

BANK OF ALBANIA

MONETARY POLICY
MONTHLY REPORT

AUGUST 2004

TABLE OF CONTENTS

- I. Main Highlights of August
- II. Inflation performance over August
 - II.1 Inflation and constituent groups
 - II.2 Macroeconomic environment and consumer prices
- III. Monetary developments and financial markets
 - III.1 Monetary policy of the Bank of Albania
 - III.2 Monetary aggregates
 - III.3 Economy demand for money
 - III.3.1 Net foreign assets
 - III.3.2 Government demand for money
 - III.3.3 Banking system credit to economy
- IV. Markets and interest rate performance
 - IV.1 Liquidity
 - IV.2 Interest rates
 - IV.3 Exchange rate

I. MAIN HIGHLIGHTS OF AUGUST

- The annual inflation marked 2.65 per cent in August, being within the Bank of Albania target. The average annual inflation was 3.2 per cent.
- The monthly inflation of -0.23 per cent in August 2004 marked a slight turning point in the trend of two latest years, during which the monthly inflation of August had been positive, about 0.2 per cent.
- During August, the demand factors did not exert inflationary pressures. The impact of the seasonal factor was significant, leading to the overall price cut. The impact of international oil price rise on the annual inflation was mitigated due to the lek appreciation against the euro and the dollar.
- Following both repo interest rate cuts by the Bank of Albania during July, the banks further reduced interest rates in lek deposit market, primary market and interbank market.
- July marked a turning point in the performance of monetary indicators. The rate of 8.6 per cent of the annual monetary supply growth was higher than the average growth over the last months.
- The main contribution to monetary supply growth was rendered by the monetary supply in lek, which reflected a positive performance of the Government demand for financing, growth of credit to economy and the Bank of Albania intervention into foreign exchange market.
- The credit balance during July of 2004 marked a monthly rise of Lek 3.2 billion – the highest monthly growth over 2004. Compared to end of 2003, it increased by Lek 9.3 billion. The portfolio of banking system credit to economy was shifted towards longer maturity loans.
- The tendency of Lek appreciation began to contract since the last week of August and it went on even over the first 10 days of September. The reduction of foreign currency inflow at end of the tourism period, the mitigation of the seasonal effects of domestic agricultural production, the narrowing of the spread between interests of deposits in lek and those in foreign currency, etc, have all impacted on stabilizing the rate during September.

II. INFLATION PERFORMANCE OVER AUGUST

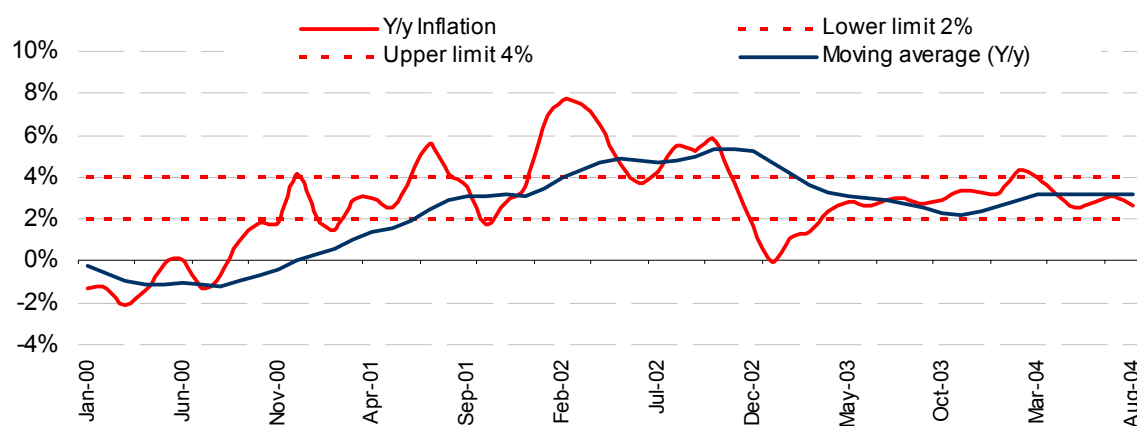
II.1 INFLATION AND CONSTITUENT GROUPS

The annual inflation marked 2.65 per cent in August, being within the Bank of Albania target. The average annual inflation was 3.2 per cent, being lower than that of the previous months. Both these indicators go on being within the Bank of Albania targeted band of 2 - 4 per cent. The dropping of annual inflation rate in August was due to the domestic product price cut and positive impact of our national currency, which mitigated the effect of oil price rise. Emphasis should be placed on favorable macroeconomic conditions, which have provided their impact on consumer price performance during this period.

Table 1. Annual inflation rate (in percentage)

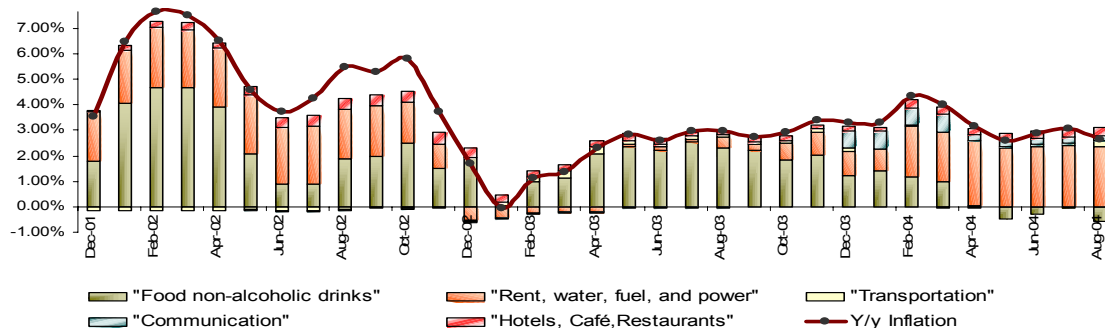
	2000	2001	2002	2003	2004
January	-1.3	2.2	6.5	0.0	3.3
February	-1.3	1.5	7.6	1.1	4.4
March	-2.1	2.9	7.5	1.3	4.0
April	-1.4	3.0	6.5	2.3	3.2
May	-0.1	2.5	4.6	2.8	2.6
June	0.1	4.0	3.7	2.6	2.9
July	-1.3	5.6	4.2	3.0	3.1
August	-0.7	4.1	5.5	3.0	2.7
September	0.9	3.5	5.3	2.8	
October	1.8	1.8	5.8	2.9	
November	1.9	2.8	3.7	3.4	
December	4.2	3.5	1.7	3.3	
Average	0.05	3.13	5.22	2.37	

Chart 1. Annual inflation (in percentage)



The group inflation contributions to annual inflation of August have been similar to those of the previous months. Like in May and June, the “Food and non-alcoholic drinks” group recorded a negative inflation, while the main contribution to the overall price rise was given by the “Rent, water, fuels” group.

