ECONOMIC BULLETIN

Bank of Albania

December 2005
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<th>Period</th>
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<td>December 2001 – June 2005</td>
<td>90</td>
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<td>9</td>
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<td>October 1998 – June 2005</td>
<td>90</td>
</tr>
<tr>
<td>9</td>
<td>Total of credit to economy (in millions of leks)</td>
<td>October 1998 – June 2005</td>
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MONETARY POLICY REPORT ON SECOND SEMESTER OF 2005
JANUARY 2006

I. GOVERNOR’S SPEECH

The second semester of 2005 generally marked a favourable period for the country’s economic development. The Albanian economy continued to be extended, as testified by the annual growth in the volume of sales, increased number of employees, rapid growth of the volume of lending to the economy, and growth of fiscal revenues. Moreover, the economic growth developed under the conditions of maintaining inflation control and budget deficit within the programmed values, without infringing the main macroeconomic ratios and balances. Also, the foreign position of the country was further improved and the exchange rate was steady.

The economic growth over 2005 was favoured by improvement of the economic climate on the global level. The world economy continued to grow at relatively high rates during the second semester of the year. According to recent forecasts of the International Monetary Fund, the world economy growth for 2005 was expected to be at about 4.3 per cent, influenced particularly by the economic growth in the USA, Asia, and Japan. Also, the financial conditions on world level were positive for financing the economic activity, regardless of the interest rate rise from two most important central banks, the FED and the ECB.

In retrospect, the second semester of the year may be regarded as a proof period for the sustainability of the economic growth and macroeconomic balances. The second semester was opened with a long post-electoral period, which affected a higher concentration of the budget deficit on this period and increased the market ambiguity. Partly due to the operation of the above factor, the banking system was faced with a lack of liquidity, bringing about upward trends of treasury bills yield in the presence of a high volatility. Furthermore, the economic activity encountered the impact of electricity shortages, which directly influenced production and brought about financial difficulties in the form of high costs to businesses. On the other hand, the oil price rise in the international market reinforced inflationary impulses, strengthening the negative effect caused by the grave electrical energy situation.

The long post-electoral situation and the decreased fiscal incentive of the second quarter have impacted on the slow down of the economic growth rate during the third quarter, while the grave electrical energy situation, which went to a climax during the fourth quarter, has further restrained the economic activity of this period. Under these conditions, the Bank of Albania estimates that even during 2005 the economy has grown in real terms, however, this growth is a little smaller than the 6 per cent forecasted level. Confirming the tendencies observed over the recent years, the economic growth has
been supported by the private sector dynamism, particularly in the sectors of construction and services. The actual developments of the semester and the current economic situation indicate that the impact of the external factors on the main macroeconomic indicators has resulted limited and transitory. This constitutes an encouraging factor for consolidating the economic growth factors and macroeconomic balances.

Fiscal developments have generally performed within the forecasted lines of 2005, continuing the fiscal consolidation tendencies. The budget spending and budget deficit have been within the parameters of the budget program, thus contributing to maintaining the macroeconomic stability and inflationary pressures control. According to the data from the Ministry of Finances, until November, about 97.8 per cent of the planned revenues were collected and about 93 per cent of the programmed expenditures were realized. The domestic budget deficit financing reached the lowest level of seven recent years in ratio to gross domestic product, easing the burden it presents to financial resources of the economy. However, taking into account even the experience of the current year, the Bank of Albania deems that more regularity is needed to timely disseminate and implement the fiscal program. Also, the needs for the country’s development require more attention to observing the plan of capital expenditures, which, similar to the previous years, continue to record low level of realization. The economic growth has created premises for improving the labour market, which even during 2005 followed the positive performance of the preceding years. The unemployment rate marked 14.2 per cent over the third quarter, reaching the lowest level in the recent years.

The foreign sector of the economy is characterized by an intensive activity, reflected in the growth of current and capital transactions. The overall volume of exports and imports during July – September 2005 was about Euro 650 million or about 12 per cent higher than the same period of the previous year. Though the trade deficit recorded an annual growth of 16 per cent in the third quarter, amounting to US$ 382 million, the capital inflows have covered all of it, enabling foreign reserve growth as well. The balance of payments was closed with a surplus of Euro 33.7 million during the third quarter of 2005, making the foreign reserve level cover 4.6 import months of goods and services.

The annual growth rate of consumer prices fluctuated around the lower half of the Bank of Albania target during the second semester, descending to the lower limit of the Bank of Albania target in December. Though the economy has been under the impact of some supply shocks, such as high oil prices and energy crisis, the monetary and fiscal policies have enabled the creation of a favourable macroeconomic environment for maintaining price stability. No emerging of secondary effects or growth of inflationary pressures is observed in the economy. The good harmonization of macroeconomic policies and the lek’s strong position have depreciated the inflationary pressures.

In the presence of normal inflationary developments, the Bank of Albania has pursued a neutral monetary policy, leaving the key interest rate unchanged,
at the level of 5 per cent. Under these conditions, the monetary policy and its operational framework are focused on smoothing the fluctuations of the monetary indicators and treasury bills interest rates. The banking system underwent liquidity shortages during July-October, due to the unexpected cut of the lek deposits interest rate by some banks and the growth of the economy’s and government’s demand for monetary assets during the third quarter. This liquidity shortage was further transmitted to rapid treasury bills yield rise. These developments required a prudential monetary stance management, balancing the demand for liquidity injection with the need for controlling inflationary pressures to the economy. The average volume injected through the reverse repo instrument during July-September was Lek 1.7 billion. Also, the Bank of Albania has extended credit to the government at certain periods of time, thus smoothing excess pressures on the treasury bills yield rise. This policy resulted successful. At end of the semester, the treasury bills yield has returned to levels close to those of June, while the banking system has excess liquidity. The Bank of Albania has purchased foreign currency almost during the whole second semester, smoothing the appreciating pressures on the exchange rate and injecting liquidity into the market. These interventions have injected about Lek 12.4 billion liquidity, assisting the banking system in surpassing the situation and easing the non-inflationary expansion of money supply.

Year 2005 was associated with a rapid money supply growth. Money supply growth rate was estimated to 14.3 per cent in November. Lending to the economy was the main source of using funds and of monetary expansion, preventing for the first time the budget deficit financing from this role. At end of November, lending to the economy reached to Lek 114.6 billion, equal to 13.7 per cent of the GDP. Only during July-November the lending increased by 2.5 percentage points to GDP, while the annual growth rates of credit fluctuated around 70 per cent. The credit increased to all sectors of the economy, reflecting a closer relation of businesses and consumers with banks. The Bank of Albania estimates that the current monetary conditions and their trend are consistent with the maintaining of price stability in the mid-term period.

The year that went by indicated that the economy of our country has created a kind of invulnerability, which provides good premises for more qualified developments in the future. However, its further consolidation is an ongoing process, where, among others, the carrying out at rapid paces of numerous reforms required in the three-year mid-term program of the country’s development remains a priority.

The Bank of Albania, estimating its role as one of the key institutions in successfully meeting its ambitious objectives of the mid-term program, has already drafted the monetary program for 2006. Based on basic assumptions of this program for an economic growth of 5 per cent under the conditions of an average inflation of 3 per cent, the Bank of Albania foresees that the supply growth will be at 11.8 per cent. This growth will be sufficient for meeting the needs of the economy for monetary assets and particularly for enabling credit extension at the limit of Lek 53 billion or about 45 per cent of the total.
Continuing the positive economic logic of 2005, the budget deficit financing by the banking system is forecasted to consume about Lek 12.8 billion or \(\frac{1}{4}\) of funds forecasted for crediting. The Bank of Albania estimates that the increasing support of the Albanian business by domestic funds constitutes a positive premise for maintaining high economic growth rates even in the future.

II. WORLD ECONOMY

The world economy went on being increased at relatively rapid paces even during the second semester of the year. The main impulse in the world economic activity derived from the economic growth of the USA, Asia and Japan. According to recent forecasts of the International Monetary Fund, the world economy growth for 2005 is expected to be at 4.3 per cent. The situation in the world financial markets is presented as positive for financing the economic activity, due to high prices of financial assets, low borrowing cost and positive corporate profits. On the other hand, a risk exists to the economic growth, present not only in high oil prices but also in fiscal imbalances in most developed countries, in balance of payments deficit growth in a number of countries as well as in the differences that exist in the economic development among the regions.

<table>
<thead>
<tr>
<th></th>
<th>GDP-Q3</th>
<th>Unemployment rate</th>
<th>CPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>+4.1</td>
<td>4.9 (November)</td>
<td>+3.5 (November)</td>
</tr>
<tr>
<td>Euro zone</td>
<td>+1.6</td>
<td>8.3 (October)</td>
<td>+2.3 (November)</td>
</tr>
<tr>
<td>Germany</td>
<td>+1.4</td>
<td>11.5 (November)</td>
<td>+2.3 (November)</td>
</tr>
<tr>
<td>France</td>
<td>+1.8</td>
<td>9.7 (October)</td>
<td>+1.6 (November)</td>
</tr>
<tr>
<td>Italy</td>
<td>+0.1</td>
<td>7.7 (June)</td>
<td>+2.2 (November)</td>
</tr>
<tr>
<td>Britain</td>
<td>+1.7</td>
<td>4.9 (October)</td>
<td>+2.1 (November)</td>
</tr>
<tr>
<td>Japan</td>
<td>+2.9</td>
<td>4.5 (October)</td>
<td>-0.7 (October)</td>
</tr>
</tbody>
</table>


Euro zone economy

Gross domestic product in the Euro zone marked a faster growth over the third quarter. According to preliminary data, the economic growth during this quarter was 0.6 per cent, against a growth of 0.3 per cent and 0.4 per cent in the first and second quarter of this year. The economic growth was mainly due to rise in investments, exports, individual expenditures for consumption and imports. The information on business confidence indicates an expected stability of the economic growth for the rest of the year. The continuous growth in the global demand is expected to assist the exports of the Euro zone, whereas investments are expected to benefit from favourable financial conditions and significant rise of corporate profits. On the other hand, the forecasting on economic activity remains subject to risks that relate mainly to high oil price, concerns on lack of global balances and weak confidence of consumers. The annual inflation rate for November in the Euro zone was 2.3
per cent, from 2.6 and 2.5 per cent in the two previous months. Inflation rate is expected to be higher than the targeted rate of less than 2 per cent even for a short-term period. The identification of some increasing pressures on price stability enabled the European Central Bank raise the key interest rate by 0.25 percentage point in December. This change is expected to be sufficient for maintaining mid-term and long-term expectations of inflation in line with price stability target.

American economy

The economic activity of the United States of America marked a rapid growth during the third quarter of this year. According to the latest data, the annual GDP growth for the third quarter marked 4.1 per cent, from 3.3 per cent it was in the second quarter. Consumer expenses, fixed investments of residents and non-residents and government expenses are the main contributors to American economy growth. Economic development forecasts on the short run remain good. Inflationary pressures caused partly by negative effects of hurricanes are expected to smooth over, positively impacting on inflation expectations and on the continuation of high growth rates of productivity. Under such conditions, the American Federal reserve (FED) is expected to moderate the aggressiveness for interest rate rise.

Oil price

The oil price fell during the recent months. However, it reflects a significant rise in annual terms.

Oil price fluctuations during the recent months have been mainly due to the difference between refined capacities and demand. According to the latest data on nine first months of the year and OPEC’s forecasts about the last quarter of 2005, the world oil demand is expected to rise by 1.2 million barrels a day, amounting to a daily average of 83.3 million barrels a day. The supply of the countries outside OPEC is expected to reach an average of 54 million barrels a day, whereas the average output for OPEC countries is estimated to have reached an average of 30 million barrels a day in October.

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>Q1 2005</th>
<th>Q2 2005</th>
<th>Q3 2005</th>
<th>Q4 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>a-Worldwide oil demand</strong></td>
<td>82.09</td>
<td>83.65</td>
<td>82.09</td>
<td>82.42</td>
<td>84.93</td>
</tr>
<tr>
<td><strong>b-Supply from countries outside OPEC</strong></td>
<td>53.94</td>
<td>54.55</td>
<td>54.77</td>
<td>54.09</td>
<td>54.61</td>
</tr>
<tr>
<td><strong>c-Supply from OPEC countries</strong></td>
<td>29.06</td>
<td>29.48</td>
<td>29.92</td>
<td>30.21</td>
<td></td>
</tr>
<tr>
<td><strong>Balance (a+b-c)</strong></td>
<td>0.91</td>
<td>0.38</td>
<td>2.61</td>
<td>1.87</td>
<td>30.32</td>
</tr>
</tbody>
</table>

Source: Organization of Petroleum Exporting Countries (OPEC)

Table 2 World oil demand and supply (in million bpd)
Exchange rate

The Euro area currency has reflected depreciating trends against the American dollar during the latest months. The euro exchange rate has depreciated by 2.44 per cent during this period.

The exchange rate of the American dollar is positively impacted by relatively high interest rates in the United States of America. The key interest rate rise by the European Central Bank in December has impacted on stabilizing the exchange rate during this month. At end of December, one euro was exchanged with 1.179 Usd, being appreciated by 0.24 per cent in comparison to the previous month.

III. ALBANIAN ECONOMY OVER THE SECOND SEMESTER

The country’s economic activity has continued its good performance during 2005. This positive opinion is based on some indicators, such as an increased volume of sales, a reduction in the unemployment rate, a rapid rise in the volume of lending to the economy and improvement of revenues from taxes. Hence the economy sales during the first nine months have been 16.2 per cent higher than in the same period of 2004. The total sales index has marked an annual growth of 14.7 per cent during the third quarter. However, the grave electrical energy situation of the fourth quarter has negatively impacted on the Albanian business activity.

Based on the latest monetary data, lending to the economy underwent a sharp rise during 2005. The outstanding credit was increased by Lek 18.7 billion during July-November, marking a growth of 19.5 per cent of the outstanding credit. For the first time it seems that the ratios of credit to the economy to credit to the government are overturned into the favour of the first one, providing a positive sign that even in the future the banking system will continue to generate financial resources for growing and enlivening the economy.

According to the data from the foreign sector of the economy, the foreign currency remittances from emigrants during 2005 seem to have maintained the same trends with those of the recent years, constituting another important factor in ensuring stable economic growth rates.
Based on this view, the Bank of Albania estimates that the economy will grow even during 2005, but the growth will be somewhat lower than the forecasted 6 per cent level.

The third quarter of the year has marked a rapid growth of services and construction sectors. The sales of the services sector (“Trade, hotels, restaurants”) have had an annual growth of 15.1 per cent during the third quarter of the year, providing the best contribution to economic activity extension during this period. This contribution is estimated to be 7 percentage points, constituting almost half of the annual growth of the economy. The activity extension in this sector has brought about also a rise to 47 per cent of its weight to the economy, from 43 per cent it was in the second quarter of the year. The rise of the weight of the services sector has been associated with a reduction of the weight of the industry sector. Meanwhile, the weight of the other sectors of the economy has not had significant changes during this period.

Trade, hotels and restaurants

After a significant growth over the second quarter of 2005, the developments of “Trade, hotels and restaurants” have been positive even during the third quarter. The sales of this sector have marked an annual growth of 15 per cent, whereas in comparison to the previous quarter, the sales are presented at 15.8 per cent higher. Similar to some other sectors, the sales growth rates of this sector decreased during the third quarter.

Agriculture

The agriculture output is expected to grow by 3.9 per cent during 2005, sustained by a growth by 2.5 per cent of the agricultural production and a growth by 10 per cent of agro-industry and fishery sectors. These expectations are more pessimistic if compared to 2004 year-start forecasts and its realization. The employment rate in agro-industry sector has increased by 1 percent compared to the previous year.
Agricultural production growth rate decreased by 0.7 percentage point during January – September 2005 as compared to the growth of the previous year, manifesting a type of spontaneous development and a considerable dependence on weather conditions. During 2005 numerous legal problems about land did not yet find the way out, thus continuing to hinder a quantitative and qualitative agricultural production growth.

According to estimations of agro-industry, the agro-industrial output has been raised by 4 percent during the first nine-month period of 2005, while the processing of the agricultural products has dropped by 11 per cent during the third quarter of this year. The reduction of processing capacities has directly impacted on reduction by 44 percent of agro-industry exports, influencing also the total export of agriculture sector. During the first nine-month period of 2005, the agricultural exports fell totally by 21.2 percent, while we should emphasize that imports were also reduced by 11.5 percent. In animal farming the export/import situation is overturned. Exports decreased by 12 percent during the nine-month period compared to the previous year and imports increased by 10.4 percent.

Industry and energy

Annual sales growth of industry sector reached to 10 per cent during the third quarter of the year, marking, however, a slow-down as compared to the growth of 23.6 percent recorded in the second quarter. Nevertheless, the industry sector continues to occupy the second place to the total economy sales even during the second semester of 2005.

Sales in absolute value of “Electrical energy, water and gas” marked an annual growth of 16 percent during the third quarter of the year. During July-November 2005 a growth of 7 per cent was marked in the energy resources, as compared to the same previous year period. The domestic product was increased by 3.8 percent during this period, satisfying 76.3 percent of the consumer domestic demand. During the last quarter, Albania encountered an electrical energy crisis, due to low level of production and import. During October and November imports grew considerably as compared to July – September, so as to satisfy the domestic demand for electrical energy.
Households’ consumption, which constitutes 57 per cent of the energy consumption, dropped by 5.1 percent during these months, as compared to the same previous year period.

<table>
<thead>
<tr>
<th></th>
<th>July-05</th>
<th>August-05</th>
<th>September-05</th>
<th>October-05</th>
<th>November-05</th>
<th>Jul-Nov 05/11m 05</th>
<th>Jul-Nov 04/11m 04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total resources</td>
<td>495.6</td>
<td>474.6</td>
<td>471.7</td>
<td>507.8</td>
<td>449.3</td>
<td>7.0%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Production</td>
<td>406.7</td>
<td>395.6</td>
<td>380.7</td>
<td>362.0</td>
<td>286.2</td>
<td>3.8%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Import (including exchanges)</td>
<td>88.9</td>
<td>79.0</td>
<td>91.0</td>
<td>145.8</td>
<td>163.1</td>
<td>18.7%</td>
<td>23.7%</td>
</tr>
<tr>
<td>Export (including exchanges)</td>
<td>43.9</td>
<td>25.3</td>
<td>54.7</td>
<td>47.6</td>
<td>30.7</td>
<td>294.0%</td>
<td>126.3%</td>
</tr>
<tr>
<td>Network losses</td>
<td>145.0</td>
<td>149.8</td>
<td>116.4</td>
<td>165.0</td>
<td>162.4</td>
<td>8.9%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Supply to consumers</td>
<td>306.6</td>
<td>299.4</td>
<td>300.5</td>
<td>295.2</td>
<td>256.3</td>
<td>-3.1%</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Households’ consumption</td>
<td>167.6</td>
<td>176.6</td>
<td>171.7</td>
<td>166.4</td>
<td>153.4</td>
<td>-5.1%</td>
<td>-4.1%</td>
</tr>
<tr>
<td>Non-households’ consumption</td>
<td>139.0</td>
<td>122.8</td>
<td>128.8</td>
<td>128.8</td>
<td>102.9</td>
<td>-0.4%</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

Source: Albanian Electro-energy Corporation

### Construction

Sales in construction sector marked a significant growth by 19.7 per cent as compared to the same period of 2004. During the first nine-month period of the year, the sales in this sector have increased by 25.5 per cent.

Direct expenditures in construction fell by 0.31 percent compared to the previous quarter and 0.37 percent compared to third quarter of 2004. Material expenses also had a slight reduction by 0.36 percent compared to the previous quarter, while compared to the same previous year period they did not mark any change at all. The forecasted profit fell by 2.78 percent against the third quarter of the previous year.

### Transport

Sales in the ‘Transport and Telecommunication’ sector were increased by 10.3 percent in the third quarter of 2005, as compared to the same period of the previous year.

Sea transport of goods had a growth of 16.6 percent during July – November of 2005 as compared to the same period of the previous year. So, imports increased by 7.7 percent, whereas exports fell by 28.8 percent, in the main ports of the country. The railway transport in Albania constitutes only 1 percent of the traffic of goods and passengers. During July – November of 2005 the...
railway merchandise transport declined by 29 percent. The railway transport of passengers fell by 15 percent. The airline transport had an average annual growth by about 15 percent in 10 recent years. Hence, this trend continued during the 9 first months of 2005, when a rise by 24 percent was noticed in the number of flights and 22 percent in the number of passengers.

Investments in this sector dropped by 28.8 percent during the third quarter of 2005 as compare to the same period of the previous year. This reduction is due to the low level of domestic and foreign investments, which were respectively by 21.6 and 43.9 percent less than the third quarter of the previous year.

III.1 LABOUR MARKET

During 2005, the labour market went on maintaining its good performance manifested at end of 2004, when the labour indicators reflected a sharp upward trend. Compared to the third quarter of the previous year, the employed number increased by 9200 people. Among them, only the number of the workers employed in the private non-agricultural sector increased by 3 thousand people.

Meanwhile, the labour market structure did not undergo changes during 2005. So the public sector continues to occupy about 19 per cent of the total number, the private non-agricultural sector occupies 23 per cent, and the private agricultural one occupies 58 percent of the whole labour forces.

<table>
<thead>
<tr>
<th>Table 6 Labour market indicators (in thousand people).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>2002</td>
</tr>
<tr>
<td>2003</td>
</tr>
<tr>
<td>A. Total of the employed</td>
</tr>
<tr>
<td>i) in the public sector</td>
</tr>
<tr>
<td>ii) in private non-agricultural sector</td>
</tr>
<tr>
<td>iii) in private agricultural sector</td>
</tr>
<tr>
<td>B. Unemployment (in thousand)</td>
</tr>
<tr>
<td>i) Total of the unemployed</td>
</tr>
<tr>
<td>ii) benefit from unemployment compensation</td>
</tr>
<tr>
<td>C. Unemployment rate (%)</td>
</tr>
</tbody>
</table>

Source: INSTAT, Conjuncture, December 2005
The number of the unemployed decreased by 3200 people during the four last quarters and the unemployment rate decreased by 0.4 percentage point. During the third quarter the number of the unemployed fell by 200 people, leading the unemployment rate to 14.2 percent. The improvement of the employment indicators seems to be associated with income growth. Data on public sector’s wages during the third quarter of 2005 indicate that the average wage in the public sector has increased by almost 9 percent in annual terms.

However, the labour market data continue to have deformations in the indicators, due to the happening of such phenomena as: unrecorded migration of population, continuously changing the ratio of rural population and urban one, and continuous existence of black labour market.

### III.2 FISCAL SECTOR

Fiscal indicators have generally been close to forecasted levels during 11 first months of 2005. According to the data from the Ministry of Finances, 97.8 percent of the planned revenues were collected until November and about 93 percent of the programmed expenditures for this period were realized. This has made the budget deficit at end of November be about Lek 16.3 billion, from Lek 27 billion forecasted. The budget spending and deficit in January – November 2005 reached the lowest levels in 7 last years in ratio to Gross Domestic Product. Capital expenses and domestic deficit financing had a significant reduction in ratio to GDP.

<table>
<thead>
<tr>
<th></th>
<th>11M 99</th>
<th>11M 00</th>
<th>11M 01</th>
<th>11M 02</th>
<th>11M 03</th>
<th>11M 04</th>
<th>11M 05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total incomes</td>
<td>21.7</td>
<td>22.3</td>
<td>19.6</td>
<td>21.1</td>
<td>21.6</td>
<td>21.3</td>
<td>21.1</td>
</tr>
<tr>
<td>Income from taxes</td>
<td>13.5</td>
<td>15.6</td>
<td>13.2</td>
<td>14.7</td>
<td>19.2</td>
<td>19.3</td>
<td>19.0</td>
</tr>
<tr>
<td>Total expenditures</td>
<td>31.8</td>
<td>29.7</td>
<td>25.4</td>
<td>26.1</td>
<td>25.3</td>
<td>24.5</td>
<td>23.0</td>
</tr>
<tr>
<td>Current expenditures</td>
<td>26.1</td>
<td>24.1</td>
<td>19.7</td>
<td>21.4</td>
<td>21.7</td>
<td>20.7</td>
<td>19.7</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>5.6</td>
<td>5.5</td>
<td>5.5</td>
<td>4.7</td>
<td>3.6</td>
<td>3.8</td>
<td>3.3</td>
</tr>
<tr>
<td>Deficit</td>
<td>(10.1)</td>
<td>(7.5)</td>
<td>(5.8)</td>
<td>(5.0)</td>
<td>(3.7)</td>
<td>(3.2)</td>
<td>(1.9)</td>
</tr>
<tr>
<td>Domestic financing</td>
<td>4.0</td>
<td>4.5</td>
<td>3.2</td>
<td>2.2</td>
<td>2.8</td>
<td>2.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Foreign financing</td>
<td>6.0</td>
<td>2.9</td>
<td>2.6</td>
<td>2.9</td>
<td>0.9</td>
<td>0.7</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Incomes and expenditures are increased respectively by 9.3 percent and 3.7 per cent compared to the same period of the previous year, marking a smaller growth than the average of 7 last years. The domestic financing deficit until November reached to Lek 11.9 billion, against Lek 16.2 billion forecasted. The foreign deficit financing reached to 40 percent of the forecasted value.
Table 8 Annual growth rates of main fiscal indicators (in percentage)

<table>
<thead>
<tr>
<th></th>
<th>11M 99</th>
<th>11M 00</th>
<th>11M 01</th>
<th>11M 02</th>
<th>11M 03</th>
<th>11M 04</th>
<th>11M 05</th>
<th>Aver. 99-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income</td>
<td>15.2</td>
<td>14.3</td>
<td>5.7</td>
<td>15.7</td>
<td>12.8</td>
<td>11.3</td>
<td>9.3</td>
<td>12.0</td>
</tr>
<tr>
<td>Income from taxes</td>
<td>13.9</td>
<td>28.8</td>
<td>1.8</td>
<td>19.7</td>
<td>43.2</td>
<td>13.2</td>
<td>9.0</td>
<td>18.5</td>
</tr>
<tr>
<td>Income from local government</td>
<td>13.9</td>
<td>57.9</td>
<td>39.7</td>
<td>32.0</td>
<td>252.1</td>
<td>13.3</td>
<td>16.0</td>
<td>60.7</td>
</tr>
<tr>
<td>Income from independent budgets</td>
<td>14.7</td>
<td>10.7</td>
<td>3.3</td>
<td>23.1</td>
<td>11.5</td>
<td>12.7</td>
<td>10.6</td>
<td>12.4</td>
</tr>
<tr>
<td>Non-tax income</td>
<td>19.5</td>
<td>(26.2)</td>
<td>29.5</td>
<td>(9.3)</td>
<td>(6.6)</td>
<td>(10.4)</td>
<td>(6.7)</td>
<td>(1.5)</td>
</tr>
<tr>
<td>Total expenditures</td>
<td>15.5</td>
<td>4.3</td>
<td>2.7</td>
<td>10.4</td>
<td>6.8</td>
<td>9.1</td>
<td>3.7</td>
<td>7.5</td>
</tr>
<tr>
<td>Current expenditures</td>
<td>9.7</td>
<td>3.0</td>
<td>(1.9)</td>
<td>17.1</td>
<td>11.5</td>
<td>7.4</td>
<td>5.0</td>
<td>7.4</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>49.9</td>
<td>9.1</td>
<td>21.1</td>
<td>(8.6)</td>
<td>(15.1)</td>
<td>19.9</td>
<td>(3.7)</td>
<td>10.4</td>
</tr>
<tr>
<td>Deficit</td>
<td>16.3</td>
<td>(17.4)</td>
<td>(6.0)</td>
<td>(7.1)</td>
<td>(18.6)</td>
<td>(3.3)</td>
<td>(34.2)</td>
<td>(10.1)</td>
</tr>
<tr>
<td>Domestic financing</td>
<td>(9.3)</td>
<td>24.9</td>
<td>(14.7)</td>
<td>(27.7)</td>
<td>43.5</td>
<td>1.3</td>
<td>(39.1)</td>
<td>(3.0)</td>
</tr>
<tr>
<td>Foreign financing</td>
<td>43.5</td>
<td>(45.9)</td>
<td>7.5</td>
<td>18.1</td>
<td>(65.3)</td>
<td>(17.8)</td>
<td>(15.6)</td>
<td>(10.8)</td>
</tr>
</tbody>
</table>

Source: Ministry of Finances

Budget revenues

Budget revenues of the first nine-month period had an annual growth of about 9.3 per cent. Income from taxes is the main source of budget revenues, constituting about 90 per cent of total revenues. Their level reached to ALL 165.1 billion at end of November, realizing the forecasted budget level by 100.4 per cent.

The main contribution to realizing the income from taxes has been given by tax on profit, tax on vehicles circulation, value added tax, and excise taxes, which exceeded the plan by 16.5, 41.9, 2.0 and 1.7 per cent respectively. Taxes collected from customs resulted about Lek 12.2 billion, reaching to 87.8 per cent of the planned level. Other main tax indicators, such as: tax on personal income and customs duties were realized by 97.1 and 87.8 per cent, respectively.

Also, it is noticed that income from local government continues to exceed the plan, being realized to 110.8 percent, whereas incomes from independent budget and non-taxing ones were realized at 98.5 and 85.6 percent respectively.

Table 9 Main indicators (progressive data – in billion lek)

<table>
<thead>
<tr>
<th></th>
<th>July</th>
<th>August</th>
<th>Sept.</th>
<th>October</th>
<th>Nov.</th>
<th>11M plan %</th>
<th>Annual plan %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income</td>
<td>109.0</td>
<td>125.2</td>
<td>142.8</td>
<td>161.5</td>
<td>180.8</td>
<td>97.8</td>
<td>87.5</td>
</tr>
<tr>
<td>Income from taxes</td>
<td>99.6</td>
<td>114.4</td>
<td>130.8</td>
<td>147.4</td>
<td>165.2</td>
<td>100.4</td>
<td>90.6</td>
</tr>
<tr>
<td>Value added tax</td>
<td>33.6</td>
<td>38.9</td>
<td>45.2</td>
<td>51.8</td>
<td>58.4</td>
<td>102.1</td>
<td>92.2</td>
</tr>
<tr>
<td>Tax on profit</td>
<td>10.7</td>
<td>12.1</td>
<td>13.7</td>
<td>15.2</td>
<td>17.1</td>
<td>116.5</td>
<td>106.6</td>
</tr>
<tr>
<td>Excises</td>
<td>9.3</td>
<td>11.1</td>
<td>13.1</td>
<td>15.1</td>
<td>16.9</td>
<td>101.7</td>
<td>92.7</td>
</tr>
<tr>
<td>Tax on personal income</td>
<td>3.9</td>
<td>4.4</td>
<td>5.1</td>
<td>5.5</td>
<td>6.4</td>
<td>97.1</td>
<td>84.0</td>
</tr>
<tr>
<td>Customs duties</td>
<td>7.0</td>
<td>8.2</td>
<td>9.5</td>
<td>10.8</td>
<td>12.2</td>
<td>87.8</td>
<td>78.1</td>
</tr>
<tr>
<td>Tax on vehicles circulation</td>
<td>2.3</td>
<td>2.5</td>
<td>2.7</td>
<td>2.8</td>
<td>2.8</td>
<td>141.9</td>
<td>130.8</td>
</tr>
<tr>
<td>Income from local government</td>
<td>6.9</td>
<td>7.8</td>
<td>8.6</td>
<td>9.5</td>
<td>10.6</td>
<td>110.8</td>
<td>102.3</td>
</tr>
<tr>
<td>Income from independent budget</td>
<td>20.3</td>
<td>23.0</td>
<td>25.9</td>
<td>29.2</td>
<td>32.2</td>
<td>98.5</td>
<td>87.8</td>
</tr>
<tr>
<td>Non-taxing income</td>
<td>8.2</td>
<td>9.3</td>
<td>10.5</td>
<td>11.8</td>
<td>12.8</td>
<td>85.6</td>
<td>74.0</td>
</tr>
</tbody>
</table>

Source: Ministry of Finances
Budget expenditures

Budget expenditures reached the level of Lek 197.1 billion at end of November, constituting about 93 percent of the programmed level for this period. The level of rise of expenditures for this period was approximately as much as half of the average of growth in seven last years. The personnel expenditures, which constitute about 28 percent of current expenditures, were 97.9 percent. The current expenditures (for January – November 2005) constitute about 85 per cent of total expenditures. The public administration restructuring is expected to provide more underlined effects in 2006, with less expenditures particularly in the personnel expenditures indicator.

