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1 GOVERNOR’S SPEECH

The Albanian economy at the end of the first quarter 2006 continued to be characterized by a general macroeconomic stability, mainly reflected in keeping inflation under control, and by a considerable budget surplus, caused as a result of income realization above the projected level, while budget expenditures have resulted lower. Local currency has been stable throughout the period, while the data for January indicate that the volume of foreign trade in terms of value has undergone a significant growth compared to the same period the previous year. Like in the previous year, credit to economy marked stability in the growing rates, as such becoming the main source of money supply growth.

Annual inflation over the first quarter 2006 remained below the low limit of the objective of the Bank of Albania. Average annual inflation rate for this period was 1.4 per cent, recording a decrease of 0.8 percentage points compared to the same period the previous year. The low inflation recorded over the first quarter was determined by the low pressure exerted on consumer prices by the aggregate demand, and by the lack of excessive inflationary pressures by the supply factors. Monetary and fiscal policies have contributed to maintaining macroeconomic stability, by keeping demand inflationary tendencies under control.

The monetary policy pursued over the first quarter 2006 has maintained the monetary factor stability in the inflation rate performance. The slowdown in the growing rates of monetary indicators and the sustainability of financial indicators have been consistent with the current dynamic of inflationary pressures on economy. The growing rate of money supply slowed down over this period, meanwhile the LEK exchange rate is presented stable and money supply liquidity ratios have improved. The time structure of interest rates in economy fluctuates to minimal and stable intervals compared to the historical standards, as such reflecting the expectations for low inflation rates in the medium-term.

Fiscal policy over the first quarter, following the significant reduction of domestic financing at the year-end 2005, had a direct impact on the establishment of a non-inflationary environment. According to the data provided by the Ministry of Finance, by the end of March was collected 106 per cent of the planned income and were realized about 87.6 per cent of the projected expenditures. Fiscal balance for the first quarter resulted in about LEK 10.3 billion of surplus, compared to the forecasted amount of LEK 1.1 billion. The increase in the budget income testifies for a step forward in the enhancement of efficiency in fiscal administration.
Treasury bills yield has displayed a slight but gradual decrease throughout the first quarter, as a result of the added income and the Government’s constraint in spending. However, the Government’s spending policy over the second semester of 2006 should be pursued prudently, in order to correct the possible negative effects of its concentration in short time intervals. Moreover, the carrying out of capital investments calls for greater attention on behalf of the competent authorities, since these investments are utilized for the creation of the required infrastructure in order to support the economic growth in the long run.

Lek exchange rate is presented stable in nominal effective terms; however, there has been an annual appreciation of 1.0 per cent. Over the first quarter, the average exchange rate of lek to euro marked an annual appreciation of 2.9 per cent. However, the appreciating tendency of Lek to Euro has decreased compared to the previous quarter and to the same period the previous year.

The performance of oil prices in the international markets in the quarter being analyzed shows an increasing external pressure. The annual rise of fuel prices in these markets was 23 per cent. The recent rise in prices and the vague perspective characterizing this market, raise a lot of questions regarding the impact of this product price on economy. The small weight shared by this product (subgroup, wherein the oil price is included, shares a weight of 1.6 per cent in the consumer index basket) causes its direct effect on inflation to be limited. However, second round effects, which may influence on inflation in the form of increase in costs, remain a concern.

Money supply annual growth decreased to 11.6 per cent in February compared to 14.0 per cent at the year-end 2005. Over the first two months, M3 aggregate grew by only LEK 2.2 billion in absolute value. The return of cash into the system, after its seasonal growth at the end of the previous year, resulted in more rapid rates than projected. Moreover, the positive fiscal balance sheet of the public sector in the first months of the year conditioned the low Government’s borrowing from the banking system. Both these factors have established the grounds for a rapid increase of liquidity in the system over the first quarter.

The banking system excess liquidity at the end of the first quarter displayed a growing tendency to the level of LEK 9.5 billion, while the quarterly average resulted in about LEK 5.8 billion. The presence of the Bank of Albania in the money markets has aimed at withdrawing the system liquidity through the use of long-term and short-term instruments of the monetary policy. Reverse repurchase agreement of one-week maturity, with fixed and very unlimited price, was the main instrument. Starting from February, the Bank of Albania withdrew liquidity through repos of three-month maturity, while the liquidity invested by banks in repos of one-month maturity was in minimal levels. The withdrawal of liquidity through three-month and one-month repos has aimed at smoothing the decreasing pressures of interest rates in the money markets. Moreover, the Bank of Albania has withdrawn the daily excess liquidity through the use of overnight deposit.
Pursuant to its strategy for the accomplishment of quantitative objectives, the Bank of Albania has also been present in the foreign currency market. Foreign exchange market interventions have resulted in the injection of about LEK 0.8 billion currency in circulation. The presence of the Bank of Albania in this market has improved the position of foreign reserve for the first quarter, thus, contributing to the increase in the level of reserve by about USD 100 million above the objective. Under the conditions of tightening the monetary basis was enabled the observance of the objective of net domestic assets, while the lack of need for fiscal deficit financing has left the level of net domestic credit to the Government unchanged.

The currency and time structure of money supply has observed the historical tendencies noticed in the recent years. The foreign currency component of money supply has continued to grow rapidly. The ratio of foreign deposits to M3 in February grew to 27.2 per cent compared to 24.1 per cent in the same period the previous year.

Credit performance in January – February 2006 maintained the upward tendency as noticed in 2005. Credit balance grew by LEK 7 billion or with an annual average rate of 71.4 per cent. During this period was extended a total of LEK 18 billion of new credit or 31 per cent more than the credit extended over the same period the previous year. At the end of February 2006, credit to economy shared 22.2 per cent of M3 and 15.2 per cent of the GDP projected for year 2006. On the other hand, the further increase was also reflected by the indicators of bank intermediation. The ratio of credit to total assets of the banking system reached to 25.6 per cent, while its ratio to total deposits to 29.2 per cent. The rapid credit growth may have influenced on the deepening of current account deficit, supporting the increase of demand for imported goods and machinery.

The ratio of short-term credit to total credit has maintained a downward tendency in the first two months of 2006. On the other hand, it is observed that credit of over 5 years of maturity continues with its upward trend, evidencing at the end of February a considerable growth to 38 per cent of credit portfolio. Crediting to branches of economy has generally maintained the same distribution as in the end 2005. Trade sector remains the most credited branch sharing 18.7 per cent of credit portfolio. Credit to the production sectors of economy has increased most considerably, reaching to 14.3 per cent. Credit to the construction sector has remained unchanged to the level of 13 per cent of credit portfolio.

In its perspective viewpoint, the Bank of Albania is above all underpinned by its inflation forecasting models. Pursuant to these forecasts and expected developments, both national and international, we are assessing prudently the appropriateness of the current position of the monetary policy and the 5 per cent level of the core interest rate.

Although the short-term forecasts indicate an under-control inflation rate, we are seriously assessing a few potential risks, which for a while have
been pending on our economy. In more concrete terms, factors such as: the performance of oil and energy prices, the rapid increase of crediting, large possible concentration of budget expenditures in the last months of the year (including a possible supplementary budget) as well as the constant decrease of the difference between the interest rates in LEK and those in foreign currency, may call for the need of a possible modification of the monetary policy target, releasing it from the relatively long status of neutrality it has been in.

2 ECONOMIC DEVELOPMENTS AND INFLATION

2.1 ECONOMIC ACTIVITY AND ECONOMIC GROWTH

The assessment of the Albanian economy performance over the first quarter 2006 becomes difficult, due to the lack of data for almost all economic indicators by different sectors. The available data enable the analysis of economy sales for the last quarter 2005 and the performance of the energy sector over the first quarter 2006.

Sales index of economy in the last quarter 2005 increased in total by 13.5 per cent in annual terms. The increase in sales by sectors has changed the dynamics over the last quarter of 2005. The contribution of “Industry” and “Construction” to the annual growth of economy sales has decreased significantly compared to the previous year. The contribution of the industry sector and the construction sector to the growth of economy sales over the last quarter of 2005 was 0.36 and 1.1 percentage points, respectively. Over the same quarter the previous year, these sectors contributed by about 2.4 and 7.9 percentage points, respectively. Meanwhile, the contribution of “Trade, hotels and restaurants” increased from 5.8 to 10.1 percentage points.

Construction
Judging from the sales performance and the performance of “Import of cement”, the sector of
“Construction” has lowered the increasing rates over the fourth quarter of 2005. Sales for this period have marked an annual growth of 6.8 per cent, compared to 45.6 per cent in the previous year, while the cement imports decreased by 1 per cent. Construction costs, as indicated by the cost index in construction, increased reasonably, both compared to the previous quarter and the previous year.

Services
Services sector continues to share a significant weight in economy sales. “Trade, hotels and restaurants” item contributed to the annual growth of the general index by 10 point percentage, as such determining almost its entire upward amplitude. The annual growth of this sector’s sales was 21.6 per cent, while compared to the previous quarter, the growth reached to 7.2 per cent. The booming in the production of this sector was accompanied by an increase in the prices’ contribution of this group to the consumer price index.

Industry
Industry sector, one of the most significant sectors of the Albanian economy, as regards its increasing weight and contribution, increased by 1.7 per cent over the fourth quarter of 2005. Extracting industry holds 7.4 per cent of this sector’s sales weight, making a contribution to its growth by 0.5 percentage points. The annual growth of the industry sector’s total sales was determined by the increase in the sales of “Processing industry” sector. The latter contributed to total growth of industry sales by 3.6 points percentage.

<table>
<thead>
<tr>
<th>Share to total</th>
<th>Sales ’05/’04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total industry</td>
<td>100 1.7 per cent</td>
</tr>
<tr>
<td>Extracting industry</td>
<td>7.4 6.1 per cent</td>
</tr>
<tr>
<td>Processing industry</td>
<td>67.3 5.3 per cent</td>
</tr>
<tr>
<td>Energy, water and gas</td>
<td>25.3 -7.8 per cent</td>
</tr>
</tbody>
</table>

Source: INSTAT, Sales index

As noticed in the following chart, processing industry increased with lower rates than in the previous year. Meanwhile, extracting industry has begun to mark positive increasing annual rates, after a decrease by 20 per cent in the last quarter of 2004.

Energy
Over the first two months of the current year was recorded an annual growth in the energy supply by 8.4 per cent. The increase in supply was
mainly covered by import, considering that the domestic production of energy suffered a decrease by about 11.4 per cent compared to the production of the same period the previous year. Hydro electric power remains the greatest source of energy production in the country, covering about 98 per cent of total production. Import of energy increased significantly over this period compared to the same period the previous year. Import during January-February 2006 shared 17.9 per cent of the supply.

Losses in the system increased, recording a level of 19.6 per cent higher than the same period the previous year, while losses in equipment resulted 27.1 per cent higher. Invoiced consumption increased modestly by 0.4 percentage points, while the fact that un-invoiced consumption has increased by 139.5 per cent compared to the same period the previous year, remains an issue.

### Table 2 Electricity balance (in GWh)

<table>
<thead>
<tr>
<th></th>
<th>Jan-Feb 04</th>
<th>Jan-Feb 05</th>
<th>Jan-Feb 06</th>
<th>Jan-Feb 06/05 in percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic production energy</td>
<td>1,023.4</td>
<td>1,110.9</td>
<td>983.7</td>
<td>-11.4</td>
</tr>
<tr>
<td>Import</td>
<td>176.1</td>
<td>13.1</td>
<td>209.3</td>
<td>1,494</td>
</tr>
<tr>
<td>Distribution</td>
<td>1,124.8</td>
<td>1,077.7</td>
<td>1,168.5</td>
<td>8.4</td>
</tr>
<tr>
<td>Losses in distribution</td>
<td>481.9</td>
<td>444.3</td>
<td>531.4</td>
<td>19.6</td>
</tr>
<tr>
<td>Technical losses</td>
<td>216.3</td>
<td>222.4</td>
<td>282.6</td>
<td>27.1</td>
</tr>
<tr>
<td>Invoiced consumption</td>
<td>642.9</td>
<td>633.4</td>
<td>637.0</td>
<td>0.6</td>
</tr>
<tr>
<td>Un-invoiced consumption</td>
<td>265.6</td>
<td>221.9</td>
<td>531.5</td>
<td>139.5</td>
</tr>
<tr>
<td>Household’s invoiced consumption</td>
<td>405.6</td>
<td>398.1</td>
<td>399.6</td>
<td>0.4</td>
</tr>
<tr>
<td>Household’s invoiced consumption (in percentage)</td>
<td>63.1</td>
<td>62.8</td>
<td>62.7</td>
<td>-0.2</td>
</tr>
</tbody>
</table>

Source: Albanian Power Corporation

### 2.2 LABOUR MARKET

Due to the lack of more complete statistical data, it may be concluded that the labour market has developed slightly over the first two months of 2006. This period was characterized by a further reduction of the number of unemployed, registered in the employment offices. This fact is underpinned by the analysis of the data on the rate of unemployment until the end February. Until this period, the number of unemployed reduced by 1156 persons compared to the end December in the previous year, raising the number of unemployed to 152094 or 14 per cent of all labour forces. Compared to the previous year, the employment rate has reduced by 2.5 percentage points. With regard to the unemployment structure, most of it is composed of unemployed above 35 years of age and their education does not exceed the eight-year school.
Labour force and employment over the first quarter were not characterized by an increase in figures. State administration reform, in particular reforms in large state-owned enterprises, yet unprivatized, are deemed to have led to the decrease of employment figures in the first quarter of the present year (the same was observed in the fourth quarter of 2005). Meanwhile, increase is expected in the private non-agricultural sector. In general, the increase in the employment figures over the recent years has been mainly due to the increase in this sector. From the first quarter 2004 to year-ended 2005, this sector has opened 9 thousand of new work places. Another important factor in the employment of this sector is the decrease of taxes for the small business.

<table>
<thead>
<tr>
<th>Total of labour forces (in thousand of people)</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q.I</td>
<td>1080</td>
<td>1086</td>
</tr>
<tr>
<td>Q.II</td>
<td>1081</td>
<td>1086</td>
</tr>
<tr>
<td>Q.III</td>
<td>1080</td>
<td>1086</td>
</tr>
<tr>
<td>Q.IV</td>
<td>1074</td>
<td>1086</td>
</tr>
<tr>
<td>A. Total of employed (in thousand of people)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) in the public sector</td>
<td>179</td>
<td>175</td>
</tr>
<tr>
<td>ii) in private non-agricultural sector</td>
<td>206</td>
<td>214</td>
</tr>
<tr>
<td>iii) in private agricultural sector</td>
<td>534</td>
<td>542</td>
</tr>
<tr>
<td>B. Unemployment (in thousand of people)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Total of unemployed</td>
<td>161</td>
<td>154</td>
</tr>
<tr>
<td>ii) Total of individuals benefiting unemployment compensation</td>
<td>11.7</td>
<td>11.2</td>
</tr>
<tr>
<td>C. Unemployment rate (in percentage)</td>
<td>14.9</td>
<td>14.2</td>
</tr>
</tbody>
</table>

Source: INSTAT, Conjecture, April 2006

The average salary in the public sector has risen over the recent years. Rise in salary is expected to be more considerable over 2006. The Ministry of Labour, Social Affairs and Equal Opportunities has confirmed the rise of the minimal salary, teachers’ salary and of low salary categories, as well as the pension indexation.

### 2.3 Fiscal Sector

According to the data made available by the Ministry of Finance, by the end of March was collected 106 per cent of the planned income and were realized about 87.6 per cent of the projected expenditures. Fiscal balance for the first quarter 2006 resulted in about LEK 10.3 billion of surplus, compared to the projected amount of LEK 1.1 billion. The increase in the budget income testifies for a step forward in the enhancement of efficiency in fiscal administration. Over the first quarter of the year was observed a breakdown of the trend generated over the last eight years, when there has been a fiscal balance deficit.
The first quarter of 2006 displayed a high growth of fiscal income. Total income grew to the level of 16.7 per cent compared to the same period the previous year, representing one of the highest levels of income growth over the recent years. Excise and tax income have had their best performance with regard to income.

Meanwhile, compared to the same period the previous year, income from local government decreased by 13.4 per cent.

The level of tax income at the end of the first quarter amounted to about LEK 47.3 billion, while tax collected from the customs resulted in about LEK 3.4 billion, realizing the forecasted level in the draft budget of the beginning of the year by 105.6 and 112.4 per cent, respectively.

Value Added Tax constitutes the main source of tax income. The growing rates of VAT income over the first quarter were 2.4 percentage points higher than the average growth of this indicator over the last four years. Moreover, except for income from the local government, all other fiscal income indicators have exceeded the plan forecasted for this period.
2.3.2 Budget expenditures

Budget expenditures over the first quarter of this year reached the level of LEK 42.7 billion, constituting about 87.6 per cent of the programmed level for this period. For the first time in the last 14 years, total expenditures were lower than the same period the previous year, marking an annual decrease of 8.9 per cent. Budget plan for 2006 forecasts a reduction of 9.5 percent of Government expenditures over this year, compared to the previous year.

Current expenditures, which constitute about 92 per cent of total expenditures, marked a decrease of 6 per cent compared to the previous year. Maintenance, interest and local government operative expenditures recorded the highest decrease in this period, by 30.7, 9.0 and 18.2 per cent, respectively.

Personnel expenditure, which constitutes 30.5 per cent of current expenditures and 28.2 per cent of total expenditures, were realized to the level of 100 per cent. Capital expenditures, which underwent a considerable decrease over the first quarter, continue to be below the planned level, realizing 55.6 per cent of the plan. Expenditures covered by domestic and foreign financing were realized to the level of 75.8 and 38.7 per cent.

It is observed that expenditures for social insurance and expenditures for social insurance contributions solely increased in current expenditures.

Meanwhile, maintenance operative expenditures and capital expenditures decreased more than the other expenditure indicators, being below the planned level.

Capital expenditures were considerably reduced over this period, but their performance over years is presented as asymmetrical, suggesting that their performance is remarkably influenced by the functioning of individual projects and Government priorities. Characteristic of capital expenditures is the growing weight of domestic financing against the foreign one.
2.3.3 Fiscal deficit

Due to high income and reduction of Government expenditures over the first quarter of this year, was accumulated a fiscal surplus of LEK 10.3 billion.

Government borrowing projects an evident asymmetric distribution over 2006. In the draft budget of 2006, 92.5 per cent of the deficit is projected to result in the second semester of the year, while in the three previous years this semester was projected to share on average 62.3 per cent of annual deficit weight.

2.4 EXTERNAL SECTOR OF ECONOMY

The volume of trade activity with the rest of the world over January 2006, reached to EUR 205.2 million, marking an increase by 26 per cent compared to the previous year. The increase of trade transactions for this period came as a consequence of the growth in both export and import. Exports in January amounted to about EUR 46 million or 21 per cent more than the same period the previous year. Imports amounted to EUR 159 million, increasing by about 28 per cent compared to the previous year.
Trade deficit for January marked EUR 113.3 million, deepening by 31 per cent in annual terms. The increase of imports was the main factor of trade deficit deepening. Despite the lack of information on balance of payments accounts for this period, based on the significant influence of trade balance on current account, it could be expected deepening of current account deficit for January.

2.4.1 Exports

Albanian exports over January 2006 were dominated by the commodity groups of textiles, footwear, mineral exports and base metals, which in total share 80 per cent of total exports. Export of mineral products recorded a considerable increase over this month. The weight of this commodity group to total exports for January 2006 was 13.5 per cent, compared to 0.86 per cent in the previous year. The export weight of the commodity groups of textiles, footwear and base metals to total exports marked a decrease by 12 percentage points, compared to the same period the previous year.

