

# GOVERNOR REPORTS TO THE PARLIAMENTARY COMMISSION OF ECONOMY FINANCE AND PRIVATIZATION

## *Honorable members of Parliament*

The Parliament is the highest legislative organ of the country, where Bank of Albania, based on article 2 of the law "On the Bank of Albania" has the duty to report on the achievement of the main target and other duties sanctioned by law.

As Central Bank Governor, I am here to present this report before you. But, allow me to communicate that Bank of Albania considers its reporting in Parliament not only a legal but also a moral duty of it, in order to be as more transparent with the public and You, to enhance its accountability and explain that its position of an independent institution does not empower it of the right to abuse with power.

### **1. CONSUMER PRICE DEVELOPMENTS.**

I get started with the consumer price performance as achieving and maintain the consumer price stability is the main target of Bank of Albania. In other words, the final target for 2000 is reaching an annual inflation of 2-4 per cent interval.

It's three years by now that we observe low inflation rates and it can be fully stated that the consumer price stability has been achieved and maintained. Bank of Albania declares that in consistence with the previous two years' performance, that even for 2000-end it will be managed to ensure a low and positive annual inflation rate. The time of negative inflation rates evidenced since May 1999 seems to have ended.

At the end of November, the CPI reached the value of 220.19, which means 0.4 per cent lower than at the end of December 1999. These data indicate that whether the plethora of the upper target is no more doubtful the achievement of the floor target remains questionable.

Thus based on 11-month data of the current year and some previous year behavior of the consumer prices in December we assess that this year inflation rate will be close to 2 per cent.

Bank of Albania has difficulty in annualizing factors that explain the consumer price behaves mostly because of its short experience (from its nearly 9-year experience, 2-3 years should be not accounted mainly for the exceptional events accompanying them) the poverty of statistical data where the most conspicuous is the deficiency of national accounts or other reasons. In spite of these deficiencies it has been managed to detect some factors of considerable effect with this respect.

As the most principal factors, we could mention the serious efforts made by Bank of Albania and the Ministry of Finance. The first through setting and maintain control of the money supply and second through fiscal consolidation.

Both followed policies, the monetary and the fiscal one are accepted to have been reliable and of a satisfactory macroeconomic effect. It must be admitted that the action of casual factors has been of a certain effect. Downward, there are provided in detail some key factors to determine the inflation performance during 2000.

?? Fulfilling quantitative targets of the monetary program established by Bank of Albania has been satisfactory during 2000. According to the 2000-end expectancy, the effective data will be within the quantitative targets established on the net international reserves for Bank of Albania' net domestic assets and the net domestic assets of the entire system.

~~2.2~~ Fiscal developments during 1999 were constantly kept under control. Deficit financing from domestic resources is expected to be under the program level, giving an important help in maintaining inflation under control. Enforcing no increase on the tax charge, the fiscal stability has given no reason for rising prices.

~~2.3~~ The USD price of domestic currency during 2000 has followed the US\$ performance by international markets, meantime that it has been stable and frequently getting ground against European currencies. These and other developments have increased Bank of Albania's confidence that the European currency is ever more becoming an important currency for the inflation performance in Albania. This is due to the fact that nearly 80 per cent of current account transactions are performed with EU countries and on the other hand the value of capital transactions continues to very low comparatively to the that of the current accounts.

? ? The rate of imported inflation has been another efficient factor owing to its low rate in partner countries of foreign trade. On the other hand the better performance of rural sector in fulfilling domestic market claims and the growing supply of agricultural products have been of a certain effect with this respect.

? ? Albeit we can not talk precisely, we estimate that during the current year, there has been evidenced no important development to affect the production prices (either labor costs or other production factors).

Although the international conjecture enforced an increase of power prices, the level of exploiting resources by the domestic industry has been modest and its effect has been not so significant.

As assessed for the next year, we will continue to face inflationary pressures based on:

? ? the consumer price performance in the last three years however focusing more on years, 1999-2000;

? ? the assumption that the annual inflation rates at 2000-end will be about 2 per cent;

? ? the assumption that year 2001 will mark a benchmark in the Euro price performance, concerning its appreciation;

? ? the power crisis seized the country either with the rising price of fuels or the with frequent restrictions of electric power supply;

? ? the tardy transmission of the consequent monetary policy decisions purposed mitigation through interest rate reduction;

? ? expected increase of capital investments at 23.3 per cent;

? ? foreign deficit forecast and financing;

? ? the announcement rising wages and holding the parliamentary elections were situations which additionally to the psychological effect create potential evasions or at least stiffen the management of problems.