Chart 2. Contribution of main groups to total annual inflation (in percentage)



The contribution of “Food and non-alcoholic drinks” to annual inflation of August was – 0.58 percentage points against 2.33 percentage points in August of the previous year. Following the slight impact of the domestic production supply on agricultural product price cuts in July, the falling effect was deemed to be less significant in August. But the largest supply of the current year had a sharper falling impact in August in comparison to the previous month. The monthly inflation of “Food and non-alcoholic drinks” in August (–1.2) was impacted by the significant declines in the subgroups of “Fruits” and “Vegetables, potatoes included” with monthly inflation rates of –5.5 per cent and –5.4 per cent respectively.

Table 2. Monthly and annual inflation rate of “Food and non-alcoholic drinks”

	“Food and non-alcoholics”		“Fruits” subgroup		“Vegetables” subgroup	
	Monthly	Annual	Monthly	Annual	Monthly	Annual
August '04	-1.2	-0.1	-5.5	7.8	-5.4	-21.3
August '03	0.0	6.2	-2.7	17.4	1.7	26.1

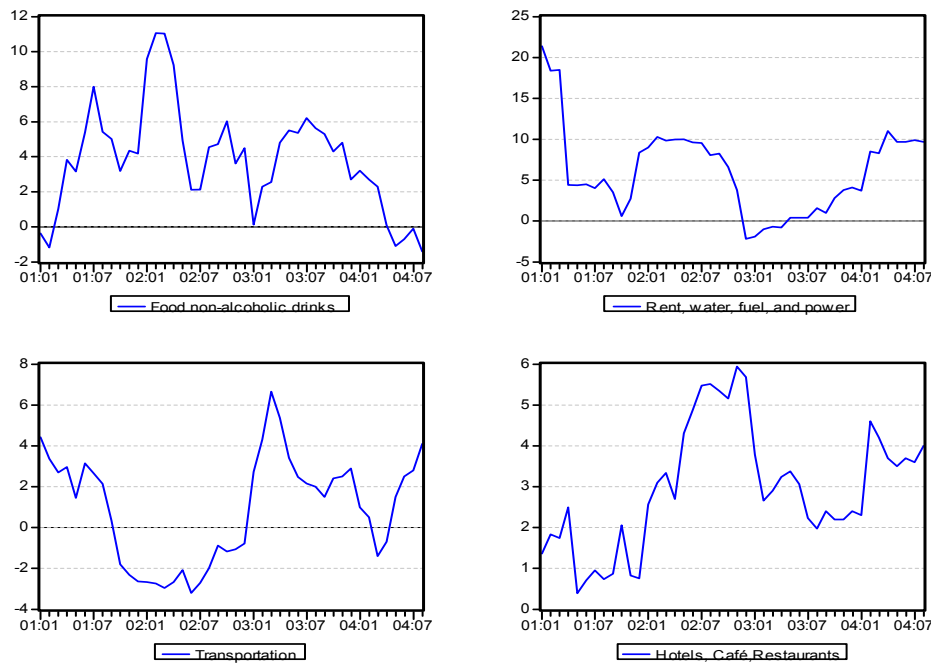
The “Rent, water, fuel and power” group continues to be the main group that contributes to annual inflation (see Chart 2). The rise of rent price by 1.1 percentage points versus the previous month influenced on the inflation rate of this group in August. The rent price rise led to monthly inflation rate rise of the group by 0.8 percentage points.

Table 3. Monthly and annual inflation rate of “Rent, water, fuel, power”

	“Rent, water, fuel, power” group		“Rent” subgroup		“Fuel and power” subgroup	
	Monthly	Annual	Monthly	Annual	Monthly	Annual
August '04	0.8	9.7	1.1	5.5	0.0	26.7
August '03	0.9	1.6	1.2	-0.2	0.1	6.9

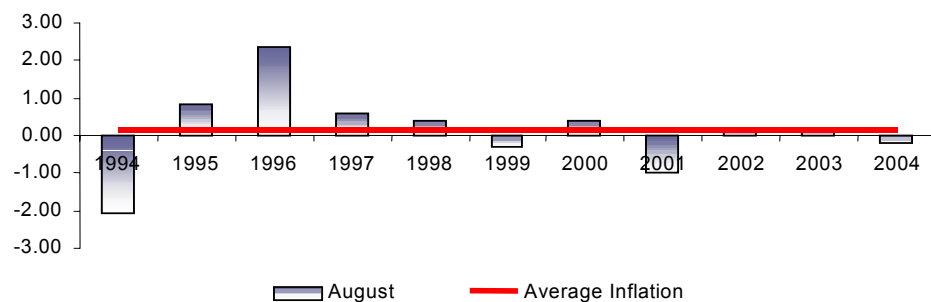
The rise to 4.1 per cent of the annual inflation of “Transportation”¹ group was an important development over August. The oil price rise in the international markets since April 2004 was reflected in the gradual price rise of this product even within the country. However, the appreciation in annual terms of the domestic currency against the dollar balanced to a certain extent the oil price rises internationally. The annual inflation of “Services to personal transport vehicles” subgroup, where oil is included, marked a monthly rise of 2.3 percentage points in August.

