extension back in time of the changes in methodology or in data sources, the detailed explanation of the major breaks of the time series, including their causes and the needed adjustments in order to ensure consistency in time and the explanation of the unusual changes in the trend of statistical indicators. Given that building new series for earlier periods is impossible, the work on the creation of detailed "bridge tables", which should enable the continuity of the indicators after the changes in methodology, is in process. For the indicators of monetary and financial statistics a first analysis has been completed, an analysis aiming at describing the trend of indicators, at explaining "events" in time, etc.

## 5.2. THE EXISTENCE OF A POLICY FOR THE DATA REVIEW AND ITS PUBLICATION:

i) Reviews should follow a regular calendar and should be transparent.

The users of statistics should know the practices of data review. Also, it should be known if the data are preliminary or definitive. Reviews in monetary and financial statistics as a rule are made when there are changes in the balances of commercial banks due to auditing from chartered auditors or after the on-site inspection of the Bank of Albania. In monetary statistics changes are included in the regular publication. Hence, the data are viewed as definitive in the first moment of release and are reviewed if needed. Since there is not a clear and approved methodology for the data review, it is not known in advance when their review is expected to happen. The documentation of reviews, that includes reasons of changes, amount of changes, etc., even though is regularly kept by the office of monetary and financial statistics, is not published together with the data. For the statistics of the balance of payments, revisions are made in a regular basis regarding preliminary estimates, updating, changes in methodology, etc. The revised tables are published, but the documentation of revisions is not published.

In this framework, the publication of a calendar that should cover the changes and the respective reasons is needed.

## 6. ACCESSIBILITY

This dimension means that the data and information on them (metadata) are easily accessible by the users.

### 6.1. ACCESSIBILITY

i) Statistics are presented in a way that facilitates proper interpretation and meaningful comparisons (layout and clarity of text, tables, and charts).

Generally, the statistics published by the Bank of Albania are released in a clear way and in different levels of aggregation in order to respond to different categories of users. Statistical bulletins also include comments on the development of the current periods.

ii) Dissemination means and forms are adequate.

Statistics produced in the Bank of Albania are disclosed through the internet and in hardcopy. These are accessible to any interested user without distinction. The current way of disclosure and the different levels of detailing the statistical indicators published on the internet, are easily accessible to different groups of users.

iii) Statistics should be disseminated according to an advanced released calendar.

For the statistics published by the Bank of Albania there is a calendar that indicates in advance the date of publication of the indicators. A requirement of the SDDS provides that such a calendar should be made known to users, as a rule, three months before the release of the data.

iv) Statistics are made available to all users<sup>15</sup> at the same time.

Through the publication on the website of the Bank of Albania, which is also the first release of statistical data, the simultaneous release of the data is made available to all interested users.

### 6.2. METADATA ACCESSIBILITY:

i) The documentation on the concepts, coverage, classification, recording methods, sources of data and statistical techniques should be published. Also the deviations from international standards should be published in the same way.

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<sup>15</sup> We refer here to external users, which can use this information for business purposes. This criterion aims at preventing one particular user (or group of users) from being favored through giving him an advantage in time.

For monetary and financial statistics it could be said that there exist complete information on the way of compilation of statistical indicators. The “Methodic of monetary and financial statistics, Bank of Albania, June 2003”, that is the basis of the methodological work of monetary and financial statistics and the analytical metadata for the compilation of the indicators, are published on the internet.

As regards the statistics of the balance of payments, the methodology of compilation of statistics – an adaptation of the 5<sup>th</sup> BoP Manual of the IMF – exists for the internal use of the sector; it is not published on the internet.

ii) Levels of detailing are adapted to the needs of the intended audience.

Besides the “Methodic of monetary and financial statistics, Bank of Albania, June 2003”, in the database “Time series”, the relevant content and meaning is given for each table and indicator. These metadata are adapted for a broader category of users. Similar descriptions (metadata) exist for the statistics of the balance of payments.

### 6.3. ASSISTANCE TO USERS:

Contact persons for each subject field are publicized and there also should be catalogues of publications and other services for statistics users.

As regards the statistics disseminated by the Bank of Albania, there are contact persons for each group of statistics. Also, the list of all periodic and non-periodic publications of the Bank of Albania, including those related to statistics, is published on the website of the Bank of Albania. The assistance given in the framework of the GDDS project of the Fund in this direction should be considered, since it has increased the number of users for Albanian statistics, as well as due to the fact that the publication of contact persons as per sectors of statistics is required according to the respective publishing standards.

The indicators of the quality of data, according to the standards of the DQAF project of the Fund, are disclosed in the table attached to the Annex.

Annex: The indicators of the quality of data:

Dimensions:	Dimensions elements:	Criteria:
1. Prerequisites of quality	1.1. The existence of a legal and institutional environment supportive of statistics	i) the responsibility for collecting, processing, and disseminating a category of data is clearly specified by law.
		ii) The coordination and exchange of data between agencies producing the data should be appropriate.
		iii) Individual reporters' data are to be kept confidential and used for statistical purposes only.
		iv) Statistical reporting is ensured through legal mandate and/or measures to encourage response.
	1.2. Resources – resources are commensurate with statistical programs	i) Human resources should be in the adequate professional level in order implement their duties in accordance with statistical programs.
ii) Technology – Computing resources for compiling the statistics are adequate to perform required tasks.		
iii) Physical facilities and other resources such as transport communication etc. are adequate to perform required tasks		
iv) Funding for compiling the statistics is adequate to perform required tasks.		
v) Measures to ensure efficient use of resources are implemented.		
1.3. Relevance of data	i) The relevance and practical utility of existing statistics in meeting users' needs are monitored	
1.4. Other quality management – Quality is a cornerstone of statistical work		
2. Assurances of Integrity	2.1. Professionalism	i) Statistics are produced on an impartial basis.
		ii) Choices of sources and statistical techniques as well as decisions about dissemination are informed solely by statistical considerations.
		iii) The possibility for the institution to react to the misuse and misinterpretation of statistics.
	2.2. Transparency of statistical processes	i) The terms and conditions under which statistics are collected, processed, and disseminated are available to the public.
		ii) The public should be noticed in advance on the internal governmental access to statistics prior to their public release.
		iii) The agency should identify the statistical data that are compiled and disseminated, in order for the public to clearly know what responsibilities are carried by the agency.
iv) Major changes in methodology, data sources and statistical techniques should be noticed in advance.		
2.3. Ethical standards – policies and practices are guided by ethical standards.	i) The agency that prepares and discloses statistical information has ethical standards, approved by the institution.	
	ii) Also, these standards should be well known from administrators and employees of the institution	
3. Methodology		
4. Accuracy and Reliability	4.1. Data sources:	i) Source data are obtained from comprehensive data collection programs that take into account country-specific conditions.
		ii) Source data reasonably approximate the definitions, scope, classifications, valuation, and time of recording required.
		iii) The data should be reported on a timely basis
4.2. Assessment of source data:	i) Source data reported by entities are routinely assessed, and the results of the assessments are monitored and made available to guide statistical processes.	
5. Serviceability	5.1. Periodicity and timeliness	i) Periodicity ii) Timeliness.
	5.2. Integrity	i) Statistics should have integrity within a group. ii) Statistics should have integrity within a reasonable period of time (as a rule five years).
		5.3. The existence of a policy for the data review and its publication
	6. Accessibility	6.1. Accessibility
ii) Dissemination media and format are adequate.		
iii) Statistics should be disseminated according to an advanced released calendar.		
iv) Statistics are made available to all users at the same time.		
6.2. Metadata accessibility		i) The documentation on the concepts, coverage classification, recording methods, sources of data and statistical techniques should be published. In the same way should be published the deviations from international standards. ii) Levels of detail are adapted to the needs of the intended audience.
6.3. Assistance to users	i) Contact points for each subject field are publicized and there should be catalogues of publication and other services for statistics users.	