### Table 9 Structure of exports and imports (in percentage)

<table>
<thead>
<tr>
<th>Export/Import</th>
<th>Jan '05</th>
<th>Dec '05</th>
<th>Jan '06</th>
<th>Dec '05</th>
<th>Jan '06</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Live animals; animal products</td>
<td>0.27</td>
<td>0.32</td>
<td>0.77</td>
<td>3.34</td>
<td>2.31</td>
</tr>
<tr>
<td>2 Vegetable products</td>
<td>3.11</td>
<td>2.99</td>
<td>2.37</td>
<td>9.67</td>
<td>5.63</td>
</tr>
<tr>
<td>3 Animal or vegetable fats and oils</td>
<td>0.00</td>
<td>0.06</td>
<td>0.08</td>
<td>2.20</td>
<td>1.24</td>
</tr>
<tr>
<td>4 Prepared foodstuffs, spirits and vinegar, tobacco</td>
<td>3.92</td>
<td>2.59</td>
<td>3.19</td>
<td>6.97</td>
<td>7.20</td>
</tr>
<tr>
<td>5 Mineral products</td>
<td>0.86</td>
<td>3.37</td>
<td>13.48</td>
<td>10.88</td>
<td>14.75</td>
</tr>
<tr>
<td>6 Products of the chemical or allied industries</td>
<td>0.82</td>
<td>0.35</td>
<td>0.03</td>
<td>6.39</td>
<td>6.76</td>
</tr>
<tr>
<td>7 Plastics and articles thereof; rubber and articles thereof</td>
<td>0.43</td>
<td>0.66</td>
<td>1.14</td>
<td>3.43</td>
<td>2.63</td>
</tr>
<tr>
<td>8 Raw hides and skins, leather, fur skins and articles thereof</td>
<td>1.71</td>
<td>1.86</td>
<td>2.09</td>
<td>2.51</td>
<td>2.14</td>
</tr>
<tr>
<td>9 Wood and articles of wood; cork and articles of cork; manufactures of straw</td>
<td>1.83</td>
<td>1.28</td>
<td>1.31</td>
<td>1.46</td>
<td>1.39</td>
</tr>
<tr>
<td>10 Pulp of wood, waste of paperboard; paper and paperboard and articles thereof</td>
<td>1.28</td>
<td>1.62</td>
<td>2.18</td>
<td>1.71</td>
<td>1.55</td>
</tr>
<tr>
<td>11 Textiles and textile articles</td>
<td>33.96</td>
<td>27.67</td>
<td>27.61</td>
<td>11.27</td>
<td>9.28</td>
</tr>
<tr>
<td>12 Footwear, headgear, umbrellas, artificial flowers</td>
<td>29.93</td>
<td>29.60</td>
<td>27.35</td>
<td>2.96</td>
<td>2.64</td>
</tr>
<tr>
<td>13 Articles of stone, plaster, cement; ceramic products; glass and glassware</td>
<td>0.37</td>
<td>0.44</td>
<td>0.54</td>
<td>5.16</td>
<td>3.68</td>
</tr>
<tr>
<td>14 Pearls; precious stones and metals; jewellery; coin</td>
<td>0.13</td>
<td>0.13</td>
<td>0.16</td>
<td>0.04</td>
<td>0.04</td>
</tr>
<tr>
<td>15 Base metals and articles of base metal</td>
<td>14.52</td>
<td>17.40</td>
<td>11.79</td>
<td>8.54</td>
<td>11.01</td>
</tr>
<tr>
<td>16 Machinery and mechanical appliances, electrical equipment; parts thereof</td>
<td>4.24</td>
<td>6.58</td>
<td>3.90</td>
<td>13.79</td>
<td>18.63</td>
</tr>
<tr>
<td>17 Vehicles, aircraft, vessels and associated transport equipment</td>
<td>0.14</td>
<td>0.40</td>
<td>0.09</td>
<td>6.29</td>
<td>4.94</td>
</tr>
<tr>
<td>18 Optical instruments and apparatus; clocks and watches; musical instruments</td>
<td>0.37</td>
<td>0.07</td>
<td>0.11</td>
<td>1.53</td>
<td>1.48</td>
</tr>
<tr>
<td>19 Arms and ammunition; parts and accessories thereof;</td>
<td>2.02</td>
<td>0.57</td>
<td>0.00</td>
<td>0.03</td>
<td>0.05</td>
</tr>
<tr>
<td>20 Miscellaneous manufactured articles</td>
<td>1.92</td>
<td>2.04</td>
<td>1.82</td>
<td>1.86</td>
<td>2.61</td>
</tr>
<tr>
<td>21 Works of art, antique</td>
<td>0.00</td>
<td>0.02</td>
<td>0.00</td>
<td>0.0</td>
<td>0.01</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Bank of Albania
2.4.2 Imports

Import of goods is presented more diversified in items than export. The commodity groups of mineral products, machinery and mechanical appliances and textiles share the main weight in the import of goods, by 19, 14.9 and 9.7 per cent to total imports, respectively. In annual terms, the weight of agricultural products import to total imports has decreased by about 3.6 percentage points reaching to 18.6 per cent.

Geographical distribution of exports and imports

Export of Albanian goods was mainly oriented towards the European Union countries even during January 2006. Export with these countries shares 95 per cent of total exports. Albania’s main trade partners with regard to export remain Italy with 81 per cent and Greece with 9 per cent. Export with regional countries for this month share 4 per cent of total exports. Main regional partners for January were Turkey, Kosovo and Macedonia.

Import of goods had a wider geographical expansion compared to export. However, European Union countries still share the main weight in import with 61 per cent of total import. Italy and Greece remain the main partners with regard to the import of goods, sharing 25 and 14 per cent of total import, respectively. Import with regional countries share 15 per cent of total import. Main partners for this month among regional countries were Turkey, Romania and Bulgaria. Main partners in imports with other countries were China, Russia and Ukraine.

2.5 INFLATION PERFORMANCE OVER THE FIRST QUARTER

Annual inflation remained below the low limit of the Bank of Albania objective over the first quarter 2006, after decreasing to the level of 2 per cent in December 2005. The average rate of annual inflation for the first quarter was 1.4 per cent, marking a decrease of 0.8 percentage points compared to the same period the previous year. Such a decrease was mainly influenced by the considerable slowdown of the rise in the prices of “Rent, water, fuels and energy” group.

Despite the positive contribution to the annual inflation rate by “Foodstuffs and non-alcoholic beverages” group for March 2006 (in contrast to its negative contribution over the same month the previous year), its pressure on total inflation was reduced by the decreasing contribution of “Rent, water, fuels and energy” group.
Monthly consumer price index increased gradually over the first quarter 2006, but with lower rates compared to the first quarter 2005. Average monthly inflation rate over the period being analyzed was 0.25 per cent. This rate was determined by the negative contributions of “Transportation” and “Rent, water, fuels and energy” groups and the positive contribution of “Foodstuffs and non-alcoholic beverages” group. Their contribution had an opposite track over the first quarter 2005.

Despite the smoother seasonal effect, the low inflation over this quarter also reflected the positive contribution of macroeconomic stability, the lack of shocks and the controlled inflationary pressures caused by the increase in oil prices.

2.5.1 Inflation performance by constituent groups

In general, the various groups of consumer price basket have maintained the track of their contribution to annual inflation over the first quarter 2006, but they have changed the intensity of this influence, compared to the first quarter 2005. The decreasing influence of inflation of “Rent, water, fuels and energy” group, somehow counterbalanced by a more moderate smoothing effect of “Foodstuffs and alcoholic beverages” group and the increase in the positive contribution provided by “Transportation” and “Hotels, cafés, and restaurants” groups, determined the annual inflation rate.

The prices of “Foodstuffs and non-alcoholic beverages” group, which display the most considerable unsteadiness within the consumer price

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>6.5</td>
<td>0.0</td>
<td>3.3</td>
<td>3.3</td>
<td>1.4</td>
</tr>
<tr>
<td>February</td>
<td>7.6</td>
<td>1.1</td>
<td>4.4</td>
<td>1.8</td>
<td>1.3</td>
</tr>
<tr>
<td>March</td>
<td>7.5</td>
<td>1.3</td>
<td>4.0</td>
<td>1.6</td>
<td>1.5</td>
</tr>
<tr>
<td>April</td>
<td>6.5</td>
<td>2.3</td>
<td>3.2</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>4.6</td>
<td>2.8</td>
<td>2.6</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>3.7</td>
<td>2.6</td>
<td>2.9</td>
<td>2.9</td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>4.2</td>
<td>3.0</td>
<td>3.1</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>August</td>
<td>5.5</td>
<td>3.0</td>
<td>2.7</td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td>September</td>
<td>5.3</td>
<td>2.8</td>
<td>2.0</td>
<td>3.1</td>
<td></td>
</tr>
<tr>
<td>October</td>
<td>5.8</td>
<td>2.9</td>
<td>2.0</td>
<td>3.3</td>
<td></td>
</tr>
<tr>
<td>November</td>
<td>3.7</td>
<td>3.4</td>
<td>2.2</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>December</td>
<td>1.7</td>
<td>3.3</td>
<td>2.2</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>5.2</td>
<td>2.2</td>
<td>3.0</td>
<td>2.4</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Source: INSTAT
basket, recorded a decrease in the monthly rate over January and February, and an increase in March. Annual average rate of this group over the first quarter was -0.1 per cent, contributing to the average annual inflation rate by -0.04 percentage points. This contribution was -0.52 percentage points in the previous year. The positive contribution over March also reflected the rise in the prices of “Foodstuffs” in Greece and the decline of lek appreciation to the euro over March.

<table>
<thead>
<tr>
<th>Month</th>
<th>Annual inflation '05</th>
<th>Annual inflation '06</th>
<th>Contribution (pp)</th>
<th>Contribution (pp)</th>
<th>Italy Annual inflation '06</th>
<th>Greece Annual inflation '06</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>-0.7</td>
<td>-0.4</td>
<td>-0.2</td>
<td>1.1</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>February</td>
<td>-1.2</td>
<td>-0.3</td>
<td>-0.1</td>
<td>0.9</td>
<td>2.1</td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>-1.7</td>
<td>0.4</td>
<td>0.4</td>
<td>0.2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: INSTAT

Annual inflation of “Rent, water, fuels and energy” group fluctuated to about 3.5 per cent over the first quarter 2006. Annual inflation of 3.2 per cent in March 2006 is the lowest rate recorded since October 2003. Being the second group with regard to the weight it shares in total inflation after “Foodstuffs and non-alcoholic beverages” group, the increase in its index has influenced the positive inflation rates. The slowdown in the growing rate of this group index over the first quarter, brought the decrease of its average contribution to annual inflation rate to 0.9 percentage points. Average annual contribution in the first quarter the previous year was +2.8 percentage points. The fall in the price of rent, imputed rent and fuels influenced on the monthly decrease of this group index.

<table>
<thead>
<tr>
<th>Month</th>
<th>Annual inflation '05</th>
<th>Annual inflation '06</th>
<th>Contribution (pp)</th>
<th>Contribution (pp)</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>15.2</td>
<td>3.6</td>
<td>3.6</td>
<td>0.9</td>
</tr>
<tr>
<td>February</td>
<td>9.8</td>
<td>2.4</td>
<td>3.5</td>
<td>0.9</td>
</tr>
<tr>
<td>March</td>
<td>9.8</td>
<td>2.4</td>
<td>3.2</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source: INSTAT

Annual inflation of “Transportation” group remained in high levels over the first quarter 2006, despite the negative monthly changes of prices in this group. The annual growth by 23 per cent of oil prices in the international markets and the depreciation of the lek to the usd over the last two quarters have influenced on the increase of annual inflation of “Service to vehicles” subgroup, which increased by 9.6 per cent. Over the first quarter 2006, “Hotels, cafés and restaurants” group contributed to the average annual inflation in the same level as in the previous year. Monthly inflation over the first quarter was almost 0, with the exception of March, during which this group’s index increased by 0.6 per cent, thus reflecting the rise in the prices of “Cafés and restaurants” subgroup.
The other groups have not generally changed their influence on total inflation over the first quarter compared to the previous year. “Clothes and footwear” and “Furniture, household appliances and maintenance” contributed by -0.1 and -0.07 percentage points, while the other groups made a positive contribution.

2.5.2 Macroeconomic environment and consumer prices

The low inflation recorded over the first quarter was determined by the low pressure exerted on consumer prices by the aggregate demand and by the lack of excessive inflationary pressures by the supply factors. Monetary and fiscal policy has contributed to maintaining macroeconomic stability, transmitting neutral signals in demand inflationary tendencies.

Demand factors

• Monetary policy and monetary indicators

  The monetary policy pursued over the first quarter 2006 has maintained the monetary factor stability in the inflation rate performance. The slowdown in the growth rates of monetary indicators and the balance in financial markets have been consistent with the current dynamic of inflationary pressures on economy. Growth rate of money supply slowed down over the first quarter, while the lek exchange rate is presented stable and money supply liquidity ratios have improved. The time structure of interest rates in economy fluctuates to minimal and stable intervals compared to the historical standards, as such reflecting the expectations for low inflation rates in the medium-term.

• Fiscal policy and fiscal indicators

  The prudent stance of fiscal policy over the first two months of 2006 resulted in a higher surplus than the forecast, which was reflected in a lower Government demand for money. General Government expenditures over the first two months were realized to the level of 85 per cent of the plan. On the other hand, Government income over these two months increased to the level of 104 per cent of the plan, resulting in a considerable fiscal surplus.

  Fiscal policy and fiscal indicators will have a more significant contribution to inflation over the second semester of 2006, when budget expenditures and budget deficit are expected to increase.
Other indicators of domestic demand

Sales index marked an annual growth of 13.5 per cent over the fourth quarter 2005 and a growth of 6.4 per cent compared to the previous quarter. Other indicators, such as fuels consumption and some other import indicators, which provide us with information related to the domestic demand of the Albanian economy for consumption, in general indicate a recovery compared to the previous quarter; however they display decrease in annual terms. “Consumption of energy by the population” and “Total vehicles import” decreased in the first quarter 2006 compared to the last quarter 2005, by 14.7 per cent and 35 per cent, respectively.

Supply factors

Exchange rate and imported inflation

Lek exchange rate is presented stable in nominal effective terms; however, there has been an annual appreciation of 1.0 per cent. Over the first quarter 2006, the average exchange rate of lek to euro marked an annual appreciation of 2.9 per cent. Nevertheless, the appreciating tendency of lek against the euro has decreased, compared to the previous quarter and to the same quarter the previous year (lek appreciation for these periods was 3 per cent and 4.4 per cent, respectively). Such dynamic has enabled the transmission of inflation increase of “Foodstuffs” group in Greece over the last two months of the first quarter 2006 to the inflation of “Foodstuffs and non-alcoholic beverages”.

The depreciation of lek against the dollar, which started in the last quarter of 2005, has reduced in the first quarter 2006 compared to the previous quarter, but in annual terms, lek depreciation is almost in the same levels (5.7 per cent). In quarterly terms, lek exchange rate against the dollar was estimated at 1 per cent in the first quarter, as such causing the influence of the rise in oil prices in international markets on the Albanian market oil prices to be overwhelmingly slight.

<table>
<thead>
<tr>
<th></th>
<th>November</th>
<th>December</th>
<th>January</th>
<th>February</th>
<th>March</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece’</td>
<td>3.5</td>
<td>3.4</td>
<td>3.2</td>
<td>3.2</td>
<td>3.3</td>
</tr>
<tr>
<td>Italy’</td>
<td>2.2</td>
<td>2</td>
<td>2.2</td>
<td>2.1</td>
<td></td>
</tr>
<tr>
<td>Lek/Euro</td>
<td>-3.7</td>
<td>-3.2</td>
<td>-2.5</td>
<td>-3.3</td>
<td>-2.9</td>
</tr>
<tr>
<td>Lek/Usd</td>
<td>5.9</td>
<td>9.5</td>
<td>5.4</td>
<td>5.4</td>
<td>6.4</td>
</tr>
</tbody>
</table>

Source: INSTAT, Bank of Albania

Production price index

Production price index has been decreasing over the last quarter of 2005, marking an increase of 0.4 per cent compared to the previous quarter and an annual change of +1.9 per cent. The annual change constitutes the lowest increasing rate of this indicator since the last quarter of 2001; however, it does not cause any problems as far as inflationary pressures are concerned, due to the rise of production costs.
• Oil prices
The performance of oil prices in international markets in the quarter being analyzed shows an increasing external pressure. The annual rise of fuel prices in these markets was 23 per cent. The small weight shared by this product (subgroup, wherein the oil price is included, shares a weight of 1.6 per cent in the consumer index basket) causes its direct effect on inflation to be limited. However, second round effects, which may influence on inflation in the form of rise in costs, remain a concern.

• Unemployment and wages
From the perspective of possible pressures on inflation, labour market is presented smoothing over the fourth quarter of 2005. The increase by 9.26 per cent of minimal wage was accompanied by an increase of public average wage by 7.9 per cent. However, this rise remains in line with the rise of wages over the same period the previous year. Employment indicators over the fourth quarter 2005 have displayed the same performance as in the first quarter the previous year; unemployment rate decreased by 0.2 percentage points compared to the previous quarter. However, this period was not characterized by the same growth rate in the number of employed. Such shifts have resulted in the decrease of capable labour force to total economy by 0.2 per cent or 2 thousand persons.

Inflation performance over the first quarter 2006 is displayed with positive figures, favoured by the controlled performance of demand factors and the moderate impact of supply factors. In general, inflation perspective remains positive for the rest of 2006. However, the continuous rise of oil prices and other risks related to supply remain factors with a possible negative impact on the performance of consumer prices.

3 MONETARY DEVELOPMENTS AND FINANCIAL MARKETS

3.1 BANK OF ALBANIA MONETARY POLICY

Bank of Albania monetary policy has aimed at maintaining the monetary situation in economy stable. The neutral monetary policy stance was conditioned by the balanced influence of factors which are expected to impact the dynamic of inflationary pressures in the medium-term. Current low inflation rates indicate the lack of inflationary pressures over demand. Growth of credit
to economy has been accompanied by upward tendencies of current account deficit over the last quarters, versus a limited influence on inflation. On the other hand, the increase of foreign currency interests has brought the decrease of interest rates in local currency, causing the Bank of Albania to increase its consideration with regard to possible implications of this factor on inflation.

Under this situation, the Bank of Albania monetary policy concentrated on the administration of liquidity in the system, in order to maintain the stability of monetary market stability. The return of cash into the system following its seasonal growth at the end 2005 resulted in more rapid rates than expected. Moreover, the positive fiscal balance of public sector in the first months of 2006 caused the Government borrowing from the banking system to be low. Both these factors have prepared the grounds for the rapid increase of liquidity in the system over the first quarter.

Excess liquidity in the banking system by the end of the first quarter has displayed an upward tendency to the level of LEK 9.5 billion, while the quarterly average amounted to about LEK 5.8 billion. The presence of the Bank of Albania in the money markets has aimed at withdrawing the system liquidity through the use of long-term and short-term instruments of the monetary policy. Reverse repurchase agreement of one-week maturity, with fixed and very unlimited price, was the main instrument used. At the same time starting from February, the Bank of Albania withdrew liquidity through repos of three-month maturity, while the liquidity invested by banks in repos of one-month maturity was in minimal levels. The withdrawal of liquidity through three-month and one-month repos has aimed at smoothing the downward pressures of interest rates in the money markets. Moreover, the Bank of Albania has withdrawn the daily excess liquidity through the use of overnight deposit.

Pursuant to its strategy for the accomplishment of quantitative objectives, the Bank of Albania has also been present in the foreign exchange market.

Foreign exchange market interventions have resulted in the injection of about LEK 0.8 billion currency in circulation. At the same time, the presence of the Bank of Albania in this market has improved the position of foreign reserve for the first quarter, thus contributing to the increase in the level of reserve by about USD 100 million above the objective. Under the conditions of tightening the monetary basis was enabled the observance of the objective of net domestic assets, while the lack of need for fiscal deficit financing has left the level of net domestic credit to the Government unchanged.
3.2 MONEY SUPPLY AND MONETARY AGGREGATES

The general trend of monetary aggregates has indicated the seasonal slowdown, which characterizes the money supply and its components at the beginning of the year. However, in contrast to the previous years, the downward tendency of annual growth rates was relatively more considerable, owing to the non-linear distribution of demand for the financing of fiscal deficit. Meanwhile, demand factors of economy for monetary assets and the external position of the banking system manifest stable growth rates. Under these conditions, the annual growth rate of money supply has reflected the trend of the Government demand for money and the magnitude of foreign assets and the economy demand rates.

Money supply annual growth rate slowed down to 11.6 per cent in February, compared to 14.0 per cent at the end 2005. In absolute terms, M3 aggregate grew by only LEK 2.2 billion over January-February. The low monthly growth rate of money supply mainly owes to the opposite effects of demand factors.

Currency and time structure of money supply has observed the historical tendencies observed in the recent years. The foreign currency component of money supply has continued to grow more rapidly than the Lek component of money supply. The level of foreign deposits amounted to LEK 157.8 billion in February. The annual growth of this indicator resulted in 25.7 per cent. The ratio of foreign deposits to M3 in February grew to 27.2 per cent compared to 24.1 per cent in the same period the previous year.

The main source of foreign deposits growth are the foreign inflows from abroad, while the financial sources created in local currency by the

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*Operative data

Source: Bank of Albania
Government and the economy demand continue to be invested in the form of Lek deposits. Moreover, the circulation of the banking system foreign assets through the financing made to the private sector constitutes an additional source for the creation of foreign deposits. Despite the foreign inflows, the high foreign currency credit rates to the economy by the banking sector increase the foreign supply in the market and lead to the investment of foreign currency balances in the banking system.

Foreign deposits time structure has been reacting to the changes in foreign currency interest rates. The ratio of time deposits in foreign currency to demand deposits in foreign currency reached to 212 per cent in February, compared to 170 per cent in the same period the previous year. Its performance was mainly in line with the tightening of Fed monetary policy through the increase of the usd core interest rate\textsuperscript{10}. In June 2004, when the usd interest rate began to increase, the ratio of time deposits in foreign currency to demand deposits in foreign currency was 142 per cent or about 70 percentage points lower than the current ratio.

The shifting tendency of money supply time structure in lek to less liquid assets continued over the first quarter of the year, following the seasonal growth in December. The ratio of currency outside banks to M2 in February resulted in 32.9 per cent or 0.5 percentage points less than the same period the previous year. This performance is in line with the historical tendency of the recent years and it has a positive influence on the inflation rate perspective in economy. As a ratio to M3 aggregate, currency outside banks in February resulted in 24.0 per cent, compared to 25.4 per cent in the same period the previous year.