Meanwhile, the capital expenses continue to be realized less than the planned level. So, for the first 11 months of the year, they were realized at 71.9 per cent. The expenditures covered by foreign financing were realized only at 52.5 per cent of the plan.

<table>
<thead>
<tr>
<th></th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
<th>November</th>
<th>11M plan %</th>
<th>Annual plan %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expenditures</td>
<td>123.2</td>
<td>140.7</td>
<td>161.8</td>
<td>179.7</td>
<td>197.1</td>
<td>93</td>
<td>79</td>
</tr>
<tr>
<td>Current expenditures</td>
<td>107.3</td>
<td>121.7</td>
<td>138.9</td>
<td>153.6</td>
<td>168.5</td>
<td>99</td>
<td>87</td>
</tr>
<tr>
<td>Personnel</td>
<td>29.6</td>
<td>33.6</td>
<td>38.1</td>
<td>42.1</td>
<td>46.5</td>
<td>98</td>
<td>84</td>
</tr>
<tr>
<td>Interests</td>
<td>15.9</td>
<td>17.9</td>
<td>20.6</td>
<td>22.3</td>
<td>24.0</td>
<td>88</td>
<td>80</td>
</tr>
<tr>
<td>Domestic</td>
<td>14.9</td>
<td>16.8</td>
<td>19.4</td>
<td>20.9</td>
<td>22.5</td>
<td>90</td>
<td>82</td>
</tr>
<tr>
<td>Foreign</td>
<td>975.0</td>
<td>1.2</td>
<td>1.2</td>
<td>1.3</td>
<td>1.5</td>
<td>68</td>
<td>60</td>
</tr>
<tr>
<td>Operational maintenance expenses</td>
<td>13.5</td>
<td>14.5</td>
<td>16.7</td>
<td>18.6</td>
<td>20.4</td>
<td>108</td>
<td>93</td>
</tr>
<tr>
<td>Social insurance expenses, etc</td>
<td>30.9</td>
<td>35.9</td>
<td>40.6</td>
<td>45.0</td>
<td>49.3</td>
<td>98</td>
<td>89</td>
</tr>
<tr>
<td>Local budget expenses</td>
<td>9.6</td>
<td>11.0</td>
<td>12.9</td>
<td>14.5</td>
<td>16.3</td>
<td>116</td>
<td>92</td>
</tr>
<tr>
<td>Other expenses</td>
<td>5.8</td>
<td>6.6</td>
<td>7.4</td>
<td>8.2</td>
<td>9.1</td>
<td>101</td>
<td>89</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>15.9</td>
<td>18.9</td>
<td>22.8</td>
<td>26.1</td>
<td>28.6</td>
<td>72</td>
<td>57</td>
</tr>
<tr>
<td>Domestic financing</td>
<td>10.4</td>
<td>12.7</td>
<td>15.4</td>
<td>17.4</td>
<td>19.4</td>
<td>87</td>
<td>69</td>
</tr>
<tr>
<td>Foreign financing</td>
<td>5.6</td>
<td>6.3</td>
<td>7.4</td>
<td>8.7</td>
<td>9.3</td>
<td>52</td>
<td>41</td>
</tr>
</tbody>
</table>

Source: Ministry of Finances

Fiscal deficit

The fiscal deficit at end of November was at about 60.3 percent of the planned level. The keeping under control of expenditures and the realization of income have made the budget deficit record the highest decline over seven last years.

During this period, 4 months recorded a surplus budget, while 8 last years have had only one month per year with a surplus budget. The deficit was focused on the third quarter, whereas the fourth quarter until November resulted with a surplus of ALL 2.7 billion.
III.3 FOREIGN SECTOR OF THE ECONOMY

The overall balance of payments was closed with a surplus of Euro 33.7 million during the third quarter of 2005. The capital inflows have fully covered the current deficit and have enabled foreign reserve growth. During this period the foreign sector of the economy has been characterized by an intensive activity, which has been reflected in the growth of current income and expenditure. The third quarter has marked a current deficit of about 65 percent lower than that of the previous quarter, but about 2.8 times higher than the current deficit recorded in the same period of the previous year. The overall volume of imports and exports during July – September of this year was about Euro 650 million or about 12 per cent higher as compared to the same period of the previous year.

| Table 11 Main balance of payments items by quarters (in million euro) |
|-----------------|-----------------|-----------------|-----------------|-----------------|
|                 | Q-III’04        | Q-IV’04         | Q-III’05        | Q-I&III’05      |
| Current account | -25.0           | -129.0          | -67.0           | -222.5          |
| Trade balance   | -329.3          | -389.4          | -382.2          | -1022.4         |
| Capital and financial account | 13.9         | 339.2           | 34.5            | 248.0           |
| Overall balance sheet | 78.1         | 45.9            | 33.7            | 44.8            |

Source: Bank of Albania

III.3.1 Current account

During the third quarter of 2005 the current account recorded a general volume of transactions by about Euro 4.5 billion or 22 percent higher than that of the same period of 2004. Transactions in goods and services represented about 73 percent of current transactions.

In comparison to the third quarter of the previous year, the said quarter marked some not very positive changes such as: the deepening of the trade deficit at 16 percent, underlined growth of services deficit (from about 5 million to about 45 million) and a slight decline of the surplus in income account. The rise in public current transfers and particularly in private ones has balanced the deepening of the deficit and has decreased the surplus in these items. Therefore, the quarter has been closed with a current deficit of about Euro 40 million higher than the third quarter of the previous year.

Foreign trade

During January – September of this year the merchandise trading activity with the world recorded a value of Euro 1.8 billion. Merchandise trading exchange over this period represented about 40 percent of the overall volume of current transfers carried out during this period. The country’s economy and domestic market remained oriented to imports, which were about 3.85 times higher than exports during this period. During July – September the foreign trade volume increased by Euro 650 million or about 11.8 percent in comparison to the same period of the previous year. Either revenues from exports or expenses
for imports have increased significantly. The rise in imports has been higher than that of exports, both in percentage and in absolute values. Therefore, the trade deficit of goods has been increased by 16 per cent or by Euro 50 million.

Export/Import ratio has fluctuated within the limits of 20-25 percent during all latest years. This ratio should attract attention towards policies of substituting imports and towards the need to diversify and support exports, which currently present a high degree of concentration and an underlined dependence on a limited number of countries that purchase domestically produced goods with imported raw materials (re-exports) from Albania. Current transfers that are largely represented by income from emigrants may not be regarded as an inexhaustible and permanent financing source for the ongoing trade deficit.

Services

During July – September the services balance sheet marked a deficit of about Euro 44.2 million. This deficit was about 2 times deeper than the deficit recorded in the previous quarter and about 9 times larger than the deficit recorded in the same quarter of the previous year. Residents have spent about Euro 306 million to purchase services from non-residents, while the latter ones have spent about Euro 260 million to purchase services in the Albanian territory or services provided by resident units in Albania (for example telecommunication services). The largest weight of services either in income or expenditure is occupied by tourism services (63 percent of income and 54 percent of expenditure) as well as transport services, which have ensured 12 percent of income and 29 percent of expenditure. Currently, the tourism activity continues to represent one of the main sources of foreign currency income for our country’s economy, and as such, it should be regarded as one of the Albanian economy growth vehicles. It is worth mentioning that the services export during the third quarter of this year was about 17.5 percent higher than the merchandise export.

Income

During this quarter the balance of income was positive. The surplus of about Euro 44 million has been about 2 times higher than the one recorded
in the second quarter, but about 14 percent lower than the surplus recorded in the same period of the previous year. The income growth has derived from growth of income on seasonal and customs works, as well as on increased accumulated interests from foreign reserve investments of the banking system in the form of portfolio investments.

Transfers

During the third quarter of this year, positive developments have taken place in the current transfer account. Private transfers were about 20 percent higher either in comparison to the previous quarter or in comparison to the third quarter of the previous year. Incomes from emigrants or remittances are estimated to have covered about 77 per cent of the trade deficit. They constitute the main part (93 percent) of current transfers. During this quarter, income from emigrants has marked the level of Euro 295 million, while the government transfers, though higher than in the previous quarter, remain some times lower than the private ones.

III.3.2 Capital and financial account

Net inflows in capital and financial account are estimated to Euro 34.5 million during the third quarter of 2005. Almost 72 per cent of these inflows during July – September come from capital transfers. However, the capital account has been about 16 percent lower in comparison to the same period of the previous year. The financial account for the third quarter is presented with a net capital inflow of Euro 9.4 million, unlike the same period of the previous year when this account marked a negative balance sheet. Foreign direct investments in this quarter were about Euro 53 million, being almost at the level of investments of the second quarter, but somewhat lower than the direct investments carried out in the same period of the previous year. The financial liabilities of Albania to the world have been increased by Euro 9 million.

III.3.3 Reserve assets

Foreign reserve assets have been increased by Euro 33.7 million, making the foreign reserve level reach to about Euro 1 billion and 72 million, a sufficient quantity to cover 4.6 months of import of goods and services.
III.4 INFLATION

The annual inflation has fluctuated in the lower half of the Bank of Albania target. After a slight rise during the first part of the semester, the annual inflation has been falling, reaching the value of 2 percent in December. Also, the average annual inflation rate has fluctuated within the narrow band of 2.1 – 2.4 per cent during July – December.

<table>
<thead>
<tr>
<th>Table 13 Annual inflation (in percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>January</td>
</tr>
<tr>
<td>February</td>
</tr>
<tr>
<td>March</td>
</tr>
<tr>
<td>April</td>
</tr>
<tr>
<td>May</td>
</tr>
<tr>
<td>June</td>
</tr>
<tr>
<td>July</td>
</tr>
<tr>
<td>August</td>
</tr>
<tr>
<td>September</td>
</tr>
<tr>
<td>October</td>
</tr>
<tr>
<td>November</td>
</tr>
<tr>
<td>December</td>
</tr>
<tr>
<td>Average</td>
</tr>
</tbody>
</table>

Source: INSTAT

Macroeconomic developments have enabled the creation of a favourable macroeconomic environment for maintaining price stability. Good harmonization of macroeconomic policies, lack of inflationary pressures on
the supply side and strong positions of the lek have depreciated the inflationary pressures.

III.4.1 Inflation and constituent groups

Annual inflation rose from 1.8 percent to 3.3 percent during July – October, and then it fell during the two following months. The main consumer basket groups, “Foodstuffs and non-alcoholic beverages”, “Rent, water, fuels and energy”, “Transports”, and “Hotels, restaurants and cafés” have been the main determinants of inflation performance, maintaining the same contribution structure.

“Foodstuffs and non-alcoholic beverages”. Consumer price developments have indicated that the overall price level during the second half of 2005 has pursued the dynamics of foodstuff prices. Unlike the first half of the year, during the second semester the contribution of this group to annual inflation has had opposite directions at certain months. The average contribution of “Foodstuffs and non-alcoholic beverages” to annual inflation rate of this period was zero. Unlike the previous years, the annual inflation of this group in December was negative (-1.9 percent). Lack of excess growth of the consumer demand has discouraged the artificial price rise during these celebrations. The inflation of this group decreased the annual inflation rate by -0.8 percentage point in December.

“Rent, water, fuels and energy”. Changes in administered prices continue to be the main source of inflationary pressures in the country. Electrical energy price rise in January 2005 impacted on the inflation rate throughout the year. The average contribution of “Rent, water, fuels and energy” to total inflation of the second semester was 2.3 percentage points, almost at the same levels with
the contribution rendered during the first semester. Along with the electrical energy administered price rise, the free market price rise of fuels, rent and imported rent also impacted on the inflation performance of this group. Price rise of fuels, gas, and fire woods, was due to electrical energy crisis that our country underwent in October – November. The increased demand for these energy replacing alternatives brought about their price rise, which returned to higher inflation rates (23.1 - 23.4 percent) for the subgroup “Fuels, electrical energy”, in October – December. Also, the rent price underwent the highest rise in December, marking an annual inflation of 4.9 percent.

<table>
<thead>
<tr>
<th></th>
<th>Annual inflation '04</th>
<th>Contribution (pp)</th>
<th>Annual inflation '05</th>
<th>Contribution (pp)</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>9.9</td>
<td>2.4</td>
<td>7.7</td>
<td>2.0</td>
</tr>
<tr>
<td>August</td>
<td>9.7</td>
<td>2.4</td>
<td>6.9</td>
<td>1.8</td>
</tr>
<tr>
<td>September</td>
<td>10.4</td>
<td>2.5</td>
<td>7.7</td>
<td>2.0</td>
</tr>
<tr>
<td>October</td>
<td>9.2</td>
<td>2.2</td>
<td>8.2</td>
<td>2.1</td>
</tr>
<tr>
<td>November</td>
<td>9.2</td>
<td>2.2</td>
<td>9.0</td>
<td>2.3</td>
</tr>
<tr>
<td>December</td>
<td>8.8</td>
<td>2.1</td>
<td>9.0</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: INSTAT, Bank of Albania

“Transport”. Unlike the first semester of the year, the oil price has turned into a significant cost for Albanian consumers. Though having a small weight of 4.8 percent in the representative consumer basket, the “Transport” group has marked high annual inflation rates during July – December. It has contributed on average by 0.23 percentage point to the annual inflation of this period (compared to 0.13 percentage point during the previous period). The highest inflation rate of 6.1 percent was recorded in September. The oil price rise was accommodated even by the lek’s depreciation against the American dollar - a factor that facilitated a more fully transmission of this rise from the international market to the domestic one. Along with external pressures for price rise of this product, the domestic market was faced with a higher production cost. During the third quarter, the crude oil production price marked an annual rise of 3.2 percent. However, the Albanian economy might have not been affected by secondary effects of the oil price rise.

“Hotels, café, restaurants”. The second quarter of 2005 was characterized by price rise in the services sector. The “Hotels, cafes, restaurants” group has testified higher growth rates in comparison to the previous semester. This group has rendered an average contribution of 0.2 percentage point to the total figure of the annual inflation of this period. The most obvious growth has been marked mainly during three last months. The “Accommodation services” subgroup has marked an annual inflation rate of 28.7 percent from 28.3 percent.

During the second semester the other basket groups maintained the same trends observed during
the first semester of the year. “Alcoholic beverages and tobacco” and “Various goods and services” groups have marked positive growth rates, whereas “Clothes and footwear” and “House furniture, equipment and maintenance” have continued to record negative inflation rates. Totally these groups have contributed to the annual inflation on average by -0.1 percentage point. The administered energy price impact provided a constant influence along the year, whereas the other administered prices rose significantly during the second quarter of this year. “Health” and “Education service” groups have given an average contribution of respectively 0.14 and 0.1 percentage point to the annual inflation of the analyzing period.

III.4.2 Macroeconomic environment and consumer prices

Macroeconomic conditions during the second semester have generally been favourable for maintaining price stability. Irrespective of the electrical energy crisis of October – November and high oil prices - factors that added inflationary pressures – the macroeconomic environment may be qualified as favourable. Important macroeconomic indicators testify a slower growth of the economic activity over the third quarter, a stable labour market situation and lek’s stability against the foreign currencies. Also, low inflation rates have been sustained by a good coordination of the fiscal policies with monetary one, under the conditions of an external trading environment with weak inflationary impact.

Demand factors

Fiscal policy and fiscal indicators. The fiscal policy has performed prudentially, paying attention to the approved budget implementation. The fiscal indicators have observed the forecasted levels. So, the budget expenditures and budget deficit are at lower levels than those forecasted for the eleven previous months of the year. Also, the budget expenditures are increased at lower paces during the second half of 2005 compared to the first half and to the previous year. The implementation of prudent fiscal policies, regardless of the budget expenditures growth and modest rise in the public sector’s wages, has enabled conditions for controlling inflation rate.

Monetary policy and monetary indicators. In absence of inflationary pressures, the monetary policy has accommodated macroeconomic developments, following a neutral monetary policy. During the second semester of 2005, the money supply marked lower growth rates, but it satisfied the high demand of the economy for credit. On the other hand, the ratio of currency
outside banks to money supply, as well as long-term interest rates have been decreasing, reflecting reduction of inflation expectations and bringing about its timely stability, without genuine costs to the economy.

Domestic demand. The third quarter of 2005 marked a slower growth of the economic activity compared to the previous quarter. The sales index marked an annual growth of 14.7 percent and a quarterly growth of 4.9 percent versus the previous quarter. These rates were respectively 22.8 and 32.2 percent in the second quarter.

Meanwhile, the retail market index increased by 5.5 percent versus the previous quarter and decreased by 9.6 percent in annual level. This fact indicates that the domestic demand estimated by these indicators has not generated inflationary pressures for the analyzing period.

Supply factors

Inflation rate and imported inflation performance. Exchange rate developments play a fundamental role on inflation performance. The domestic market continues to be oriented to imports, which resulted 3.6 times higher than exports during the first nine-month period of 2005. The trade deficit has not brought about imbalances in the exchange rate, being totally financed by net capital inflows.

The exchange rate trends of the domestic currency against the euro and the American dollar have reflected the performance of the ratio of these two currencies in the international markets. After a long appreciating period, the annual appreciating dynamics of the lek went downward during 2005. After the fourth quarter of this year, the lek was depreciated against the American dollar, but it continued to be appreciated against the euro. Given that the main partner countries remain Italy and Greece – whose exports and imports represent respectively 83 percent and 47 percent of the overall volume – the lek appreciation against the euro continues to smooth the imported inflation impact.

The foreign trading environment stability and the exchange rate appreciation against the euro have facilitated inflationary pressures conveyed by this factor.
Domestic agricultural production. Foodstuffs prices rose during the second half of 2005, either in comparison to the previous year or to the first half of this year. The falling impact of this indicator is estimated to no longer operate with the same force during this semester. The latest data from the Ministry of Agriculture, Food and Consumers Protection support this viewpoint. During this year, the agricultural production increase is forecasted at 1.3 percent, compared to 2.5 percent forecasted at the beginning of the year and 3.3 percent realized in 2004.

Along with the lower growth of the domestic agricultural production, the price rise of agricultural products in partner markets, and the smoothing of the compensating effect of the lek’s appreciation against the euro brought about, in consequence, an almost impartial average impact of the “Foodstuffs and non-alcoholic beverages” group (the average contribution of this group to annual inflation is 0.0 percentage point), to annual inflation rate for the second semester of 2005.

Production price index⁸. After a significant production price rise during April ‘04 – March ‘05, these prices recorded the lowest growth rates during the second and third quarters of this year. The sectors of “Silviculture, forestry, supplementary services” (10 %) and “Extraction of non-energetic products” (6.8%) marked the highest annual growth over the third quarter, whereas “Processing industry” and mainly the “Foodstuffs industry” recorded lower rates, respectively 1.5 and 0.1 percent. Notwithstanding the production cost growth, they were not transmitted to consumer prices, mainly due to increased competition in retail market segments.

Oil prices. Unlike the first semester of this year, the oil prices are turned into a source of inflationary pressures. The price rise rates of this product in international markets have been translated into a rise of almost the same dynamics in the domestic market.

Table 16 Annual inflation of partner countries and exchange rate spread (in percentage)

<table>
<thead>
<tr>
<th></th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
<th>November</th>
<th>December</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>3.9</td>
<td>3.7</td>
<td>3.9</td>
<td>3.9</td>
<td>3.5</td>
<td>-</td>
</tr>
<tr>
<td>Italy</td>
<td>2.1</td>
<td>2.0</td>
<td>2.0</td>
<td>2.2</td>
<td>2.2</td>
<td>-</td>
</tr>
<tr>
<td>Lek/euro</td>
<td>-1.8</td>
<td>-2.4</td>
<td>-1.0</td>
<td>-2.1</td>
<td>-3.7</td>
<td>-3.2</td>
</tr>
<tr>
<td>Lek/usd</td>
<td>0.0</td>
<td>-3.3</td>
<td>-1.4</td>
<td>1.6</td>
<td>5.9</td>
<td>9.5</td>
</tr>
</tbody>
</table>

Source: INSTAT, General Secretariat of National Statistical Service of Greece, ISTAT-Italy
Oil price rise in the country, mainly during the third quarter of this year, was associated with a fall of demand for it by 21 percent in annual terms and 18 percent in quarterly terms. Regardless of the small weight of this product in the consumer products basket, it added the annual living cost on average by 0.24 percentage point in the third quarter of 2005 (compared to 0.17 percentage point in the third quarter of 2004). However, the oil price rise has not created effects of the second round.

### IV MONETARY POLICY AND MONETARY INDICATORS

#### IV.1 Monetary policy of the Bank of Albania

The Bank of Albania has pursued a neutral monetary policy during the second semester of 2005, holding the key interest rate unchanged, at 5 percent. This policy is limited by the stable performance of the consumer prices and low inflationary expectations for the coming period. In general, the monetary conditions are estimated as appropriate to maintain the price rise within the Bank of Albania target during the coming period.

Under these conditions, the monetary policy and its operational framework are focused on smoothing some fluctuations of monetary indicators during the semester. Due to the unexpected cut of the lek deposits interest rate by some banks and the increased demand of the economy and of the government for monetary assets during the third quarter, the banking system felt lack of liquidity during July – October. This lack of liquidity was further conveyed to fast rise of treasury bills yield during the third quarter of the year.

To confront this situation, the Bank of Albania changed the direction of its main operations, repo,
transforming them into injectors of liquidity into the system. The average volume injected through reverse repo instruments was Lek 1.7 billion during July – September. Also, it used direct credit to government in a selective way, aiming at preventing excessive pressures and speculations in increasing the yield. Due to this policy, the banking system surpassed the situation of the liquidity shortage, mostly by self-correcting the lek deposit interest rates.

Also, the Bank of Albania intervened in the foreign exchange market to surpass this situation. It purchased foreign currency almost throughout the whole second semester, smoothing the appreciating pressures on the exchange rate and injecting liquidity into the market. In its interventions into this market, a liquidity of about Lek 12.4 billion was injected, assisting the banking system to surpass this situation.

The second semester of 2005 was not covered by agreements between international financial bodies and Albania. However, the Bank of Albania fulfilled the indicative indicators set for this period.

<table>
<thead>
<tr>
<th></th>
<th>March '05</th>
<th>June '05</th>
<th>September '05</th>
<th>October '05</th>
<th>December</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net International Reserves (million dollars)</strong></td>
<td><strong>Objective</strong></td>
<td>1,073</td>
<td>1,086.7</td>
<td>1,094.6</td>
<td>1,108.5</td>
</tr>
<tr>
<td></td>
<td><strong>Actual</strong></td>
<td>1,107</td>
<td>1,098.0</td>
<td>1,094.6</td>
<td>1,119.1</td>
</tr>
<tr>
<td></td>
<td><strong>Difference</strong></td>
<td>35</td>
<td>11.3</td>
<td>0.0</td>
<td>10.6</td>
</tr>
<tr>
<td><strong>Net Domestic Assets (billion leks)</strong></td>
<td><strong>Objective</strong></td>
<td>61</td>
<td>60.0</td>
<td>65.7</td>
<td>65.7</td>
</tr>
<tr>
<td></td>
<td><strong>Actual</strong></td>
<td>53</td>
<td>63.6</td>
<td>65.7</td>
<td>57.8</td>
</tr>
<tr>
<td></td>
<td><strong>Difference</strong></td>
<td>-8</td>
<td>3.6</td>
<td>0.0</td>
<td>-7.9</td>
</tr>
<tr>
<td><strong>Net Domestic Credit to Government (billion leks)</strong></td>
<td><strong>Objective</strong></td>
<td>292</td>
<td>297.7</td>
<td>302.7</td>
<td>304.7</td>
</tr>
<tr>
<td></td>
<td><strong>Actual</strong></td>
<td>288</td>
<td>294.4</td>
<td>301.6</td>
<td>299.5</td>
</tr>
<tr>
<td></td>
<td><strong>Difference</strong></td>
<td>-4</td>
<td>-3.2</td>
<td>-1.1</td>
<td>-5.2</td>
</tr>
</tbody>
</table>

Source: Bank of Albania

* Operative data

IV.2 MONETARY AGGREGATES

Year 2005 was characterized by a high monetary expansion, reflecting the high economic activity and increased confidence in the country’s financial system. The main effect on the money supply growth was given by the economy demand for credit, while the government borrowing from the banking system had a falling trend. The money supply growth rate had slow-down tendencies in the second half of the year. The growth rate of the M3 decreased to 14.3 percent in November, since it had reached its peak at 18.3 per cent in June. This development was forecasted by the Bank of Albania. The monetary aggregates performance in this period was also impacted by the stabilizing monetary policies followed by the Bank of Albania during the second semester of 2005, for smoothing the interest rate fluctuations and stabilizing the banking system liquidity situation during this period. The current monetary conditions and their expected trend are consistent with the maintaining of price stability in the mid-term period.
Annual growth rates of monetary aggregates have reflected similar trends in the second half of the year. The most liquid component of the M3 aggregate, currency outside banks, has reacted in the same way as the money supply to developments in economy. The annual growth of currency outside banks resulted to about 8 percent at end of the year, against 14.9 percent in June. The annual growth rate of currency outside banks resisted the accelerating tendency that re-appeared as a result of the demand of the government for liquidity focused in September and the low level of lek deposits interest rates during this period.

In spite of fluctuations of currency outside banks, their weight to M2 has been falling. The indicator of the ratio of currency outside banks to M2 recorded 33.8 percent in November, being reduced by 0.5 percentage point in comparison to September. The returning of this ratio to falling trend reflects the reduction of inflationary pressures on the side of demand for the economy. Reduction of currency outside banks is translated directly into lek deposits growth.

The positive impact of these developments is further transmitted in improving of capacities of the banking system for financing the productive activities in economy and enables the meeting of needs for budget deficit financing. The banking system deposits level has been sufficient for covering the economy demand for credit in lek. The upward participation of households in budget deficit financing has facilitated the allocation of financial resources of the banking system towards financing of the economy11.

The annual growth of deposits in lek has reflected the growth rates of the M2 Aggregate. The deposits in lek marked an annual growth of 10.0 per cent in November, against the growth of 14.7 percent in June. The growth by Lek 3.9 billion of the level of deposits in lek during July – November is smaller than the growth of the outstanding credit in lek over the same period. The banking system has faced this situation by reducing the level of excess liquidity held by it. Time deposits in lek decreased during last twelve months12, but it was compensated by growth of demand deposits. The increase of the lek demand deposits weight to total deposits from 15.2 percent in June to 27.7 percent in November impacted on reduction of cost of lek deposits of the system. Marginal cost of financial resources in lek of the banking system reached to 1.2 percent in November, from 1.3 per cent in June. However, the positive real interest rates of deposits in lek have maintained the demand for them, bringing about even the growth of
Along with the reflection of the domestic economy development dynamics, the monetary supply developments have reflected even the performance of foreign currency inflows from remittances. In absolute terms, foreign currency deposits increased by lek 16.4 billion during July – November, against the growth of lek 12.8 billion in the same period of the previous year\textsuperscript{13}. Their performance was impacted by foreign currency inflows from emigrants and by narrowing the interest rates between the lek and the foreign currencies, euro and usd. Rise of interest rates of the euro and the usd by respective central banks has brought about the narrowing of interest rate spread, influencing the way of investing foreign currency inflows. However, under the conditions of a balanced policy of the Bank of Albania to interventions in foreign exchange markets and the exchange rate stability, the growth of foreign currency deposits may be a reflection of a higher supply of remittances in this year, compared to the previous year. The ratio of foreign currency deposits to money supply reached to 26.9 percent in November, against 25.1 percent marked in June of this year. Also, the ratio of foreign currency deposits to lek deposits was increased from 50.4 percent in June to 55.7 percent in November. Growth of foreign currency deposits in the banking system influences positively in facing the economy needs for foreign currency credit.

<table>
<thead>
<tr>
<th>Table 19 Monetary indicators performance in July-November (in billion lek)</th>
<th>November 2005</th>
<th>5-month spread</th>
<th>Annual spread</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency outside banks</td>
<td>139.7</td>
<td>3.8</td>
<td>2.8</td>
</tr>
<tr>
<td>Total deposits</td>
<td>426.3</td>
<td>20.3</td>
<td>5.0</td>
</tr>
<tr>
<td>- in lek</td>
<td>273.9</td>
<td>3.9</td>
<td>1.4</td>
</tr>
<tr>
<td>- in foreign currency</td>
<td>152.4</td>
<td>16.4</td>
<td>12.1</td>
</tr>
<tr>
<td>Demand deposits</td>
<td>113.5</td>
<td>23.0</td>
<td>25.4</td>
</tr>
<tr>
<td>- in lek</td>
<td>59.9</td>
<td>18.9</td>
<td>46.0</td>
</tr>
<tr>
<td>- in foreign currency</td>
<td>53.6</td>
<td>4.1</td>
<td>8.3</td>
</tr>
<tr>
<td>Time deposits</td>
<td>305.7</td>
<td>-10.0</td>
<td>-3.1</td>
</tr>
<tr>
<td>- in lek</td>
<td>209.1</td>
<td>-20.0</td>
<td>-8.7</td>
</tr>
<tr>
<td>- in foreign currency</td>
<td>96.5</td>
<td>10.0</td>
<td>11.6</td>
</tr>
<tr>
<td>M1</td>
<td>200.4</td>
<td>23.5</td>
<td>13.3</td>
</tr>
<tr>
<td>M2</td>
<td>409.5</td>
<td>3.7</td>
<td>0.9</td>
</tr>
<tr>
<td>M3</td>
<td>559.6</td>
<td>17.8</td>
<td>3.3</td>
</tr>
<tr>
<td>Base money</td>
<td>183.9</td>
<td>3.4</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Source: Bank of Albania

**IV.3 DEMAND FOR MONETARY ASSETS**

Year 2005 has marked a positive moment for the performance of monetary indicators. During this period the credit to the economy has been the main
source of funds use and monetary expansion, preventing the budget deficit financing from this role. In the meantime, the foreign component of money supply growth, net foreign assets of the banking system, has maintained a steady level in relation to M3.

Banking system credit portfolio for the economy has been increased by Lek 18.7 billion during July – November 2005. At end of November, credit to the economy reached to Lek 114.6 billion, constituting 13.7 per cent of the 2005 GDP. Within 5 last months of the year, the ratio of credit to GDP has been increased by 2.5 percentage points\(^\text{14}\). During July – November 2005, credit has continued to present very high annual growth rates, with an average of 70 percent.

<table>
<thead>
<tr>
<th>Year</th>
<th>Money supply (in billion lek)</th>
<th>Domestic demand (in % to M3)</th>
<th>Credit to government (in % to M3)</th>
<th>Credit to economy (in % to M3)</th>
<th>Credit to economy (% to total assets)</th>
<th>Credit to economy (in % to GDP)</th>
<th>Credit/deposit ratio (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>448.4</td>
<td>71.5</td>
<td>60.2</td>
<td>11.3</td>
<td>13.7</td>
<td>6.8</td>
<td>15.7</td>
</tr>
<tr>
<td>2004</td>
<td>458.2</td>
<td>69.5</td>
<td>57.1</td>
<td>12.4</td>
<td>14.6</td>
<td>7.4</td>
<td>16.7</td>
</tr>
<tr>
<td>2005</td>
<td>507.2</td>
<td>68.9</td>
<td>55.1</td>
<td>13.8</td>
<td>16.9</td>
<td>9.0</td>
<td>19.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>541.8</td>
<td>69.9</td>
<td>52.2</td>
<td>17.7</td>
<td>20.8</td>
<td>11.2</td>
<td>23.6</td>
</tr>
<tr>
<td></td>
<td>567.4</td>
<td>69.0</td>
<td>49.6</td>
<td>19.4</td>
<td>22.9</td>
<td>13.2</td>
<td>25.8</td>
</tr>
<tr>
<td></td>
<td>566.0</td>
<td>69.5</td>
<td>49.2</td>
<td>20.2</td>
<td>23.5</td>
<td>13.7</td>
<td>26.9</td>
</tr>
</tbody>
</table>

Source: Bank of Albania

Banks’ increasing commitment to long-term maturity credit has impacted on the reduction of the weight the short term credit occupies to total credit, compared to the first half of the year. This tendency has positively influenced on increasing the outstanding credit.