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## BANK OF ALBANIA AND ITS COMMITMENT WITHIN THE FRAMEWORK OF THE STABILIZATION AND ASSOCIATION PROCESS<sup>\*,\*\*</sup>

The “European integration”, the “Stabilization and Association Process”, the “negotiations on the Stabilization and Association Agreement”, are only a part of the terms which Albanians are facing with every day, not only in the press and audiovisual media, but also in the discourses of the politicians and indeed in their everyday conversations. The purpose of this brief article is to give a general and understandable information to the common reader, with regard to the role of the Bank of Albania, as a very important monetary and financial institution in the Republic of Albania, which has its own obligations in the context of the European integration process in general and in the framework of Stabilization and Association Agreement in particular.

### THE FIRST STEP TOWARDS EUROPEAN WESTERN BALKANS: THE STABILIZATION AND ASSOCIATION PROCESS

The 1990s were characterized by a period of violent ethnic conflicts and of significant political instability in almost all the countries of the Western Balkans. Under these conditions, in May 1999, the European Commission agreed on the main leading principles that would constitute a more ambitious strategy of the European Union (EU) with regard to the relations of this organization with the region countries. These principles consisted of:

- a recognition by the European Commission that the main motivator for reforms in these countries – including the establishment of the rule of law, stable democratic institutions and a free and open market economy – would be offering a credible perspective for the membership of the region countries in the European Union as soon as the conditions established by this organization are fulfilled. This clear perspective for the future EU membership of the Western Balkans countries was firstly offered at the Feira European Council of June 2000 and was further reconfirmed at the Thessaloniki European Council of June 2003.
- the need for the region countries to establish bilateral relationships between themselves, which would allow greater economic and political stability in the Western Balkans.
- the need for a more flexible approach which, though anchored to a common set of political and economic conditions applicable to all these countries, would allow each country to move ahead at its own pace towards the European Union. Simultaneously, financial and technical assistance programs should be designed based on specific needs of each country.

*\* Articles published in this bulletin do not always reflect the Bank of Albania's official opinion. Please consider these articles as merely being the authors' personal views.*

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All these principles materialized at the Zagreb summit of 24 November 2000, where the elements of Stabilization and Association Process (SAP) were presented. In return for the EU's explicit offer of a prospect of accession on the basis of the Maastricht Treaty and of the Copenhagen criteria and in response to the assistance provided by the European Union, the countries of the region committed themselves to fulfil the EU's conditions and use the Stabilization and Association Process, and in particular the Stabilization and Association Agreements (SAA), in order to prepare themselves for future accession to the EU.

The Stabilization and Association Process consists of the following elements:

a) Stabilization-Association Agreements: The Stabilization and Association Agreements represent the backbone of the SAP and a key step towards its full completion. The conclusion of Stabilization and Association Agreements represents the signatories' will and commitment to accomplish within a transitory period a formal association with the EU. SAAs offer formal mechanisms and benchmarks, which allow the EU to work with each country to bring them closer to EU standards.

b) SAAs focus on observance of the fundamental democratic principles and basic elements of EU's single market. Through creating a free trade area with the EU, associated with the relevant areas (competition and state aid rules, intellectual property, etc.) and benefits (for example, the right of being established in the EU countries), this process will allow the economies of the whole region to begin their gradual integration with the EU's. For those areas where the agreements do not impose specific obligations in respect of *acquis communautaire*, there are provisions dealing with detailed cooperation with the EU, having the granting of assistance to these countries to move closer to EU standards as their primary objective.

SAAs are prepared according to the specific circumstances of each country. However, as cited above, achieving a formal association among each country of the Western Balkans and the EU is the objective of each SAA, and this association will be accomplished through the implementation of a series of obligations that are similar to each country.

The mechanisms established by these agreements, starting from specialist sub-committees to the political organs, such as the Stabilization and Association Council, will allow the EU to prioritize the reforms, to shape them according to EU models, to solve eventual problems and monitor their implementation by the signatories. Full implementation of SAAs is a precondition for assessing the potentiality of the country's accession to the EU.

c) EU assistance: The EU program "CARDS" (Community Assistance for Reconstruction, Development and Stabilization) has added to the assistance for the SAP countries a component that aims at facilitating their path towards the EU. This assistance is mainly used to support financially and technically the implementation of reforms and the building of the institutional capacities provided by the SAA.

d) The regional dimension: The SAP is not simply a bilateral process between the EU and the Western Balkans countries, but it puts at the same time a special emphasis on regional cooperation. SAAs include special provisions that provide for the clear commitment of each country to closely cooperate with other SAP countries. Simultaneously, CARDS has also a significant regional component.

More specifically, according to the SAP's regional dimension the region countries must sign regional cooperation conventions and establish a network of bilateral free trade agreements (as part of the above-mentioned conventions). This implies that there will not be barriers to the free movement of goods among the SAP countries themselves and with the EU. The integration of the Western Balkans countries into the European infrastructure networks (transport, energy, border management) constitutes another important element of the SAP's regional dimension.

