

BANK OF ALBANIA

MONETARY POLICY  
MONTHLY REPORT

NOVEMBER 2005



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## I. MAIN HIGHLIGHTS

- Annual inflation in November marked 3.0 per cent, fluctuating to the mid-targeted band 2–4 per cent of the Bank of Albania.
- Annual inflation was influenced by the increase in energy and fuels, rent and oil prices. The deepening of energy crisis in November influenced the increase of demand for alternative sources of energy, thus bringing pressure on the increase in their prices.
- Inflationary pressures have been reduced by the prudent fiscal and monetary policy.
- In October, it was observed a slowdown in the monthly increase of monetary aggregates, with the exception of M3 aggregate, whose annual increase remained unchanged, that is 16.1 per cent, the same as in the previous month. Individuals' preference to invest in treasury bills has influenced the slowdown in the increase of time deposits in Lek, and as a consequence, the increase of M2.
- In October, credit to economy continued to maintain high levels of monthly growth. Credit balance increased by ALL 4 billion, reaching to ALL 110 billion or 13.2 per cent of the GDP.
- Money market in November has been characterized by a stable level of liquidity. Short-term liquidity needs have been met in the interbank market, while liquidity provided to the primary market has exceeded the one required by the Government. The improvement of the liquidity situation in the system has been also reflected in the decrease of interest rates in both these markets for the period October – November.
- The data for the month of October on lek deposits market indicate growth in the interest rates. Lek credit market has been characterized by fluctuations in the interest rates. In October risk-weighted average rate for credit in Lek resulted in 14.04 per cent, which is 0.52 percentage points higher than in September.
- During November, though under lower paces compared to the previous month, lek has continued to appreciate against the euro and depreciate against the usd. The exchange rate levels of lek at the end of November are 122.79 lek/euro and 104.26 lek/usd.

## II. INFLATION IN NOVEMBER

Annual inflation in November 2005 marked 3.0 per cent, while the average annual inflation resulted in 2.4 per cent. During the last three months, annual inflation has fluctuated within the mid-targeted band of 2 – 4 per cent of the Bank of Albania. Regardless of the energy crisis and the increase of oil price during the last months, the annual inflation rate has remained within the targeted band. The harmonization of macroeconomic policies has influenced positively on the performance of consumer prices.

Moreover, inflationary pressures transmitted by the trade external environment have been weak, thus favouring price stability in the country. Nonetheless, the increase of some important consumer costs on annual basis, such as gas and

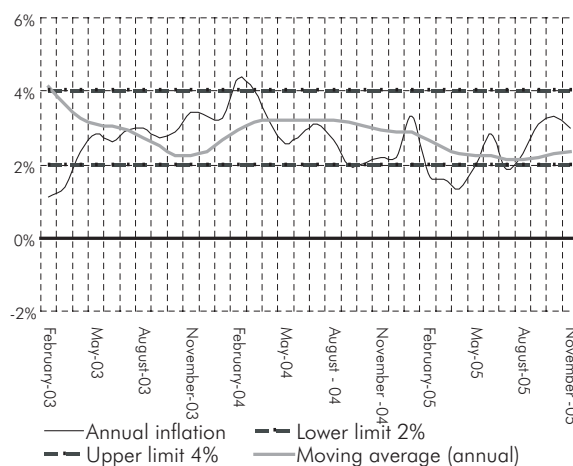
oil, rent and foodstuffs prices, caused the annual change of consumer prices at the end of November to be 0.8 percentage points higher than the same period the previous year.

## II.1 INFLATION AND CONSTITUENT GROUPS

The individual contribution structure of groups in the consumer goods basket to total inflation has been relatively stable during the last two years. The groups “Rent, water, fuels, energy”, “Transportation” and “Hotels, café, restaurants” have continued even during November 2005 to contribute to the increase of annual inflation rate.