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>Q-1 '05</th>
<th>Q-2 '05</th>
<th>Q-3 '05</th>
<th>October '05</th>
<th>November '05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding credit (in billion lek)</td>
<td>50.7</td>
<td>69.3</td>
<td>79.0</td>
<td>95.9</td>
<td>106.0</td>
<td>110.0</td>
<td>114.6</td>
</tr>
<tr>
<td>Short-term credit</td>
<td>46.0</td>
<td>34.0</td>
<td>34.1</td>
<td>33.7</td>
<td>31.6</td>
<td>31.8</td>
<td>32.0</td>
</tr>
<tr>
<td>Mid-term credit</td>
<td>33.3</td>
<td>36.0</td>
<td>34.5</td>
<td>33.1</td>
<td>31.2</td>
<td>31.3</td>
<td>31.2</td>
</tr>
<tr>
<td>Long term credit</td>
<td>20.7</td>
<td>30.0</td>
<td>31.4</td>
<td>33.1</td>
<td>36.9</td>
<td>36.9</td>
<td>36.8</td>
</tr>
<tr>
<td>Credit to households</td>
<td>24.5</td>
<td>30.6</td>
<td>31.0</td>
<td>30.8</td>
<td>31.4</td>
<td>31.7</td>
<td>32.0</td>
</tr>
<tr>
<td>Credit to private sector</td>
<td>75.5</td>
<td>69.4</td>
<td>69.0</td>
<td>69.2</td>
<td>68.6</td>
<td>68.3</td>
<td>68.0</td>
</tr>
<tr>
<td>In Lek</td>
<td>19.6</td>
<td>19.5</td>
<td>20.1</td>
<td>22.9</td>
<td>23.7</td>
<td>24.5</td>
<td>25.2</td>
</tr>
<tr>
<td>In foreign currency</td>
<td>80.4</td>
<td>80.5</td>
<td>79.9</td>
<td>77.1</td>
<td>76.3</td>
<td>75.5</td>
<td>74.8</td>
</tr>
</tbody>
</table>

Source: Bank of Albania
Growth of credit in lek has maintained the same paces as in the first half of the year, marking an average monthly growth of Lek 1.4 billion during July – November. In annual terms, the credit in lek has reflected an average growth of 142 percent during this period, compared to the average rate of 86 per cent of the first quarter. This positive development was influenced not only by the banks’ increasing commitment to extend credit to households, but also by the credit in lek to businesses, which maintained high growth rates following the positive impulse of June.

Lending to the agriculture sector has had the most striking growth for July – November, indicating the biggest commitment of banks in this sector. Along the agriculture, lending to construction and real estates is also associated with a moderate growth. The growth in these sectors has balanced the reduction of the credit weight for the extracting industry and for hotels and restaurants. Meanwhile, trade continues to be the most credited sector of the economy, constituting 19.3 per cent of the total of credit at end of November.

Table 22 Credit by the economy sectors (in percentage to total)

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>October '05</th>
<th>November '05</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Semester I</td>
<td>Semester II</td>
<td>Semester I</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture, hunting and silviculture</td>
<td>1</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>2.51</td>
</tr>
<tr>
<td>Processing industry</td>
<td>17</td>
<td>17.1</td>
<td>17.1</td>
<td>15.6</td>
<td>13.8</td>
</tr>
<tr>
<td>Construction</td>
<td>10</td>
<td>9.8</td>
<td>9.8</td>
<td>11.2</td>
<td>12.9</td>
</tr>
<tr>
<td>Trade, repairing of vehicles and household equipments</td>
<td>34</td>
<td>23.3</td>
<td>23.3</td>
<td>19.1</td>
<td>18.9</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>6</td>
<td>8.3</td>
<td>8.3</td>
<td>4.7</td>
<td>4.4</td>
</tr>
<tr>
<td>Real estates</td>
<td>13</td>
<td>9.8</td>
<td>9.8</td>
<td>13.5</td>
<td>14.0</td>
</tr>
<tr>
<td>Other</td>
<td>19</td>
<td>30.2</td>
<td>30.2</td>
<td>34.3</td>
<td>33.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Bank of Albania

During July – November 2005 there was extended about Lek 50 billion altogether or on average Lek 10 billion per month. Compared to the first part of the year, it is observed that banks are more committed to long-term maturity loans and to loans in lek. The new credit of November reflected a significant rise of the weight of credit to the total.

Table 23 New credit indicators (percentage to total)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>November - November</td>
<td>Total</td>
</tr>
<tr>
<td>New credit (in billion lek)</td>
<td>7.1</td>
<td>88.8</td>
</tr>
<tr>
<td>Short-term credit</td>
<td>54.0</td>
<td>63.3</td>
</tr>
<tr>
<td>Mid-term credit</td>
<td>26.9</td>
<td>22.4</td>
</tr>
</tbody>
</table>
The foreign currency position of the banking system has marked further improvements during the second semester, in spite of the rapid growth of credit in foreign currency during this period. Net foreign assets of the banking system have been increased by Usd 131.7 million during July – November. Net foreign reserve of the Bank of Albania has been increased by Usd 67.0 million, whereas net foreign assets of the commercial banks have been increased by Usd 64.7 million.

Buying of foreign currency by the Bank of Albania in the foreign exchange market has been the main reason of Bank of Albania net foreign reserve growth. Reduction of foreign liabilities of commercial banks by USD 50.7 million, mainly due to reduction of demand deposits of foreign banks, has mostly assisted in the net foreign assets growth of these banks. Gross foreign assets of commercial banks have also increased, though the extension of foreign currency credit has been in higher levels than the foreign currency deposits of the banking system during the second part of the year.

Maintaining budget deficit under control has driven government’s demand for money at moderate levels. During July- November 2005, the budget deficit resulted with a rise of Lek 5.1 billion, compared to Lek 12.1 billion its growth was in the same period of the previous year. A domestic financing level of Lek 15.9 billion was recorded until November, about Lek 5.4 billion more than in June. The difference of Lek 0.3 billion from the deficit financing has been entered as government’s deposit with the Bank of Albania. In July and September the government was extended direct credit by the Bank of Albania, at the total amount of Lek 3.5 billion, with the purpose to prevent interest rates fluctuations to interbank market and treasury bills market. The improved banking system situation has enabled the government to return the whole amount.

The selling of two- and three- year government bonds has been the main form of domestic financing of the government’s demand. Respectively Lek 8.1 billion and Lek 3.9 billion bonds have been issued during this period. On the other hand, the treasury bills portfolio has been reduced by Lek 4.3 billion during July – November. This situation is expressed in the reduction of treasury bills portfolio level. Commercial banks have decreased their portfolio by Lek 14.6 billion, whereas institutions by Lek 1 billion. Households and the Bank of Albania have marked a growth of treasury bills portfolio, respectively by Lek 8.2 billion and Lek 3.0 billion.
The average daily level of banking system liquidity marked the value of 2.3 billion in the second semester of 2005, from Lek 7.9 billion in the first semester of this year and Lek 5.2 billion in the previous year. The performance of liquidity indicator has been very fluctuating during this period. Due to growth of domestic credit, along with a slow down of the lek deposit inflow, the banking system indicated temporary lack of liquidity in the third quarter. Its daily average level decreased to Lek 1.1 billion, from Lek 7.1 billion in the previous quarter. This situation was improved and normalized in the last quarter of the year, after the Bank of Albania interventions, when the daily average level of liquidity was increased to Lek 3.7 billion.

Instruments of weekly repos and outright transactions have been used for liquidity management. Under the conditions of lack of liquidity, during the first part of the semester weekly reverse repo auctions were organized. Along with them, in order to permanently inject liquidity and regulate its structure in the market, transactions for outright purchases of the government’s securities have been organized. Upon improvement of liquidity conditions in the banking system, since October, weekly repo auctions continued to be organised.

Currency market

Liquidity fluctuations have been reflected in the interbank market activity and in the primary market, as well as in interest rates applied to them. The daily average volume of lending in the interbank market was increased to Lek 1.5 billion in the second semester of the year, from Lek 1.2 billion in the first semester. Extension of seven-day maturity loans has been increased, and it is almost doubled compared to first semester of the year (average daily level is increased to Lek 0.9 billion, from Lek 0.5 billion).

Average weighted interest rates of the interbank market are increased by 1.7 percentage point for overnight transactions and by 0.2 percentage point for seven-day transactions. Though a part of their growth was caused by increased demand for liquidity in the market during the third quarter, the interest rates rise in the interbank market was impacted by the defining of a symmetric and narrower corridor of interests of stand by facilities by the Bank of Albania, by ±1.75 percent. The putting of this corridor since July 2005
brought about significant narrowing of the spread between seven-day loans interests and overnight ones and the fluctuation of overnight loan interests around key interest rate.

Lack of liquidity in the third quarter was the main factor that impacted on the interest rate rise in the primary market. The banks’ supply for treasury bills, which until end of the first semester had exceeded the amount announced to be issued by the Government impacting on treasury bills reduction, did not manage to satisfy the government’s demand. Treasury bills yield of a 12-month maturity reached to 9.1 percent in September, from 6.8 percent in June. Under these conditions, the Bank of Albania has supplied direct credit to the government, reducing pressures on primary market interest rates.

<table>
<thead>
<tr>
<th>Interest rate</th>
<th>Spread Semester II, 2005</th>
<th>Spread Semester I, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key interest rate</td>
<td>5.00%</td>
<td>0.00</td>
</tr>
<tr>
<td>Interbank market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overnight interbank market interest rate</td>
<td>4.20%</td>
<td>1.70</td>
</tr>
<tr>
<td>Seven-day interbank market interest rate</td>
<td>5.46%</td>
<td>0.18</td>
</tr>
<tr>
<td>Primary market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3-month treasury bills yield</td>
<td>5.41%</td>
<td>0.35</td>
</tr>
<tr>
<td>6-month treasury bills yield</td>
<td>6.90%</td>
<td>0.50</td>
</tr>
<tr>
<td>12-month treasury bills yield</td>
<td>6.91%</td>
<td>0.12</td>
</tr>
<tr>
<td>Bonds market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-year bonds yield</td>
<td>8.00%</td>
<td>0.40</td>
</tr>
</tbody>
</table>

Normalization of liquidity situation and keeping under control of the government demand brought about gradual reduction of yields during three last months. At end of December the spread between the treasury bills yield and lek deposits of one-year maturity dropped to 1.5 percentage point, from 3.8 percentage point in September.

Credit and deposit interest rates

The interest rates of lek deposits have increased, particularly in long-term maturities. This increase is mainly a correction of the large cutting of these interests during the first semester of the year. In November, the real interests of lek deposits were increased to 2.38 percent, recording the highest
The level of real interests since June of 2005. This level was influenced by the nominal interests rise and dropping of inflation. The interest rates of the foreign currency deposits market have continued to have upward trends, likewise in the first semester. During the second semester of 2005, nominal interests of USD deposits are raised significantly for all the maturities, while the euro deposits interests, though with fluctuations, have had a moderate upward trend.

| Table 25 Lek deposit interest rates (in percentage points) |
|----------------------------------|----------------------------------|-----------------|-----------------|
| Interest rates | Spread Semester II 2005 | Spread Semester I 2005 |
| Key interest rate November 2005 | 5.00% | 0.00 | -0.25 |
| Lek deposit interest rate | | | |
| 1 - month | 3.49% | 0.38% | -0.28% |
| 3 - month | 4.17% | 1.09% | -1.40% |
| 6 - month | 4.89% | 1.12% | -1.64% |
| 12 - month | 5.45% | 1.56% | -2.10% |
| 24 - month | 6.54% | 1.93% | -2.37% |

Source: Bank of Albania and commercial banks

*Latest data belong to November 2005

Interests have been raised in the lek credit market during the second semester of the year, excluding credits of a longer maturity than three years. Lek credit rates are impacted by increase of the Lek deposit receipt cost and treasury bills yield rise. Simultaneously, they were impacted by the change of the lending structure from one period to another and the extension of preferential credits in some cases, with lower interests than those of the market.

| Table 26 Lek credit interest rates (in percentage point) |
|----------------------------------|----------------------------------|-----------------|-----------------|
| Interests of credit in lek | Interest rates November 2005 | Spread Semester II 2005* | Spread Semester I 2005 |
| Up to 6-month credit | 13.36% | 2.74% | -0.36% |
| 6 - 1 year credit | 13.29% | 1.67% | -2.11% |
| 1 - 3 year credit | 17.34% | 0.68% | -3.76% |
| Over 3-year credit | 8.54% | -3.82% | -0.53% |

Source: Bank of Albania.

Interest rates of credit in dollar and in euro have been increased during the second semester of 2005, in spite of fluctuations characterizing this market.

The libor and euribor interest rise in international markets, the increased cost of receiving foreign currency deposits, degree of credit risk, change of its structure from one month to another, etc, have impacted on the rise of foreign currency credit interest rates. In November the average weighted interests of credit in dollar and in euro reached respectively to 8.79 percent and 7.87 percent, with a rise of 0.69 percentage point for credits in usd and 2.24 percentage point for credits in euro.
Exchange rate

The Lek exchange rate has been relatively stable during the second semester, indicating a slow-down of the appreciating trends noticed during the first half of the year. Most of this performance is due to reduction of the lek-foreign currency interest rate spread, but also the higher demand for foreign currency intended for tourism abroad has strengthened this performance. Furthermore, the foreign currency interventions of the Bank of Albania, which are focused on the purchasing side, act in the direction of smoothing the lek appreciating trends.

Despite the Lek fluctuations during the second semester, at end of the period the lek was almost at the same levels with those of June. During this period, the lek has been appreciated by 1.1 percent against the euro and has been depreciated by 0.8 percent against the dollar. The lek exchange rates at end of December are 122.6 lek/euro and 103.6 lek/usd. In real terms, the lek continued to be appreciated against the euro, on average by 2.4 percent for the second semester. After a long appreciation period, the lek was depreciated against the dollar on average by 2.0 percent.

V ALBANIAN ECONOMY IN 2006

Macroeconomic indicators of 2005 testify that the Albanian economy has had a positive performance and the macroeconomic stability has been maintained. The low and stable inflation rates during the last year, maintaining of a positive balance of payments, further financial consolidation reflected in the steady ratios of monetary aggregates, better intermediation of the economic activity by the banking system and the exchange rate, continue to ensure favourable conditions for promoting the enterprise activity in the economy.

However, macroeconomic developments during 2005 have been under the pressure of domestic factors and international ones. The electrical energy crisis the economy underwent during the last quarter of the previous year is estimated to have influenced the Albanian economy growth. The presence of these effects during this year and their magnitude are conditioned by the improvement of the electrical energy situation. Also, the oil price rise in international markets tends to have negative effects on the economic growth, transmitted even to our economy. The indirect effects of fuels price rise on production factors may be present even during 2006. Under the same conditions of the other factors, the increased production costs would be reflected in smoothing the economy demand and as a result in slowing down the economic growth rates in the future.
However, the factors that supported the economic growth will continue to exercise positive impacts. The ongoing consolidation of macroeconomic stability during recent years ensures a positive support for a sustained economic growth in 2006. Fiscal deficit reduction will enable the financing of the economy and of productive activities by the banking system. The financial intermediation of the Albanian banking system will enable the supporting of the economy with more credits, improving its financial potential. The Bank of Albania monetary policy will aim to maintain monetary conditions in economy, in compliance with its inflation target, as well as in supporting the development of financial market and in encouraging lending to the economy. The macroeconomic development trend and current conditions in financial markets support the economic growth forecast by 5 percent, in the presence of an inflation that fluctuates around the target of 3 percent for 2006.

<table>
<thead>
<tr>
<th>Table 27 Main macroeconomic indicators</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005*</th>
<th>2006*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real economy indicators (in percentage point)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP growth</td>
<td>2.9</td>
<td>5.7</td>
<td>5.9</td>
<td>5.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Annual CPI (average)</td>
<td>5.2</td>
<td>2.4</td>
<td>2.9</td>
<td>2.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Nominal GDP (billion lek)</td>
<td>624.7</td>
<td>682.7</td>
<td>766.4</td>
<td>836.9</td>
<td>899.7</td>
</tr>
<tr>
<td>Fiscal indicators (in percentage to GDP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary deficit** (grants excluded)</td>
<td>-3.3</td>
<td>-0.5</td>
<td>-1.8</td>
<td>-1.7</td>
<td>-1.7</td>
</tr>
<tr>
<td>Fiscal deficit (grants included)</td>
<td>-6.7</td>
<td>-4.5</td>
<td>-5.1</td>
<td>-3.9</td>
<td>-4.1</td>
</tr>
<tr>
<td>Income</td>
<td>24.7</td>
<td>24.5</td>
<td>24.1</td>
<td>24.6</td>
<td>24.6</td>
</tr>
<tr>
<td>Expenditure</td>
<td>31.4</td>
<td>29.0</td>
<td>29.2</td>
<td>28.4</td>
<td>28.7</td>
</tr>
<tr>
<td>Foreign sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade deficit (million euros)</td>
<td>-1214</td>
<td>-1248</td>
<td>-1307</td>
<td>-1548</td>
<td>-1699</td>
</tr>
<tr>
<td>Current account deficit (% GDP)</td>
<td>-10.0</td>
<td>-8.1</td>
<td>-5.5</td>
<td>-7.0</td>
<td>-8.1</td>
</tr>
</tbody>
</table>

Source: Bank of Albania, Ministry of Finances, INSTAT.
* Figures about 2005 and 2006 are forecasts.
** Primary deficit excludes the expenditures on the government debt interest.

Fiscal sector

Fiscal indicators of 2006 testify a positive contribution of annual budget realization, in the function of maintaining macroeconomic stability of the economy. The budget expenditures are estimated at 28.7 percent of the GDP against the level of 28.4 percent in 2005. The growth of total expenditures to GDP favours the increase of capital expenditures in 5.5 percent of the GDP against the level of 5.3 percent in 2005, a development that contributes to improvement of the macroeconomic situation and the national income growth potential. The forecasting of 24.6 percent of the budget revenues to GDP for 2006 is the same with that of the previous year.

The positive impact of the 2006 budget in macroeconomic developments is reflected in maintaining the budget deficit financing to 4.1 percent of the GDP. About 65 percent of the budget deficit will be financed through the domestic borrowing. In GDP terms, the domestic financing of the deficit will be 2.6 percent. The participation of households and other private entities is forecasted to ensure the domestic borrowing financing at about Lek 11 billion, whereas the remaining part of Lek 12.8 billion will be financed by the banking system.
Monetary sector

The 2006 monetary policy and program are oriented to meeting the Bank of Albania target for maintaining inflation around 3 percent, with a tolerance band of +1 percentage point. This will require the pursuing of a prudential monetary policy during 2006. The easing monetary policy of two last years resulted successful in maintaining inflation within the target. During nine recent months, the key interest rate in economy has remained unchanged at its historic minimum, whereas the inflation rate has tended towards the targeted band average of the previous year by 2-4 percent, since it touched the lower ceiling of this band in the first half of the year.

The Bank of Albania forecasts on the future inflation performance suggest that the annual change of consumer price index in economy is expected to fluctuate close to 3 percent. However, the influence of exogenous factors in economy and the impact of shock effects on the supply side, remain unforeseen elements, which come out in different time frames in economy. So, the direct effect of the oil price rise in two last years, has not infringed the meeting of the inflation target during this period.

The forecasted performance of money supply constitutes a sustainability factor of monetary inflows during 2006. The growth of Lek 67.6 billion of M3 in annual terms is forecasted to be concentrated mainly in the third quarter, as a result of foreign currency remittances from emigrants. The exogenous nature of foreign currency deposits growth, mainly on seasonal basis, does not reflect inflationary pressures to the economy. The effect of foreign currency remittances is expected to ensure foreign currency deposits growth by 16.5 per cent. The weight of foreign currency deposits to M3 is forecasted to grow to 27 per cent. The constituents of money supply in lek, the currency outside banks and deposits in lek are expected to maintain their contribution to M2 aggregate growth. At end of 2006, the ratio of currency outside banks to M2 aggregate is forecasted to be 35.2 percent, whereas their annual growth is forecasted 9.2 percent. The moderate growth of currency outside banks enables growth of deposits in lek, by about Lek 29.1 billion or 10.6 percent in annual terms.

Credit in lek of banks to private sector will be the main source of growth of deposits in lek. Unlike historical trends, the credit in lek to private sector is forecasted to be higher than the banking system lek credit to the government. However, the growth of Lek 29.1 billion of deposits in lek, results insufficient for financing the credit in lek and the deficit by the banking system. During 2006 the Bank of Albania intervention through outright purchases of securities is forecasted at Lek 5 billion, mainly during the second half of the year. However, depending on monetary developments, the Bank of Albania will adjust the time of outright interventions in the function of maintaining the stability of liquidity position and interest rates in the banking market.

During 2006 the outstanding credit growth is forecasted to about Lek 53.0 billion or 5.9 percent of the GDP. Compared to credit performance in
2005, this forecast is about Lek 7 billion higher. Credit in domestic currency is inclined towards the growth during recent years. In absolute value the Lek credit outstanding growth is forecasted Lek 19.2 billion or 36.2 percent to total growth of credit outstanding. At end of 2006, the credit stock weight to GDP is forecasted 19.0 against the ratio of 14.1 percent at end of 2005. In ratio to money supply growth by Lek 67.6 billion, the credit outstanding growth to the economy constitutes 78 percent of this growth. This performance is in compliance with the Bank of Albania targets for further consolidation of the banking system, through increasing the commitments of financial resources of the banking system in financing the private sector of the economy.

The extension of foreign currency lending by commercial banks more than the growth of foreign currency deposits, decreases the net foreign assets of commercial banks. Credit in foreign currency to private sector is expected to grow by Lek 33.8 billion, against the growth of deposits in foreign currency by Lek 24.6 billion. Net position of foreign assets of commercial banks is forecasted to decrease by about Lek 11.6 billion. Net foreign assets of the Bank of Albania will grow by Lek 13.4 billion. Under these conditions, the net foreign assets of the banking system are forecasted to grow slightly by Lek 1.8 billion.
NOTES

1 IMF, September 2005, World Economy Description.

2 Unlike two first sectors, whose data may be regarded within the statistical standards, the figure of the third sector should be taken with some reservation because it does not express the movements that may occur during the quarters of the year (the value remains unchanged along the year). It becomes useful only at end of the year, when the results of the Questionnaire of Measuring the Standard of Living, on which it is based, come out.

3 Source: ISTAT; web site http://www.istat.it

4 Source: General Secretariat of National Statistical Service of Greece; web site: http://www.statistics.gr

5 A currency in which the importing of this input is effected.

6 Source: General Secretariat of National Statistical Service of Greece; http://www.statistics.gr

7 Source: INSTAT, Production price index.

8 Source: INSTAT, July Conjuncture – September 2005

9 Weight of the “Transport” group in the consumer products market is 4.8 percent.

10 Treasury bills portfolio of households in July – November has been increased by about Lek 8.2 billion or about 3.5 times more than its growth in the same period of the previous year.

11 Reduction of time deposits of the system in 2005 has been a result of automatic non-renovation of contracts of time deposits in lek from the Raiffeisen Bank, classifying them as demand deposits.

12 Exchange rate effect in the same period of both years is insignificant.

13 The downward reviewing of the GDP value for the year has had its own positive impact in this ratio along with credit growth.

14 More latest data are of the period until November 2005.

15 The applying of preferential credits has impacted on the cutting of interest rates of credits with a longer maturity than three years.

16 Nominal effective exchange rate of the lek. Rise of the exchange rate means strengthening of its value.
The overall payment balance for the nine-month period of 2005 resulted in a surplus of EUR 44.7 million. The capital inflows have been fully adequate to cover the level of current deficit and have led to increase of monetary authority reserve.

The main highlights in the external sector of the Albanian economy may be summarized as follows:

- Intensive activity in the external sector, expressed in the increase of income and current expenditures.
- Deepening of trade and current deficit.
- Considerable increase of workers’ remittances.
- Decrease of inflows as foreign direct investment compared to the previous year.
- Evident decrease of domestic claims to non-residents, mainly due to withdrawal of our financial assets in the form of portfolio investments and our deposits abroad.
- Increase of monetary authority reserve assets.

I. CURRENT ACCOUNT

Current transactions carried out during the nine-month period of 2005, are estimated at about EUR 4.5 billion or about 22 percent higher than the previous year. Trade exchanges in goods and services lead the volume of Albanian current transactions, with about 73 percent.

During this period, more than 93.6 percent of current expenditures have been used for the purchase of goods and services. About 43 percent of current income has entered in the form of current transfers, while the exports of goods and services provided about 33 percent and 51 percent of the income, respectively.

Despite the increase of about 22 percent, net factorial income could not reduce the high trade deficit in goods and services. As a result, at the end of the nine-month period of 2005, current account had a deficit of EUR 222.5 million, with an annual growth of about 41.5 percent.

I.1. FOREIGN TRADE

The Albanian trade activity during the nine-month period of 2005 was estimated at EUR 1.8 billion, representing 40 percent of current transactions
carried out. The Albanian economy and domestic market remain import-oriented, estimated to be 3.6 times higher than export.

Domestic demand continues to push the import increase, while the exports positive performance has not been sufficient to narrow the trade deficit down. Import expenses were estimated at about EUR 1.4 billion, 14.1 percent higher than in 2004.

Import demand increased by pushing imports through appreciation of domestic currency (during January-June, nominal exchange rate was estimated at an average of 3 percent) and growth of investments. Moreover, the considerable growth of private loaning contributed to import of goods. In terms of volume, imports increased by 2.7 percent compared to the previous year. Processed items imports (which represent about 30 percent of total imports) have increased due to a rise in prices. In terms of volume, foodstuffs imports (which represent 14 percent of total imports) have increased by 2 percent reflecting a fall in prices.

Intermediate goods continued to represent the overwhelming part in the structure of imports by economic categories, having a share of 46 percent of total imports. Their ongoing volume increase indicates a positive performance of processing industry in the country. While, demand for capital goods remains high, with a growth pace of 26 percent. Domestic demand for consumer goods continued even during this nine-month period to maintain a considerable weight to total, about 31 percent.

Meanwhile, exports growth pace is considered to be lower (10.5 percent in euro) compared to 23.6 percent in the previous year. In terms of volume, exports decreased by 1 percent compared to the same period the previous year. Processed items exports (which represent the largest share of our exports, about 70 percent of the total) marked a slight decrease (only 0.4 percent), while the prices have marked a rise. Although prices have risen during this period, metal exports (which represent 12 percent of total exports) have undergone decrease in volume by 6 percent. Total exports volume during 2005 is estimated to be 3 percent lower than in 2004.

Active processing industry results with a surplus of EUR 56 million, due to the positive trend of orderer’s material exports, which continue to hold a dominant weight of 70 percent of overall exports volume. At the same time, it should be emphasized that positive tendencies are observed as to internal export.

Hence, the nine-month period of 2005 recorded a trade deficit of EUR 1 billion, which is 14.7 percent higher than the corresponding period of the previous year. The high and growing deficit of foreign trade draws the attention towards policies aiming at replacing imports and pushing exports.

Based on foreign trade structuring by trade partners, Albania continues to carry out most of its transactions with the European Community. Nonetheless,
it should be emphasized that Albania is inclined to trade with the regional countries (exports in particular), influenced by the free trade agreements with the neighbouring countries.

I.2. DEVELOPMENTS IN OTHER ITEMS OF CURRENT ACCOUNT

Even during this period, service trade and investments, being a significant indicator of competition in international markets and of economic growth, is ever-turning into a crucial factor of Albania’s integration with abroad. Trade transactions in services amounted to EUR 1.4 billion and are estimated to be 26 percent higher, compared to the same period in 2004. Service account closed with a negative balance of EUR 97 million. This deficit has been mainly due to a negative balance of transportation services item. As expected, the increase in import of goods volume has caused the increase in import of transportation services.

Other business and cultural services have had a considerable growth. Movements in the services account are significantly influenced by the developments in “Tourism” (travel) services, which contribute considerably to this item inflows and outflows, respectively 74 and 60 percent of the total for this nine-month period. Currently, the tourism activity continues to represent one of the main sources of foreign income to the Albanian economy, and as such, it should be considered as one of the economic growth engines in the country. According to Bank of Albania estimations, during the nine-month period of 2005, export in tourism, generated about EUR 516 million inflows, which is about 30 percent higher than export of goods, and it is estimated to be 17 percent higher than the same period the previous year. This growth has been mainly due to increase in the number of foreign citizens and emigrants visiting the country as well as to the slight increase of daily expenses evaluating coefficients. During this nine-month period, the number of foreign citizens entering the country increased by 21 percent, wherewith the months of July-September represent the main weight of this increase, reflecting the seasonal factor of summer holidays.

An accelerated activity was noticed in services to tourism, which have displayed higher annual rates growth in recent years. Albanian residents have spent in their travels abroad about EUR 478 million or 67.4 percent of total workers’ remittances.

Albanian economy benefits foreign income from seasonal workers’ labour and investments of the banking system foreign reserve in non-resident financial institutions, and at the same time pays external debt interests.

The positive balance at the end of the year is estimated at about EUR 106 million. This surplus is mainly due to income from seasonal workers’ labour and customs’ income, and interests accumulated from the investment of the banking system foreign reserve in non-resident financial institutions as well as interests from investments of our banking system in the form of portfolio investments.
Current transfers balance at the end of the nine-month period estimated at about EUR 791 million or 8.6 percent higher than the same period the previous year. Albanian workers’ remittances continue to represent the main weight (about 77 percent) of income in this item. During this period, these transfers have amounted to the level of EUR 709.4 million, which is 21 percent higher than the same period the previous year. These transfers represent the main source of trade deficit financing (in goods and services) with more than 63.3 percent. Workers’ remittances have also been associated by state transfers, mainly in the form of technical assistance (EUR 33 million), estimated at a growth of 5 percent compared to the previous period.

II. CAPITAL AND FINANCIAL ACCOUNT

During this nine-month period, capital net flows recorded EUR 248 million, thus fully enabling current deficit financing, and contributing to the increase of foreign reserve. Behind this positive figure, there are inflow capital transfers of EUR 75 million and the positive balance of the financial account amounting to about EUR 173 million. Compared to the same period the previous year, capital and financial account net position is estimated at about EUR 26 million lower. Let us remind that during the first semester of 2004, were recorded high capital flows owing to privatisation.

Capital transfers during this period, decreased by about EUR 2.6 million, while the positive balance of financial account is estimated to have decreased compared to the previous year (by about EUR 23 million). Financial account position during this quarter is defined as an increase of Albania’s financial liabilities with the world (with about EUR 211 million) and an increase of our assets held abroad (about EUR 38 million). However, compared to the first nine-month period in the previous year, financial liabilities net flow is estimated to be lower, about EUR 138 million and Albania’s financial liabilities to the rest of the world are also set at a lower level (EUR 115 million).

The increase of financial liabilities to the world during this nine-month period has been mainly due to capital inflows in the form of direct investments (EUR 149 million) and borrowings from abroad (EUR 107 million). Foreign direct investments are estimated at EUR 85 million lower than the same period the previous year, where more than 60 percent of foreign direct investments flow entered in the form of privatisation.