#### ALBANIA AND THE STABILIZATION AND ASSOCIATION PROCESS

The first contractual relations between Albania and the EU were established in 1992 through the signing of Trade and Cooperation Agreement. Immediately after the SAP adoption in 2001, the European Commission decided to proceed with the negotiations on signing the SAA with Albania, whereas the EU approved the directives on the negotiations in October 2002. These negotiations started on 31 January, 2003, and until now 6 official and 9 technical rounds of negotiations have been held, where the most part of the SAA articles have been negotiated and completed.

In addition, as so did with the other countries of the region, the European Commission presented in 2004 the European Partnership Document for Albania. This document defined in detail the areas where reforms had to be carried out together with their respective deadlines. In response to this document, the Albanian government adopted in September 2004 the Action Plan on the Implementation of Priorities of the European Partnership. This Plan contained all the listed measures that the Albanian institutions (including the Bank of Albania) would have to implement in the framework of the obligations arising from the European Partnership Document. However, despite the approval of this Action Plan, based also on the recommendations of the European Commission and on the experience of the countries that had previously gone through a similar process, the Albanian government continued its work in designing and adopting the National Plan for the Approximation of Legislation with the EU *acquis* and the implementation of the obligations arising from the SAA, which would complete and enhance the commitments undertaken under the Action Plan.

This main objective of the National Plan for the Approximation of Legislation (NPAL), which was approved in May 2005, consists in ensuring the consistency and the approximation of the national legislation with the *acquis* as well as its effective implementation. At the same time, this Plan offers an explicit

timetable, with well-defined deadlines (short-term, mid-term and long-term periods), based on which each responsible institution will work in the future on this document with regard to the obligations arising from the European integration process.

## BANK OF ALBANIA AND THE STABILIZATION AND ASSOCIATION AGREEMENT

Since the beginning of negotiations on the signing of the SAA in January 2003, Bank of Albania has been represented as part of the Albanian negotiating team, thus participating in all the official and technical rounds of negotiations that have taken place so far. Bank of Albania has been particularly involved in negotiating the transitory periods under some articles of the agreement, and among them articles 57 and 61 are of a particular relevance.\*

Article 57, which covers the service provision area stipulates that the signing parties will take the necessary steps to allow progressively the provision of services by EU or Albanian companies or nationals in their respective countries. At the same time, this article stipulates that as from the beginning of the third year after the entry into force of the SAA, the Stabilization and Association Council will take the necessary measures to implement progressively the above-mentioned obligations.

As regards the banking services provision by Community operators in Albania, a field for which Bank of Albania is directly responsible according to this article, it should be noted that pursuant to the existing Albanian legislation, there are no barriers, limitations or any discrimination concerning the provision of these banking services in the territory of Albania. As a consequence, the implementation of this article does not seem to pose any problem for the Bank of Albania.

Article 61, which covers the liberalization of capital and financial account of the balance of payments, is of a particular relevance.

According to this article:

- as from the entry into force of the SAA, the parties will ensure the free movement of capital concerning direct investments made by companies established in accordance with the laws of the host country as well as the liquidation or repatriation of these investments and of any profit stemming therefrom.
- as from the entry into force of the SAA, the parties will ensure the free movement of capital concerning credits related to commercial transactions or the provision of services as well as financial loans and credits, of maturity longer than a year.
- as from the beginning of the second transitory period (five years after the entry into force of the SAA), the parties will ensure the free

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\* Since the SAA has not been signed yet, it should be considered that the provisions of the articles to be discussed below represent the latest, but not necessarily the final version.

movement of capital concerning portfolio investments and financial loans and credits, of maturity shorter than a year.

- as regards the real estate acquisition by EU nationals, Albania is constrained to allow progressively within a 10-year period from the entry into force of the SAA the acquisition of agricultural land, pastures, coastline land and forests by EU nationals, under the same terms and the same procedures that applies to Albanian nationals.

The Albanian legislation on capital movement is represented by the Regulation "On Foreign Exchange Activity", approved by the Supervisory Council of the Bank of Albania in July 2003. According to this regulation, the inflows of capital in Albania are totally liberalized, while as far as outflows are concerned, this process no longer requires any authorization from the Bank of Albania, but this transfer is carried out by the entities, banks and non-banks, licensed by the Bank of Albania, upon the completion of the required documents. The Bank of Albania has deemed necessary to adopt the Law "On Foreign Exchange Activities", which will reflect the EU acquis in this field, aiming at the total liberalization of this process and its full compliance with the acquis, as well as taking in consideration the fact that capital account transactions are not under the sole responsibility of the Bank of Albania, but there are also other institutions that are responsible for the land sale and purchase, the physical capital movement activities, direct investments, etc.

The design and adoption of such an important law has certainly been included in the National Plan for the Approximation of Legislation (NPAL), together with other laws (for example, the "Banking Law in the Republic of Albania") and regulations (mainly in the field of banking supervision and payment system), which will have to be amended by the Bank of Albania and approximated to the acquis within the terms defined in this Plan.

#### THE PATH TOWARDS THE EU: WHAT LIES AHEAD?

As mentioned above, upon the signing of the SAA between Albania and the EU, a formal association will be created between the parties, which certainly will constitute a higher degree of bilateral relations. Once this agreement enters into force, the focus will be on its implementation in practice. Bank of Albania, like the other responsible institutions, will carry out its obligations to the implementation of the respective provisions based on the National Plan for the Approximation of Legislation.

A new development that relates to the preparation of the Instrument for Pre-Accession by the European Commission should also be mentioned. The most significant part of this instrument is the recognition that Albania (along with Bosnia-Herzegovina, FYROM and Union of Serbia & Montenegro) is a "potential candidate for accession", which confirms the clear prospect of membership that was offered to the countries of our region at the Feira summit and especially at Thessaloniki in 2003.

Based on the experience of the region countries (Bulgaria, Romania and Croatia) which are expected either to become soon EU members or start accession negotiations, we may predict the series of events that will follow the entry into force of the SAA. The subsequent steps in the integration process will be as follows: application for the status of 'candidate for accession', the approval of this status by the EU, the initiation of the accession negotiations, the negotiation and the closing of the 31 chapters of the *acquis communautaire*, the official closing of the accession negotiations, the signing of the accession treaty, the ratification of this treaty by all the EU Member States and finally, the potential accession to the EU. The time this process will take depends particularly on the speed by which the reforms are implemented by the country that aspires EU membership, but at the same time, the decision of the EU Member States related to the speed by which the enlargement process will proceed towards new membership will also be a factor that will considerably affect the process.