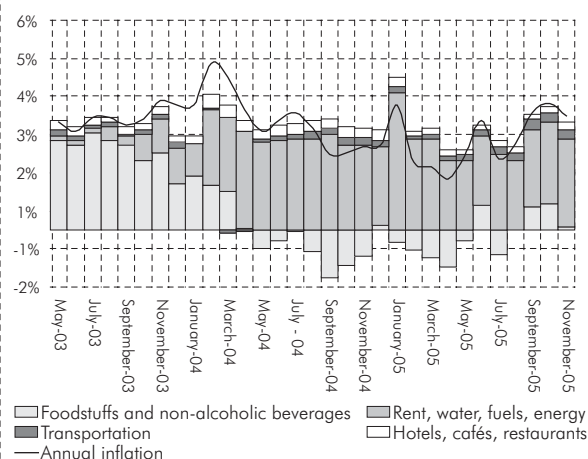
“Foodstuffs and non-alcoholic beverages” group has made a minimal contribution by 0.07 percentage points to inflation. This positive figure reflects a different behaviour compared to the same period the previous year, when there was a negative contribution level by -0.7 percentage points. However, “Foodstuffs and non-alcoholic beverages” group has to a large extent influenced on the decrease of inflation during the last two years and its performance has not resulted problematic even during the last quarter. The increase of foodstuffs prices during the last months has been also influenced by the increase of their prices in partner countries, such as Italy and Greece.

Chart 1 Annual inflation (in percentage)



Source: Bank of Albania

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



Source: Bank of Albania

Table 1. Annual inflation rate of “Foodstuffs and non-alcoholic beverages” group (in the country and outside) and the contribution of inflation in this group to total inflation

	Annual Inflation '04	Contribution (pp)	Annual Inflation '05	Contribution (pp)	Italy <sup>1</sup> Annual Inflation '05	Greece <sup>2</sup> Annual Inflation '05
September	-2.9	-1.2	1.5	0.6	0.1	2.1
October	-2.2	-0.9	1.7	0.7	0.2	2.7
November	-1.6	-0.7	0.2	0.07	-	2.6

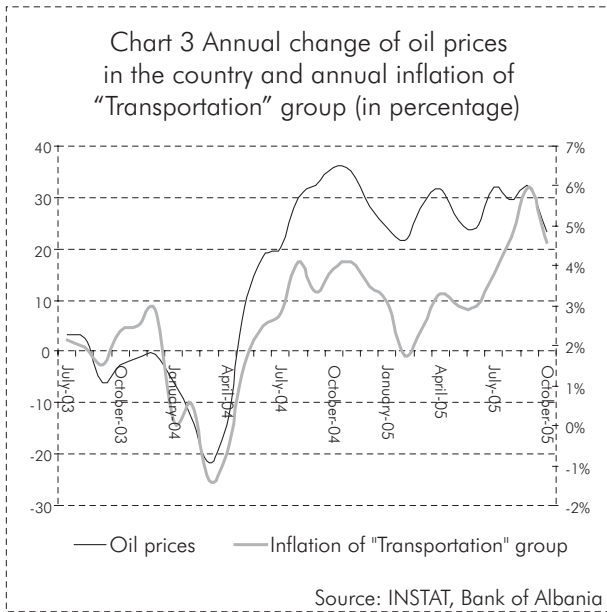
Source: Bank of Albania, <http://www.statistics.gr> and <http://www.istat.it>

“Rent, water, fuels, energy” group contributed by 2.3 percentage points to annual inflation rate. Besides the high electricity price, the influence of this group on this month inflation reflected the increase of rent (by 1.2 per cent) and fuel prices: gas by 9.5 per cent and fire-wood by 4.5 per cent. The increase of these latter indicates the great use of fuels due to lack of electricity.