The time structure shifting of M2 to deposits, has enabled the monetary policy to decrease the real interest rates in economy owing to lower inflation rate. The maintenance of macroeconomic balances under lower rates of real interest rate constitutes a positive development for the economy. Time structure shifting to less liquid assets reduces the inflationary pressures. Hence, the maintenance of the downward trend of this ratio enables the economic growth without infringing the inflation objective.
### 3.3 MONEY DEMAND

The performance of monetary indicators for January-February has maintained the same characteristics as in 2005. Credit to economy constitutes the main incentive of the monetary expansion, while the low Government demand for money has slowed down the growth of M3 aggregate.

#### Table 15 Monetary indicators for January-February (in billions of LEK)

<table>
<thead>
<tr>
<th></th>
<th>February 2006</th>
<th>2-month change</th>
<th>Annual change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>Absolute</td>
<td>Percentage</td>
</tr>
<tr>
<td>Currency outside banks</td>
<td>139.1</td>
<td>-10.6</td>
<td>-7.1</td>
</tr>
<tr>
<td>Total deposits</td>
<td>441.1</td>
<td>12.8</td>
<td>3.0</td>
</tr>
<tr>
<td>- Lek</td>
<td>283.4</td>
<td>6.9</td>
<td>2.5</td>
</tr>
<tr>
<td>- Foreign currency</td>
<td>157.8</td>
<td>5.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Demand deposits</td>
<td>130.7</td>
<td>1.2</td>
<td>0.9</td>
</tr>
<tr>
<td>- Lek</td>
<td>80.0</td>
<td>2.0</td>
<td>2.6</td>
</tr>
<tr>
<td>- Foreign currency</td>
<td>50.6</td>
<td>-0.8</td>
<td>-1.6</td>
</tr>
<tr>
<td>Time deposits</td>
<td>310.4</td>
<td>11.5</td>
<td>3.9</td>
</tr>
<tr>
<td>- Lek</td>
<td>203.3</td>
<td>4.9</td>
<td>2.4</td>
</tr>
<tr>
<td>- Foreign currency</td>
<td>107.1</td>
<td>6.7</td>
<td>6.7</td>
</tr>
<tr>
<td>M1</td>
<td>219.2</td>
<td>-8.5</td>
<td>-3.7</td>
</tr>
<tr>
<td>M2</td>
<td>422.5</td>
<td>-3.7</td>
<td>-0.9</td>
</tr>
<tr>
<td>M3</td>
<td>580.2</td>
<td>2.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Monetary basis</td>
<td>188.9</td>
<td>-9.3</td>
<td>-4.7</td>
</tr>
</tbody>
</table>

Source: Bank of Albania

In annual terms, Government’s contribution at the end of February 2006 is presented negative, while the contribution of economy demand to the growth of money demand has reached to maximal levels, which is to 88 per cent. The growth of the system’s foreign assets, as a source of money growth, displays a constant contribution as in year-ended 2005.

#### Table 16 Performance of some main indicators

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>Q1 ‘05</th>
<th>Q2 ‘05</th>
<th>Q3 ‘05</th>
<th>Q4 ‘05</th>
<th>February ‘06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money supply (in billions of LEK)</td>
<td>416.7</td>
<td>448.4</td>
<td>507.2</td>
<td>521.6</td>
<td>541.8</td>
<td>566.2</td>
<td>578.0</td>
<td>580.2</td>
</tr>
<tr>
<td>Net foreign assets (in % to M3)</td>
<td>38.9</td>
<td>35.7</td>
<td>36.9</td>
<td>37.5</td>
<td>36.4</td>
<td>37.5</td>
<td>36.1</td>
<td>37.1</td>
</tr>
<tr>
<td>Domestic credit (in % to M3)</td>
<td>70.8</td>
<td>71.5</td>
<td>68.9</td>
<td>68.7</td>
<td>69.9</td>
<td>69.1</td>
<td>70.0</td>
<td>70.4</td>
</tr>
<tr>
<td>- Credit to the Government (in % to M3)</td>
<td>61.5</td>
<td>60.2</td>
<td>55.1</td>
<td>53.4</td>
<td>52.2</td>
<td>50.3</td>
<td>48.9</td>
<td>48.1</td>
</tr>
<tr>
<td>- Credit to economy (in % to M3)</td>
<td>9.3</td>
<td>11.3</td>
<td>13.8</td>
<td>15.3</td>
<td>17.7</td>
<td>18.7</td>
<td>21.1</td>
<td>22.2</td>
</tr>
<tr>
<td>Credit to economy (in % to total assets)</td>
<td>11.5</td>
<td>13.7</td>
<td>16.9</td>
<td>17.9</td>
<td>20.8</td>
<td>22.2</td>
<td>25.1</td>
<td>25.6</td>
</tr>
<tr>
<td>Credit to economy (in % to GDP)</td>
<td>5.7</td>
<td>6.8</td>
<td>8.4</td>
<td>9.5</td>
<td>11.5</td>
<td>12.7</td>
<td>14.6</td>
<td>15.2</td>
</tr>
<tr>
<td>Total deposits (in % to GDP)</td>
<td>42.2</td>
<td>43.4</td>
<td>44.1</td>
<td>46.9</td>
<td>48.5</td>
<td>50.7</td>
<td>51.2</td>
<td>52.0</td>
</tr>
<tr>
<td>Credit/deposits ratio (in %)</td>
<td>13.5</td>
<td>15.7</td>
<td>19.0</td>
<td>20.3</td>
<td>23.6</td>
<td>25.0</td>
<td>28.5</td>
<td>29.2</td>
</tr>
</tbody>
</table>

Source: Bank of Albania

3.3.1 Credit to economy

Credit performance in January – February 2006 maintained the upward tendency of 2005. Credit balance grew by LEK 7 billion or with an average annual rate of 71.4 per cent compared to 74.3 per cent at year-ended 2005. In real terms, credit for
the first two months recorded an average growth of 69 per cent. Over this period was extended a total of LEK 18 billion of new credit or 31 per cent more than the credit extended over the same period the previous year. At the end of February 2006, credit to economy shared 22.2 per cent of M3 and 15.2 per cent of the GDP projected for 2006.

On the other hand, the further increase was also reflected by the bank intermediation indicators. The ratio of credit to total assets of the banking system reached to 25.6 per cent, while its ratio to total deposits to 29.2 per cent.

Characteristic of this quarter is the increasing interest of banks to crediting in lek. Credit in lek over January and February is on average 121 per cent higher than the previous year. Growth of credit in lek seems to have been influenced by both credit growth to households and to businesses.

Despite the positive developments in credit in lek, banks’ portfolio is dominated by credit in foreign currency. For January-February, credit in foreign currency recorded an average annual growth rate of 59 per cent.

The ratio of short-term credit to total credit maintained a downward tendency over the first two months of 2006. The changes in the time structure of new credit (to 44.2 per cent of total credit from 53.2 per cent in the previous year) indicate a decreasing commitment on the part of banks in short-term credit. On the other hand, it is observed that credit of over 5-year maturity term continues its upward trend, manifesting at the end of February a considerable increase to 38 per cent of credit portfolio.

<table>
<thead>
<tr>
<th>Table 17 Credit balance indicators in percentage to total</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002</td>
<td>2003</td>
</tr>
<tr>
<td>Credit balance (in billions of LEK)</td>
<td>50.7</td>
<td>69.3</td>
</tr>
<tr>
<td></td>
<td>79.0</td>
<td>95.9</td>
</tr>
<tr>
<td></td>
<td>106.0</td>
<td>121.9</td>
</tr>
<tr>
<td></td>
<td>124.8</td>
<td>128.5</td>
</tr>
<tr>
<td>Short-term credit</td>
<td>46.0</td>
<td>34.0</td>
</tr>
<tr>
<td></td>
<td>34.1</td>
<td>33.7</td>
</tr>
<tr>
<td></td>
<td>31.6</td>
<td>32.8</td>
</tr>
<tr>
<td></td>
<td>32.8</td>
<td>32.5</td>
</tr>
<tr>
<td></td>
<td>31.9</td>
<td>31.9</td>
</tr>
<tr>
<td>Medium-term credit</td>
<td>33.3</td>
<td>36.0</td>
</tr>
<tr>
<td></td>
<td>34.5</td>
<td>33.1</td>
</tr>
<tr>
<td></td>
<td>31.2</td>
<td>30.3</td>
</tr>
<tr>
<td></td>
<td>30.3</td>
<td>30.0</td>
</tr>
<tr>
<td></td>
<td>30.3</td>
<td>30.0</td>
</tr>
<tr>
<td>Long-term credit</td>
<td>20.7</td>
<td>30.0</td>
</tr>
<tr>
<td></td>
<td>31.4</td>
<td>33.1</td>
</tr>
<tr>
<td></td>
<td>36.9</td>
<td>37.6</td>
</tr>
<tr>
<td></td>
<td>37.5</td>
<td>37.5</td>
</tr>
<tr>
<td></td>
<td>37.8</td>
<td>37.8</td>
</tr>
<tr>
<td>Credit to households</td>
<td>24.5</td>
<td>30.6</td>
</tr>
<tr>
<td></td>
<td>31.0</td>
<td>30.8</td>
</tr>
<tr>
<td></td>
<td>31.4</td>
<td>31.4</td>
</tr>
<tr>
<td></td>
<td>31.6</td>
<td>31.6</td>
</tr>
<tr>
<td></td>
<td>31.5</td>
<td>31.5</td>
</tr>
<tr>
<td></td>
<td>31.7</td>
<td>31.7</td>
</tr>
<tr>
<td>Credit to the private sector</td>
<td>75.5</td>
<td>69.4</td>
</tr>
<tr>
<td></td>
<td>69.0</td>
<td>69.2</td>
</tr>
<tr>
<td></td>
<td>68.6</td>
<td>68.4</td>
</tr>
<tr>
<td></td>
<td>68.4</td>
<td>68.5</td>
</tr>
<tr>
<td></td>
<td>68.3</td>
<td>68.3</td>
</tr>
<tr>
<td>LEK</td>
<td>19.6</td>
<td>19.5</td>
</tr>
<tr>
<td></td>
<td>20.1</td>
<td>22.9</td>
</tr>
<tr>
<td></td>
<td>23.7</td>
<td>25.5</td>
</tr>
<tr>
<td></td>
<td>25.4</td>
<td>25.7</td>
</tr>
<tr>
<td>Foreign currency</td>
<td>80.4</td>
<td>80.5</td>
</tr>
<tr>
<td></td>
<td>79.9</td>
<td>77.1</td>
</tr>
<tr>
<td></td>
<td>76.3</td>
<td>74.5</td>
</tr>
<tr>
<td></td>
<td>74.6</td>
<td>74.3</td>
</tr>
</tbody>
</table>

Source: Bank of Albania
Credit to economy branches has mainly maintained the same distribution as in the year-ended 2005. Trade sector remains the most credited branch with 18.7 per cent of credit portfolio, although it has displayed a moderate decrease compared to the year-ended 2005. A slight increase was also observed in agriculture and real estates portfolio.

Meanwhile, credit to manufacturing sectors of economy has increased most considerably, reaching to 14.3 per cent. Credit to construction remained in the same levels as in year-ended 2005, sharing 13 per cent of credit portfolio.

<table>
<thead>
<tr>
<th>Branch of Economy</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>Q1 '05</th>
<th>Q2 '05</th>
<th>Q3 '05</th>
<th>Q4 '05</th>
<th>February '06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, hunting and siliculture</td>
<td>0.8</td>
<td>1</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>2.4</td>
<td>2.7</td>
<td>2.3</td>
</tr>
<tr>
<td>Processing industry</td>
<td>17</td>
<td>17</td>
<td>17.1</td>
<td>16.7</td>
<td>15.6</td>
<td>13.9</td>
<td>13.8</td>
<td>14.3</td>
</tr>
<tr>
<td>Construction</td>
<td>8.6</td>
<td>10</td>
<td>9.8</td>
<td>11.2</td>
<td>11.2</td>
<td>12.8</td>
<td>13.0</td>
<td>12.9</td>
</tr>
<tr>
<td>Trade, repairing of vehicles and household equipment</td>
<td>40.0</td>
<td>34</td>
<td>23.3</td>
<td>20.6</td>
<td>19.1</td>
<td>20.0</td>
<td>18.9</td>
<td>18.7</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>6.0</td>
<td>6</td>
<td>8.3</td>
<td>5.2</td>
<td>4.7</td>
<td>4.4</td>
<td>4.2</td>
<td>4.2</td>
</tr>
<tr>
<td>Real estates</td>
<td>9.1</td>
<td>13</td>
<td>9.8</td>
<td>14.7</td>
<td>13.5</td>
<td>13.9</td>
<td>14.2</td>
<td>13.9</td>
</tr>
<tr>
<td>Other</td>
<td>18.1</td>
<td>19</td>
<td>30.2</td>
<td>30.1</td>
<td>34.3</td>
<td>32.6</td>
<td>33.2</td>
<td>33.7</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Bank of Albania

3.3.2 Net foreign assets

The level of net foreign assets of the banking system increased over the first two months of the year. The increase of these assets for this period is estimated at USD 74.4 million, influenced positively by the Bank of Albania net foreign assets and commercial banks’, by USD 25.1 million and 49.3 million, respectively. Foreign currency inflows, as a result of disburses from foreign institutions, accompanied by the appreciation effect of euro against the dollar, have influenced on the increase of the Bank of Albania foreign reserve. Commercial banks’ foreign assets were influenced by the growing rates of foreign currency deposits, which were higher than the growing rates of foreign currency credit. Moreover, over the first two months of the year was observed a decrease of commercial banks’ foreign liabilities, mainly in “Non-residents’ demand.
deposits”, influencing as a consequence on the increase of these banks’ net foreign assets.

3.3.3 Government demand for money

The Government has presented a positive fiscal balance for the first two months of the year. Budget surplus has been increasing, recording the level of LEK 3.7 billion in February. This position of the Government has influenced on a low demand for domestic financing. Gross domestic borrowing reached to LEK 5.7 billion in February, recording a slight increase compared to the previous month. This borrowing was covered by the issue of two and three-year Government bonds, and the issue of Treasury Bills. The level of two and three-year bonds for this period increased by LEK 3.5 billion and LEK 1.9 billion, respectively, while the level of Treasury Bills purchased in the primary market amounted to LEK 0.3 billion. The increase of households’, Bank of Albania and institutions’ portfolio by LEK 2.4, 1.7 and 0.6 billion, respectively, has compensated the decrease of commercial banks’ portfolio by LEK 4.7 billion.

In the Government accounts for February was observed that the Government has provided liquidity to commercial banks in the form of reverse repo, in the amount of LEK 1.8 billion and has transferred an amount of LEK 1.7 billion as the capitalization of National Commercial Bank. Moreover, the Government had a deposit of LEK 5.9 billion at the end of February.

Domestic financing for 2006 is projected to be in the level of LEK 26.8 billion. The low level of domestic financing at the beginning of the year implies its concentration on the second half of the year, shifting for this period the Government demand for money.

3.4 MONEY MARKET, INTEREST RATES AND EXCHANGE RATE

Over the first quarter of 2006, money market has operated under the excess liquidity increase in the banking system. In contrast to the previous quarter, when the banking system displayed cases of lack of liquidity, this indicator increased due to the return of deposits into the system and the decrease of the Government demand for the banking system financing, a normal tendency for this period of the year. The increase of liquidity has exerted pressure for the continuous decrease of interest rates in Lek, which attempted to adjust the increase they incurred in mid-2005.
Repo auctions were the main instruments for investing excess liquidity. Besides the regular weekly auctions of defined price repos (5.00 per cent), the Bank of Albania also provided auctions of one-month and three-month repos of various prices. Their interest rate was 5.24 per cent and 5.28 per cent, respectively.

Lending activity in the interbank market has displayed a considerable growth compared to the previous year. The average daily lending level in the first quarter 2006 grew to LEK 1.85 billion, compared to LEK 1.54 billion in the previous quarter and LEK 0.98 billion in the previous year. In contrast to the previous year, most lending is composed of weekly lending, the average daily volume of which amounted to LEK 1.02 billion, compared to LEK 0.36 billion in the first quarter 2005.

Interbank market, the market which reflects the signals of monetary policy sooner, over the first quarter 2006 continued to vary to the core interest rate, depending on the change of demand/supply ratios in this market.

Interest rates increased temporarily in the periods of required reserve calculation, as a result of the increase in the lending demand in the interbank market over this period. However, the new symmetric limit of supporting facilities interests has narrowed the difference between overnight and weekly borrowing interests. Over the first quarter 2006, the interests of overnight borrowing in the interbank market varied around the level of 4.5 per cent, while weekly lending around the level of 5.4 per cent. Compared to the same period the previous year, the average interest of overnight lending increased considerably (from 2.8 per cent to 4.5 per cent), mainly due to the change of interests’ spread.

In the primary market, the liquidity provided for the purchase of the Government securities resulted at all cases higher than the issued amount (1.2:1 average ratio). This factor, along with the expectations for inflation and interest rates, have influenced on the further decrease of the yields. Over the same quarter 2006, the treasury bills yield, not only returned to the previous levels of pre-election period, but also reached to the lowest historical levels. Three-month
treasury bills yield reached to the lowest historical levels in February 2006 (4.86 per cent), while the 6-month and 12-month treasury bills yield reached to these levels at the end of the first quarter 2006 (5.86 per cent and 6.11 per cent, respectively). In the two-year and three-year Government bonds market, the interest rates decreased to the lowest historical levels, to 7.0 per cent and 7.5 per cent, respectively. The decrease of Government securities yield reduced the cost of its domestic debt.

In the Lek deposits market, the previous upward tendency of interests has started to decrease. Such a decrease is most evident in long-term interests, while with regard to short-term interests banks were still interested in increasing the deposits.

| Table 19 Interest rates and their change in Lek deposits market (in percentage) |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                 | September 05    | December 05     | 3-month change  | February 06     | 2-month change  |
| 3-month deposits                | 3.87            | 4.07            | 0.20            | 4.28            | 0.21            |
| 6-month deposits                | 4.55            | 4.77            | 0.22            | 4.71            | -0.06           |
| 12-month deposits               | 5.28            | 5.57            | 0.29            | 5.34            | -0.23           |
| 24-month deposits               | 6.62            | 6.82            | 0.20            | 6.37            | -0.45           |

Source: Bank of Albania

Under low inflation, real interests increased and approached the nominal interests. According to the most recent data for February 2006, real interests of 12-month time deposits in Lek, compared to the previous year increased from 3.88 per cent to 3.99 per cent.

Credit in Lek market, in the first two months of 2006, was characterized by the approximation and fluctuation of interest rates within the relatively tight limits (12.3 – 13.8 per cent), with the exception of 1-3 year credit, which fluctuated around the level of 18.0 per cent.

Over the first two months of 2006, interest rates of credit in Lek increased at all terms, with the exception of 1 to 3 year credit interests, which decreased by 0.04 percentage points.

Despite the increase of credit in Lek interests to an average level of 0.9 per cent, we observe that there have been cases of their decrease in all kinds of credit, by specific banks. Interest rates fluctuations were influenced by factors, such as, the change of banks’ weight in lending and the change of banks’ policies with regard to lending.

In the first two months of 2006, in the dollar deposits market were increased only 1, 3 and 6-month interests, despite the tightening monetary policy pursued by the Federal Reserve and the increase of Libor interests.
After a strong and continuous upward tendency which started in March 2004, long-term deposits in dollar are displaying decrease in their interest rates. Apart from other factors, the considerable increase of time deposits and the decrease of USD demand deposits have influenced greatly.

Meanwhile, time deposits interests in euro, with the exception of two-year time deposits, continued their upward trend at all terms. This trend was influenced by the tight monetary policy pursued by the European Central Bank and the increase of euribor interests in the international markets. While, the significant increase of time deposits in euro was influenced by the decrease of two-year interests.

The spread of lek-foreign currency deposits interests continued to narrow in the first two months of 2006. However, the low levels of June 2005 have not been reached yet, since in the first two months of 2006 there have been downward tendencies in both lek and dollar deposits.

In February 2006, the spread of 12-month lek-usd interests reached to 1.99 per cent, compared to 2.01 per cent at the end 2005; while that of lek-euro reached to 2.68 per cent from 3.08 per cent.

The market of credit in foreign currency over the first two months of 2006 was characterized by an upward tendency in all kinds of credit, with the exception of credit interests in euro of over three-year term, which decreased. The increase of libor and euribor interests in the international markets, the increase of foreign currency deposits interests, the change of lending structure from one month to another, the extent of lending risk, policies banks conduct in foreign currency lending, etc., have all influenced on the performance of credit in foreign currency interests. However, in this market we observe an approximation of credit interests of different terms and their fluctuation within narrower

<table>
<thead>
<tr>
<th>Table 20 Interest rates in foreign currency deposits market and their change (in percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>USD</strong></td>
</tr>
<tr>
<td>3-month deposits</td>
</tr>
<tr>
<td>6-month deposits</td>
</tr>
<tr>
<td>12-month deposits</td>
</tr>
<tr>
<td>24-month deposits</td>
</tr>
<tr>
<td><strong>EUR</strong></td>
</tr>
<tr>
<td>3-month deposits</td>
</tr>
<tr>
<td>6-month deposits</td>
</tr>
<tr>
<td>12-month deposits</td>
</tr>
<tr>
<td>24-month deposits</td>
</tr>
</tbody>
</table>

*Latest data refer to February 2006.
Source: Bank of Albania and commercial banks
limits than before (7-9 per cent for credit in euro and 8.5 -10.5 per cent for credit in USD), which are indicators of stability in the market and enhancement of competition.