In conclusion, we may say that the European integration process requires a very large commitment by each aspirant country, which should not only express its desire and show willingness for EU membership, but at the same time should possess the necessary institutional, financial and professional capabilities in order to carry out the essential reforms required for full EU membership. In this context, even Bank of Albania will certainly engage in a continuous improvement of its institutional, operational and legal framework, which would allow an unproblematic approximation and convergence of the Bank of Albania with the EU's best standards, models and practices in general and those of the European System of Central Banks in particular.

## SOVEREIGN CREDIT RATING: IS IT TIME FOR ALBANIA TO GET ONE?\*,\*\*

Albania is the only country in Europe that does not have a Sovereign Credit Rating. Even though some attempts have been made to acquire such a credit rating, because of a number of factors the analysis of which is not a subject of this paper, our country has not yet made any serious moves in this direction. Meanwhile, there is a company in the private sector (banking system) that has already acquired a credit rating (though through its central group). Procredit Bank in Albania has a credit rating from Fitch since December 15, 2004.

### WHAT IS A SOVEREIGN CREDIT RATING?

The Sovereign Credit Rating is an index which shows the ability of the government of a Sovran state to service and return the debt or in other words, the probability of default. When a government issues the debt the whole process of assigning a credit rating is wider and deeper than for private or public companies. The world market leaders in issuing credit ratings are Standard & Poors, Moody's, and Fitch Ratings. Of course, these companies offer this service for a fee and the index assigned by them is recognized on a worldwide scale because it is simple, easily comparable, credible, transparent, and independent. For this reason, the credit rating index plays a major role as an advertiser of the country towards attracting foreign direct investments.

Here is how the companies themselves define the index:

S&P- "Reflects its opinions on the ability and willingness of sovereign governments to service their commercial financial obligations in full and on time."

FITCH- "Opinion on the creditworthiness...constitute opinions, not recommendations to buy or to sell..."

Moody's "...declaration of opinion, not fact..."

So, the index should not be viewed as a recommendation on the ability of a country to service debt in the future, but as only one of the indicators that an investor should look at before it makes a decision on a possible future investment in the debt issued by a certain country in international money markets.

*\* Articles published in this bulletin do not always reflect the Bank of Albania's official opinion. Please consider these articles as merely being the authors' personal views.*

*\*\* Laert Dogjani, Public Relations Department, Bank of Albania.*

## INDEX VALUES

Each of the companies has its own way to express the value of the index. It is usually shown as a combination of letters from A – D and numbers from 1 – 3. For example the highest credit risk index for Standard & Poors is AAA. Such an index would represent the lowest probability of default for the debtor. Even though the combination of letters and numbers is different for the three companies, it is quite easy to compare across indexes among them as the table below shows:

Fitch	Standard & Poor's	Moody's
AAA	AAA	Aaa
AA+	AA+	Aa1
AA	AA	Aa2
AA-	AA-	Aa3
A+	A+	A1
A	A	A2
A-	A-	A3
BBB+	BBB+	Baa1
BBB	BBB	Baa2
BBB-	BBB-	Baa3
BB+	BB+	Ba1
BB	BB	Ba2
BB-	BB-	Ba3
B+	B+	B1
B	B	B2
B-	B-	B3
CCC	CCC	Caa
CC	CC	Ca
C	C	C
D	D	D
NR	NR	NR

NR stands for not rated.

## WHEN SHOULD SUCH AN INDEX BE REQUESTED?

The Albanian Government promised the IMF to “officially request a sovereign rating before the end of 2004” as written in the Supplementary Memorandum on Economic and Financial Policies, Feb. 3, 2005. Needless to say, it is difficult to argue that in this era of globalization and integration a country may fulfill its needs for funds without tapping the international money markets. The debate on when a country should start to raise funds in international markets is not very long but since the Albanian Government has not fulfilled its promise to request a sovereign rating (which is the first step in this direction) let us stop and discuss the issue a bit.

Of course, the answer to the question is simple, that is the rating should be requested when it is necessary. But, to argue that the index is not necessary as long as Albania may still raise funds from other sources (IMF, WB, EBRD, foreign government grants) at a lower cost than that of international markets is not entirely correct. The rating assigned to a sovereign directly affects the rate of return requested by foreign investors on debt issued by the government

since it reflects the probability of default (credit risk). Even if a country officially requests a rating for its debt before it starts to issue bonds in international financial markets, the only cost to be covered is the yearly fee to the company that offers the rating service. If the service would be requested from one of the companies (as the countries of the region have done) the cost would not exceed 50,000\$ a year. Meanwhile, the Albanian Government would know the exact rating and would know in detail all the steps that must be taken to improve the rating so that when it issues debt in international money markets the rate of return it would have to pay on its debt would be lower. In other words, it would gain from experience. The economic and financial parameters that must be improved so that the rating improves are quite a few.

#### (RE)EVALUATION CRITERIA DURING THE RATING PROCESS

The rating companies gather data and conduct meetings at a number of institutions. The data and information gathered by them during the rating process are grouped as follows by Fitch Ratings.

- Political Risk
- Income and Economic Structure
- Economic Growth Prospects
- Fiscal Flexibility
- General Government Debt Burden
- Offshore and Contingent Liabilities
- Monetary Flexibility
- External Liquidity
- Public-Sector External Debt Burden
- Private-Sector External Debt Burden

Credit rating companies divide each of these areas into sub-fields when they conduct the rating analysis. The better the performance in each of the fields the higher the rating to be assigned and, consequently the lower the rate of return to be paid to foreign investors.

The Albanian Government has so far fulfilled its needs for funds in foreign currency to finance investments (mainly in infrastructure and energy) through various grants and soft loans by international institutions and foreign governments. But, for the first time, at the end of June this year, the Albanian Government approved the financing of the new Tirana-Durres railway through a commercial loan. Let us consider this fact as proof that Albania now may not receive any more soft loans (or may not fulfill all its needs for funds) without arguing on the return (commercial terms, LIBOR +5) of this investment, which has not been recommended by the IMF and the World Bank.

However, even if our country may for a period of time be able to secure soft loans, a Sovereign Credit Rating should have been requested from one or two of the companies that offer such a service. Let us rank the reasons below:

## 1) Marketing

Is the main reason to request a Sovereign Credit Rating even though a country may obtain soft-term loans. Right now, Albania is the only country in Europe that does not have a Sovereign Credit Rating. The countries of the region have acquired such a rating during the last two years even though they continue to receive grants and soft-term loans. Even Moldova, the poorest country in Europe, has a Sovereign Credit Rating being acquired years ago. A quarter of a page add in Financial Time costs 15,456£ while the rating fee is around 50,000\$ a year depending on the specifics of the rating. It is clear that from the advertisement point of view, the cost of acquiring a Sovereign Credit Rating is justifiable. If we would add here the problems of credibility and short series of economic and financial data in Albania, a credible and independent rating would increase the presence of the country in economic and financial analysis of foreign institutions. In a few words, there would be one more indicator which foreign investors can look at and the first step would be taken towards establishing a presence in international money markets.