Table 2. Inflation and contribution to total inflation of “Rent, water, fuels, energy” group and its main subgroups

	Contribution within the group (pp)			Contribution to total inflation	Annual inflation '05
	Rent	Imputed rent	Fuels, energy		
September	0.05	0.56	1.37	2	7.7
October	0.06	0.66	1.38	2.1	8.2
November	0.07	0.83	1.4	2.3	9

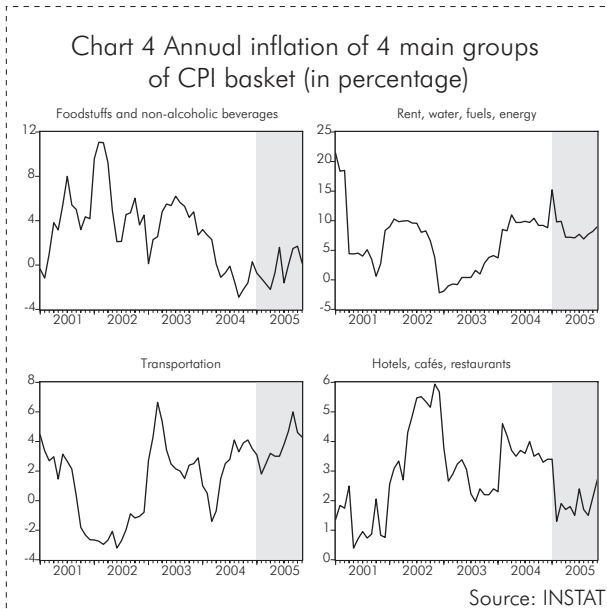
Source: INSTAT, Bank of Albania



During November, “Transportation” group influenced over the annual inflation rate growth by 0.21 percentage points. “Service to personal vehicles”<sup>3</sup> subgroup, part of which is the oil price, continues to make the main contribution within this group, although with a decrease compared to the previous months.

Other basket groups have had a minor impact over total inflation for November. “Hotels, café, restaurants” group contributed by 0.2 percentage points, “Education service” group by 0.1 percentage points and “Health” group by 0.16 percentage points.

## II.2 MACROECONOMIC ENVIRONMENT AND CONSUMER PRICES



Annual inflation and average inflation in November 2005 remained within the 2 – 4 per cent target. Electricity crisis and high oil prices influenced on the increase of inflation rate. However, generated inflationary pressures have been smoothed by the prudent fiscal and monetary policy.

### MONETARY POLICY

Considering the stable inflation levels in the country and its favourable forecasts for the upcoming period, the Bank of Albania has pursued a neutral monetary policy. The relatively rapid increase of money supply has been compensated by the increase of economy demand for money. On the other hand, the ratio decrease of currency outside banks to M3 and the constant fall of long-term interest rates suggest that inflationary expectations remain under control.

## FISCAL POLICY

Fiscal policy has played a positive role in consumer prices performance in economy, by observing the budget programme frameworks. During the first 10 months of the year, income collection has resulted in 97.3 per cent while expenditures have been met to 95 per cent of the plan.

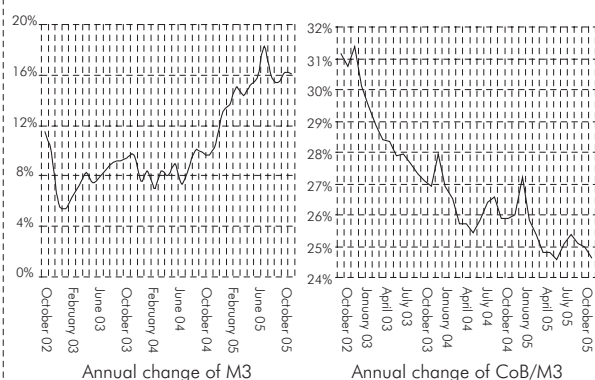
The attention paid to meeting expenditures and income collection has given grounds for keeping deficit within the planned limit, thus, not generating inflationary impulses in economy.