Exchange rate

Over the first quarter 2006, the lek maintained a relatively stable performance against the two main foreign currencies. The consolidation of the euro against the dollar in the international market has also been reflected in the behaviour of the lek over this period. Compared to the end 2005, the lek appreciated against the dollar by 2.0 per cent and depreciated against the euro by 0.2 per cent.

The rise of interest rates in the international market has narrowed the difference between the interest rates in lek and interest rates in foreign currency further, thus, weakening the support for the lek. However, the low inflation rates observed over the quarter being analyzed, have maintained the real interest rates in lek in positive levels, thus, keeping the demand for lek. On the other hand, the first quarter is presented with a still scenario as far as the external trade activity is concerned, by not generating strong pressures in the foreign currency market. The stable situation in the domestic foreign currency market has caused the lek exchange in the first quarter to mostly reflect the foreign currency developments of the international market.

In annual terms, the lek continued to maintain the appreciating tendency against the euro, a tendency which began to be observed in mid-2003. The lek continued to appreciate against the dollar in March, maintaining the same tendency as observed from October the previous year. The annual depreciation of lek against the dollar is estimated at about 6.41 per cent for March, while the annual appreciation against the euro is estimated at about 2.94 per cent. In nominal effective terms, the lek is presented stable, but however, with an annual appreciation of 1.0 per cent. At the end of March, the exchange levels of lek were 122.95 lek/euro and 101.53 lek/USD.
NOTES

1 No official data regarding the labour force and the level of employment in the country are available yet. Such an information would make the analysis of the labour market more complete.

2 Ministry of Labour, Social Affairs and Equal Opportunities.

3 Labour force from the latest data of December 2005.

4 In regional countries are included: Kosovo, Serbia and Montenegro, Macedonia, Croatia, Bosnia and Herzegovina, Bulgaria, Romania and Turkey.

5 Source: ISTAT; webpage: http://www.istat.it

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

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

8 Source: ISTAT; webpage: http://www.istat.it

9 The table includes the new framework of quantitative objectives included in the new agreement with the IMF, signed in February 2006. Year 2005 constitutes the basis of defining the flows of quantitative objectives for the three years covered by this agreement.

10 FED: Monetary authority, which has the responsibilities and performs the functions of a central bank in the USA (Federal Reserve Bank).

11 Weighted interest rate of receiving the system’s deposits discounted to the inflation rate.

12 At the beginning of April 2006, according to the latest data.

13 NEER – nominal effective exchange rate calculated against the two currencies, based on an approximate weight they share in trade with abroad, euro (80 per cent) and usd (20 per cent).
DISCUSSION BY ARDIAN FULLANI, THE GOVERNOR OF THE BANK OF ALBANIA

at the 11-th Euromoney Central and Eastern European Forum - Pushing the Boundaries: Ensuring Competitiveness in the CEE, Vienna, January 18, 2006

The march onward to new markets has pushed the boundaries of industry ever farther east in the CEE. CIS countries are currently experiencing an economic boom while much of ‘Old Europe’ stagnates. There has been a recent boom in domestic markets, FDI, real estate, commercial development, among others.

Will this high level of investment continue, and under what circumstances? What can the Central Bank Governors do to continue to encourage this new growth? Are there any downsides? How do Governors keep the balance between growth and stability?

WILL THIS HIGH LEVEL OF INVESTMENT CONTINUE, AND UNDER WHAT CIRCUMSTANCES?

The Albanian economy has continued its good performance also during 2005 with the exception of the end year when we encountered some electricity shortages. The positive performance concerns both the economic activity and the macroeconomic stability. Our opinion on the robust economic performance is based on an increased volume of sales, improvement of revenues from tax and VAT, a rise in the volume of lending to the economy, as well as a reduction in the unemployment rate.

The creation of 13400 new jobs in the private sector during the last 4 quarters indicates robust growth and it is another indicator of the increased capacities of domestic production this year. Except for the service sector, BoA’s survey on business confidence shows an increase in the number of employees in manufacturing and construction sectors in the second quarter, where the actual index for the latter surpassed expectations. The preliminary data of the latest survey indicate that employment level has also increased in the third quarter contrary to an expected fall from the previous quarter.

While it is true that there has been a recent boom in domestic markets, the picture is more mixed if we look at individual segments. Thus, FDI are still not there in Albania. Although it is well positioned to attract foreign direct investments, with its favourable geographical location, competitive salaries, and natural resources, foreign investors have been reluctant to commit their resources given the actual state of business environment.

Domestic investment seems to lag behind too, based on some surveys of Bank of Albania. An important source of domestic investment has been remittances. The Bank of Albania estimations indicate that total workers’ remittances have reached around 1,028 million (one billion) of USD or 13.5 percent of GDP.
This is twice as high as revenues from export of goods, which makes “work force” our main country export. Furthermore, remittances are estimated to be three times higher than foreign direct investments (FDI) inflow and its value exceeds by far official aid from abroad. During the first stage of transition in Albania, policies for optimising the administration and utilisation of workers’ remittances for developing purposes have been completely lacking. A few sporadic measures have aimed at driving workers’ remittances into official channels and improving savings and investments incentives of emigrants in the country but they have been by and large inadequate. More recently, we have taken a more attentive approach toward remittances and their potential contributions in financing the growth and development of the country. More specifically we are working in three main areas (1) improvement of statistics (2) bringing workers remittances into formal channels (3) directing workers remittances toward country’s development needs.

There has been a boom in other areas of economy like real estate and commercial loans. Credit to the economy grew by 60-70 percent on annual terms. On GDP terms, credit to the economy has grown by 3 percentage points during 2005, approaching the level of 11 percent of GDP. It has been the main source of the monetary expansion during this period, displaying an increase in the volume of lending to the economy, which is a shift from government borrowing and from foreign assets. Foreign-currency loans continue to be preferred due to lower interest rates, hence accounting for nearly 75 percent of total loans at end-July. The rapid credit growth has so far had no effect on overall credit quality. The ratio of non-performing loans fell to 3.5 percent of total loans in March, down from 4.2 percent in December last year.

Nowadays, foreign banks in Albania hold around 95% of the total assets. Most of the assets are owned by banks coming from the European Union area. This ample participation of foreign banks has certainly had positive implication on both banks’ governance and the quality of services. The latter has improved considerably in the recent years with the privatisation of the former Savings Bank, still the biggest bank in the country. As a result, we have experienced an increase in the banking network throughout the country’s territory, a gradual restructuring of the banking system balance sheet including a quick increase in the lending to the economy, introduction of ATM and other new banking products etc... Banks with private Albanian capital, that have been licensed in the last three years, have been active in trying to position themselves in this changing market. They offer a full range of banking services, having the advantage of better understanding the local environment.

Despite the above achievements, the economy is still fragile and considerable progress is needed to establish an attractive framework favourable to investment and sustainable growth, driven by private sector development. Customs procedures, tax administration, land and construction permits, sector licensing, and the judiciary system are the major obstacles to investment in Albania.
WHAT CAN THE CENTRAL BANK GOVERNORS DO TO CONTINUE TO ENCOURAGE THIS NEW GROWTH? ARE THERE ANY DOWNSIDES?

Governance and institution building reforms remain critical for developing a rules-based business climate and attract increasing levels of investment. Under this framework, the Bank of Albania is committed to go ahead with additional structural reforms to enhance banking sector intermediation and financial services provision. In close consultation with commercial banks, governmental institutions, and the private sector, the Bank of Albania developed an action plan for increasing the use of the banking system in the regular conduct of business.

Regarding an important aspect of our central bank, the banking system stability, a lot of work has been done to encourage the development and consolidation of a sound banking and financial system for the country economic progress. Measures supported by the Bank include the privatization of the Savings Bank, the development of a deposit insurance system, improvement of the bankruptcy framework and collateral enforcement, and strengthening of bank regulation and supervision, which will also assist the Government’s anti-money laundering efforts. The IMF has provided technical assistance to the Bank of Albania. The IMF has also funded a resident adviser to support the implementation of the institutional development program for banking supervision developed by the Bank of Albania. In the wake of the large Savings Bank privatization, the financial sector is showing welcome dynamism and the Bank of Albania is stepping up prudential vigilance. The recent FSAP exercise will certainly help to advance reforms in the financial sector.

The Bank of Albania is also committed to increase the mutual relationships with all international partners. We are trying to be a real partner in the discussing table, arguing on the economical-financial policies, through presenting its solution alternatives, being elaborated not only on the economic logic base but also on the Albanian reality. I am satisfied that, in the end, Albania is on the way to get a new PRGF/EFF arrangement with the IMF, which suits its actual needs very well. Given Albania’s difficult legacy, together with the setback of the 1997 events, the country needs to accelerate its reform agenda, for EU accession purposes. This requires significant investments, improvements in public institutions, and technical assistance in all sorts of fields. The PRGF element allows Albania not only to access many of these resources from the IMF and WB organizations but also have the support of the Albanian government in absorbing more effectively available EU funds.

We are also working for the institutionalisation of the cooperation between the central banks of the region. Judging from the meetings we have recently organised with some of the regional banking authorities, the initiative on regional cooperation has been welcomed. Nevertheless, I believe that it is the right time to carry out concrete measures in this direction through the establishment of a club of regional banks, which would enable the exchange of
experiences and the consolidation of cooperation, mainly in the field of further financial/banking sector development in Southeastern Europe. The Bank of Albania will continue to actively support and promote the establishment of this club in the future. I would also mention here the “Convergence” program, which is a novel financial development program sponsored by the World Bank to promote public-private policy dialogue in South-East Europe. It could serve as an effective instrument to catalyse our efforts in bridging the gap with banking association and the other counterparts in the region.

**HOW DO GOVERNORS KEEP THE BALANCE BETWEEN GROWTH AND STABILITY?**

Theoretically, the answer would be to apply some kind of a ‘Taylor Rule’ by putting even weights on both output gap and inflation. However, for a small, open and developing economy the empirical experience may not be that simple. One issue would be how able are countries like ours to pursue independent monetary policies.

An argument that I do advocate is that the Albanian economy is a relatively flexible economy, as it manages to bring inflation to normal levels in quite a short period of time. Rigidities, observed in some other economies, seem not to apply in the case of Albania. Here, I have in mind the long hiring and lay off procedures or the variety of rules related to the goods and services markets. Most importantly, the adoption of a flexible exchange rate regime has been and still is one of the main contributors to economic flexibility, which has a direct impact over the high mobility rate of the Albanian economy.

Due to this flexibility, Albania has shown impressive results in terms of price stability. Inflation has been distinguished generally by lower rates relative to other transition economies. In the last five years, inflation has stabilized at moderate levels as measured both at the end and average period figures, though it sometimes diverges from the target due to unforeseen shocks and speculative factors that are mainly beyond the central bank’s control. We will continue to aim inflation rates around the 3 percent level.

However, several threats may prevent the bank from reaching the target while preserving growth. To begin with, the signalling power of monetary aggregates targeted by BoA may start to deteriorate. This might involve changes in the administrative prices and structural reforms in general, fiscal uncertainty issues, the impact of dollarisation on the effectiveness of monetary policy, the potential decrease in foreign remittances and its implication on exchange rate volatility, financial system development and stability etc. Also, what is more important, as the economy gets more and more formal, we may start losing some of the flexibility seen so far, making our task of keeping inflation down with little real costs more and more difficult.

In face of this forthcoming developments, we are considering alternative regimes, such as IT, that could both transmit central bank signals better and
are more suitable to keep a better balance between economic shocks and inflation. On top of theoretical benefits of an IT regime compared to the other regimes (summarised in a series of paper by Mishkin et al. (1997, 2000, 2002)), such as broader information base it utilises, its relatively higher flexibility with regard to supply shocks, the fact that it is easily understood by the public, there is also the successful reference to regime shifts in other European transitioning and developing economies can be made, such as the Czech Republic, Hungary, Iceland, Poland and Turkey.

Bearing the above issues in mind, the Bank of Albania retains that a switch to inflation targeting over the medium term will put us in a better position to strike the right balance between growth and stability. Accordingly, it has initiated steps to improve its governance structure and strengthen its analytical capacities, with the technical assistance provided by the Fund. To this end, an open forum took place at the end of last year where most of the issue regarding the implementation of inflation target were discussed by top experts of all around the world. The main motivation for moving to the IT regime is the anchoring of inflation expectations in the medium to longer term, while allowing some room to respond to shocks.

I am conscious that going to a fully fledged Inflation Targeting is a process that requires hard work with several preconditions in place. Our forum clearly showed that it is not a one-off decision. It should be more a smooth process. This holds in particular for a transitioning country like Albania. Our country faces different challenges and virtues compared with developed countries.
SPEECH BY ARDIAN FULLANI, THE GOVERNOR OF
THE BANK OF ALBANIA
at the press release on the signing of the agreement with the IMF
30 January, 2006

The Bank of Albania estimates that the concluding of the new 3-year agreement with the International Monetary Fund constitutes an important moment in further economic and financial development of the country. The new assistance the IMF is providing to Albania is simultaneously a duty to the responsible institutions, Bank of Albania included, committed to fulfilling successfully the obligations deriving from it. In this light, on behalf of the institution I govern, I would like to emphasize that the Bank of Albania will fulfill its obligations earnestly and at the maximum commitment. Our commitment springs from the full conviction that the agenda of the proposed structural reform and the forecasted route of macroeconomic policies constitute a proper response to the Albanian economy challenges.

The importance of the agreement is high, since:

Firstly, it lays out the main directions the work of our institutions will be focused on during the three forthcoming years, creating a safe ground in the difficult way of our country’s further macroeconomic consolidation, economic growth and poverty reduction.

Secondly, it sets forth clear objectives for the further structural reforms to be undertaken in the short and medium run, identifying responsible institutions and time frames for their accomplishment.

Thirdly, it creates grounds for more financial discipline and better coordination of all decision-making levels, thus becoming a factor of guarantee for domestic and foreign investors, including even important international bodies.

To this end, we have taken appropriate measures to embody all the conditions and basic indicators, we have agreed upon in advance with the IMF’s Missions headed by Mr. Szekely, to the monetary policy strategy and monetary program of the Bank of Albania.

Concluding this brief pronunciation, I would highlight that the approval of this agreement is of primary importance, since its completion, assuming that everything takes place as forecasted, would set the Albanian economy “on its feet”.

Therefore, it is important to start right now to think for the futurity of basic economic policies of the country after the expiry of this agreement. Taking advantage of the occasion, I would like to stress that we are working in this direction, and cooperating with the assistance of the International Monetary Fund and other central banks, we have intensified our efforts for establishing proper monetary strategies, which would enable the control on inflationary pressures and would orient the sustained development of the country towards European integration.
SPEECH BY ARDIAN FULLANI, THE GOVERNOR OF THE BANK OF ALBANIA
at the meeting with the business community, representatives of the local
government and of the banking system, and academics of Shkodra,
February 17, 2006

IMPROVING INFORMATION ON ECONOMY - A KEY ELEMENT FOR MAKING HEADWAY

The main purpose of our coming here is multiple, but above all it is in line with our vision of approximating the Bank of Albania to the best international standards and practices of central banking. This is logical not only due to the needs of increasing our human capacities, but also due to the indispensability for raising the monitoring degree and the presence of the Bank of Albania expertise in all the regions of the country. I believe that this annual meeting of the Governor of the Bank of Albania with its branches and with the most striking communities of the region, where we exercise our activity, has been turned into a tradition, whose aim is not only to evidence our operational problems, but also to identify them and provide advice for a proportional and harmonised development of various geographical regions of the country.

During 2005, the Bank of Albania, being an important institution in making the decisions of economic policies and in ensuring our country’s financial stability, has multiplied its efforts for a better inflation control, believing that this contribution is of a vital importance for the overall economic activity performance, including that of the region as well.

On the other hand, we have done our best to associate the further consolidation of macro balances in economy with a financially stabilised banking system, so that it is capable of financing ever more the country’s economic development.

We see and touch the Shkodra business increase and integrate with the banking system and this fact makes me feel optimistic about the future. I think that this banking business interest in being extended to your region represents the specific developments this region has in ratio to other areas of the country. Personally, I am of the opinion that this region has a large economic potential, and moreover I would emphasise that this region is among the fewest in the country that has a multi-sectorial potential, agriculture included. Also, I deem that the inter-border relations are also a good opportunity for its intensive development, and generalising what I said above, I would encourage the banking system to be more aggressive in this region, with concrete plans and objectives to sustain your economy.

Regardless of the above, as the central Bank of Albania, we are conscious that the process of banking system growth and consolidation is a permanent challenge. Therefore, in our work programs of 2006 we have included other concrete steps that will contribute to this direction.
More concretely, we are compiling and implementing new measures, which will increase the banking system activity, not only in terms of mobilising free funds in the form of deposits, but also by making it more active in allocating funds to the economy, in managing free funds more effectively, in better managing risks that go with the funds investment, in increasing the competition to minimise costs and in consequence banks’ commissions, in establishing other facilities to assist the banking system in loan extension, in further perfecting the payments system, aiming at further cash reduction in economy, including even appropriate legal and regulatory improvements that relate to everyday banking system business.

I would like to clarify that the banking system stability is taking an ever higher importance to us. To this end, we are committed to accurately implement all the recommendations provided by the report of the Financial Sector Assessment Program of the IMF during 2005, whose implementation will increase significantly the efficiency and security of the banking system, and the financial system in a broader context. I would like to stress that the Bank of Albania, as the supervisory authority of commercial banks, feels obliged to attract the attention that the high increase in the volume of lending during 2005 and the further increase of its volume in the coming years, must be associated with effective measures for increasing the monitoring, analyses and controlling capacities of the banks themselves, so as to avoid the credit portfolio worsening. On the other hand, we will strengthen our supervisory capacities, particularly the on-site examination, by setting up plans of measures, aiming at supervising prudentially each member bank of the system.

Naturally, our idea to invite the business community to our meetings is novel. In our philosophy, we believe that the business is an important partner which, with its decisions and behaviour, impacts on our policies and also on a sustained and harmonic development of the banking system.

In this context, I would like to put forward some theses. I have mentioned some of them even in some other occasions, but thanks to current and future developments I feel it is relevant to re-emphasise them once more.

The first issue I would like to share with you has to do with the role of the Bank of Albania branch in the region where it operates. The role of the Bank of Albania branch should be different from the one we are used to see. We made the first step in this regard during 2005, when after many efforts and meetings we achieved to collect some data on the economy of your region through a specific questionnaire.

However, my philosophy for the Bank of Albania branch is a little more avant-garde, why not, much more ambitious. I would not like to hide my goal to transform the Bank of Albania branches into powerful and professional centres of economic-financial collection, processing and analyses of the region. I think that the Bank of Albania branch should be open for cooperating with various groups of interest, making the utmost to include in this “vortex” of
analyses and studies the intellectual elite of the region, where, of course, the local academic circles will be in the vanguard.

However, passing to the second issue, a question arises: How can our branch play such a role if it does not possess the proper information needed for this purpose?

Information on markets and latest economic developments may be regarded as a key to success for businesses in modern times of robust developments of technology and information. Though in the first view the acute problem the Albanian businesses are currently facing may not be obvious, not far from now the need will arise to know and analyse the market in real time - i.e fresh information, so as to encounter the globalisation challenge. From a broader viewpoint, a country’s economy cannot be competitive in the international plan, if the development policies are based on a weak real information basis.

For the Bank of Albania, the information on the latest economic developments and expectations is irreplaceable for monetary policy decision-making. Since a long time ago it has been made clear that the process of maintaining price stability - our primary target - is a forward-looking one. Given the current situation of national statistics, which come out with delays, sometimes with a delay of up to two years, it is understandable that our task becomes very difficult.

While the reforms in statistics area are under process, as in many other areas, the results may need time to be accomplished. On the other hand, our decisions should be based on sound bases. To avoid this information “gap”, we have sorted the situation out by surveying various economic agents. Four years ago, the Bank of Albania started to estimate the business confidence index and the consumer confidence index. The questionnaires carried out quarterly with the assistance of the INSTAT, involve 600 businesses of production, construction and services sectors, and 1500 consumers. The information obtained is about the performance of consumer prices, income, production, employment, investments and many other indicators which assist us so much in monetary policy decision-making.