**Table 1. Annual series of inflation rate (in %).**

Months	1998	1999	2000
January	37.3	6.0	-1.3
February	22.6	3.5	-1.3
March	24.0	2.0	-2.1
April	28.0	0.4	-1.4
May	26.4	-0.1	-0.1
June	17.8	-0.6	0.1
July	16.9	0.1	-1.3
August	16.7	-0.6	-0.7
September	16.5	-1.9	0.9
October	11.2	-1.8	1.7
November	8.9	-1.2	1.8
December	8.7	-1.0	

More concretely, I want to cease by the power crisis. Fuel and electric power weigh is considerable as of current band and the increase of the power price can not be directly converted in inflation increase. However, we sold be considerate that the chain effect provided by the increase of the power prices on the rising cost of transport or production something to be converted on products emerging at higher market prices at a later period. For that reason, the crisis started since October produced its effects some months later. What would be its real effect is still impossible to define for: first, yet, it has not been measured its do-date effect until at late, second, it is not yet clear for how long will it linger on or whether it will have a deterioration or improvement?

In spite of what above- mentioned, inflation target would not change for 2001 in comparison with 2000, fixing as interval its 2-4 per cent rate. However, its real form is assessed to be over that of 2000.

## **2. MONETARY POLICY DEVELOPMENTS.**

Bank of Albania's monetary policy for 2000 should be considered as consistency of the monetary policy followed in 1999. It has been going on to orient by its mollifying side, reflecting a close pursuance mainly of consumer price developments as well as the price performance of domestic currency, the deposit performance or other

psychological factors. The monetary policy of this term was characterized by the gradual replacement of direct instruments with indirect ones, which have a better reflection of labor market.

This was achieved through observing the three quantitative monetary targets giving an important contribution in the management of domestic supply in economy. The banking system has tended increase of financing to domestic economy through extending more credits.

One of the Banks of Albania's midterm targets is the adoption of inflation targeting regime on inflation.

### **2.1. Instruments used to apply monetary policy.**

Bank of Albania has as an operating target of it to control the monetary supply through interest rates as principal instrument. Until the first half of 2000, this instrument has been identified with the minimum rate established on time deposit rates in Lek for public banks. In the second half of the year this instrument was replaced with indirect instruments disposed of by the central bank such as: Repo auctions, the required foreign asset, the refinancing credit and LOMBARD credit.

Resigning from indirect instruments became necessary as their efficiency and the transmission mechanism of decisions into economy has been of a low range. This would affect an inefficient distribution of financial resources based on price mechanism.

It did not urge bank intermediation and restrained market competition as well. These instruments were indispensable for the implementation of monetary policy in the conditions of a total absence of institution framework and when the money market is still fragile.

Bank of Albania considers the first half of 2000 as the end of the transition period for the final passing into indirect instruments of monetary policy to the achievement of its intermediate operating targets.

Therefore, there were fixed as operating targets the interest rate on quarterly T-Bills and the level of excessive reserves in the system and weekly Repo auctions were assigned as instrument under disposition.

Implementing monetary policy only on indirect instruments was enabled by the continued commitment of Bank of Albania, the stable macroeconomic and the fiscal situation, the improving rate of bank supervision in compliance with international standards, the final privatization of the National Commercial Bank, conducting relevant changes in the market shares as of bank capital; the preparing procedures for the privatization of the Savings Bank interim 2001, as well as previous experiences of applying short term instruments in market movements etc.

The current use of Repo auctions provides a broad space for market intervention by Bank of Albania, a rising flexibility for fund transfers in the system, giving it a possibility to quickly and efficiently react against liquidity oscillations through fixing the auction type and the top of transparency to the entire market.

The Lombard and the refinancing credit, as the most expensive credits recognized no

extension by Bank of Albania even for this year. This may be as a result of the stable macroeconomic and financial indicators but especially of providing excessive reserve sufficient for banks to cover their operation.

In the same line, we are working to further improve and in near time the entire regulatory framework of Bank of Albania's indirect instruments to serve the enhancement of efficiency and flexibility of them.

Relying on this instruments will be to increase the flexibility in drafting and applying monetary policy as well as to contribute in market expansion and development to affect improving efficiency of financial sector intermediation, to enhance investments efficiency as well as to promote extension of savings, channeling them through the banking system.

## **2.2. Interest rate performance.**

Bank of Albania's policy regarding interest rates has been their constant cutting though its application may have not ensured the top expected effects still it has been significantly affecting the interest rates in the desired side to economy.

Although the market is brittle and the transmission mechanism is still inefficient a result of the applied policy by Bank of Albania has been the reduction of time deposit rates something to affect the T-bills yield behavior.

Differences between respective interest rates on the same maturity have been of a soothing tendency especially for those of short term. In first sight it may seem as the reduction of interest rates has not been chased by lending rates of three-month term. In fact, the effect "is hidden" behind the lending structure in Albania. Commercial banks are engaged in foreign exchange lending. However, October 1999-December 2000 also reveals a slight reducing tendency for lending rates of six- and twelve-month maturity.