## EXCHANGE RATE AND IMPORTED INFLATION

Exchange rate performance of lek against euro and dollar has been different during the last two months, reflecting the ratios of dollar to euro in the international markets. In November, lek depreciated against dollar by 5.9 per cent and appreciated against euro by 3.7 per cent.

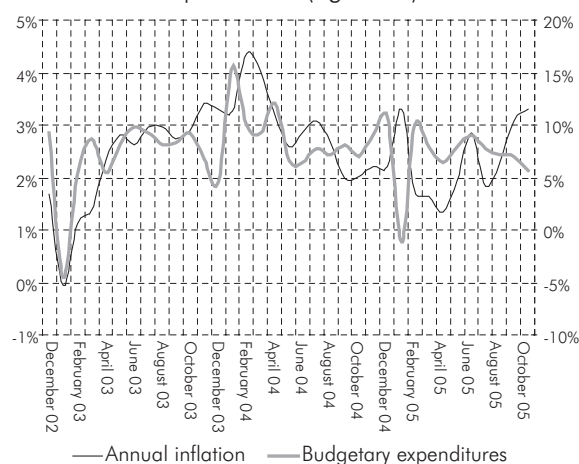
Compensation effect smoothening of lek appreciation gives grounds for greater influence of external inflationary pressures. However, the relative appreciation of lek to euro shall continue amortising pressures resulting from the trade relations with the Euro zone countries, and mainly with Italy and Greece.

Chart 5 Annual change of money supply M3 (chart on the left) and the annual change of currency outside banks to M3 (chart on the right)



Source: Bank of Albania

Chart 6 Annual inflation rate (left axis) and annual growth of budget expenditures (right axis)



Source: Ministry of Finance and Bank of Albania

Table 3. Annual changes in partner countries' inflation and exchange rate (in percentage)

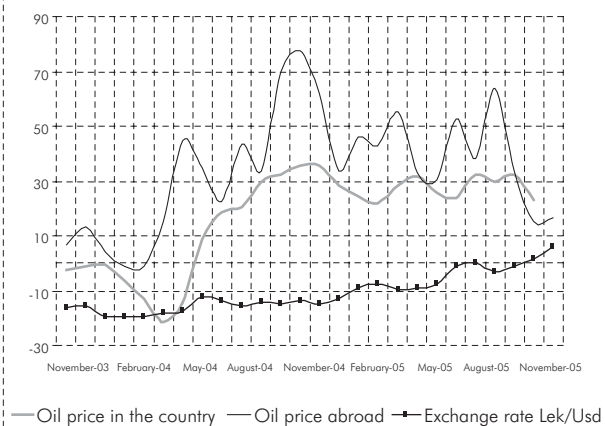
	May	June	July	August	September	October	November
Greece <sup>4</sup>	3.2	3.3	3.9	3.7	3.9	3.9	3.5
Italy <sup>5</sup>	1.9	1.8	2.1	2.0	2.0	2.2	-
Lek/euro	-2.3	-1.0	-1.8	-2.4	-1.0	1.6	5.9
Lek/usd	-7.4	-1.2	0.0	-3.3	-1.4	-2.1	-3.7

Source: Bank of Albania; <http://www.statistics.gr> and <http://www.istat.it>

## OIL PRICES

Inflation rate increase during the last months has been also influenced by the oil price increase in the country. The average contribution of "Transportation" group to inflation has been in the level of 0.24 percentage points during the last three months, thus marking an increase compared to the contribution of 0.18 percentage points in 2004 and 0.10 percentage points in 2003.