Chart 3. Annual inflation of four main groups of the CPI basket (in percentage)



The negative monthly inflation rate of -0.2 per cent in August 2004 was below its historical trend (0.13 per cent). This is due to the seasonal effect of ‘Food and non-alcoholic drinks’, which has been stronger over this year than over the two previous years.

Chart 4. August inflation rate performance



¹ “Transportation” group occupies 4.8 per cent in the CPI basket.

II.2 MACROECONOMIC ENVIRONMENT AND CONSUMER PRICES

The stable macroeconomic environment has created favorable conditions for maintaining the annual inflation within the Bank of Albania targeted band. The oil price rise internationally constituted a threatening for reinforcing inflationary pressures in the country. However, the domestic market recorded only a slight oil price rise during August. The effect of oil price rise internationally was mitigated by the appreciation in annual terms of the lek by about 14.5 per cent against the American dollar and 6.5 per cent against the euro.

The overvaluation in annual terms of the domestic currency against the euro and the American dollar has also depreciated the inflationary pressures coming from partner countries. On the other hand, the fluctuations in inflation rates of partner countries in the trade exchanges have been slight and the inflation imported from them is conditioned mainly by the exchange rate performance.

Table 4. Annual inflation of main partner countries (in percentage)

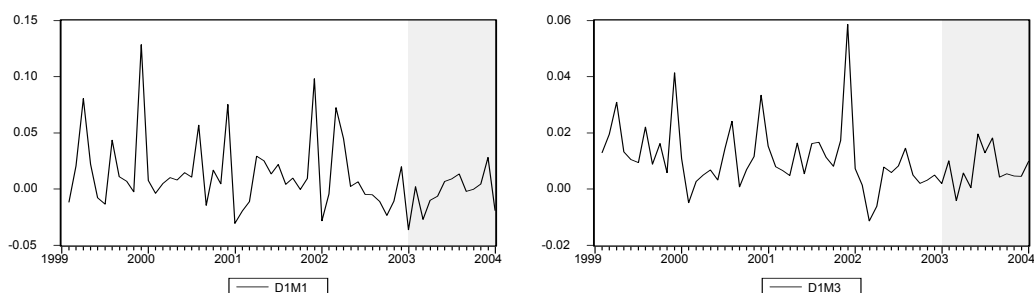
	December'03	January '04	Feb.	March	April	May	June	July
Greece	3.1	3.1	2.6	2.9	3.1	3.1	3.0	3.1
Italy	2.5	2.2	2.4	2.3	2.3	2.3	2.4	2.2

Source: Eurostat News Release.

The managed growth of budget expenditures has established conditions for a better control of inflation. The budget expenditures have been increased moderately during 2004, constituting 92 per cent of expenses planned in July 2004. The main impact on this non-fulfillment was given by capital expenses, which were realized at 62 per cent of the plan.

The easing policy pursued by the Bank of Albania did not bring about deviations of inflation from the defined targeted band. The managed growth of monetary aggregates, the domestic financing within the allowed limit, the growth of deposits in lek and in foreign currency have created a favorable environment for controlling inflationary pressures in economy.

Chart 5. Annual change of M1 and M3 monetary aggregates (in percentage)



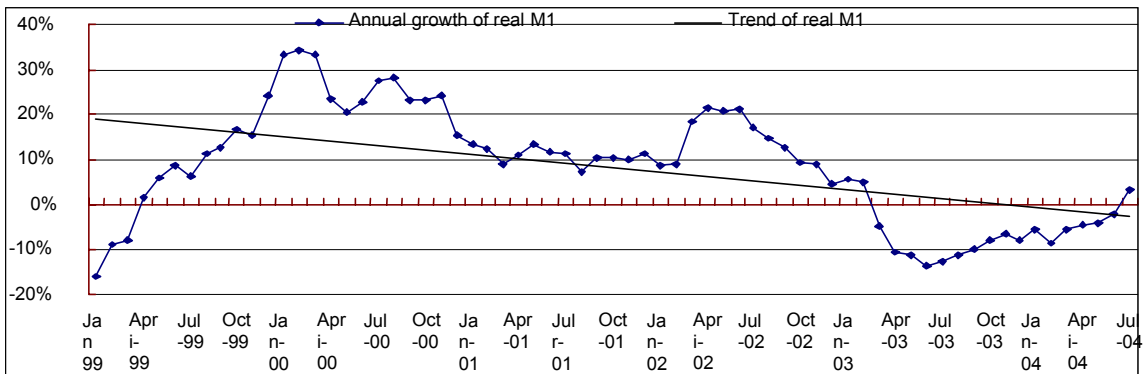
Under the conditions when the demand factors did not exert inflationary pressures, the annual inflation rate of August was positively impacted by the falling seasonal effect of fulfilling the domestic demand by means of domestic supply and by the positive effect that the lek appreciation against the foreign currencies gave on imported inflation and on mitigating the effect caused by oil price rise.

III. MONETARY DEVELOPMENTS AND FINANCIAL MARKETS

III.1 MONETARY POLICY OF THE BANK OF ALBANIA

The positive performance of macroeconomic indicators, especially the positive developments in inflation and monetary indicators led to continuous easing of monetary policy during 2004. The monetary policy easing was realized through gradual base interest rate cut. Also, based on its monetary policy, the Bank of Albania was present at the foreign exchange market to ease the Lek appreciating pressures and inject liquidity into the market during the period of July – August. The monetary indicators and inflation forecasts in July went on being positive, motivating another base interest rate cut in July 28. Together with it, the base interest rate cut during 2004 reached to 1 percentage point. The base interest rate cut is already at 5.5 per cent.

Chart 6. Annual change of real M1



The banking system reaction was more alleviated as compared to previous movements of the Bank of Albania. The recent base interest rate cuts have brought the rate to the minimum historical levels. Therefore, the banks have been more prudential and more slowly in reducing the interest rates offered to their customers, thus preferring to operate gradually. However, the banks have reflected almost half of the base interest rate cut to 6- and 12-month deposits. Less reaction has been regarding treasury bills, given the fact that banks prefer to reduce their costs first. Meanwhile, the interest rate of loans in lek is raised due to the shifting of the lending structure towards longer maturity terms and due to change of special bank's share in the lending market.