Once the rating has been acquired, a re-evaluation is conducted regularly every year or even more often at the request of the government. Had the rating been acquired earlier, its value would have increased considering the positive reforms implemented over the last years in Albania. Having said that, Albania would have secured a presence in global economic-financial news at least once a year. The news would more or less have been of the type, "Moody's increases the Sovereign Credit Rating of Albania by one notch." Regardless of the possibility that Albania may have issued or not bonds in international markets, this presence or publicity very well justifies its cost (assuming that the trend in the ratings would have been positive).

Furthermore, we would have an independent credible indicator to evaluate from foreign private companies and institutions the work of government in terms of the financial credibility and ability of Albania to issue and service foreign debt. A number of international institutions issue country financial ratings (EBRD and other investment banks) but the rating of Moody's, Standard & Poors and Fitch is the first index international money market the investors look at. The work conducted towards improving this index (reforms in the fields mentioned above) would be immediately reflected in the ratings of other institutions as well because the index is not an objective in itself but the reforms which improve it are, and consequently, the ability of our country to raise funds in international markets, to use them in fields of interest towards long-term sustainable development.

## 2) Experience gained during the rating process

Presence in international money markets requires we have a number of local experts in the field. Once we officially acquire a rating, these experts would be involved in providing information and analysis to the rating agencies and

in the near future, in the process of issuing bonds in international markets, usually through a consultant specialized in the field.

### 3) Credit Worthiness

The index constitutes only one of the factors analyzed by foreign investors when investing in foreign debt. Another very important factor is the creditworthiness of the country. If a country is punctual in servicing and fully returning debt, it may even acquire funds at interest rates that are lower than the one implied by the probability of default shown in a Sovereign Credit Rating. At a micro level the best comparison would be credit cards. So, once the creditworthiness of the individual in returning debt has been evaluated, credit card companies increase the standing of the customer (raise the amount of credit allocated, lower fees and interest).

#### PROBLEMS WITH SOVEREIGN CREDIT RATING<sup>1</sup>

- The rating only determines the probability of default. For example, AAA 5-year 0.10 %, BBB- 5-year 3.02 %, B 5-year 30.23 %.
- Statistical tests conducted so far are insufficient (lack of data series)
- It is not able to foretell crises: 1997-2002, Pakistan, Russia, Ecuador, Ukraine, Moldova and Argentina, the Asian crises (delays in servicing debt in local currency).

In conclusion, the above analysis supports the argument that our country is far behind in time in acquiring a Sovereign Credit Rating. If Albania would officially request it now, the index would be in the band of Ba2 – B2 (according to Moody's)<sup>2</sup>. The process of acquiring the rating normally takes 3 months. In the meantime, Albanians are now servicing the first commercial terms loan.

#### WORKS CITED/CONSULTED:

- 1) [www.fitchratings.com](http://www.fitchratings.com)
- 2) [www.moody.com](http://www.moody.com)
- 3) [www.stadardandpoors.com](http://www.stadardandpoors.com)
- 4) [www.bis.org](http://www.bis.org)
- 5) Ashok Vir Bhatia - IMF working papers (WP/02/170)
- 6) Personal emails with staff from the rating agencies
- 7) [www.biznesi.com.al](http://www.biznesi.com.al)
- 8) [www.setimes.com](http://www.setimes.com)
- 9) Supplementary Memorandum on Economic and Financial Policies, Feb. 3, 2005.

<sup>1</sup> Ashok Vir Bhatia - IMF working papers (WP/02/170)

<sup>2</sup> Personal informal emails with staff from the rating agencies

## BANK OF ALBANIA NEWS DURING APRIL-JUNE 2005

*Workshop on "Stress-Testing"* On April 5-7, 2005, Bank of Albania organized in cooperation with the International Monetary Fund the workshop on "Stress-Testing". The purpose of this workshop was to inform the employees on the enhancement of stress-testing methods that are carried out for the banking system analysis in general and for specific banks, as well as to inform them about the experience of various countries in this area.

*Meeting with members of the Economy and Finance Commission* On April 6, 2005, the Governor of the Bank of Albania, Mr. Ardian Fullani, held a meeting with members of the Economy and Finance Commission of the Parliament of Republic of Albania. Topics like Bank of Albania assessments on the economic developments during 2004, its viewpoints on the future prospects of the Albanian economy, as well as other important aspects of the Bank of Albania activity during this period, were discussed in this meeting. The emphasis was put on the fact that Bank of Albania is an institution playing a crucial role in decision-making with regard to economic and financial policies, as well as to the creation and preservation of the financial stability in the country.

*Annual Spring Meeting* On April 16-17, 2005, in Washington, the International Monetary Fund and the World Bank organized the annual spring meeting. The Bank of Albania Governor and simultaneously the Governor of Albania to the International Monetary Fund, Mr. Ardian Fullani, took part in this meeting and organized a number of meetings with senior representatives of International Monetary Fund, World Bank, Federal Reserve, FSVC and FDIC. Discussions focused on the latest developments of the Albanian economy, the problems and prospects of the country's development, the measures taken towards the European integration process, the Bank of Albania commitment in reducing cash in the economy and the timely completion of the Automated Electronic Clearing House project.

In all the meetings, the role of Bank of Albania was positively assessed in terms of macroeconomic stability and steps taken by it for the consolidation and development of the banking and financial sector. The senior representatives of the above institutions expressed their willingness to further assist the Bank of Albania in the future with projects and technical assistance. During the Spring Meeting, both the Bank of Albania Governor and the Minister of Finances, Mr. Arben Malaj, made a joined interview, which was reflected in Financial Times.

*Election of the ninth member of the Supervisory Council of the Bank of Albania* On April 21, 2005, the Parliament of Republic of Albania adopted the decision No. 182 "On the election of Mr. Adrian Civici member of the Supervisory Council of the Bank of Albania". Based on this decision, Mr.

Adrian Civici is assigned to this function replacing Mr. Andis Harasani, who resigned.