**Table 2. Annual average rates (in %).**

Indicators	December 1999	October 2000
1. Deposit	9.14	8.1
2. Treasury bill	15.79	12.44
3. Lending	26.8	25.89

**Table 3. 6-month average rates (in %).**

Indicators	December 1999	October 2000
1. Deposit	9.97	7.9
2. Treasury bill	15.48	11.28
3. Lending	25.80	19.27

**Table 4. Quarterly average rates (in %).**

Indicators	December 1999	October 2000
1. Deposit	9.51	7.21
2. Treasury bill	14.77	7.85
3. Lending	21.70	26.56

**2.3. Credit to economy.**

Bank of Albania initiated a promoting campaign in support of bank credits to economy. This campaign was visualized as talks, which extended their scope from banks to business representatives; media and other invited from legislative and executive organs. Additionally to achievements discussions were addressed as legal issue requirements for strategic areas that must be suggested for support etc. Bank of Albania invited banks to be more transparent in their operation, and offered the opportunity for posting in its web-site underlying own intentions for the enhancement of transparency.

Bank lending to economy, in real terms for January- October 2000 marks significant extension to previous year. Meantime as the newly accorded credit by banks has been at LEK 8 billion for 1999, only for the first 10-month period the newly extended credit registered Lek 19 billion. Notwithstanding this growth, it must be accepted that credit to economic remains low in absolute terms and furthermore it is still extended only in foreign exchange. For December 1999- October 2000, the outstanding credit to economy increased by

Lek 5,9 billion from which 5,9 in foreign exchange and 0, 3 in Lek.

The most active banks of the lending market have been the Albanian- Italian Bank, Tirana Bank, FEFAD bank, American Bank and Alpha Credit Bank.

According to data reported on business credits, 26.5 per cent of banking credits have been extended to construction, nearly 27 percent to trade about 16 percent to processing industry, 5 percent to hotels and restaurants, 5 percent to immobile property and the remaining part to agriculture fishing transport, other services etc.

Credit to economy has been meeting the monthly average of LEK 0.6 billion. For the rest period, November- December 2000, the economy must be credited by other Lek 1.6 million. Should the monthly average lending of the third quarter be maintained for the rest of 2000 (Lek 0,8 billion), the program forecast on credit to economy will be attained at the end of 2000 (Lek 7,5 billion). This is based on our previous practice that banks do accord more credits in the two last quarters of the year (third and fourth).

**Table 5. The performance of credit indicators (in billions of Lek).**

Indicator	December 1999	Year 2000			
		Q. I	Q. II	Q. III	Oct.
The total outstanding credit of the banking system <sup>20</sup> .	19.9	21.4	22.7	25.2	25.8
The total outstanding credit of the banking system to public sector.	1.7	1.6	1.6	1.6	1.6
The total outstanding credit of the banking system to the public sector.	18.2	19.8	21.1	23.5	24.2
From this:					
In Lek	10.6	10.6	10.6	10.6	9.6
In Foreign exchange.	9.3	10.8	12.1	14.5	14.6
The share (weight in per cent) of the credit extended in foreign exchange.	48.0	52.0	55.0	57.0	57.0
The new banking credit.	8.0	3.4	6.9	6.8	1.8
The new lek credit of the banking system.		0.6	1.1	1.0	0.4
The new foreign exchange credit of the banking system.		2.8	5.9	5.8	1.3
The share/weight (in %) of the credit extended in foreign exchange.		82.0	85.5	85.5	75.0

#### **2.4. Bank of Albania's monetary program for 2001.**

Bank of Albania's Supervisory Council in its meeting of November 14 discussed and approved the monetary program for 2001. The monetary program is prepared in the framework of the mid-term program (PRGF) agreed with FMC. It is a component part of a broader packet of macroeconomic and financial measures.

The monetary program reflects forecasts and the most significant macroeconomic developments and the Bank of Albania's commitment to achieve its final target for maintaining the consumer price stability. All aspects of Bank of Albania's activity are based on the conviction that its most precious contribution to a stable economic growth and a low unemployment rate is maintaining the consumer price stability. This Bank of Albania's engagement makes up the focus of its monetary program; it connects forecasts to the most important macroeconomic prospects and measures to be undertaken by Bank of Albania in monetary area in the current year.

Positive macroeconomic developments for 2000 may be synthesized in two indicators:

- 1) the economic growth is estimated to be 7.8 per cent or somewhat higher than that anticipated at early year and
- 2) inflation measured by CPI is anticipated to be by about 2 per cent level.

Based on the above-mentioned developments of 2000, the monetary program for 2001 is based on the assumption for an economic growth of 7.3 per cent in the circumstance of maintain inflation by approximate levels to 2000.

The monetary program is in tune with the recent developments in fiscal area and the state budget for 2001. Deface financing by domestic rescues will be in compliance with the proposed budget by the Ministry of Finance for 2001, foreseen at Lek 15. 5 billion or as much as 2.67 per cent of GDP.

A similar financing conducts a significant falling by 35 percent compared to the previous year Forrest and reflects the extensive improvement of fiscal governing by new fiscal policies envisaged by the Ministry of Finance. The reduced financing of budgetary effect buy banking system will provide bigger spaces for the increase of financing to economy.

