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I GOVERNOR’S SPEECH

The development of the Albanian economy has generally been consistent with the projections of the first semester over 2006. The sales performance over the first semester, the realization of the budget revenues plan and the rapid growth rates of credit absorption from the private sector supported the projection for an economic growth of 5 per cent over 2006.

The economic activity has been sustained by the macroeconomic stability and by the favourable monetary conditions. Consumer prices inflation has remained under controlled levels, fluctuating around the Bank of Albania objective of 3 per cent. Against the lags in carrying out the expenditures, the fiscal activity was characterized by a stable growth of budget revenues, in particular of capital ones, providing a budget surplus over this period. Trade transactions with abroad extended further. The exports and imports of goods maintained the growth rates of the previous years, resulting in trade deficit deepening. Monetary developments were characterized by a relative stability of indicators, interest rates fluctuations around the minimal historical levels, stable exchange rates and by a rapid crediting to the economy. Outstanding credit grew by ALL 38 billion over the first eight months of the year, supporting the growth of consumption and of investments in economy. The exchange rate of the domestic currency, the Lek, has remained almost unchanged over the whole period.

The annual growth of sales over the first semester accounted for 11 per cent, which is close to the average recorded over the last years. The growth of sales was mainly backed by the developments over the first quarter, while the second quarter has recorded slower sales’ growth. Such a development may be explained by the attempts of the private sector to recover the lack of activity over the electricity crisis of the first quarter the previous year. On the other hand, the sectoral developments of the economy, do not present an even economic growth between the sectors of production. The sector of trade, which bears the main share in the total volume of sales, has recorded the highest growth rates, providing as such the most significant contribution to the growth of sales. A positive tendency was also observed in the performance of other services’ sales, among which, the financial services and real estates transactions have provided their best performance. Meanwhile, the sales in the sector of construction and of transport have been displaying signs of slowdown for several quarters, causing one of the main historical incentives of economic growth to reduce significantly. Considering the importance of these sectors in the Albanian economy, their performance requires a special attention, since they will condition the economic growth rates in the medium-term.
As far as the fiscal policy is concerned, the long presence of budget surplus stands out. Budget balance by the end of August resulted in a positive balance of ALL 10.9 billion. However, under the conditions when the Government aims to realize all the projected domestic financing (about ALL 22 billion), the following period bears concerns regarding the performance of Treasury bills yields and of the liquidity in the system. The recent growth demonstrates best this concern. Nonetheless, the Bank of Albania stance in observing rigorously all the legal obligations and the ones deriving from the multilateral and bilateral agreements with the IMF and the Ministry of Finance remain unchanged.

According to the preliminary data of the trade balance for the first semester of 2006, the trade of goods’ balance deficit amounted to around EUR 830 million or about 22 per cent more than the same period the previous year. The growth of consumer loans, the increase of technological needs’ financing and the stable workers’ remittances constitute the core factors, which influence on a high demand for the import of goods.

Annual inflation fluctuated around the Bank of Albania objective over the third quarter of the year. After reaching 3.2 per cent in July 2006, the annual change of consumer prices followed a downward trend in the following two months. However, the Bank of Albania states that the inflationary pressures have increased over 2006. The inflationary pressures, which influenced on the consumer price rise over the first semester of 2006, were also perceived over the third quarter. Average inflation rate over the third quarter was about 0.5 percentage points higher than the same period the previous year.

The pressures are assessed to have been stronger than the same period the previous year. The average annual inflation for the third quarter of 2006 resulted to be 2.9 per cent, compared to 2.4 per cent the previous year. Among the events conditioning the inflation developments, it is assessed that the ones related to the supply were transmitted more frequently and more directly to the level of prices. The prior notice on the electricity price rise, applied in August, as well as the price rise in some of excise goods, had a direct impact over the general level of consumer prices.

Meanwhile, almost throughout the nine-month period, pro-inflationary pressures have also been present in the group of fuels prices, conditioned by the tense situation in the international oil market. Annual inflation rates for foodstuffs in the Euro zone and in Albania’s main trade partners, have testified its upward trend over this period of the year. While the lending activity in the private sector of economy continued to record high growth rates, the low level of budget expenditures over the first eight months influenced on keeping the aggregate demand and the inflationary pressures under control.

The increased inflationary pressures in the first semester of 2006 led to the reconsideration of the Bank of Albania monetary policy stance. In July, the Bank of Albania raised the cost of money, by increasing the core
interest rate by 0.25 percentage points. This increase aimed at bringing the monetary conditions in line with the inflation medium-term objective. The raise of the core interest rate, among others, took notice of the rapid expansion of credit to economy, the narrowing of the interest rates spread between the lek and the foreign currency, as well as of the expectations regarding the concentration of budget expenditure on the rest of the year.

The tightening monetary policy stance was also reflected in the monetary operations of the Bank of Albania. The change in the core rate was applied in the interest rate of one-week repos for the withdrawal of the system liquidity and in the standing facilities interests. The banking system reacted by increasing the interest rates, being quicker in the percentages of the interbank market and in the Treasury bills yield.

Worth emphasizing is the fact that the whole situation has corresponded with an increasing aggressiveness for domestic financing by the Government, while the high rates of credit to economy did not leave two much ground in this respect. Under these circumstances, the system liquidity has been decreasing, reflecting the high liquidity of the Government account throughout the period.

As a consequence, there has been an increase of about 1.0 percentage points in the Treasury bills yield. The Bank of Albania injected liquidity in the system, aiming at reducing its fluctuations and balancing the demand, as well as amortizing the pressures over the Treasury bills yield. Along with the money market operations, the interventions in the foreign market met the economy seasonal demand for liquid assets by about ALL 4.5 billion. The presence of the Bank of Albania over the third quarter in the money markets through monetary operations caused the maintenance of its indicators to be within the objectives.

The banking system stability, in particular, and that of the financial system, in general, constitutes a permanent priority of the Bank of Albania. Our commitment bears a major importance in the context of credit market developments, which has continued to record growth. As underlined in the supervision report on the second quarter, the banking system presents in a sound financial position, being in line with all the parameters established by the banking supervision norms. The banking system continues to be profitable and capitalized according to the international norms and constantly records expansion of its activity.

In conclusion, I would like to emphasize that the Bank of Albania is determined to continue pursuing prudently the performance of the economy and of the financial market, concentrating on those developments which may influence negatively on the macroeconomic and the financial stability. The Bank of Albania is assessing these developments cautiously, being committed to keep the proper stance and aiming to encourage a more progressive performance of the economy.
II WORLD ECONOMY

World economy has recorded rapid growth rates over 2006. The economic growth has been present in all the geographic regions, while being displayed stronger in the Asian countries and in the USA. Year 2006 seems to mark a positive year for the economies in the Euro zone, which is assessed to have recorded one of the highest growth rates over the last six years. Following the favourable environment the world economy experienced over the first semester of 2006, the IMF reconsidered the world economic growth rate, assessing that the global economic activity for 2006 will be 5.1 per cent, instead of 4.9 per cent projected in April.

The high economic growth pushed the price rise of electricity and of other goods. Oil prices over the last months have fluctuated around the level of USD 75, marking a rise of USD 10 compared to the level of the beginning of the year. The price rise of electricity and of other goods was reflected in the increase of consumer price inflation, causing the concerns for second round effects to grow bigger. However, global inflation has been in lower levels than what the historical experience suggests under such circumstances. The continuous growth of productivity and the better anchoring of inflation expectations are the two main reasons which have kept the inflationary pressures under control. However, the increasing inflationary pressures have constrained many central banks to pursue a tightening monetary policy.

<table>
<thead>
<tr>
<th>Table 1 Some main economic indicators in annual terms (in percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP annual growth</strong></td>
</tr>
<tr>
<td>USA</td>
</tr>
<tr>
<td>Euro zone</td>
</tr>
<tr>
<td>Germany</td>
</tr>
<tr>
<td>France</td>
</tr>
<tr>
<td>Italy</td>
</tr>
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<td>Japan</td>
</tr>
</tbody>
</table>

Source: US Department of Commerce, ECB, “The Economist” magazine, 7-13 October 2006

EURO ZONE ECONOMY

The most recent estimations of Eurostat confirm that the economic activity in the Euro zone has had high growth rates in the first semester of 2006. The annual real growth rate of the GDP for the second quarter was 2.6 per cent from 2.1 per cent in the past period. Domestic demand, in particular investment, and the improvement of labour market conditions, were the engine of the positive developments in the economic activity. On the other hand, foreign demand developments have not followed the same path, and caused the growth rate to slow down. The estimations of the European Central Bank (ECB) on the economic growth over the second semester of the year favour the continuity of the economic growth, but with a lower rate that that recorded over the first semester of 2006.

The inflationary pressures over this period have been quite moderate and did not put the economic developments under risk. The ECB Governing
Council, in its meeting on 5 October 2006, decided to increase the core interest rate by 0.25 percentage points, causing this rate to reach the level of 3.25 per cent.

USA ECONOMY

After a long period of economic growth above the historical average, the rates of economic activity developments in the United States of America slowed down by the end of the first semester 2006. The annual real growth rate of the GDP fell to the level of 2.6 per cent in the second quarter, from 5.6 per cent in the first quarter. Meanwhile, the trade deficit deepened further to 6.6 per cent of the GDP. The decrease of domestic demand for goods, due to the continuous increase of interests and to the high oil price, is considered to be the main factor influencing on the slowdown of demand.

The inflationary pressures in the American economy were considered to be moderate over this period. In the last meeting of the FOMC, on 20 September 2006, it was decided to leave the core interest rate, currently standing at 5.25 per cent, unchanged. The slowdown of the economy in the following period is assessed to present moderate inflationary pressures in economy. However, the expected labour cost growth is a risk that may influence on inflation.

EXCHANGE RATE

The exchange rate between the USD and the European currency fluctuated around the level of 1.25 - 1.3 USD/EUR over the last months. The exchange rate fluctuations were in line with the change of interest rates between the USA and the Euro area. Moreover, the current and expected developments in the respective economies have influenced on the extent of exchange rate change. The positive signals received from the Euro area economy have by and large effected the favouring of the European currency over the last months.

OIL PRICE

The increase of global demand for oil, deriving from the positive developments of the global economy and the geopolitical uncertainty in its main productive regions were all reflected in the oil price rise over 2006. Official statistics indicate that the global oil consumption has increased by 0.5 million barrels per day, which is about 0.6 per cent more that the consumption over the same period the previous year. The increase of demand from China and the Middle East has affected the growth of consumption. The average oil price rose by 16 per cent over the first eight months of 2006. In August, the oil price hit a new record, by reaching USD 76 per barrel.
As far as the future is concerned, the International Energy Agency has projected a decrease in the demand for oil at the level of 1.2 million barrels/day, from 1.8 million barrel/day, at present. Meanwhile, it is expected growth in the production of countries outside the OPEC in the level of 0.6 to 1.1 million barrel/day and a growth of 1 million barrel/day in the production of OPEC countries. Based on these projections, the oil price over the rest of 2006 and 2007 is believed to fluctuate around the level of USD 70-75 per barrel. The international political developments may bring about short-term fluctuations beyond this interval.

III ECONOMIC DEVELOPMENTS AND INFLATION

III.1 ECONOMIC ACTIVITY AND ECONOMIC GROWTH

The economic activity in the country continued to record growth over the second quarter of 2006, although under more moderate rates compared to the first quarter. The annual change of the sales to economy index for the second quarter was 5 per cent, while the first quarter had an extraordinary growth for this period, recording the highest level in the last three years, that is, 18 per cent. In total, the annual growth of sales for the first semester was about 11 per cent. The sector of trade continues to bear the main share in the total volume of sales, contributing to their overall growth by about 5.7 percentage points, while the sectors of construction and of transport have been displaying signs of slowdown for several quarters. A positive tendency was observed in the performance of other services’ sales, among which the financial services and real estates transactions have provided their best performance. Altogether, these activities have recorded a six months growth of 8 per cent.
According to the preliminary estimations made at the beginning and in the middle of the year, the Albanian economy is expected to record an annual growth of 5.0 per cent. These estimations set the sector of construction and that of industry at the basis of the economic growth, while the sectors of agriculture, transport and services are expected to record more moderate growth rates.

The performance of sales by the end of the first semester suggests for a satisfactory performance of economy, sustaining the projection for an annual growth of 5 per cent. However, the Bank of Albania considers that the performance of economy over the second semester of 2006 will provide a more complete assessment on the economic growth for 2006. Meanwhile, the current share of the sectors’ contribution to the general growth will not be similar to the projected structure. More concretely, the sector of services, part of which is trade, seems to be recording high growth rates, and contributing considerably to the total growth of sales. On the other hand, the slowdown evidenced in the sector of construction and the lack of a significant growth in industry, cast doubt on the accomplishment of expectations for these sectors.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Q1-06</th>
<th>Q2-06</th>
<th>S1-06</th>
<th>Share</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>22.9</td>
<td>3.4</td>
<td>11.6</td>
<td>25.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Extracting industry</td>
<td>34.2</td>
<td>5.8</td>
<td>17.1</td>
<td>2.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Processing industry</td>
<td>24.3</td>
<td>7.2</td>
<td>14.0</td>
<td>17.1</td>
<td>2.4</td>
</tr>
<tr>
<td>Electricity, water, gas</td>
<td>17.7</td>
<td>-7.5</td>
<td>4.5</td>
<td>6.8</td>
<td>0.3</td>
</tr>
<tr>
<td>Construction</td>
<td>5.8</td>
<td>-1.3</td>
<td>1.6</td>
<td>13.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Trade</td>
<td>17.4</td>
<td>9.5</td>
<td>13.0</td>
<td>43.8</td>
<td>5.7</td>
</tr>
<tr>
<td>Hotels, restaurants</td>
<td>48.0</td>
<td>33.4</td>
<td>39.4</td>
<td>0.9</td>
<td>0.3</td>
</tr>
<tr>
<td>Transport</td>
<td>-2.3</td>
<td>-16.9</td>
<td>-11.1</td>
<td>2.7</td>
<td>-0.3</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>21.4</td>
<td>-7.2</td>
<td>6.2</td>
<td>7.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Other services</td>
<td>31.7</td>
<td>26.3</td>
<td>28.7</td>
<td>6.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Total economy</td>
<td>17.9</td>
<td>5.1</td>
<td>10.6</td>
<td>100.0</td>
<td>10.6</td>
</tr>
</tbody>
</table>

Source: INSTAT, Economy sales index and Bank of Albania estimations

**Table 3 Annual growth of sales in some sectors of economy (in percentage)**

**SECTOR OF INDUSTRY**

According to the sales index, the sector of industry recorded a satisfactory growth of about 12 per cent over the first semester. It is evident that the endeavours made over the first quarter to recover the economic activity after the difficult electricity situation of the year ended 2005 provided the expected outcome, being reflected in a considerable annual growth of 23 per cent over this quarter. On the other hand, the second quarter presented slower, and marked an annual growth lower than the historical average. The contribution of the sector of industry to the total volume of sales accounted for 26 per cent, which is close to the contribution provided through the years. The processing industry continues to share most of sales from the sector of industry, recording over the first semester an annual growth of 14 per cent.

“Electricity, water and gas” continue to remain problematic for the Albanian economy. The production of electricity has recorded a slight decrease, while the increase of its import by 18 per cent caused the usable sources to be at
the same level as in the previous year. The invoiced consumption of energy has almost maintained the same levels, while the net losses have grown slightly. As far as the consumption of energy is concerned, worth mentioning is the fact that the household energy consumption is most considerable, while the consumption from other economic units is lower. This finding may be considered as a structural peculiarity of the Albanian economy.

### Table 4 Main indicators of electricity balance (in GWH)

<table>
<thead>
<tr>
<th></th>
<th>S1 2005</th>
<th>S1 2006</th>
<th>Change (in percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resources</td>
<td>3,670,371</td>
<td>3,698,660</td>
<td>0.8</td>
</tr>
<tr>
<td>Production</td>
<td>3,258,293</td>
<td>3,212,509</td>
<td>-1.4</td>
</tr>
<tr>
<td>Import (including exchanges)</td>
<td>412,078</td>
<td>486,151</td>
<td>18</td>
</tr>
<tr>
<td>Uses</td>
<td>3,670,371</td>
<td>3,698,660</td>
<td>0.8</td>
</tr>
<tr>
<td>Export (including exchanges)</td>
<td>511,926</td>
<td>473,924</td>
<td>-7.4</td>
</tr>
<tr>
<td>Consumer use</td>
<td>1,829,360</td>
<td>1,833,753</td>
<td>0.2</td>
</tr>
<tr>
<td>- Families</td>
<td>1,107,349</td>
<td>1,110,884</td>
<td>0.3</td>
</tr>
<tr>
<td>- Other unspecified</td>
<td>722,010</td>
<td>722,869</td>
<td>0.1</td>
</tr>
<tr>
<td>Net losses</td>
<td>1,271,561</td>
<td>1,334,441</td>
<td>4.9</td>
</tr>
<tr>
<td>- In distribution</td>
<td>1,110,562</td>
<td>1,216,088</td>
<td>9.5</td>
</tr>
</tbody>
</table>

Source: INSTAT, Electricity Balance, first semester of 2006

### SECTOR OF CONSTRUCTION

The sector of construction displayed signs of slowdown over the first semester of 2006. There was an annual growth of sales by 1.6 per cent, while the second quarter recorded fewer sales than over the same period the previous year. The picture presented by the sales index is also supported by indicators of the production activity over this period. Operative data indicate that the consumption of the cement, steel and bricks has decreased compared to the first semester the previous year.