Table 5. Market interest rate change (in percentage points)

	December 2003- July '04	July - 10 September
12-Month deposits in lek	-1.36	-0.25
12-Month Treasury bills	-0.51	-0.08
Credit in lek (1-3 years)	0.79	NA

The Bank of Albania has reinforced the signal on interest rate cut by changing the form of repo auctions in August, applying fixed-amount and variable-price auctions. The growth of foreign currency supply into the market during July-August raised appreciating pressures on the lek. The Bank of Albania intervened by withdrawing a part of this supply and by stabilizing the exchange rate. Also, through this intervention, liquidity was injected into the market, increasing pressures for cutting the interest rates. The Bank of Albania monetary policy has enabled even the observance of its quantitative objectives

Table 6. Meeting the quantitative objectives of the Bank of Albania

	December 03	March 04	June 04	July 04	August 04*
Net international reserve (in million dollars)					
Objective	715.8	751.8	765.8	818.4	871.1
Actual	832.7	827.6	961.5	986.4	992.3
Difference	116.8	75.8	195.7	168.0	121.2
Net domestic assets (in billion lek)					
Objective	96.0	83.0	85.0	80.0	75.0
Actual	72.0	66.4	54.7	56.4	64.7
Difference	-24.0	-16.6	-30.3	-23.6	-10.2
Net domestic credit to Government ** (in billion lek)					
Objective	280.9	272.8	270.1	273.1	276.1
Actual	280.9	272.6	263.4	267.0	--
Difference	0.0	-0.2	-6.7	-6.1	--

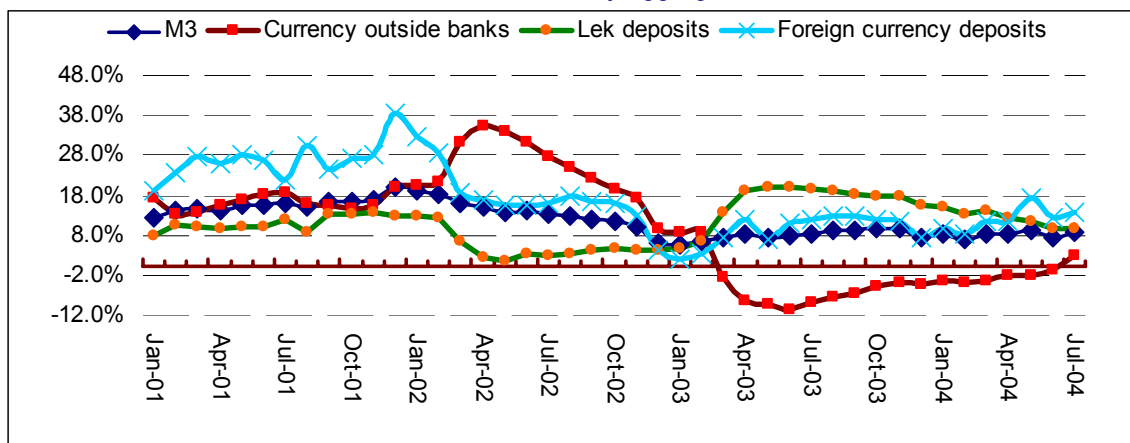
* Data on August are operative.

** The approach of calculating this objective has changed since June.

III.2 MONETARY AGGREGATES

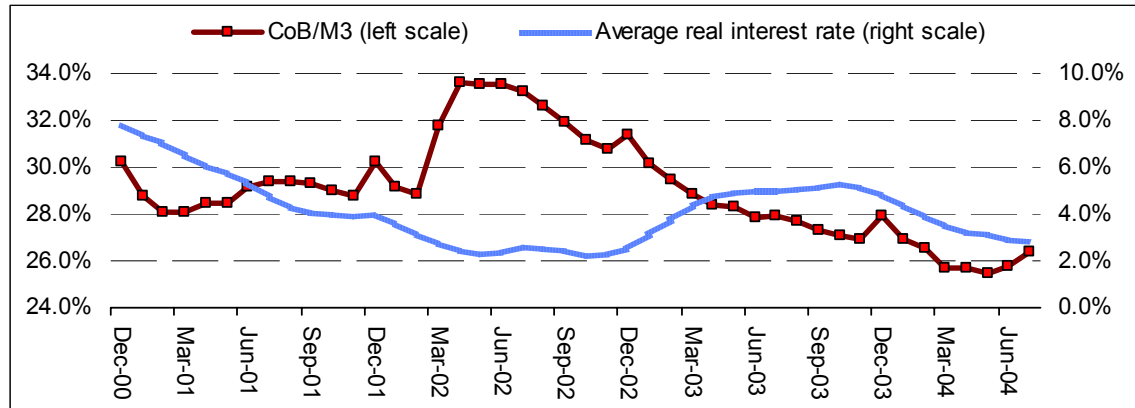
July marked a turning point in the performance of monetary indicators. The annual growth rate of monetary supply resulted to 8.6 per cent, being significantly increased against its average level in the recent months. The main contribution to this growth was rendered by the lek monetary supply, which reflected the positive performance of the government demand for financing, growth of credit to economy as well as injecting of money through the Bank of Albania intervention into the foreign exchange market. The combination of the above factors is associated with the considerable growth of money outside banks, whose returning into the system is expected to take place in the following months.

Chart 7. Performance of the annual rates of monetary aggregates



The ratio of money outside banks to M3, after the stabilization signs indicated in June, has reflected a slight growth during the subsequent month. This ratio was increased by 0.6 percentage point in July, recording 26.4 per cent. Upon the cut of nominal interest rates and the maintaining of inflation close to the average of the targeted band, the real interest rate underwent a decline, being associated with a gradual mitigation of the falling tendency of the ratio of money outside banks to M3. The shifting of monetary assets structure towards longer maturity terms and the growth of banking deposits under the conditions of an easing period of monetary conditions is due to the rise of public confidence in the banking system.