Bank of Albania's contribution for financing deficit is envisaged at Lek 8.7 billion. Such level of financing corresponds to the maximum limit established by law "On the Bank of Albania" from 8 per cent average of budgetary income during the last three years. Bank of Albania assesses that a similar financing will elude it from its main target of maintain consumer price stability.

Bank of Albania has programmed a growing credit for the private sector by Lek 8.1 billion during 2001. By our forecast, credit expansion to the economy will be an aftermath of the rising credit in foreign exchange. This is also an observed tendency of 2000, which is assessed as ongoing even for 2001. To formulate the opinion we have been considerate of some points:

- the growing rate of deposits in foreign currency is anticipated to be higher than deposits in domestic currency in 2001 based on the fact that the level of deposit rates in domestic currency has been subject of a constant reducing tendency whereas deposit rate in foreign currency have been relatively constant indicating a slight growing tendency.

By a higher deposit level nearly of 85 per cent of deposit supply as of October 2000, the Savings Bank has stopped its lending activity.

In the program, it has been planned an increase of Bank of Albania's gross international reserve by US\$ 70 million amounting to US\$ 620 million. This is assessed to hoist the net foreign asset of Bank of Albania by Lek 11.3 billion. The level of the Gross International reserves is expected to afford the 4.6 months of imports and services during 2001.

Complying with these as well as considering the accomplishment of primary target, Bank of Albania proceeds with commanded growth of monetary supply, intending satisfaction of economic growth claims for financial assets and at the same time refract the inflationary pressures to economy. During 2001, the monetary

supply is anticipated to grow by 11.2 per cent or by Lek 36.9 billion.

In the program, this growth is detailed as of its component elements: in the growing component of "money outside the banks, increase of Lek and foreign exchange deposits.

The extension of the money outside the banks will be the same with the addition of the monetary supply, 11.2 per cent or Lek 10, 7 billion. The same growing rate reflects the fact that referring to 2000-end, in the program, there has been envisaged no change in the ratio of the money outside the banks against the monetary supply aggregate during 2001.

The increase of Lek Deposits will comprise the most of the growing monetary supply, however its growing rate will be smaller. Lek deposits are envisaged on 9.7 per cent or Lek 16.4 billion growth. Such a lower growing rate in ratio with monetary supply reflects a re-distribution for the portfolio of public financial assets as a result of decreasing interest rates for foreign exchange deposits, foreseen on 15.1 per cent or Lek 9,8 billion increase.

Bank of Albania has constantly followed the performance of the monetary program and its compliance with real developments. Bank of Albania remains engaged to review and adjourn its monetary program in accordance with the main developments observed at the end of each quarter in order to as more accurately reflect the recent macroeconomic and financial phenomenon observed in the country as well as measures undertaken by it to achieve its monetary targets.

### **3. FOREIGN EXCHANGE DEVELOPMENTS.**

#### **3.1. Exchange rate.**

As a sign of integrating foreign exchange developments of domestic market, internationally, the exchange rate, additionally to the changes in the domestic supply and claims for foreign exchange, has broadly reflected the exchange rate developments by international markets.

Lek has been appreciated against EURO. The nominal Value of the ratio EUR/ Lek opened at 137.3 (DEM/LEK = 70.2) at the beginning of the year and closed at 128.7 (DEM/ LEK =65.8) at the end of November. Expressed in relative terms Lek appreciation was for 6.7 per cent.

As may be seen, Lek has been similarly appreciated against all other component currencies of EUR. Lek has been appreciating by 8.2 percent against GDR, which became a component currency of EUR after Greece affiliation in European Monetary Union, starting from January 1, 2001.

Lek has been depreciating against US\$. At year-onset, the ratio LEK/US\$ was at 135.2 level whereas at the November-end it priced 149.5. In relative terms, Lek has been depreciating in its exchange with US\$ at 10.6 per cent.

Lek appreciation against EUR and its same time depreciation against US\$ has reflected the performance of both currencies in international markets of foreign exchange during 2000. To the end of November 2000, the European currency is appraised on 19.5 per cent loss of its value in exchange with US\$.

Exchange rate movements during 2000 have been gradual and balanced to ensure a similar thing,

Bank of Albania had particular operation in the market during the third quarter when the seasonal and appreciating effects in the exchange rate of Lek against other currencies were expected.

Only for the third quarter there have been purchased about US\$ 17, 46 million, at the time that this figure records the value of US\$ 35,58 million in total.

For the next year, the exchange rate of Lek against other currencies is expected to stabilize with balanced movements, which will be easily absorbed by the economy. Bank of Albania will be ready to ensure a similar performance.

### **3.2. Foreign exchange reserves.**

To December 5, the value of the gross international reserve has reached in US\$ 571,13 million whereas the net value of international reserves is in US\$ 433.16 million. Since year onset the growing value of the gross international reserve has amounted to US\$ 89,54 million or 18.54 per cent.