The results of our surveys on the last year indicate a good performance of the economy, supported by a strong demand, reflected in the improvement of production, investment and employment. These results are confirmed even by real data on annual growth of the volume of sales, increased employment rate, rapid increase in the volume of lending to the economy and increased fiscal revenues. This economic growth has been developed under the conditions of a low inflation, around our three percent target, and of the budget deficit within the programmed values, without infringing the macroeconomic balances and the main ratios. Normal performance of inflation has enabled the Bank of Albania to pursue a neutral monetary policy, leaving the key interest rate unchanged, at 5 percent.

Expectations for the current year remain positive. We expect inflation to fluctuate within the 2-4 per cent targeted band, while the economic growth
seems to have returned to its normal trend upon the electricity situation improvement.

However, so far the surveying results have been indirectly reflected in our periodic analyses and reports and in various studies of the Bank. Soon enough the bank thinks to start the regular publication of these results. Initially, we have planned to organise some meetings, as the present one, with businesses and academics in cooperation with the chamber of commerce and universities, where we can receive suggestions on the validity of such questionnaires.

Along the same line of improving the economic information sources, another new initiative undertaken by us more than one year ago has to do with making the Bank of Albania branches more active in collecting information and analysing the economic developments in different regions of Albania. So far, two questionnaires have been carried out, which in spite of the initial difficulties, have provided very interesting results, which we are presenting here today to share them with you. The main purpose of surveying the enterprises in districts is the collection of quantitative data on the real economy of the country, on a quarterly basis. The questionnaire has aimed to collect as complete and ongoing information as possible on the situation of labour market, performance of prices, production and bank-business relations. Such information will be used to compute some important indicators, such as productivity, cost per labour unit, etc., which are often very necessary for the Bank of Albania survey analyses. Currently these indicators are not provided by the current official statistics.

Another objective is the prevention of problems that emerge from the delay in time of the official statistics data. Also, the collected information is thought to be used to fulfil the qualitative information that is obtained from the business confidence surveying.

The periodical carrying out of this survey by the Bank of Albania branches aims at increasing its presence in the districts. The direct involvement of the branch employees in the interviewing process has the aim to make use of their interpersonal acquaintances as well as with company managers or financiers. This would make possible to receive answers on some delicate issues, such as: informal labour market, fiscal evasion, earning, etc.

The branches’ personnel is committed directly to compiling businesses’ lists, in the areas where the Bank of Albania branches operate, as well as to their interviewing process. In spite of good efforts, we would state that difficulties have existed. The main problems reported by the branches’ personnel have been as follows: the lack of cooperation possibilities from firms for being interviewed, difficulties in contacting the authorised persons, lack of sincerity in the declared figures, etc. I take advantage of the occasion to make the businesses aware of the importance of such questionnaires, not only from the macroeconomic viewpoint but also in corporate level. In this initiative, businesses will not be considered simply as information providers but also as users of final analysis, which would assist them in knowing the markets
better. Given that the final results have been disseminated to participating businesses, they may constitute valuable information for their future plans.

As concerns the other difficulties the branches have been faced with, particularly with regards to the overload of carrying out these interviews, taking into account that their main objective is operational, I am of the opinion that an effective alternative, to the costing extension of branches with new structures for facing the load of such surveys, may be the encouragement of cooperation with local universities as that of Shkodra. This would facilitate the work of the branches for collecting information and would provide students with the opportunity to participate in and be familiarised with economic analyses. I would invite here the participants of the university to discuss on the cooperating capacities in this regard.

Passing to other traditional initiatives of the Bank of Albania, those on business bank relations or consumer – banking system relations, I would like to attract the attention in some other opportunities of the bank – business cooperation.

After the completion of the large value payments system (RTGS) and the Automated Electronic Clearing House, the Bank of Albania deems that the proper infrastructure is ensured for channelling all periodic payments for utility services through the banking system. On the other hand, the functioning of this new system will significantly increase the speed of settlements between bank users, an element whose lack has kept the businesses stand aloof from banks.

I take advantage of the opportunity to make the businesses aware of the benefits that accompany the functioning of this system, since among others, both systems will assist in the achievement of international standards of the ATM and POS per number of population. The encouragement of the public to use them remains a challenge to the banking system and the businesses.

To make what we previously said a reality, I would encourage the banking system to be more active, meaning that the banks should provide the population and businesses with clear and ready products, with fast and efficient services.

Naturally, the steps in this direction will be more complex and some of them require inter-institutional cooperation. The Bank of Albania is already paving the way towards the broad use of cards in Albania. The credit cards service will not only contribute to cash reduction in the economy but will also provide a positive impact on reducing informal economy.

I think that the encouragement of the banking system to increase the level of services, wherever the banks carry out their activity, is important for this meeting. Only in this way we would create real chances for a harmonised development geographically, providing a genuine contribution to raising the standard of living throughout the country.
SPEECH BY ARDIAN FULLANI, THE GOVERNOR OF THE BANK OF ALBANIA

Remittances: An Opportunity for Growth. The Albanian migration to Italy as a case study

Bari, March 3-4, 2006

Ladies and Gentlemen,

I am very pleased to speak to you today on the occasion of the Conference on Remittances. I would like to congratulate the World Bank and the Puglia Region for co-organizing this esteemed international event. I greatly appreciate your partnership and this opportunity to explore with you the possible ways for a sustainable growth, formalization and higher effectiveness of remittances.

I would like to open my remarks by asking a simple question. Why are remittances our main topic today?

Remittances represent the most direct and immediate benefit to emigrants’ families and to the economy. Remittance flows to developing countries are now estimated to be twice as much as the development aid these countries receive. In some countries like Albania, they noticeably exceed foreign direct investment. Therefore, governments nowadays are paying more and more attention in their development strategies to remittance flows as an important financial source to boost economic development, especially in depressed areas where economic conditions force people to migrate. A key input for these policies is the economic and the logistic framework behind migration and remittances. This conference and its underlying case-study make a great contribution to these developing efforts.

Since the beginning of the transition, the volume of remittances to Albania has grown rapidly. Indeed, remittance flows are increasingly important relative to other foreign exchange-earning activities, representing around 14 percent of GDP, 70 percent of exports, and 33 percent of imports. Italy is the major migration destination country for Albanians. On the other hand, Albania is the number one recipient country in terms of remittance flows from Italy to other countries. Therefore, remittance services from Italy to Albania have become a topic of great interest. The Italian-Albanian remittance corridor is a relevant case to examine the effects of remittances on local communities and to discuss the ways of making these flows more efficient and less costly.

A recent survey of the Bank of Albania shows that remittances have had positive impact across all Albanian regions. The influence is slightly higher in less developed regions alleviating to some extent income disparities. Remittances have become a critical source of income for households, reaching 33 percent of disposable income of an average recipient family and almost 40 percent in rural areas. The recipients of remittances are from all social groups, including middle income class (60 percent), as well as the low income class (27 percent). Our estimates show that the level and severity of poverty
are significantly reduced among those households receiving remittances, with greater influence on severity rather than the level of poverty.

Remittances are mostly used for imported consumer goods, services, and for the purchase or construction of houses. A small share is saved or invested in businesses, mainly in the agricultural sector. Therefore, the impact of remittances in creating new jobs has been limited. In this view, I do not want to downplay the importance of remittances, but to draw attention to additional structural reforms needed to enhance their impact in the economy. It is not a coincidence that after reaching the level of 14 percent of GDP, the growth rate of remittances has been as constant as that of foreign direct investments in Albania. This shows that in the mid-term, there is no difference between the decision of foreign investors and remitters to invest in Albania. Of course, emigrants may have a better knowledge of domestic markets. They are more connected to their home-country and react faster than foreign investors. Nevertheless, they demand guarantees for their investments as much as foreign investors do. Therefore, both the volume of remittances and their effectiveness largely depend on improvements in the Albanian business environment.

While efforts to speed up reforms aiming to improve business environment are underway, especially now with the most recent signing of the Stabilization and Association Agreement, a question still remains: Are there any other measures that may enhance the contribution of remittances to the development? The Bank of Albania in cooperation with other governmental and non-governmental institutions has been considering some concrete measures, which I have already highlighted in a conference organized by EBRD on these issues last September. I would like to briefly mention some of them here again, with some new insights.

First, improving our knowledge about remittances remains critical for the assessment of policies, which directly impact the developing role of remittances in the economy. The improved information is needed not simply to assist policies on remittances but also financial infrastructure (e.g. by reducing transaction costs) and to understand the impact on poverty. The Bank of Albania has continuously emphasized the importance of accurate estimation of capital inflows in the form of emigrants’ remittances. For better statistics, we have been assisted by the IMF missions to bring the methodology in defining remittances closer to the international standards. Also, there is a close cooperation with our main economic partners, Italy and Greece, as the main destinations of the Albanian emigrants, to harmonize our methodologies in order to improve the estimation accuracy of remittances. The report of the World Bank on the Italian-Albanian corridor is also a great contribution to improve our understanding of remittances, and on behalf of the Albanian authorities, I express our gratitude for this support.

Second, formalizing the inflow of remittances is a very important moment. More than half of remittances enter the country through informal channels. Our surveys show that the bulk of remittances to Albania are channeled
through unofficial sources; physically brought by the emigrants (59 percent), friends and relatives (23 percent). This is partially a reflection of the short geographical distance between the two countries. However, this high flow of remittances through unofficial channels also calls for actions to make official channels more attractive in terms of efficiency, safety, cost and anonymity. As the study team has found out, emigrants in Italy have a high banking utilization rate – more than 50 percent have bank accounts. On the Albanian side, this figure drops to less than 20 percent. Emigrant families’ access to banks is suboptimal despite the considerable geographical expansion of commercial banks in recent years. In contrast to other remittance-receiving countries, banks in Albania still have only a small market share in remittance services. However, there are encouraging signs of demand for new technologies, innovative partnerships and entry points to reach disadvantaged groups.

The high fees of the money transfer applied by the banks are often brought up as a motive why individuals do not prefer this service. Nevertheless, there is already an Albanian commercial bank, which offers transfers from Italy to Albania without charging any fee for amounts up to 250 euros a day, when the average monthly delivery of emigrants usually ranges from 100 to 150 euros. In the meantime, there are several other banks that provide the same service for transfers from Greece. Actually, we are examining the possibilities to lower the transfer costs through broader bilateral agreements between the two countries.

Even though money transfer companies provide transfer services at reasonable rates with a good geographical coverage, we still observe a lot of cash entering the country in bags. I retain, this is more a regulatory problem rather than the preference of emigrants to go informal. The disparity between our two countries in terms of bank accounts accessibility is largely a reflection of the fact that in Italy you cannot get your salary if you do not provide with your bank account number. The anti-cash program initiated by the Bank of Albania clearly indicates that in order to lower the cash economy, we have to abolish the option of cash payments, including here salaries of the private sector, payments of utilities, etc. Our bank is fully committed to support this process at all levels, be they regulatory or technical.

Of course, this comes at some cost, which in the case of remittances is going from zero rates that informal or cash channels offer, to some positive commissions required by formal channels. I understand the concerns raised by some analysts that legislation on exchange rate control or anti-money laundering could increase transfer rates further and push people to go underground. This calls for a revision of the regulation that does not penalize the volume of remittances. As I mentioned earlier, the formalization of the economy is a major component of improving business environment in Albania. Therefore, “forcing” individuals to get into formal channels, while coming at a short term cost of some positive rates, most probably will have the long term benefit of signaling the serious intentions that we are moving on the right directions to both emigrants and foreign investors.
For recipient families, accessibility to financial institutions plays a more important role due to the large percentage of receipts delivered straight to the recipient’s door. In fact, the disconnection between the physical receipt of funds and the location of the financial institution may have a great impact on the disintermediation among recipients. Assuming that receivers can exercise some control over the mode and location of receipt, the geographic proximity of a branch or the ability to pick up a remittance in an office (as required by Western Union) can determine an institution’s ability to compete in the remittance market of Albania, not to mention the possibility of mobilizing savings from these new potential clients.

Remittances can be a point entry for many remitters and their families to the formal financial system. Many emigrant families are either not familiarized with banks or have limited access to the financial institutions. The Bank of Albania through its public communication strategy is aiming to bring the public closer to banking products and services, including transfers, no matter the small size of remittance amounts. Even those small shares left by recipient families in bank accounts could assist economic development as more funds will be available in banks to provide loan products to private sector. The same concern was initially expressed with regard to public administration salaries. Now, this service is provided by the banking system, and we see the power of pooling small amounts. For commercial banks, their ability to market additional value-added services, such as savings products, loans or other types of credit to remittance recipients, will require the achievement of a critical mass of customer acquisition, as well as a higher technology delivery mechanism, to bring down the average cost of the investment required to serve that client.

Microcredit programs and qualitative improvements of banking infrastructure, concerted with the introduction of new financial instruments will also help to attract more remittances. Promoting microfinance organizations as participants in remittances market, could offer certain advantages to the microfinance sector, to the government and to remittance recipients. The costs of this expansion would primarily fall to the regulatory and supervisory authorities. We already took an important step in bringing these institutions under the Bank of Albania supervision, which we expect to improve their status in the market by enhancing the confidence of operating with them. Microfinance institutions are already providing small amount loans to the low income class. Their existing programs allow them to leverage their network and geographic reach to assist remittance senders and receivers in gaining access to low cost financial services, as well as access micro-saving and investment products.

The third area of our efforts is to channel the workers’ remittances toward country’s development needs. The formalization is a necessary step, but it does not ensure the role of remittances as a developing instrument. It is often claimed that emigrants are not the most preferred clients of banks, since this category is considered to have more unstable jobs and low level of income. First of all, this perception is not entirely correct and the results of the Italian team support the fact that the pool of emigrant savings is becoming significant.
enough to be a profitable business. The latest Italian bank entering the market in Albania (Banca Italiana di Sviluppo) is another witness of this reality. However, I would like to see the other banks operating in Albania to be as aggressive as their Italian counterparts in competing for this pool of savings sooner rather than later. There are also other financial services that could be offered to remittance recipients. For instance, linking workers’ remittances with investments by channeling remittance flows toward microcredit loans or projects; or supporting migrants’ contribution and emigrants’ communities to the development of the country.

A concerning signal comes out from our survey showing emigrants low intention to invest in either private ventures and/or public developing projects. It tells us that the issue of remittances goes beyond the financial framework. Therefore, we should think of new ways to improve incentives of emigrants to invest back in Albania, like the recent government initiative to offer to emigrants the opportunity to return and invest in their country by enjoying a three year exemption from the profit and personal income taxes.

In conclusion, I would add that a distinctive feature that makes remittances particularly important instruments for the economic development is their relative stability compared to private capital and financial flows. In contrast to financial flows that showed a high volatility during 1990s, remittances continued to flow much more steadily. In terms of the “life cycle” duration of individual remittances, theory holds that the longer the duration of migrant status, the lower the probability of large flows of remittances. This urges us to speed up our efforts to exploit the potential of remittances sooner rather than later. Their immense role calls for new ways of achieving a sustainable growth, a full formalization and higher effectiveness of remittances. Obviously, this is not a battle we can win today. It requires a lot of attention, good will, but also a complete enforcement strategy.

Thank you.
Honoured Mr. Prime Minister,
Honoured bankers,

I believe the purpose of today’s meeting has to do with a major problem, that of long-term sustainable economic growth of the country. All actors present in this meeting play a key role in this direction; therefore I think that such meetings are useful, with significant contributions to the country’s economic activity.

First of all, I would like to underline that during 2005 the Albanian economy had positive developments in the following directions:

- Monetary policy, standing neutral for most of the year, has ensured a constant money supply to the economy, in accordance with the needs for the country’s economic development;
- Inflationary pressures remained under control, under the conditions of a more steady exchange rate stability;
- At year end, monetary conditions reflected extension of the economy financing by lending, while the Bank of Albania foreign reserves were further increased;
- The banking system increased its financial support to the economy in the form of banking loans considerably. Credit portfolio was increased by 74 percent or ALL 52 billion in absolute value. At year-end, outstanding credit recorded 14.6 percent of GDP, from 8.4 percent in 2004. Also the short-term program for the country’s economic development over 2006 has forecasted a further growth of the outstanding credit to 50 percent, implying further incentives for the country’s economic activity. This has made domestic business have more guarantees to invest in the economy, simultaneously inviting foreign investors for more foreign direct investments in Albania.

As the Governor of the Bank of Albania, I must share with you a natural concern that is generally related to credit portfolio quality, particularly when we are faced with such a rapid expansion of the lending volume. Even though the outstanding credit to the economy is still low, about 15 percent of the GDP, its expansion over 2006 similar to that of the previous year, would increase the potential of banks’ exposure to credit portfolio quality risks.

Therefore, the banking system should undertake all the measures to improve monitoring, analysing, and controlling capacities, aiming at preventing any possible credit portfolio deterioration. On the other hand, we will enhance our supervising capacities, particularly the on-site examinations, by working out measure plans to prudentially control each member bank of the system.
Special attention will be paid to control on specific lending procedures and review of re-rating made and of provisioning performance for non-performing loans. Furthermore, the Bank of Albania has included in its priorities of 2006 the project on establishing the credit register, a facility that will help the process of controlling and verifying loan borrowers.

I would like to clarify that the banking system stability is of special priority for us, therefore we remain committed to carry out precisely all the recommendations given by the IMF report of Financial Sector Assessment Program (FSAP) over 2005.

I think that the concept of bank is inevitably related with the concept of confidence. For me confidence is transparency, transparency and only transparency. I deem that the enhancement of transparency is a primary condition that leads to increased access of the population to your business. This increase implies deposits increase, credit extension, more competition and more effective financial intermediation. Above all, enhancement of transparency means more opportunities and lower costs to your clients.

Think for a moment that the quantity of money circulating and “sleeping” outside banking channels is still high. Turning back to my discussion in the last meeting organised by the World Bank and the Puglia Region, I would like to emphasize that more than half of remittances enter the country through unofficial channels. According to the Balance of Payments statistics of 2005, this figure reaches close to Eur 700 - 800 million. I believe this fact does not need any comments. Out of our surveys the causes are different. However, the high fees applied by the banks are often brought up as a motive why individuals do not prefer banking service.

On the other hand, the increased circulation of money through banking channels requires enhanced prudence for preventing money laundering and terrorism financing. The combat against money laundering is an ongoing challenge that relates to the major problems our country is facing with, such as: cash economy, fiscal evasion, and economy informality. Therefore, at the beginning of the year we undertook a partial examination on 7 banks. Out of the examination it resulted that in general, banks have the proper structures and policies on fighting against money laundering and terrorism financing. However, we also observed some deficiencies having to do with staff training and better understanding of the legal framework.

Taking into account what I said earlier, I believe that you understand the message I want to transmit to you today, that is not only banking business extension, but also significant contribution to reducing cash and informality in the economy.

Recently, we have made some concrete steps in this direction. Therefore, the banking system is more extended geographically and richer in products. Increase of assets, rise in the number of clients, modern infrastructure and other developments have made our contribution to cash reduction in the
I believe that the above accomplishments, combined with determined administrative measures, will contribute to the closure of informality gates one by one in the economy. However, I observe unexploited space particularly in terms of:

- increasing opportunities for more electronic payments; year 2005 overturned the ratio in the favour of electronic payments, when their level reached the figure of 320 thousand as compared to the number of 300 thousand of payments effected at the windows. This is an encouraging sign, urging us to better focus on this direction.
- channelling periodic settlements for utility services through bank accounts; more concretely AEC, Alb telecom and Water supplying should be related to the banking system so that their services are settled electronically.
- compulsory transfer of salaries of private sector’s employees through the banking system; the so-far experience with the private sector has resulted successful, while even some big private operators are applying this method efficiently. I think that the obligation to transfer salaries through the banking system will significantly decrease the evasion existing on income tax and social insurance contributions.

I personally think that it is just the time to enhance popularity for imposing the creation of a banking culture and education. The obligation of each individual for opening a bank account in addition to an important massive service the state does to the population, is more than necessary. More concretely, I propose that new cards be associated with a bank account number.

In conclusion, it is understandable that in order to be successful in the long run, more focus is needed on all the problems I briefly treated above. More loans, more prudence in the supervision, more qualified services, more free prices, less cash in the economy, more banking business, will all lead to more access of the population into your business.

I deem that this is an essential prerogative that ensures sustainable long-term development of the Albanian economy.
Honored ladies and gentlemen,

It is a special pleasure for me to address to you today on the occasion of the first Bank of Albania lecture, part of a series of public lectures that our institution intends to organize during this year. I avail myself of the opportunity to thank the GTZ Office in Tirana, as well as Prof. Michael Bolle and Prof. Helge Berger, for their assistance and support in carrying out this series of lectures.

The series of public lectures is part of the measures that our institution is undertaking to promote and encourage scientific research related to the economic, monetary and financial developments in our country, in the region and beyond.

Today’s lecture serves to remind us of the important scientific profile of the Bank of Albania, along with its operational profile related to the fulfillment of its legal tasks, such as maintaining price stability, supervising the financial system, ensuring the smooth functioning of the payment systems and compiling a great part of the statistical data of our country.

We are earnestly committed to the improvement of economic research within the Bank of Albania, being aware that notwithstanding the accomplishments, there is still room for further improvement and progress in this area. However, I am convinced that the cooperation with the other actors interested in this process is of primary importance for us in order to succeed in these efforts.