The slowdown in this sector’s activity over the second quarter of 2006 was also forewarned by the relevant businesses through the surveys conducted by the Bank of Albania. The businesses attribute this performance to the slowdown of demand for resident and non-resident constructions. Referring to the factors of supply, it is stated that the cost of construction has remained almost unchanged over the second quarter of the year. As a consequence, the rise in the prices of apartments, observed by the Bank of Albania while monitoring this market, requires alternative explanations, which may be related to the restrictions in granting the construction permits.

The growth of this sector for 2006 is expected to be about 10 per cent or lower than the growth by 15 per cent recorded in 2005. The accomplishment of the projection will require the recurrence of the high growth rates over the second semester of 2006.
OTHER SERVICES

Both wholesale and retail trade activity continues to mark positive developments, recording the highest rate and contribution as opposed to other production activities. Compared to the same period the previous year, the sales of this activity were 13 per cent higher over the first semester of 2006. The contribution of this sector continues to remain high, both due to the high growth rates and to its considerable share in the total volume of sales. The projection regarding the annual growth of the services activity by 2.1 per cent does not seem to have taken into consideration the positive performance of trade over the recent years.

The sales volume of hotel and restaurants services was considerably higher than that of 2005, for both quarters. The first semester recorded an annual growth of about 40 per cent. The performance of nominal sales in this sector should not be taken for granted, due to the services group price effect. CPI for this group recorded continuous growth throughout 2006. An adjustment of the annual sales rates with the annual change of services group prices, presents a lower real activity of the services sector compared to the same period the previous year.

According to the data provided by INSTAT, the sales index for the sector of transport decreased over the first semester. Meanwhile, the sector of telecommunication displays a better performance. The first semester recorded an annual growth of about 6 per cent, which is comparable to the growth recorded over the same period in 2005. In absence of other data, it is assessed that the performance of this branch of economy is similar to its performance over the past years. Other services, which stand moderately in the sector of services, recorded the highest growth ever in the sales index.

SECTOR OF AGRICULTURE

The developments in the sector of agriculture for the first semester of 2006 sustain the projection for a 3.0 per cent growth in the agricultural production for the present year. So, the agro-industrial production has grown by 13 per cent compared to the previous year. In the second quarter, this production grew by 34 per cent, as opposed to the first quarter. Such a considerable growth may be explained by the processing of the seasonal agricultural productions.

The considerable increase of investment in the sub-sector of agro industry, as opposed to the previous year, has provided its effect on the multiple increase of the quantity of processed agricultural items in all main groups. The processing and preservation of meat and fish, as well as the production of oil, flour and beverages provided most of the contribution to the annual growth of the agro-industrial production. These developments have been...
a consequence of the increase of investment in the sector of agriculture, of the enhancement of efficiency in the sub-sector of farming, as well as of the enlargement of greenhouse areas. The growth of domestic production was reflected in the decrease of the agricultural prices index over September, both in monthly and annual terms.

The developments in the sector of agriculture provided their effect on the performance of prices of agricultural products and foodstuffs. The emerging of domestic agricultural production in the market and the growth of production, mainly over April - August, is reflected in a continuous fall of agricultural production prices, in particular over summer. Due to the great share of foodstuffs in the consumer basket and to the almost instant influence of the produced quantity on the level of prices, the agricultural production is one of the main domestic factors conditioning the consumer price developments.

III.2 LABOUR MARKET

The number of unemployed fell by about 4000 people over the first eight months of the year, causing the rate of unemployment to decrease to 13.9 per cent. Employment over the second quarter recorded a slight increase compared to the previous quarter. The decrease in the number of employed in the public sector was balanced by the increase of employment in the private non-agricultural sector. In general, the increase of the employment index over the recent years has been a consequence of the increase of employment in this sector. As opposed to the same quarter the previous year, this sector employed nearly four thousand people more.

The structure of unemployment is dominated by that part of the population, above 35 years of age, whose education does not exceed the eight-grade school.

The average wage in the public sector rose again after some period of stillness in the first quarter. The average wage in the second quarter rose by 3.7 per cent compared to the same quarter the previous year. This quarter also recorded a rise in the unemployment compensation.
III.3 FISCAL SECTOR

According to the data provided by the Ministry of Finance, by the end of August were collected 99.2 per cent of planned revenues and realized about 97.1 per cent of the programmed expenditure. This caused the budget surplus to result in about ALL 10.9 billion by the end of August, from the projected ALL 8.1 billion. Budget revenues recorded high growth rates over the first eight months of the year, while the budget expenditure, in particular capital expenditure reduced over this period. This situation was followed by a considerable budget surplus, which may be considered as a new situation for the Albanian economy.

III.3.1 Budget revenues

Budget revenues recorded an annual growth of 14.5 per cent over the first eight months of 2006, shifting from the downward tendency of this indicator’s growth rates in the last three years. The level of tax income amounted to about ALL 131.2 billion by the end of August. Customs revenue resulted in about ALL 9.3 billion, growing by 14.6 per cent compared to the same period the previous year.
Value added tax is the main source of tax revenues. Over the first eight months of 2006, the VAT revenues growth rate was 6.1 percentage points higher than the average growth of this indicator in the last eight years.

With regard to the period covering July-August 2006, it may be concluded that the total revenues have grown by 19.4 per cent, compared to the same period the previous year. Tax on personal income and excises had their best performance in the total revenues, recording a considerable growth by 34.2 per cent and 29.6 per cent, respectively.

### Table 7 Growth rates of revenues over January-August 1999-2006 (in percentage)

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>Average 1999-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenues</td>
<td>13.0</td>
<td>12.0</td>
<td>3.8</td>
<td>18.3</td>
<td>12.8</td>
<td>9.1</td>
<td>7.9</td>
<td>14.5</td>
<td>11.0</td>
</tr>
<tr>
<td>Tax revenues</td>
<td>10.4</td>
<td>28.7</td>
<td>(2.6)</td>
<td>25.1</td>
<td>43.5</td>
<td>13.2</td>
<td>8.4</td>
<td>14.6</td>
<td>18.1</td>
</tr>
<tr>
<td>Tax and customs</td>
<td>10.4</td>
<td>28.5</td>
<td>(3.5)</td>
<td>25.0</td>
<td>8.5</td>
<td>13.8</td>
<td>7.1</td>
<td>17.3</td>
<td>12.8</td>
</tr>
<tr>
<td>Values added tax</td>
<td>(2.4)</td>
<td>25.4</td>
<td>(4.1)</td>
<td>25.6</td>
<td>10.7</td>
<td>16.0</td>
<td>7.4</td>
<td>17.3</td>
<td>11.2</td>
</tr>
<tr>
<td>Tax on profit</td>
<td>27.0</td>
<td>39.2</td>
<td>20.8</td>
<td>36.2</td>
<td>5.3</td>
<td>20.2</td>
<td>15.4</td>
<td>22.6</td>
<td>23.4</td>
</tr>
<tr>
<td>Excises</td>
<td>44.7</td>
<td>27.5</td>
<td>(4.5)</td>
<td>3.8</td>
<td>36.8</td>
<td>28.3</td>
<td>12.0</td>
<td>27.6</td>
<td>21.2</td>
</tr>
<tr>
<td>Personal income</td>
<td>176.9</td>
<td>63.1</td>
<td>8.9</td>
<td>15.0</td>
<td>4.6</td>
<td>5.1</td>
<td>8.0</td>
<td>17.9</td>
<td>40.2</td>
</tr>
<tr>
<td>Customs duties</td>
<td>(10.3)</td>
<td>11.1</td>
<td>(15.0)</td>
<td>17.6</td>
<td>5.5</td>
<td>(0.2)</td>
<td>(5.5)</td>
<td>14.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Local government</td>
<td>9.8</td>
<td>46.7</td>
<td>48.7</td>
<td>29.9</td>
<td>246.2</td>
<td>11.1</td>
<td>17.5</td>
<td>(7.7)</td>
<td>58.6</td>
</tr>
<tr>
<td>Independent budget</td>
<td>9.2</td>
<td>14.3</td>
<td>0.1</td>
<td>26.5</td>
<td>13.8</td>
<td>11.8</td>
<td>10.6</td>
<td>12.6</td>
<td>12.3</td>
</tr>
<tr>
<td>Non-tax revenues</td>
<td>23.2</td>
<td>(32.8)</td>
<td>40.8</td>
<td>(12.8)</td>
<td>(7.2)</td>
<td>(19.6)</td>
<td>(3.8)</td>
<td>9.6</td>
<td>-1.7</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance

### III.3.2 Budget expenditure

Budget expenditure totalled ALL 132.6 billion over the first eight months of 2006, or about 97.1 per cent of the level projected for this period. For the first time in the last eight years, budget expenditure for this period decreased, being 5.8 per cent lower than the previous year. Personnel expenditure, which account for about 29 per cent of current expenditure and 26 per cent of total expenditure, were realized at 99.2 per cent. Capital expenditure over January-August 2006 had a low level of realization, decreasing by 39.7 per cent compared to the same period the previous year. From the latter, the expenditure covered by domestic and foreign financing was realized at 80.5 and 69.9 per cent, respectively.

Over July-August 2005, total expenditure fell by 1.6 per cent compared to the same period the previous year. It is observed that interest expenditure and
social insurance expenditure had the highest growth in current expenditure over these two months, increasing by 11.6 and 11.0 per cent, respectively. Meanwhile, operative maintenance and subsidies’ expenditure decreased. As far as capital expenditure is concerned, it may be concluded that domestic financing is growing more significantly than the foreign one.

Table 8 Growth rates of expenditure over January-August 1999-2006 (in percentage)

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>Average 1999-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expenditure</td>
<td>14.8</td>
<td>2.0</td>
<td>2.5</td>
<td>9.4</td>
<td>8.1</td>
<td>7.2</td>
<td>7.1</td>
<td>5.8</td>
<td>7.3</td>
</tr>
<tr>
<td>Current expenditure</td>
<td>9.5</td>
<td>(0.8)</td>
<td>(4.4)</td>
<td>19.1</td>
<td>10.8</td>
<td>8.2</td>
<td>6.5</td>
<td>(0.5)</td>
<td>7.0</td>
</tr>
<tr>
<td>Personnel</td>
<td>8.4</td>
<td>5.2</td>
<td>11.4</td>
<td>10.4</td>
<td>8.7</td>
<td>10.4</td>
<td>10.7</td>
<td>3.4</td>
<td>9.3</td>
</tr>
<tr>
<td>Wages</td>
<td>8.2</td>
<td>5.5</td>
<td>14.4</td>
<td>9.7</td>
<td>(3.0)</td>
<td>24.1</td>
<td>10.7</td>
<td>2.7</td>
<td>9.9</td>
</tr>
<tr>
<td>Social insurance contribution</td>
<td>8.9</td>
<td>4.2</td>
<td>1.3</td>
<td>13.3</td>
<td>7.6</td>
<td>10.6</td>
<td>10.8</td>
<td>6.2</td>
<td>8.1</td>
</tr>
<tr>
<td>Interests</td>
<td>(0.7)</td>
<td>(14.1)</td>
<td>(34.1)</td>
<td>9.4</td>
<td>24.3</td>
<td>(0.5)</td>
<td>(11.4)</td>
<td>(2.6)</td>
<td>(3.9)</td>
</tr>
<tr>
<td>Domestic</td>
<td>(0.8)</td>
<td>(14.2)</td>
<td>(35.5)</td>
<td>1.8</td>
<td>12.2</td>
<td>16.7</td>
<td>(12.1)</td>
<td>(3.3)</td>
<td>(4.6)</td>
</tr>
<tr>
<td>Foreign</td>
<td>5.3</td>
<td>(7.4)</td>
<td>42.4</td>
<td>187.6</td>
<td>(36.7)</td>
<td>0.8</td>
<td>0.6</td>
<td>7.6</td>
<td>27.5</td>
</tr>
<tr>
<td>Operative</td>
<td>1.9</td>
<td>(3.4)</td>
<td>(12.2)</td>
<td>32.3</td>
<td>12.0</td>
<td>6.7</td>
<td>2.8</td>
<td>(18.0)</td>
<td>5.7</td>
</tr>
<tr>
<td>maintenance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social insurance</td>
<td>37.7</td>
<td>6.8</td>
<td>4.7</td>
<td>30.1</td>
<td>16.8</td>
<td>(12.6)</td>
<td>11.5</td>
<td>7.1</td>
<td>13.6</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>53.7</td>
<td>16.6</td>
<td>33.7</td>
<td>(18.9)</td>
<td>(6.3)</td>
<td>1.0</td>
<td>11.1</td>
<td>(39.7)</td>
<td>13.0</td>
</tr>
<tr>
<td>Domestic financing</td>
<td>30.1</td>
<td>72.7</td>
<td>34.6</td>
<td>(27.8)</td>
<td>10.6</td>
<td>10.2</td>
<td>16.3</td>
<td>(37.3)</td>
<td>20.9</td>
</tr>
<tr>
<td>Foreign financing</td>
<td>72.5</td>
<td>(16.9)</td>
<td>32.6</td>
<td>(7.8)</td>
<td>(22.9)</td>
<td>(11.9)</td>
<td>1.9</td>
<td>(44.6)</td>
<td>6.8</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance

Box 1. 2006 Supplementary Budget

Year 2006 had the characteristic of the supplementary budget approval, which replaced the budget projected for August-December 2006. The above situation resulted from the accumulation of a high level of revenues over the first months of the present year. This situation prompted the public administration to review the expenditure projections for the following months of the year, by planning an increase in budget expenditure, in particular in primary sectors, such as in the health system, education and in capital investment. So, until July was applied the original budget for this year, but starting from August the analyses comparing the plan with the fact, need to take into account the new supplementary budget. The revenues, expenditure and fiscal balance in total for January-July 2006 are considered from the Ministry of Finance as realized at 100 per cent. (Their realization to the original budget was 102.9, 87.2 and -119.5 per cent of the plan, respectively.)

III.3.3 Fiscal balance

August ended up with a cumulative budget surplus of ALL 10.9 billion. Unlike the past 15 years, year 2006 resulted in a positive balance for the first eight months, shifting overwhelmingly from the average tendency of the past years. Despite the positive fiscal balance over this period, the Government is expected to realize its borrowing plan in the last four months of 2006, reaching a deficit of ALL 33.8 billion by the end of the year.
### III.4 EXTERNAL SECTOR OF ECONOMY

According to the preliminary data on the trade balance for the first semester of 2006, the trade of goods’ balance deficit amounted to about EUR 830 million or 22 per cent more than over the same period the previous year. The more rapid increase in imports as opposed to exports continues to represent the main characteristic of the developments in the foreign trade in goods. The backing of consumer and investment demand with the imported goods and the continuous growth of the level of credit to economy over the recent years are two of the main factors influencing on the growth of imports. Lek maintained the same tendency compared to our partner countries’ currencies, meaning that it did not represent a significant factor in determining the competitive status of domestic demand as opposed to partner countries’ economies.

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>Average 99-06</th>
<th>Dev. 06 from Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deficit</td>
<td>19.1</td>
<td>(20.4)</td>
<td>(1.7)</td>
<td>(20.1)</td>
<td>(15.3)</td>
<td>(5.6)</td>
<td>1.0</td>
<td>(170.5)</td>
<td>(6.1)</td>
<td>(164.4)</td>
</tr>
<tr>
<td>Domestic financing</td>
<td>(8.8)</td>
<td>37.2</td>
<td>(24.8)</td>
<td>(14.1)</td>
<td>12.6</td>
<td>(1.0)</td>
<td>7.7</td>
<td>(183.0)</td>
<td>1.2</td>
<td>(184.2)</td>
</tr>
<tr>
<td>Foreign financing</td>
<td>47.7</td>
<td>(56.8)</td>
<td>44.6</td>
<td>(26.2)</td>
<td>(49.3)</td>
<td>(17.7)</td>
<td>(20.8)</td>
<td>(115.4)</td>
<td>(11.2)</td>
<td>(104.1)</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance

<table>
<thead>
<tr>
<th></th>
<th>April</th>
<th>May</th>
<th>June</th>
<th>April-June 05</th>
<th>April-June 06</th>
<th>Jan-June 05</th>
<th>Jan-June 06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade balance</td>
<td>-130.2</td>
<td>-138.9</td>
<td>-168.5</td>
<td>-384.6</td>
<td>-437.6</td>
<td>-677.5</td>
<td>-829.0</td>
</tr>
<tr>
<td>Exports</td>
<td>52.6</td>
<td>56.9</td>
<td>56.2</td>
<td>143.3</td>
<td>165.7</td>
<td>265</td>
<td>310</td>
</tr>
<tr>
<td>Imports</td>
<td>182.8</td>
<td>195.8</td>
<td>224.7</td>
<td>527.9</td>
<td>603.3</td>
<td>942</td>
<td>1,139</td>
</tr>
</tbody>
</table>

Source: Bank of Albania

Over the first semester of 2006, exports totalled EUR 310 million or 17 per cent more than total exports over the same period the previous year. The increase of exports was present in almost all export groups, although agricultural products, mineral products and the processing of wood were exported at a higher rate than the average. Meanwhile, textiles and footwear, which have most of the share, increased by slower rates than the total exports.