During this nine-month period, the granting of long-term and soft loans from abroad, which remain another important factor in the increase of Albania’s financial liabilities to the world, was EUR 17 million lower: state borrowing decreased slightly by about EUR 3 million. While unlike the previous year, where it was observed the private sector presence in long-term loaning, this year loan disburse of this sector were EUR 14 million lower. External debt services in the form of principal and interest are estimated at about EUR 25.5 million, equivalent to 10 percent of goods export.
Financial assets stock in the form of portfolio investments amounted to EUR 123 million at the end of the period, with an increasing nine-month flow of EUR 7 million. Regarding their structural composition by currency, 72 percent are in US dollars, 24 percent in EUR. Foreign assets held by the banking system in the form of deposits abroad, increased by about EUR 9 million. As to their composition, deposits in US dollars hold 53 percent, while EUR deposits hold 42 percent.

Foreign assets inflows in the form of financial capital were reflected in growth of the monetary authority foreign reserve by about EUR 45 million. At the end of the period, the level of gross foreign reserve was estimated at EUR 1.72 billion, sufficient to cover 4.6 months of import of goods and services.

### Table 1. Balance of Payments (in millions of EUR)

<table>
<thead>
<tr>
<th>Balance of Payments</th>
<th>Q3 2004</th>
<th>Q4 2004</th>
<th>Q1 2005</th>
<th>Q2 2005</th>
<th>Q3 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Account</td>
<td>(25.5)</td>
<td>(129.0)</td>
<td>(51.6)</td>
<td>(103.9)</td>
<td>(67.0)</td>
</tr>
<tr>
<td>Export of Goods</td>
<td>121.6</td>
<td>125.0</td>
<td>121.5</td>
<td>143.3</td>
<td>133.7</td>
</tr>
<tr>
<td>Import of Goods</td>
<td>(450.9)</td>
<td>(514.4)</td>
<td>(398.0)</td>
<td>(507.0)</td>
<td>(515.9)</td>
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<tr>
<td>Trade Balance</td>
<td>(329.3)</td>
<td>(389.4)</td>
<td>(276.5)</td>
<td>(363.7)</td>
<td>(382.2)</td>
</tr>
<tr>
<td>Services: Credit</td>
<td>223.8</td>
<td>201.1</td>
<td>196.5</td>
<td>237.4</td>
<td>262.0</td>
</tr>
<tr>
<td>Services: Debit</td>
<td>(229.0)</td>
<td>(230.4)</td>
<td>(225.9)</td>
<td>(261.0)</td>
<td>(306.2)</td>
</tr>
<tr>
<td>Income: Credit</td>
<td>55.8</td>
<td>39.3</td>
<td>37.4</td>
<td>39.5</td>
<td>51.2</td>
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<tr>
<td>Income: Debit</td>
<td>(5.1)</td>
<td>(6.8)</td>
<td>(5.1)</td>
<td>(9.6)</td>
<td>(7.6)</td>
</tr>
<tr>
<td>Private Unrequired Transfers</td>
<td>244.5</td>
<td>242.3</td>
<td>210.2</td>
<td>243.3</td>
<td>295.0</td>
</tr>
<tr>
<td>Official Unrequired Transfers</td>
<td>16.7</td>
<td>18.5</td>
<td>11.8</td>
<td>10.1</td>
<td>20.8</td>
</tr>
<tr>
<td>Capital Account</td>
<td>29.1</td>
<td>28.5</td>
<td>35.5</td>
<td>14.6</td>
<td>25.0</td>
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<tr>
<td>Financial Account</td>
<td>(15.2)</td>
<td>110.7</td>
<td>24.4</td>
<td>134.4</td>
<td>4.6</td>
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<tr>
<td>Direct Investments</td>
<td>58.7</td>
<td>42.6</td>
<td>45.3</td>
<td>50.3</td>
<td>53.0</td>
</tr>
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<td>Portfolio Investments</td>
<td>98.2</td>
<td>(95.9)</td>
<td>(42.9)</td>
<td>(5.3)</td>
<td>40.9</td>
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<td>Other Capital*</td>
<td>(172.2)</td>
<td>164.0</td>
<td>21.9</td>
<td>89.4</td>
<td>(89.3)</td>
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<tr>
<td>Net Errors and Omissions</td>
<td>84.9</td>
<td>35.6</td>
<td>(3.3)</td>
<td>(43.7)</td>
<td>66.2</td>
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<tr>
<td>Overall Balance</td>
<td>78.1</td>
<td>45.9</td>
<td>9.7</td>
<td>1.4</td>
<td>33.7</td>
</tr>
<tr>
<td>Reserve and Related Items</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Reserve Assets</td>
<td>(78.1)</td>
<td>(45.9)</td>
<td>(9.7)</td>
<td>(1.4)</td>
<td>(33.7)</td>
</tr>
<tr>
<td>Use of Credit and Loans by the IMF</td>
<td>4.8</td>
<td>-</td>
<td>4.6</td>
<td>-</td>
<td>4.8</td>
</tr>
<tr>
<td>Memorandum Items</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Change in Reserves</td>
<td>(84.4)</td>
<td>(95.2)</td>
<td>15.7</td>
<td>35.3</td>
<td>(30.1)</td>
</tr>
<tr>
<td>of which: Change due to Exchange Rate</td>
<td>6.3</td>
<td>49.3</td>
<td>(25.4)</td>
<td>(36.7)</td>
<td>(3.6)</td>
</tr>
</tbody>
</table>

* Use of Credit and Loans by the IMF is not included.

Source: Bank of Albania
ASSESSMENT OF THE FINANCIAL SITUATION OF THE ALBANIAN BANKING SYSTEM FOR THE THIRD QUARTER OF 2005

The third quarter evidences an increase in total assets of the banking system by about ALL 16 billion or 3.3 percent, compared to ALL 22 billion or 4.8 percent in the second quarter. Large banks group continues to be the main contributor to banking activity growth, while the downward tendency of this pace indicates a reduction in the system concentration and improvement of competition.

The third quarter evidences a more diversified portfolio allocation in the banking system. The banking system is oriented towards lending activity, shifting somehow from investments in Albanian Government securities. Consequently, loan portfolio constitutes about 23 percent of the portfolio, compared to 15 percent of the same period in the previous year.

Large banks group continues to mostly affect the lending activity expansion, although their lending portfolio weight to total loan portfolio, compared to the same period in 2004, shows a decline of a few percentage points. In the third quarter, the banking system credit balance marked a growth of ALL 13.5 billion or 13.6 percent, compared to ALL 18.8 billion or 23.5 percent in the second quarter. The lower growing pace during the third quarter has been mainly due to the reduction of three banks’ credit balance, by about ALL 795 million, while the new granted loan marks one of the highest levels. The third quarter indicates a slight shift from short-term and medium-term loaning to long-term loaning. Short-term loaning shows consistency during 2005, around 26 percent, while it is observed a decrease of medium-term credit in favour to long-term credit. These developments show a tendency of the banking system to finance longer-term projects, which contribute to a more stable economic growth in the future.

The remarkable performance of the banking system even during the third quarter of 2005 is no more considered as an event but a consequence of a tendency which is being consolidated from one period to another. Net result is about ALL 45 million higher than the second quarter of this year and ALL 284 million higher than the same period in the previous year. Net result at the end of this 9-month period has exceeded the net result marked at the end of 2004 by about 2.6 percent. Moreover, the net result for the third quarter constitutes the highest net result of the year on quarterly basis and shows a level of about ALL 177 million more than the quarterly average for 2005. These comparative analyses and time developments of the net result under normal conditions, promise for its fine continuity even during the last quarter of the year, while a more remarkable performance than that of the previous year now is a definite result.

Shareholder capital of the system during the third quarter of the year marked ALL 32.3 billion or about ALL 2 billion more than the previous period. The
large banks group (G3) is the main contributor with ALL 1.3 billion; medium banks group (G2) marks an increase of only ALL 625 billion, while small banks group (G1) records an inconsiderable growth of about ALL 15 million.

Capital adequacy ratio at the end of the third quarter is 18 percent or about 2 percentage points lower than during the second quarter, while banks continue to undertake more risk by investing in higher-risk assets. Moreover, even during the third quarter of the year, capital adequacy indicator for the banks in the system is estimated to be above the minimal required level of 12 percent. Capital adequacy tendency by group-banks in the system is maintained even during the third quarter. The highest level of this indicator is observed in G1 (38%), while in G2 and G3 the indicator records 17 percent and 15 percent, respectively.

The third quarter of the year records a satisfactory level of liquid assets to total assets of banks in the system. This is a very significant indicator, as it indicates banks’ ability in case of a liquidity crisis, to manage a balance tightening with liquid assets before strained to sell their less liquid assets.

Regardless of static prudential indicators related to liquidity, operational data on the interbank market and crediting facilities of the Bank of Albania present a fluctuated period of the liquidity situation characterized by the decrease, lack and excess of liquidity in the respective months. These situations have been carefully attended by the Bank of Albania by intervening in the most appropriate moments with injecting operations.
SPEECH BY ARDIAN FULLANI, THE GOVERNOR OF THE BANK OF ALBANIA

at the ceremony dedicated to the launch of the “Autumn 2005” issue of the legal journal “Law in transition, on-line”, published by EBRD “Rogner” hotel, Tirana, October 18, 2005

Dear participants,

It is a great pleasure for me to participate in this ceremony dedicated to the launch of the “Autumn 2005” issue of the legal journal “Law in transition, on-line”. I believe this publication of the European Bank for Reconstruction and Development shall gather the best experts in the area of law and finance in the country, who shall find in it an alternative source of consultation and expertise, for crucial projects interweaving their professions.

Banks do represent the main institutions of our financial system. The total volume of their activity constitutes around 50 percent of the Gross Domestic Product (GDP) in the country. Currently, 16 banks are operating, the capital of which is owned by private and institutional, domestic and foreign shareholders. Market competition has overwhelmingly strengthened and the service quality provided to the public has significantly improved. The banking network has extended to the most part of the territory and developments in this respect are still robust. The role of the banking system as a developer to the economy is mainly displayed in the increase of crediting to the economy. Its increasing pace, especially in the last 15 months is remarkable. At the end of June 2005, loans constituted around 21 percent of the total assets in the banking system, compared to 14.5 percent at the end of 2004 and 12.5 percent at the end of 2003. Moreover, the deposits volume in the banking system has increased, representing the main source of growth in the banking system activity. Banks also serve as significant employment institutions. Only during 2004 their personnel increased by 26 percent and this figure is expected to be even higher at the end of 2005. The banking system continues to represent a profitable investment sector.

These developments further indicate the vital importance of the banking sector to one’s country economy. It is essential that the banking sector activity be supervised cautiously in order to ensure sound and safe banking practices, transparent and clear set of rules, fair competition and stable and sound institutions. It is our duty, as a supervisory authority in the country, and other governmental institutions, as well, which control part of the banking system activity, to care and provide favourable development conditions.

The Bank of Albania is the supervisory authority of the banking system and of some other institutions performing financial activities. The role of the Bank of Albania as a supervisory authority is provided for by the Law No. 8269, dated December 23, 1997. The licensing, organization and functioning approaches of banks, their obligations to the shareholders, the public and the supervisory authority, are broadly stipulated in the Law No. 8365, dated July 07, 1998 “On the Banks in the Republic of Albania”. These two laws were
approved during ‘97-‘98, shortly after the country’s emergence from a crisis with tremendous consequences to its social and economical life. Accordingly, the established laws aimed at setting up a robust supervisory authority of the banking system, and ensuring the protection of the banking activity from other illegal forms of financial intermediation. Further, other laws of particular significance to the banking system were approved, where I could mention the Law “On Deposit Insurance” (2002), Law “On the Prevention of Money Laundering” (2003) and the Law “On Accounting”.

The Laws “On the Bank of Albania” and “On Banks in the Republic of Albania” have been followed by a number of regulations and instructions established pursuant to their implementation by the Bank of Albania. These sub-legal acts have aimed at resolving the law principles, mainly in the operational and banking supervision area. In this way, several regulations bearing the same purpose have been established, such as, the Regulation “On the licensing of entities performing banking activities”, “On capital adequacy”, “On regulatory capital”, “On required reserve”, “On bank related persons”, “On credit risk administration”, “On the prevention of money laundering”, “On the approval of bank administrators” etc. We believe that the regulative framework on the whole, has so far satisfactorily provided the progress of banking activity and it serves as a solid foundation to upcoming developments.

Let me focus deeper on this issue:

A regulative framework is considered to be good, provided that it does not contain a static concept of the issues it regulates; that is, a regulative framework established not only as an outcome of the instant needs, but bearing the ability to provide the law entities with the necessary principles for a sustainable and controlled activity development even in the foreseeable future. At the same time, the regulative framework needs to be unambiguous and applicable. This could be attained if its requirements also take into consideration the concerns that its subjects might have, through a wide and formal communication and discussion process. The regulative framework, at any area of the economic activity and beyond, must also consider our country’s objectives relating to the integration into the European family, since in this way the integration process shall be easier, more natural and quicker. With respect to the banking area, the regulative framework must aim at determining and implementing similar requirements as stipulated in the European Directives or in the publications or various organisms operating under the framework of European institutions, relating to principles and standards in this matter.

The main laws, which have determined the development of the banking activity, for the time when they were established, have performed their function at their best, but we believe it is the proper time when their revision has become necessary. I could mention here the Law “On Banks in the Republic of Albania”, the revision of which is under process by the Bank of Albania. Currently, the project is in its final phase of clarity and soon discussion with the banking industry and other significant institutions is about to begin. The prepared project uses the requirements basis of the existing law, but at the
same time it provides a few changes which aim at addressing some issues emerging from banking and supervisory practice to date, as well as the best approach to the international standards in the banking area. More concretely, the requirements regarding banks’ activity with respect to their capital have been made more precise; banks’ activities with the related persons have been reviewed; the managing structures of banks and their obligations have been determined in a clearer way; the requirements concerning the transparency of the banking activity have been re-enforced; requirements regarding the consolidated supervision have been provided; corrective measures and penalties have been clarified; the requirements and definitions concerning the taking of the bank under administration or leading it to liquidation have also become clear; the relationship with the Deposit Insurance Agency has been provided; a specific chapter dedicated to the consumer protection in the banking activity has also been provided, etc. At the same time, some of the essential regulations, mainly those related to the regulative capital and capital adequacy are being assessed in order to introduce in them some elements of new standards defined in the new Accord of the Basel Committee, also known as Basel II. In particular, banks’ activities with its related persons have been reassessed in the context of defining the relationships leading to conflict of interest between the bank administrators, employees and shareholders and the function, the duty and the role they have with regard to the bank.

One of the main directions of the banking activity is crediting. Its regulation and supervision approach bears a special significance considering that this activity is being rapidly expanded, both in form and volume. Specific aspects of this activity have been treated separately, one by one, under the framework of a special Regulation of the Bank of Albania. A remaining crucial issue is the execution of the collateral (in particular, the one related to mortgage), in the conditions when the borrower presents problems relating to the credit settlement. With regard to this issue, we think that the proposals deriving from the banking industry concerning suggestions on some amendments in the Civil Procedure Code, aiming at making the complaining procedures and time procedures of the asset auction shorter, the asset dealing during the sequestration, etc, need to be taken into consideration. It is also necessary to begin the work on drafting the Law “On the Auction Procedures”, provided for by the Article 573, paragraph 4 of the Civil Procedure Code, as well as make the respective amendments in the Law “On the Registration of Real Estate” and the respective regulative framework. These measures shall have positive effects over the progress of the crediting activity serving as a better support to the economic growth in the country. We aim at having an executing title, which is really executable.

Another law calling for a greater attention from the authorities to assess its applicability is the Law “On the Prevention of Money Laundering”. Undoubtedly, the reputation of the banking system, the obstacle of the economic development through the deviation of sources from the legal activities, the obstruction of necessary investments and the fiscal policy sabotage, the criminal activity which violates the human life and freedom, are some of the consequences that the money laundering and the financing of terrorism bring, which very
often could be carried out on the grounds of a banking system. But, I have to emphasize that under the conditions of our country where the informal economy is quite considerable and where information technology infrastructure in the data processing and analysis collected on the purpose of money laundering prevention is insufficient, a new approach needs to be adopted; an approach which would focus the authorities’ efforts on combating the phenomenon according to the risk profile of different sectors and certain social groups that are considered as more vulnerable to the phenomenon. For this reason, we think that more attention must be paid to other sectors in the economy, where there is a need for a greater and more coordinated imposition of the law requirements. Moreover, according to the Bank of Albania, and other foreign experts as well who have been working with us, and other specialists from the state institutions being engaged in the field of money laundry prevention, the actual law needs to be revised because it causes premises for significant formalism, especially in the activities related to the reporting of transactions and the identification of doubtful transactions. Being a member of the working group led by the International Monetary Fund experts, the Bank of Albania has contributed to the drafting of a new project of this law.

At the same time, the Bank of Albania is working on the adaptation of a regulative framework related to the financial activity performed by non-bank financial institutions. There is room for further improvement in the expansion and extension of the regulative requirements and the improvement in the existing framework concerning the supervisory practice and their activity report. In this context, the reporting system of these institutions activity has been approved; along with it a regulation on the activity of savings and credit associations and their unions has also been approved. Regarding these latter, the Bank of Albania is working on the establishment of the accounting manual and the inspection manual.

In February-March during this year, our financial system was subject to an assessment process organized by the World Bank and the International Monetary Fund. In the final report, sent to the Albanian Government and the supervisory authorities in the country, several issues were identified which involve the need of changes in the regulative framework. Many of these elements related to the Bank of Albania activity and the entities licensed and supervised by it, are part of the changes in the aforementioned regulative projects.

In conclusion, I would like to stress once again the commitment of the Bank of Albania in granting its greatest contribution to the improvement of the regulative framework, related to both banking and financial system. I believe that in pursuing our objective in approaching our legal and regulative framework in the financial area to the best standards, this journal issue that we are promoting today shall serve at its best. I wish it success!

Thank you!
GREETING SPEECH BY ARDIAN FULLANI, THE GOVERNOR OF THE BANK OF ALBANIA
at the 5th anniversary ceremony of the National Commercial Bank privatization.
Sheraton Hotel, Tirana, October 18, 2005

Ladies and Gentlemen,

Today I am honored to see in this jubilee meeting how the National Commercial Bank has grown and consolidated and together with it the whole banking system in Albania. I am delighted to consider that after a long restructuring period the banking system is now taking its proper role in the economy, that of the provision of free funds to the growing needs of the Albanian business and consumer, improving at the same time the number and quality of services.

For this reason, I am honored to have the opportunity of taking the floor in this meeting, to address and discuss with you some present and future issues, which, I estimate, are important for the further enhancement of the banking system contribution to the country’s economic development.

Allow me to start discussing first about the work the Bank of Albania is doing to create a favorable climate for the business and economy development.

• Monetary policy followed during the recent years in succession has targeted to further reduce money price in order to give aspiration to the economy, while we have been successful in keeping inflation under control. As a consequence, I deem that we have created essential incentives towards establishing a sustained business climate where business decisions and plans are not exposed to risks arising from the uncertainty of inflationary erosion.

• Since almost a decade, the Bank of Albania has been engaged in using all the capabilities to set up a modern payment infrastructure, in order to bring the banking system closer to the clients, making it open in relations with them. Thus, after implementing the Real Time Gross Settlements (RTGS) and Automated Electronic Clearing House (AECH) systems, we have already mobilized all our efforts to create the credit register. Currently, after the implementation of AECH system, we have provided one more opportunity not only to the banking system but also to periodic service businesses, so as to enhance its economic efficiency. On this occasion, we appeal to both parties, banks and businesses, to cooperate with each other for making more effective use of the priorities provided by this new system.

• The Bank of Albania deems that a banking system supports the economic growth when it is first of all a financially sound system. The emerging economies, like our economy, are generally characterized by a fragile stability. For this reason, the Bank of Albania has attempted to take all-encompassing measures aiming at strengthening its supervisory capacities, in order to ensure a solid, sound and efficient banking system.
The banking system performance:

- During 2005 impressive developments have been highlighted. The up-to-now data indicate that credit to the economy has increased by about 3-4 percentage points of GDP, giving clear signals for a promissory excitement of the economy financing in the future. Till August 2005, compared to last year’s end, the system assets increased further by 14.5 per cent, while there was augmentation of banking products as well as extension of their network. Compared to yearend of 2004, the banking system has attained an increasing profit level, at ALL 4.65 per cent. Return on equity (ROE) has resulted 24.8 per cent, while credit quality expressed as a ratio between (net) bad credit and total credit portfolio is only 2.39 per cent, from 4.2 per cent it was at the end of 2004. However, there is no room to be excited by figure euphoria, because credits are still new and their quality will have to carefully be examined.

- Another significant development of the banking system relates to the client’s service, which through the electronic terminals is being obviously accompanied by the increased number of electronic cards in circulation. Banks already provide debit and credit cards in cooperation with international companies such as Visa Card, MasterCard and Diners Club. Six banks provide the ATM service and ATMs reached the number of 180 by the end of August 2005, while points of sale reached the number of 391.

- Of course, the further expansion and consolidation of the banking system also remains an important aspect. The geographical extension of territory coverage by the banking business, the strengthening of competitiveness, the introduction of new products without mentioning other recent developments, constitute an additional argument in the vital role the banking system has and will have to play in the future. The country’s map covering the banking business expanded further, including new regions ever covered before. At the end of August, the total number of branches reached 109 or 21 branches more than the end of the previous year.

- I take advantage of the opportunity of this event to express that positive assessments about the banking system have been given also in the report prepared by both the World Bank and International Monetary Fund, after conclusion of the assessment they formulated on the financial system in Albania (FSAP). Of course, this is good news. The conclusions of FSAP, of this important international passport, are an indication of our earlier conclusions that the Albanian financial system is characterized by a supervised and effective banking system and by other segments that are still in the initial development stages, where their regulation and supervision remain the core issue.

Despite the positive developments, there is still much to do. The degree of financial intermediation continues to be relatively low (about 11 per cent of GDP). Some economy sectors, like agriculture, still continue to be less or not at all credited. The contribution of bank crediting to the production investments is still low, and furthermore, considering the high share the credit
takes in supporting trade activity, we can come out with the conclusion that the major part of credit is going for the financing of imports. Likewise, the degree of using the banking system is not within the required parameters of the time and, furthermore, the degree of cash use continues to be high.

In addition, the financial markets continue to remain superficial and subject of speculations. The restricted alternatives of investing free funds are indeed a reason to this situation. The financing of budget deficit continues to be still as the best alternative. However, the banking system should think seriously of enriching the market with other instruments, rather than using this riskless investment at maximum.

To be more concrete, I will highlight further on some directions, which, I think, in the medium-term perspective are of priority to further stimulate and activate bank credit to the economy, as the main instrument through which the banking system promotes the economic development of a market economy.

Beginning with the Bank of Albania contribution, it relates first to the duty of meeting the legal obligations to achieve the overall macroeconomic stability with a special emphasis on inflation control. We remain determined in our position that keeping inflation under control is a valuable contribution to achieve the objectives of the country’s economic growth, the enhancement of employment and of the living standard in general.

On the other side, the Bank of Albania will encourage and support without any hesitation the further development and consolidation of the banking system in particular, and of the financial sector in general. We are deeply committed to undertake the necessary steps to implement all the recommendations given by FSAP. For this purpose, we are ready to offer all our human capacities to contribute to this direction. I use this opportunity to appeal on taking immediate actions towards redesigning the licensing and supervisory process of the other parts of the financial sector.

The Bank of Albania will continue to pursue a prudential policy in performing its function as a licensing authority of financial entities that are involved in the crediting activities. In the spirit of what I have stated above, I avail of the opportunity to express our commitment to involve in our supervisory structure all those credit companies or institutions, which one way or another mobilize the population’s funds or manage public funds in the crediting process.

Assessing the information issue as a critical element in facilitating the lending activity, I would like to point out that the Bank of Albania has already included the project of establishing the credit register in its immediate plans and we are strongly committed to implement it as soon as possible. This register shall be under administration of the Bank of Albania and the participation of other member banks of the system will be compulsory. Only in this way, the information evasion can be minimized as well as its integrity can be ensured, and it would be simultaneously available to each member bank of the system.
Being aware that credit issue is complex and connected with many obstacles arising from inaccuracy and misadministration of the mortgage system, deficiencies in the civil procedure on mortgage execution, which make the operation of Executor’s Office difficult in administering these procedures correctly, we will undertake initiatives aiming at enhancing the effectiveness of mortgage system, as a guarantee and selective instrument of great importance.

The banking system has a primary role in creating a warm climate in the relationships between business and bank.

Above all, I would like to request that the banking system be more transparent and open to the public. Transparency is one of the most important factors, which strengthens the client-bank relations and, furthermore, it gives a wider meaning to the reciprocity concept in the bank-depositor and bank-business mutual relations. I think that most of the common people still manifest a certain hesitation to refer to banks. One cause might be also the lack of detailed information. Banks should be more active, not only for advertising new products and services, but also for explaining more correctly the prices/costs they hold and the necessary requirements that are to be met for their benefit. There are not few cases when clients are not well informed on the interest rate they have to pay for their loans or on the criteria applied by the banks to benefit credit. Communication from depositors is not the best. While small changes of deposit interests may be justified by the changes of market conditions, changes somewhat stronger need to be accompanied by full relevant information and explanations. The strengthening of this transparency should be accomplished not only in the name of ethics but also in the name of increasing market competition.

The system can play a greater role in reducing cash in the economy, by increasing and improving further the level of services. The positive recent developments have given their effects on reducing cash quantity in the economy. On the other hand, we have conducted an intense public activity of informative and promotional character, where meetings of another nature have frequently been held and in which we, as a banking system were concretely involved. Allow me just to remind you the open meetings we have already organized with the business of utility services and with that of Treasury bills primary market. I hope that now, after finalizing the Automated Electronic Clearing House project, each bank should think seriously of increasing the benefit degree through this new facility provided by the Bank of Albania. After the implementation of this project, I estimate that we should think more seriously of increasing the number and the quality of electronic payments.

For this purpose, I would appeal to start thinking from this moment on of future projects in the payment infrastructure. I personally will insist that even in this direction we, as a banking system, should focus on the European Union directives, so as to orient every step in the future towards the country’s integration in the European Union. Short time ago I was informed about a new initiative of EU, which requires establishing within a certain period
of time, a unified payment system within the euro area, including payments with cards. For this purpose, I would suggest that respective specialists from the Association and Bank of Albania be informed as soon as possible about this project and they should come out with their relevant suggestions. Also, I remain persistent in my position that Albania has to adopt the most advanced solutions for all the infrastructure projects we are going to implement. I believe that we don’t need to examine and consider old-fashioned models, which besides the initial cost would also require all the time new funds for their maintenance and modification.

In addition, now when the public administration became a client of the system, I think that there are real opportunities to solve the payments of utility services through the banking system.

Returning to the financial markets, I think that in spite of the above-mentioned restrictions, there is room for improving competitiveness among banks even under the current conditions. I would like to draw your attention on the following topics:

• The system should be more active and keep its public promises 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, applying a commission, which is supposed to cover the transaction cost, while this measure will be accompanied by the inhibition of cash receipts at the Bank of Albania windows. Also, banks should invest in modern technology to enable the reallocation of funds of their customers in various investment alternatives by electronic means and not as it happens more frequently today that individuals still move carrying cash bags.

• Banks should be more active in the T-bills secondary market. We should clearly inform the public that whoever is interested can discount his/her bills at any time like each individual, who has put little money aside, can address to the banking system not only to deposit but also to purchase Treasury bills.

• The interbank market can and must improve. Nowadays, commercial banks exchange a big quantity of liquidity with the central bank. But, the exchanging of this liquidity among commercial banks must also be intensified. This would ensure more financing and investing opportunities for individuals and companies, including banks.

• Banks should give more attention to foreign exchange and Treasury bills markets, to further deepen and expand them. Thus, besides the introduction of new financial instruments, it would be also necessary to activate the utilization of the existing instruments. These improvements would be for the benefit of the economy in general, that is for the benefit of individuals, companies and banks themselves, but also of the central bank and government. Thus, individuals will have more opportunities to invest their savings, companies would have to make better use of new business activities, banks would have to gain higher benefits and the central bank with government would become more efficient in implementing their policies.
Allow me now to concentrate myself a little bit on the honored businessmen guests, who, in spite of the modest financial support offered in the beginning of transition period, have showed a really impressive performance. In my position as the Governor of one of the most important institutions in the decision-making of economic policies, I would like to present you, availing myself of the opportunity of this event, some suggestions that I sincerely hope you will welcome and well-understand. First of all, I would require more professional performance in business-bank relations. Without exaggerating, I would say that we are still far from the best practices and standards, and as a consequence all the economic, political, financial, social segments still leave to be desired. The relations to be established between you and banks should be reciprocal, open and legal cooperative relations. More concretely, business should understand that to be successful for a long-term period, bank is an integral part of its activity.

Finally, I would encourage more institutionalized links of the banking system with various business organizations. Maybe it is time that the Banking Association establishes regular contacts with business representations, contacts that would certainly upgrade the business-bank relations to a higher level.

Also, I take advantage of opportunity to renew the Bank of Albania commitment to participate in this initiative by offering its expertise in projects, round tables, forums, debates, etc., which will aim at improving the business climate as well as increasing and channeling the bank credit more efficiently.

Thank you!
GREETING SPEECH BY ARDIAN FULLANI, THE GOVERNOR OF THE BANK OF ALBANIA
In the “Business – Bank Communication Day”, organized by the Chamber of Commerce and Industry, Tirana, in cooperation with the Albanian Banking Association
Hotel Tirana Internacional, Tirana, October 20, 2005

Ladies and Gentlemen,

Recently, the promising paces in the increase of crediting to the economy from the banking sector make us realize that the numerous meetings organized with the scope of approaching banks to businesses are finally producing their results. Nonetheless, it is yet, too soon to describe it as a victory. Without diminishing the significance of these meetings, I think that the expansion of business crediting is not an effortless issue to be solved, especially when considered that our economy is still in transition. Frequently, the solution to the arousing issues goes beyond the good will of both, the business and banking community. Thus, avoiding the rhetoric of the previous meetings which habitually sets one’s party claims against the other, I would like to emphasize the need of a better coordination of efforts by the two communities to the solution of various issues.

A few days ago, on the privatisation anniversary of one of the participant banks present in this meeting, I stressed the necessity of intensifying the institutional relationship between the banking system and different business associations. Therefore, this meeting is an outstanding example of putting this initiative into practice and I belive that it will serve as a good start of the regular contacts between the banking association and the business one.

The bank-business relationship institutionalisation might assist in resolving a number of issues, which may be challenging to be addressed individually by banks or businesses, be they large ones. The best example is the effort to reduce the informal economy. All present parties in this meeting have expressed their pros to the fight against evasion and informality. In reality, however, the unfair competition forces many of them to choose the informal means, since, otherwise they will find themselves out of the market. The breaking of this vicious circle could be made possible by a better coordination of our efforts, in order to avoid the so-called free-rider phenomenon, where the dishonest business is given too much room to take advantage of the situation.

Hence, I welcome today’s meeting, hoping that it shall not simply remain within the communication context, but rise in a higher level of coordination.
SPEECH BY ARDIAN FULLANI, THE GOVERNOR OF THE BANK OF ALBANIA
The Southeastern Financial Forum, the Second Edition
Romania, November 8-11, 2005

BASEL II, ITS IMPLICATIONS, OPPORTUNITIES AND CHALLENGES AHEAD FOR ALBANIA AND SOUTHEASTERN EUROPE

Ladies and Gentleman,

The topic to be discussed at this forum is certainly timely. You need not look any further than news headlines to understand why risk management matters so much. Several events remind us that when banks lack the commitment to manage their risk prudently, they will fail to uphold their responsibilities to their shareholders and public at large. Consequently, the cost to society can be high and the impact on the economy devastating.

Sound corporate governance comes about only when there is a genuine commitment to do the right thing and to manage risks in whatever form they may arise. Risk managers must provide timely, objective and accurate information to their management. In turn, senior management and board of directors need to make sure that there is an atmosphere of transparency within the firm, one that promotes healthy and disciplined risk taking.