To this date, the highest inflows of international reserve have been investment proceeds to US\$ 21. 95 million as well as foreign exchange purchasing from commercial banks, Government and other international financial institutions per the amount of US\$ 94. 57 million.

Amongst the reducing factors of this period we could mention interest payments for the Republic of Albania's external debt and Bank of Albania's liabilities to US\$ 12.73 million and sales to US\$ 16.88 million.

Concerning the mode for management of the international reserve, Bank of Albania's Supervisory Council has recently approved " The policy and the managing mode of the international reserves" by decision no. 70, dated 02. 08. 2000. This paper sanctions the targets on investment of the international reserve, investing limits as of currency and specific instruments ECT.

The new paper envisages the addition of investment instruments of foreign exchange reserves, preserving high qualities of safety and liquidity. To perch to the need for the better knowing of risks, the new document anticipates the creation of the investment Committee and the sector for assessing risks.

The first will enhance the analyzing and decision-making skill within core indicators established in the document by the Bank of Albania's Supervisory Council. The second will be an organizing cell within the responsible department for the management of international reserve, specialized for the identification and assessment of financial risks, as that of market, lending and operation.



#### 4. BANKING SYSTEM DEVELOPMENTS.

##### 4.1. Banking system performance.

The banking system has been detected of some developments during 2000 such as:

?? The geographical extension of bank network.

?? The accretion of bank capitalization.

?? The positive financial result.

Year 2000 recognized no bank license for new banks; however, the current banks enhanced their business generally. They became more present with their activity in other cities, such as in Durres, Fier, Elbasan Gjirokaster and Korce. While the total banking business raised by 3.2 per cent against 1999 as of the significant expansion of banking business by private and joint-venture banks by 45.6 and 6.5 per

cent respectively. This is considered a positive fact, as the public bank rule is ever more diminishing in the bank market to pave the way for competition. This is estimated to bear effect in this market development, in decreasing costs of financial mediation between banks, and customer expense, particularly.

The structure of banking business did not reflect changes on the whole, leaving as main operating domains, investments in T-bills or the form of current accounts or time deposit investments by non-resident banks or lending operation while customer accounts and deposits remained the main groups of bank resources. It must be stressed that the investment and deposit increment has been different however dominant by the extension of securities and interbank accounts and deposits.

**Table 6. The structure of core balance items on 30.09.2000.**(In % to the total balance sheet).

Items	Weight
Assets	
Treasury bills	46.4
Interbank deposits and accounts	31.1
The total outstanding credit	11.9
Securities investments	1.8
Liabilities	
Customer accounts and deposits	84.7
Interbank accounts and deposits	2.6
Permanent resource	6.0
<i>From these : capital shares</i>	5.6

This balance sheet enforces the structure for banking incomes and expenditures. Interest incomes and expenditure rank amongst the main incomes and expenditures of the banking system by 85.6 per cent of the total income and 64.4 per cent of the expenditure aggregate

respectively. At the end of September 2000, the entire banking profits result at Lek 2,7 billion against Lek 1,3 billion at 199-end. On the whole, all banks recorded a profit result excluding the thirds. This is a good basis to the improvement of banking business in the years to come.

**Table 7. the growing rate of main balance items (in %).**

Items	The growing rate
Assets	
Treasury bills	137.7
Interbank deposits and accounts	20.3
The total outstanding credit	7.5
Securities investments	2.4
Liabilities	
Interbank accounts and deposits	102.2
Permanent resource	28.5
<i>From these : share-holding capital</i>	59.6
Customer accounts and deposits	5.5

The capital position of the banking system improved as a result of banks accomplishing their profit effect. The rate of capital adequacy is 14.7 percent from 12 per cent permitted by Bank of Albania. Thus the Albanian banking system seems as much more capitalized. This element has been assisted by Bank of Albania's decision to raise the bank-required capital by two stages:

- the first stage 30.09.2000, by which point the capital must have been raised to Lek 500 million;
- the second stage terminating on 31.03.2001 will find the required minimum increased to Lek 700 million.

The first stage has been over for all banks whereas the second stage is almost concluding for all banks except for three banks. Nonetheless, a particular emphasis must be laid on the capitalization of the Savings Bank. Based on the effective law "On banks in the Republic of Albania", the bank must be capitalized by Lek 17.2 billion interim December 2000. Until now the owner has prepared the legal framework for covering cumulative loss by T-bill issuing for this value.

Finally it must be stressed that irrespective of this year expansion and the next year expectancy, its lending activity must be somewhat limited as of the considerable amount of problem loans. The banking system and public banks in particular have been meeting problem regarding credit collection.

State-owned banks have a very high level of problem loans by about of credit portfolio and they almost considered as lost. For this reason, Bank of Albania will continue to practice its decision for to disallow them the extension of new credits. While problem loans indicated 10- 8 per cent extent for private banks. This has made banking system' expenditures to provide reserve funds for covering loss from loans be increased by Lek 454 million or as much as 7.6 per cent of net incomes from operating interests.