The import of goods over January-June grew by about 21 per cent compared to the same period the previous year, amounting to EUR 1139 million. As in exports, the increase of imports was present in all import groups, while mineral products, precious metals, products of chemical industry and foodstuffs grew above the average growth rate of imports.
Apart from trade deficit deepening, the higher growth of imports than exports leads to the aggravation of the imports’ coverage ratio. The ratio of imports’ coverage for the first semester of 2006 was 27 per cent from the ratio of 28 the previous year.

The volume of transactions totalled about EUR 1500 million over the first semester of the year. The regional countries and some of the European Union countries have the largest share in the geographical distribution of Albania’s trade partners. These transactions amounted to nearly EUR 926 million or 67 per cent of the total. Meanwhile, the volume of transactions with the regional countries was about EUR 212 million or 14 per cent of the total.

The geographical distribution of transactions by source and by destination is not equal. In general, imports have a wider and a more diversified distribution as opposed to exports. Italy is the main destination country of the Albanian products, in specific of goods for re-export with the orderer’s raw material. Italy, Greece, Turkey and China are the main import countries.

### III.5 INFLATION PERFORMANCE OVER THE THIRD QUARTER

Annual inflation fluctuated around the objective of the Bank of Albania over the third quarter of 2006. After reaching 3.2 per cent in July 2006, the consumer prices’ annual change followed a downward trend in the other two months of the quarter. However, the Bank of Albania states that the inflationary pressures have increased over 2006. The inflationary pressures, which affected the rise of consumer prices during the first semester, were also present in the third quarter. Average inflation rate was about 0.5 percentage points higher than over the same period the previous year.

<table>
<thead>
<tr>
<th>Week</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>2.3</td>
</tr>
<tr>
<td>May</td>
<td>4.6</td>
<td>2.8</td>
<td>2.6</td>
<td>2.0</td>
<td>3.2</td>
</tr>
<tr>
<td>June</td>
<td>3.7</td>
<td>2.6</td>
<td>2.9</td>
<td>2.9</td>
<td>2.5</td>
</tr>
<tr>
<td>July</td>
<td>4.2</td>
<td>3.0</td>
<td>3.1</td>
<td>1.8</td>
<td>3.2</td>
</tr>
<tr>
<td>August</td>
<td>5.5</td>
<td>3.0</td>
<td>2.7</td>
<td>2.3</td>
<td>2.8</td>
</tr>
<tr>
<td>September</td>
<td>5.3</td>
<td>2.8</td>
<td>2.0</td>
<td>3.1</td>
<td>2.6</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>3.0</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>2.3</td>
</tr>
</tbody>
</table>

Source: INSTAT
The historical behaviour of inflation gives evidence that the third quarter is characterized by a gradual rise of the general level of consumer prices. This tendency was also confirmed over 2006, being displayed in the increase of the monthly inflation rate. “Transport”, “Rent, water, energy and fuels” and “Beverages and tobacco” had high monthly inflation rates. However, these tendencies were compensated by the low non-typical monthly inflation rates of “Foodstuffs and alcoholic beverages”, mainly in August and September.

The decision on rising the energy price, the rise in the excise on alcoholic beverages and tobacco, as well as the further oil price rise were the factors, which exerted pressure on the level of consumer prices over this period. On the other hand, the late seasonal effect within this quarter caused the above mentioned factors to reduce their impact in August and September. The observance of the main objectives with regard to the development of the country has created the proper grounds for the performance of prices over this quarter.

### III.5.1 Performance of inflation and of constituent groups

The contribution of various groups to total inflation over the third quarter of 2006 has changed both the direction and the extent of their impact on the annual inflation rate compared to the third quarter of 2005. While in 2005, “Foodstuffs and alcoholic beverages” was a determinant for the low inflation rates at the beginning of the quarter, this year it had its effect at the end of the period. Starting from August, the second largest group in the consumer basket - “Rent, water, energy and fuels”- increased its positive contribution with the energy price rise. Among other groups, “Alcoholic beverages and tobacco” recorded high positive contribution rates.

The performance of “Foodstuffs and non-alcoholic beverages” is very determining for the performance of the general price index. The level of prices for this group has been falling each month over this quarter. The average monthly inflation rate of this group recorded -1.6 per cent over the third quarter, compared to -0.5 per cent in the previous year. The
contribution of this group to the annual inflation rates was positive over the first two months of the third quarter and negative in September. After the bad weather over the second quarter, domestic agricultural production in the domestic market grew. Domestic production supply resulted sufficient to meet the market demand. As a consequence, the price rise of foodstuffs in the European markets is assessed to not have affected the final prices of domestic foodstuffs production.

Table 2 Annual inflation of “Foodstuffs and non-alcoholic beverages” (in the country and abroad) and the contribution of this group to total inflation

<table>
<thead>
<tr>
<th></th>
<th>Annual inflation ‘05</th>
<th>Contribution (pp)</th>
<th>Annual inflation ‘06</th>
<th>Contribution (pp)</th>
<th>Italy Annual inflation ‘06</th>
<th>Greece Annual inflation ‘06</th>
<th>Euro zone (12 countries)</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>-0.7</td>
<td>-0.3</td>
<td>-0.4</td>
<td>-0.2</td>
<td>0.9</td>
<td>1.8</td>
<td>1.7</td>
</tr>
<tr>
<td>February</td>
<td>-1.2</td>
<td>-0.5</td>
<td>-0.3</td>
<td>-0.1</td>
<td>0.9</td>
<td>2.6</td>
<td>1.6</td>
</tr>
<tr>
<td>March</td>
<td>-1.7</td>
<td>-0.7</td>
<td>0.4</td>
<td>0.2</td>
<td>1.0</td>
<td>2.8</td>
<td>1.3</td>
</tr>
<tr>
<td>April</td>
<td>-2.2</td>
<td>-1</td>
<td>2.5</td>
<td>1.0</td>
<td>0.9</td>
<td>3.5</td>
<td>1.6</td>
</tr>
<tr>
<td>May</td>
<td>-0.7</td>
<td>-0.3</td>
<td>3.7</td>
<td>1.5</td>
<td>1.1</td>
<td>2.4</td>
<td>1.7</td>
</tr>
<tr>
<td>June</td>
<td>1.6</td>
<td>0.7</td>
<td>1.9</td>
<td>0.8</td>
<td>1.3</td>
<td>3.0</td>
<td>2.0</td>
</tr>
<tr>
<td>July</td>
<td>-1.6</td>
<td>-0.7</td>
<td>4.7</td>
<td>1.9</td>
<td>1.8</td>
<td>5.4</td>
<td>2.6</td>
</tr>
<tr>
<td>August</td>
<td>0.0</td>
<td>0.0</td>
<td>1.3</td>
<td>0.5</td>
<td>2.2</td>
<td>4.6</td>
<td>2.9*</td>
</tr>
<tr>
<td>September</td>
<td>1.5</td>
<td>0.6</td>
<td>1.1</td>
<td>-0.5</td>
<td>2.5*</td>
<td>4.6*</td>
<td>--</td>
</tr>
</tbody>
</table>

Source: INSTAT, Bank of Albania

(*) Preliminary values

Annual inflation rate would have been lower in August and September, in absence of the energy price rise effect. The energy price rise by 13.7 per cent was reflected in the consumer price index for these two months, providing an additional contribution to annual inflation by 0.5 percentage points. The average contribution of this group to annual inflation rate for this quarter was 1.7 percentage points. Although the energy price rise took place in January last year, it had a greater impact on the increase of the inflation rate in the third quarter by 1.9 percentage points. The rise of rent prices and of imputed rent in September, due to the increase of demand with the beginning of the school year, also influenced on the monthly increase of this group’s index.

Table 3 Inflation of “Rent, water, fuels and energy” and its share in inflation

<table>
<thead>
<tr>
<th></th>
<th>Annual inflation ‘05</th>
<th>Contribution (pp)</th>
<th>Annual inflation ‘06</th>
<th>Contribution (pp)</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>7.7</td>
<td>2.0</td>
<td>3.2</td>
<td>0.9</td>
</tr>
<tr>
<td>August</td>
<td>6.9</td>
<td>1.8</td>
<td>6.5</td>
<td>1.8</td>
</tr>
<tr>
<td>September</td>
<td>7.7</td>
<td>2.0</td>
<td>8.5</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: INSTAT

The annual index rates of “Transport” decreased over this quarter, mainly due to the inflation decrease of “Service to vehicles” sub-group. The oil price in the world markets fluctuated less over this quarter compared to the previous months, while falling significantly in September. This was partly manifested in the domestic market price starting from the end September.

The other groups sharing less weight, in general, provided a lower contribution to the annual inflation. “Clothes and footwear”, “Furniture, household and maintenance equipment” and “Health service” recorded a fall
in prices, contributing as such to the decrease of the cost-of-living.

III.5.2 Macroeconomic environment and inflation

The developments in the level of consumer prices over the third quarter of 2006 were influenced by a quite balanced macroeconomic environment, despite the presence of inflationary pressures. These pressures are assessed to have been stronger than those of the same period the previous year. The complexity of the external factors influence on economy, both from demand and supply, caused the average level of annual inflation for the third quarter of 2006 to result in 2.9 per cent, against 2.4 per cent the previous year. Among the events conditioning the inflation developments, it is assessed that those related to supply were transmitted more rapidly and directly to the level of prices. The prior notice on the energy price rise, applied in August, as well as the price rise in some of the excise goods, had a direct impact over the general level of consumer prices. Meanwhile, almost throughout the nine-month period, pro-inflationary pressures have also been present in the fuels prices, conditioned by the tense situation in the international oil market. Annual inflation rates for Foodstuffs in the Euro zone and in Albania’s main trade partners, have testified its upward trend over this period of the year. While the lending activity in the private sector of economy continued to record high growth rates, the low level of budget expenditure over the first eight months influenced on keeping the aggregate demand and the inflationary pressures under control.

Opposite the interaction of the abovementioned factors, the contribution of the prudent monetary policy pursued over the previous period, finalized on the tightening side in mid-July 2006, is assessed to have infringed the intensification of the inflationary pressures on economy.

FACTORS OF DEMAND

Domestic demand indices

The sales index for the first semester of 2006 recorded an annual growth of about 11 per cent, evidencing positive developments on demand. However, an increasing demand is assessed to have exerted pressure on maintaining the downward trend of annual inflation transmitted over the third quarter of the year. The indicators of the external trade activity evidence a higher volume of imports and exports for the second quarter compared to the same period the previous year, by 14 and 16 per cent, respectively. In particular, the imports growth of foodstuffs, construction, machineries and equipment, back the expansion trend of consumption and investment in the short- and medium-term. Domestic demand was also influenced by the rapid growth
of credit to economy, which resulted to be present throughout the eight-month period. Furthermore, credit structure suggests further increase of consumer and real estate loans. The tendencies of the first semester in the above indices, make up a considerable potential to deem that besides the positive effects the expansion of domestic demand has both in terms of consumption and investment, they support the presence of inflationary pressures in the following periods.

Fiscal policy

The inflationary pressures were infringed by the pursuance of a very reserved fiscal policy to demand for money. This stand was on one hand favoured by the active position of tax and customs institutions with regard to the collection of income for January – August 2006, and on the other hand, by the delay in carrying out capital expenditure. The latter presented downward annual rates, even under the revised budget figures (for the eight-month period, they were realized at 77 per cent). It is assessed that the intensification of the economic activity, as a result of the possible shift of non-carried budget expenditure over the rest of the year, would increase the inflationary pressures on economy, in both short- and medium terms, due to the over concentration of demand for money.

Monetary policy

The tightening of monetary conditions in economy and the signalling for a more prudent monetary policy in the following period, through the increase of the core interest rate in July 2006, brought about the increase of the cost of money in the securities’ market. The transmission of this change to the interest rates of deposits in the systems has been intensifying, causing the control of demand for money to increase. The annual growth of the monetary aggregate M3 reached about 10 per cent by the end of August, more or less remaining within the monetary programme projections.

FACTORS OF SUPPLY

The analysis of supply factors deriving from the external environment may be summarized in these main developments: the exchange rate performance in the international markets and its stability in the domestic foreign market; the tense situation in the international oil market; the upward trend of Foodstuffs prices in the Euro zone and in Albania’s main trade partners.
Exchange rate and imported inflation

The behaviour of the exchange rate over the third quarter of 2006 reduced the inflationary pressures on the side of supply. More concretely, in annual terms, the lek appreciated against the US dollar, presented as stable against the euro and displayed a smoother seasonal effect over summer than the previous year.

Oil price

The considerable upward trend of oil price in the international market, in particular over June-August 2006, was also reflected in the domestic market, by exerting pressure on the rise of the general level of prices. However, the consecutive appreciation of the lek against the dollar over the period being analyzed, favoured the relaxation the inflationary pressures caused by the influence of this factor. September 2006 recorded the first annual fall of oil price in the international stock-market, since February 2004. Despite the downward trend, the price of fuels in the domestic market continues to be higher than the one recorded at the end of the first nine-month period over the previous year. The expectations for a re-rise of the oil price in the international market keep the pressure regarding the further performance of the oil prices high.

Imported inflation

Total inflation rates for the first nine-months of the year resulted as being stable in Albania’s main trade partner countries and in the Euro zone. However, the annual price rise of “Foodstuffs and non-alcoholic beverages” group over the third quarter, both for the Euro zone and for Albania’s main trade partner countries (Italy and Greece), indicates that the pressures exerted through the imported inflation for this group were present. Despite these developments, the inflation of domestic agricultural production over August-September 2006, has contributed to the considerable decrease of foodstuffs total inflation rates.

Table 14 Annual inflation of partner countries and the exchange rate annual change (in percentage)

<table>
<thead>
<tr>
<th></th>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>August</th>
<th>September</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece⁹</td>
<td>3.2</td>
<td>3.2</td>
<td>3.3</td>
<td>3.3</td>
<td>3.1</td>
<td>3.2</td>
<td>3.8</td>
<td>3.5</td>
<td>2.9</td>
</tr>
<tr>
<td>Italy¹⁰</td>
<td>2.2</td>
<td>2.1</td>
<td>2.1</td>
<td>2.2</td>
<td>2.2</td>
<td>2.3</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Euro zone - 12 countries¹¹</td>
<td>2.4</td>
<td>2.4</td>
<td>2.2</td>
<td>2.4</td>
<td>2.5</td>
<td>2.4</td>
<td>2.5</td>
<td>2.3*</td>
<td>--</td>
</tr>
<tr>
<td>Lek/Euro</td>
<td>-2.5</td>
<td>-3.3</td>
<td>-2.9</td>
<td>-2.5</td>
<td>-1.4</td>
<td>-0.4</td>
<td>0.5</td>
<td>0.3</td>
<td>-0.5</td>
</tr>
<tr>
<td>Lek/Usd</td>
<td>5.4</td>
<td>5.4</td>
<td>6.4</td>
<td>3.0</td>
<td>-2.1</td>
<td>-4.3</td>
<td>-4.5</td>
<td>-3.7</td>
<td>-4.2</td>
</tr>
</tbody>
</table>

Source: CPI, INSTAT
Note: (*) Preliminary value

Energy, foodstuffs and rent prices

The rise of energy price in August 2006 caused the annual inflation rate to increase by about 0.5 percentage points. The fluctuations in the prices of other basket goods and services are assessed to have influenced on keeping
the annual inflation rate within the Bank of Albania objective. Foodstuffs prices manifested the most favourable behaviour, providing a considerable contribution to decreasing total inflation rates. The increase in the quantity of agricultural production in the market, which shifted in time by the end of the third quarter, is considered as one of the supply factors having a high impact over the balancing of inflationary pressures, caused by the rise of energy and rent price in August and September.

Production and consumer prices

The volatility in the Production Price Index (PPI) is expected to provide its influence on the consumer prices performance. According to the available date, there is no statistical relation between the production and consumer prices, yet. One reason may be the concentration of the PPI in the industry manufacturing sector. Furthermore, it is assessed that the share of domestic production is not a determining constituent of goods supply in the domestic market, yet. However, the behaviour of the CPI annual rate against the PPI annual rate suggests that it would take no longer than six months to transmit the volatility from the production to consumer prices. It seems that the downward trend of the PPI annual rate, observed since April 2006, has started to provide its impact on the annual inflation rate over August-September 2006.

Unemployment rate and inflation

The expansion of the economic activity is underpinned by the improved labour market indicators, among which, the unemployment rate indicator is the most representative. For more than two years, the latter has had a gradual downward trend. In medium terms, such a trend would affect inflation through the pressures of the wage market, that is, from the growth of consumption supply in economy.