Chart 8. Ratio of money outside banks to M3 and average real interest rate



Money outside banks was increased by 5 per cent during July. The growth of this indicator has reflected the Bank of Albania intervention into the foreign exchange market. At the same time, this growth is supported even by the seasonal effect characterizing this month, which is dictated by the consumer expenditure rise during the holidays.

Table 7. Monetary indicators performance in July (in billions of Lek)

	July	Monthly change		Annual change	
	2004	Absolute	Percentage	Absolute	Percentage
Currency outside banks	124.1	5.9	5.0	3.2	2.7
Total deposits	345.8	5.8	1.7	34.1	10.9
- in Lek	237.2	1.8	0.8	21.1	9.7
- in foreign currency	108.5	4.1	3.9	13.0	13.6
Demand deposits	66.7	1.8	2.7	10.9	19.6
- in Lek	23.2	0.9	3.9	3.7	19.2
- in foreign currency	43.5	0.9	2.1	7.2	19.8
Time deposits	279.0	4.1	1.5	23.1	9.0
- in Lek	214.0	0.9	0.4	17.3	8.8
- in foreign currency	65.0	3.2	5.1	5.8	9.8
M1	147.3	0.9	0.6	1.8	1.3
M2	361.3	0.5	0.2	19.8	5.9
M3	469.9	-2.1	-0.5	31.5	7.4
Monetary base	161.3	3.3	2.2	5.3	3.5

The annual growth rate of Lek deposits in July reached 9.7 per cent, whereas in monthly terms growth was 0.8 per cent. Demand deposits recorded the highest rate of monthly growth by 3.9 per cent, while time deposits increased by 0.4 per cent. Foreign currency deposits showed a higher rate of monthly growth by 3.9 per cent. Time deposits in foreign currency recorded the highest rate of monthly growth by 5.1 per cent. The growth of foreign currency supply in the tourism

season has favored the foreign currency deposits growth, mainly time deposits growth. In case of Lek depreciation, the exchange rate impact on the growth of such deposits is estimated at about Lek 2.1 billion. In case of stability of Lek exchange rate, the level of deposits would be about 2 per cent lower.

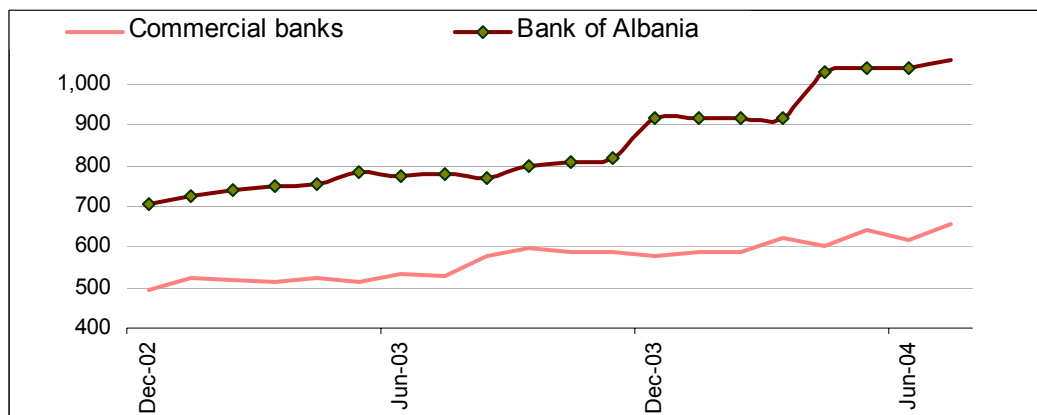
III.3 ECONOMY DEMAND FOR MONEY

III.3.1 NET FOREIGN ASSETS

Net foreign assets of the banking system increased in July by USD 56.9 million, from which amount of USD 22.0 million derives from Bank of Albania activity and USD 34.9 million from commercial banks. Foreign reserve of the Bank of Albania increased in July mainly due to the foreign currency purchase in the market. On the other hand, the euro depreciation against US dollar by 1.2 per cent in July has reduced the value of the Bank of Albania investments in euro denominated in US dollar.

The level of foreign currency deposits increased by USD 14.5 million in July, while credit in foreign currency increased by about USD 20.6 million. Under these conditions, growth of commercial banks' net foreign assets was due to the transfer into euro of a part of the Savings Bank's capital.

Chart 9. Net foreign assets in the banking system (in millions of USD)



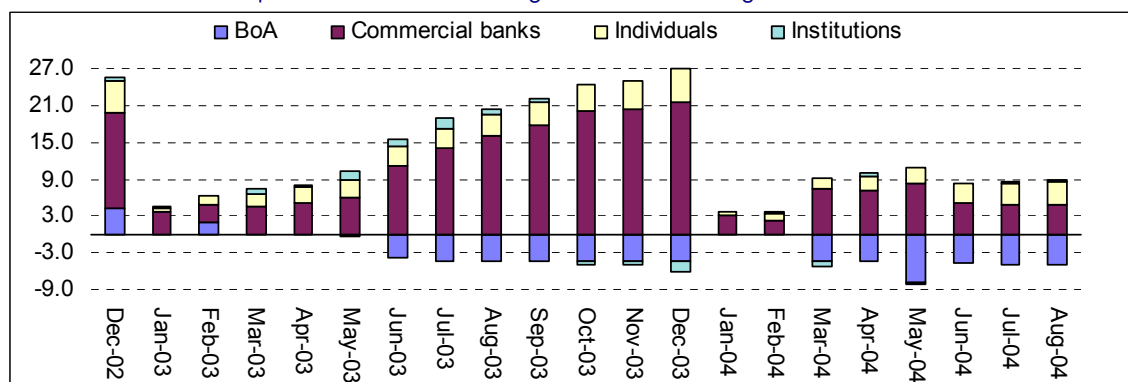
III.3.2 GOVERNMENT DEMAND FOR MONEY

The budget deficit in July amounted to Lek 11.7 billion, thus being sharpened by Lek 4.5 billion compared to the previous month. The growth of budget expenditures in July as well as non-fulfillment of revenues at the expected levels brought about the budget deficit. Its financing as from the beginning of the year

amounted to Lek 12.5 billion. The main forms of financing the domestic debt during July continued to be Treasury bills and two-year bonds.