Chart 7 Annual change of oil prices in the country and in the international country and the lek/usd exchange rate



Source: INSTAT, Bank of Albania, Bloomberg

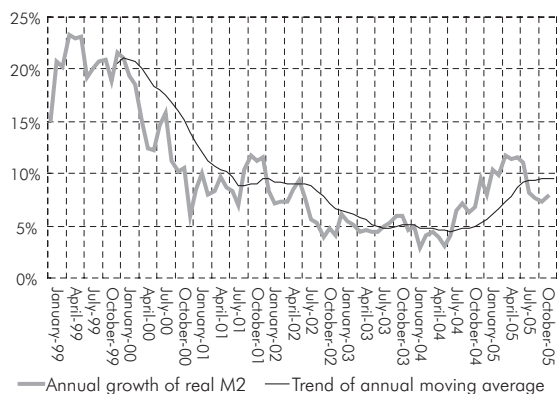
The appreciation of lek against the American dollar and the electricity crisis in the country has brought pressure to bear on the increase of this product price in the country.

### III. MONETARY POLICY AND MONETARY DEVELOPMENTS

#### III.1 BANK OF ALBANIA MONETARY POLICY

The Bank of Albania has pursued a neutral monetary policy during November, keeping the core interest rate unchanged<sup>6</sup>. Macroeconomic developments indicate stable and under control inflationary pressures. Inflation rate in November resulted 3.0 per cent compared to 3.3 per cent in October. Moreover, monetary situation is presented stable, after several fluctuations of monetary indicators observed in September.

Chart 8 Annual growth of real M2 aggregate



Source: Bank of Albania

The implementation of monetary policy during October-November has been carried out through the active presence of the Bank of Albania in the foreign currency market and the system liquidity administration. Foreign currency interventions have contributed to smoothing exchange rate fluctuations. The current year, participation in the foreign currency market has been spread out to a relatively long period compared to 2004. Foreign currency interventions have been conducted gradually starting from August, adapting to the intensity of foreign flows and appreciating pressures that they bring to bear in the market. The amount of liquidity injected to the economy through foreign currency purchases is about ALL 6.3 billion<sup>7</sup>.

The Bank of Albania presence in money markets has aimed at administering the liquidity situation of the banking system. During October-November the banking system has on average resulted with liquidity excess of nearly ALL 4 billion. Considering the interest rates stability in the financial markets, the Bank of Albania has used the weekly repo instrument with fixed price and an unlimited amount for the withdrawal of commercial banks excess liquidity.

At the same time, foreign currency interventions have improved the meeting of quantitative objectives of the Bank of Albania during October-November<sup>8</sup>.



Table 4. Meeting the quantitative objectives of the Bank of Albania

	December '04	March '05	June '05	September '05	October '05	November '05*
Net International Reserves (in millions of USD)						
Objective	942	1,073	1,086.7	1,094.6	1,108.5	1,118.5
Current	1,105	1,107	1,098.0	1,094.6	1,119.1	1,116.9
Difference	163	35	11.3	0.0	10.6	2.6
Net Domestic Assets (in billions of ALL)						
Objective	79	61	60.0	65.7	65.7	65.7
Current	61	53	63.6	65.7	57.8	55.8
Difference	-18	-8	3.6	0.0	-7.9	-9.8
Net Domestic Credit to Government (in billions of ALL)						
Objective	286	292	297.7	302.7	304.7	306.7
Current	285	288	294.4	301.6	299.5	--
Difference	-1	-4	-3.2	-1.1	-5.2	--

Source: Bank of Albania

\* Operative data

### III.2 PERFORMANCE OF MONETARY AGGREGATES

Money supply has marked a moderate monthly growth during October 2005, reflecting the decrease of Government demand for money and the negative effect of lek monthly appreciation. On the other hand, the increase of crediting to economy in lek and the Bank of Albania purchases in the foreign currency market have continued to represent two significant sources of generating money supply in lek, as such balancing the negative effect of Government demand on M2 aggregate growth. The time structure of money supply has continued its shifting to less liquid monetary assets, while its foreign currency structure has had a stabilized tendency.