IV MONETARY DEVELOPMENTS AND FINANCIAL MARKETS

IV.1 BANK OF ALBANIA MONETARY POLICY

The upward trend of inflationary pressures, reflected in the performance of inflation over the first semester of the year, led to the reconsideration of the Bank of Albania monetary policy stand. Following the public statements related to the performance of factors influencing on the level of prices and their expected performance, in July the Bank of Albania raised the cost of money through the increase of the core interest rate by 0.25 percentage points. This increase aimed at bringing the monetary conditions in line with the inflation medium-term objective. The increase of the core interest rate, among others, took notice of the rapid expansion of credit to economy, the narrowing of the
interest rates spread between the lek and the foreign currency, as well as the expectations regarding the concentration of budget expenditure on the rest of the year. Through this increase, it is aimed at better controlling the demand pressures, accommodating supply shocks, maintaining the attraction for financial assets in lek, as well as keeping the inflationary expectations under control.

The tightening monetary policy stand was also reflected in the Bank of Albania operations in the money market. The change in the core rate was applied in the interest rate of one-week repos for the withdrawal of the system liquidity and in the standing facilities interests. The banking system reacted by increasing the interest rates. As expected, this reaction was quicker in the interbank market and in the Treasury bills yield. The interest rate of one-week transactions increased by 0.17 percentage points in the interbank market.

On the other hand, the increase of Government borrowing and the maintenance of high crediting in lek rates caused the lack of liquidity in the system. This situation was reflected in the increase of Treasury bills yield by 1.0 percentage points. Under these conditions, the Bank of Albania injected liquidity in the system, aiming at reducing its volatility and balancing the demand. It influenced on reducing the pressures on the Treasury bills yield. Along with the money market operations, the interventions in the foreign currency market met the seasonal demand of the economy for liquid assets with about ALL 4.5 billion over July-August. The increase of interests was also observed in the rates of deposits in lek, which in August increased by 0.31 percentage points. Further increase of deposits in lek interest rates was also experienced in September. The Bank of Albania presence over the third quarter in the money markets through monetary operations maintained its indicators within the set objectives.
Box 2. Monitoring

The global economic growth was accompanied by the increase of inflationary pressures. Central banks worldwide have interpreted this tendency as a non-transitory one, considering the macroeconomic factors, among which the growth of demand stands out. Besides the specific factors, the high energy and oil price effect was a common factor for these countries, causing the risk of inflation to reach high levels. In response to these developments, many central banks have pursued tightening monetary policies over the third quarter of 2006. In some of them, this policy had begun earlier, such as the case of the Federal Reserve and the European Central Bank. In others, the increase of the core interest rate was a shift in the pursued monetary policy, such as the Bank of Japan and the Bank of England. The Reserve Bank of Australia, the Bank of Sweden, the Czech National Bank, the National Bank of Hungary and the National Bank of Slovakia also pursued a tightening monetary policy over this quarter. Among the region countries, the Central Bank of the Republic of Turkey and the National Bank of Serbia followed the same trend.

<table>
<thead>
<tr>
<th>Inflation objective</th>
<th>Inflation September '06</th>
<th>Core interest rate</th>
<th>Real interest rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Albania</td>
<td>3.0</td>
<td>2.6</td>
<td>5.25</td>
</tr>
<tr>
<td>Federal Reserve</td>
<td>n/a</td>
<td>2.45</td>
<td>5.25</td>
</tr>
<tr>
<td>European Central Bank</td>
<td>&lt;2.0</td>
<td>1.8</td>
<td>3.25</td>
</tr>
<tr>
<td>Bank of England</td>
<td>2.0</td>
<td>2.5</td>
<td>4.75</td>
</tr>
<tr>
<td>Central Bank of the Republic of Turkey</td>
<td>5.0*</td>
<td>10.3</td>
<td>17.4</td>
</tr>
<tr>
<td>Czech National Bank</td>
<td>3.0</td>
<td>2.7</td>
<td>2.50</td>
</tr>
</tbody>
</table>

*Target for end year 2006.

The tightening of the monetary policy is expected to be a characteristic of the following months, in particular for the European Central Bank, the Bank of England, the National Bank of Switzerland, the Bank of Sweden, the Bank of Japan, etc.

IV2 PERFORMANCE OF MONETARY AGGREGATES

M1 and M2 aggregates grew over the third quarter in line with the economy demand for monetary assets. On the other hand, M3 broad money grew extensively, due to the seasonal incoming workers’ remittances, in the form of deposits in foreign currency. The time composition of M2 aggregate oriented towards the liquid component, currency outside banks, as a result of the higher demand for money in circulation over the summer. The annual growth rate of broad money accounted for 10.4 per cent. Money supply growth was supported by the private sector demand for monetary assets, expressed in the growth of the banking system credit to the private sector. However, money...
supply over August was considerably influenced by the seasonal growth of deposits in foreign currency.

The monetary data for August provide evidence for the growing demand of the economy for liquidity through the increase of the ratio of currency outside banks to M2 aggregate to 33.5 per cent, which is 1.0 percentage point higher than in May. Moreover, the expected growth of deposits in foreign currency, as a result of workers’ remittances, was entirely concentrated in August, raising the ratio to M3 to 28.7 per cent or by 1.1 percentage point over summer.

The influence of workers’ remittance on inflation remains insignificant in the short-term. The growth of net foreign assets constitutes an external factor of monetary developments, thus not reflecting directly the impact of the growth of demand for monetary assets. As such, it does not transmit inflationary pressures on economy directly. However, in the medium-term, the growth of deposits in foreign currency exerts its influence through the financing of credit to the private sector. The distinct growth of deposits in foreign currency over summer makes up a financing source for the creation of foreign currency assets in general, and for the crediting of the system in foreign currency in the following quarters.

In annual terms, total system deposits in August grew by 12.2 per cent. Demand deposits recorded the highest rate for deposits in lek and in foreign currency, accounting for 34.2 per cent and 19.5 per cent, respectively. The ratio of time deposits to demand deposits resulted in 2.26 against 2.33 at the end of the second quarter. However, the latest interest rates, both in lek and in foreign currency, have increased the cost of keeping cash and demand deposits. On the other hand, the narrowing of the lek-foreign currency interests has become quite evident, affecting as such the ratios of savings in economy.

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

<table>
<thead>
<tr>
<th></th>
<th>August 2006</th>
<th>Two-month change</th>
<th>Annual change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Absolute</td>
<td>Percentage</td>
<td>Absolute</td>
</tr>
<tr>
<td>Currency outside banks</td>
<td>147.7</td>
<td>6.7</td>
<td>4.7</td>
</tr>
<tr>
<td>Total deposits</td>
<td>470.2</td>
<td>16.7</td>
<td>3.7</td>
</tr>
<tr>
<td>- in lek</td>
<td>292.8</td>
<td>5.2</td>
<td>1.8</td>
</tr>
<tr>
<td>- in foreign currency</td>
<td>177.4</td>
<td>11.6</td>
<td>7.0</td>
</tr>
<tr>
<td>M1</td>
<td>228.0</td>
<td>3.1</td>
<td>1.4</td>
</tr>
<tr>
<td>M2</td>
<td>440.5</td>
<td>11.9</td>
<td>2.8</td>
</tr>
<tr>
<td>M3</td>
<td>617.9</td>
<td>23.4</td>
<td>3.9</td>
</tr>
<tr>
<td>Money base</td>
<td>201.4</td>
<td>3.2</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: Bank of Albania

### IV.3 DEVELOPMENTS IN DEMAND FOR MONEY

The developments in demand for money have confirmed the expanding trend of the monetary factor over the third quarter. Although broad money has grown by average rates, compared to its historical performance, the
concentration of the private sector demand for money is a dynamic factor in the development of inflationary pressures in economy. The contribution of credit to the monetary expansion continues to be high, accounting for about 100 per cent in August. The foreign currency component has also increased its contribution, while the public sector demand has not yet started to be demonstrated in the performance of monetary indicators.

**CREDIT TO ECONOMY**

Credit to economy continued to grow rapidly over the third quarter of 2006, mainly pushed by the credit in lek to households. Over July and August, it grew by ALL 6.8 billion, which is 31 per cent higher compared to the same period the previous year. However, in annual terms, credit over this period grew by about 60.2 per cent, marking a decline compared to 64.2 per cent over the previous quarter. Meanwhile, the extension of new credit in summer continued to record high rates. Only for July-August, it was extended a total of ALL 24 billion of new credit, which is about 20 per cent more than the previous year. As far as the structure of new credit is concerned, there is an ever-increasing orientation of banks towards crediting in lek. In August, the share of credit to the GDP accounted for 18.1 per cent from 14.6 per cent in December 2005. The high credit rates have increased the share of credit portfolio compared to other banking system assets to 29.2 per cent, from 25.1 per cent at the end year 2005.

Credit in lek, for July-August, has had an average annual growth rate of about 100 per cent, which is higher than that of the second quarter of 2006. Over these two months, the contribution of credit in lek to the annual growth of credit to economy increased further, also encouraged by the increase of credit in lek to businesses. However, the largest share of credit in lek is extended to households. Meanwhile, credit in foreign currency continued to display downward annual rates.

Credit to households shares 33 per cent of credit portfolio, most of which is extended to finance the purchase of real estates. Credit for this purpose shared about 64 per cent of credit to households...
in August\textsuperscript{17}. Compared to the year ended 2005, credit for the purchase of real estates has grown by 46.2 per cent. Consumer loan\textsuperscript{18}, for the same period, has shared 26 per cent of credit to households and, compared to December 2005, it has grown by 59 per cent. Consumer loan, which has a more direct impact on inflation, is dominated by the financing of durable consumer goods’ purchase\textsuperscript{19} (70 per cent of consumer loan). Although the consumer loan has had an upward trend, it currently shares only 9.0 per cent of total credit.

The growth of credit to businesses has provided the highest contribution to the expansion of credit, with an annual rate of 56 per cent. It has mainly financed the purchase of new equipment and machinery, accounting in August for 44 per cent of total credit. Compared to the end year 2005, this credit is 48 per cent higher, recording a monthly growth of 5 per cent per month.

As far as the sectoral distribution of credit is concerned, trade holds most of the share, accounting for 23.2 per cent in August, marking a moderate increase compared to June. Meanwhile, the sector of construction seems to have reflected the highest growth over summer in its share to total credit, accounting for 13.5 per cent in August, from 12.2 per cent in June. Credit to agriculture and processing industry decreased over July and August. The reduction of the share of credit to the sector of agriculture was due to the redistribution of one of the main banks’ portfolio in the system according to a new criterion.

**NET FOREIGN ASSETS**

The level of net foreign assets of the banking system totalled USD 2.4 billion in August, influenced by the growth of deposits in foreign currency held with the commercial banks and by the Bank of Albania foreign currency interventions. The Bank of Albania net foreign assets grew by USD 88 million over July-August. Apart from the foreign currency purchase in the market, these assets were also affected by the appreciation of the euro against the dollar, which increased the amount of investment in euro expressed in dollar. Commercial banks grew their net foreign assets by USD 131.5 million. The developments in these assets confirm the idea of seasonality, also observed in the previous years, that is, the attainment of the highest net foreign currency level over the third quarter. Such a development is in line with the performance of deposits in foreign currency held with the commercial banks. Meanwhile, credit in foreign currency suffered a slowdown over this period.
GOVERNMENT DEMAND FOR MONEY

Fiscal balance resulted in a surplus for the third quarter in row, totalling ALL 8.3 million in August. Compared to the previous quarters, there were downward growth rates of the budget surplus over July and August. This development kept the Government demand for money low. Meanwhile, domestic financing continued to record negative levels, amounting to ALL - 5.5 billion. Over July and August, it was issued long-term debt in the form of 2 and 3-year bonds, to the amount of ALL 3.6 billion and ALL 2.8 billion, respectively. On the other hand, the net level of Treasury bills issued in the primary market reduced by ALL 10.6 billion. Commercial banks, households and institutions decreased the Treasury bills’ level in their portfolio by ALL 7.8, 1.7 and 0.2 billion, respectively. In contrast, the Bank of Albania increased its portfolio by ALL 1 billion. The produced surplus was invested in the form of reverse repos to commercial banks. Their level decreased to ALL 5 billion over August, which is about ALL 6 billion less than in June. The level of the Government’s deposit did not experience significant shifts over this period recording ALL 2.8 billion at the end August.

According to the Government fiscal data, the level of domestic financing for 2006 is projected to amount to ALL 22.8 billion, while recording negative levels by the end of the third quarter. Provided that the Government sticks to its budget plan, the whole domestic financing projected for 2006 will concentrate on the rest of the year.

IV.4 FINANCIAL MARKETS AND INTEREST RATES

The money market reaction to the tightening monetary policy signal over the third quarter, was originally experienced in the interbank market, in the securities market, and afterwards, in the deposits and credit market in lek. However, the actual level of the banking system interests results to be lower than that of the end third quarter the previous year.

The interest rates in the interbank market fluctuated within the new corridor of the standing
facilities interests, near the core interest rate. The volatility over the third quarter owes mainly to the readjustment with the monetary policy signal and to the volatility in demand-supply ratio in this market. Lending in this market increased, totalling the average daily amount of ALL 1.4 billion, from ALL 1.1 billion in the previous quarter.

The increase of interest rates in the primary market of Treasury bills and of 2-year Government bonds was higher than the increase signalled by the Bank of Albania. This fact owes to the increase of the Government borrowing and the maintenance of high credit in lek rates, which have created lack of liquidity in the system. This situation was reflected in the rise of Treasury bills yield by 1.0 percentage point. As opposed to the previous year, the current level of Treasury bills and of 2-year bonds yields remains lower. By the end of the third quarter, the level of Treasury bills yields of 3, 6 and 12-month maturity, accounted for 5.96 per cent, 6.43 per cent and 7.13 per cent, respectively.

The tightening of the monetary policy provided its effect in the interest rates of deposits in lek. The timely rearrangement of deposits market was in line with the order this market shares in the monetary policy transmission mechanism. According to the preliminary data, by the end of the third quarter 2006, the level of deposits’ interests of 6, 12 and 24-month maturity resulted in 4.3 per cent, 5.2 per cent and 5.7 per cent, respectively.

Credit in lek market, influenced by competition, the structure of lending, the scale of credit risk and by the expectations related to the performance of interest rates etc., is subject to a slower adaptation to the monetary policy signals. However, the credit interests of up to six months maturity and of over three years maturity increased over the third quarter.

The intermediation cost, expressed as a difference between the interests of credit and deposits in lek, experienced a downward tendency compared to the previous year. However, as opposed to the previous quarter, this cost increased, reflecting the reaction of markets to the monetary policy tightening at different extent.

### Table 17 Intermediation cost (in percentage points)

<table>
<thead>
<tr>
<th></th>
<th>August - 05</th>
<th>June - 06</th>
<th>August - 06</th>
</tr>
</thead>
<tbody>
<tr>
<td>6-month term</td>
<td>10.6</td>
<td>6.9</td>
<td>7.7</td>
</tr>
<tr>
<td>1-year term</td>
<td>8.6</td>
<td>6.8</td>
<td>6.8</td>
</tr>
</tbody>
</table>

Source: Bank of Albania and commercial banks

Real interest rates became more stable over the third quarter of 2006. The downward pressure of real interest rates reduced, providing a positive shift over August. This behaviour was influenced by the rise of nominal interest rates,
despite the opposite effect provided by the level of inflation in this period. The difference between the real interests of deposits and 12-month Treasury bills in July 2006 began to extend, owing to the various reactions of these markets to the monetary policy.

The difference between the interest rates in foreign currency and in lek grew deeper in the third quarter of 2006. The tightening of the monetary policy by the Federal Reserve and the European Central Bank for an extended period of time, influenced on the continuous rise of deposits interests in the euro and in the dollar, causing them to get close to the nominal interests of deposits in lek. The latest developments in the lek deposits interests are expected to improve the difference between the lek-foreign currency interest rates.

The tightening policy pursued by the Federal Reserve and the European Central Bank was also reflected in the foreign currency credit interests. Despite the volatility characterizing this market, these interests had a rising tendency compared to the third quarter the previous year. Meanwhile, the difference between lek-foreign currency credit interests have in general, had a downward tendency.

### IV.5 EXCHANGE RATE PERFORMANCE

The lek appreciated slightly against both currencies, the euro and the dollar, over the third quarter. At the end of September, the lek to euro returned to the levels recorded in June, while remaining appreciated against the dollar by 0.6 per cent. The lek is presented strong against the dollar even in annual terms, with an average appreciation of 4.2 per cent, while being more stable against the euro, with an average depreciation of 0.1 per cent. In nominal effective terms, the lek appreciated by 0.1 per cent over the third quarter.

The seasonal effect of summer on the lek appreciation has been more moderate in this quarter compared to the previous year. Despite the higher volatility in the lek exchange over the third quarter compared to the previous quarters, it followed the downward trend observed over the years. Through time, the lek gained stability, in particular to the euro.
Macroeconomic factors, such as the stable economic growth, the low inflation, the transparency and the reduced uncertainty regarding the performance of these indicators in the future, combined with the improvements in the foreign exchange market functioning, are considered as positive influences on the lek stability.
NOTES

1 FOMC – Federal Open Market Committee – the decision-making body of the Federal Reserve monetary policy, the central bank of the USA.

2 See Box 1 for more detailed information.

3 Referring to the nominal effective exchange rate, measured by the Bank of Albania.

4 INSTAT corrected the CPI figure for August 2006, from 109.3 to 108.6 per cent, resulting in a lower annual inflation rate, from 3.1 to 2.8 per cent.

5 Source: ISTAT; web page http://www.istat.it


7 Source: Eurostat, web page http://epp.eurostat.cec.eu.int

8 (*) Preliminary values.