The Treasury bills portfolio reduced by Lek 0.6 billion, mainly due to the shifting of the budget deficit financing from Treasury bills to direct credit. During this month the Bank of Albania has granted direct credits amounted to Lek 2.9 billion and the amount of Lek 3.8 billion has been collected from the Savings Bank's privatization revenues. Bank of Albania, individuals and institutions have slightly increased their Treasury bills portfolios. In July government bonds of Lek 800 million have been issued.

Chart 10. Cumulative performance of the budget deficit financing (in billions of Lek)



III.3.3 BANKING SYSTEM CREDIT TO ECONOMY

The lending activity of the banking system marked positive developments during July in terms of the credit portfolio increase as well as the shifting of this portfolio towards longer maturity terms. The credit balance reached Lek 60 billion at the end of June, recording the highest monthly growth for 2004 (Lek 3.2 billion). Credit balance growth during 2004 amounted to Lek 9.3 billion. From the viewpoint of the credit balance structure, pursuant to the terms, the growth of mid-term and long-term credits is noticeably evident. The credit balance pursuant to the currencies is still dominated by the credit in foreign currency.

Table 8. Credit balance indicators (in percentage)

	2002	2003	T-1 '04	T-2'04	July'04
Short-term credit	53.8	46.0	41.6	35.4	35.6
Mid-term credit	30.1	33.3	35.4	37.8	37.4
Long-term credit	16.1	20.7	23.0	26.8	27.0

Private sector ²	99.8	100.0	100.0	100	100
State sector	0.2	0.0	0.0	0.0	0.0
Lek	21.3	19.6	17	17	16
Foreign currency	73.7	80.4	83	83	84
Credit balance (in billions of Lek)	38.7	50.7	53.4	56.8	60.0

During July new credits of Lek 7.6 billion were extended, a credit size that is equal to the one of the previous month. The structure, pursuant to the terms and currencies, has remained unchanged as well; 61 per cent of it were short-term credits and 30 per cent of the new credit was in Lek. During January-July 2004 new credits of Lek 64 billion were extended. In general, the new credit granted on a monthly basis, as well as in a cumulative form, is featured by the upward trend from a month to the other in comparison with the previous year.

Table 9. New credit performance over the years (in billions of Lek)

	2001	2002	2003	T-1 '04	T-2'04	July'04
Short-term credit	27.6	44.7	63.1	18.7	18.1	4.6
Mid-term credit	10.4	13.0	22.2	5.7	6.8	1.6
Long-term credit	2.6	4.8	7.4	3.5	3.6	1.4
Private sector	40.1	62.5	92.6	27.9	28.5	7.6
State sector	0.5	0.06	0.04	0.0	0.0	0.0
Lek	10.0	20.8	30.8	8.80	8.9	2.3
Foreign currency	30.6	41.8	61.8	19.10	19.6	5.3
New credit (in billions of Lek)	40.6	62.6	92.6	27.9	28.5	7.6

Commercial banks were characterized by careful selection in the lending process regarding the sectors or economic branches in which the client operates. Historically, trade has been a favorite crediting branch for the banking system. However, their weight declined during 2004: at the end of July they counted for 22.5 per cent of the total credit balance, from 34 per cent it was by the end of 2003. Anywhere, trade, construction and real estate purchase continue to be favorite crediting branches for banks. Agricultural activities and other branches of the economy continue to be far from being preferred by banks in crediting. But, on the other hand, the reviving of lending process to projects undertaken in the agro-industrial and animal processing sectors is already evident. This phenomenon is

² 99 per cent of this classification refers to the private sector and households, while 1 per cent to the financial institutions.

still emerging but it highlights the banks' promptness to offer financial support to the business development in the agricultural and animal sectors.

Table 10. Credit balance with regard to the economy branches (in percentage)

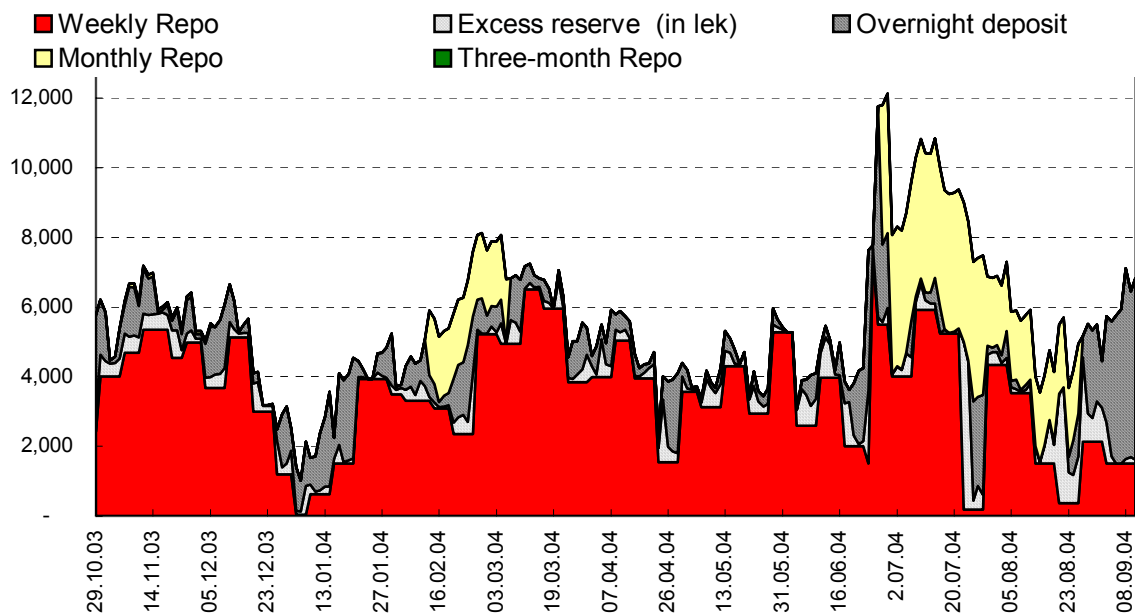
	2001	2002	2003	T-1 '04	T-2'04	July'04
1 Agriculture, hunting and silviculture	1.0	0.8	1	1.0	1.2	1.4
2 Fishing	0.1	0.2	0	0.1	0.1	0.1
3 Extracting industry	1.6	0.2	1	0.2	0.2	0.2
4 Processing industry	19.5	17.0	17	16.9	18.4	17.5
5 Production, distribution of electric power, gas and water	3.0	3.3	3	3.0	3.3	3.1
6 Construction	12.5	8.6	10	9.7	10.7	9.3
7 Trade, repairing of vehicles and home appliances	41.3	40.4	34	31.4	23.5	22.5
8 Hotels and restaurants	4.3	6.0	6	7.1	8.3	7.7
9 Transport and telecommunication	4.6	2.4	1	2.0	1.5	1.4
10 Financial activities	0.1	-	0	0.1	0.7	0.8
11 Real estate	6.3	9.1	13	13.7	14.8	15.5
12 Health and social activities	1.2	0.5	0	0.5	0.5	0.6
13 Collective, social and personal services	3.3	4.2	8	4.2	4.5	4.4
14 Other	1.2	7.3	4	10.1	12.2	15.4
Total	100	100	100	100.0	100.0	100.0