On April 20-21, a delegation of the European Central Bank visited the Bank of Albania. This visit is made in the framework of encouraging the relations between the ECB and the Central Banks of Southeastern Europe. The meetings aimed mainly at presenting topics on the recent developments of the financial and banking system and establishing contacts for cooperating between the two institutions. In this framework, there was also discussed about the Bank of Albania initiative to organize an open forum on "Central Bank Governance", which will be held at the beginning of December 2005, for which the ECB will provide its assistance.

*On the meetings with representatives of the European Central Bank*

On April 25, 2005, the Governor of Bank of Albania, Mr. Ardian Fullani, held a meeting with Mr. Joaquin Almunia, the European Commissioner for Economic and Monetary Affairs, in Brussels, Belgium. The meeting mainly focused on the challenges that Albania is facing in the framework of the stabilization and association process and especially, on the role and contribution of Bank of Albania in this process.

*Meeting with the European Commissioner for Economic and Monetary Affairs*

On April 27, 2005, at the Bank of Albania premises, a Memorandum of Understanding on Banking Supervision was signed between the Bank of Albania and the Central Bank of Montenegro. This memorandum represents a document containing principles based on which these two institutions can build their relationships, with respect to cooperation and exchange of information on the situation of banking systems in the respective countries. These principles will be applied in consideration of their respective legislations. This agreement opens the path towards a bilateral cooperation in the supervision area (and in other areas), as well as a joint management of various forms of cooperation between the respective banking systems.

*Memorandum of Understanding on Banking Supervision signed between the Bank of Albania and the Central Bank of Montenegro*

During the first week of May 2005, the Governor of the Bank of Albania, Mr. Ardian Fullani was on a working visit to Deutsche Bundesbank. During the meeting with the Deutsche Bundesbank's Governor, Prof. Weber, discussions mainly focused on domestic financial and banking market developments, as well as on Bank of Albania achievements. Prof. Weber stated that Albania is a country that has made progress in the economic and particularly banking development reforms, but it still has much to do in terms of structural reforms. Among others, he stated the commitment to support these developments in cooperation with the ECB and the European Commission, being considered as a long-term potential partner.

*Working visit to Deutsche Bundesbank*

On May 9, 2005, the Governor of the Bank of Albania, Mr. Ardian Fullani gave an interview to the News Bulgarian Agency "See-News". The Governor

*Interview given by the Governor of the Bank of Albania to the See - News Agency*

answered to the interest of this foreign agency in the recent Albanian economy developments, especially the banking system.

*33<sup>rd</sup> Economic Conference  
of the National Bank of  
Austria*

On May 12-13, 2005, the National Bank of Austria organized in Vienna the 33-rd Economic Conference on “Monetary Policy and Financial Stability”, where the Governor of the Bank of Albania, Mr. Ardian Fullani, was invited to participate. During his stay in Vienna, Mr. Fullani organized a number of meetings with senior representatives of the Austrian financial institutions. Austrian senior officials, among them the Governor of the National Bank of Austria, Mr. Klaus Liebscher, expressed their willingness to assist the Bank of Albania in its reforming process.

*EBRD Annual Meeting*

The EBRD Annual Meeting “Building bridges and ensuring prosperity” was organized on May 22-23, 2005, in Belgrade, where the Governor of the Bank of Albania, Mr. Ardian Fullani, was invited to participate. In his exposé promoting Albania, the Governor Fullani highlighted the banking system developments and its consolidation, as well as the importance of regional integration and cooperation. During his stay in Belgrade, Mr. Fullani held a number of meetings with governors of the region countries, focusing on enhancing cooperation as a key factor in the common path towards European integration.

*Annual Meeting of  
Governor’s Club*

The ordinary annual meeting of the Governor’s Club was held on May 26 – 29, 2005, in San Petersburg, Russia. This club is an initiative, which regularly gathers the governors of 16 central banks to discuss on various issues, as well to present ideas and experiences of the countries they represent. The Governor of the Bank of Albania, Mr. Ardian Fullani, participated also in this meeting. The particularity of this meeting consists in the informal meeting held among the five governors of the region, where discussions focused also on Mr. Fullani’s idea to create a Club of Governors of South East European Countries.

*Annual Meeting of the Black  
Sea Trade and Development  
Bank, June 6, 2005,  
Yerevan, Armenia.*

The annual meeting of the Black Sea Trade and Development Bank was held on June 6, 2005, in Yerevan, Armenia. The Governor of Albania, Mr. Ardian Fullani, participated also in this meeting, where he discussed about the current situation of financial systems in the South East European countries.

*Cooperation Agreement  
signed among Bank  
of Albania, Insurance  
Supervisory Authority and  
Securities Commission,  
in the field of financial  
regulation and supervision*

A cooperation agreement was signed among the above-mentioned authorities, on June 2, 2005, at the Bank of Albania premises. The current market developments and the emerging of the elements that require a cautious supervision brought to the agenda the design and conclusion of this agreement. The agreement offers real opportunities to the signing institutions to enhance cooperation towards the exchange of information and expertise, the better coordination of the supervisory activity, within the requirements of the respective legal and regulatory framework.

On June 21-23, 2005, Bank of Albania in cooperation with the Albanian Association of Banks and Tirana Office of Financial Services Volunteer Corps (FSVC), organized a three-day workshop on "Preventing Money Laundering". This workshop aimed at developing knowledge of representatives of financial institutions licensed by the Bank of Albania, on preventing money laundering. Meanwhile, it represents a forum, where foreign participants and experts may discuss their problems arising from the everyday work, with the intention to find better possible solutions, within the regulatory and legal requirements.

*Workshop on "Preventing Money Laundering"*

On June 26 – 27, 2005, in Basel, Bank for International Settlements organized its annual meeting, which this year felt on its 75th anniversary of foundation. Senior authorities of central banks and other international financial institutions participated in this meeting. Bank of Albania was represented by the Governor, Mr. Ardian Fullani. The particularity of this meeting was the organization of a forum on the Bank of Albania governance. The participants in the forum evidenced their country experiences and came out with concrete proposals for the further modernization of the Bank of Albania and its consolidation in facing new present and future challenges.

*Annual Meeting of the Bank for International Settlements*

## LEGAL EVENTS, DURING APRIL-JUNE 2005

### BANKING SUPERVISION

On April 27, 2005, the Supervisory Council of the Bank of Albania approved the Decision No. 31 "On a change in the Regulation "On supervision norms of non-bank financial entities that conduct financial activity". The change consists in specifying that the reporting of non-bank financial entities to the Bank of Albania is made according to the reporting system of non-bank financial entities, defined by the Bank of Albania. The reporting documents are submitted no later than 40 days after the closing of each quarter.