9 Source: National Statistical Service of Greece; web page:http://www.statistics.gr

10 Source: Italian National Statistics Institute; web page: http:/www.istat.it

11 Source: EUROSTAT; web page http://epp.eurostat.cec.eu.int

12 Average weighted interest for time deposits in lek.

13 The Bank of Albania quantitative objectives are part of the new PRGF/ EFF 2006 -2008 arrangement.

14 Aiming at a detailed analysis of the rapid lending developments, in June 2006 the Bank of Albania introduced 3 new credit forms to the commercial banks. The reporting methodology in these forms is believed to be subject to changes in the future.

15 Consumer loan includes household overdraft, as well.

16 “Durable consumer goods” implies that category of consumer goods, which may be used for a long time without being consumed (finished).

17 See the data on the table “Statistical Annex – Financial Markets”.

18 Operative data.

19 Calculated as the quarterly average of the exchange rate volatility. Exchange rate volatility is measured as the standard deviation Σ (xi - i)²/n -1 , xi – exchange rate in period i, i –period average of i (for example, the exchange rate in a day of a certain month in year i minus the average rate of the month in year i).
### INFLATION

**Table 1 Annual inflation rate (in percentage)**

<table>
<thead>
<tr>
<th>Month</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>2.2</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>1.5</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>2.9</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>3.0</td>
<td>6.5</td>
<td>2.3</td>
<td>3.2</td>
<td>1.3</td>
<td>2.4</td>
</tr>
<tr>
<td>May</td>
<td>2.5</td>
<td>4.6</td>
<td>2.8</td>
<td>2.6</td>
<td>2.0</td>
<td>3.1</td>
</tr>
<tr>
<td>June</td>
<td>4.0</td>
<td>3.7</td>
<td>2.6</td>
<td>2.9</td>
<td>2.9</td>
<td>2.4</td>
</tr>
<tr>
<td>July</td>
<td>5.6</td>
<td>4.2</td>
<td>3.0</td>
<td>3.1</td>
<td>1.8</td>
<td>3.2</td>
</tr>
<tr>
<td>August</td>
<td>4.1</td>
<td>5.5</td>
<td>3.0</td>
<td>2.7</td>
<td>2.3</td>
<td>2.8</td>
</tr>
<tr>
<td>September</td>
<td>3.5</td>
<td>5.3</td>
<td>2.8</td>
<td>2.0</td>
<td>3.1</td>
<td>2.6</td>
</tr>
<tr>
<td>October</td>
<td>1.8</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>2.8</td>
<td>3.7</td>
<td>3.4</td>
<td>2.2</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td>December</td>
<td>3.5</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>3.1</td>
<td>5.2</td>
<td>2.2</td>
<td>3.0</td>
<td>2.4</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: INSTAT

**Table 2 Contribution of basket constituent groups to total inflation**

<table>
<thead>
<tr>
<th>Group</th>
<th>February - 06</th>
<th>March - 06</th>
<th>April - 06</th>
<th>May - 06</th>
<th>June - 06</th>
<th>July - 06</th>
<th>August - 06</th>
<th>September - 06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foodstuffs and non-alcoholic beverages</td>
<td>-0.11</td>
<td>0.16</td>
<td>1.03</td>
<td>1.51</td>
<td>0.80</td>
<td>1.86</td>
<td>0.51</td>
<td>-0.45</td>
</tr>
<tr>
<td>Rent, water, fuels and energy</td>
<td>0.93</td>
<td>0.85</td>
<td>0.84</td>
<td>1.00</td>
<td>1.04</td>
<td>0.88</td>
<td>1.78</td>
<td>2.32</td>
</tr>
<tr>
<td>Transport</td>
<td>0.1</td>
<td>0.14</td>
<td>0.13</td>
<td>0.23</td>
<td>0.24</td>
<td>0.19</td>
<td>0.13</td>
<td>0.10</td>
</tr>
<tr>
<td>Hotels, café and restaurants</td>
<td>0.19</td>
<td>0.20</td>
<td>0.22</td>
<td>0.22</td>
<td>0.22</td>
<td>0.16</td>
<td>0.18</td>
<td>0.18</td>
</tr>
<tr>
<td>Other</td>
<td>0.10</td>
<td>0.11</td>
<td>0.12</td>
<td>0.10</td>
<td>0.15</td>
<td>0.15</td>
<td>0.24</td>
<td>0.40</td>
</tr>
<tr>
<td>Total</td>
<td>1.33</td>
<td>1.48</td>
<td>2.35</td>
<td>3.1</td>
<td>2.45</td>
<td>3.24</td>
<td>2.84</td>
<td>2.55</td>
</tr>
</tbody>
</table>

Source: INSTAT, Bank of Albania

### MONETARY AGGREGATES

**Table 3 Performance of monetary indicators (in billions of ALL)**

<table>
<thead>
<tr>
<th>Category</th>
<th>August - 06</th>
<th>Monthly change</th>
<th>Annual change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Absolute</td>
<td>Percentage</td>
<td>Absolute</td>
</tr>
<tr>
<td>Currency outside banks</td>
<td>147.7</td>
<td>3.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Total deposits</td>
<td>470.2</td>
<td>15.6</td>
<td>3.4</td>
</tr>
<tr>
<td>- in lek</td>
<td>292.8</td>
<td>2.7</td>
<td>0.9</td>
</tr>
<tr>
<td>- in foreign currency</td>
<td>177.4</td>
<td>12.9</td>
<td>7.8</td>
</tr>
<tr>
<td>Demand deposits</td>
<td>144.4</td>
<td>4.1</td>
<td>2.9</td>
</tr>
<tr>
<td>- in lek</td>
<td>80.3</td>
<td>-4.6</td>
<td>-5.5</td>
</tr>
<tr>
<td>- in foreign currency</td>
<td>64.0</td>
<td>8.8</td>
<td>15.9</td>
</tr>
<tr>
<td>Time deposits</td>
<td>325.8</td>
<td>11.5</td>
<td>3.7</td>
</tr>
<tr>
<td>- in lek</td>
<td>212.5</td>
<td>7.4</td>
<td>3.6</td>
</tr>
<tr>
<td>- in foreign currency</td>
<td>113.4</td>
<td>4.1</td>
<td>3.8</td>
</tr>
<tr>
<td>M1</td>
<td>228.0</td>
<td>-1.6</td>
<td>-0.7</td>
</tr>
<tr>
<td>M2</td>
<td>440.5</td>
<td>5.8</td>
<td>1.3</td>
</tr>
<tr>
<td>M3</td>
<td>617.9</td>
<td>18.7</td>
<td>3.1</td>
</tr>
<tr>
<td>Money base</td>
<td>201.4</td>
<td>3.2</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Source: Bank of Albania
Table 4 Performance of NFA indicators by main groups (in millions of USD)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>August - 06</th>
<th>Monthly change</th>
<th>Annual change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net foreign assets</td>
<td>2,400.2</td>
<td>176.5</td>
<td>371.9</td>
</tr>
<tr>
<td>Foreign assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank of Albania</td>
<td>1,644.1</td>
<td>39.6</td>
<td>325.1</td>
</tr>
<tr>
<td>ODC</td>
<td>1,089.7</td>
<td>142.1</td>
<td>147.2</td>
</tr>
<tr>
<td>Foreign currency liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank of Albania</td>
<td>111.4</td>
<td>8.4</td>
<td>1.8</td>
</tr>
<tr>
<td>ODC</td>
<td>222.2</td>
<td>- 3.3</td>
<td>98.6</td>
</tr>
</tbody>
</table>

Source: Bank of Albania

Table 5 Performance of Net Claims on the Government indicators by main groups

<table>
<thead>
<tr>
<th>Indicator</th>
<th>August - 06</th>
<th>Monthly change</th>
<th>Annual change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Claims on the Government</td>
<td>270,427.6</td>
<td>1,161.1</td>
<td>-15,698.1</td>
</tr>
<tr>
<td>Bank of Albania</td>
<td>53,348.7</td>
<td>1,250.8</td>
<td>-5,291.1</td>
</tr>
<tr>
<td>ODC</td>
<td>217,078.9</td>
<td>-90.1</td>
<td>-10,407.0</td>
</tr>
<tr>
<td>Deposits with the Bank of Albania</td>
<td>3,649.0</td>
<td>-683.9</td>
<td>2,475.4</td>
</tr>
<tr>
<td>Budget deficit</td>
<td>8,313.9</td>
<td>5.6</td>
<td>19,836.1</td>
</tr>
</tbody>
</table>

Source: Bank of Albania

Table 6 Performance of some main indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>M3 (in billions of ALL)</td>
<td>448.4</td>
<td>507.2</td>
<td>541.8</td>
<td>578.04</td>
</tr>
<tr>
<td>Domestic credit (in percentage to M3)</td>
<td>71.5</td>
<td>68.9</td>
<td>69.9</td>
<td>70.03</td>
</tr>
<tr>
<td>Credit to the Government (in percentage to M3)</td>
<td>60.2</td>
<td>55.1</td>
<td>52.2</td>
<td>48.94</td>
</tr>
<tr>
<td>Credit to economy (in percentage to M3)</td>
<td>11.3</td>
<td>13.8</td>
<td>17.7</td>
<td>21.10</td>
</tr>
<tr>
<td>Credit to economy (in percentage to GDP)</td>
<td>13.7</td>
<td>16.9</td>
<td>20.8</td>
<td>25.11</td>
</tr>
<tr>
<td>Credit/deposits ratio (in percentage)</td>
<td>15.7</td>
<td>19.0</td>
<td>23.6</td>
<td>28.47</td>
</tr>
</tbody>
</table>

Source: Bank of Albania

Table 7 Outstanding credit indicators as a percentage to total

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2003</th>
<th>2004</th>
<th>September '05</th>
<th>Q1-06</th>
<th>Q2-06</th>
<th>July '06</th>
<th>August '06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding credit (in billions of ALL)</td>
<td>50.7</td>
<td>69.3</td>
<td>106.0</td>
<td>134.6</td>
<td>152.8</td>
<td>157.0</td>
<td>159.5</td>
</tr>
<tr>
<td>Credit to households</td>
<td>24.5</td>
<td>30.6</td>
<td>31.4</td>
<td>31.9</td>
<td>32.3</td>
<td>32.4</td>
<td>33.3</td>
</tr>
<tr>
<td>Credit to private sector</td>
<td>75.5</td>
<td>69.4</td>
<td>68.6</td>
<td>68.1</td>
<td>67.6</td>
<td>67.6</td>
<td>66.7</td>
</tr>
<tr>
<td>Short-term credit</td>
<td>46.0</td>
<td>34.0</td>
<td>33.7</td>
<td>32.5</td>
<td>31.1</td>
<td>31.2</td>
<td>30.2</td>
</tr>
<tr>
<td>Medium-term credit</td>
<td>33.3</td>
<td>36.0</td>
<td>33.1</td>
<td>30</td>
<td>31.2</td>
<td>31.2</td>
<td>32.6</td>
</tr>
<tr>
<td>Long-term credit</td>
<td>20.7</td>
<td>30.0</td>
<td>33.1</td>
<td>37.5</td>
<td>37.7</td>
<td>37.6</td>
<td>37.2</td>
</tr>
<tr>
<td>In lek</td>
<td>19.6</td>
<td>19.5</td>
<td>23.7</td>
<td>26.0</td>
<td>28.2</td>
<td>28.8</td>
<td>29.6</td>
</tr>
<tr>
<td>In foreign currency</td>
<td>80.4</td>
<td>80.5</td>
<td>76.3</td>
<td>74.0</td>
<td>71.8</td>
<td>71.2</td>
<td>70.4</td>
</tr>
</tbody>
</table>

Source: Bank of Albania

Table 8 New credit indicators as a percentage to total

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Total 2004</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>July</th>
<th>August</th>
</tr>
</thead>
<tbody>
<tr>
<td>New credit (in billions of ALL)</td>
<td>99.7</td>
<td>22.1</td>
<td>32.8</td>
<td>32.1</td>
<td>32.9</td>
<td>29.4</td>
<td>35.7</td>
<td>12.7</td>
<td>11.3</td>
</tr>
<tr>
<td>Short-term credit</td>
<td>62.54</td>
<td>53.2</td>
<td>47</td>
<td>47.4</td>
<td>48.7</td>
<td>44.2</td>
<td>42</td>
<td>48</td>
<td>46</td>
</tr>
<tr>
<td>Medium-term credit</td>
<td>22.53</td>
<td>22.4</td>
<td>31</td>
<td>30.3</td>
<td>25.6</td>
<td>30.1</td>
<td>33</td>
<td>30</td>
<td>33</td>
</tr>
<tr>
<td>Long-term credit</td>
<td>14.93</td>
<td>24.4</td>
<td>22</td>
<td>22.2</td>
<td>25.7</td>
<td>25.7</td>
<td>26</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Credit in lek</td>
<td>32.59</td>
<td>30.1</td>
<td>32.8</td>
<td>30.2</td>
<td>31.4</td>
<td>27.7</td>
<td>35</td>
<td>35</td>
<td>37</td>
</tr>
<tr>
<td>Credit in foreign currency</td>
<td>67.41</td>
<td>70</td>
<td>67.2</td>
<td>69.8</td>
<td>68.8</td>
<td>72.3</td>
<td>65</td>
<td>65</td>
<td>63</td>
</tr>
</tbody>
</table>

Source: Bank of Albania
Table 9 Distribution of credit by sectors of economy

<table>
<thead>
<tr>
<th>Sector</th>
<th>2004</th>
<th>Q3 '05</th>
<th>Q4 '05</th>
<th>Q1 '06</th>
<th>Q2 '06</th>
<th>August '06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Hunting and Silviculture</td>
<td>1.5</td>
<td>2.4</td>
<td>2.7</td>
<td>2.2</td>
<td>0.9</td>
<td>0.7</td>
</tr>
<tr>
<td>Fishing</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Extracting industry</td>
<td>0.3</td>
<td>0.5</td>
<td>0.5</td>
<td>1.4</td>
<td>2.3</td>
<td>1.0</td>
</tr>
<tr>
<td>Processing industry</td>
<td>17.1</td>
<td>13.9</td>
<td>13.8</td>
<td>14.2</td>
<td>15.3</td>
<td>14.1</td>
</tr>
<tr>
<td>Production, distribution of energy, gas and water</td>
<td>2.8</td>
<td>2.9</td>
<td>2.6</td>
<td>2.4</td>
<td>1.1</td>
<td>2.0</td>
</tr>
<tr>
<td>Construction</td>
<td>9.8</td>
<td>12.8</td>
<td>13.0</td>
<td>12.2</td>
<td>13.5</td>
<td></td>
</tr>
<tr>
<td>Trade, repairing of vehicles and household equipment</td>
<td>23.3</td>
<td>20.0</td>
<td>18.9</td>
<td>19.0</td>
<td>22.5</td>
<td>23.2</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>8.3</td>
<td>4.4</td>
<td>4.3</td>
<td>4.8</td>
<td>4.1</td>
<td>3.8</td>
</tr>
<tr>
<td>Transport and telecommunication</td>
<td>2</td>
<td>1.7</td>
<td>1.5</td>
<td>1.3</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Financial activities</td>
<td>0.2</td>
<td>0.7</td>
<td>0.8</td>
<td>0.7</td>
<td>1.3</td>
<td>0.7</td>
</tr>
<tr>
<td>Health and social activities</td>
<td>0.5</td>
<td>0.6</td>
<td>0.7</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Collective, social and personal services</td>
<td>4.8</td>
<td>5.9</td>
<td>5.8</td>
<td>4.6</td>
<td>1.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Other*</td>
<td>29.1</td>
<td>34.1</td>
<td>35.4</td>
<td>35.7</td>
<td>36.2</td>
<td>36.8</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Bank of Albania

**Other** includes credit extended to some sectors sharing a small weight in the country’s economic activity and credit to households. Upon the introduction of new credit forms, was required a review of the credit distribution by sectors, where the new classification was introduced.