In October, the money supply monthly performance has displayed a slowdown compared to the previous month, marking an increase of ALL 1.2 billion or 0.2 per cent. The annual growth pace of M3 aggregate in October has been stabilized in 16.1 per cent. The M2 monetary aggregate in lek has marked a low monthly increase of ALL 0.6 billion (0.1 per cent), compared to ALL 3.2 billion in September. Although households' preference has been mostly oriented towards financial assets in lek, the increase of their lek portfolios has been mainly in the form of treasury bills investments, not being reflected in high increase paces of time deposits in lek (main component of M2). The increase of lek deposits by ALL 2.2 billion in October has been influenced by the high increase of demand deposits (ALL 4.0 billion), while time deposits in lek have marked a monthly decrease of ALL 1.8 billion<sup>9</sup>. On the other hand, households' preference to invest in treasury bills has risen due to the considerable difference between the interest rates of these two financial assets.

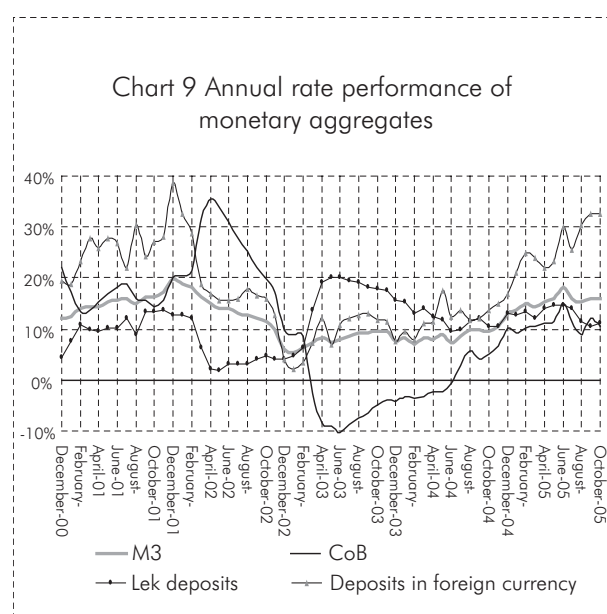


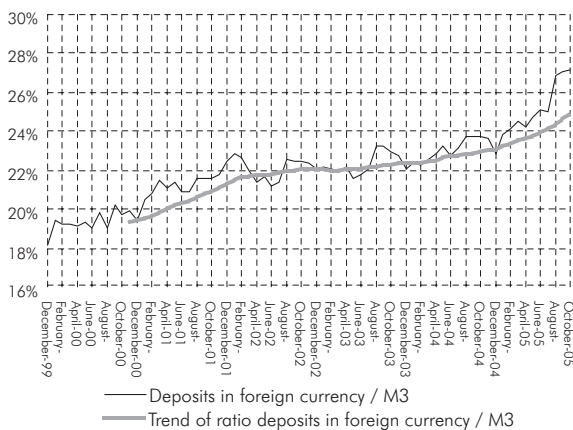
Chart 10 Ratio of CoB to M3 and the average real interest rate (right scale)



The other component of M2 aggregate, currency outside banks, has made a negative contribution to the growth of money supply, marking a monthly fall of ALL 1.6 billion or 1.1 per cent. The annual growth rate of currency outside banks has decreased to 10.4 per cent, compared to 12.1 per cent in the previous month. The permanence of money return to the system has been accompanied by the decrease of its weight in the money supply. In October, the ratio of currency outside banks to M3 fell to 24.6 per cent, marking a decrease of 0.4 percentage points compared to September.

In October, the seasonal reduction of foreign currency inflows has been reflected in the slowdown of foreign deposits growth. Their level has marked a monthly growth of ALL 0.7 billion, compared to ALL 3.3 billion in September. Foreign deposits growth has been negatively influenced by the appreciation of lek during October to an extent of ALL 0.6 billion. The annual growth rate of currency deposits has stabilised, remaining at 32.7 per cent, compared to 32.5 per cent in September.