#### **4.2. The privatization of the Savings Bank.**

The process for preparing privatization of the Savings Bank has already started by years. Based on the privatization experience of the National Commercial Bank, Bank of Albania has continuously insisted in the acceleration of privatization process by fixing terms and rigorously following them.

However, the continuous established terms for the privatization of the Savings Banks have been postponed. Actually, it has been signed a governing contract until the final privatization of the Savings Bank with the Dutch Bank. Whereas the Ministry of Finance has set up the working group for the following the process of the privatization of the Savings Bank.

The Ministry of Finance has recently prepared the draft law " On the T-bill coverage of state liabilities against the Savings Bank AE" through which it is taken upon coverage of state liabilities and the collected loss over years. To 31. 12. 2000, the Savings Bank shareholder should accomplish completion of capital, pursuing the Bank of Albania's Supervisory Council decision no. 128, dated 22.12.1999.

We assess that the completion of these steps provides the necessary conditions for the privatization of the Savings Bank.

#### **4.3. Why Bank of Albania appears on a statement on financial risks?**

After the entering in owner of the law " On the Bank of Albania", Bank of Albania appears with an official statement every six months to inform the Republic of Albania's Parliament, the Council of Ministers and the broad public on the following:

- ? ? whether the banking system is risk exposed;
- ? ? the mature and the type of risk including the reappearance of operations of pyramid scheme type;
- ? ? whether any legal or regulatory improvement under effect or any other legislative initiative is a requested indispensability.

Since January 1998 onward, Bank of Albania has emerged on a similar release every six months. Drafting a similar statement was viewed as necessary after the pyramid scheme crisis of our country. Public awareness on a potential risk warns it and at the same time aims extension of economic and education for it.

Being close to the bank market and observing its performance, Bank of Albania is daily acquainted with bank troubles. A constantly raised problem of Bank of Albania is that of a low lending by banks. A similar situation makes the advantage of bank lending difficult on public and business side.

That's why the risk of informal lending extension is always attendant in the market. To benefit resources, this market may once more address the public audiences for collection of money.

This could bring in a reawakening of pyramid schemes, however on different names and types. People, in general, view as difficult and almost impossible the solution of housing through bank credits, therefore they ask for another alternative.

So there may be established different name foundations or persons asking for a membership fee and after some times extend housing credits on no interests et. Similar cases have emerged and have been extinguished without trouble, as the public audiences are more prudent with money depositing, actually.

As specialized institution in assessing risks, Bank of Albania drafts the monetary policy and organizes financial and bank market surveys, stands closer to public troubles and is enabled to better know and assess them.

In this way, it can sound the alarm in case of similar phenomenon that are risky for the population as well as present and request the necessary legal changes from the Parliament and the Council of Ministers.

## **5. PAYMENT SYSTEM AND CAPITAL MARKET DEVELOPMENTS.**

In parenthesis, I want to emphasize that Bank of Albania is an institution that acknowledges and declares not only the achievements but also the lacking development by other designated areas of its activity. More precisely, I want to stop by the payments system and the capital market, which progress has not been satisfactory during 2000. Albeit these areas are largely dependent on other external factors, thus not exclusively by Bank of Albania, still we can state that ours efforts have been successful.

### **5.1. The payments system.**

Even during 2000, the efforts to improve the payment system still remained in the framework of drafting and approving rules, or releasing orders or concluding contracts.

? ? there were concluded the agreements for the recognition and the use of "direct debit order" and "the order for periodic payments". These aimed banks' access in the use of new payment instruments. However, few banks use them.

? ? It was drafted the regulation on electronic payments and trade as of EB recommendation for this area.

? ? It was managed to conclude a common convention between second-tier banks and Bank of Albania on the unification of processing schedules for payment orders and checks of the banking system.

? ? It was thrown a further step toward the convergence with the international standards through the standardization of payments instruments under utility. That was enabled as a result of the applying convention "On the unification of payment orders and check" during 2000.

However, we remain far off the target for the improvement of the interbank payments of RTGS type. To make this project working, it has been established a three years schedule. This commitment was

undertaken in the framework of performing discussions for the association in EU.

## **5.2. The Stock Exchange.**

The operation of Tirana Stock Exchange Department has been almost extinguished. Practically, no securities transaction was executed in the Tirana Stock Exchange sessions in 2000.

The market rule of T-bills by a single bank, the market solvency and the arrangement of participating banks only in the position of purchaser made the Stock Exchange recognize deficiency in Stock exchange truncations.

On the other hand, Tirana Stock Exchange no listing share from any joint stock company. This has been mainly due to the non-satisfaction of qualitative criterion for stock exchange listing such as: conspicuous skills in management and production of transparent and financially qualitative ratios, the deficiency of a financially sound position of enterprises in most cases or their negligence for listing their equity securities in the official list of Tirana Stock Exchange, or their willingness to become a public AE (s) raised by Stock Exchange capital.