FINANCIAL MARKETS

Table 10 Interest rates in September and their change compared to previous periods (in percentage points)

<table>
<thead>
<tr>
<th>Sector</th>
<th>September '06</th>
<th>Change September '06 - June '06</th>
<th>Change September '06 - September '05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core interest rate</td>
<td>5.25%</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Interbank market</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overnight transactions</td>
<td>4.17%</td>
<td>-0.04</td>
<td>-0.55</td>
</tr>
<tr>
<td>Weekly transactions</td>
<td>5.32%</td>
<td>0.17</td>
<td>0.42</td>
</tr>
<tr>
<td>Primary market</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3-month Treasury bills yield</td>
<td>5.96%</td>
<td>0.73</td>
<td>-0.77</td>
</tr>
<tr>
<td>6-month Treasury bills yield</td>
<td>6.43%</td>
<td>1.01</td>
<td>-2.21</td>
</tr>
<tr>
<td>12-month Treasury bills yield</td>
<td>7.13%</td>
<td>1.39</td>
<td>-2.00</td>
</tr>
<tr>
<td>Bonds market</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-year bonds yield</td>
<td>7.8%</td>
<td>1.4</td>
<td>-1.9</td>
</tr>
</tbody>
</table>

Source: Bank of Albania and commercial banks

Table 11 Deposits and credit interest rates (in percentage points)

<table>
<thead>
<tr>
<th>Sector</th>
<th>August '06</th>
<th>Change August '06 - June '06</th>
<th>Change August '06 - August '05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core interest rate</td>
<td>5.25%</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Interest of deposits in ALL</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3-month</td>
<td>3.66%</td>
<td>-0.08</td>
<td>0.53</td>
</tr>
<tr>
<td>6-month</td>
<td>4.26%</td>
<td>-0.09</td>
<td>0.36</td>
</tr>
<tr>
<td>12-month</td>
<td>5.12%</td>
<td>0.07</td>
<td>0.70</td>
</tr>
<tr>
<td>24-month</td>
<td>5.84%</td>
<td>-0.06</td>
<td>-1.07</td>
</tr>
<tr>
<td>Interest of credit in ALL</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to 6-month credit</td>
<td>11.96%</td>
<td>0.68</td>
<td>-2.53</td>
</tr>
<tr>
<td>6-month – 1 year credit</td>
<td>11.95%</td>
<td>0.15</td>
<td>-1.07</td>
</tr>
<tr>
<td>1 – 3 years credit</td>
<td>15.70%</td>
<td>-0.19</td>
<td>-0.45</td>
</tr>
<tr>
<td>Over 3-year credit</td>
<td>11.89%</td>
<td>0.47</td>
<td>-0.18</td>
</tr>
</tbody>
</table>

Source: Bank of Albania and commercial banks
Table 12 Interest rates of deposits in foreign currency (in percentage points)

<table>
<thead>
<tr>
<th></th>
<th>August 06</th>
<th>Change August ’06 – June ’06</th>
<th>Change August ’06 – August ’05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fed - Core interest rate</td>
<td>5.25%</td>
<td>0.25</td>
<td>2.00</td>
</tr>
<tr>
<td>Interest of deposits in USD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-month</td>
<td>2.98%</td>
<td>0.64</td>
<td>1.15</td>
</tr>
<tr>
<td>3-month</td>
<td>3.41%</td>
<td>-0.12</td>
<td>1.28</td>
</tr>
<tr>
<td>6-month</td>
<td>3.57%</td>
<td>0.16</td>
<td>1.26</td>
</tr>
<tr>
<td>12-month</td>
<td>4.37%</td>
<td>0.55</td>
<td>1.58</td>
</tr>
<tr>
<td>24-month</td>
<td>4.92%</td>
<td>0.54</td>
<td>1.77</td>
</tr>
<tr>
<td>ECB – Core interest rate</td>
<td>3.00%</td>
<td>0.25</td>
<td>1.00</td>
</tr>
<tr>
<td>Interest of deposits in EUR</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-month</td>
<td>2.35%</td>
<td>0.22</td>
<td>0.68</td>
</tr>
<tr>
<td>3-month</td>
<td>2.75%</td>
<td>0.32</td>
<td>0.93</td>
</tr>
<tr>
<td>6-month</td>
<td>3.02%</td>
<td>0.11</td>
<td>1.19</td>
</tr>
<tr>
<td>12-month</td>
<td>3.44%</td>
<td>0.40</td>
<td>1.53</td>
</tr>
<tr>
<td>24-month</td>
<td>3.80%</td>
<td>0.17</td>
<td>0.74</td>
</tr>
</tbody>
</table>

Source: Bank of Albania and commercial banks

Table 13 Interest rate spread of deposit-credit in lek and in foreign currency

<table>
<thead>
<tr>
<th>Spread of deposits interest:</th>
<th>ALL-USD</th>
<th>ALL-EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>August ’05</td>
<td>August ’06</td>
</tr>
<tr>
<td>3-month</td>
<td>1.00%</td>
<td>0.25%</td>
</tr>
<tr>
<td>6-month</td>
<td>1.59%</td>
<td>0.69%</td>
</tr>
<tr>
<td>12-month</td>
<td>1.63%</td>
<td>0.75%</td>
</tr>
<tr>
<td>Spread of credit interest:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ALL-USD</td>
<td>ALL-EUR</td>
</tr>
<tr>
<td>6-month</td>
<td>7.32%</td>
<td>2.33%</td>
</tr>
<tr>
<td>6-month – 1 year</td>
<td>0.53%</td>
<td>1.14%</td>
</tr>
<tr>
<td>1-3 years</td>
<td>10.58%</td>
<td>5.75%</td>
</tr>
<tr>
<td>Over 3 years</td>
<td>3.51%</td>
<td>3.02%</td>
</tr>
</tbody>
</table>

Source: Bank of Albania and commercial banks
SPEECH BY MR. ARDIAN FULLANI, THE GOVERNOR OF THE BANK OF ALBANIA

At the seminar “Development and implementation of business and consumer confidence indices in Albania”

Hotel “Tirana International”, 3-4 July 2006

The information on the markets and the most recent economic developments may be considered as the key to success for businesses in the modern times of rapid information technology developments (it is enough taking a glance at the numerous pages of the Reuters or the space the business news take to understand such developments). Although, at first, it may not seem to represent the most critical problem the Albanian businesses are currently facing, such as electricity, informality etc., not far from now there will be the need of recognizing and analyzing the market in real time, in order to cope with the challenges of globalization. Considered from a wider aspect, one’s country economy may not attain the international levels if the development policies are founded on a weak real information basis.

The information on the most recent economic developments and expectations is crucial to the monetary policy decision-making process of the Bank of Albania. For long, it has been made clear that the process of maintaining price stability – our main objective – should be a forward-looking one. Considering the current situation of national statistics, which at times become available with a time-lag of two years, it is understandable that our duty becomes extremely difficult.

Progress in the field of statistics and in other related fields may take a relatively long time. In the mean time, our decisions need to be based on sound basis. Under this information gap, one of our solutions was the conduction of surveys of various economic agents. Four years ago, the Bank of Albania began the assessment of business confidence index and consumer confidence index. These surveys are held quarterly with the assistance of INSTAT and involve over 600 businesses of production, construction and services sectors and more than 1500 consumers. The collected information relates to the performance of prices, consumption, income, production, employment, investment and many other indicators, which assist significantly in the monetary policy decision-making process.

Many important steps have been made in this context, aiming at continuous methodological improvements of indices. To this purpose, the Bank of Albania, with the participation of foreign experts, has organized various meetings and discussions at a technical level, wherein the surveys results and analyses, as well as the related issues were presented. Moreover, the Bank has organized training workshops with INSTAT and their interviewers, with a view to reaching to a high confidence degree in such key indicators.

Since the beginning, the Bank of Albania has been assisted in this significant process by experts of the IFO German Institute for Economic Research, one of the leading economic research institutes in the field of business confidence.
indices. This assistance was provided by the GTZ office in Tirana, which has mediated and supported the visit of a number of German experts at the Bank of Albania, as is the present occasion when we have the pleasure to have among us Mr. Gernot Nerb (IFO), one of the top experts of IFO institute, for the calculation of business confidence indices in Germany. He will be holding some presentations related to the use of indices calculated through the conducted surveys, which help to analyze the real economic and financial developments.

Although so far, the results of our surveys were presented indirectly in our periodical analyses and reports, as well as in various bank studies, very soon the Bank will publish such results regularly. In this context, an important preliminary step would be the consolidation of applied methodology in the calculation of such indices through a professional expertise, as it is the case of IFO. In a second phase, in close cooperation with the respective chambers of commerce and universities, we are going to organize several meetings with businesses and academics, wherein we could get suggestions on the usefulness of these surveys.

Along the same line of enhancing the economic information sources, another initiative undertaken by us relates to the involvement of the Bank of Albania branches in the collection and analysis of economic developments in various Albanian regions. So far, there have been conducted several surveys which have provided very interesting results. Unlike business confidence index, these surveys aim at getting more complete and continuous timely quantitative information on the situation of labour market, prices performance, production and on the relationship between businesses and banks. Such information will be used in the calculation of some important indicators, such as productivity, cost per work unit, etc., which are often extremely essential to the Bank of Albania work study. Currently, these indicators are not provided by actual formal statistics.

I wish you a very productive day,

Thank you.
STATEMENT BY MR. ARDIAN FULLANI, THE GOVERNOR OF THE BANK OF ALBANIA

At the press conference following the Supervisory Council’s decision on the raise of the interest rate
Bank of Albania, 13 July 2006

The Supervisory Council of the Bank of Albania, at its meeting of July 12, 2006, treated the monetary developments and the inflation performance verified over the first half of the year.

In June 2006, the sharp upward trend of annual inflation rate, verified over the two preceding months, was smoothed over. The annual inflation rate dropped to 2.4 per cent, compared to 3.1 per cent at end May 2006.

The seasonal effect, which exerts pressure in terms of cutting the foodstuff prices, delayed during May, is estimated to have been compensated partly during June. However, the second quarter of 2006 recorded an annual rate higher than that of the same previous year period. This fact testifies the presence of added inflationary pressures during this period.

Other factors, beyond the seasonal ones, such as the mitigated appreciation of the lek against the euro, the upward trend in import prices, peak rise of oil prices and of raw materials, constitute the basis of inflationary pressure intensification in the economy during this period of the year.

Monetary indicators performance has been satisfactory. The monetary supply in the economy has grown at rates close to historical trends. According to data as of May, the annual growth of money supply, M3, resulted to 10.5 percent. The money supply structure tends to be shifted towards foreign assets.

The monetary expansion of January – May is completely a consequence of the private sector’s demand for monetary assets, while the public sector’s demand has had a reverse neutralizing effect. In May, credit to the economy reached to ALL 146.5 billion, recording a growth of 66.8% compared to the previous year. During 5 first months of 2006, credit has increased on average by ALL 5 billion a month or 30% more than in the previous year. During the first months of the year, the new credit extended totalled ALL 55 billion or about 33 percent more than in the previous year.

During the first half of 2006, the interest rates generally had downward trends in the ALL deposit market, in the primary Treasury bill market, in bonds market and in ALL credit market, while the interest rates in interbank market were stable.

The lek was characterised by appreciating pressures against the dollar during the first half of the year (as a reflection of world market developments) whereas it was relatively stable against the euro.
During the second half of the year, similar to the first half of 2006, the Bank of Albania has factorized, in the forecasts on inflationary developments in the economy, even the possible impacts that may derive from the materialisation of some risks, which it has made public a long time from now.

The Bank of Albania deems necessary to deal with these factors once more, highlighting the following as the most important ones:

Electricity price rise – Starting from July 2006, along the year, the inflation rate will be impacted upward, due to application of new tariffs for the consumed electricity.

The downward trend between interest rates in ALL and those in foreign currency – The global environment with rise of interests, has started to create incentives for changing the preferences of economic agents, particularly in terms of holding savings in foreign currency. This tendency appears in the increased ratio of foreign currency deposits to total deposits and in weakening the appreciating exchange rate trends. The exchange rate, though it continues to be appreciated in annual terms against the euro, during the latest months it recorded a moderation of the appreciation intensity. Different exchange rate behaviour from the typical seasonal behaviour of the preceding years would be immediately transmitted to inflation. As it is already known, the inflation impact channel (particularly the group of tradable goods), as randomly happening in most import-oriented countries, is very sensitive in cases of currency depreciation.

Continuous oil price rise – The peak values recorded lately for the oil and its sub-products prices constitute a potential risk to inflation. This becomes even sharper if it is taken into account the fact that the oil price in the country has exceeded the “critical” point, beyond which the business activity would be faced with obvious difficulties*.

Agricultural price performance – The agricultural products prices have recorded a relatively different behaviour. During the last two years, the prices of these products have been characterised by negative annual change rates, contributing to low inflation levels, while this year this performance seems somewhat different.

Rapid growth of credit to the economy – As in the previous year, even during the first half of 2006, a high growth of credit to the economy was evidenced. The rapid growth of credit, particularly of the consumer one, impacts on domestic demand rise, which would, in turn, impact on increasing inflationary pressures in the economy.

The way of realizing the budget deficit – The gradual rise of inflation during the first half of the year presents a more concerning development, if we take into account that it has happened under the conditions of a tightening fiscal policy. In compliance with the program of 2006, the budget deficit financed with domestic sources for 2006 is programmed at ALL 23 billion, while
currently the presence of a high excess of around ALL 11 billion continues. If all this large difference, even under the conditions of a possible reduction of the total programmed value, would be covered over the rest of the year, then besides pressures for liquidity, at a second moment, other pressures would be generated in terms of domestic demand.

Core inflation rise – Part of the above factors have a transitory nature. However, the upward trend of the core inflation supports the general rise of inflationary pressures in the economy, without excluding their existence on the demand side.

Taking into account all the earlier-mentioned risks, based on the latest developments and on the inflation forecasting for 12 consecutive months, the Bank of Albania deems that the probability of occurrence of one or some of the negative above-mentioned effects has increased. This would create premises for the annual inflation rate to fluctuate around the extreme tolerance values of the Bank of Albania target during the coming period.

Under these circumstances, further to recent attitudes, based on numerous analyses and empirical models, the Supervisory Council of the Bank of Albania decided to raise the weekly repurchase agreement rate by 0.25 percentage point, from 5 percent to 5.25 percent.

This rise intends a better control over the demand pressures, a better accommodation of shocks that come from the supply side, a better stabilization of exchange rate and a control on inflationary expectations.

This decision will serve to signal the institutional will of the Bank of Albania for controlling inflation. The Supervisory Council of the Bank of Albania believes that the low inflation rates that characterise our economy are undoubtedly a prominent accomplishment, in full compliance with the advanced theoretical thought, with best international practices and experiences and with nominal Maastricht criteria.

The Supervisory Council of the Bank of Albania deems that this is an appropriate decision, taken in due time, and a forward looking one. Our decision-making is based on a prudential analysis of potential risks that are in the horizon. The decisions deriving from these analyses aim at orienting the future towards programmed levels.

This is a modern concept, which aims at anchoring all the inflation expectations around 3 percent, with a tolerance band of ±1 percent.

To this end, the Bank of Albania will continue to be vigilant in all directions, naturally making the maximum efforts so that even in the future, its decisions are in compliance with the primary objective assigned by law, to sustain a stable economic development.

*According to estimates, based on the business confidence index (BCI, Q1-2005), beyond the price of 110 lek/liter, the business activity becomes more sensitive to negative effects of oil price rise.
Honourable participants,

I would like to thank you all for your participation in this very important seminar. Allow me first to welcome Ms. Alvarez-Plata and Mr. Kholodilin, two experts representing the distinguished German Institute for Economic Research DIW, who will be holding presentations over these two days and discuss the introduction and implementation of early warning systems for the financial markets and the exchange rate stability.

Over the recent years, the Bank of Albania has been working closely with prominent international partners, such as the GTZ, in various projects, which aim at enhancing and further consolidating the work of the Bank in achieving our main objectives. I avail myself of this opportunity to thank Prof. Bolle, who has been coordinating our cooperation with the GTZ and Ms. Guda, local GTZ coordinator, for making this seminar possible, as a series of activities we have been organizing jointly with the GTZ.

Today’s seminar focuses on an issue we have already begun working on. Last year in April, we organized a regional seminar in Tirana with the topic “Stress-Testing”, wherein were discussed the ways of identifying timely the financial system weaknesses, which may jeopardize the maintenance of its stability in case macro and microeconomic conditions are unexpectedly aggravated.

Today’s seminar focuses on similar issues, but it provides more progressive approaches as far as early warning systems are concerned. Such approaches and discussions bear a high level of technique, however, allow me to explain briefly and somehow simply the purpose of their implementation.

Last week, the Bank of Albania changed its core interest rate. As you may have already been informed of from our statements, the increase in the interest rate came as a consequence of future expectations effect and of a variety of factors which relate to inflation. What is important to the policies we conduct is the anticipation and prevention of destabilizing pressures in advance, rather than their correction after they have already occurred. Waiting to take the proper measures after the signals have become a fact may be costly in two aspects. First, the maintenance of stability is not stable, as long as the measures are taken upon the aggravation of the macroeconomic situation. Second, post-destabilization measures generally have their effects after a time lag of over one year – therefore, they are not only incapable of mitigating the current situation, but they may also bring about unwarranted aggravating effects in the future, when the economy will have actually recovered to its normal situation.
The concept of providing financial stability does not differ a lot from the logic of maintaining macroeconomic stability. In such a case, the saying “prevent rather than recover” bears a significant importance, considering the high costs accompanying the financial crisis. The rapid lending and financial activity expansion of the banking system over the recent years, despite its positive aspect of boosting the economic growth, has also increased the pressure of being more alert in monitoring and maintaining the financial stability. Regardless of the rigorous implementation of the best monitoring practices, the rapid growth and expansion are always characterized by elements of risk, which in normal situations are inclined to be underestimated or pass unobserved, in particular in a system level. Therefore, the methodologies to be discussed over these two days will come to help the identification of such risks and take the proper measures timely.

The methods to be introduced and discussed in this seminar are numerous, varying from non-parametrical to sophisticated modelling and econometric methods. Despite their complexity, each of them is presented with their own pros and cons. Our purpose is to establish and apply a wide packet of warning instruments, so as to minimize the errors deriving from the assumptions and various methodologies used. This packet will be a complement to the wide measures that we are considering to implement in the further enhancement of supervision, in order to anticipate the situations relating to the maintenance and consolidation of the financial stability.