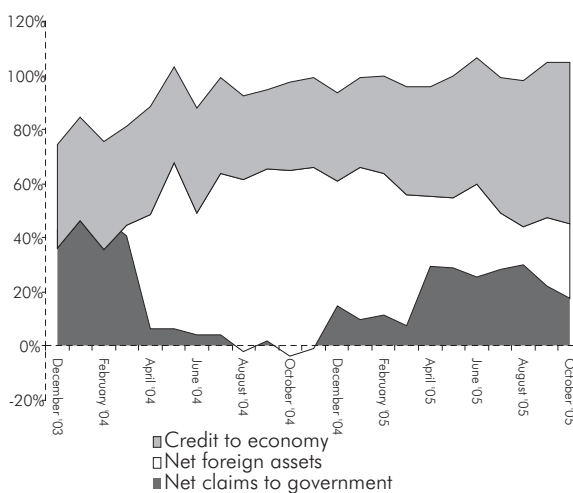
Chart 11 Ratio performance of currency deposits to M3



The increase of currency deposits during October has been mainly influenced by the increase of private sector deposits, comprising about 74 per cent of the increase of total currency deposits. Meanwhile, households' deposits, which constitute the overwhelming share of currency deposits, have not contributed to their increase in October.

Source: Bank of Albania

Chart 12 Contribution of demand components for monetary assets to M3 annual growth



The slowdown of M2 aggregate in October has been reflected in the slight increase of currency deposits weight in money supply. The ratio of currency deposits to M3 has slightly increased to 27.2 per cent or 0.1 percentage points higher than the level in September.

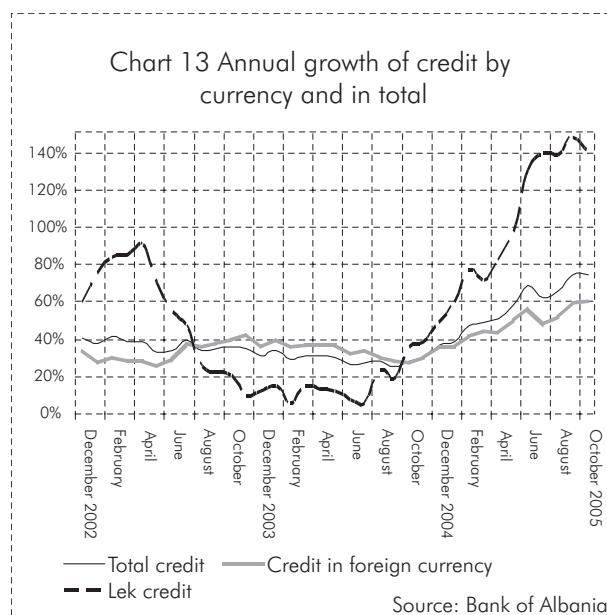
### III.3 ECONOMY DEMAND FOR MONEY

The components of demand for monetary assets have marked a differentiated growth in October. The increase of credit to economy has contributed by about 60 per cent to the annual growth of money supply, while the Government demand has made the least contribution. The positive performance of

credit to economy is leading to the increase of its weight to total monetary assets.

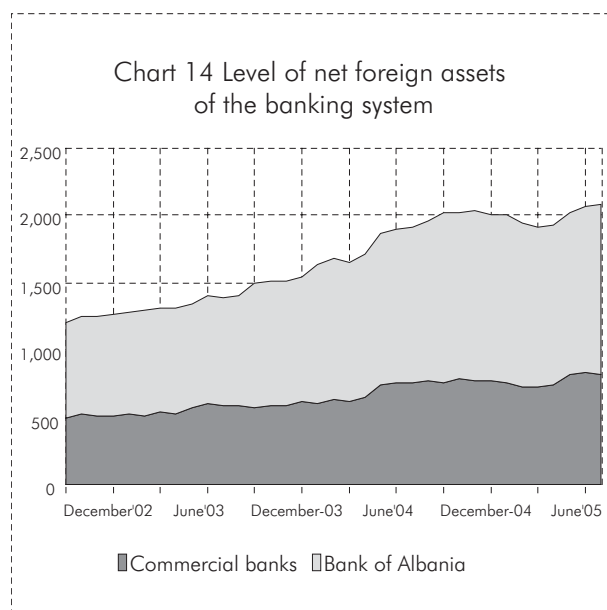
Credit to economy has continued to maintain high levels of monthly growth even during October. During this month, the credit balance increased by ALL 4 billion, reaching to ALL 110 billion or 13.2 per cent of the GDP<sup>10</sup>. In annual terms, there is a credit growth of 74.5 percent, remaining in high levels, comparable to the previous month. In October, it was granted a total of ALL 8.4 billion or 12 per cent more than the previous year.