On April 27, 2005, the Supervisory Council of the Bank of Albania approved by Decision No. 32 "The reporting system for non-bank financial entities that conduct financial activity". This reporting system of non-bank financial entities will provide Bank of Albania with the required information, through relevant reporting forms. The reporting system will be applied for the first time on reporting the data of non-bank financial entities, for the first quarter of 2005.

On June 08, 2005, the Supervisory Council of the Bank of Albania approved by Decision No. 43 the Regulation "On supervising savings and credit associations and their unions". This regulation completes the regulatory framework on the supervision of these associations and unions. The regulation legalises that they can extend credits in main foreign currencies.

On June 08, 2005, the Supervisory Council of the Bank of Albania approved the Decision No. 44 "The reporting system for savings and credit associations and their unions". Based on this system, savings and credit associations and their unions are obliged to report on the balance sheet, capital adequacy, loan classifications and loan portfolio quality, on liquidity and operations in foreign currencies. Data will be reported on a quarterly and semiannual basis.

On June 08, 2005, the Supervisory Council of the Bank of Albania approved by Decision No. 45 some changes on the Guideline "On bank regulatory capital". These changes specify the time of yearend profit and establish the terms under which it should be included in the core capital. The previous form will be substituted according to the model defined by this decision.

On June 08, 2005, the Supervisory Council of the Bank of Albania approved by Decision No. 46 some changes on the Guideline "On bank regulatory capital". These changes consist in specifying that the part of elements of the bank balance assets guaranteed by a guarantee account, and/or frozen account for an accounted guarantee to liabilities elements of the bank

balance, is added to “elements that are subtracted” item. In addition, these changes specify that Turkey is excluded from the list of OECD countries.

On June 13, 2005, the Supervisory Council of the Bank of Albania approved the Decision No. 47 “On transferring share ownership of the Dardania Bank’s capital from Fonds for Reconstruction of Kosovo to Fonds der Republik von Kosova, Germany”. Based on this decision, Fonds der Republik von Kosova becomes the principal shareholder of this bank.

On June 13, 2005, the Supervisory Council of the Bank of Albania approved the Decision No. 48 “On transferring share ownership of the Dardania Bank’s capital from Fonds der Republik von Kosova, Germany to Mr. Francesco Mariano Mariano and Banca Popolare Pugliese (Puglia Popular Bank)”. Based on this decision, 95 per cent of Dardania Bank’s shareholder capital go to Mr. Francesco Mariano Mariano, and 5 per cent of the remaining shares go to “Banca Popolare Pugliese”.

## ISSUE

On May 19, 2005, the Supervisory Council of the Bank of Albania approved the Guideline No. 36 “On printing, reprinting and minting banknotes and coins from the Bank of Albania”. This guideline defines rules and procedures followed by the Bank of Albania during the process of printing, reprinting and minting national banknotes and coins, with a legal tender, within the territory of Republic of Albania.

## MONETARY OPERATIONS

On May 19, 2005, the Supervisory Council of the Bank of Albania approved by Decision No. 37 the Regulation “On foreign reserve management policy”. This regulation defines objectives and ways to preserve and manage the foreign reserve and its investment instruments.

On May 19, 2005, the Supervisory Council of the Bank of Albania approved by Decision No. 38 the Regulation “On the procedures of the Bank of Albania interventions in the domestic foreign exchange market”. The purpose of this regulation is to define methods for Bank of Albania interventions to prevent disturbances in the operation of domestic foreign exchange market.

## ECONOMIC POLICY

On April 07, 2005, the Parliament of Republic of Albania approved the Decision No. 9367 “On preventing conflicts of interest while exercising public functions”. This law provides for ensuring an impartial and transparent decision-making to the best possible public interest, through preventing conflicts between public and private interests of an official while exercising his/her functions.

On April 07, 2005, the Council of Ministers approved the Decision No. 201 "On authorizing commercial associations with state-owned capital, of a strategic sector, to reevaluate properties". Based on this decision, these associations should conduct a revaluation of fixed tangible assets in their possession, by using financial reporting standard methods. The values of these assets should be reflected in the 2005 balances and recognized by the fiscal system.

On April 08, 2005, the Council of Ministers approved the Order No.13 "On taking measures to prevent illegal foreign exchange". This order aims at preventing and inhibiting the illegal foreign exchange trading activities in the Republic of Albania.

On April 15, 2005, the Council of Ministers approved by Decision No. 218 "The draft-contract for purchasing the "Albtelecom" shares. The draft-contract defines the conditions and rules for purchasing "Albtelecom" shares.

On April 15, 2005, the Council of Ministers approved the Decision No. 270 "On approving the draft-contract for purchasing the "ARMO" shares". The draft-contract defines the conditions and rules for purchasing "ARMO" shares".

On April 15, 2005, the Council of Ministers approved by Decision No. 225 an amendment to the Decision No. 579, dated 08.09.1998, of the Council of Ministers "On defining rules of refunding the creditors who deposited their capital to loan-receiving firms". This amendment provides for some regulations when payment vouchers exist in the form of electronic cards and banks suspect on the accuracy and authenticity of the deposited capital.

On April 21, 2005, the Council of Ministers approved the Decision No. 246 "On approving the action plan for reducing informal economy". This decision aims at reducing informal economy, by defining concrete tasks and terms for all ministries and other central institutions.

On April 21, 2005, the Council of Ministers approved by Decision No. 280 "The Agreement of the Italian-Albanian Bank's shareholders". By this agreement, the shareholders approve the transferring of the share ownership right of this bank.

On April 21, 2005, the Parliament of Republic of Albania approved the Decision No. 9374 "On the State Assistance". The purpose of this law is to define principles and procedures, according to which the state assistance is allowed and controlled with the purpose of supporting the social and economic development of the country, and of fulfilling the commitments of the Republic of Albania to international agreements, containing provisions on the State Assistance.

On May 04, 2005, the Parliament of Republic of Albania approved the Decision No. 9382 "On ratifying the Convention between the Republic of Albania and Netherlands, for avoidance double taxation and prevention of

fiscal evasion with regard to taxes on revenue and on capital. This Convention defines the conditions for avoiding double taxation that apply to persons who are residents in one or both of the contracting countries.

On May 04, 2005, the Parliament of Republic of Albania approved the Decision No. 9383 "On ratifying the Agreement between Government of the Republic of Albania and Government of People's Republic of China for the avoidance of double taxation and prevention of fiscal evasion with regard to taxes on revenue and on capital". This agreement defines the conditions for avoiding double taxation that apply to persons who are residents in one or both of the contracting countries.