In order to improve understanding and management of risk, the Basel Committee has been formulating regulatory approaches to foster a safe and sound banking system and greater stability within financial sector. It has become clear, though, that the 1988 Accord and many of its amendments have become outdated and overtaken by advances in the banking and the financial sector, and other economic developments. As a consequence, the Basel Committee has come up with a new proposal known as Basel II. This proposal is intended to be more risk sensitive than the 1988 Accord, in order to provide a better alignment and calibration of regulatory capital and capital adequacy with the underlying economic risks that banks face. Categorizing debtors into a fewer risk ‘buckets’ was certainly a progress in 1988, but it opened the gap between the regulatory risk measurement of any given transaction and its actual economic risk. This favours high risk loans over low risk ones, given the 100% risk weight charged, irrespective of the risk profile of firms receiving the loan. Consequently, it adversely affects the accuracy of assessing capital requirements and allocation. The most concerning side-effect has been the distortion of financial decision-making which is, loans and investments made on basis of regulatory constraints rather than genuine economic opportunities.

The new Basle II accord tries to improve on these issues by encouraging banks to become more sophisticated in their risk assessment and aligning more rigorously regulatory requirements with internal risk measurement...
methodologies. It is important to recognize that the application of the New Accord is principally intended for large international banks, which are complex institutions usually operating in developed countries. Therefore, Basel II has often been questioned about its implications and appropriateness for banking in emerging market economies, and it is on this point that I would like to focus my remarks.

In principle, the three-pillar structure of the New Accord provides more precise directions to regulators to strengthen bank supervision and incentives to banks to become more sophisticated in risk management. Implementation of Basel II eliminates “one size fits all” methodology to assess risks and offers instead a wide range of methods to evaluate risks based more on failure likelihood. But the supervisory authorities in several emerging markets and many developing economies are concerned that Basel II puts a challenge they cannot meet.

Probably our greatest concern relates to the need of the standardized approach to rely on external rating agencies for calculating minimum capital requirements. Currently domestic rating agencies are totally absent in Albania and not well developed as in many other non-OECD countries. On the other hand, in most of our economies many small enterprises cannot afford to be clients of international rating agencies. Since borrowers unrated from rating agencies will be assigned a 100% risk according to Basel II, initially most domestic credits may end up under this 100% category. This could reduce risk sensitivity of the new system, bringing it close or similar to that of Basel I.

On the other hand, Albanian banks hold a significant share of government treasury bills and notes. Actually, under Basel I to this exposure of the banking system denominated in local currency is assigned 0% risk, regardless of whether credit risk of the sovereign debt is rated or not. Under Basel II, standardized approach, it is possible that sovereign debt is assigned a risk weight between 0% to 150%, most likely 100% since it falls under unrated category. This means that banking system in Albania may have to increase capital allocation to comply with the minimum level of the capital adequacy ratio.

An important intention of Basel II is to strengthen market discipline by developing a set of information disclosure requirements. In our countries there is plenty of room for improvement in this respect to allow market participants to assess key information on risk exposure, risk assessment process, and hence capital adequacy. This is important since it increases public pressure on banks to have a better performance in assessing and monitoring risk. However, in short run information disclosure might also have some adverse implication in Albania. Let me explain myself better on this issue. Public is usually more sensitive to bad news than positive developments. In countries like Albania, reactions between good or bad news are even more asymmetric than in mature market economies. The public in Albania is particularly over-reactive toward grim news on banking sector or on a certain bank while tend to ignore what falls in the positive side. This could be due to historical factors, such as the financial system crisis in 1997; and culture factors, such as low level of
bank business understanding, or the overreaction of public to the introduction of the Deposit Insurance Law in 2002. This means that enhanced information disclosure required by Basle II, could be problematic if not supported by a proper public understanding.

That’s why I feel a bit concerned about the effectiveness and appropriateness of an immediate implementation of Basle II. Therefore a more gradual approach may be necessary. This approach could take the form of an interim standard between Basel I and Basel II that could offer banks in emerging economies some of the benefits of Basel II without having to face a prohibitive cost. This means that Basel II adoption should not be made mandatory in financial assessments (of WB, IMF for example) and countries should be left with the option to keep Basel I.

EU banking directives are mandatory for our countries that opt to join EU. As Basel II elements are embedded in EU Directives, and as our countries are making progress toward integration in the EU, we shall be faced with the challenges of Basle II implementation. I’d like to point out three challenges in particular.

Albania, as many other East European Countries, hosts a considerable number of foreign banks. These consist mostly of branches or subsidiaries of banks from EU countries, which eventually may have to implement the new system, including its most advanced elements if their head offices decide to adopt it throughout the network for consistency and competitiveness reasons. Bearing in mind that there is a high degree of standardization in the risk management practices of a banking group - which is, same risk management techniques being applied uniformly throughout the group - the host country banking supervision might choose to rely entirely on the validation conducted by the home country supervision, provided that the adequacy of the model fits local conditions. If this is not the case, the host country supervision will probably have to rely on its own assessment of Internal Ratings Based (IRB) models. However, the latter raises two other sensitive issues. First, the feasibility of IRB application is complicated by the lack of reliable data on at least a full business cycle. Second, it requires training and preparation of banking supervisors with new rules, and thereby to improve their ability to examine and evaluate IRB approaches for consistency, integrity and accuracy in order to properly measure risk, otherwise, the whole capital allocation system could become faulty. On the other hand, this new environment calls for better cooperation and coordination across countries’ banking supervision, in order to avoid over regulating banks and to save resources.

The second challenge relates to the need of developing our own domestic rating industry for assessing borrowers. This is indispensable to gain the potential cost reduction of intermediation out of the implementation of the new system. It will make possible for some borrowers to obtain better ratings and consequently better risk weights compared to the actual 100% unrated system. However, this is not an easy task by any means. Rating agencies should satisfy several criteria in order to be eligible. These criteria comprise
experience, freedom from external influence, publicly available assessments, requirements to disclose assessment models and approaches, sufficient resources and finally validation or recognition by supervisory authorities in our countries.

Third but certainly not the least, the new system poses a challenge to all banks to improve their capacities in order to comply with the new framework to successfully compete and survive. Banks should start adopting a more dynamic and forward looking approach to the evaluation of risk and provisions, since under a risk sensitive approach there is always the risk of pro-cyclicality*, which means bank capital ratios are likely to fluctuate more over the course of business cycles.

In spite of the above challenges, in Albania we have already started addressing some of these issues.

• First, by making sure that we have consolidated the achievements of our supervisory function by completing the requirements of Basel I. We are glad that the good progress has been confirmed also by the FSAP assessment during their mission in February-March, this year. Certain recommendations related with requirements about consolidated supervision will be followed very attentively;
• Second, we have already been pushing our supervisory process and the banks toward a more risk oriented attitude. At the same time we intend to keep a higher minimum level of capital adequacy ratio than the European standards, in order to provide for some cushion for other forms of risk, like operational risk.
• Third, we try to gain as much as possible out of the experience and knowledge of other countries in the region, which are in a more advanced stage in their efforts to adopt Basel II requirements either partly or fully. We have also the privilege of being close to the euro area member countries, like Italy and Greece, with their banks playing an important role in our financial system. This gives us the possibility to benefit out of expertise of the supervisory authorities of these countries, in the process of adopting new requirements;
• Forth, we have expanded our cooperation with other “peer” countries in the region, as the variety of problems found in our countries is very similar and the experience sharing in this respect, is very practical.
• Fifth, we are trying to promote an environment where issues of Basel II are being discussed in a professional level. We are not focusing only on directly involved parties (including government, other supervisory authorities of the financial market) but also on relevant clients of the banking and the financial sector.

Concluding, I would like to stress that Basel II represents a logical and appropriate successor to Basel I. It embeds recent and past lessons and gives excellent directions to financial system and supervision authorities how to move ahead. On the other hand, its implementation may be a bit too ambitious and a difficult task for our countries. Therefore it is in our interest to find ways to
make it more suitable to our needs by following a gradual approach rather than jeopardising its success through an uninformed adoption.

Endnote

* According to Basel II, the assessment of the borrower’s credit risk will depend on the performance of the economy, whether it is in a upward or downward trend. In the worst case, when the economy will be wholly swept in recession, banks will have automatically either to increase the level of capital, or shift towards less risky assets, that most intuitively calls for a slow down to provide loans thus engendering credit crunch and further recession.
GREETING SPEECH BY ARDIAN FULLANI, THE GOVERNOR OF THE BANK OF ALBANIA
at the Open Forum “Preconditions for Inflation Targeting in Albania”
Tirana, December 1-2, 2005

Ladies and Gentlemen,

1. It gives me great pleasure to welcome you to the Open Forum “Preconditions for Inflation Targeting in Albania”. I am extremely pleased and proud that I have the honor to welcome so many distinguished national and international guests.

2. For the Bank of Albania it is the first time to organize an event of this character and with so many distinguished guests. I am very grateful that you accepted my invitation and I warmly welcome you. I look forward to hearing your comments on the proposals that Bank of Albania will be presenting today and tomorrow. There will be ample time to hear all your comments and to exchange ideas on Albanian policies.

3. Our main theme in this Forum is concerned with the principal objective of the central bank. According to our central bank law, the principle objective of the Bank of Albania is to achieve and maintain price stability. The regime we are going to discuss here for achieving this objective is Inflation Targeting.

4. Our present formal monetary policy regime is called a heterodox Monetary Targeting. But within the central bank we use even different names for it. Some call the monetary regime a “two pillar” approach as it has features of Monetary and Inflation Targeting. Often also, the current regime is already referred to as Inflation Targeting.

5. Under the present monetary policy regime the Bank of Albania adheres to a monetary program. Monetary policy aims at administering the money supply and interest rates with the view of achieving price stability in the short to medium term. The exchange rate is freely floating. The Bank of Albania is considering to move to a fully fledged Inflation Targeting regime. Based on available information today, we consider this regime to be a good choice. We envisage moving smoothly to this new framework within a realistic time frame. I say here deliberately smoothly. Many steps have to be made gradually in time. Furthermore we have to analyze carefully all the new information that will become available to us.

6. The main reasons for adopting Inflation Targeting concern (more) transparency and (more) credibility. The central bank wants to move to a more transparent monetary policy regime with a strong anchoring
of expectations over the medium term. According to Bank of Albania, Inflation Targeting is considered to be the appropriate monetary policy regime for Albania in these respects. In our current conduct of monetary policy we follow rules but also take discretion. A regime that provides well-defined and unambiguous objectives would bring us more “constrained discretion”.

7. The discussions today and tomorrow will focus on the conditions that we have to meet before formally launching Inflation Targeting. Here in Albania we are aware that essential requirements have to be fulfilled for obtaining a successful IT regime. Some of these preconditions do not depend on the Bank of Albania, such as the fiscal stance. Other preconditions do not only depend on the Bank of Albania, such as structural reforms or deepening of the financial system. During these two days I hope to find out on which of the listed preconditions for Albania we share the same views, and where our views differ.

8. Next to this open discussion on the conditions for a successful monetary policy regime, there is another important reason for our gathering here. By means of this Forum the central bank adds to transparency and contributes to the enhancement of the cooperation within the region. I refer here to the region in a broad sense. The Bank of Albania finds good relations with neighboring countries extremely important. Coordinated efforts to meet conditions and requirements that are set internationally are paramount for Albania and the Balkan region to attain the deserved place on the European map. They will bring economic and social prosperity to the Albanian people and other people in the region.

9. Albania is a relatively small country and for that reason we have to remain modest. But at the same time I can honestly say that I am proud, extremely proud, that the central bank of Albania can help in opening the way to a further and hopefully rapid convergence of Albania with Europe and other, more developed countries. Better communication lines between Bank of Albania, regional central banks and international organizations will pave the way for a further development of commercial banks and other institutions. Ultimately a solid bridge will be built between Albania and the outside world, entailing a soundly developed financial system, a sustainable economic rate of growth and higher welfare levels for Albania.

10. In order to have productive discussions I wish to emphasize the open character of our meeting here. The Forum is deliberately called an Open Forum. I will appreciate any comments that can contribute to the further institutional building of the central bank of Albania up to the highest international standards. Only a discussion free in spirit – or as we say in Albanian “i hapur” – can bring us closer to each other at the same high levels.

11. Now coming to the end of this speech, I wish you all some fruitful
but at the same time pleasant days here in Tirana. I am sure that our representatives of the Bank of Albania will present their main views in a transparent way and I look forward to the discussion that will be started by the Panel Members.

12. I now give the floor to the Chairman for starting the Open Forum.
FAREWELL SPEECH BY ARDIAN FULLANI, THE
GOVERNOR OF THE BANK OF ALBANIA
at the Open Forum “Preconditions for Inflation Targeting in Albania”
Tirana, December 1-2, 2005

Ladies and Gentlemen,

1. I want to conclude this Forum by saying first and foremost that we have had two very productive days! It was a great pleasure for me to listen to your views, constructive suggestions and fruitful ideas concerning monetary policy in Albania. I thank you very much for all your contributions!

2. At the end of this Forum I would like to give my personal views on the road ahead for the Bank of Albania. But I will first put some developments in perspective.

3. Since 1990 and until today in 2005, the Albanian economy has been transformed from an isolated centrally planned to an open market economy. Before 1990 there used to be only a state mono-bank. Nowadays, there is a central bank with a network of commercial banks and other financial institutions. In 2000, the central bank began to fully rely on indirect instruments for conducting its monetary policy.

4. As you can see, Bank of Albania has a relatively short history of central banking. In my opinion, the central bank is moving in the right direction. But time has come to decide how to proceed in the near to further future. This has been the main reason for organizing this Open Forum.

5. For our country, an ultimate objective is the accession to the European Union. Accession to the European Union implies a full membership. As a consequence, it implies eventually the adoption of the euro after the accession date. EU accession will ultimately induce entering into ERM II, and thereafter adopting the full legal tender of the euro. There will be an automatic adherence to the monetary policy of the European Central Bank. However, these developments still belong to the future.

6. Having this EU-time path in mind, we are aware of the changing world surrounding us. Albania as a small and open economy is part of this dynamic world. Today, we observe a rapid globalization, liberalization, continuous financial deepening and broadening, with new financial innovations in an ever more interconnected world. Albania is influenced by these developments on a day to day basis. Albania therefore, needs a daily monitoring of new developments and it needs to cope with these international challenges.

7. Before reaching the ultimate EU-accession objective in this constantly changing world, there is still a long distance to cross. As it concerns
monetary policy, Bank of Albania today thinks that Inflation Targeting is the way to take. Better highways will take us more quickly from Tirana to the Airport. Likewise, the better monetary policy is able to maintain price stability, the quicker Albania can take the road and reach the levels of neighboring Europe with their higher welfare levels.

8. We are fully aware that adopting fully fledged Inflation Targeting is a process that requires hard work with several preconditions in place, as these two days have underlined. Getting to Inflation Targeting is more of a marathon than a steeplechase. Our two days here have shown that it is not a discrete one-time decision that resolves all problems. It should also be a smooth process. This holds in particular for a transition country like Albania. Our country faces different challenges and virtues compared with developed countries.

9. Now, how is our Working Agenda set?

10. I want to distinguish between the working areas within and outside the central bank. And the working area outside the central bank can be split into Albania and the international environment.

11. I see the further building of the central bank as a recognized and respected institution as one of my primary tasks. Qualified young and ambitious people need to help us bringing our internal discussions and work to higher levels. Cutting-edge discussions and fundamental studies are needed to make the central bank choosing the best policies, on monetary policy as well as on supervision and financial stability (in a broad sense). Human resources’ capacities need to be secured. Inflation Targeting is to be further scrutinized in all respects. Econometric models need further development for forecasting inflation and analyzing transmission channels. More statistical work needs to be done, in particular on micro information from the real side of the economy. A specialized unit should concentrate on all areas that cover the consumer price index. A clear and professional communication strategy is to be developed. Information on monetary policy is to be translated into a language for the different population groups in our country. Next to all these activities, we need to continue our discussions on the Monetary Decision Making arrangements that are deemed essential for Inflation Targeting. These activities within the Bank of Albania are on my agenda for tomorrow.

12. Outside the central bank in Albania we need to take all efforts for a further development of the financial markets and other transmission channels. We cannot do this on our own. In this respect we should establish a deeper constructive collaboration with other national institutions. We should elaborate with the Ministry of Finance and the Parliament on the legal issues for strengthening the central bank’s independence. With the Ministry of Finance we have already projects, such as the anti-cash, credit office, T-bills market and so on... But a topic high on our
agenda and on the agenda of the Ministry of Finance should be the statistical framework. Statistics by INSTAT need to become timelier and improved for assisting the decisions of policies pursued by the central bank and the government. As discussed also these days, we should take all efforts in bridging the gap between Bank of Albania and the other central banks in Europe. The central bank law served Albania at the time it was laid down. Now at the beginning of 2006 we all agree that it needs amendments.

13. Governance at the central bank needs to reach the levels of governance at central banks in more developed countries. We need a full independence of monetary policy on the one hand, and of fiscal and other government policy on the other hand. We need more professionalism. We need monetary policy conducted with a view to the future. We need to improve on accountability. We need to make our people contestable within and outside Albania as it concerns the policies. I would like to see more open discussions where we discuss elaborately about our differences in opinions but at the end of the day also reach agreements that - as their sole purpose - benefit the Albanian economy.

14. Our cooperation with international organizations like the International Monetary Fund will be maintained and open discussions about consistency issues with the new monetary strategy will carry on. Cooperation with the European Commission should become intensive in order to harmonize all central bank requirements in line with EU standards. In my view EU is one of the highest priorities on the Agenda of Albania, and the central bank will provide all cooperation in making its central bank law and all further rules and regulations according to EU-standards.

15. Next to this, the relationships with the Bank for International Settlements and the European Central Bank need to become closer. As a special point I want to highlight again the cooperation with the central banks in the region. We can more often share our views about monetary policy, supervision and financial stability. We can more often have common projects. One of the big projects I have in mind is the process of preparation for the accession to the European Union.

16. As you see, our Agenda is quite full. Probably not only in the short term but also in the medium term. But let me stop here.

17. I am sure we will meet again in the future. But I conclude here by saying that I hope to meet you again in the very near future. At these occasions I will update you about any steps and progress we have been making within Bank of Albania! Today I spoke a lot; tomorrow we will start implementing what we said today. .

18. Once more, thank you very much and have a safe return home.
Distinguished participants!

I’m glad to participate in the Euro Mediterranean Conference on Micro Credit, an important event associated with the announcement of the Year 2005 as the “International year of micro credit” by the United Nations.

Authorities of a country usually aim at achieving sustainable economic growth in a non-inflationary environment. Ideally, in a free market, capital will go to those opportunities that represent the most efficient and profitable investments. But, in a developing country, markets have several imperfections and issues and capital could easily be misallocated. It could go in those investment opportunities that provide high but risky quick returns and on other low efficiency ventures that are nearly safe. This behavior could however be problematic for future economic growth of the country. Many sectors of enormous long term growth potential can be left unexploited. This means that some areas of the economy will be booming, while other areas will be considerably lagging behind leading to a very unbalanced economic development. Also, various groups of population, particularly low income groups, will most probably be excluded from financing opportunities increasing the odds of becoming poorer. As a result, social problems and issues may arise such as: job losses, loose population movements and illegal establishments, etc, which will stretch public facilities to cope with this situation. Therefore, it is important to find ways, to ensure more balanced development opportunities to all sectors of the economy and groups of population.

Albanian economy, by large relies on micro-businesses. Nearly all enterprises in Albania fall into the category of small and medium enterprises SME-s. More than 90 percent of Albanian enterprises can be classified as small or medium-size according to our INSTAT data. The majority of these companies are engaged in trade and services, reflecting their micro business nature, and less in industry. As for employment, SME-s account for more than 40 % of total employment in the enterprise sector. There is a high concentration in the region of Tirana-Durres of private enterprises than in other regions, while industry is concentrated mainly in Elbasan. This new private sector, especially SME-s, needs the financial support to grow. Until now the banking sector has not been able to meet these needs. The situation is more problematic because SME-s do not have very developed financial sectors. Usually, these countries also have difficulties to access international financial markets.

I don’t want you to get me wrong about the role of financial sector. Financial sector has made considerable steps in Albania. Today, our financial sector includes many banks and non-bank financial institutions, savings and loans associations and unions, insurance and reinsurance companies, and
pension funds. One should say though that the development of the financial sector institutions is more noticeable in the banking sector and the insurance sector. The banking system currently comprises 16 operating institutions, with total assets of around 53 per cent of the country’s GDP. The system is well capitalized and liquid. Its intermediation role is increasing. The lending activity although small (accounting for around 23 percent of total banking assets and around 12 percent of GDP), is strongly picking up. Other financial institutions are trying hard to increase and modernize their activity. However, many problems primarily legal and property rights related which are outside financial sector are making it difficult for them to increase their credit lines.

Microfinance has proved to be a more effective way to deal with these problems. With its inventive formulas it makes financial resources become accessible to small and medium businesses that account for most of aggregate production during these development stages. These resources are often used to finance small projects in areas like agriculture, livestock or services like handicraft, small food stores, etc.

The first microfinance institutions in Albania, were set up in 1994 as development projects co-financed by the Albanian Government and the World Bank. 13 donors cooperate with the Albanian government in supporting the development of SME-s in Albania. From 1992 a large share of funds has been allocated in Albania as donation, but only a portion has been spent. Most of these funds has been given as soft loans for Albanian government. Aid represents around 30 % and only 5 % are direct commercial loans to co-finance the private investment. This sort of finance, called “Development Projects”, is mainly used to finance SME-s’ credit needs accompanied with technical assistance. The credit line funds are given from donors as soft loans and the government allocates them to banks to be used as commercial loans, without harming the banking practice and the use of own bank capitals. As a consequence, a larger part of financial crediting sources is converted into commercial funds.

Today, the microfinance institutions are operating as self sustained institutions with an increasing customer base. In the last 5-7 years several other institutions have been focusing on microfinance. Currently we have 133 individual savings and loans associations organized under 2 Unions, which operate in rural areas. The number of their members is around 18 thousand and the stock of their outstanding loans is around 12 million euro. In addition, we have 7 microfinance institutions with total assets amounting to 50 million euros, and loans of 43 million euros. Banks are also getting more active in microfinance, despite their little interest so far. This can be explained with tightening competitive conditions in the market and the need to explore new investment opportunities. Now we see an increasing amount of credit going to small businesses, which often helps them in the initial stages. Banks are particularly active for the microfinance in the urban areas. In fact, one of the banks has initially started to operate as a microfinance institution. It still holds a respectful position in this market segment, particularly in the urban areas. Lending to microfinance sector now counts for more than 10 per cent of the whole lending portfolio of the banking system.
The quality of the microfinance loans has been satisfactory. On average, the portfolio at risk is between 1.5-2 percent, according to their reports. This is not only because of their small size (usually under 1.5 thousand euros each), but also because of the diversity of the projects, ensuring diversification of the loan portfolio. One should also say that the experience gained by the microfinance institutions in this area, have also played an important role for this good quality.

The legal framework on microfinance was completed in 1996, with the approval of a special law that defined the principles upon which such institutions could be found and operate. Such principles for the specialized institutions included free will, reciprocal cooperation, capitalization of the profit and reinvestment in the community, etc. Later developments made it necessary for the Law to change. Hence, a new Law “On Savings and Loans Associations and their Unions” was approved in Parliament on May of 2001. Several changes supported this new law. Besides the principles that were restated, the Law has defined the legal personality of the microfinance institutions, their permitted activities, the rights and the obligations of the members of the association, the managing structures of the associations and their functions, other important supervisory financial requirements and ratios, the role of the Unions and that of the Bank of Albania as the regulatory and the supervisory authority. Mandated with this role, the Bank of Albania has approved several regulations focusing on microfinance institutions and development. This regulatory framework comprises the supervisory requirements to start and operate a Saving and Loan association, the indicators that enable their reporting and their financial analysis, and the principles on which the on-site examination of such institutions occurs.

The regulation of the Bank of Albania “On licensing the Savings and Loans Associations and their Unions”, is the first document issued by the Bank of Albania in this area, representing a big step forward into the formalization of these institutions. It defines the documentation requirements for the license application, the deadlines and the authority that should grant the license. These requirements are directed to the single associations, to the Union, and to the Union member association. It has been recognized the role of representing Union proposed member associations in the licensing process, meant also as an important tool to induce single SLA to become Union members. The number of the Unions is certainly not limited. The other important regulation is that of “The Supervision of Savings and Loan Associations and their Unions”. In this regulation, the Bank of Albania has defined supervisory indicators for certain typologies of risk that are characteristic of current stage of development of the microfinance institutions in Albania. Counterparty risk is assessed through the requirements for a consistent process of loan portfolio analysis. These includes the ways the loans are classified, their provisioning requirements, their potential individual or group guarantees, the supervisory norms of the loan quality, etc. In addition, the counterparty risk is indirectly controlled by the requirements in capital adequacy of the institution. There are also other risks that are considered in the regulation, for which certain requirements have been defined. For the liquidity risk, there have been set up various norms.
for maintaining sufficient liquid assets and limiting the duration of the loans. For the concentration risk, the regulation requirements focus on the lending activity, and set out the norms for the net exposure in relation to the total assets of the institution. This regulatory framework is meant to be actively orienting the activity of the microfinance institutions, and as such, will be revised as the developments may require. Besides these two regulations, the examinations manual of these institutions has been prepared. It is based on the CAMELS system we use for banks, and is aimed at assessing the adequacy of the internal policies and procedures, the quality of the management and the identification, assessment and monitoring of risks. The Accounting Manual is also prepared and is based on the national accounting standards, adjusted for the microfinance activity. We retain the current regulatory framework, after some expected changes and approval, is adequately monitoring microfinance activity in Albania while not becoming an impediment for its development.

While acknowledging the role of the microfinance as an important tool for ensuring development opportunities to small businesses that otherwise may never access financial resources, one should keep in mind that microfinance is sound if it is provided by sound institutions. There is not much benefit if such institutions fail because of lenience of their internal rules and procedures, and/or because the supervisory authority has closed an eye on them because of their social role. This will also make other institutions become hesitant in engaging in microfinance.

The relationship between the microfinance institutions and the banking sector regarding their interaction in the economy financing, is a delicate issue. Their coexistence is certainly “peaceful” at the early development stage of at least one of these groups of institutions, but as the economy grows and competition increases, they tend to move toward each-other. At that stage, it is important to pay special attention to ensure clear “rules of the game” for their activity and to provide adequate policies that allow for structural reforms of these institutions and of their market influence.

In conclusion, microfinance is a very important mean to achieve a balanced economic growth, by providing financial support to small and medium businesses which are vital for the medium and long term economic growth. Compared to some other countries in the region, microfinance in Albania has shown higher growth rates with good quality. However, there is ample room for enhancing it further. Maintaining a stable macroeconomic environment, and the improvement of the level for a better law and order, and land and property rights, fair competition, are very important factors that will improve business financing in Albania. As supervisory authority we will try hard for microfinance future growth to be sound. The credit bureau project that our bank is undertaking shortly is also expected to boost credit through ameliorating information problems.

Thank you for your kind attention!
SPEECH BY ARDIAN FULLANI, THE GOVERNOR OF THE BANK OF ALBANIA
At the press conference organized in the context of the Financial Sector Assessment Program
Tirana International Hotel, 15 December 2005

I have the pleasure to be here today next to the Minister of Finance, Mr. Bode and Ms. Laura Kodres, International Monetary Fund expert and one of FSAP mission leaders, on the occasion of introducing a very important document, such as the financial sector assessment program or otherwise recognized as FSAP.

On behalf of the institution I represent I would like to thank the joint IMF/World Bank Mission for their hard and great job during their visit in Tirana. This assessment is a very significant financial passport, a first fundamental step to a professional and straight assessment of the financial system in Albania, taking into consideration each of its segments.

Special thanks are also addressed to IMF and WB authorities, who considered our request to send their representatives to Tirana to enable the public presentation of the findings and recommendations produced by this assessment.

I honestly hope the conclusions made by Ms. Kodres shall be bluntly and objectively assessed by you. I would like to stress that the recommendations made by FSAP mission provide a great assistance, and as such, they should be correctly comprehended and interpreted. These recommendations assist to a high degree each policymaker, supervisory institution, market operator, and obviously the media which is very much part of this process. The way you will monitor and communicate information to the public is very important. In this context, I would like to underline that the Bank of Albania shall be very open to assist.

To this aim, we have recently made the Bank communication office functional, thereby meeting one of short-term FSAP recommendations. I avail myself of this occasion to stress that our immediate plans are to provide a more contemporary communication approach, in particular in the context of preparing and launching educational and training packages, targeting different interest groups.

- From the moment we were acknowledged to FSAP recommendations, our institution started listing them by priority and by institutional right. As also monitored by you, we broadly discussed in the Forum organized in the first days of December the issue of establishing a Monetary Policy Committee.

- With regard to banking market developments, the Bank of Albania sticks to its engagements to augmenting the opportunities of commercial banks in the securities market. In more concrete terms, starting from September
the Bank of Albania charged a fee for the operations carried out in its windows, and in early December the two-level securities register was placed into function. Pursuant to FSAP recommendation and with a view to enhancing daily liquidity management, the intra-credit regulatory basis was amended.

- The new bill “On Banks in the Republic of Albania” is complete and ready to be presented to banks for discussion. With the assistance of a specialized international consultation, we believe this shall be a new, contemporary law and it shall identify a number of issues addressed in the form of FSAP recommendations.

- Starting from July 2005, the automated electronic clearing house system commenced to operate. Currently, we are working on completing the regulatory framework with a view to augmenting the services provided to the economy, aiming primarily at automating utilities’ periodical settlements.

- In November, the Bank of Albania Supervisory Council amended the Regulation “On licensing non-bank entities”, aiming at involving all non-bank financial institutions which operate in the territory of the Republic of Albania in the Bank of Albania licensing and supervision scheme.

- In October 2005, the Bank of Albania Supervisory Council approved the new organization structure of the Bank of Albania, placing a major emphasis to enhancing legal counselling, statistical service and public communication. These three functions are deemed as very significant, in particular when considered in the context of our objectives related to monetary policy and EU integration.

- Another short-term FSAP recommendation related to improving Bank of Albania transparency is now accomplished. Every interested person could be informed on the rules that the Bank of Albania pursues when it intervenes in the foreign currency market or be acquainted with the present agreements between the Bank of Albania and the Ministry of Finance.

- We have been intensifying our efforts to reaching to a rapid and effective solution as regards the Credit Information Bureau. Considering it as a very significant recommendation, we have recently added our contacts with the Albanian Banking Association in order to find a quick solution.

- A concrete action plan on the part of the recommendations directly related to the activity of the Bank of Albania and its competencies has already been completed and introduced to IMF authorities.

What I deem as crucial is the complete assimilation of each suggestion made, and based on this absorption we have tried to build up a realistic and fully possible action plan. We believe that the successful accomplishment of the tasks included in the action plan shall be a key factor in enhancing the
banking system financial stability. It shall influence the establishment of a modern payment infrastructure, increase financial market efficiency, perfect human capacities and set up a safe foundation for more sophisticated future developments.

I would like to take this opportunity to emphasize that the Bank of Albania shall provide all its expertise to the inter-institutional group established to meeting many other FSAP recommendations. We hope the commitment of other institutions, be they central or supervisory, shall be provided properly, in order for these recommendations to be accomplished in due course.

I am convinced the Minister of Finance and me share the same objective, which is to lead our institutions to stepping this process forward, aiming at achieving a sustainable and sound financial sector development in the country.

Only by doing so, we could lay the grounds for a second assessment in a three-year time, which shall not only observe the accomplishment of these recommendations, but also determine new priorities towards financial system development.

Thank you!
INTRODUCTION*,**

This material is aimed at informing the time series users of monetary indicators on some of their features, such as computing methodology and methodological changes over time, reclassifications, use of new instruments, special events having impacted on their performance, etc. The material deals with the indicators of residents’ deposits, indicators of credit to the economy and net foreign assets of the Bank of Albania, as some of the most useful indicators for the policy makers of the Bank of Albania and for home and foreign scientific researchers.