In this framework, the Bank of Albania is interested in intensifying the cooperation with the economic faculties and with the other centers specialized in economic research in our country. This cooperation will certainly enable the absorption of specialized academic input, through the participation of university staff in various scientific projects, jointly with the staff of our institution. At the same time, I would like to express my conviction that a closer cooperation will ensure an optimal use of human resources of both parties and will serve for revitalizing the scientific research in our universities.

Another important dimension of the cooperation with academic institutions lies in the establishment of closer relations with the excellent students of the economic faculties, intending to promote their interest in focusing their further academic qualification on central banking issues.

I avail myself of this opportunity to communicate the launching of the “Governor’s Award” project. This project will consist in organizing an open competition, where all the interested students can compete with their diploma theses on issues related to the Bank of Albania activity area. The best diploma
theses will be selected by an ad hoc commission, and material rewards will also be given.

I express my belief that these initiatives of the Bank of Albania will be welcomed by the academic and students’ community in our country, and along with the earnest commitment of the Bank of Albania staff, they will contribute to the achievement of the major goal of improving economic research in our country.

Thank you!
Honoured participants,

It is my great pleasure to be here with you today, representatives of local government of Gjirokastra district. Today’s meeting follows the other meetings the Bank of Albania has organised in the regions of the country, in line with our objective to enhance and improve communication with the public.

An independent central bank should communicate with the whole society in order to establish appropriate confidence and prestige, in the framework of transparency which facilitates the accountability process.

Besides laws and regulations, which ensure accountability to bodies elected by the people, such as parliament, the direct communication with the public, business and academic circles are an important element.

I believe that the open communication of objectives, ways and means for their accomplishment, improves the efficiency of our work. Avoiding the ambiguity of expectations generally caused by the implementation of “Surprise” policies, the public and businesses are turned from agents that seek to minimise costs of “contingencies” into collaborators backing the achievement of our objectives.

The main purpose of the Bank of Albania is achieving and maintaining price stability. The clear defining of what we understand with price stability constitutes the first important step in the transparency of our communication. A long time from now the Bank of Albania has announced the inflation rate targeted with its monetary policy, presently being 2-4 percent in annual terms. We are trying to institutionalise such a thing further, examining the possibility of adopting inflation targeting regime (IT), on whose focus is precisely the announcing and pursuing of a specified inflation rate. But this new regime is more than just announcing inflation rate in the same way as the Bank, as earlier mentioned, has done so far. It also consists in public knowledge of models and analyses our decision-making is based on and in increased responsibility and transparency in case the target is not met. This will provide a real possibility to the public and businesses to understand the way the Bank responds to economic developments and to judge more accurately the policy pursued. Therefore, it is being worked in some directions, from improvement of statistics basis, preparation of necessary models for inflation forecasting and economy functioning, to legal grounds needed for the successful changeover to this new, modern and transparent regime.

Modern philosophies of central banks’ governance attribute high importance to communication. But the Bank of Albania communication is not
limited merely in monetary policy transparency for achieving price stability. As much important is the exchange of information with different economic agents to ensure necessary signals for preventing any possible economic and financial crisis. In this aspect, regular contacts with the banking system and businesses are irreplaceable. We may mention here business confidence index and consumer confidence index, which are being processed based on the information obtained in regional level.

Currently, we have a positive tradition of periodical meetings with commercial banks on various problems that may emerge or new initiatives the banking system undertakes. Recently, upon the rapid expansion of lending activity characterising the banking system, discussions are focused mainly on credit quality. Year 2005 was associated with an accelerated increased lending to the economy. This rise has been the main source of using funds and of monetary expansion, shifting, for the first time, the budget deficit financing from this role. As of end of November, credit to the economy amounted to around 14 percent of GDP, while the annual growth rates of credit have fluctuated around 70 percent. Credit is channelled in all the economy sectors, indicating the close relationship of businesses with banks. The Bank of Albania estimates that so far the banking system has encountered these rapid developments with a satisfactory degree of assurance. Nonetheless, being the supervisory authority of commercial banks, we feel the obligation to emphasise that increased volume of loans should be in line with the improvement of their monitoring capacities in order to prevent credit portfolio deterioration. Therefore, we are taking measures to initiate the establishment of a Credit Information Bureau, which will contribute significantly to this aspect.

The Bank of Albania assesses that monetary and financial stability are inextricably related. When there are premises for financial instability, it is followed by monetary instability, as well.

Large informal economy continues to be a concerning problem for Albania. It increases significantly the investment and credit risk. Under these conditions, the economy formalization remains a priority task in the programs of measures of government authorities, taking into account the very negative impact it has on fair competition and on fiscal evasion intensity. Informal economy in Albania is presented in various forms that generate crime and corruption; parallel economy, which flourishes and functions in consequence of the lack of formal economy efficiency.

The increased quantity and quality of the banking services, reduced cost of these services, performance of utility services through the banking system and the associating of identity cards with bank accounts and a postal address, will all impact on the formalization of economy. The formality is equal to a bank account.

Cooperation with the banking system has been important in our efforts to curtail cash economy, as part of the economy formalization process. The channelling of public employees’ salaries through the banking system
is over, while we are considering the ways for involving the private sector in this process. The implementation of Real Time Gross Settlement and the Automated Electronic Clearing House systems have obviously dropped the financial transaction cost through banks. In this framework, we also believe that there exist all possibilities for commercial banks to review expenditures related to banking services.

The Bank of Albania, while implementing its policy for a gradual prevention from the mediator’s role it provides to households for their participation in primary Treasury bill market, has recently decided on not accepting cash at its window in Tirana. This decision will be applied even at other Bank of Albania windows within the first ten days of April.

Misunderstandings of some citizens or media concerning the Bank of Albania’s role in Treasury bill issuing process have made inevitable the addressing of some problems related to this process. I would like to clarify once more that the Bank of Albania operates merely as an agent of the Ministry of Finance in Treasury bill issuing.

On the one hand, the Bank evaluates the importance of direct participation of citizens in these auctions, but we think that there exist more efficient ways to carry out this process. The Treasury bill sale through the Albanian postal network would be an alternative. The post-office restructuring would bring about many benefits, not only to the process of Treasury bill sale, which will always be upward, but also to many other services the banking system may not be flexible enough to provide, for instance emigrants’ remittances up to the most remote areas of the country.

The facility of channelling remittances from abroad is another issue for discussion with the banking system. Considerable quantities of money circulate outside banks. More than half of remittances enter the country through unofficial channels. This income constitutes around 14 percent of Gross Domestic Product (GDP), 70 percent of exports and 33 percent of imports. Italy and Greece are the main destinations, where Albanian emigrants live, and as a consequence they are the main countries the remittances come from. Further increased volume of remittances and their effectiveness are based on the facility of banking system transfer service and on the business environment improvement.

As I have stressed in a similar meeting in Shkodra, our communication with businesses is strengthened a lot through surveys we carry out on the country’s economic activity performance. However, I accept that so far this communication has been one-sided, from businesses to us. It is just the time to establish more fully links. Therefore, we have considered that the businesses should be the first one to take part in the introduction and discussion of our surveys results. This will be accomplished through periodic meetings in cooperation with the chambers of commerce.

Simultaneously, these meetings will serve as a window for more direct information on businesses’ current concerns, such as electricity problems of
the end of 2005. A considerable part of businesses were obliged to work below the productive capacities. This reflected a decline in production and investments. The restriction of the economic activity owing to electricity disruptions is estimated to have caused lower growth rates by about half percentage point, as compared to its forecasts. To face the difficulties deriving from electricity shortages, most of businesses turned to alternative sources, causing significant cost to their activity. Approximately 57 percent of businesses interviewed, asserted that cost rise fluctuated within 10 – 30 percent. The production sector, above all, is the one that has mostly felt the consequences of electricity crisis, since it had to be faced with additional high cost, because of using other substituting alternatives of electricity production. However, the businesses believe in a recovery of the economic activity within the first quarter of 2006.

The Bank of Albania communication with universities and various academic circles is generally limited in special lectures on monetary policy and financial markets. Appreciating the importance of this communication, we have planned to establish our relationships with universities in a higher partnership stage, through the direct involvement of students in questionnaires and analyses the BoA branches carry out. In the meantime, in order to promote scientific research, we acquainted the public, for the first time last week, with the “Governor’s award” project.

I believe that the increased and improved communication with all groups of interest, with the banking system, with the business community, local government and academic circles, will positively impact on the accomplishment of our joint objectives for a more sound economy and for more social welfare.

Thank you.
ABSTRACT

The perception of the importance of Foreign Direct Investment (FDI) as a mean for the promotion of investments highlights the need for accurate measurement and detailed statistics of the FDI for the assessment of their relation to the economic growth and their impact over various economic sectors. Through a comprehensive theoretical framework, this paper provides the concepts and definitions of the FDI, the components, the forms it is introduced with, and the sources and methods of collecting information. This paper shall also consider the institutional mechanisms with regard to the reporting of data, which are essential to guaranteeing the quality of data. A few issues in the measurement have also been summarized.

The measurement and record of FDI in our country have been and still remain a challenge in attaining the contemporary levels of the developed countries for the provision of qualitative and comparable statistics.

LIST OF ACRONYMS AND ABBREVIATIONS

FDI Foreign Direct Investment
OECD Organisation for Economic Cooperation and Development
IMF International Monetary Fund
IIP International Investment Position
BOP Balance of Payments
FCS Fully Consolidated System
M&A Mergers and Acquisitions
SPE Special Purpose Entities
ITRS International Transactions Reporting System
BoA Bank of Albania

1 INTRODUCTION

The role of Foreign Direct Investment (FDI) in the economic development of a country has been debated at length and accompanied by pros and cons opinions. Several countries have welcomed the FDI as a fundamental contribution to the development processes and the facilitation of accessing the world economy, assessing it in a wide context of strategic reforms for economic restructuring and growth.
Empirical studies acknowledge the role of the FDI in the economic growth and development of host countries, in particular of developing countries. During the last decade, the flow of foreign direct investment has played a significant role in increasing the productivity, employment and exports of transition economies.

Foreign Direct Investments have been considered to the advantage of the economy in general even in the context of transition economies towards a market economy, economic integration and globalization, enlargement of capital international flows, free movement of individuals, goods, services and technologies.

Many positive effects are ascribed to these particular capital transfers that apparently set them apart from other types of private capital flows. The import of improved management techniques and of more advanced technologies as well as the related easier access to international financial markets are among the commonly cited advantages associated with foreign direct investments. FDI is also inclined to be relatively a stable long-term engagement to the benefit of the foreign company. All these together have significant benefits for the recipient countries in terms of economic growth and reduced external vulnerability. Under these conditions, the high current deficits are more sustainable when mostly financed by FDI instead of bank borrowing or portfolio investments, considered as highly volatile.

FDI is also a crucial indicator for Albania’s integration into the global division of labour and the general growth level. However, the analyses of the integration process require harmonized procedures to compile and disseminate FDI data.

Apart from the advantage of compiling an institutional framework for the promotion of foreign investments in Albania, their accurate measurement is a necessity of time.

According to international standards, FDI is estimated for the stock and capital flows they bring to the economy. While the stock provides information on the degree of the presence of a company or a country in a foreign company, FDI flow is used for the assessment of the balance of payments sustainability.

Foreign Direct Investment from the viewpoint of the Balance of Payments and the International Investment Position share the same conceptual framework given by the International Monetary Fund. In this context, the Balance of Payments is a statistical statement, which systematically summarises, for a specific time span, the economic transactions of an economy with the rest of the world (transactions between residents and non-residents) and the International Investment Position compiles for a specific date, such as the end of a year, the value of the stock of each financial asset and liability as defined in the standard components of the Balance of Payments.
Below, there is an overview of the balance of payments in a macroeconomic level. FDI is under the category of liabilities, since it represents the foreign ownership in the company control, in a given country. FDI is generally more stable compared to the bank borrowing or portfolio investments abroad.

This paper has been organised as follows: sections 2, 3 and 4 provide an overview of definitions, concepts and recommendations adopted by the IMF (Balance of Payments Manual – Fifth Edition) and by the OECD – “Benchmark Definition of Foreign Direct Investment (1996)” on Foreign Direct Investment. They both provide an operational guidance and detailed international standards for recording flows and stocks related to the FDI. Section 5 treats and describes the forms of direct investment, which are encountered more frequently and specific cases, which require the meeting of some conditions in order to be classified as FDI. The identification and recognition of FDI forms are important for the compilation of statistics of foreign direct investments in accordance with the standards. Section 6 describes different modes of data collection for the FDI statistics. The selection of different modes for the provision of information is critical for the degree of accuracy of FDI statistics and the application of international standards.

2 WHAT IS FOREIGN DIRECT INVESTMENT?

FDI concept has undergone changes through the years. Historically, a threshold in equity and the idea that the investor plans to display control influence on the company have been closely related to the concept of the FDI.

In order to harmonise the distinctions in the FDI concepts, the OECD and the IMF have developed a common definition: “...foreign direct investment reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise)”. The “lasting interest” implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the latter (OECD 1999, appendix IV, pg 88).

The above definition does not specify what a lasting interest really constitutes in itself. However, the latter is pointed out in the application of the OECD recommendations. The OECD recommends “...an effective voice in the management, as evidenced by an ownership of at least 10%, implies that the direct investor is able to influence or participate in the management of an enterprise; it does not require absolute control by the foreign investor”...”
Pursuant to this, the settlements which do not bear an ownership of at least 10%, but which permit the exercise of control (such as, sub-contracts, licences and exclusiveness) are not included in the definition developed by the OECD and the IMF.

Direct investment involves both the initial transaction establishing the relationship between the investor and the enterprise, and all subsequent capital transactions between them and among affiliated enterprises, despite the legal form they have been enrolled in – as juridical persons or natural persons. It should be noted that capital transactions which do not give rise to any settlement, for example an interchange of shares among affiliated companies, may also be recorded in the BOP and in the IIP.

The Fifth Edition of the IMF’s Balance of Payments Manual defines the owner of 10% or more of a company’s capital as a direct investor. The IMF recommends using this percentage as the basic dividing line between direct investment and portfolio investment in the form of shareholdings. Thus, when a non-resident who previously had no equity in a resident enterprise purchases 10% or more of the shares of that enterprise from a resident, the price of equity holdings acquired should be recorded as direct investment. From this moment, any further capital transactions between these two companies should be recorded as a direct investment. When a non-resident holds less than 10% of the shares of an enterprise as portfolio investment, and subsequently acquires additional shares resulting in a direct investment (10% or more), only the purchase of additional shares is recorded as direct investment in the Balance of Payments. The holdings that were acquired previously should not be reclassified from portfolio to direct investment in the Balance of Payments but the total holdings should be reclassified in the International Investment Position.

Concerning the terms “direct investor” and “direct investment enterprise”, the IMF and the OECD define them as follows: A direct investor may be an individual, juridical person, a public enterprise, a government, a group of related individuals, or a group of juridical persons and/or natural persons, that have a direct investment enterprise, operating in a country other than the country of residence of the direct investor. A direct investment enterprise is a juridical person or natural person in which a foreign investor owns 10% or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise.

Direct investment enterprises may be subsidiaries, associates or branches. A subsidiary is an incorporated enterprise in which the foreign investor controls directly or indirectly (through another subsidiary), more than 50% of the shareholders’
voting power. An associate is an enterprise where the direct investor and its subsidiaries control between 10-50% of the voting shares. A branch (controlled associations) is a wholly or jointly owned unincorporated enterprise.

It should be noted that the choice between setting up either a subsidiary/associate or a branch in a foreign country is dependent, among other factors, upon the existing regulations in the host country (and sometimes in the home country, too).

Box 1. Foreign Direct Investment in the Albanian legislation

Based on the Albanian legal framework, direct investment enterprises may be the juridical persons (Law no. 7638, date 19.11.1992 “On Commercial Companies”) and the natural persons (Article 2 of the Law no. 7632, date 4.11.1992 “On provisions which regulate the first part of the commercial code”).

Juridical persons are in the form as defined in Article 2 of the Law no. 7638, date 19.11.1992 “On Commercial Companies”: collective companies, commandite companies, limited liability companies and anonymous companies, which have a juridical personality upon their registration in the court.

The simple company may be considered another form of these enterprises, as defined by Article 1074 and on of the Civil Code. According to Article 1075 of the Civil Code, a company is simple when it does not have the distinctive characteristics of the commercial company, regulated in the aforementioned Law no. 7638. The principal distinction between them is that despite its denomination as “company”, it does not constitute a juridical personality since there is a contract upon which two or more people agree to exercise an economic activity, aiming at sharing profit deriving from such an activity.

The forms of holding the shares in the case of commercial companies are the subsidiaries (Article 217), associates (Article 218) and controlled companies.

According to the Law “On Commercial Companies”, Foreign Direct Investment in these companies may be carried out:

- by participation in the equity capital upon the creation of the company;
- by transfer of shares of the equity capital pursuant to the requirements of this Law in the case of each form of commercial companies (for example, Articles 23, 33, 45, 47 etc.);
- by the increase in capital;
- in cases of merger or demerger (Article 243 and on).

Based on Article 1076, in the case of simple companies, direct investment may be carried out when the contract provides that its members shall contribute unequally with money, objects or services (Article 1074).

In the case of the purchase and sale of land by Albanian residents, according to the Albanian legislation and in the context of the abovementioned direct investment, foreign natural of juridical persons who carry or have carried investment in the territory of the Republic of Albania, pursuant to the Law no. 7764, date 2.11.1993 “On foreign investment”, have the right to purchase land for investment, state-owned or private-owned property, or the land of carried or in process investment. Foreign
It should be mentioned that in the case of affiliated banks (depository institutions) and affiliated financial intermediaries, such as security dealers, transactions recorded under direct investment are those associated with permanent debt (loan capital representing a permanent interest) and equity (share capital) investment or, in the case of branches, fixed assets. Deposits, loans and other claims and liabilities related to usual banking transactions of depository institutions and of other financial intermediaries are classified, as appropriate, under “portfolio investment” or “other investment”, but never as direct investment. The stock of foreign assets and liabilities of banks and other financial liabilities should be treated in a parallel manner.

The OECD recommends that for the existence of a direct investment relationship the “fully consolidated system” should be applied (see the box below). In other words, it implies the establishment of relationships in the case of cascade participation. Thus, direct investment enterprises, which are in a direct investment relationship with a direct investor, also enjoy such a relationship with each other (box 2). This criterion does not correspond with the consolidation concept in the accounting statement.

**Box 2. Fully Consolidated System**

Fully Consolidated System (FCS) includes the following:
- Branches.
- Subsidiaries (more than 50% directly owned by the direct investor) for example, A and K.
- Associates (10% - 50% directly owned by the direct investor) for example, D and F.
- Subsidiaries of subsidiaries, for example, B and L.
- Subsidiaries of associates, for example E.
- Associates of subsidiaries, for example C.

In the above scheme, enterprises A, B, C, D, E, F, K and L are all involved in a direct investment relationship with enterprise N – even though, for example, company N owns indirectly only 4% of company C.

FCS excludes the following:
- Enterprises in which the direct investor owns less than 10%, for example H.
3. DIRECT INVESTMENT CLASSIFICATION, COMPONENTS AND SECTOR BREAKDOWN

The classification of direct investment is based firstly on the direction of investment both for assets or liabilities; secondly, on the investment instruments used (shares, loans etc.); and thirdly, on the sector breakdown.

As for the direction, it can be looked at it from the home and the host country perspectives. From the home country, financing of any type extended by the resident parent company to its non-resident affiliated would be included as direct investment abroad. By contrast, financing of any type by non-resident subsidiaries, associates or branches to their resident parent company is classified as a decrease in direct investment abroad, rather than as a foreign direct investment. From the host country, the financing by non-resident parent companies to their resident subsidiaries, associates or branches would be recorded, in the country of residence of the affiliated companies, under foreign direct investment, and the financing extended by resident subsidiaries, associates and branches to their non-resident parent company would be classified as a decrease in foreign direct investment rather than as a direct investment abroad.

As for the instruments, direct investment equity comprises the capital provided (either directly or through other related enterprises) by a direct investor to a direct investment enterprise and the capital received by a direct investor from a direct investment enterprise. Direct investment equity transactions are made up of three basic components: (i) Equity capital: comprising equity in branches, all shares in subsidiaries and associates, and other capital contributions, such as provisions of machinery, etc. (ii) Reinvested earnings: consisting of the

- Subsidiaries of those enterprises in which the direct investor owns less than 10%, for example J.
- Associates of associates of the direct investor, for example G.

In the following example:
- Enterprises H and J are not in a direct investment relationship with enterprise N, because enterprise N owns less than 10% of enterprise H.
- Enterprise G is not in a direct investment relationship with enterprise N, because enterprise G is an associate of an associate of enterprise N.

Remember that once an enterprise is determined to be in a direct investment relationship with N, it is also in a direct investment relationship with all the other enterprises that are in a direct investment relationship with N. For example, C is in direct relationship with A, B, D, E, F, K, and L, as well as with N.