IV. MARKETS AND INTEREST RATE PERFORMANCE

IV.1 LIQUIDITY

At the end of August, liquidity level dropped to Lek 5.5 billion, from Lek 6.8 billion being at the end of July. The average value of liquidity was Lek 4.7 billion, from Lek 8.9 billion being in July. The foreign currency purchase by the Savings Bank to convert its capital and cash seasonal effect in August has impacted the decline of liquidity.

Chart 11. Liquidity of the banking system (in millions of Lek)



Weekly and monthly Repo instruments were used to withdraw the excess liquidity. The Bank of Albania passed into weekly Repo auctions of several prices in August, to increase pressure on banks for reducing the interest rates. Amounts withdrawn by the Bank of Albania through these auctions have been lower than liquidity possessed by banks. This raised the competitiveness among banks, reduced the weekly Repo interests, significantly increased the use of overnight deposit facility and decreased the Repo weight in the total excess liquidity. The average level of overnight deposit amounted to Lek 4 billion in the first ten days of September, from Lek 0.6 billion being in August and Lek 0.5 billion in July. Despite the conditions of excess liquidity, there were frequent cases of overnight loan granted, especially for operational purposes, from some commercial banks.

The intensity of activity, expressed in the volume of transactions, has been maintained in the interbank market. The average level of transactions in August amounted to about Lek 0.4 billion, from Lek 0.45 billion it was in July.

In the primary market, the amounts issued by the government have been completed by participants in the auctions. The request of banks for Treasury bills has been higher than the issued amounts. It has consisted mainly in six-month and twelve-month securities, thus resulting in the rising of competitiveness on securities.

IV.2 INTEREST RATES

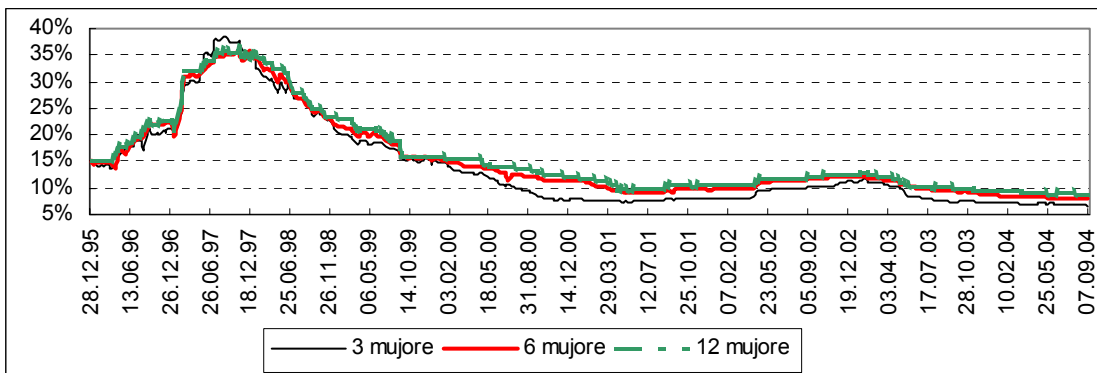
Following the easing monetary policy adopted by the Bank of Albania at the end of July, banks continued to cut interest rates in the market of Lek deposits, in the primary market and in the interbank market.

Table 11. Difference of interest rates in the market (in percentage points) 28 July -10 September 2004

	1-day	7-month	3-month	6-month	12-month
Lek deposits ³	-	-	-0.08	-0.26	-0.25
Treasury bills	-	-	-0.34	-0.10	-0.08
Interbank market	-0.78	-0.29	-	-	-

Six-month and twelve-month deposits interest rates have reflected more the reduction announced by the Bank of Albania, while the cut of interest rates in the primary market was smaller. In general, the banks prefer to cut deposit acceptance interests that represent costs for them and to reduce less Treasury bills interests, which represent earnings. However, we note that in the first week of September, the average weighted yield of Treasury bills has recorded the lowest historical levels in all the terms, reducing the cost of the government debt.

Chart 12. Treasury bills yield in the primary market



The interbank market was characterized by the largest reduction of interests. This reduction was close to the reduction of weekly Repo interest rates in the auctions of several prices. The interbank market is the market that reacts the first to the reduction of Repo interest rates. Lek deposits interests reduced almost in all the terms, during July, reflecting the easing monetary policy of the Bank of Albania, while in the credit market an increase of Lek credit interests was noticed. This influenced the spread increase between credits and deposits interests in Lek in July.