Wishing you good proceedings,

Thank you!
SPEECH BY MR. ARDIAN FULLANI, THE GOVERNOR OF THE BANK OF ALBANIA

At the ‘The Economist’s Conference “First Business Roundtable with the Government of Albania: Identifying new business opportunities”’
Sheraton Tirana Hotel and Towers, 14 September 2006

Honorable Chairman, Distinguished Participants,

I am very pleased to be here today to share and discuss with you our views, future macroeconomic and financial market developments and outline our policy orientation. I was looking forward to converse to this forum. It is a great opportunity that such well known institution, focus their attention toward Albania. I would like to thank The Economist Conference and express my deepest and highest appreciation for this venture.

I am confident that members of all communities, foreign and domestic, gathered here today will leave this forum with a clear image on the economic reality and business opportunities Albania has to offer. Assisted by geopolitical conditions and actual state of affairs, although small at a glance, Albanian economy presents numerous financial and economic advantages and incentives.

Recently, the Albanian economy has reached a commendable macroeconomic equilibrium, sustained by an economic growth of 5-6 percent, low inflation levels well contained within a 2-3 percent band, and continuously shrinking budget deficits. It is my pleasure to emphasize that the Bank of Albania and its policy have been rightfully credited and earned accolades by established foreign and domestic institutions for its notable role in such accomplishments. Monetary policy has been designed and implemented in line with midterm country’s macroeconomic program, with specific focus on price and financial stability

Let me now briefly summarize what I believe are the latest most important developments, and outline our economic outlook.

ECONOMIC GROWTH

After the significant electricity shortages at the end of 2005, it appears that traditional growth promoting industries like services (tourism) and construction are growing at a stable pace, contributing at a sustainable economic growth. Building upon these developments as well as other positive indicators, we expect the economy will grow at a solid rate of 5-5.5 percent. The main challenge remains ensuring sustainability of these growth rates, even higher in the long run. I believe that respective Albanian authorities have already identified the major priorities of these challenges which fully converge with Bank of Albania views. Just to remind you, I would briefly summarize some of these priorities. Building new, preferably alternative, energy sources and improving the efficiency of the existing ones, I will put at the top of the list. In our view, sufficient and reliable energy supply remains a main concern to achieving economic growth. Providing a solution to this problem is a priority in the verge of an ever increasing
global demand and energy prices. Speeding up the privatization process of the remaining state assets is another important step forward. Special attention should be paid to structural reforms, particularly property rights and legal framework. In our opinion, services, construction and in particular agriculture will remain driving forces of the GDP growth in the coming years.

Therefore I would strongly agree with any initiative that encourages FDIs in these sectors through attractive laws and other measures. I believe FDIs are very important for providing long term stability of the foreign sector. Moreover, the productivity growth that usually follows FDIs’ inflows will play a significant role in reducing current account deficit. Our economy needs more foreign direct investments, hence, Country Credit Ratings constitute a chief priority for our economy.

It is my belief that FDIs represent a regional rather than an individual challenge for the South East Europe. Countries in the region must coordinate their efforts toward creating a regional market. Regional infrastructure projects will significantly increase attractiveness and competitiveness, as well as international financial market awareness toward our region. It will improve confidence and provide necessary economic incentives to enter in the region, leading to higher FDIs’ inflows for each economy.

INFLATION
Our economy has experienced a relatively long period of stable prices. Annual inflation figure as measured by the consumer price index, for the last 12 months is reported at 2.4 percent. Both monetary and fiscal policies have been important factors in keeping inflation low. However, recently inflation pressures have accelerated. The fast growth of credit to economy, the steep increase of oil prices, administrative increase of energy prices, as well as other risks have the potential to create inflationary pressures and pose risk to elevate inflation expectations. The Bank of Albania will take all necessary actions to ensure an inflation rate of 3 per cent with a tolerance band of ± 1 percent, in the short and long run.

INTEREST RATES
During the recent years interest rates have dropped reflecting the ease of monetary policy. This has been a general trend for all financial assets either in Lek or foreign currency. On average, banking system applies 9.7 percent for loans in domestic currency. The yield of 12-month Government securities dropped at a minimum of 5.74 percent in June 2006. However, following the last decision of the Bank of Albania and latest trends in global markets, a modest increase in interest rates has been observed during the last three months for both domestic and foreign financial instruments. We expect this trend to persist within the next 6-12 months.

BANKING SYSTEM
The Albanian banking system continues to expand and consolidate. It is solid, consolidated and fully capitalized. The system consists of 17 banks, of
which only 3 are entirely domestically owned. The banking network has been extended continuously, including remote areas. The banking products have increased in number and improved in quality. Entrance in the market of important European financial groups has created a better competitive environment and further enhanced efficiency. The expansion of lending portfolio and more competitive lending rates has deepened financial intermediation. Latest data show that in June 2006, the assets of the banking sector reached 60 per cent of the Albanian Gross Domestic Product (GDP).

Rapid changes in the banking system in light of credit boom, and global market financial integration impose the need for higher standards of transparency, accountability and governance from the banking system itself, not only with regard to the Bank of Albania, but public as well. Banks should behave responsibly and must integrate the stability of the entire system into their utility function.

FINANCIAL SYSTEM REFORMS

Since years, the banking system has been in a constant process of transformation. The Financial Sector Assessment Program (FSAP) marks a significant moment in this process. On behalf of the Bank of Albania, I would like to thank IMF and WB, for their excellent efforts on this professional and transparent financial certification of the Albanian Financial System.

The Bank of Albania remains very much focused on fulfilling the recommendations of the FSAP following the priority and institutional hierarchy.

• The Bank of Albania has increased the access and investment opportunities of commercial banks in the securities market.
• The draft on Banks Law is completed.
• Automated clearing house system is operational.
• The number of electronic transfers has increased significantly. There is concrete evidence that shows a continuous reduction of cash economy.
• The Bank of Albania has extended its supervisory authority over all non-bank financial institutions that operate within the economic territory of the Republic of Albania.
• The Supervisory Council of the Bank of Albania has further increased the transparency of its decision making process. Minutes are released regularly and the Bank of Albania website provides fresh info on daily activity.
• There is significant progress on establishing the Credit Information Bureau. We hope by the end of next year that will be fully operational.
• Last but not the least, I would stress out that we have already presented a detailed action plan for the remaining part of the FSAP recommendations.

Honorable participants,

Designing and implementing monetary policy has become more challenging. Globalization, in particular, has exposed our economy to foreign shocks.
In addition, policy actions of ECB and FED, exert their impact on Albanian economy mainly due to high extend of currency substitution.

Rapid growth of lending activity is the most notable development among domestic factors. According to our figures, over the last two years credit to economy has expanded by an equivalent of 10-12 GDP percentage points. At this rate it is expected to reach 18-20 percent of GDP at the end of current year. It is worth mentioning that approximately 30 percent of the outstanding credit represents consumer credit, while 75 percent of the outstanding stock is loaned in foreign currency.

This represents a very important development and deserves scrupulous attention. Our main concerns relate to inflationary pressures and non-performing loans that such credit expansion might generate.

In the light of these developments, the Bank of Albania assessed that the existing stance of monetary policy was not providing enough stimulus to curb aggregate demand. Therefore, in July 2006 the Bank of Albania decided to shift the course of monetary policy by raising the base rate (7 days repo rate) with 25 basis points. We are delighted to observe that the market is reacting following our decision. However, based on our short term inflation forecasts and in presence of several risks, some of which I already explained above, the Bank of Albania perceives that inflation pressures for the next 12 months will remain elevated. Currently, we are cautiously evaluating the extend of market response and assessing whether further action is needed.

Simultaneously, the Bank of Albania is becoming increasingly concerned regarding the quality of loan portfolio. The accelerated pace of credit expansion is posing challenges to both banks and to the supervisory authority. The response to these challenges will aim at achieving macroeconomic stability, by means of a well capitalized banking system. With this goal in mind, the Bank of Albania, as the supervisory authority, has intensified the dialogue with the banks in order to find an adequate consensus for: setting realistic objectives of annual activity growth; containing the credit expansion and maintain good credit portfolio quality; strengthening the internal control and risk monitoring systems; and monitoring carefully the capital indicators.

I would like to use this floor to emphasize that the Bank of Albania will be very firm to follow strictly all requirements that derive from the law and regulatory framework. On our part, we will make the necessary modifications in the supervisory and regulatory framework that target the above mentioned issues with a realistic and flexible approach. The sole purpose of this conformist approach to supervisory rules, is to provide a cushion for avoiding potential future disturbances in the financial stability.

Finally, I would like to strongly emphasize for all business community, households and all other economic agents that the Bank of Albania will make all efforts to ensure and further consolidate the general macroeconomic equilibrium in the Albanian economy, with specific role on financial stability.
I believe that the business community comprehends this important mission. the Bank of Albania intends to be vocal regarding its prospects for economic developments, so that none of its actions should come to you as a surprise. Therefore, I invite you to interpret our signals fairly and smoothly integrate them into your decision making process. I would like to remind you that our medium term agreement with IMF and focused policy orientation toward EU and European Exchange Rate Mechanism (ERM) provide additional collateral for our pledge.

Thanking The Economist Conference for giving me this opportunity, I am open to take questions and share comments.
Abstact

The essay makes a review of the existing literature of the assessment of EMU policies, particularly SGP measures. The objective of setting a framework for coordinating economic policy in Euro area is not wrong by any standard, though there are different views as to how optimal that framework is. The stance towards its feasibility in terms of regulatory lay out and of political compromise among member states is not covered. The essay is outlined as follows; first, it introduces the rationale for a common currency. It summarizes some of lasting positive effects while putting down the costs in terms of short-term negative impacts of the common monetary policy in Euro area. In the third section, it explains SGP neglecting two important macroeconomic indicators of member states, growth potential and debt level, with a view to support the idea that it needs to be a function of these two variables. The essay closes with some general remarks.

I INTRODUCTION

The euro zone has moved through different stages of cooperation and reconciliation during the second half of the last century. Status quo of the continent has been defined by the course through which it has moved as well as the speed of accomplishments of necessary steps. The latter, that is the speed with which it has progressed, has been paved by specific national interests of member states, and Europe has a well documented pool of examples of opposite attitudes. Yet, the path of co-movement has been laid down well in advance by futurists who have seen the solution of political and cultural disputes in terms of joint economic objectives. Many of them have argued that sharing a common economic future as a long term perspective will override the short-term disputes. I join to this argument and further argue that it removes off the table the implementation of the zero-sum game strategy of fulfilling the objective of improving economic welfare, by not obeying to the Paretto-optimality condition.

II UNIFIED MONETARY POLICY

One of the most influential supporters of the idea of a single Europe, Jean Monet, has argued that sharing the very basic mean of measuring economic
welfare, the money, would leave the European people and their leaders with no other option but to cooperate. It turns out that besides avoiding conflicts, economic cooperation has positive spill over effects in terms of productivity and welfare for its citizens. Europe has spent half a century to reconcile from the last dispute to implement such a cooperative strategy in terms of a common currency, the euro. The implementation of a common currency calls for a common monetary policy among member states, which has been well set through the set up of a central bank for the whole euro area. The single monetary policy is part of a more general framework of cooperation in terms of economic policy of the Economic and Monetary Union (EMU). A unified monetary policy and the EMU itself have been considered as the single most important event in post-war monetary history (Danthine et. al., 2000).

Member states tend to benefit from the positive impacts of a unified monetary policy. First, it introduces stable and low long-term inflationary expectations for all member states due to absence of political influence, as such ensuring low inflation economic environment as ECB enjoys supranational power. Second, it gives new impetus to financial integration in EU area with positive spill over effects in terms of financial intermediation of the financial sector in the economy. Also, it opens the way for focusing member states policies exclusively on economic growth, leading to higher economic welfare for the community.

Some of the negative aspects of the common monetary policy stand on the monetary policy itself, while the others are more related to the lack of sufficient coordination with other economic policies in the EMU. The asymmetries in the Euro Area, in presence of low labor mobility, lead to disparities in regional economic stability. Also, the inflation target of close but below 2 may not be optimal for new entries in EU as it may not fit to growth potential of some regions. Yet, Mongelli argues that signs of increased divergence in growth rates that have emerged so far are limited, and the dispersion of real GDP growth rates in the euro area has remained very close to its historical average (Mongelli et.al., 2006).

Furthermore, the common monetary policy favors larger countries in the Euro area, since their inflation rates are more highly correlated with aggregate (Euro area) inflation. The welfare cost of wage and price stickiness in an average small country is four times greater than that in a large country (Canzoneri, 2004). By and large, the effects of the ECB’s single monetary policy do, implicitly, enhance the implementation of structural reforms that are strongly recommended by economists. Canzoneri et. al., argues that euro area countries, as a group, have undertaken more structural reforms than they are normally given credit for after the birth of ECB, as such reforms take time to display their positive effects.

Yet, there has been more of that criticism why a single monetary policy may not be yet optimal for the euro area. A centralized monetary policy may not release its potential of positive effects under decentralized fiscal and economic policies. As the SGP disregards that countries are different, it limits
necessary flexibility to conduct country-, inflation- and growth-specific fiscal policies. While this was problematic already in the EU-15, it is even more so in the EU-25, given that the new Member States’ economic variables such as real GDP growth, inflation and public debt differ significantly from those of the old members, due to their transition process and catching-up endeavors (Wenzel, 2004).

III COORDINATING FISCAL AND OTHER ECONOMIC POLICIES

Economic policies have largely remained the responsibility of the member states. EU institutions, constituting of representatives of member states, have set out main outlines to be followed by each member state in order to coordinate individual economic policies with each other, as well as with the common monetary policy of EU. These outlines have been formally set under the Stability and Growth Pact which has been adopted at Amsterdam European Council in June ’97. The Stability and Growth Pact (SGP) sets a framework for coordinating Economic and Monetary Union policies, mainly focusing on monetary and fiscal policy objectives. The framework as set in 1997 covers four principles, two of which are particularly relevant.

• Price stability. Under this pact, EU through its policies and institutions would set price stability as an objective in the medium term. Sustainable price stability is defined as a 12-month average inflation of less than 1.5 basis points more than that of, at most, the three best performing member states. With the set-up of ECB in 1999, inflation objective of the whole euro area is defined as close but less than 2 per cent.

• Public finance. Sustainable financial position defined as:
  1. general government deficit of less than or equal to 3 per cent of GDP,
  2. gross debt total of less than or equal to 60 per cent of GDP or approach it at a satisfactory pace.

The SGP of 1997 required also interest rate stability defined as an average 12-month long-term Government Bond yields be at most less than or equal to 2 percent higher than that of the three member countries with the lowest inflation. It also conditioned on member countries exchange rate policy. Also, each country was expected to respect the normal fluctuation margins of the Exchange Rate Mechanism for at least 2 years with no devaluation of currency against any other member’s currency on its own initiative. With the introduction of Euro as a currency in January 1, 1999 these conditions did not apply any further.

The first principle of price stability is resolved by a common monetary policy. The second issue, regarding fiscal policy, but relevant for other economic policies, sets a constraint for all member countries’ fiscal policies. Such a flat boundary penalizes most countries on the developing phase, while it rewards inefficiently other countries through moral hazard related implications of this
boundary or ceiling. It turns out that it may only fit for a very small number of member states. SGP disregards that countries are different, and limits necessary flexibility to conduct country-, inflation- and growth-specific fiscal policies (Wenzel et. al 2004).

The issues of penalization and rewarding could be set in a more theoretical background without a specific model applying to a specific country. From an economic textbook perspective, the higher is a country’s potential for economic growth, the larger the fiscal deficit it can afford without risking debt default or financial costs in terms of financial credibility in the markets. Also, unsustainable fiscal deficits in one country have spill over effects to other member states as well. Calmfors (1998) highlights that the international transmission of fiscal policy between countries takes place not via the government deficit, but via the country’s net exports. Assuming a linear relationship of the two variables, it can be represented in a textbook type of graph (see Appendix).

It has been rightly argued in vast literature that high nominal GDP growth rates (through real GDP catch-up and Balassa-Samuelson effects with a fixed exchange rate or a common currency) make, other things being equal, higher deficit-GDP ratios sustainable in accession countries. Higher real GDP growth rates and lower risk-free real interest rates (through financial market integration and Balassa- Samuelson effects) also enhance the fiscal authorities’ ability to sustain debt and deficits (Buiter et al, 2002).

It simply makes the SGP rule of 3 per cent penalize countries with high growth potential. This becomes a self fulfilling result since limiting public expenditure of a country with high growth potential, cuts off the capital expenditure required to achieve the higher growth that this country can potentially achieve. The need to catch up in the areas of infrastructure and environmental standards also justifies increased, albeit strictly limited, recourse to borrowing. As a result these countries’ growth rates remain below their potential, slowing down the catch up process in terms of per capita income of its citizens. It happens that countries with high growth potential are countries that have low per capita income, mostly the newly accessing countries of EU.