However, Bank of Albania has been consistent in its efforts to complete the legal framework that regulates the functioning and operation of Tirana Stock Exchange as well as it has undertaken an promoting campaign for Tirana Stock Exchange and the financial instruments, through the publication of explanatory pamphlets, regulations or arrangement of seminars.

To be specified herein is the meeting on subject "The Reawakening of Tirana Stock Exchange" to be organized interim December. It will concentrate on the discussion and commitments by respective parties, on the organizing structure of this institution (the type of ownership) and assets to be transacted in order to make Tirana Stock Exchange a functional stock exchange.

## **6. BANK OF ALBANIA'S BUDGET.**

In the quality of an autonomous institution, Bank of Albania prepares and approves its budget in its Supervisory Council. Bank of Albania takes care for the process is developed on maximum responsibility. The regulation in effect regulates the regulated the regime of operating expenditures for a normal operation of it, the observance of responsibilities and the arrangement of internal monitoring systems.

### **6.1. The expected effect for 2000.**

Incomes planned for 2001 were at LEK 9,9 billion whereas expenditures were at Lek 1, 1 billion where operating expenditures were anticipated to occupy 55 per cent of the total expenditures. As a result the profit forecast to be streamed in the budget was Lek 8, 9 billion.

Based on the resultant incomes for January - November 2000, this year revenues are expected to exceed by Lek 1. 4 billion or 11 per cent higher than the forecast mainly because of the higher level of international reserves.

As concerns the expenditures they are expected to comply at 95 per cent, operating expenditures at 93 per cent, as there have been accomplished funds planned for every budget item or for special projects. So the expected profit to be streamed in the state budget will be Lek 10.2 billion.

### **6.2. Budget plan for 2001.**

Next year incomes are envisaged to grow by 4 per cent compared to the expected effect of current year. Expenditures will grow by Lek 1,3 billion or 2.3 times higher than the expected fact. As a result, the profit to be flown in the state budget will be reduced by Lek 1.2 billion.

**Table 8. Bank of Albania's proceeds (in millions of Lek).**

Items	Year 2000		2001 plan
	Annual plan	11/month effect	
<b>Incomes from operating interests</b>	<b>9896.9</b>	<b>10347.5</b>	<b>11285.1</b>
Operating interests from Government	7376.9	6987.0	7075.7
Foreign Banks and other financial institutions'	2516.0	3356.8	4205.6
Others	4.0	3.7	3.8
<b>Other revenues</b>	<b>12.5</b>	<b>9.5</b>	<b>13.2</b>
<b>Incomes collected from the printing house</b>	<b>62.2</b>	<b>57</b>	<b>68.2</b>
<b>Total income</b>	<b>9971.6</b>	<b>10414.0</b>	<b>11366.5</b>

The highest growth amongst these items is foreseen for the incomes earned by the investment of foreign exchange reserves based on the growing expectancy of foreign exchange inflows in the next year

Whereas interest earnings from the T-bill investments will be under the expected level of this year as based on the expectancy for interest rate reduction.

On expenditure aspect, the highest growth by LEK 0,9 billion expected for "remuneration expenditures of mandatory reserves". Bank of Albania's decision to remunerate the required reserves will affect improvement of the banking system situation as of decreasing of bank intimidation expense. This will help Bank of Albania in implementing its monetary policy for the reduction of interest rates in economy.

**Table 9. Bank of Albania's operating expenditures (in millions of Lek).**

Items	Year 2000		2001 plan
	Annual plan	11/month effect	
Interest expenditures	469.1	379.8	1514.3
Commissions	5.7	4.4	6.0
Operating expenditures	352.1	226.4	499.9
Exceptional taxes and expenditures	5.0	3.5	5.0
Amortization expenditures	173.2	158.8	267.9
Printing house expenditures	48.9	26.3	50.9
<b>Total expenditures</b>	<b>1054.1</b>	<b>799.2</b>	<b>2344.1</b>

Under the item of operating expenditures, it has been planned the 7 per cent extension of wages and the extension of services in the repairing and maintaining equipment as well as other technological services. In the framework of enhancing transparency it has been envisaged a considerable growth of printing expenditures (Lek 11 million) as well it has been projected a new item of expenditures that of holding conferences or seminars (Lek 8 million). It has been planned the performing of a series of investments, about Lek 231 million, either for the coverage of local costs for the

accomplishment of programs, as those for the application of the accounting system or RGTS, or other investments, as those for the application of interbank market, information appliances and machinery for the modernization of processing operations (including elimination) of bank notes as well as for strengthening security measures as well as for the safekeeping of money in repositories, or during their transportation. During 2001 it will be reprinted the Albanian bank a note, a process expected to cost US\$ 4,5 million.