³ According to operative data.

Table 12. Difference of interest rates of Lek deposits (in percentage points)

	July-June'04	July'03-July'04
1-month deposits	0.00	-1.42
3-month deposits	-0.01	-1.36
6-month deposits	-0.09	-1.60
12-month deposits	-0.13	-1.46

Table 13. Difference of interest rates of Lek credits (in percentage points)

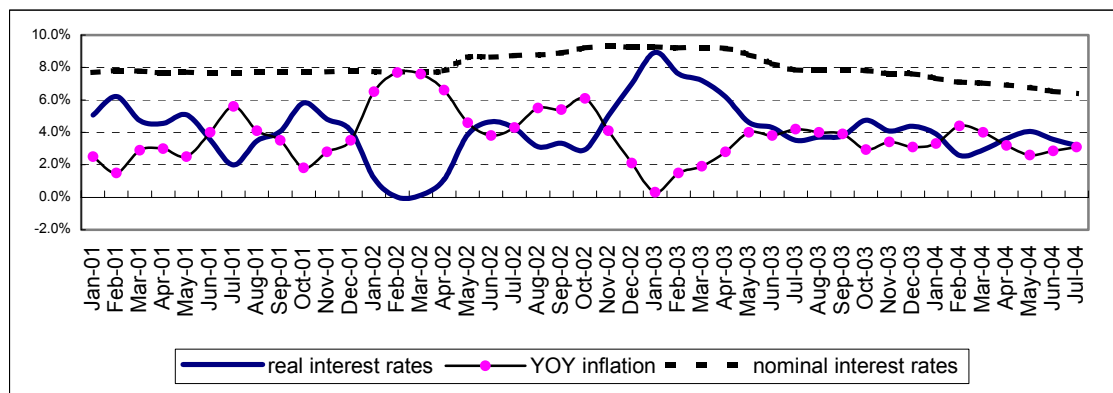
	July-June'04
Credit up to 6 months	0.29
Credit 6 months-one year	1.00
Credit 1-3 years	1.75
Credit over 3 years	0.14

Table 14. Spread of interests of Lek credit-deposits (in percentage points)

	July 2003	June 2004	July 2004
Spread of interests	8.19	11.26	13.05

Real interests of 12-month deposits in Lek during the first seven months of 2004 have been generally stable, showing insignificant fluctuations. During July real interests of 12-month deposits had a slight falling trend, impacted by the reduction of nominal interests and the slight increase of inflation.

Chart 13. Real and nominal interests of 12-month deposits in Lek



In July interest rates of deposits in US dollar and in euro increased almost in all the terms. LIBOR interests in the international market and Fed coercive policy influenced these interest rates. Foreign currency lending interests dropped in the terms over one year, while interest rates of shorter-term credits recorded an increase.

Table 15. Difference of interest rates of foreign currency credits in July-June'04 (in percentage points)

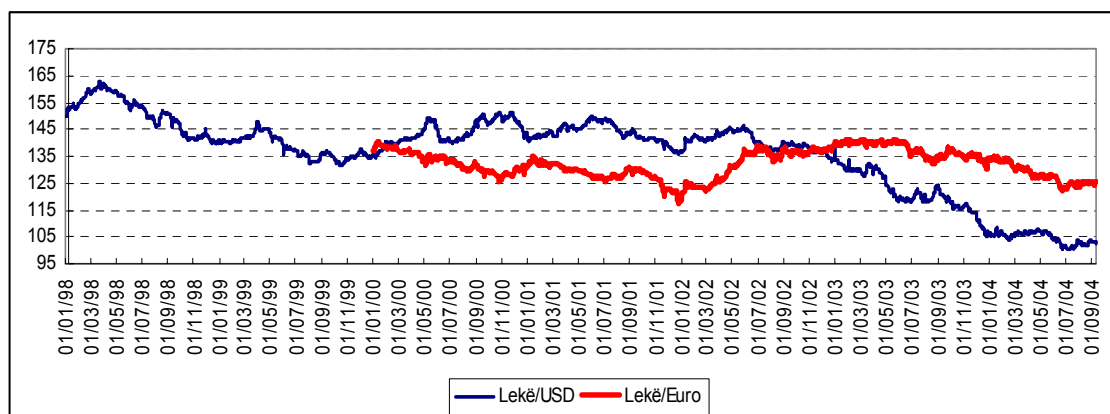
	In USD	In EUR
Credit up to 6 months	0.58	0.98
Credit 6 months-one year	1.32	1.57
Credit 1-3 years	-0.73	-0.97
Credit over 3 years	-0.34	-0.20
Average weighted interest of credit	0.18	-0.01

The cut of interest rates for long-term credits will more and more attract the interest of borrowers for this kind of credit. The average weighted interest of credit in US dollar and in euro reached, at the end of July, 8.05 per cent and 8.61 per cent, respectively.

IV.3 EXCHANGE RATE

After July, which marked the lowest levels⁴ of the exchange rate of Lek against US dollar and also low levels for the euro, thanks to constant intermediations of the Bank of Albania in the market, Lek started being slightly depreciated, reaching 103.7 Lek/USD and 125.5 Lek/EUR at the end of August.

Chart 14. Exchange rate of Lek against EUR and USD



In August and at the beginning of September, marks of Lek depreciation due to a smoothing of the impact of seasonal factors such as tourism and agricultural domestic production have already been observed. The Bank of Albania presence in the foreign market as well as the narrowing of spread between interests of Lek deposits and foreign currency deposits affected the smoothing of a relative advantage offered by investments in Lek compared to those in US dollar. At the end of August, Lek was exchanged by 125.38 in EUR and in 104.1 USD. These

⁴ Since 1997.

developments made the Bank of Albania to avoid intermediation in the foreign market in September and the exchange rate in this period became stabilized at about an average level of 103 Lek/USD and 125 Lek/EUR.

* * *