Given that a complete analysis of these indicators goes beyond the purposes of this material, the provided information is based mainly on the analysis of time series tables and charts. Also, the Annual Reports of the Bank of Albania, analyses and surveys carried out by the Monetary Policy Department, Research Department, Supervision Department, and other analyses carried out by Bank of Albania specialists are taken into account. The computing methodology and its trend are described for each of the indicators and later on the breaking points are highlighted and explained. The obvious changes at the level of indicators within one or two periods of time, methodological changes, and reclassifications with which the statistics specialists are acquainted and which may be less distinctive for the aggregated data, are taken as such.

The time series data disclosed at the Bank of Albania web site are used as the source of data. When the index data are not disclosed at this data base, the data published at the statistical reports and annual reports of the Bank of Albania are made use of. In each case, when the data are not obtained from the “Time Series” data base, the relevant source is cited.

The surveyed period is the period of December 1992 – June 2005. In cases when we have not ensured any relevant data, we have analyzed the period for which published data already exist.

1. DEPOSITS AND THEIR WEIGHT IN MONETARY AGGREGATES


During the previous decade the banking system deposits structure underwent important changes due to country’s economic development and
banking system developments. The overall trend of the system deposits was positive and the time series charts and tables indicate their upward trend. However, the fragility and problems over the first decade of banking system establishment were reflected in crises and problems of the banking system deposit structure and level.

In 1993 – 1995, the Albanian economy had just entered into free economy, therefore most of the total of deposits was composed of public sector deposits. The privatization processes made the increase of the private sector and households’ deposits level (respectively about 68 per cent, 62 per cent and 50 per cent) be the overall trend. The main contribution to the increased level of deposits is given by households’ time deposits, due to lack of investment alternatives and rise in the real interest rates and ALL stability in the domestic market.1

During 1993 – 1995, time deposits in lek constituted on average 27.5 per cent of the broad money, while 37 per cent was constituted of currency outside banks, 16 per cent demand deposits in lek and 19.5 per cent deposits in foreign currency (chart 1). The increased number of trading or manufacturing small- and medium-sized enterprises, the relatively insignificant use of banking services, and the public awareness on fall of inflation, made the currency outside banks be the main constituent of the broad money. Also, a non-effective banking system of payments and services had a negative impact.

Year 1996 marked a change in the weight of the broad money constituents and in the growth rate of such constituents. The emerging and developing of pyramid schemes caused reduction in the growth rate of currency outside banks and of time deposits in the favour of the growth rate of demand deposits, taking into account that the public started to withdraw the savings from the time deposits and the pyramid schemes placed the money at demand deposits with banks. This became more obvious particularly during October – November, when the activity of pyramid schemes reached its climate. In September – December the broad money decreased on average 7 per cent, time deposits in lek fell by 14 per cent, while demand deposits in lek grew by 104 per cent. This change in the banking system deposit structure reduced banks’ costs, but on the other hand the liquidity management problem emerged. Having demand deposits as their main assets, the banks could not invest in long-term instruments.

The collapse of pyramid schemes in 1997 gravely damaged the public confidence in the banking system. This was accompanied by significant reduction of deposits in the favour of currency outside banks, which caused liquidity problems to the banking system. To stop the outflow of deposits from the banking system, the interest rates were raised. For example, the interest rates on three-month deposits were raised from 27 per cent in March of 1997 to 37 per cent in June of that year.

1
The positive interest rate rise and other measures taken to raise the public confidence in the banking system, made deposits over the second half of 1997 until 1998 (rather time deposits in lek) be increased positively and currency outside banks drop significantly (chart 1).

Kosovo crisis in 1999 caused rise of currency outside banks and of foreign currency deposits because of the mainly foreign currency inflows from humanitarian and non-governmental bodies helping the Kosovo citizens who settled in our country.

Even during 2000 – 2001 the main contribution to broad money growth was given by foreign currency deposits and currency outside banks. During 2000, ALL deposits decreased in their volume or in the growth rate, due to deposit interest rate cut. The average weighted interest of three-month deposits for the banking system was reduced from 9.5 per cent (in December 1999) to 6.9 per cent at end of 2001. After October 2000, the level of ALL time deposits interest rate was not determined any longer administratively by the Bank of Albania. The repo interest rate was set as a reference to market interest rate.

Precisely when the financial situation of the banking system was assessed as the best over ten last years, another crisis hit the banking system. In March – April 2002, the banking system was characterized by a massive withdrawal of households’ time deposits, mainly from the two largest banks of the country, the Savings Bank (presently the Raiffeisen Bank) and the National Commercial Bank. In consequence, about ALL 21.4 billion was withdrawn from the banking system. The initiation of the Savings Bank’s privatization procedures, the financial problems of the National Commercial Bank’s owner, the misinterpretation of the deposits insurance law, etc., caused a shaking of the public confidence in the banking system. Deposits withdrawal brought about liquidity problems in commercial banks. Responding to the situation created, the Bank of Albania changed its monetary policy stance and injected liquidity into the market.

The second semester of 2002 and year 2003 were characterized by money return into the system. This return reduced the level of currency outside banks (by about ALL 5.6 billion or 4.3 per cent in December 2003) and its ratio to money supply. The money was returned into the system in the form of ALL time deposits. The spread of the ALL and foreign currency interest rates and the ALL appreciation made the time deposits in lek be more favorable for the households. The same trend continued even during 2004.

The broad money has been increasing at higher rates during the first quarter of 2005. In June of 2005 the broad money grew by an annual rate of 18.3 per cent, compared to 13.1 per cent the annual growth was in December of 2004. The broad money growth in this period was mainly due to foreign currency deposits growth. Their annual growth rate in June of 2005 was 30.2 per cent, compared to 17.1 per cent it was in December of 2004. During this period, while the foreign currency deposits weight went upward, the weight of currency
outside banks to broad money decreased. The raised confidence of the public in the banking system (reflected in increased household investments at banks, such as time deposits in ALL and in foreign currency) and the efficiency of the system of payments 4 impacted on the reduction of currency outside banks. The depreciation of the lek exchange rate against the American dollar during January – June 2005, and the more favourable interest rates in American dollar have also impacted on the increase of foreign currency deposits.

1.2. PROBLEMS RELATED TO DEPOSITS TIME SERIES ACCORDING TO THE “TIME SERIES” DATA BASE STRUCTURE

1.2.1 Residents’ demand deposits in lek

Indicators:

Residents’ demand deposits in lek
• Local authorities5
• Non-financial public enterprises
• Other financial enterprises
• Private sector
• Households

Demand deposits in lek represent current accounts and ALL demand deposits placed by local authorities, non-financial public enterprises, other financial institutions, private sector and households, with the deposit banks and with the Bank of Albania.

Excluding currency outside banks, the demand deposits in ALL are the most liquid instruments of the broad money. Along with currency outside banks, the demand deposits in ALL form the narrow money or the M1 aggregate.

The indicator of ALL demand deposits includes:

Current accounts in lek, which include accounts in lek that are exchangeable upon request, in nominal value, without any penalty or limitation, freely transferable with cheques, pay orders, largely used as means of payment.

Demand deposit accounts in ALL, which are exchangeable upon request, in nominal value, without any penalty or limitation, but which can not be used as means of payment.

The indicator of demand deposits in ALL also includes the collateral deposits in lek and frozen deposits in lek (as for example the deposits for covering cheques, letters of credit, etc..) which have limitations regarding their liquidities and transfer. Based on the new monetary statistics methodology, these accounts must not be included in the narrow money aggregate.
The general trend of the level of the demand deposits in ALL has been upward, but with frequent fluctuations. As the demand deposits in ALL are high liquidity means used for transactions, high jumps in their value at a certain moment do not necessarily indicate a rise or fall of the economic agents’ preference for these instruments.

The chart 3, displaying the ratio of demand deposits in ALL (DD\(^n\)) to narrow money (M1), has a downward trend for the period of December 1993 – December 2003, which indicates that during this period transactions in cash prevailed in the Albanian economy. During 2004 and the beginning of 2005 an upward trend of the ratio of DD/M1 is noticed, indicating positive accomplishments concerning the banking services efficiency and relations of businesses and households with banks. The efforts made to fight cash economy, for example through the “Beyond money” program \(^7\), have given positive outcomes.

Problems and explanations


It is the period when ALL demand deposits underwent the largest increase. This is the period during which the pyramid schemes were in full swing and the firms that collected money from the public, invested them back as ALL demand deposits with banks.


In this period, ALL demand deposits decreased from month to month. The pyramidal schemes went bankrupt and did not invest any more in demand deposits.

In January 1997 the ALL demand deposits decreased by 40 per cent, compared to December of 1996. The funds of pyramid schemes, invested in ALL demand deposits with the National Commercial Bank, were frozen and classified as ALL time deposits of the private sector. In February the frozen funds of pyramid schemes were posted to the Savings Bank and were reclassified by this bank again as ALL demand deposits of the private sector.

June 2003: Reclassification of demand deposits

In June 2003 the demand deposits of the private sector dropped by 27 per cent (approximately ALL 4 billion in absolute value) on annual basis. In this month, the Savings Bank, based on the suggestions of its auditors, reclassified
a part of the frozen deposits of pyramid firms as time deposits of the public sector.

December 2004: Growth of demand deposits

The demand deposits in December 2004 increased due to matured time deposits classification at a bank, expecting renovation of the contract as demand deposits. It’s worth emphasizing that such a shifting of time deposits into demand deposits does not constitute a fundamental change, but only a temporary reclassification.

1.2.2 Residents’ time deposits in ALL

Indicators:

Residents’ time deposits in ALL
- Local authorities
- Public nonfinancial enterprises
- Other financial institutions
- Private sector
- Households

Time deposits in ALL represent time deposits held in lek from the local authorities, public nonfinancial enterprises, other financial institutions, private sector and households, with deposit banks and with the Bank of Albania.

Time deposits include deposits, which may be withdrawn only after a certain period of time, having restrictions which make them more appropriate for saving than for commercial transactions. Also, time deposits index includes even the deposits certificates, which represent a certain form of time deposits. Time deposits have had an upward trend (chart 4). This has been as a result of the lek stability in the domestic market, real positive interest rates and increased public confidence in the banking system. Most of time deposits in ALL are the households’ deposits, who do not have many alternatives to invest their savings.

Problems and explanations

May 1996 – December 1996: Reduction of the level of households’ time deposits

During this period a reduction of the level of households’ time deposits took place month in month out. This is the period of the emerging of pyramid schemes, which absorbed households’ money. The households withdrew deposits from banks to invest such funds in such firms. During this period, the time deposits in ALL of the private sector increased.
January 1997: There is a jump in the total of time deposits in ALL by 43 per cent on a monthly basis.

The total of time deposits in ALL was impacted by a growth of 432 per cent on monthly basis of the private sector’s time deposits in ALL. This breaking point in the series of ALL time deposits of the private sector was due to temporary reclassification of demand deposits of the firms that went bankrupt, explained in the above paragraphs. In February these deposits were reclassified as demand deposits.

March – April 2002: There is a negative jump in the level of time deposits in ALL.

This period coincides with the shaking of the public confidence in the banking system. Households addressed to banks’ windows (mainly at the Savings Bank and at the National Commercial Bank) and withdrew their deposits. Approximately ALL 21.4 billion was withdrawn from the banking system within two months.

June 2003: There is a jump in the level of ALL time deposits of the private sector.

In June 2003 the time deposits of the private sector increased by about 400 per cent. This breaking point in the series of time deposits of the private sector was due to reclassification of pyramid schemes’ funds explained above.

February – March 2005: Reclassification of ALL time deposits of the private sector took place.

During these two months a reduction of about ALL 4 billion of private sector’s time deposits took place. Funds of pyramid schemes classified as the private sector’s time deposits were reclassified as households’ current accounts, with the intention to send them back to their creditors.

1.2.3 Residents’ foreign currency deposits

Indicators:

Residents’ foreign currency deposits
- Local authorities
- Non-financial public enterprises
- Other financial institutions
- Private sector
- Households

Foreign currency deposits represent current accounts, demand deposits, time deposits, certificates of deposits, and frozen deposits and guarantees held in foreign currency from local authorities, nonfinancial public enterprises,
other financial institutions, households and private sector, with deposit banks and with the Bank of Albania.

Foreign currency deposits have had an upward trend along the period. Foreign currency deposits are the type of deposits that have had less jumping of value as compared to ALL deposits.

For example, the banking system 1997 crisis had a smaller impact on the total of households’ foreign currency deposits as compared to fluctuations of households’ ALL deposits, thus reflecting, inter alia, a greater confidence of the public in the foreign currency against the lek. Chart 1, which represents the constituents of the broad money, indicates that the weight of foreign currency deposits to broad money presents a more stable trend as compared to other constituents of the broad money.

After 1996, the households’ deposits constitute the majority of foreign currency deposits. Remittances from emigrants have been the main source of foreign currency deposits.

Problems and explanations

June 1996 – December 1996: Growth of private sector’s foreign currency deposits

During June 1996 – December 1996 the foreign currency deposits increased by 280 per cent. This growth was due to foreign currency investment, collected from pyramid schemes, in foreign currency demand deposits with banks.


Year 1999, which coincides with the period of Kosovo crisis was characterized by a steady trend in the foreign currency deposits growth. This growth was larger during the first semester of the year. The main inflows were foreign currency demand deposits (current accounts of nongovernmental organizations, aids for the persons coming from Kosovo, etc.).

March 2002 – April 2002: There is a negative threat in the level of foreign currency deposits.

The shaking of the public confidence in the banking system during March 2002 – April 2002 impacted even on the level of foreign currency deposits. The reduction in these indicators was due to reduction of households’ foreign currency deposits.
2. CREDIT TO THE ECONOMY

2.1 GENERAL VIEW ON CREDIT PERFORMANCE

Credit is an important instrument in supporting the country’s development. It sustains new productive developments in the economy by impacting on the growth of production, trade, services, etc.

During twelve last years the credit activity in our country is estimated to carry over many risks, such as that of nonperforming loans, that of order and security in the country, etc. This made banks be prudential in lending for a long time. This may be noticed even in chart 6, which displays the performance of the total of credit to the economy and lending to the government and private sectors. However, the overall credit trend along the years has always been growing, but until 1999 it has been growing at low paces.

Years 1992 – 1996 were the first years of coming out from the socialist system. In this period, due to low expertise in the banking system, the banks did not manage to apply lending conditions rigorously. This made the number of non-performing loans go up. To reduce the high number of non-performing loans, the Bank of Albania applied a tightening refinancing policy, using the credit ceiling as the main monetary policy instrument. Also, lending was prohibited even to banks with completely state-owned capital. In November 1999 the Bank of Albania decided to omit the credit ceiling, which influenced the increase of lending at faster rates. So, only in 2000 lending was increased by about 3 times as compared to 1999.

A survey made in 2000 indicated that the low lending to the Albanian business was due to the fact that, besides the credit ceiling provided by banks, the businesses themselves were reluctant to address themselves to the banking system for meeting their capital needs. Banking credit was estimate to be used at very low level by only 10.5 per cent of businesses. It was so due to high lending interest rates and lack of tradition and culture in bank-business relations.

To increase lending, the Bank of Albania has followed an easing policy, reducing the key interest rate time and again. At the beginning of 2005 this rate was cut to 5 per cent, whereas in December 1999, that was the first moment the credit ceiling was omitted, the key interest rate was 18.5 per cent.

As concerns to sectors supported by loans (chart 6), during the whole this period, on average 95 per cent of the credit was extended to private sector
(70 per cent to enterprises and 25 per cent to households) and only 5 per cent of credit was extended to public sector. Credit to public sector has a negative tendency and has been disappearing almost completely from the balance sheets of banks. This may be understood even by the fact that credit to private sector has supported the privatization of state-owned enterprises, bringing about reduction in the number of state-owned enterprises and in the loans extended for them.

Most of credit extended by the Albanian banking system is credit in foreign currency. Just like with deposits, the lending level is characterized by the domination of one or two banks in the market, either for credit in lek or for credit in foreign currency\(^1\). However, it is worth mentioning the fact that after 1999, these banks do not continue any more to hold dominant positions in the lending activity. Dynamic developments in the Albanian banking system, such as the increased number of banks operating in the market, extension of banking network in various areas of the country, full transfer of the Savings Bank’s capital to Raiffeisen Zentral Bank, have increased competition among banks and have made possible that the percentage of extended credit be more diversified among banks.

Table 1 indicates the total of new credit extended during each year. Even though most of the new credit extended until now is short-term credit, the data indicate that banks are oriented to investments of longer maturity. During the first semester of 2005 the banks were more committed, about 60 per cent, to loans of more than 1 year maturity, reducing significantly the economy financing with short-term loans\(^2\).

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005 I Semester</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total of loans</td>
<td>24.2</td>
<td>40.6</td>
<td>94.3</td>
<td>183.0</td>
<td>88.1</td>
<td>57.5</td>
</tr>
<tr>
<td>Leks</td>
<td>4.4</td>
<td>10.0</td>
<td>18.1</td>
<td>27.6</td>
<td>30.9</td>
<td>17.4</td>
</tr>
<tr>
<td>Foreign currency</td>
<td>19.8</td>
<td>30.6</td>
<td>76.2</td>
<td>155.4</td>
<td>57.2</td>
<td>40.1</td>
</tr>
<tr>
<td>Short-term</td>
<td>12.9</td>
<td>27.6</td>
<td>80.7</td>
<td>157.8</td>
<td>54.4</td>
<td>27.0</td>
</tr>
<tr>
<td>Mid-term</td>
<td>10.0</td>
<td>10.7</td>
<td>7.1</td>
<td>7.9</td>
<td>13.0</td>
<td>12.2</td>
</tr>
<tr>
<td>Long-term</td>
<td>1.3</td>
<td>2.6</td>
<td>6.5</td>
<td>17.3</td>
<td>20.7</td>
<td>18.3</td>
</tr>
</tbody>
</table>

A highly important aspect regarding credit is the credit portfolio quality. Chart 7 indicates the percentage of nonperforming loans to total loans extended, while the chart 8 displays the value of the total nonperforming loans.

Though the weight of nonperforming loans has a downward trend, the total of nonperforming loans has increased. High credit growth rates dictate the need to be more prudential concerning the portfolio\(^3\) quality. The credit risk reflects various problems in terms of rules and practices that relate to protection of the creditors’ rights. The solution of these problems in the future will be a key factor that will support the rapid growth of credit to the economy.
2.2 PROBLEMS RELATED TO CREDIT TIME SERIES BY THE “TIME SERIES” DATABASE STRUCTURE

2.2.1 Credit to economy

Indicators:

- Total of credit
- Claims on public sector
- Claims on private sector
- Private enterprises
- Households
- Claims on other financial institutions

Credit to economy includes all claims of banks on the public sector, private enterprises, households and other financial institutions. These claims are expressed in the form of short-term, mid-term and long-term loans, mortgage loans, financial leasing contracts and crediting through current debit accounts.

This indicator represents the total lending in leks and in foreign currency of the economy by deposit banks. This indicator has included standard loans, overdue loans, special mention loans, substandard loans, doubtful loans, and loss loans.

As chart 9 displays, the total of loans has an upward positive trend. In the period following 1999, credit to economy increased at high rates. The new banks’ licensing, interest rate policy liberalization, credit ceiling prevention and political environment stabilization have made banks be more aggressive in their policy to increase lending. The chart displays the increase of lending at higher paces even for 2004 and for the beginning of 2005. This period was positively influenced by the Savings Bank’s privatization (presently Raiffeisen Bank) and prevention of the lending activity restriction of this bank in December 2004.

Problems and explanations:

May 1993: Credit to economy had a negative jump by - 21.5 per cent.

This reduction in the total of loans was due to a reduction of 30 per cent in the credit extended to
state-owned enterprises. The government’s decision to release them of the overdue loans they had received from the Agricultural Development Bank, an amount of ALL 2.9 billion not repaid until December 31, 1992, caused such reduction.

December 1993: Credit to economy had a negative jump by -47 per cent.

At end of 1993 the Government accepted to release the state-owned companies of the debt they had received earlier than 1992 at the National Commercial Bank, for a value of ALL 4.3 billion. The Ministry of Finances issued bonds to replace overdue loans that were released of debt.

August 2001 – September 2001: Credit to economy had a negative jump of -19 per cent.

In September 2001 the Bank of Albania transferred substandard, doubtful, loss loans, to the Bank Assessment Resolution Trust. Credit to private and public sectors was significantly reduced, respectively by –17 per cent and –55 per cent monthly change.

2.2.2 Foreign currency credit to economy

Indicators:

Total of credit
- Claims on public sector
- Claims on private sector
- Private enterprises
- Households
- Claims on other financial institutions

Foreign currency credit to economy includes all foreign currency claims of banks on the public sector, private enterprises, households and other financial institutions. Such claims are expressed in the form of short-term, mid-term, and long-term loans, mortgage loans, financial leasing contracts, and crediting through debit current accounts.

The “Foreign currency credit” indicator has reflected an upward trend along the period (Chart 10). The performance of this indicator was influenced by foreign currency credit extended to private sector and mainly to private enterprises, because most of foreign currency credit was extended to this sector.
Foreign currency credit to public sector has been constantly decreasing until it became zero on January 2001, even though it appeared again in 2004, but at rather small values. Credit to other financial institutions is an indicator appearing in 2003 and still constitutes an item of rather small weight to total of loans.

Foreign currency credit is the credit occupying most of the weight to total of credit. Starting from March of 2000 and onwards, foreign currency credit has always been higher than ALL credit (chart 10). Foreign currency credit was encouraged by the more favourable foreign currency credit interest rates. For example, in December 2003, the interest rate for ALL credit of a 1 – 3 year maturity was 20.33 per cent, whereas for Euro credit it was 11.04 per cent and for American dollar credit it was 9.34 per cent.

Other reasons for the foreign currency credit may be the problems of exchange rate risk management, existence of banks’ foreign currency liabilities (deposits and capital) and the fact that our economy is based mainly on high imports from other countries. We mention here the import of machinery and raw materials.

2.2.3 ALL credit to economy

Indicators:

- Total of credit
- Claims on public sector
- Claims on private sector
- Private enterprises
- Households
- Claims on other financial institutions

ALL credit to economy includes all ALL claims of banks on the public sector, private enterprises and households.

Such claims are expressed in the form of short-term, mid-term, and long-term loans, mortgage loans, financial leasing contracts, and crediting through debit current accounts.
ALL credit had a downward trend, with frequent oscillations during 1999, 2000 and 2001 and only after 2001 it had a more regular upward trend, indicating that after that moment the banking system was increasing the role of ALL lending as a way of financing. The ALL credit growth rate was increased particularly following 2004. Such positive rates are mostly due to increasing commitments of banks to provide services for meeting the households’ applications for credit.

Problems and explanations:

May 1999: Reclassification of ALL credit among sectors took place.

In May 1999 there was an overturn of values on credit to private enterprises with the one to households, which continued even during the following months until year 2000. In this month, credit to private enterprises was reduced by ALL 5033 million and credit to households was increased by ALL 4601 million, but the change of credit to private sector to the total was insignificant. This change took place at the Savings banks’ reporting, and given that this was a period during which that bank was not allowed to extend new credit, this change was derived from possible reclassifications at the balance sheet.

December 2000: ALL credit had a negative jump by -22 per cent.

In December 2000 the National Commercial Bank transferred the substandard, doubtful, loss loans to the Bank Assessment Resolution Trust. During this month, the credit either to private sector or to public one underwent a significant reduction.

September 2001: ALL credit had a negative jump by -61 per cent.

ALL credit decreased because in this month the Savings Bank posted the non-performing loans extended to private and public sectors for administration to the Bank Assessment Resolution Trust.

3. NET FOREIGN ASSETS OF THE BANK OF ALBANIA

3.1 NET FOREIGN ASSETS OF THE BANK OF ALBANIA

Indicators:

Net foreign assets (NFA)
- Foreign Assets (FA)
- Foreign Liabilities (FL)

The indicator “Net foreign assets of the Bank of Albania” presents all the claims of the Bank of Albania on nonresidents and minus the monetary authority liabilities on the same sector.
The indicator “Net foreign assets” is calculated as the difference between “Foreign assets” and “Foreign liabilities”. As a result, its performance is influenced by the specific performance and events occurring to the latter ones.

Claims on non-residents include:

- The gold the Bank of Albania holds as deposit with foreign banks;
- Time and demand deposits with foreign banks;
- Securities investments of nonresidents;
- Coins and banknotes in foreign currency;
- SDR holdings;
- Reserve positions with the Fund;
- Quotas of the World Bank and Islamic Development Bank.

Liabilities to non-residents include:

- Various loans from non-residents (such as Greek loan for covering the balance of payments, loan from the European Investment Bank, loan for the development of agriculture, industry and services as well as other loans received by commercial banks for their needs);
- Foreign banks’ deposits with the Bank of Albania;
- ESAF programs of the IMF;
- ALL accounts of the World Bank and Islamic Development Bank with the Bank of Albania.

The table of foreign assets is compiled with values denominated in ALL and in American dollar. The difference between NFA in American dollar and NFA in ALL rests on the fact that the NFA in dollars include only those claims and liabilities of the Bank of Albania that are in foreign currency, excluding the ALL accounts of the World Bank and of the Islamic Development Bank. NFA of the Bank of Albania in ALL include all claims and liabilities on nonresidents, in ALL and in foreign currency.

Net foreign assets of the Bank of Albania have had an upward trend, due to the influence of three groups of factors:

1. Transactions performed

This group includes all factors impacting on the increase or decrease of foreign assets through inflow and outflow of funds of donators, international financial institutions, foundations, foreign governments, various projects, etc.

2. Factors impacting on revaluation of net foreign assets
We highlight here the impact of the exchange rate change at various moments, according to situations, in international and domestic markets.

3. Changes occurred due to methodology alteration and reclassifications.

 Increase or decrease of net foreign assets of the Bank of Albania may derive even due to changed methodology or adjustments in items classified under this indicator. For example, until December 2002, the gold held at the Bank of Albania’s safe was classified as one of the constituent items of Net Foreign Assets. According to the methodology on compiling monetary statistics\(^7\), the nonstandard gold must not be included in foreign assets. After the clarifications on the characteristics of such gold and instructions provided by the methodology, the gold at the Bank of Albania’s safe was not included at Foreign Assets of the Bank of Albania. However, the nonstandard gold held at the Bank of England continues to be presented as part of foreign assets.

Problems and explanations:

July 1994 – August 1995: Net foreign assets of the Bank of Albania had a negative value.

In the period of 1990 – 1994 until mid of 1995, the “Monetary authority net foreign assets” index had a negative value. This is so because during all this period, the foreign liabilities of the Bank of Albania were rather high in comparison to foreign assets (see the Chart in figure 13). The Bank of Albania had inherited a relatively high foreign debt and small foreign currency reserves in its balance sheet, which made the “Net foreign assets” index have negative values.

September 1995: Monetary authority net foreign assets had the highest positive jump by +136.36 per cent.

This immediate growth of net foreign assets was due to reduction of foreign liabilities of the Bank of Albania. In September of 1995 the overdue short term obligations\(^18\) decreased, due to restructuring of Albania’s debt to foreign credit banks. This debt was settled by the investment in purchasing zero coupon bonds of the American treasury, of a maturity of 30 years. So, in this month, the item “US – TB collateral is added and on the liability side the item “30 year bonds for FX claims” is added for the same value.

July 1997: Net foreign assets had the highest negative jump by –18.1 per cent.

In July 1997 the “Net foreign assets – NFA” in ALL had the highest monthly reduction. This worsening of the level of NFA is related mainly to performance of the American dollar in the international forex market and of the lek in the domestic market. During the said period, the American dollar was appreciated against the German mark and all other foreign currencies that composed the Bank of Albania foreign reserve. That appreciation had a negative impact, reducing significantly the “Foreign Assets” in American dollar. Also, we bring
to mind the fact that this period coincided with a grave period in the country’s economic and political area. Lack of stability of 1997 was also reflected in the lek’s price against foreign currencies in the forex market, associated with the loss of confidence people had in the domestic currency, and with various speculations which brought about the lek’s depreciation. Therefore, the Bank of Albania intervened some times in the market, by selling dollars and by purchasing leks, which instantly revaluated the lek. For example, while in June 1997 the lek/usd exchange rate was 178.74, in July of that year it reached to 145.17. The appreciation of the lek against the dollar caused a reduction of the value of “Net foreign assets” evaluated in leks.

December 2003: There is a reduction of 38 per cent in the foreign liabilities.

Credit to Government, extended by German Government for the KFW program (a loan for the development of agriculture, industry, services, etc) was prevented from the Bank of Albania’s balance sheet. On the decision of the Supervisory Council, the follow-up of this loan was passed to the government, therefore it was not entered any more at the Bank of Albania’s balance sheet.

4. Finally:

This material was aimed at assisting the Bank of Albania analysts and other analysts of institutions within the country and abroad. Given that such a summarized information on time series of monetary indicators disclosed by the Bank of Albania is made for the first time, we tried to select the statistical indicators that are more useful for the economic decision-making and for other analysts.

Also, describing the time series methodology and the main changes over time, this material constitutes even a fulfillment of the methodological documentation of the time series, comprising one of important steps in terms of raising the standards of data dissemination at the Bank of Albania. So, the associating of the disclosed data with their detailed methodological description in the IMF’s SDDS program, where Albania aims to become a member, constitutes the main element of the degree of data quality. On the other hand, the description of the main methodological changes constitutes one of the elements of the degree of data integrity. This material comprises a first step made in this direction and it will be fulfilled in the future.
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21. IMF (1996), Guide to the data dissemination standards, Module 1: The
SDDS – Provisional, International Monetary Fund.


23. IMF (1998), Special Data Dissemination Standards (Updated Guidance), International Monetary Fund.


This material provides general information on the performance of the time series of deposits, credits and net foreign assets of the Bank of Albania, the breaking points in respective series and causes of such breakings. The provided information is based mainly on the analysis of time series tables and charts. The data disclosed at the “Time Series” data base of the Bank of Albania website are used as a data source. The surveyed period is December 1992 – June 2005.

* By: Refika Fejzo, a specialist at the Financial Statistics Division, Statistics Department, Bank of Albania.
** Collaborated: Kliti Ceca, Director of Statistics Department, Bank of Albania. Hilda Shijaku, Chief of Financial Statistics Division, Statistics Department, Bank of Albania.

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2 See: Bank of Albania, Annual Report 1999
3 See: Cani, Sh., and Vika, I., (2002), Confidence Crisis, Causes behind Banking Deposits Hemorrhage, Monitor, No.4.
4 Starting from December 2001, the deposits of local authorities are presented as a separate sector. Prior to that they were presented together with those of non-financial public enterprises.
5 DD stands for the Demand Deposits in ALL.
6 “Beyond money” is a program of the Bank of Albania in cooperation with the government and the banking system for reducing cash transactions in economy. Some of accomplishments of this program on the anticash combat are the realization of the Real Time Gross Settlements (RTGS) system, the Albanian Interbank Payment System, the channelling of public system employees’ salaries through commercial banks, etc.

7 See: Cani Sh., Muço M., and Baleta T., (2000), Albanian banking system, its development problems.
12 The concept of nonresidents is based on the “Methodology of monetary and financial statistics, Bank of Albania, July 2003”.
15 SDDS – Special Data Dissemination Standards. These standards are based on best international practices in disseminating the statistical data and are mandatory to countries, which will become members of the SDDS. The monitoring degree of these standards relates to data characteristics (data covering, periodicity, publication time), access to data, data integrity and data quality. For more details, see reference 20. Other references: 18., 19., 21., 22., 23., 24., 25..
INTRODUCTION*

Economic developments, particularly globalization of the economy, have made the economic-financial decisions take an ever larger importance internationally. The main international factors have already converged in the same attitude as concerns to the “common language” of financial information, the economic enterprises of different countries of the world publish via financial statements. This language will be that of international accounting standards, whose application has been stated as an obligation at least for publicly-traded companies in national and international financial markets.