On May 06, 2005, the Council of Ministers approved by Decision No. 299 some amendments to the Decision No. 726 "On salaries for employees of government institutions". These amendments are made to the effect of specifying salaries for effective scientific-pedagogic employees and collaborators at universities, other higher schools, scientific and research institutes and the Academy of Sciences.

On May 06, 2005, the Council of Ministers approved the Decision No. 309 "On defining the criteria for selecting entities, to give them concession on exercising activities of fiscal and financial computerization services". This decision defines the conditions and forms of giving concession on exercising activities of financial and fiscal computerization services.

On May 12, 2005, the Parliament of Republic of Albania approved the Resolution "On assessing the Bank of Albania activity for 2004". Through this resolution, the Parliament considered as successful the Bank of Albania activity based on concrete results this institution has achieved over the past year. Also, the Parliament expresses its confidence that the Bank of Albania will continue even during 2005 to be a reliable institution in designing and implementing economic policies, and requires it to further deepen its positive contribution to further consolidating the macroeconomic stability of the country.

On May 12, 2005, the Parliament of Republic of Albania ratified by Law No. 9394 "The credit agreement between the Council of Ministers of Republic of Albania and Islamic Development Bank, on Kavaja's General Hospital project. The amount of credit granted by this bank is three million and eight thousand fifty Islamic Dinars.

On May 12, 2005, the Parliament of Republic of Albania approved the Decision No. 9396 "On the financial leasing". This law specifies rights and liabilities of both contracted parties with regard to financial leasing and regulates the relationships arising from financial leasing of movable and immovable properties.

On May 12, 2005, the Parliament of Republic of Albania approved the Decision No. 9404 "On ratifying the Convention between the Council of Ministers of Republic of Albania and the Council of Ministers of Serbia and

Montenegro, for the avoidance of double taxation and prevention of fiscal evasion with regard to taxes on revenue and on capital. This agreement defines the conditions for avoiding double taxation that apply to persons who are residents in one or both of the contracting countries.

On May 20, 2005, the Parliament of Republic of Albania approved by Decision No. 9417 some amendments to the Law No. 8894, dated 14.05.2002 "On Bad Assets Resolution Trust". According to these amendments, the Trust shall pay taxes on operations performed by the legal executor at the completion of execution and in relation to the amount executed, and shall be exempt from taxes on operations performed by the mortgage office for registration of movable and immovable properties.

On May 26, 2005, the Council of Ministers approved by Decision No. 359 "The report on assessing offers and winners at the open international tender for the privatization of "Albtelecom" company. Based on this decision, "Calik Enerji Telekomunikasyon A.S." company is declared winner for purchasing 76 per cent of "Albtelecom" shares, estimated at Euro 120 million.

On May 27, 2005, the Council of Ministers approved the Order No. 63 "On the creation of a central group for monitoring and implementing the reform, as well as for removing administration barriers in the investment area." This order defines ways of selecting the members of a central group, of technical groups and their respective tasks.

#### EUROPEAN INTEGRATION

On May 12, 2005, the Parliament of Republic of Albania approved the Decision No. 9391 "On ratifying the financial agreement between the Council of Ministers of the Republic of Albania and the European Communities Commission, for the annual neighborhood action program "CARDS 2004". This program is expected to have for Balkan countries a total cost of Euro 15 million.

On May 13, 2005, the Parliament of Republic of Albania approved by Decision No. 317 "The National Plan for Approximation of Domestic Legislation to the European Union Legislation and Implementation of Commitments arising from the Stabilization and Association Agreement". This plan complements and improves the Albanian government commitments in the framework of the Action Plan for Implementation of European Partnership Priorities. The Minister of European Integration is responsible for monitoring the implementation of tasks defined by the plan.

On May 19, 2005, the Parliament of Republic of Albania approved the Decision No. 9404 "On ratifying the framework agreement between the Republic of Albania and the European Community, with regard to general principles for Albania's participation in Community programs. This agreement defines the European Community programs in which Albania may participate and the conditions it should meet to be represented in these programs.



## BANK OF ALBANIA MANAGEMENT JUNE 30, 2005

### SUPERVISORY COUNCIL

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

### GOVERNOR

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ARDIAN FULLANI

### GOVERNOR'S OFFICE

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GENC MAMANI

### DEPUTY GOVERNORS

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

### GENERAL INSPECTOR

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ELSA BIZHGA

### DEPARTMENTS AND OTHER UNITS

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GRAMOZ KOLASI	Monetary Policy Department
ERJON LUÇI	Research Department
MARJAN GJERMENI	Monetary Operations Department
KLODION SHEHU	Supervision Department
SONILA TAÇI	Issue Department
MARSEDA DUMANI	Accounting and Payments Department
XHILDA DELIANA	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

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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

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\* Up to June 30, 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 KRASTEVI  
Address: Blv. "Zogu I", No. 64, Tirana, Albania  
Tel.: 35 64 23, 3 564 24  
Tel/fax: 35 64 22

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

License No. 14, dated 28.10.1999

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

Certificate No. 13 "On Deposit Insurance".

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

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

License No. 15, dated 28.08.2002

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

Certificate No. 14 "On Deposit Insurance".

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

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

License No. 16, dated 28.03.2003

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

Certificate No.15 "On Deposit Insurance".

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

16. popular BANK (JOINT-STOCK COMPANY)

License No. 17, dated 16.02.2004

Approved by the Supervisory Council Decision of the Bank of Albania No. 06, dated 11.02.2004.

Certificate No.16 "On Deposit Insurance".

Director: Edvin LIBOHOVA  
Address: Rruga "Donika Kastrioti", Pall. 11/1, Kati I, Tirana, Albania  
Tel.: 27 27 88 / 89 / 90 / 91

## 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 Banking Law 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

### 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, Përparim Goxhaj
23. "ALB-FOREX" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA  
License: No. 28, dated 22.11.2001  
Address: Agency No. 1: Rruga "Abdyl Frashëri", No.3, Tirana, Albania  
Brokers: Almir Duli, Agim Xhemo  
Agency No. 2: Rruga "Mine Peza", Pall. 102, Shk. 1, Tirana, Albania  
Broker: Fatmir Baholli

24. "L&N" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA  
License: No. 29, dated 22.11.2001  
Address: Rruga "Muhamet Gjollështa", Tirana, Albania  
Broker: Leonora Mihalcka
25. "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 Frashëri", nr. 11 (pranë shkollës "Edith Durhan", Tiranë  
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, Shqiponja Spahiu

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: Pasquale Guido Vergine

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

Tel.: 25 67 82