**Table 10. Principal items of investment expenditures. (in million of Lek)**

Items	Amount
The application of accounting system	84.9
The application of RTGS	28.3
The establishment of interbank network	5.6
Software	24.6
Processing machinery (including discharge)	38.2
The protection of cash repositories and transport	148.3
Bank note purchasing	635.8
<b>Total</b>	<b>867.5</b>

## 7. LEGAL INITIATIVES.

### 7.1. The Law “For the prevention of money laundering”.

Bank of Albania finalized this several- year initiative with the drafting and the approval of law no. 8610, dated 17. 05. 2000 “For the prevention of money laundering”. Bank of Albania is attentively following the application of this law by authorized institutions as well as the location of penalty dispositions in Penalty Code from the Ministry of Justice.

### 7.2. Revising law no.8089 dated 21.03.1996 “On the Saving and Loan Associations” (SLA).

Bank of Albania in collaboration with the Ministry of Finance, the World Bank and other non-government or foreign government organizations is assisting in the improvement of law no. 8098, dated 21.03. 1996 “ On the saving and Loan Associations”. The revising purpose, under phase of approval by the Council of Ministers is a) the consolidation of dispositions according to the interim practice b) the integration of Saving-Loan Associations in the banking system.

### 7.3. Preparing the draft law “On deposit security”.

Bank of Albania has finished the draft law on deposit security. The draft-law has been discussed with second-tier banks as well as with IMF. Under the circumstance of banks shifting from state ownership to private ownership and with the expansion of banking system with new banks, Bank of Albania observes changes in the

environment where banks perform their operation. In these conditions, bank of Albania not only undertakes initiatives for the further consolidation of the system but also fills it with new indispensable market structures and mechanisms.

### 7.4. Preparing draft amendments of law no.8269 dated 23.12.1997 “On the Bank of Albania”.

Preparing draft amendments of law no. 8269 dated 23. 12. 1997 “ On the Bank of Albania” is conditioned by Constitutional requirements. Since the Constitution enforces the reflection of changes in its lawful framework then Bank of Albania with the help of IMF has prepared additional changes top reinforce its statues as an independent public institution. These changes are not proposed for the structure and the contents of dispositions of law no. 8269, dated 23. 12. 1997 “ On the Bank of Albania”. These amendments are intended to present within the first quarter of 2001. They consists in:

- ? ? The appointment of Governor as foreseen by the Constitution (by the Parliament, no more by the President).
- ? ? Including a clause that sanctions Bank of Albania’ right to use monetary policy instruments independently to reach targets of this policy. Such a clause is intended to strengthen the institutional independence of Bank of Albania.
- ? ? The sanctioning of the right for holding and managing the international reserve of Bank of Albania as anticipated by the effective law with the idea for holding a unique international reserves one of Bank of Albania and another of Government.

- ? ? The exclusion from the credit granted to the Government of the Republic of Albania for issuing securities purchased by Bank of Albania in the secondary market.
- ? ? The completion of disposition for the status of the Bank of Albania's office worker in ratio with the Labor Code and the status of civil office workers.
- ? ? The opportunity of protection of Bank of Albania's administrators and office workers from charges raised as to the execution of duties in compliance with law.
- ? ? The evasion of incompatibility in the function of Supervisory Board member.
- ? ? The possibility to establish separate authoritative persons and of specific personality enabling separation from the internal structures of Bank of Albania.

#### **8. THE ENHANCEMENT OF TRANSPARENCY.**

In June 2000, the Supervisory Council of Bank of Albania approved the regulation "On Bank of Albania's transparency and confidentiality". This regulation was prepared in fulfilling requirements of article 23 of the Republic of Albania Constitution, article 23, latter f of law "On the Bank of Albania" and "On the right for information on official documents". It was also drafted to observe international standards in the area of central bank transparency. Its subject-matter is "the enhancement of transparency in Bank of Albania's activity and the management of non-public data in Bank of Albania". The enhancement of transparency on Bank of Albania's activity is amongst the strategic targets of it and represents a duty for this institutions. Only through the enhancement of transparency, the Parliament as authoritative organ from where the central bank depends, the Government and public will be able to assess Bank of Albania's efficiency and

how successful it has been during its activity.

Thus we can state that our engagement for the enhancement of transparency is based on our intention to improve Bank of Albania's accountability, to broaden the public confidence, to observe Albanian legislation requirements and international standards. Bank of Albania considers the enhancement of transparency as part of another liability assumed by it, the education of public with economic issues.

The most important aspect of that engagement is the enhancement of Transparency with the Parliament. As the highest legislative organ from where directly submitted,

You reserve the right to know how the central bank observes the legal duties sanctioned by you and how successful it has been in reaching its final target.

The enhancement of transparency with Parliament is intended to realize through frequent reports of Bank of Albania's Governor before the Parliamentary Commission of Economy Finance and Budget or in plenary sessions of it, through publications posted regularly, or through Bank seminars or conferences, where have been invited parliament deputies and members of this parliamentary commission, particularly.

By constantly and seriously reporting on our work, we will ensure a closer collaboration on both sides and a positive reaction against Bank of Albania's endeavors to strengthen its real independence, this way we verify that we have not abused with the power bestowed by law. This reaction is believed to reflect in the discussion of the draft law "On the Bank of Albania".