In this framework, many countries, separately or grouped in certain bodies, such as the European Union, have undertaken reforming initiatives in their regulatory accounting disposition. This process has already started even in the so-called transition countries or in countries that have entered lately in the market economy, such as Poland, Czech, Russia, Bulgaria, etc.

The reforming process in accounting is neither easy nor without problems to any state that has not developed its regulatory disposition according to Anglo-Saxon practices and concepts and particularly to states that have lately entered into the market economy. Naturally, our country is also involved into this process, intending its accession to the European Union, a process also embodied in the Law No. 9228, dated 29.04.2004 “On Accounting and Financial Statements”.

We deemed that the preparation of this paper would be necessary and useful for presenting the nature and scope of this process as properly as possible, by exhibiting first of all a history of the arising and development of the international accounting standards.

1. HISTORY OF INTERNATIONAL ACCOUNTING STANDARDS (IAS)

1.1 DEVELOPMENTS DURING 1973-1998

1973: Creation of IASC

IASs have their start in the need to harmonize the rules for preparing financial statements presentation in international level. The demand for such a harmonization derived naturally, because of the internationalization of markets and enterprises, and capital markets in particular. The initiative to achieve this harmonization was announced in July 1973, when the International
Accounting Standards Committee (IASC) was established. The initiators were the accountancy bodies of 9 countries (England, France, Germany, the Netherlands, Japan, Canada, Mexico, Australia and the USA).

IASC announced the following objectives in its constitution:

a. To compile and disclose in the public interest accounting standards enforceable in preparing financial statements and to promote their acceptance and application.

b. To work generally for the improvement and harmonization of rules, standards and procedures on financial statements presentation.

Once established, the objectives of the IASC were in compliance with capital markets internationalization, since these markets require financial statements that can be easily understood and compared, despite the origin country of the enterprise disclosing these statements. The IASC, as a private organization, could not have an enforceable authority on any country; therefore, it would work for achieving the harmonization objectives, mainly through developing and promoting its standards. This was really an ambitious and difficult task, which would need a long time, as the reality showed. In November 1974 IAS 1 (IAS1) titled “Disclosure of Accounting Standards” was published and until 1989 the number of published standards amounted to 31.

In 1987, due to critics made to IASs and the resistance made to the adjustment of these standards by the developed countries, the IASC undertook a program for revising the standards. The objective set for this revising was the qualitative improvement and reduced number of options.

In June 1989 the IASC produced the Framework for the Preparation and Presentation of Financial statements, referred to as the conceptual framework.

1987: IOSCO joins Consultative Group

The IOSCO (the International Organization of Securities Exchange Commissions indicated to the IASC that among the existing standards, most of them were acceptable with some reservations on non-essential points (14 standards), some had to be revised (6 standards) and some others were acceptable (4 standards).

In December 1998, the IASC received a letter on behalf of the Ministers of Finances of the G7 and central banks’ Governors, which encouraged the IASC in its work on the financial information and expressed the confidence that this body would manage to timely carry out its program. The letter expressed the willingness of G.7 to promote “principles, standards and codes of good conduct, accepted internationally, more rigorous and understandable, as well as the goal for a closer supervision of their effective application”. Besides the G.7, the continuation of the work of the IASC was encouraged also by the IOSCO, the European Commission, the World Bank, etc.
Countries such as Germany, Belgium, Italy, and France adopted some laws or decisions that allowed some or all national enterprises to adopt IAS and/or American standards for the consolidated financial statements. Other countries such as Austria, Australia, Sweden, Switzerland, etc., also took domestic measures to encourage the international accounting harmonization, authorizing their enterprises to unify their accounting standards with the international standards. Most of European Stock Exchanges had accepted the IAS and the number of enterprises having decided to use these standards all over the world had increased.

Summarizing the developments over 25 years (1973-1998), we state that:

• During the first 25 years, the role of the IASC has been mainly in harmonizing the accounting standards of the main countries that had worked out a national accounting reference;
• Despite the progress marked in adopting or accepting the IASs by other countries, they did not manage to officially gain the status of an international accounting reference;
• The IASC and the American FASB remain only two claimants for becoming international accounting standardization bodies.

1.2 RECENT DEVELOPMENTS

At their beginning, the IASs frequently constituted options dictated by the goal of finding an as good compromise as possible. The existence of these options allowed enterprises find a proper solution according to their insights. On the other hand, the existence of options did not go in the same direction with the harmonization objective. Under the pressure of regulatory stock-exchange bodies, the IASC undertook the revising of many standards with the purpose to reduce the options.

Passing from the objective of harmonization to the objective of standardization, dictated by further complexity of trading and financial transactions (financial instruments and derivatives), and the goal to be accepted as the only body of international accounting standardization, were the reason why the IASC was reorganised in 2000. So on May 24, 2000, the members of the IASC approved the new constitution in Edinburgh (Scotland).

According to this constitution, the objectives of the Committee are:

• To develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world’s capital markets and other users make economic decisions;
• To promote the use and rigorous application of those standards; and
• To bring about convergence of national accounting standards and International Accounting Standards to high quality solutions.
The accomplishment of these objectives, already oriented to international accounting standardization (and not harmonization), dictated the need to the IASC to closely work with national accounting bodies.

Without analyzing the new constitution, however, it is worth mentioning some names and bodies of this committee:

International Accounting Standards Committee (IASC)

International Accounting Standards Board (IASB). IASB is the body charged with the preparation and adjustment of standards. The new standards, starting from 2002, will be referred to International Financial Reporting Statement (IFRS), whereas the existing, non-modified standards are referred to as IAS. On May 2002, the IASB published an exposure draft titled “Improvements to International Accounting Standards”. It has to do with a proposal to change 12 standards out of 34 existing ones. This is the first proposal in the framework of the “Improvement” project of the IASB, intended to increase the quality and coherence of financial information. These standards are: IAS 1, IAS 2, IAS 8, IAS 10, IAS 16, IAS 17, IAS 21, IAS 23, IAS 27, IAS 28, and IAS 33. Other proposals may be made in the future for revising the IASs.

Standards Advisory Council International, SAC) has the role to advise the IASB on the work program and advantages of discussions in meetings and consultations.

1.3 EUROPEAN UNION ON ADOPTING AND APPLYING THE IASS

The countries of the European Union estimated as necessary the speeding up of the international harmonization process of accounting standards, mainly due to high pressure the international capital markets exercised and the increasing needs of the European multi-national organisations to address to these financing markets to promote their development. On the other hand, the debates and particularly those after 1990 highlighted the difficulties in reaching this international harmonization and presented the process as a long-term one.

Among these difficulties we can mention:

- In most of member states of the European Union, accounting traditions are not expressed or are wrongly expressed at the IAS. The latter ones are openly expressed in the favour of a preference given to investors’ interests, on the way the financial information is compiled. The creditors’ interests are shifted to the second level and the importance of financial statements comes out somewhat indirectly in the framework of administrators’ accountability.
- IASs do not have to do with the linkage that exists between accounting and taxation, at a time when this issue is of primary importance to most member states.
IASs do not differentiate between individual financial statements (FS) and consolidated ones. Two separate directives exist in the European Union level and companies are obliged to disclose both types of statements.

- Some of the IASs go beyond the needs of small and medium-sized enterprises. The great deal of information to be presented at the appendix exceeds the information really necessary.

Along with difficulties mentioned earlier, the general assumption was that the European Directives were not any longer sufficient for financial statements of big European enterprises that required acquiring capitals in international markets, particularly in American markets, and the issue on the European accounting directives should not have been left to go so far as to hinder any future development. Given these assumptions and pursuing prudentially the steps undertaken by the IASC itself, under the support and the incentive of interested international bodies, the European Commission took measures that led to the new European strategy for the application of international accounting standards. The new European strategy was initiated on March 2000, but the legal process was completed in the middle of 2002, with the adoption of the “Regulation of the European Union on the Application of International Accounting Standards”. The regulation was voted by the European Parliament on 27 May 2002.

Article 1 of the European Regulation defines two main objectives:

- To ensure a high degree of transparency and comparability of financial statements;
- To ensure an efficient functioning of the Community capitals market and of the internal market.

Article 4 of the European Regulation requires that “for each financial year starting on or after 1 January 2005, publicly traded companies of a Member State shall prepare their consolidated accounts in conformity with the international accounting standards (IAS)”.

Concerning other financial statements, the Regulation (Article 5) leaves to the option of each member state to provide the application of the IAS/IFRS, differentiating between:

- The case of individual financial statements of publicly traded companies (companies that are in the area of applying the IAS/IFRS for consolidated financial statements);
- The case of consolidated financial statements and individual financial statements of other non publicly-traded companies.

1.4 ALBANIA ON APPLICATION OF ACCOUNTING STANDARDS

The Law No. 9228, dated 29.04.2004 “On Accounting and Financial Statements”, Article 4 stipulates the accounting standards on compiling financial statements, as follows:
a. Economic units applying this law, excluding the cases provided in Points 2 and 3 of this Article apply the national accounting standards on financial statement compilation and disclosure. The accounting standards are compiled by the National Council of Accounting and within one month the Ministry of Finances announces them as enforceable.

b. The Minister of Finance, after considering the opinion of the National Council of Accounting, announces the accounting standards as enforceable to the public economic units that do not have profitable intentions.

c. Standards compiled by the International Accounting Standards Board translated into Albanian under the responsibility of the National Committee of Accounting, without changing from the original English version, are made public by the Minister of Finances and their application is mandatory:

- To companies listed in any securities exchange and their subsidiaries, subject to account consolidation;
- To commercial banks, financial institutions similar to banks, insurance and re-insurance companies, securities funds, and all entities licensed to perform investment activity in securities, even when they are not listed in an official securities exchange;
- To other large economic units, not listed in an official securities exchange, when they exceed the limits determined by the Council of Ministers on the annual income and number of employees.

2. CONCEPTUAL FRAMEWORK

2.1 CONCEPTUAL FRAMEWORK AND ITS NEED

Accounting Conceptual framework is a statement of theoretical principles generally accepted, which form a referring financial reporting framework.

These theoretical principles are important because they ensure the bases for the development of new accounting standards and for assessing the existing ones. The financial reporting process is related to the providing of the information useful to the economic decision-making process. Though it has a theoretical nature, a conceptual framework for financial reporting has definitive intentions valuable in practice.

The need to compile a conceptual framework for the preparation of financial statements is evidenced by the risks that may arise if not using it for drafting the accounting regulation. The absence of a conceptual framework would imply that core principles may be repeated more than once in various accounting standards, thus bringing about contradictions and instability in the core principles, such as those of prudence and compliance. This leads to lack of security and affects the financial reporting concept of “real and accurate”.
2.2 GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) AND CONCEPTUAL FRAMEWORK

Definition: GAAP means all the rules, irrespective of their source, which guide the accounting. It may be stated that for a certain country they are composed mainly of:

- National law of companies;
- National accounting standards;
- Domestic stock-exchange requirements.

Without neglecting the three above sources, the GAAP basis for each certain country is larger and also includes other sources, such as:

- International accounting standards;
- Statutory requirements of other countries.

In Great Britain, GAAP refers to accounting practices that are regarded as acceptable by the accounting experts’ profession. Each accounting practice legitimated to circumstances it is applied, should be treated as a GAAP. The decision whether an accounting practice is accepted / legitimated or not would depend on one or more of the following factors:

- Does the practice take into account the accounting standards, the constitution or other official pronouncements?
- Is the practice unchangeable in terms of the users’ needs and the financial reporting objectives?
- Is the practice sufficiently based on accounting literature? Is the practice applied similarly in other companies?
- Is the practice in compliance with the “real and accurate” core concept”?1

In the USA, the generally accepted accounting (GAAP) principles are defined as the principles that have “important authoritative support”. Therefore, annual accounts and financial statements (FS) prepared in compliance with accounting principles for which no such important authoritative support exists, are assumed to be inappropriate for users’ decision-making. The effect here is that the accounting “new” or “various” principles are not acceptable unless adjusted by the accounting professional conduct, and usually by the drafting bodies of standards and/or by professional accounting bodies. This viewpoint is much stricter than the viewpoint of the Great Britain.

2.3 CONCEPTUAL FRAMEWORK FOR THE PREPARATION OF FINANCIAL STATEMENTS

IASC is charged with the identification of various differences existing in producing the financial statements (FS) and with the harmonization of
accounting standards, regulation and procedures on the preparation and disclosure of FS. The conceptual framework of the IASs drafted by the IASC was adopted by the IASCB in April 1989 and was published in June 1989. This framework presents a set of basic accounting concepts and rules, other agreements and core principles, which are intended to assist in the process of compiling and reviewing the accounting standards for the preparation and presentation of financial statements.

Purpose, status, objective, scope

Purpose:
The conceptual framework serves to set out the concepts that underlie the preparation and presentation of financial statements for external users. So, it takes into account only the financial statements published and does not regulate or provide concepts and rules for other financial statements, produced by the accounting system for management or other needs.

According to definitions made by the IASC, the purpose of this framework is to:

- Assist the Board of the IASC in reviewing the existing IAS and in developing new IFRSs;
- Assist the Board of IASC in promoting harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements by providing a basis for reducing the number of alternative accounting treatments permitted by IASs;
- Assist preparers of financial statements in applying IAS;
- Assist auditors in forming an opinion as to whether financial statements conform with IAS;
- Assist users of financial statements in interpreting the information contained in financial statements prepared in conformity with IAS.

Status:
The conceptual framework elaborated and issued by the IASC, though presented and published along with IAS, is not an IAS; therefore it is not a standard to any specific problem on assessment or presentation of elements of disclosed financial statements. Nothing from the treatments of this framework is above any separate IAS. This should be understood in such a way that, in the cases when any conflict arises between the treatment of a problem in IAS with the treatment of the same problem in the conceptual framework, then the requirement and the regulation defined in the IAS shall prevail.

Objective of financial statements:
Financial statements should provide information about the financial position, performance, changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.

Extension and restructuring:
The conceptual framework deals with:
• The objectives and constituents of financial statements;
• The qualitative characteristics of financial statements;
• The definitions, criteria of recognition and measurement of the elements of financial statements;
• Concepts of capital and capital maintenance.

2.3.1 Objectives and constituents of financial statements

Financial statements (FS) should provide information to meet their users’ needs in economic decision-making. The financial statements should provide this information via informing a:

• Financial position;
• Financial performance; and
• Changes in financial position.

According to the conceptual framework, all the constituent parts of financial statements displayed above should be seen interwoven among them, because they reflect various aspects of similar transactions or events. Though each statement provides information which is different from others, none of them should serve as a single purpose or ensure all the necessary information for separate needs of users.

Information on financial position is provided in a balance sheet. A balance sheet statement provides information on the financial position of an entity, which is impacted by:

• Economic assets it controls;
• Its financial structure;
• Liquidity and solvency;
• Its ability to adjust to changes of the environment where it operates.

Financial performance is presented in the Income Statement. Information about the performance of an entity, and particularly its abilities for profits are required with the intention to estimate possible changes in economic reserves it is able to control in the future.

Changes in financial position are presented in the Cash Flow Statement. Information on the changes in financial position of an enterprise is useful with the purpose to evaluate its investing, financing and operational activity during the reporting period.

2.3.2 Underlying assumptions and qualitative characteristics of financial statements

Underlying assumptions
In the conceptual framework, the rules to be taken into account for producing
financial statements to meet the requirements and needs of their users are presented in the form of two underlying assumptions for producing financial statements and four essential qualities the information obtained from annual financial statements should meet. The two following underlying assumptions are frequently referred to as core principles:

a. Accrual basis

According to this assumption, the effects of transactions and other events are simply recognized at the point when they occur (and not when money or its equivalent is paid) and are matched to the period in the financial statements to which they relate.

So the conceptual framework does not cover the rules and principles of building the financial statements, set up on monetary basis, but only those set up on accrual basis.

b. Going concern

According to the conceptual framework, financial statements are normally prepared on the assumption that the enterprise is a going concern and is likely to operate for the foreseeable future. The framework does not define the duration of the period of “foreseeable income”. It is defined in the IAS 1, according to which the optimal period is 12 months following the date of compiling the financial statement.

According to this assumption, the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

Qualitative characteristics of financial statements

In the conceptual framework of IAS, four fundamental qualitative characteristics are defined: Understandability, relevance, reliability, and comparability.

A brief description of these characteristics is given below:

a. Understandability: According to this quality, the financial information should be readily understandable by user. This depends not only on the simple and understandable presentation of information but also on the user’s abilities, knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, information about complex matters that should be included in the financial statements because of its relevance to the economic decision-making needs of users should not be excluded merely on the grounds that it may be too difficult for certain users to understand.

b. Relevance: Information possesses the attribute of relevance when it influences the economic decisions of users by helping them evaluate
past, present and future events. The relevance of information is affected by its nature. For example, exposure of new segments of production may affect the assessment of risks. But relevance of information frequently depends not only on its nature but also on the degree of its materiality. According to the conceptual framework, information is material if its omissions or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

c. Reliability: The financial information is reliable when it is free from error and bias of the preparers. Information reliability, as its qualitative characteristic, depends on the application of the following principles:

- Faithful Representation;
- Substance over form;
- Neutrality (free from bias);
- Prudence;
- Completeness

Without underestimating the above principles, prudence is very important. According to the conceptual framework, the application of prudence in compiling the financial statements does not allow the creation of hidden reserves or excessive provisions, understatement of assets or income, or overstatement of liabilities or expenses.

d. Comparability: Information of financial statements should provide to the users the ability to compare it through time. This serves them to identify trends in its financial position and performance. The comparability is related to the sustainability of the employment of accounting methods and policies in compiling the financial statements from period to period and by different enterprises, provided it gives appropriate explanations in relation to new policies and approaches used and to the effect they have caused on financial statements. For ensuring the comparability of information, it is necessary for an entity to include in the annexes of the financial statements, the accounting policies employed in the preparation of the financial statements.

2.3.3 Definitions, recognition criteria and estimation of elements of the financial statements

Recognition criteria and definitions

<table>
<thead>
<tr>
<th>Definitions</th>
<th>Recognition criteria</th>
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<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
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<tr>
<td>An asset is:</td>
<td>An asset is recognised in the balance sheet when it satisfies the criteria:</td>
</tr>
<tr>
<td>- a resource controlled by the entity;</td>
<td>- when the future economic benefit will flow to the enterprise;</td>
</tr>
<tr>
<td>- as a result of past events;</td>
<td>- when the asset has a cost or value that can be measured reliably.</td>
</tr>
<tr>
<td>- from which future economic benefits are expected to flow to the enterprise.</td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
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</tbody>
</table>
A liability is:
• a present obligation of the enterprise;
• as a result of past events;
• the settlement of which is expected to result in an outflow from the enterprise of the resources embodying economic benefits.

A liability is recognised in the balance sheet when it satisfies the criteria:
• when the outflow of resources embodying economic benefits will result from the settlement of a present obligation;
• the amount at which the settlement will take place can be measured reliably.

Equity
Equity is the residual interest in the assets of the entity after deducting all its liabilities.

Assets - Liabilities

Revenues
Income is:
• increases in economic benefits during the accounting period in the form of:
• inflows;
• enhancement of assets; or
• decreases of liabilities.

Income is recognised in the income statement when:
• an increase in future economic benefits related to an increase in an asset or decrease of a liability has arisen;
• This increase in the economic benefit can be measured reliably.

Expenses
Expenses are:
• decreases in economic benefits during the accounting period in the form of:
• outflows;
• depletion of assets; or
• incurrence of liabilities.

Expenses are recognised in the expenditure statement when:
• a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has risen;
• This decrease in the economic benefits can be measured reliably.

Measurement of the elements of financial statements

The conceptual framework has defined that measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the balance sheet and income statement.

Measurement bases defined in the conceptual framework are:

a. Historical cost. Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

b. Current cost. Assets are carried in the balance sheet at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried in the balance sheet at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

c. Realisable (settlement value). This method requires that assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal. Liabilities are carried at their settlement values; that is, the undiscounted amounts of cash or cash equivalents expected to be paid to satisfy the liabilities in the normal course of business.
d. Present value. According to this method, assets are carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business. Liabilities are carried at the present discounted value of the future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

2.3.4 Concepts of capital and capital maintenance

The framework focuses on two concepts of capital:

- Financial concept of capital,
- Physical concept of capital.

Financial concept of capital, such as invested money or invested purchasing power is synonymous with the net assets or equity of the enterprise. This concept is used by most of entities in the process of preparation of financial statements.

Physical concept of capital, such as operating capability is regarded as the productive capacity of the enterprise based on, for example, units of output per day.

Physical capital maintenance is concerned with how an enterprise defines the capital that it seeks to maintain. It provides the linkage between the concepts of capital and the concepts of profit because it provides the point of reference by which profit is measured; it is a prerequisite for distinguishing between an enterprise’s return on capital and its return of capital; only inflows of assets in excess of amounts needed to maintain capital may be regarded as profit and therefore as a return on capital. Hence, profit is the residual amount that remains after expenses have been deducted from income.

Capital maintenance concept requires the adoption of the current cost basis of measurement. The financial capital maintenance concept, however, does not require the use of a particular basis of measurement.

Under the concept of financial capital maintenance where capital is defined in terms of nominal monetary units, profit represents the increase in nominal money capital over the period. Thus, increases in the prices of assets held over the period, conventionally referred to as holding gains, are, conceptually, profits. They may not be recognised as such, however, until the assets are disposed of in an exchange transaction.

Under the concept of physical capital maintenance when capital is defined in terms of the physical productive capacity, profit represents the increase in that capital over the period. All price changes affecting the assets and liabilities of the enterprise are viewed as changes in the measurement of the physical productive capacity of the enterprise; hence, they are treated as
capital maintenance adjustments that are part of equity and not as profit. The selection of the measurement bases and concept of capital maintenance will determine the accounting model used in the preparation of the financial statements. Different accounting models exhibit different degrees of relevance and reliability and, as in other areas, management must seek a balance between relevance and reliability.

3. IFRS 1: “FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS”

Objective
IFRS 1, First-time Adoption of International Financial Reporting Standards, sets out the procedures that an entity must follow when it adopts IFRSs for the first time as the basis for preparing financial statements.

Definition of first-time adoption
A first-time adopter is an entity that, for the first time, makes an explicit and unreserved statement that financial statements comply with IFRSs.

An entity may be a first-time adopter if, in the preceding year, it prepared IFRS financial statements for internal management use, as long as those IFRS financial statements were not given to owners or external parties such as investors or creditors. If a set of IFRS financial statements was, for any reason, given to an external party in the preceding year, then the entity will already be considered to be on IFRSs, and IFRS 1 does not apply.

An entity can also be a first-time adopter if, in the preceding year, its published financial statements asserted:

- Compliance with some but not all IFRSs.
- Included only a reconciliation of selected figures from previous GAAP to IFRSs. (Previous GAAP means the GAAP that an entity followed immediately before adopting to IFRSs.)

However, an entity is not a first-time adopter if, in the preceding year, its published financial statements asserted:

- Compliance with IFRSs even if the auditor’s report contained a qualification with respect to conformity with IFRSs.
- Compliance with both previous GAAP and IFRSs.

Effective date of IFRS 1
IFRS 1 applies if an entity’s first IFRS financial statements are for a period beginning on or after 1 January 2004. Earlier application is also recommended.

Overview for an entity that adopts IFRSs for the first time in its annual financial statements for the year ended 31 December 2005.
1. Accounting policies. Select its accounting policies based on IFRSs in force at 31 December 2005. (The draft that preceded IFRS 1 had proposed that an entity could use the IFRSs that were in force during prior periods, as if the entity had always used IFRS. That option is not included in the final standard.)

2. IFRS reporting periods. Prepare at least 2005 and 2004 financial statements and restate retrospectively the opening balance sheet (beginning of the first period for which full comparative financial statements are presented) by applying the IFRSs in force at 31 December 2005.

   a. Since IAS 1 requires that at least one year of comparative prior period financial information be presented, the opening balance sheet will be 1 January 2004 if not earlier.
   
   b. If a 31 December 2005 adopter reports selected financial data (but not full financial statements) on an IFRS basis for periods prior to 2004, in addition to full financial statements for 2004 and 2005, that does not change the fact that its opening IFRS balance sheet is as of 1 January 2004.

Adjustments required to move from previous GAAP to IFRSs at the time of first-time adoption

1. Derecognition of some old assets and liabilities. The entity should eliminate previous-GAAP assets and liabilities from the opening balance sheet if they do not qualify for recognition under IFRSs. For example:

   a. IAS 38 does not permit recognition of expenditure on any of the following as an intangible asset:

      • research
      • start-up, pre-operating, and pre-opening costs
      • training
      • advertising and promotion
      • moving and relocation

      If the entity’s previous GAAP had recognised these as assets, they are eliminated in the opening IFRS balance sheet.

   b. If the entity’s previous GAAP had allowed accrual of liabilities for “general reserves”, restructurings, future operating losses, or major overhauls that do not meet the conditions for recognition as a provision under IAS 37, these are eliminated in the opening IFRS balance sheet.

   c. If the entity’s previous GAAP had allowed recognition of reimbursements and contingent assets that are not certain, these are eliminated in the opening IFRS balance sheet.

2. Recognition of some new assets and liabilities. Conversely, the entity should recognise all assets and liabilities that are required to be
recognised by IFRS even if they were never recognised under previous GAAP. For example:

a. IAS 39 requires recognition of all derivative financial assets and liabilities, including embedded derivatives. These were not recognised under many local GAAPs.

b. IAS 19 requires an employer to recognise its liabilities under defined benefit plans. These are not just pension liabilities but also obligations for medical and life insurance, vacations, termination benefits, and deferred compensation. In the case of “over-funded” plans, this would be a defined benefit asset.

c. IAS 37 requires recognition of provisions as liabilities. Examples could include an entity’s obligations for restructurings, onerous contracts, decommissioning, remediation, site restoration, warranties, guarantees, and litigation.

d. Deferred tax assets and liabilities would be recognised in conformity with IAS 12.

3. Reclassification. The entity should reclassify previous-GAAP opening balance sheet items into the appropriate IFRS classification. Examples:

a. IAS 10 does not permit classifying dividends declared or proposed after the balance sheet date as a liability at the balance sheet date. In the opening IFRS balance sheet these would be reclassified as a component of retained earnings.

b. If the entity’s previous GAAP had allowed treasury stock (an entity’s own shares that it had purchased) to be reported as an asset, it would be reclassified as a component of equity under IFRS.

c. Items classified as intangible assets in a business combination accounted for under the previous GAAP may be required to be classified as goodwill under IAS 22 because they do not meet the definition of an intangible asset under IAS 38. The converse may also be true in some cases. These items must be reclassified.

d. IAS 32 has principles for classifying items as financial liabilities or equity. Thus mandatory redeemable preferred shares and puttable shares that may have been classified as equity under previous GAAP would be reclassified as liabilities in the opening IFRS balance sheet.

- Note that IFRS 1 makes an exception from the “split-accounting” provisions of IAS 32. If the liability component of a compound financial instrument is no longer outstanding at the date of the opening IFRS balance sheet, the entity is not required to reclassify out of retained earnings and into other equity the original equity component of the compound instrument.

e. The reclassification principle would apply for the purpose of defining reportable segments under IAS 14.

f. The scope of consolidation might change depending on the consistency of the previous-GAAP requirements to those in IAS 27. In some cases, IFRS will require consolidated financial statements where they were not
required before.
g. Some offsetting (netting) of assets and liabilities or of income and expense items that had been acceptable under previous GAAP may no longer be acceptable under IFRS.

4. Measurement. The general measurement principle – there are several significant exceptions noted below – is to apply IFRS in measuring all recognised assets and liabilities. Therefore, if an entity adopts IFRS for the first time in its annual financial statements for the year ended 31 December 2005, in general it would use the measurement principles in IFRSs in force at 31 December 2005.

5. Adjustments required to move from previous GAAP to IFRS at the time of first-time adoption. These should be recognised directly in retained earnings or other appropriate category of equity at the date of transition to IFRSs.

How to recognise adjustments required to move from previous GAAP to IFRSs?

Adjustments required to move from previous GAAP to IFRSs at the time of first-time adoption should be recognised directly in retained earnings or, if appropriate, another category of equity at the date of transition to IFRSs.

Exceptions to the basic measurement principle in IFRS 1

1. Optional exceptions. There are some important exceptions to the general restatement and measurement principles set out above. The following exceptions are individually optional, not mandatory:

Business combinations that occurred before opening balance sheet date

a. An entity may keep the original previous-GAAP accounting, that is, not restate:
   • previous mergers or goodwill written-off from reserves;
   • the carrying amounts of assets and liabilities recognised at the date of acquisition or merger;
   • how goodwill was initially determined.

b. IFRS 1 includes an appendix explaining how a first-time adopter should account for business combinations that occurred prior to transition to IFRS.

c. However, should it wish to do so, an entity can elect to restate all business combinations starting from a date it selects prior to the opening balance sheet date.

d. In all cases, the entity must make an initial IAS 36 impairment test of any remaining goodwill in the opening IFRS balance sheet, after reclassifying, as appropriate, previous GAAP intangibles to goodwill.
Property, plant, and equipment, intangible assets, and investment property carried under the cost model

a. These assets may be measured at their fair value at the opening IFRS balance sheet date (this option applies to intangible assets only if an active market exists). Fair value becomes the “deemed cost” going forward under the IFRS cost model. (Deemed cost is an amount used as a surrogate for cost or depreciated cost at a given date.)

b. If, before the date of its first IFRS balance sheet, the entity had revalued any of these assets under its previous GAAP either to fair value or to a price-index-adjusted cost, that previous-GAAP revalued amount at the date of the revaluation can become the deemed cost of the asset under IFRS.

c. If, before the date of its first IFRS balance sheet, the entity had made a one-time revaluation of assets or liabilities to fair value because of a privatisation or initial public offering, and the revalued amount became deemed cost under the previous GAAP, that amount (adjusted for any subsequent depreciation, amortisation, and impairment) would continue to be deemed cost after the initial adoption of IFRS.

IAS 19 - Employee benefits: actuarial gains and losses

An entity may elect to recognise all cumulative actuarial gains and losses for all defined benefit plans at the opening IFRS balance sheet date (that is, reset any corridor recognised under previous GAAP to zero), even if it elects to use the IAS 19 corridor approach for actuarial gains and losses that arise after first-time adoption of IFRS. If an entity does not elect to apply this exemption, it must restate all defined benefit plans under IAS 19 since the inception of those plans (which may differ from the effective date of IAS 19).

IAS 21 - Accumulated translation reserves

An entity may elect to recognise all translation adjustments arising on the translation of the financial statements of foreign entities in accumulated profits or losses at the opening IFRS balance sheet date (that is, reset the translation reserve included in equity under previous GAAP to zero). If the entity elects this exemption, the gain or loss on subsequent disposal of the foreign entity will be adjusted only by those accumulated translation adjustments arising after the opening IFRS balance sheet date. If the entity does not elect to apply this exemption, it must restate the translation reserve for all foreign entities since they were acquired or created.

2. Mandatory exceptions. There are also three important exceptions to the general restatement and measurement principles set out above that are mandatory, not optional. These are:

IAS 39 - Derecognition of financial instruments

A first-time adopter is not permitted to recognise financial assets or financial liabilities that had been derecognised under its previous GAAP in a financial.
year beginning before 1 January 2001 (the effective date of IAS 39). This is consistent with the transition provision in IAS 39.172(a).

IAS 39 - Hedge accounting

The conditions in IAS 39.122-152 for a hedging relationship that qualifies for hedge accounting are applied as of the opening IFRS balance sheet date. The hedge accounting practices, if any, that were used in periods prior to the opening IFRS balance sheet may not be retrospectively changed. This is consistent with the transition provision in IAS 39.172(b). Some adjustments may be needed to take account of the existing hedging relationships under previous GAAP at the opening balance sheet date.

Information to be used in preparing IFRS estimates retrospectively

In preparing IFRS estimates retrospectively, the entity must use the inputs and assumptions that had been used to determine previous GAAP estimates in periods before the date of transition to IFRS, provided that those inputs and assumptions are consistent with IFRS. The entity is not permitted to use information that became available only after the previous-GAAP estimates were made except to correct an error.