The second macroeconomic variable which SGP disregards is debt to GDP ratio. Countries with low debt to GDP ratios can afford higher fiscal deficits for many years. Such countries that have to fulfill the criteria of 3 per cent fiscal deficit may find their
economies missing growth opportunities. The reason for this bias is that the existence of a single currency for the entire Eurozone means that excessive fiscal deficits in any individual country do not cause the rise in that nation’s interest rates or the change in its exchange rate that would occur in a country with its own currency. In short, there is no market feedback to discipline large budget deficits. Also, a country that increases its own budget deficit contributes to this Eurozone problem but does not bear any proportionate share of the adverse effect. This free rider problem becomes increasingly important as the number of countries in the European Economic and Monetary Union (the EMU) increases. It is this fiscal externality that justifies an agreement among the countries to limit their deficits (Feldstein 2005).

All said, deficits are more sensitive to interest rates in high debt countries, due to the burden of debt service. In addition, high debt countries tend to have higher tax rates, increasing tax distortions, and making tax revenues more sensitive to changes in the tax base. These factors lead to welfare costs. Collignon (2003) calculates that a typical household in a high debt country would be willing to give up 1.3 per cent percent of its consumption each period to live in an average country, implying a country without debt related problems. Other analysts of SGP argue against any fiscal constraint unless central bank enjoys independence (Cari et. al., 2004). The desirability of fiscal constraints in monetary unions depends critically on whether the monetary authority can commit to follow its policies. This type of issue arises because of a time inconsistency problem.

If it can commit, then debt constraints can only impose costs. If it cannot commit, then fiscal policy has a free-rider problem, and debt constraints may be desirable.

IV FINAL REMARKS

The launch of the euro is part of a long process of macroeconomic convergence, and yet efforts should be inputted in terms of economic policy coordination in order to building a robust monetary union.

In short, the combination of a centralized monetary policy and a decentralized fiscal structure in Europe increases the need for and the effectiveness of countercyclical fiscal policy. The problems will arise when the worsened budget deficits become irreversible in a relatively short time due to downturns in business cycles.

A static model like SGP may not be optimal for all of the member states of EU and that economic policy under such a model should incorporate country-specific measures on basis of regions and development stages.
NOTES

* Bledar Hoda: Specialist, Monetary Policy Department.

1 This would be my own definition of an armed conflict, called “war” in the very traditional sense, from a basic economic point of view.
REFERENCES


On 3-4 July 2006, the Bank of Albania, in co-operation with the GTZ (German Association for Technical Co-operation in Tirana), held the seminar “Development and implementation of business and consumer confidence indices in Albania”. Participants in this seminar were experts from the German Institute for Economic Research, the Bank of Albania, the Ministry of Finance, the Ministry of Economy and from the INSTAT. This seminar treated issues related to the short-term monitoring of the real economy through business surveys, to the further improvement of these indices based on the international experience, as well as to the development of real and financial sector indices in Albania, aiming at identifying the steps to be taken for their ongoing enhancement.

On 24-25 July 2006, the Bank of Albania, in co-operation with the GTZ (German Association for Technical Co-operation in Tirana) organized the seminar “The surveillance systems to assess and monitor the economic and financial stability”. Participants in this seminar were experts from the German Institute for Economic Research and from the Bank of Albania. They discussed the construction and implementation of the early warning systems, which provide a comparison basis for various macroeconomic indicators, serving to the timely identification of problems and to the prevention of crisis.

On 24 July 2006, the International Monetary Fund Executive Board concluded Article IV Consultation with Albania. On this occasion, the Executive Board published a statement in which commended the Bank of Albania for its prudent monetary policy implementation.

On 17-20 September 2006, the Governor of the Bank of Albania and the IMF Governor for Albania, Mr. Ardian Fullani, headed the Bank of Albania delegation in the annual meetings of the International Monetary Fund and the World Bank Group, which held the proceedings in Singapore. On this occasion, Mr. Fullani held various meetings with high representatives of the IMF, WB and central banks, IMF members, in which introduced them to the macroeconomic developments in Albania, the measures taken to maintain price stability, as well as to the Bank of Albania objectives for consolidating the accomplishments to date, in particular the keeping under control of the targeted inflation 2–4 per cent. Other topics for discussion in these meetings were the technical assistance in the field of monetary policy implementation, supervision, internal audit, public debt administration and the establishment of the credit information bureau.
LEGAL EVENTS OVER JULY-SEPTEMBER 2006

MONETARY POLICY

On 12 July 2006, the Supervisory Council of the Bank of Albania adopted the Decision No. 52 “On the raise of the repurchase and reverse agreements interest rate by the Bank of Albania”. This raise changed the repurchase and reverse agreements interest rate from 5.00 per cent to 5.25 per cent.

ISSUE

On 26 July 2006, the Supervisory Council of the Bank of Albania adopted the Decision Nr. 58 “On the printing of the Albanian banknote, having a legal tender”. This decision approves in principle the printing of the Albanian banknote, having a legal tender, with the face value of 2000 lekë.

On 26 July 2006, the Supervisory Council of the Bank of Albania adopted the Decision No. 59 “On the reprinting of the Albanian banknote, having a legal tender”. According to this decision, the Albanian banknote, having a legal tender, issue of 2001 series, will be reprinted in 2007.

BANKING SUPERVISION

On 30 August 2006, the Supervisory Council of the Bank of Albania adopted the Decision No. 60 “On the transfer of ownership of 11.25 per cent of shares in the shareholder’s equity of ProCredit Bank sh.a., from the European Bank for Reconstruction and Development to ProCredit Holding A.G., Germany”. According to this decision, ProCredit Holding A.G. will own 43.75 per cent of the shares in the equity of ProCredit Bank sh.a.

On 13 September 2006, the Supervisory Council of the Bank of Albania adopted upon the Decision No. 68 an amendment to the Regulation “On the supervision of savings and credit associations and their unions”. This amendment establishes that the ratio of capital to the credit portfolio net balance after deducting the provisions should not be less than 5 per cent in the first two years of the loan granting activity following the licence and not less than 8 per cent after the first two years.”

On 13 September 2006, the Supervisory Council of the Bank of Albania adopted upon the Decision No. 69 an amendment to the Regulation “On the banks and foreign banks’ administrators”, adopted upon the Decision No. 120, dated 30 December 2003. This amendment abrogates paragraph 8 of section 4 of the Regulation, which established that up to 2/3 of the...
administrators appointed as members of the audit committee could at the same time act as members of the bank governing council.

MONETARY OPERATIONS

On 30 August 2006, the Supervisory Council of the Bank of Albania adopted upon the Decision No. 65 the Regulation “On the organization and functioning of the Investment Committee”. The purpose of this regulation is to establish the organization and functioning rules of the Investment Committee.

On 30 August 2006, the Supervisory Council of the Bank of Albania adopted upon the Decision No. 66 the Instruction “On the method of calculating the fix of the lek exchange rate at the Bank of Albania”. The purpose of this instruction is to define the method of calculating “the fix” in order to have a single level of reference of the lek exchange rate, which may be later used for statistical, comparative, accounting, assessing and trading purposes.

FINANCIAL SUPERVISION AUTHORITY

On 30 August 2006, the Supervisory Council of the Bank of Albania adopted the Decision No. 67 “On proposing a candidate for a member of the Financial Supervision Authority Board”. According to this decision, the Bank of Albania proposes to the Council of Minister, Ms. Miranda Ramaj, Deputy Director of the Supervision Department at the Bank of Albania, as a candidate for a member of the Financial Supervision Authority Board.

ECONOMIC POLICY

On 3 July 2006, the Parliament of the Republic of Albania approved upon the Law No. 9571 “The financial agreement between the Council of Ministers of the Republic of Albania and the Commission of the European Communities “On the CARDS regional programme 2005””. Through this programme, Albania will benefit a financial contribution of EUR 47.9 million from the European Community.

On 3 July 2006, the Parliament of the Republic of Albania approved the Law No. 9572 “On the Financial Supervision Authority”. The purpose of this law is to establish the rules for the organization, responsibilities and the functioning of the Financial Supervision Authority.

On 11 July 2006, the Parliament of the Republic of Albania approved upon the Law No. 9579 “The financial agreement between Albania and the International Development Association (IDA) for the project “Modernizing the health system””. According to this agreement, the Republic of Albania will be granted a loan of SDR 10.7 million.
On 12 July 2006, the Council of Ministers approved the Decision No. 479 “On granting a budget fund to the Albanian Red Cross to promote voluntary blood donation”. According to this decision, the Albanian Red Cross is granted a budget fund of ALL 3.5 million, which will be covered by the 2006 budget provided for the Ministry of Health.

On 17 July 2006, the Parliament of the Republic of Albania approved the Law No. 9584 “On the compensation system and the structures of the constitutional independent institutions and other independent institutions, established upon law”. The purpose of this law is to regulate the method of determining the wages and bonuses, the personnel structures of the constitutional institutions and of other independent institutions.

On 17 July 2006, the Parliament of the Republic of Albania approved upon the Law No. 9585 an amendment to the Law No. 8560, dated 22 December 1999 “On tax procedures in the Republic of Albania”. This amendment establishes that the administration funds of the General Taxation Department and its branches in other cities will be provided by the state budget.

On 19 July 2006, the Council of Ministers of the Republic of Albania approved the Decision No. 509 “On the structure of the Governing Council of the Albanian Business and Investment Agency and the method of remunerating its members”. The Governing Council of this agency is chaired by the Minister of Economy and Energy and will be composed of the Deputy Minister of Finance, Deputy Minister of Public Works, Transport and Telecommunication, Deputy Minister of Tourism, Culture, Youth and Sports, one representative from the Council of Ministers and three representatives from the business organizations. The remuneration of the members of this council will be established based on the participation in the meetings and will be covered by this agency’s budget.

On 25 July 2006, the Parliament of the Republic of Albania approved upon the Law No. 9589 “The loan agreement between the Council of Ministers of the Republic of Albania and the European Bank for Reconstruction and Developments for the financing of the project “Tirana Municipal Roads Development””. According to this agreement, the Republic of Albania will be granted for this project a loan of EUR 14 million.

On 26 July 2006, the Council of Ministers approved upon the Decision No. 514 “The statute of the Albanian Business and Investment Agency”. This statute establishes the basic rules of activity and the functioning of this agency in and out of the territory of the Republic of Albania.

On 28 July 2006, the Parliament of the Republic of Albania approved upon the Law No. 9603 “The financial agreement between the Republic of Albania and the International Development Association (IDA) for the project “Quality and equality in education””. According to this agreement, the Republic of Albania will be granted for this project a loan of SDR 10.5 million.
BANK OF ALBANIA MANAGEMENT
30 SEPTEMBER 2006

SUPERVISORY COUNCIL

ARDIAN FULLANI  Chairman
FATOS IBRAHIMI  Vice Chairman
TEFTA ÇUCI  Member
ELISABETA GJONI  Member
LIMOS MALAJ  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 Luci
MONETARY OPERATIONS DEPARTMENT  Marian Gjermeni
SUPERVISION DEPARTMENT  Klodian Shehu
INFORMATION TECHNOLOGY DEPARTMENT  Xhilda Kanini Deliana
STATISTICS DEPARTMENT  Kliti Ceca
ISSUE DEPARTMENT  Valer Miho
ACCOUNTING AND PAYMENTS DEPARTMENT  Marsedo Dumani
LEGAL DEPARTMENT  Toni Gogu
AUDIT DEPARTMENT  Teuta Baleta
FOREIGN RELATIONS, EUROPEAN INTEGRATION AND COMMUNICATION DEPARTMENT  Ina Kraja
ADMINISTRATION DEPARTMENT  Agron Skenderaga
SECURITY AND PROTECTION DEPARTMENT  -
PRINTING HOUSE  Alfons Theka

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Valentina Dedja  ELBASANI
Anila Thomaj  GJIROKASTRA
Liliana Zipri  KORÇA
Shpresa Meço  LUSHNJA
LIST OF ALL ENTITIES LICENSED BY THE BANK OF ALBANIA*

BANKS AND BRANCHES OF FOREIGN BANKS

1. ITALIAN - ALBANIAN BANK (JOINT-STOCK COMPANY)
   License No. 1/1996, dated 17.07.1998
   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. RAFFEISEN BANK (JOINT-STOCK COMPANY)
   License No. 2/1998, dated 11.01.1999
   Certificate No. 2 “On Deposit Insurance”.
   Director: Steven GRUNERUD
   Address: Bulevardi “Bajram Curri”, European Trade Center, Tirana, Albania
   Tel.: 226 699, 224 540, 222 669, 225 416
   Fax.: 275 599, 223 587, 223 695, 224 051

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 PENCAPUGIL
   Address: Bulevardi “Zhan D’Ark”, Tirana, Albania
   Tel.: 25 09 55
   Fax.: 25 09 56

* Up to September 30, 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 “Durresit”, 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: Mahendra Sing RAWAT
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: 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 3/a and 3/b of Article 26 of the Law “On Banking Law in the Republic of Albania”.

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 MICROCREDIT
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: Mirinda Ceka, Ilir Hoxxha

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 Papadhopeni, Genta Angjeli (Agalli), Piro Tef, Flora Simixhi, Petrika Mano (Manager), Lindita Shala, Mirela Bakalli, Anila Demiri, Emili Bakalli (Nako), Astrit Sferdelli, Mirela Kaiku, Erisa Emiri

5. “AGLI” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 5, dated 01.10.1999
Address: Agency No.1: Rruga “Islam Alla”, 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 Pavlovschi

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, Artur 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 Hojha, Arben Çuni

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

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

16. “MANUSHI” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 22, dated 18.04.2001
Address: Bulvardi “Zogu I”, VEVE Business Center, Tirana, Albania
Brokers: Roland Manushi

17. “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)

18. “KALENJA” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 24, dated 29.06.2001
Address: Rruga “Kavajës” (next to Turkish Embassy), Tirana, Albania
Brokers: Hair Shametaj, Fatmir Shametaj

License: No. 25, dated 30.09.2001
Address: Lagja “Luigj Gurakuqi”, Bulvardi “Qemal Stafa”, Njësia Nr.12, Elbasan, Albania
Brokers: Kristaq Bako, Vjolca Bako

20. “ANAGNOSTI” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
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

License: No. 27, dated 12.11.2001
Brokers: Mihal Konomi, Përparim Goxhaj

22. “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
24. “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, Edvard Andoni, Elida Hasamemi

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

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

27. “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

28. “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

29. “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

31. “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

32. “DROGU” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 49, dated 23.04.2002
Address: Rruga “Vaso Pasha”, Kulla 1, Kati I, Tirana, Albania
Brokers: Shkëlqim Drogu, Kostandin Koteci

33. “HYSEN-C” FOREIGN EXCHANGE BUREAU S.R.L., LAÇ
License: No. 50, dated 23.04.2002
Address: Lagja Nr. 3, Laç, Albania
Broker: Cen Hyseni

34. “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: Gjergji Dulaj (manager)

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

License: No. 55, dated 23.07.2002
Address: Lagja “Kodër”, Shijak, Durrës, Albania
Brokers: Argjend Calliku, Alfrëdita Calliku

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

38. “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

39. “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

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

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

42. “BILLI” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 63, dated 16.02.2004
Address: Sheshi “Wilson”, Tirana e Re, Tirana, Albania
Broker: Sybi Cenolli (manager)

43. “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, Saliand Brojaj

44. “ARIABA” FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 67, dated 07.06.2004
Address: Rruga “Abdyl Frashëri”, Kati I, Shk. 5, Tirana, Albania
Brokers: Agim Xhemo (manager), Astrit Hado

45. “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: Ermira Skënderi (manager), Engjëll Skënderi, Burhan Kodra, Shqiponja Spahiu

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

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

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

49. “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), Pëllumb Zyfi  
Associates: Liliana Zyfi, Pëllumb Zyfi

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

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

52. “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  
Address: Bulevardi Zog I, Godina “Zëri i Popullit”, Tirana, Albania  
Brokers: Ilir Doçi, Suela Dedaj

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

55. “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

56. “EURO 2006” FOREIGN EXCHANGE BUREAU S.R.L., DURRËS  
License: No.82, dated 12.04.2006  
Address: Lagjja nr.4, Rruga “Migjeni”, pranë Poliklinikës Qendrore, Durrës, Albania  
Brokers: Hysni Baganaçi, Medi Dyrmishi

57. “VOSKOP” FOREIGN EXCHANGE BUREAU S.R.L., KORÇA  
License: No.83, dated 13.04.2006  
Address: Lagjja nr.7, Billoku “B Nëntori”, Korça, Albania  
Brokers: Anesti Leska, Rexhep Mankolli

License: No.84, dated 31.05.2006  
Address: Lagjja “Besëlidhja”, përballë Degës së bankës “Raiffeisen”, Lezha
Albania

License: No.85, dated 31.05.2006
Address: Lagja “Skënderbej”, ish-lokali “Gjahtari”, Lezha, Albania
Brokers: Sander Marashi

60. “SHQIPONJA VL” FOREIGN EXCHANGE BUREAU S.R.L., VLORA
License: No.86, dated 16.06.2006
Address: Pallati i Kulturës “Labëria”, përballë portit detar, Vlora, Albania
Brokers: Roland Kola

61. “BONVOYAGE” FOREIGN EXCHANGE BUREAU S.R.L., DURRËS
License: No.87, dated 20.06.2006
Address: Lagja 11, Bulevardi kryesor “Durruhu”, Ap.243, Durrës, Albania
Brokers: Petrit Shtaro; Jusuf Milaçi
Tel.: 052 3 81 16; 052 3 73 89
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: Vojzava 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