An important consequence of this rule is that the FDI data should include all transactions/positions made/held directly between enterprises in different economies, that are in direct investment relationship – including enterprises that share a common direct investor but have no ownership in each other.
direct investor’s share (in proportion to direct equity participation) of earnings not distributed as dividends by subsidiaries or associates and earnings of branches not remitted to the direct investor. If such profits are not identified, they are considered to be distributed. (iii) Other direct investment capital (or inter-company debt transactions): covering the borrowing and lending of funds, including debt securities and trade credits, between direct investors and direct investment enterprises and between two direct investment enterprises that share the same direct investor. As mentioned above, deposits and loans between affiliated deposit institutions are recorded as other investment rather than as direct investment.

The following box (box 3) provides a more specific explanation of the definition and measurement of FDI flows for the balance of payments and the stock for the IIP.

**Box 3. Definition and measurement of FDI flows and stocks**

In defining the foreign direct investment flows, for reporting period in the balance of payments, are included:

- for subsidiaries and associates:
  1. the direct investor’s share of the company’s – reinvested earnings (retained earnings for the subsequent year and the fiscal year earnings – which are not distributed as dividends). This share is determined proportionally based on the respective shares of direct individual shareholders in the subscribed capital (nominal capital);
  2. plus the direct investor’s net purchases of the company’s share, debt securities and loans (including non-monetary ones, machineries, production rights etc.);
  3. less the company’s net purchases of the direct investor’s, debt securities and loans;
  4. plus the net increase in trade and other short-term credits given by the direct investor to the company.

- for branches:
  1. the increase in the reinvested earnings;
  2. plus the net increase in funds received from the direct investor;
  3. plus inter-company flows, excluding some flows between affiliated banks, affiliated intermediaries (for example, securities dealers) and Special Purpose Entities (SPE), whose sole purpose is serving as financial intermediaries.

International investment positions are defined as follows:

- for subsidiaries and associates:
  1. market or (balance sheet) value of shares and reserves attributable to direct investor;
  2. plus loans, trade credits and debt securities issued by the direct investor (including determined but not yet paid dividends);
  3. less reverse loans, trade credits and debt securities;

- for branches:
  1. market or book value of fixed assets, investments and current assets, excluding the amounts to be paid by the direct investor;
  2. less liabilities of branches to third parties.
Finally, there are several sector breakdowns of Foreign Direct Investment and International Investment Position flows. The IMF has chosen a breakdown by four institutional sectors (see table 1 below), defined according to the sector to which the resident party belongs. However, reporting on this sector breakdown is not compulsory in the Fifth IMF Manual.

By contrast to the classification according to the institutional sector, the OECD favours an “industrial” breakdown (see table 1 below), which includes nine economic sectors. The OECD specifically recommends, for the purpose of this classification, that FDI carried out via a resident holding company be classified according to the industrial sector to which the parent company belongs. Under this criterion, when the parent company is a bank, FDI transactions carried out by a non-banking holding company would be attributed to the banks.

According to IMF recommendations, positions should be recorded under the directional principle (respectively as an asset/liability), which takes into account the status of the enterprise. In this context, the direct investors country records all capital transactions with direct investment enterprises under “direct investment abroad”, while the country of direct investment enterprise records all capital transactions with foreign investors under “direct investment in the reporting economy”.

Moreover, the IMF recommends that the positions should be calculated based on the market price of the respective reporting period. Positions derived from balance sheets of direct investors and direct investment enterprises (book values) represent a satisfactory approximation to the market values. Thus, in most cases these two data groups (book values and market values) may be adequate.

<table>
<thead>
<tr>
<th>Classification according to the IMF</th>
<th>Classification according to the OECD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Monetary Authority</td>
<td>1. Agriculture, hunting, forestry and fishing</td>
</tr>
<tr>
<td>2. Banks</td>
<td>2. Mining and quarrying</td>
</tr>
<tr>
<td>4. Other Sectors</td>
<td>4. Electricity, gas and water</td>
</tr>
<tr>
<td></td>
<td>5. Construction</td>
</tr>
<tr>
<td></td>
<td>6. Wholesale and retail trade, restaurants and hotels</td>
</tr>
<tr>
<td></td>
<td>7. Transportation, storage and communication</td>
</tr>
<tr>
<td></td>
<td>8. Financing, real estate and business services</td>
</tr>
<tr>
<td></td>
<td>9. Community, social and personal services</td>
</tr>
</tbody>
</table>

4 VALUATION OF FDI FLOWS AND STOCKS AND RELATIONS BETWEEN THEM

The Balance of Payments and the International Investment Position are compiled under the same framework of methodological rules defined in the Fifth Edition of the IMF Balance of Payments Manual. According to this, FDI transactions should be recorded in the Balance of Payments at the accrued value, i.e. “…transactions are recorded when economic value is created, transformed, exchanged, transferred or extinguished…” In practice, it is
very difficult to apply the accrued principle to all transactions and many of them are therefore recorded at the time when the proceeds or payments are generated.

Moreover, the IMF recommends the use of market value as the basis for the valuation of flows and stocks, although this implies different approaches for both types of data: (i) for flows, the market value refers to the actual price agreed upon by transactors on the date of transaction and it should not reflect changes induced by fluctuations in exchange rates or in the market value of the financial assets and liabilities in question; (ii) for stocks, the market value at the time of the compilation of the stocks is recommended. Nevertheless, it is recognized that in practice, book values from the balance sheets of direct investment enterprises are often used as a proxy of the market value of the stock of direct investments, when the company has no market value. The balance sheets values, if recorded on current market value, shall be considered to be in conformity with this principle. If based on historical cost or on an interim but not current revaluation, such balance sheet values would not conform to the principle. However, it should be noted that the balance sheet values represent the only possible source of valuation of assets and liabilities readily available in most countries.

The difference between the stock at the beginning of the year and its value at year-end must be equal to the flow recorded in the Balance of Payments, which reflects the transactions on these assets and liabilities that actually took place during the year; plus the change in the value of the stock induced by swings in the exchange rate; plus the change caused by alterations in the price of the related assets and liabilities; and plus other changes in the volume of financial assets and liabilities. In a more summarized way:

\[
\text{Position at the end of the period} = \text{position at the beginning of the period} + \text{FDI flows} + \text{price changes} + \text{exchange rate changes} + \text{other adjustments}.
\]

With regard to the “other adjustments”, although some of them may be explained by the use of different sources to compile both statistics, the main conceptual ones are reclassifications in the International Investment Position (but not in the Balance of Payments) e.g. portfolio to direct investment as previously explained in the second section.

As for the international comparison of data, despite a common international methodological framework, discrepancies between countries are considerable. In fact, the worldwide discrepancy between outward and inward direct investment flows should be zero, if both sides recorded all flows fully and consistently. Nevertheless, according to Lipsey (2001) “the asymmetries have been no higher than 8% in any year from 1993, as contrasted with 40 or 50 per cent for portfolio investment”.

Discrepancies are mainly due to the use of different criteria for the valuation or the geographical distribution of transactions.
The most frequent deviations are caused by the lack of information on reinvested earnings. The latter, unlike the partial capital flows or distribution of dividends, do not initiate any currency transactions, which may be channelled through the banking system. Consequently, the countries using the banking information as the main source, rather than direct reporting from direct investment companies and their affiliate enterprises, do not have available data on reinvested earning.

**Box 4 Recording reinvested earnings in the balance of payments**

The importance of identifying the reinvested earning is emphasized by the fact that it constitutes the sole opportunity for the recording of earning of companies in the balance of payments and the respective items in the IIP. From the economic viewpoint, the accounting of the reinvested earnings does not affect actual developments in the external equilibrium of the national economy. However, it provides a more accurate picture of the role that FDIs play in the economy, the size of the resulting income and how that income is distributed.

International standards define two distinct approaches, depending on how corporate income is measured: income may (i) incorporate all the components of profits, such as exchange rates gains and losses or loss related to the deduction of claims; (ii) exclude such and rely solely on ordinary profits. International methodologies recommend the latter approach.

Recording income on equity as part of direct investment in the balance of payments statistics requires the following information:
- year and the after-tax profit (or loss) of the enterprise with foreign direct investment;
- the timing and size of dividends declared payable by the investors;
- the dividend tax payable;
- the timing of the actual dividend payment.

The responses given to questions on “timing” help to identify the accounting period, for example the period in which the transaction in question is to be disclosed in the balance of payments.

Consequently:
- Direct investors’ after-tax profit (or loss) must be recorded as reinvested earning in the balance of payments of the year in which it was actually earned.
- Dividends must be recorded as an income component in the case when they are declared payable. When taken together, an important distinction is made between profit as a benefit of the company’s operation and dividend emerging as a result of the owner’s decision. Dividends declared payable reduce the reinvested earnings for the given year in the current account and financial account. The distributed dividends, but still unpaid also represent a short-term liability vis-à-vis the investor; therefore, in the financial account of the balance of payments they are recorded in the “other capital” item within direct investments.
- After investors have distributed after-tax profits, they must pay dividend tax on the dividend declared payable. Later, general government’s claim (item in the balance of payments) –vis-à-vis the investor is replaced by the enterprise’s claim -vis-à-vis the investor in the financial account, as opposed to (tax) revenue recorded as a current transfer.
- Once the dividends are paid, the actual amount transferred equals the dividend declared payable net of dividend tax. Thus, both the liability (arising as a result of the distributed, but unpaid dividend) and the claim vis-à-vis the investor (for example, dividend tax paid to general government) are liquidated. In other words, at the payment stage, no components of the current account exist; the two legs of the transfer only affect the financial account.

The recording of corporate net profits as reinvested earning shows how direct investment affects the current account balance through the income account. However, the owners’ decision concerning distribution of income (except for the indirect effect of dividend tax) and the payment of dividends, has no effect over the current account balance; that is, it does not affect the savings – investment relationship in the national economy.

Statistics based on the international methodological recommendations may be compiled on a yearly basis, following assessment of the questionnaires, filled in using corporate balance sheets and the financial statements of the profit – loss. In these statistics, the data on reinvested earnings, dividends and other distributed earning on the capital are estimations.

5 FORMS OF DIRECT INVESTMENT

The acquisition by the direct investor of the part of control in a company established in an economic territory, other than the home country, may take different forms.

There is a distinction between the provision of a lasting interest in an existing enterprise in the form of merger and acquisition, known as Mergers & Acquisitions – (M&A) and the establishment of a new production unit (Greenfield investment).

In reality, FDI is a heterogeneous flow of financial assets, which includes new investments (Greenfield investments) that represent a net increase of capital stock in the host country, and direct investment in the form of acquisition or mergers, which represent a change in the ownership of the existing capacities of production in the host economy.

It is believed that Greenfield investment is more beneficial for an economy as it results in asset creation. However, in certain countries, such as in transition economies, M&A may be more desirable. A reason could be that M&A flows in these economies are associated with the privatisation programme.

Reinvested earnings, made by existing investors in the area out of their profit are another form of direct investment. While not constituting a fresh capital inflow from abroad, this form of investment adds to the host country’s capital stock, assets, and productive capacity.

Intra-company loans are another form of FDI in one economy. They usually constitute a capital flow from parent company (abroad) to the subsidiary. Since this “debt” is repaid by the latter along with the interest, it constitutes
Box 5. Special cases of Foreign Direct Investment

- Offshore – These are enterprises which are engaged in the assembly of components manufactured outside the country. They generally process export goods, engage in trade and financial operations.

These companies locate in “special trade zones”, “free-trade zones” or tax-havens (with a very low level of taxes; there is even no tax for some businesses).

In the FDI data, the residency of offshore enterprises is attributed to the economies in which they are located without regard to the special treatment they may receive by the local authorities, such as exemptions from taxes, tariffs or duties.

- Quasi-corporations are enterprises which produce goods and services in an economy other than their own, but do not establish separate legal corporations in the host country. These enterprises, which are in a direct investment relationship with the parent enterprise, shall be deemed as FDI if:

1. Production is maintained for one year or more.
2. A separate set of accounts is maintained for the local activities.
3. Income tax is paid in the host country, not in the country of origin.

Examples of this kind of enterprises are those involved in construction¹ or mobile equipment².

- Special Purpose Entities (SPEs)³, are generally organized or established in economies other than those in which the parent companies are resident. They engage primarily in international transactions, but in few or no local operations. Special Purpose Entities are those legal structures, which have little or no working power, activities or physical presence in the juridical system of the country they have been established. They are generally used as mechanisms to own assets and liabilities and they are not producing companies in themselves. As legal mechanisms, SPEs do not have a high establishment cost and they use financially the regulatory liabilities and confidential privileges. Their establishment is often accompanied by offshore financial centres or according to specific legal rules of the economy they are in.

a larger outflow than the inflow. This form of investment is not of interest for different countries, although it helps in financing the business of the direct investor, as such enabling the continuity of their contribution to the domestic economy.

Non-equity forms of FDI which include licences, exclusive agreements etc, are also known. Such forms do not necessarily contain capital outflows; however, their contribution to the economic development is significant.

Besides these forms of investment, there are other special cases, which require the meeting of some specific conditions to be classified as foreign direct investments. Their identification and acknowledgement is very important for the compilation of foreign direct investment statistics according to the standards.
SPEs are defined by structure (for example base companies, central regional offices etc.) and by their purpose (for example, sales administration, foreign risk administration, assistance in the investment financing, etc.). SPEs are treated as direct investment enterprises and they are included in the FDI data, if they complete the 10% ownership criterium.

- Financial intermediaries are defined as: other deposit institutions (commercial banks); other financial intermediaries, other than insurance companies and pension funds; other financial institutions (for example, insurance agents); SPE for financial intermediation and/or auxiliary services purposes.

Transactions between financial intermediaries (for example, financial intermediaries which are in direct investment relationship) should be excluded from FDI data, other than capital or lasting debt transactions.

- Purchase and sale of land by residents. Under an agreement, in the Balance of Payments, all land within the territory of one economy, other than that owned by foreign governments (such as embassies) is considered to be property of residents. If the current owner of land is a non-resident, the ownership is supposed to be transferred to a notional resident institutional unit, which owns this land and/or building.

As a consequence, the non-resident has a financial investment in this notional resident unit, which is assumed to be a foreign direct enterprise.

The purchase and sale of land (or of a building on this land) by non-residents should be included in the FDI as equity capital.

- Natural resources exploration. Expenditures on discoveries or explorations of natural resources (oil for instance) by non-residents should be recorded in the FDI as equity capital. The payments of one direct investor for the exploration natural resources of one economy should be recorded in the FDI as equity capital, if the intention of establishing a direct investment enterprise in this economy is obvious.

If natural resources explorations result unsuccessful (a dry oil well etc., for instance) and there is termination of the enterprise activities:
- no further entries in the FDI data of BOP should be recorded;
- negative adjustments (with opposite sign) should be made in the data of International Investment Position (IIP) and FDI for both countries.

1 Paragraphs 545 – 548 of BOP Textbook and 712 – 717 of BOP Compilation Guide provide examples on construction enterprises. Paragraph 545: Work undertaken in one economy by a construction enterprise may be treated (i) as work performed by a notional enterprise that is resident in the host economy and engaged in a direct investment relationship with the parent enterprise or; (ii) as a service imported by the host economy. The important issue is determination of the economy to which production is attributed. If an enterprise maintains, or expects to maintain, a presence in the host economy for more than a year, and if separate and appropriate records are kept in respect of the enterprise’s work in the host economy, production should be attributed to the host economy. In such a case, a new company with foreign direct investment is established in this economy. On the contrary, we are not dealing with a direct investment enterprise and in the balance of payments of the economy
in question, the company’s transactions shall be shown in the imports item in the current account.
2 Paragraphs 552 – 554 in BOP Textbook provide examples on the treatment of mobile equipment in the balance of payments.
3 Paragraphs 542 – 544 in BOP Textbook provide examples on the treatment of SPEs in the balance of payments.
4 Paragraphs 550-551 from BOP Textbook and 718-722 from BOP Compilation Guide provide examples on the treatment of these cases in the balance of payments.

6 MODES OF COLLECTING THE DATA ON FOREIGN DIRECT INVESTMENT

The accurate measurement of foreign direct investments is very important in determining the FDI flow and stock. There are three modes for the collection of data: enterprise surveys, international transactions reporting system (which includes transactions through the banking system) and administrative data. The choice between different modes of collecting information can be decisive for the accuracy of FDI statistics and the ability of the compilers to implement the international standards. Each type of information source has its specific advantages and disadvantages.

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
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</thead>
<tbody>
<tr>
<td><strong>International Transactions Reporting System (ITRS)</strong></td>
<td>In general, only cash transactions are measured. This implies that part of FDI components (such as reinvested earnings or inter-company indebtedness) are not involved without a specific agreement, therefore supplementary sources will be required. The concepts of FDI are difficult to be explained on a generalised banking report system, in particular concepts, which relate to the classification. Transactions in domestic currency or through accounts with non-resident banks are difficult to measure. The provision of data on the international investment position may be difficult.</td>
</tr>
<tr>
<td>ITRS is normally used in the collection of information for different BOP items, such as import/export etc. The use of an ITRS avoids the expense of developing alternative FDI data collection system.</td>
<td></td>
</tr>
</tbody>
</table>

**Enterprise Surveys**
Enterprise survey is designed based on specific requirements of FDI statistics. It provides for complete recording of transactions and FDI position for each enterprise surveyed, including reinvested earnings. It provides the opportunity to explain to data providers the concept and treatment of FDI. It may include information on other influencing economic factors, such as the number of employees, exports, etc.

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>“Administrative” Data</strong></td>
<td>This information is rarely compiled to meet the BOP requirements. There could be significant time lags between approval and actual investment (approved investment may never actually take place). Information on reinvested earnings and dis-investments may not be available. Information on stocks of investments valued at market price is typically not available. Information may relate only to investments in particular industries. Generally, information relates only to incoming and not to outgoing FDI.</td>
</tr>
<tr>
<td>Information is often readily available as a by-product of the approval process.</td>
<td></td>
</tr>
</tbody>
</table>

Many countries base on the ITRS data for the creation of FDI database. The Bank of Albania provides very limited information from bank reporting. There are many reasons for this, but the main one is the high use of cash in economy.

Currently, enterprise survey is the most useful mode. Such a survey has been undertaken by the Bank of Albania as an initiator for the creation of the complete register of foreign capital enterprises. The creation of this register shall be the basis for the establishment of time series, useful for the Balance of Payments and the International Investment Position. So far, there have been two FDI surveys, respectively in 2003 and 2004, which have aimed at interviewing all companies directly investing in Albania. The Bank of Albania has planned annual surveys, aiming at surveying the foreign capital companies in Albania.

Although considered a very good source of information, the carrying out of statistical surveys is a very difficult and complicated process. It requires the clear definition of objectives, well-compiled questionnaires, selection of the representatives taking the survey, well-defined classification and structure of statistical data, assessment of the results and effective aggregate procedures etc. As a result, one of the main tasks for the balance of payments compilers is the improvement of the relevant methodologies and the ongoing study for the finding of adequate statistical and econometric methods for the processing of the relevant data, paying attention to other sources of information, as well.

The creation of data history with regard to the foreign capital in Albania in the form of direct investment and the study analysis of survey results shall provide a clear framework of its origin, the sectors of economy, which have absorbed it more, and its influence on the economy. The analysis of foreign direct investment market characteristics and their efficiency may serve as a promoting factor in the opening of new foreign capital companies in the country.
BIBLIOGRAPHY


International Monetary Fund (1993), Balance of Payment Manual.


NOTES


We would like to thank the Legal Department for the suggestions and assistance provided during the preparation of this working paper.

1 OECD (1996)

2 Juridical person implies the commercial companies registered in the commercial register at the court as commercial companies, in one of the forms recognized by the law (commandite, simple, limited liability or anonymous). They have a statute and a founding act.

3 A natural person is a partnership unregistered in the commercial register as commercial companies or in any other forms recognized by the law. That is, they are simply a form of cooperation between traders, but not a form recognized by the law; they are not presented in the juridical relationships as a party on their own. They do not have a statute and a founding act.

4 A subsidiary is a commercial company in itself, considered a subsidiary of the parent commercial company.
BANK OF ALBANIA NEWS DURING JANUARY-MARCH 2006

On 11 January 2006, the Albanian Government submitted officially the Letter of Understanding and Memorandum of Economic and Financial Policies to the International Monetary Fund. This document was signed in the presence of the IMF mission representative in Albania Ms. Ann-Margret Westin, the Prime Minister Mr. Sali Berisha, the Minister of Finance Mr. Ridvan Bode and the Governor of the Bank of Albania Mr. Ardian Fullani. In the speech following the signing of the document, the Governor underlined that the agreement with the IMF enhances Albania’s credibility, increases the Bank of Albania independence and augments the premises for a better macroeconomic stability.

On 17-18 January 2006 was organized the 11th Euromoney Forum “Pushing the Boundaries: Ensuring Competitiveness in the Central and South Eastern Europe”, in Vienna, Austria. The Forum was conceived in the form of panels having specific topics under focus. The Governors’ panel was placed a great significance. It mainly focused on the expansion of the European and Monetary Union towards the Eastern Europe and the expected costs of such an expansion for the region in particular, and the whole Europe in general. The Governor of the Bank of Albania, Mr. Ardian Fullani, was part of this panel. After introducing the most recent developments of the Albanian economy, he focused on foreign investments in Albania and issues related to them. He also placed a great focus on the contribution of the Bank of Albania in sustaining the economic development in Albania and the region.