Changes to disclosures

For many entities, new areas of disclosure will be added that were not requirements under the previous GAAP (perhaps segment information, earnings per share, discontinuing operations, contingencies, and fair values of all financial instruments) and disclosures that had been required under previous GAAP will be broadened (perhaps related party disclosures).

Disclosure of selected financial data for periods before the first IFRS balance sheet

IAS 1 only requires one year of full comparative financial statements. If a first-time adopter wants to disclose selected financial information for periods before the date of the opening IFRS balance sheet, it is not required to conform that information to IFRS. Conforming that earlier selected financial information to IFRSs is optional.

If the entity elects to present the earlier selected financial information based on its previous GAAP rather than IFRS, it must prominently label that earlier information as not complying with IFRS and, further, it must disclose the nature of the main adjustments that would make that information comply with IFRS. This latter disclosure is narrative and not necessarily quantified.

Of course, if the entity elects to present more than one year of full comparative prior period financial statements at the time of its transition to IFRSs, that will change the date of the opening IFRS balance sheet.
Disclosures in the financial statements of a first-time adopter

IFRS 1 requires disclosures that explain how the transition from previous GAAP to IFRS affected the entity’s reported financial position, financial performance, and cash flows. This includes:

1. Reconciliations of equity reported under previous GAAP to equity under IFRS both (a) at the date of the opening IFRS balance sheet and (b) the end of the last annual period reported under the previous GAAP. For an entity adopting IFRSs for the first time in its 31 December 2005 financial statements, the reconciliations would be as of 1 January 2004 and 31 December 2004.
2. Reconciliations of profit or loss for the last annual period reported under the previous GAAP to profit or loss under IFRSs for the same period.
3. Explanation of material adjustments that were made, in adopting IFRSs for the first time, to the balance sheet, income statement, and cash flow statement.
4. If errors in previous-GAAP financial statements were discovered in the course of transition to IFRSs, those must be separately disclosed.

Disclosure of an impending change to IFRS

If an entity is going to adopt IFRS for the first time in its annual financial statements for the year ended 31 December 2005, certain disclosure are required in its interim financial statements prior to the 31 December 2005 statements, but only those interim financial statements purport to comply with IAS 34. Explanatory information and a reconciliation are required in the interim report that immediately precedes the first set of IFRS annual financial statements. The information includes changes in accounting policies compared to those under previous GAAP.

Compliance in interim reports in the year of first-time adoption of IFRS

If an entity that adopts IFRS for the first time in its annual financial statements for the year ended 31 December 2005, it is required to apply IFRS 1 in its interim financial reports for periods within the year ended 31 December 2005 if those interim reports are described as conforming to International Financial Reporting Standards. It would not be required to apply IFRS 1 if those interim reports are described as conforming to previous GAAP.

Different IFRS adoption dates of investor and investee

A parent or investor may become a first-time adopter earlier than or later than its subsidiary, associate, or joint venture investee. In these cases, IFRS 1 is applied as follows:

1. If the subsidiary has adopted IFRSs in its entity-only financial statements before the group to which it belongs adopts IFRS for the consolidated
financial statements, then the subsidiary’s first-time adoption date is still the date at which it adopted IFRS for the first-time, not that of the group. However, the group must use the IFRS measurements of assets and liabilities.

2. If the group adopts IFRSs before the subsidiary adopts IFRSs in its financial statements, then the subsidiary has an option either (a) to elect that the group date of IFRS adoption is its transition date or (b) to first-time adopt in its IFRS financial statements.

3. If the group adopts IFRSs before the parent adopts IFRSs in its financial statements, then the parent’s first-time adoption date is the date at which the group adopted IFRSs for the first time.

4. If the group adopts IFRSs before its associate or joint venture adopts IFRSs in its financial statements, then the associate or joint venture should have the option to elect that either the group date of IFRS adoption is its transition date or to first-time adopt in its entity-only financial statements.

The application of international financial reporting standards (referred to as IAS/IFRS) in the banking system dictate the need that banks should set up, adopt and apply certain policies which will orient them to adjustments to these changes. These policies should be associated with written procedures on how the bank and its personnel will be acquainted with these developments, which structures will evidence the necessary changes to be carried out, how will such changes be effected, at what time frame and which are the problems that may come out, which structures will monitor this process, etc. We consider of importance the fact that banks should pass to the application of these standards, only after having assessed and made the best of advantages offered by these developments and after having taken necessary measures for minimising possible disadvantages.

It is important that together with banks and other financial institutions, all other institutions of the country, which play a role in practical application of standards mentioned earlier, have an explicit strategy on how they are going to carry out this role and their objectives. Besides the Bank of Albania, the Ministry of Finance, National Council of Accounting, Institute of Chartered Accountants, and most important companies in these area, are also included in these institutions. In this framework, it is necessary to institutionalise a joint negotiating process, where institutions can discuss about their problems while applying these standards, so that problems are understood and the attitude for sorting them out is harmonised and steady over the course of time.

Shënime

* By: Ibrahim Buharaja, Specialist, Supervision Department.
1 Taken from UK GAAP, Davies, Paterson & Wilson, Ernst & Young.
On October 6, 2005, the Governor of the Bank of Albania, Mr. Ardian Fullani, held a meeting at the Bank of Albania premises with Mr. Herbert Stepic, the President of the Raiffeisen International and at the same time the Vice President of the Raiffeisen Group. At the beginning, the Governor acquainted Mr. Stepic with the recent developments of the Albanian economy and banking system, highlighting particularly the important role the Raiffeisen Bank has played in these developments. Mr. Stepic stated that the RZB is determined to play an important role in the country’s development, through the development of the Albanian banking system, bringing forward the multi-year international experience of the Raiffeisen International.

On 10-12 October 2005, a three-day regional seminar on “Inflation targeting in practice”, was organized by the Bank of Albania in cooperation with the Centre of Central Banking Studies (Bank of England). The seminar aimed at encouraging a debate among the participants, economists and research specialists of the Research and Monetary Policy Departments of central banks, on policies and problems brought about by the experience in implementing inflation targeting. The program of the seminar served to this purpose, interweaving quite well the theory with practice, thus fulfilling the whole necessary framework on inflation targeting.

On 17-21 October 2005, the Mission of the IMF paid a visit to Tirana to discuss with the local authorities on the fiscal results over 2005 and the budget sheet of 2006, and in generic terms on the advantages of a future possible arrangement between the IMF and the Albanian Government. The Mission met with the Prime Minister, the Minister of Finance, the Minister of Economy, the Governor of the Bank of Albania, the Prime Minister’s advisors, and other senior officials of the Government, representatives of the community of donors and diplomats, as well as with representatives of the private sector. At the end of the visit, an agreement was concluded on key parameters of the coming year budget and on the basic assumptions of macroeconomic and fiscal policies, including here even the principles of a conservative fiscal platform and implementation of an ambitious reform agenda in tax management.

Under a special care of the National Bank of Romania, on 8-11 November 2005, the Financial Forum of the Southeastern Europe took place, with the special participation of the Governor of the Bank of Albania, Mr. Ardian Fullani, the Governor of the Bank of Romania, Mr. Mugur Isarescu, and the Governor of the Bank of Spain, Mr. Jaime Carauña. During the forum, the
participants dealt with their experience and problems on financial market development in the South Eastern Europe and the main challenges coming out from the actual problems. Possibilities on further improvement and consolidation of these indicators were also discussed. This panel was chaired by the Governor of the Bank of Albania, Mr. Ardian Fullani, who addressed a speech on Albanian experience on Basle Accords and problems related to their implementation in Albania and in the region, seen in the light of the European integration.

On 1-2 December 2005, the Bank of Albania organized an Open Forum titled “Preconditions on inflation targeting”, whose purpose was to bring to public attention a very important issue on mid-term and long-term performance of monetary policy in Albania. More concretely, during the proceedings of this forum, various issues were dealt with, relating to monetary regimes in the future, laying emphasis on the possible adoption of inflation targeting. Well-known experts in economic area, finance and monetary policy were invited in this forum.

On 5 – 6 December 2005, the Euro-Mediterranean Conference on micro credit was held in Roma, Italy, organized by the Institute of IPALMO and under special monitoring of the Senate and the Ministry of Foreign Affairs of the Republic of Italy This conference was held in the framework of the proclamation by the United Nations of the year 2005 as the international year of microfinance. The purpose of the Conference was the discussion of the strategic role of microfinance in the economic development, particularly in terms of achieving the “Objectives of the Millennium” set by the United Nations to fight against and to reduce poverty within 2015. The Bank of Albania’s Governor, Mr. Ardian Fullani also participated in this Conference, addressing a speech on “Micro credit in Albania”, presenting developments of micro credit in Albania, the institutional structure of microfinance, developments in regulatory framework and challenges presented by the objective to strengthen the sector of microfinance in the country.
LEGAL EVENTS DURING OCTOBER - DECEMBER 2005

ISSUING DEPARTMENT

On 12.10.2005, the Supervisory Council of the Bank of Albania adopted the Decision No. 78 “On approving the content and configuration of coin designs to be minted for numismatic purposes in 2006”. Pursuant to this decision, in 2006 the 50 lek coin will be minted, having the theme “Purpureus Codex of Berat 043 Φ - BERATINUS - I”, without legal tender.

MONETARY OPERATIONS

On 01.11.2005, the Supervisory Council of the Bank of Albania approved the Decision No. 81 “On guaranteeing the amount of up to Lek 29 billion treasury bills of the Albanian Government as part of the portfolio of the Raiffeisen Bank, Jnt.Stk”. The Bank of Albania guarantees the amount of up to Lek 29 billion treasury bills of the Albanian Government as part of the portfolio of the Raiffeisen Bank, Jnt. Stk., until one year from the date of issuing the guarantee, where the letter of guarantee price will be 0.2 percent on annual basis.

On 16.11.2005, the Supervisory Council of the Bank of Albania approved with the Decision No. 84 the Regulation “On interbank secondary market of securities of the Government of the Republic of Albania”. This Regulation substitutes the existing Regulation “On secondary and retail market of treasury bills in Albania”. The new Regulation aims at organising and regulating the secondary market of securities (treasury bills and bonds of a longer maturity than one year) of the Albanian Government for commercial banks, leaving more operating space to the Securities Commission.

BANKING SUPERVISION

On 16.11.2005, the Supervisory Council of the Bank of Albania approved with the Decision No. 88 a change in the Regulation “On licensing the non-bank entities”. This change relates to the entry into force of the Law No. 9396, dated 12.05.2005 “On financial leasing”, which defines that the activity of the financial leasing is regulated as a separate activity that may be performed either by banks and financial institutions or by other commercial companies. The obligation of licensing and supervision by the Bank of Albania remains for a limited circle of institutions, such as banks and non-banks, which perform other activities as stipulated by the Law “On Banks in the Republic of Albania”, including even the financial leasing, whereas the commercial companies that request to carry out only the financial leasing activity, gain such a right pursuant to the Law “On financial leasing”.

Bank of Albania
On 16.11.2005, the Supervisory Council of the Bank of Albania abrogated the Decision No. 26, dated 29.03.2000 “On exemption of some entities from the implementation of the provision of the Law “On Banks in the Republic of Albania””. Currently the Bank of Albania requires that these entities be licensed and supervised by it, given the increased number of these financial institutions and the quantitative and qualitative increase of their activity, which needs a standard assessment and supervision of activities, and the enhancement of requirements on carrying out the combat against money laundering.

On 30.11.2005, the Supervisory Council of the Bank of Albania adopted with the Decision No. 92 the Regulation “On intraday credit for commercial banks”. This Regulation is treated from a new viewpoint, intending an active administration of liquidities by commercial banks and their more active involvement in the collateral evaluation process. In this way, the banks’ role is increased in terms of using the instruments provided by the Bank of Albania, a role that consists not only in the frequency, quantity and time of its use but also in terms of increasing their initiative.

On 14.12.2005, the Supervisory Council of the Bank of Albania approved the Decision No. 96 “On releasing Mr. Limos Malaj from the duty of the Second Deputy Governor of the Bank of Albania”. Pursuant to this decision Mr. Limos Malaj will no longer exercise the functions of the Deputy Governor, but he will continue to be a member of the Supervisory Council of the Bank of Albania.

On 28.12.2005, the Supervisory Council of the Bank of Albania approved the Decision No. 101 “On granting a licence to exercise banking activity to “Union Bank” Jnt. Stk. Pursuant to this decision, the licensing to “Union Bank” is made official, leading to 17 the number of banks exercising banking business in the Republic of Albania.

ECONOMIC POLICY


On 13.10.2005, the Parliament of the Republic of Albania passed the Law No. 9431 “On a change in the Law No. 8438, dated 28.12.1998 “On tax on income”. According to this change, the taxing degree of simplified taxation on profit is 1,5 per cent. The difference that may be created from the operation of this law, compared to the 2005 planning on the local government budget will be compensated by the Ministry of Finances through the grant.

“On local tax to small business”. The alteration to the Law makes official the decision on tax reduction to small business. The difference that may be created from the operation of this law, compared to the 2005 planning of the local government budget, will be compensated by the Ministry of Finances through the grant.

On 13.10.2005, the Parliament of the Republic of Albania approved the decision No.7 “On non-approval of the draft law “On ratification of the contract for purchasing the shares of the anonymous company “Albtelecom” and the international expertise on it””. Pursuant to this Law, the Council of Ministers is charged with the ensuring of the international expertise for drafting the contract, as well as for the lawfulness of the procedures followed in privatising the “Albtelecon” Jnt. Stk.

On 26.10.2005, The Council of Ministers approved the Decision No. 664 “On an additional fund to the budget of 2005, approved for the Academy of Sciences, for financing the International Scientific Conference titled “Gjergj Kastrioti Skënderbeu and Europe””. Pursuant to this decision, the Academy of Sciences is extended an additional fund of 2 million leks in the budget forecasted for 2005, for financing this conference organised in the framework of the commemoration of the 600-anniversary of the birth of the national hero, Gjergj Kastrioti Skënderbeu.

On 26.10.2005, the Council of Ministers adopted the Decision No. 672 “On approving the internal regulation of organising and functioning of the National Council of Accounting”. This decision has stipulated the rules and the way of organising and functioning of the National Council of Accounting.

On 11.11.2005, the Parliament of the Republic of Albania passed the Law No. 9439 “On ratification of the Agreement between the Republic of Albania and the European Community for a grant of up to Euro 16 000 000. In this framework the Republic of Albania will benefit a grant of Euro 16 million, to smooth the foreign financing limitations, sustaining a stable situation of the Balance of Payments and ensuring the foreign exchange reserve position.

On 11.11.2005, the Parliament of the Republic of Albania passed the Law No. 9440 “On ratification of the Agreement between the Council of Ministers of the Albanian Government and the Arab Republic of Egypt, for avoiding double taxation and for fiscal evasion prevention on income and capital taxes”. Through this agreement, both countries define the conditions for preventing the residents of one or of both contractual countries from double taxation.

On 16.11.2005, the Parliament of the Republic of Albania adopted the Law No. 9444 “On ratification of the agreement of the development loan between the Republic of Albania and the International Development Association (IDA), in the framework of the program of the Energy Community of the South Eastern Europe”. In the framework of its commitment to the Energy Community of the South Eastern Europe, the Republic of Albania will
benefit a loan for carrying out reforms, for institutional development, and for energy sector investments.

On 16.11.2005, the Council of Ministers adopted the Decision No. 704 “On approving the criteria of representation, selection, nomination and dismissal of the members and the functioning rules of the Council of Statistics”. Pursuant to this decision, the Council of Statistics is composed of 11 members, from which 3 from academic area, 3 from social society, and 5 from statistical agencies.

On 23.11.2005, the Council of Ministers approved the Instruction No. 5 “On approving the average cost of buildings construction by the National Entity of Buildings and the coefficient “K” for 2005. Pursuant to this decision, the National Entity of Buildings defines the average cost of construction in Republic scale for 2005, at the value of 28 842 lek/square meter for useful surface.


On 15.12.2005, the Parliament of the Republic of Albania adopted the Law No. 9452 “On ratification of the Loan Agreement between the Republic of Albania, represented by the Ministry of Finances, and the State Credit Institute of the Kingdom of Spain, for the project of renovating the disseminating electrical network in Fier” Through this legal act, the Government of the Spain Kingdom shall extend a loan of 9 million dollars to the Republic of Albania, for renovation of the electrical energy dissemination network in Fier.

On 16.12.2005, the Council of Ministers adopted the decision No. 804 “On selecting the company for controlling the procedures and lawfulness of the contract on privatization of the Albtelecom, Jnt. Stk” Pursuant to this decision, the control on procedures and lawfulness of the contract for the privatization of the Albtelecom. Jnt. Stk., will be carried out by a company that will be selected through an open tender.

On 28.12.2005, The Council of Ministers adopted the Decision No. 825 “On nominating the members of the Council of Statistics.” Pursuant to this decision, this Council is composed of representatives of the academic world: Mr. Dhori Kule, Ms. Areti Stringa and Mr. Bardhyt Çeku; representatives of the civil society: Mr. Mero Baze, Mr. Kreshnik Spahiu and Ms. Mirlinda Rusi; representatives of the statistical agencies: Mr. Kliti Ceca, Mr. Ylber Bezo, Ms. Besa Peci, Mr. Konstantin Kazanxhi and Mr. Dorian Deltina.

On 28.12.2005, the Parliament of the Republic of Albania passed the Law No. 9464 “On the state budget of 2006”. The state budget for 2006 is composed of 221 745 million lek revenues, 258 376 million lek expenditures and 36 631 million lek deficit. Also, the consolidated fund, social insurances budget and health insurances budget are an integral part of this budget.
INSURANCE MARKET

On 26.09.2005, the Supervisory Authority of Insurances adopted the Decision No. 33 “On analysing the financial position of the insurance company “INSIG” Jnt.Stk., for 2004. Pursuant to this decision, the “INSIG” company is charged with the creation of the insurance reserve at the value of 21767426 lek, constituting 1/3 of the profit of the exercising year of 2004, as well as with the making of the provisioning of debtors at the amount of 7 561 845 lek.

On 26.09.2005, the Supervisory Authority of Insurances adopted the Decision No. 34 “On the financial position analysis of the “SIGMA” insurance company, Jnt. Stk., for 2004. Pursuant to this decision, the Supervisory Authority of Insurances analyses the financial position of the company and obliges it to implement the decisions and guidelines issued by it, to fulfil all the rules in accordance with the granted licence.

On 26.09.2005, the Supervisory Authority of Insurances adopted the Decision No. 35 “On analysing the financial position of the “SIGAL” insurance company, Jnt. Stk., for 2004”. Pursuant to this decision, the “SIGAL” company is charged with the creation of the insurance reserve at the value of 37087891 lek, constituting 1/3 of the profit of the exercising year of 2004, as well as with the making of the provisioning for the amount of debtors at the total value of 10 369 853 lek.

On 26.09.2005, the Supervisory Authority of Insurances adopted the Decision No. 36 “On analysing the financial position of the “ATLANTIK” Jnt. Stk., for 2004“”. Pursuant to this decision, the “ATLANTIK” company is charged with the creation of the insurance reserve at the value of 12 042 603 lek, constituting 1/3 of the profit of the exercising year of 2004, as well as with making the provisioning for the amount of debtors at the total value of 9 579 635 lek.

On 26.09.2005, the Supervisory Authority of Insurances adopted the Decision No. 37 “On analysing the financial position of the “INTE rSIG” Jnt. Stk., for 2004“”. Pursuant to this decision, the Supervisory Authority of Insurances analyses the financial position of the company and obliges it to implement the decisions and instructions issued by it, to fulfil all the rules in accordance with the granted licence.

On 25.10.2005, the Supervisory Authority of Insurances adopted the Decision No. 39 “On passing the class 10 of the insurance to re-insurance”. The “Sigma”, “Sigal”, “Atlantik”, “Intersig”, “Dukagjin”, “Interalbanian” and “Albsig” insurance companies are obliged to post to re-insurance the portfolio of obligatory insurance of the holders of vehicles for responsibilities to third persons (green card excluded).

On 26.10.2005, the Supervisory Authority of Insurances adopted the Decision No. 40 “On analysing the financial position of the “DUKAGJINI
AL” Jnt. Stk., for the first semester of 2005”. Pursuant to this decision, the Supervisory Authority of Insurances analyses the financial position of the company and obliges it to implement the decisions and instructions issued by it, to fulfil all the rules in accordance with the granted licence.

On 26.10.2005, the Supervisory Authority of Insurances adopted the Decision No. 41 “On analysing the financial position of the “ALBSIG” Jnt. Stk., for the first semester of 2005”. Pursuant to this decision, the Supervisory Authority of Insurances analyses the financial position of the company and obliges it to implement the decisions and instructions issued by it, to fulfil all the rules in accordance with the granted licence.

On 26.10.2005, the Supervisory Authority of Insurances adopted the Decision No. 42 “On analysing the financial position of the “INTERALBANIAN” Jnt. Stk., for the first semester of 2005”. Pursuant to this decision, the Supervisory Authority of Insurances analyses the financial position of the company and obliges it to implement the decisions and instructions issued by it, to fulfil all the rules in accordance with the granted licence.

On 26.10.2005, the Supervisory Authority of Insurances adopted the Decision No. 43 “On analysing the financial position of the “INTERSIG” Jnt. Stk., for the first quarter of 2005”. Pursuant to this decision, the Supervisory Authority of Insurances analyses the financial position of the company and obliges it to implement the decisions and instructions issued by it, to fulfil all the rules in accordance with the granted licence.
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
Certificate No. 1 “On Deposit Insurance”.
Delegated Administrator: Giovani BOGANI
Address: Rruga "Barrikadave", No. 70, Tirana, Albania
Tel.: 23 56 97, 23 56 98, 22 62 62
Fax.: 23 30 34

2. RAFFEISEN BANK (JOINT-STOCK COMPANY)
License No. 2/1998, dated 11.01.1999
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
Certificate No. 3 “On Deposit Insurance”.
Director: Abdul Waheed ALAVI
Address: Bulevardi “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. ITALIAN BANK OF DEVELOPMENT (BANCA ITALIANA DI SVILUPPO) (FORMER DARDANIA BANK)
License No. 5/1998, dated 11.01.1999
Director: Libero CATALANO
Address: Bulevardi “Dëshmorët e Kombit”, Ndërtesa Kullat Binjake, Tiranë
Tel.: 280 351 / 2 / 3 / 4 / 5.
Fax: 280 356.

5. NATIONAL COMMERCIAL BANK (JOINT-STOCK COMPANY)
License no. 6/1998, dated 11.01.1999
Certificate No. 5 “On Deposit Insurance”.
Director: Seyhan PENCAPLIGIL
Address: Bulevardi “Zhan D’Ark”, Tirana, Albania
Tel.: 25 09 55
Fax.: 25 09 56

* Up to December 31, 2005
6. TIRANA BANK (JOINT-STOCK COMPANY)
License No. 07, dated 12.09.1996
Certificate No. 6 “On Deposit Insurance”.
Director:  Dimitrios FRANGETIS
Address:  Bulevardi “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: RRug”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
Certificate No. 8 “On Deposit Insurance”.
Director: Ooi Kooi KEAT
Address: Qendra e Biznesit, RRuga “Murat Toptani”, 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
Certificate No. 9 “On Deposit Insurance”.
Director: Andreas GALATOULAS
Address: Bulevardi “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
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. PROREDIT 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 RAITEMEIER
Address: RRuga “Sami Frashëri”, Tirana e re, P.O. Box. 2395, Tirana, Albania
Tel.: 23 04 99, 23 34 96
Tel/Fax: 27 12 76
12. FIRST INVESTMENT BANK - TIRANA BRANCH (JOINT-STOCK COMPANY)
License No. 13, dated 16.04.1999
Certificate No. 12 “On Deposit Insurance”.
Director: Martin Isvetkov BOGDANOV
Address: Bulevardi “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
Certificate No. 13 “On Deposit Insurance”.
Director: George CARACOSTAS
Address: rruga “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
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. “CREDNS” BANK (JOINT-STOCK COMPANY)
License No. 16, dated 28.03.2003
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
Certificate No.16 “On Deposit Insurance”.
Director: Edvin LIBOHOVA
Address: rruga “Donika Kastrrioti”, Pall. 11/1, Kati I, Tirana, Albania
Tel.: 27 27 88 / 89 / 90 / 91
Fax: 27 27 81

17. UNION BANK SH.A, TIRANA.
License No. 18, dated 09.01.2006
Certificate No.17 “On Deposit Insurance”.
Director: Gazmend KADRIU
Tel: 250 653.
Fax: 250 654.
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”, Pallati 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: Bulevardi “Zogu I”, VIVE 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: 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” (JOINT STOCK COMPANY)
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
    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: Rruja “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: Rruja “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: Rruja “Luigj Gurakuqi”, Tirana, Albania
Brokers: Ardit Goci, Ismet Noka

4. “UNIONI FINANCIAR” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 4, dated 01.10.1999
Address: Rruja “Reshit Çollaku”, Pallati Shallvare, Shk. 2/18, Tirana, Albania
Manager: Niko Leka
Brokers: Arjan Lezha (Manager), Albert Sara, Dhimitër Papadhopulli, Genta Angjeli (Agalli), Pirro Tetri, Flora Simixhi, Petrikia Mano (Manager), Lindita Shala, Mirela Bakalli, Anila Demiri, Emili Bakalli (Nako), Astrit Sfërđelli, Mirela Kaiku, Erisa Emiri

5. “AGLI” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 5, dated 01.10.1999
Address: Agency No.1: Rruja “Islam Alla”, No.1, Tirana, Albania
Agency No.2: Rruja “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: Rruja “Durresit” No. 170, Tirana, Albania
Brokers: Ivan Pavlovski, Ervis Myftari

7. “UNISIX” FOREIGN EXCHANGE BUREAU S.R.L., KORÇA
License: No. 09, dated 26.11.1999
Address: Bulevardi “Republika”, Pallati 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, Rruja “Prokop Meki”, Durrës, Albania
Brokers: Kostandin Ekonomi, Entela Ekonomi

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

10. “SERXHO” FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN
License: No. 14, dated 07.04.2000
Address: Lagja “Luigj Gurakuqi”, Rruja “11 Nëntori”, Pallati 70, No.14, Elbasan, Albania
Brokers: Amarildo Canku

11. “ALTUR” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 15, dated 07.04.2000
Address: Bulevardi “Zogu I”, Pallati 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 Riilindjes”, Pallati 182, Tirana, Albania  
Brokers: Edmond Stepa, Miranda Stepa

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

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

License: No. 19, dated 24.11.2000  
Address: Lagja “Populllore”, 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: Bulevardi “Zogu I”, Tirana, Albania  
Broker: Renis Tershana

17. “MANUSHI” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA  
License: No. 22, dated 18.04.2001  
Address: Bulevardi “Zogu I”, VEV 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 “Saraçëve”, Pallati 124/1, Tirana, Albania  
Brokers: Denis Merepeza (manager)

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

20. “TILBA” FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN  
License: No. 25, dated 30.09.2001  
Address: Rruga “Luigj Gurakuqi”, Bulevardi “Qemal Stafa”, Njësia No.12, Elbasan, Albania  
Brokers: Kristaq Bako, Vjollca Bako

License: No. 26, dated 31.10.2001  
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  
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
License: No. 29, dated 22.11.2001
Address: Rruga “Muhamet Gjollesha”, 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

License: No. 35, dated 12.12.2001
Address: Rruga “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”, Bulevardi “Qemal Stafa”, Pallati 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 “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 “Durrësit”, Pallati 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

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: Bulevardi “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 1, Tirana, Albania
Brokers: Shkelqim 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: Gjerfj Dulaj (manager)

37. “TAXI EKSPRES” FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN  
License: No. 52, dated 20.05.2002  
Address: Rruga “Samti Frashëri”, nr. 11 (pranë shkollës “Edith Durhan”, Tirana, Albania  
Brokers: Arben Sharras, Sokol Kaleci

38. “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

39. “ALBA-POST” FOREIGN EXCHANGE BUREAU, TIRANA  
License: No. 56, dated 28.08.2002  
Address: Rruga “Reshit Çollaku”, No. 4, Tirana, Albania

40. “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

41. “ESLULI” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA  
License: No. 58, dated 17.10.2002.  
Address: Rruga “Reshit Çollaku”, Pallati “Shallvare”, Shk. 4/1, Tirana, Albania  
Brokers: Selim Luli, Kleomen Gjiknuri

42. “DENIKRISTI-2002” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA  
License: No. 61, dated 02.06.2003  
Address: Rruga “Myslym Shyri”, Pallati 60, Ap. 3, Tirana, Albania  
Broker: Maksim Çeku

43. “YLDON” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA  
License: No. 62, dated 03.06.2003  
Address: Rruga “Qemal Stafa”, Pallati 382/2/2, Tirana, Albania  
Broker: Ylli Ndoqi (manager)

44. “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)

45. “ALBA&ARBËR” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA  
License: No. 65, dated 06.05.2004  
Address: Rruga “Kavajës”, Pallati 3, Kati I, Tirana, Albania  
Brokers: Pellumb Mehemetaj, Bukurosh Jaho (managers)

46. “I.S.N.” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA  
License: No. 66, dated 06.05.2004  
Address: Rruga “Kavajës”, Pallati 3, Kati I, Tirana, Albania  
Brokers: Evzi Zemzadja (manager), Nexhmi Uka, Slandi Brojaj

47. “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
48. “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: Ermina Skënderi (manager), Engjëll Skënderi, Burhan Kodra

49. “ALB-KREDIT” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No.69, dated 19.07.2004
Address: Rruga “Durrësit”, No. 2, Tirana, Albania
Brokers: Arben Cani (manager), Vasil Marto, Rudina Muskaj, Valbona Kadriu, Taulant Karkini, Hajredin Toca

50. “IDEA - 2” FOREIGN EXCHANGE BUREAU S.R.L., KAVAJA
License: No. 70, dated 02.09.2004
Address: Lajia No.2, Rruga “10 korriku”, Kavaja, Albania
Broker: Taulant Karkini (manager)

51. “O & G” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Address: Rruga “Kavaja’s”, Tirana, Albania
Brokers: Pranvera Ago (manager), Teuta Broqi

52. “OMEGA” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
Address: Rruga “Abdyl Frashëri”, Pallati 1, Shk.2, Ap.10, Tirana
Broker: Mihallaq Peko (manager)

License: No.73, dated 28.04.2005
Address: Bulevardi “Bajram Curri”, Pallatet Agimi, No.16, Tirana
Brokers: Kujtim Elbasani (manager)
Associates: Kujtim Elbasani

54. “JONADA – 05” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No.74, dated 27.06.2005
Address: Rruga “Kavajës”, Pallati 185, Shkalla 2, Ap. 9, Tirana, Albania
Brokers: Liliana Zjfi (manager), Pëllumb Zjfi
Associates: Liliana Zjfi, Pëllumb Zjfi

License: No.75, dated 08.07.2005
Address: Lagja “Shënkoll”, Rruga “Thoma Kaleshi”, Pallati 110, Shk.1, Kati 1, Elbasan, Albania
Brokers: Nashifer Basha, Çlirim Basha, Sonila Alla

License: No.76, dated 02.08.2005
Address: Lagja “Çlirim”, Lushnje, Albania
Brokers: Bledar Çela

License: No.77, dated 09.09.2005
Address: Lagja “Besëlidhja”, Pallati 73, Lezhë, Albania
Brokers: Ilir Malaj

58. “EUROTOURS” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No.78, dated 17.10.2005
Address: Rruga “Reshit Çollaku”, Nr. 2/18, Pallatet Shallvare, Tirana, Albania
Brokers: Albert Cara, Ilir Stafa.
UNIONS OF SAVINGS AND CREDIT ASSOCIATIONS

1. “JEHONA” SAVINGS AND CREDIT ASSOCIATIONS UNION, TIRANA
License: No. 1, dated 27.06.2002
Address: Rruga “Kajo Karafili”, No. 26/1, Tirana, Albania
Head of the Executive Board: Vojisava 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