On 17 February 2006, the Governor of the Bank of Albania, Mr. Ardian Fullani, held a meeting in the city of Shkodra, with representatives of the business community, local government, banking sector and academics of “Luigj Gurakuqi” University in Shkodra. In his speech, the Governor introduced them to the optimistic setting related to the economic developments during 2005 and those expected for year 2006. He also emphasized the need of increasing information not only through the official sources, but also through the base units of the statistical input, that is, business companies. For this purpose, he made an appeal to the business community to cooperate with the Bank of Albania branches, so as to provide relevant information related to their activity. The representatives present at the meeting shared their enthusiasm about this initiative of the Bank of Albania and stressed that the benefit out of this initiative would be reciprocal, both for the business community and banks, as the further improvement of statistics and information would lead to the enhancement of cooperation among these communities.
On 3-4 March 2006, the World Bank and the Puglia Region, in cooperation with the Bank of Albania organized in the city of Bari, Italy, an international conference with the theme “Remittances: an opportunity for growth – Albanian emigration to Italy as a case study”. Participants in this conference were experts of the World Bank, Puglia region, Bank of Albania, and many other important guests from Italy and Albania, who discussed widely on remittances, a current issue for both countries. The Governor of the Bank of Albania, Mr. Ardian Fullani, was also a participant in this conference. In his speech, he discussed the issue of remittances widely, as a topic of great current significance, emphasizing the fact that they constitute a financial instrument, which needs to be channelled through the banking system.

On 6 March 2006, the Governor of the Bank of Albania, Mr. Ardian Fullani, held a working meeting in Rome, Italy with his Italian counterpart, Mr. Mario Draghi. Governor Fullani introduced the Italian Governor to the economic developments in Albania, placing the focus on the Italian investors in general, and the Italian banks in specific, which have played a very important role in boosting the economy and the private banking system in Albania. After appraising the accomplishments of the Bank of Albania to date, he expressed his willingness to enhance the assistance and support provided to the Bank of Albania.

On 7 March 2006, the Governor of the Bank of Albania, Mr. Ardian Fullani, held a working meeting in Rome, Italy with the President of the Italian Banking Association, Mr. Maurizio Sella and the Director General of this association, Mr. Giuseppe Zadra. The meeting was held in the form of a joint seminar, organized by the Italian Banking Association and the Bank of Albania, the focus of which was the introduction of the Italian experience in relation to the establishment of the Credit Information Bureau in Albania. After introducing the high representatives of the Italian Banking Association to the continuous efforts of the Albanian banking system to establish the Credit Information Bureau, Mr. Fullani emphasized that the Bank of Albania is now determined in setting this bureau up. At the end of the meeting, Mr. Zadra and Mr. Sella expressed their willingness to assist and support this initiative of the Bank of Albania for the establishment of the first Credit Information Bureau in Albania.

On 23 March 2006 was held the first lecture of “Series of Public Lectures” that the Bank of Albania intends to organize during this year in cooperation with the GTZ Office (German Society for Technical Cooperation) in Tirana. The series of the Bank of Albania lectures shall treat a number of issues dealing with the monetary policy, transition economy and the financial markets. The series of lectures aims at promoting and advancing the scientific research in the field of finance through treating themes related to banking, finance and current economic issues. In his opening speech, Mr. Fullani launched the “Governor’s Award” project, which consists in organizing an open competition,
wherein all the interested students of economic faculties may compete with their diploma theses on issues related to the Bank of Albania area of activity.

On 31 March 2006, the Governor of the Bank of Albania, Mr. Ardian Fullani, held a meeting in the city of Gjirokastra, with representatives of the business community, local government, banking sector and academics of the University of Gjirokastra. This meeting was organized as part of the initiative undertaken by the Bank of Albania to hold similar meetings in different regions of the country, aiming at increasing the role of the Bank of Albania branches and enhancing communication with the public. In his speech, the Governor placed a particular emphasis on the communication with various groups of interest, on the continuous institutional dialogue to be established with the business community, academic circles, the banking system and the students. Reduction of informality was another issue treated by the Governor, with regard to which he stated that the provision of each individual with identity card, postal address and a banking account are three crucial elements, which would solve this great issue.
LEGAL EVENTS DURING JANUARY-MARCH 2006

ISSUE

On 25.1.2006, the Supervisory Council of the Bank of Albania upon Decision No. 2 approved the Regulation “On the exposure of numismatic values at the Bank of Albania, their administration and maintenance”. This regulation determines the rules and procedures to be observed for the exposure of numismatic values, their administration and maintenance at the Bank of Albania.

BANKING SUPERVISION

On 25.1.2006, the Supervisory Council of the Bank of Albania approved the Decision No. 3 “On granting the preliminary licence to conduct banking operations to the proposed bank “First Investment Bank – Albania Jnt. Stk.””. Upon this decision, this bank is transformed from a branch of First Investment Bank – Bulgaria in Tirana, into a subsidiary of First Investment Bank – Bulgaria in Albania.

On 8.2.2006, the Supervisory Council of the Bank of Albania upon Decision No. 9 approved the Document “On Banking Supervision Mission”. The purpose of this document is to determine the mission of the Bank of Albania as the supervisory authority of banks and other financial entities licensed by it.

AUDIT


LEGAL

On 22.2.2006, the Supervisory Council of the Bank of Albania upon Decision No. 13 approved the Regulation “On the issue of legal acts”. This regulation aims to stipulate the rules and procedures of issuing the legal acts by the Bank of Albania bodies.
ECONOMIC POLICY

On 13.1.2006, the Council of Ministers upon Decision No. 15 approved an amendment to Decision No. 429, dated 30.08.1993 of the Council of Ministers “On the establishment of the Government committee for the external debt negotiation”. Based on this amendment, this committee shall be composed of the Minister of Finance, the Governor of the Bank of Albania, the Minister of Justice, the Minister of Economy, Trade and Energy, the Director of Treasury Directorate at the Ministry of Finance, the Director of Monetary Operations Department at the Bank of Albania, and local or foreign experts.

On 19.1.2006, the Parliament of the Republic of Albania approved upon Law No. 9465 “The agreement between the Council of Ministers of the Republic of Albania and the Government of the Czech Republic for the settlement of the Albanian debt to the Czech Republic”. This agreement stipulates the terms and the way how the Republic of Albania shall settle its debt to the Czech Republic.


On 2.2.2006, the Ministry of Finance approved the Instruction No. 2 “On the state budget execution for 2006”. This instruction specifies the general rules and procedures of budget execution for 2006.

On 22.2.2006, the Council of Ministers approved the Decision No. 179 “On the establishment of European integration units in the line ministries”. According to this decision, European integration units shall be part of the Ministry of Justice, Ministry of Agriculture, Food and Consumer Protection, Ministry of Economy, Trade and Energy, Ministry of Finance, Ministry of Environment, Forestry and Water Administration, Ministry of Labour, Social Affairs and Equal Opportunities, Ministry of Internal Affairs, Ministry of Health, Ministry of Public Works, Transportation and Telecommunication, Ministry of Education and Science, and the Ministry of Tourism, Culture, Youth and Sports. European integration units coordinate and support the work of the respective institutions in fields, which focus on the main elements of acquis communautaire, in the application of the Stabilization and Association agreement.

On 20.3.2006, the Parliament of the Republic of Albania approved the Law No. 9497 “On the establishment of Business and Investments Albanian Agency”. Business and Investments Albanian Agency shall be a public juridical person under the Ministry of Economy, Trade and Energy and it shall conduct its activity throughout the Republic of Albania territory. The main objective of its activity shall be the application of policies and strategies, the development of programmes and projects in order to support the private sector progress,
as well as the encouragement, attraction and support of foreign investments in accordance to the priorities of the Albanian Government policy.

INSURANCE MARKET

On 23.1.2006, Insurance Supervisory Authority upon Decision No. 2 approved the Regulation “On the rules and limits of capital investment of insurance companies”. This regulation determines the limits of capital investment of insurance companies and sets a balance between the activity of capital investment of insurance companies and the mandatory observance of some supervisory reports.

On 23.1.2006, Insurance Supervisory Authority approved the Decision No. 3 “On the approval of shareholders with a qualifying holding in “Dukagjini Al Jnt. Stk.” insurance company”. Based on this decision, Mr. Kadri Morinaj with 75 per cent of shares and Mr. Faik Broci with 12 per cent of shares become the shareholders of this company.

On 3.2.2006, Insurance Supervisory Authority approved the Decision No. 5 “On the change of the name of “Dukagjini Al Jnt. Stk.” insurance company”. Based on this decision, the name of “Dukagjini Al Jnt. Stk.” insurance company is changed into “Eurosig Jnt. Stk.”.

On 3.2.2006, Insurance Supervisory Authority approved the Decision No. 6 “On granting the approval for the conduct of reinsurance activity by “Sigal Jnt. Stk.” insurance company”. This decision authorizes “Sigal Jnt. Stk.” insurance company to conduct reinsurance activity; however, Insurance Supervisory Authority has the right to revoke this decision, in case the financial position of this insurance company aggravates due to the conduct of this activity.
Bank of Albania

BANK OF ALBANIA MANAGEMENT
MARCH 31, 2005

SUPERVISORY COUNCIL

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

GOVERNOR
ARDIAN FULLANI

GOVERNOR’S OFFICE
GENC MAMANI

DEPUTY GOVERNORS
FATOS IBRAHIMI First Deputy Governor

GENERAL INSPECTOR
TEUTA BALETA

DEPARTMENTS AND OTHER UNITS

HUMAN RESOURCES DEPARTMENT Dashmir Halilaj
MONETARY POLICY DEPARTMENT Gramoz Kolasi
RESEARCH DEPARTMENT Erjon Luçi
MONETARY OPERATIONS DEPARTMENT Marjan Gjermeni
BANKING SUPERVISION DEPARTMENT Kloodion Shehu
INFORMATION TECHNOLOGY DEPARTMENT Xhilda Kanini Deliana
STATISTICS DEPARTMENT Kliti Ceca
ISSUE DEPARTMENT Valer Miho
ACCOUNTING AND PAYMENTS DEPARTMENT Marseda Dumani
LEGAL DEPARTMENT Toni Gogu
AUDIT DEPARTMENT Teuta BALETA
FOREIGN RELATIONS, EUROPEAN INTEGRATION AND COMMUNICATION DEPARTMENT Ina Kraja
ADMINISTRATION DEPARTMENT Agron Skënderaga
SECURITY AND PROTECTION DEPARTMENT -
PRINTING HOUSE Alfons Theka

BRANCHES
ERMIRA ISTREFI SHKODRA
VALENTINA DEDJA ELBASANI
ANILA THOMAJ GJIROKASTRA
LILJANA ZJARRI KORÇA
SHPRESA MEÇO LUSHNJJA

Bank of Albania
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”, Nr. 70, Tirana, Albania
Tel.: 23 39 65, 23 56 97, 23 56 98, 22 62 62
Fax.: 23 30 34

2. RAiffeisen Bank (Joint-Stock Company)
License No. 2/1998, dated 11.01.1999
Certificate No. 2 “On Deposit Insurance”.
Director: Steven GRUNERUD
Address: Rruga “Dëshmorët e 4 Shkurtit”, Nr. 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”, Nr. 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, Tirana
Tel.: 28 03 51 / 2 / 3 / 4 / 5.
Fax: 28 03 56.

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 March 31, 2006
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”, Nr. 55/1, Tirana, Albania
Tel.: 23 34 41/42/ 43/44/45/46/47
Fax.: 23 34 17

7. NATIONAL BANK OF GREECE – TIRANA BRANCH (JOINT-STOCK COMPANY)
License No. 08, dated 25.11.1996
Approved by the Supervisory Council Decision of the Bank of Albania No. 4, dated 14.03.1996.
Certificate No. 7 “On Deposit Insurance”.
Director: Spiro BRUMBULLI
Address: Rruga “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.: 25 43 72 / 25 62 54
Tel/Fax: 25 43 68

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”, Nr.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”, Nr. 27, P.O. Box 8319, Tirana, Albania
Tel.: 27 60 00 / 24 87 53 / 4 / 5 / 6
Tel/Fax: 24 87 62

11. PROCREDIT BANK (JOINT-STOCK COMPANY)
License No. 12, dated 15.03.1999
Approved by the Supervisory Council Decision of the Bank of Albania No. 22, dated 03.03.1999.
Certificate No. 11 “On Deposit Insurance”.
Director: Ralf 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", Nr. 64, Tirana, Albania
Tel.: 25 64 23, 3 564 24
Tel/Fax: 25 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.: 35 87 55/ 56/ 57/ 58/ 59/ 60
Tel/Fax: 35 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. “CREDINS” BANK (JOINT-STOCK COMPANY)
License No. 16, dated 28.03.2003
Certificate No.15 “On Deposit Insurance”.
Director: Artan SANTO
Address: Rruga “Ismail Qemali”, Nr. 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 Kastrioti”, Pall. 11/1, Kati I, Tirana, Albania
Tel.: 27 27 88 / 89 / 90 / 91
Fax: 27 27 81

17. UNION BANK (JOINT-STOCK COMPANY) TIRANA
License No. 18, dated 09.01.2006
Certificate No.17 “On Deposit Insurance”.
Director: Gazmend KADRIU
Tel: 25 06 53
Fax: 25 06 54
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, Nr. 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: Edmond Leka
Address: Bulevardi “Zogu I”, VEVE Business Center, Tirana, Albania

3. ALBANIAN POST-OFFICE (JOINT STOCK COMPANY)
License No. 3, dated 18.04.2001, as a non-bank financial institution to conduct the
following financial activities:
- offering payment services;
- acting as financial agent or advisor.

Director: Arqile Goreja
Address: Rruga “Reshit Çollaku”, Nr. 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

Director: Migena Roshaj
Address: Rruga “Ismail Qemali” Nr. 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” Nr. 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”, Nr. 2/3, Tirana, Albania
Tel.: 24 01 47
FINANCIAL INSTITUTIONS NOT LICENSED BY THE BANK OF ALBANIA TO CONDUCT THEIR ACTIVITIES ACCORDING TO THE SUPERVISORY COUNCIL DECISION NO. 26, DATED 29.03.2000 “ON THE EXEMPTION OF SOME INSTITUTIONS FROM APPLYING THE PROVISIONS OF LAW NO. 8365, DATED 02.07.1998 “ON BANKS IN THE REPUBLIC OF ALBANIA”
(These organizations are not licensed or supervised by the Bank of Albania but they have to report to the Bank of Albania).

1. RURAL FINANCING FUND
Object of activity: Financing the rural area.
Exempted upon the Bank of Albania 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 upon the Bank of Albania note No. 2895/1, dated 19.01.2001
Director: Bajram Muça
Address: Rruga “Asim Vokshi”, Nr. 35, Tirana, Albania

3. ALBANIAN PARTNER ON MICRO CREDIT
Shareholder: “Opportunity International” (East Europe).
Object of activity: Granting credit.
Exempted upon the Bank of Albania note No. 828/1, dated 08.04.2002
Director: James Reiff
Address: Rruga “Gjin Bue Shpata”, Nr. 7/1, Tirana, Albania
FOREIGN EXCHANGE BUREAUS

1. “JOARD” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 1, dated 01.10.1999
Address: Rruga “Ded Gjon Luli”, Nr.2, Tirana, Albania
Brokers: Josif Kote, Pajtim Kodra

2. “AMA” FOREIGN EXCHANGE BUREAU S.R.L., DURRËS
License: No. 2, dated 01.10.1999
Address: Rruga “Tregtare”, Lagja 3, Durrës, Albania
Brokers: Mirlinda Ceka, Ilir Hoxha

3. “ARIS” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 3, dated 01.10.1999
Address: Rruga “Luigj Gurakuqi”, Tirana, Albania
Brokers: Ardian Goci, Ismet Noka

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

5. “AGLI” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 5, dated 01.10.1999
Address: Agency No.1: Rruga “Islam Alla”, Nr.1, Tirana, Albania
Agency No.2: Rruga “Kavajës”, Tirana, Albania
Brokers: Kujtim Nina (Manager), Agim Cani, Selim Luli

6. “EXCHANGE” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 08, dated 24.11.1999
Address: Rruga “Durrësit”, Nr. 170, Tirana, Albania
Brokers: Ivan Pavlovski

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, Rruga “Prokop Meksi”, 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. “SERXHIO” FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN
License: No. 14, dated 07.04.2000
Address: Lagja “Luigj Gurakuqi”, Rruga “11 Nëntori”, Pallati 70, Nr.14, Elbasan, Albania
Brokers: Amarildo Canoku

11. “ALBTUR” 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, Altur Rahmani
12. “R & M” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 16, dated 22.05.2000
Address: Rruga “Punëtorët e Rilindjes”, Pallati 182, Tirana, Albania
Brokers: Edmond Stepa, Miranda Stepa

License: No. 17, dated 22.05.2000
Address: Lagja 4, Rruga “Skënderbej”, 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”, VEVE Business Center, Tirana, Albania
Brokers: Roland Manushi

18. “UNIONI SELVIA” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 23, dated 21.05.2001
Address: Rruga “Sarçëve”, 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: Lagja “Luigj Gurakuqi”, Bulevardi “Qemal Stafa”, Njësia Nr.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”, Nr. 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”, Nr.3, Tirana, Albania
Brokers: Almir Duli, Agim Xhemo
Agency No. 2:  Rruga “Mine Peza”, Pallati 102, Shk. 1, Tirana, Albania
Broker:  Fatmir Baholli

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. “ARRON 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”, Nr.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”, Nr. 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 I, Tirana, Albania
Brokers:  Shkelqim Drogu, Kostandin Koteci

35. “HYSEN-C” FOREIGN EXCHANGE BUREAU S.R.L., LAÇ
License:  No. 50, dated 23.04.2002
36. “UNIONI FIER” FOREIGN EXCHANGE BUREAU S.R.L., FIER
License: No. 51, dated 08.05.2002
Address: Lagja “15 Tetori”, Rruga “Kastriot Muça”, Fier, Albania
Brokers: Gjergj Dulaj (manager)

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

38. “GLEAR” FOREIGN EXCHANGE BUREAU S.R.L., SHIJAK
License: No. 55, dated 23.07.2002
Address: Lagja “Kodër”, Shijak, Durrës, Albania
Brokers: Arqjend Calliku, Aferdita Calliku

39. “ALBA-POST” FOREIGN EXCHANGE BUREAU, TIRANA
License: No. 56, dated 28.08.2002
Address: Rruga “Reshit Çollaku”, Nr. 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. “DENI&KRISTI-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 Ndoci (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 Cenoll (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: Pëllumb Mehmetaj, 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, Salandi Brojaj

47. “ARIABA” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 67, dated 07.06.2004
Address: Ruga “Abdyl Frashëri”, Kati I, Shk. 5, Tirana, Albania
Brokers: Agim Xhema (manager), Astrit Hado
48. “ALBACREDITS” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 68, dated 13.07.2004
Address: Rruga “Ded Gjon Luli”, Nr. 5, Tirana, Albania
Brokers: Ermita Skënderi (manager), Engjëll Skënderi, Burhan Kodra, Shajponja Spahiu

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

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

51. “O & G” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 71, dated 30.09.2004
Address: Rruga “Kavajës”, Tirana, Albania
Brokers: Prandvera Ago (manager), Teuta Broqi

52. “OMEGA” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 72, dated 20.12.2004
Address: Rruga “Abdyl Frashëri”, Pallati 1, Shk.2, Ap.10, Tirana
Broker: Mihallaq Pejo (manager)

License: No.73, dated 28.04.2005
Address: Bulevardi “Bajram Curri”, Pallatet Agimi, Nr.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 Zyfi (manager), Pellumb Zyfi
Associates: Liliana Zyfi, Pellumb Zyfi

License: No. 75, dated 08.07.2005
Address: Lagja “Sëmkoll”, rruga “Thoma Kaleshi”, Pallati 110, Shk.1, Kati I, 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.

License: No.79, dated 17.02.2006
60. "REGENCY INTERNATIONAL CASINO TIRANA" FOREIGN EXCHANGE
BUREAU S.R.L., TIRANA
License: No.80, dated 06.03.2006
Address: Rruga “Dëshmorët e 4 Shkurrit”, Parku Rinia, Tirana, Albania
Brokers: Rajmonda Lami, Florjan Lami, Bandill Molla, Suzana Aliu, Aides Goga, Majlinda Jupas

61. “ARBËR F” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No.81, dated 07.03.2006
Address: Rruga “Kavajës”, Pallati 3, Kati I (ish-Guden), Tirana, Albania
Brokers: Florina Jaho, Bukurosh Jaho

License: No.82, dated 12.04.2006
Address: Lagjia nr.4, Rruga “Migjen”, pranë Poliklinikës Qendrore, Durrës, Albania
Brokers: Hysni Baganaçi, Medi Dyrmishi
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”, Nr. 26/1, Tirana, Albania
Head of the Executive Board: Vojcava 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”, Nr. 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