Credit in lek has had one of the best monthly performances of the year, marking a monthly increase of ALL 1.8 billion. As a result, in October, it was observed an increase in the portfolio share of credit in lek to total portfolio. Credit to households has maintained the same high monthly paces as in the previous months. At the end of October, the households' portfolio records about ALL 34 billion or 78 per cent higher than the previous year. Banks' orientation to meeting households' requirements has also influenced over their engagement to crediting in lek. Banks' interest to crediting in lek and crediting to households is also observed in the continuous growth of their weight to total credit. The ratio of new credit in lek and credit to households to total has increased within this month by about 0.4 percentage points and 4 percentage points, respectively.



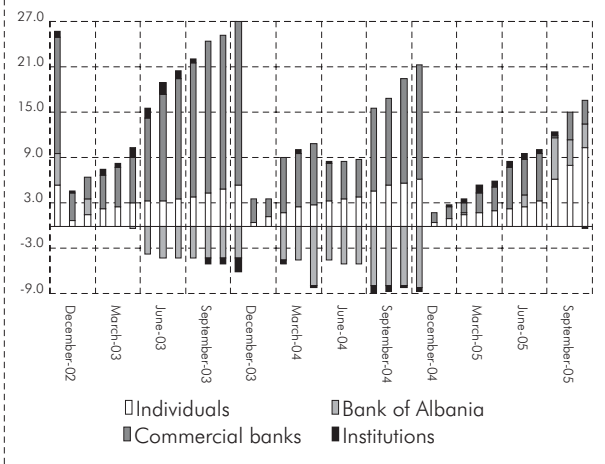
Banks' engagement to crediting the agricultural sector has continued to grow even during October. Construction and real estates sectors have also marked a slight increase in their credit portfolio. On the other hand, this growth has been somewhat balanced by the fall in the trade sector, which nevertheless remains the most credited sector of the economy by about 19 per cent of all the banking system credit portfolio.

In October, net foreign assets of the banking system have recorded a growth by USD 13.8 million. This growth has been due to the increase of net foreign reserves of the Bank of Albania by USD 27.9 million while commercial banks' net foreign assets have decreased by USD 14.1 million. The increase of net foreign reserves of the Bank of Albania has resulted as a consequence of the Bank of Albania intervention in the foreign currency market. Commercial banks have increased their foreign liabilities by USD 11.7 million, mainly due to credit growth by non-residents. In October, it was observed a higher level of foreign currency crediting than foreign currency depositing in the banking system.



Budget deficit domestic borrowing reached to ALL 17.1 billion in October, marking a growth of ALL 2.3 billion. However, the increase by ALL 4.4 billion of the Government deposit with the Bank of Albania during October has caused the net financing to decrease by ALL 2.2 billion. The Government has met its demand for money through the sale of two- and three-year Government bonds. Their issue during October was ALL 1.4 billion and ALL 2.0 billion, respectively. Meanwhile, the level of treasury bills purchased in the primary market has increased by ALL 0.9 billion. On the other hand, the Government has settled the direct credit liability by ALL 2.0 billion granted the previous month.

Chart 15 Cumulative financing performance of budget deficit (in billions of ALL)

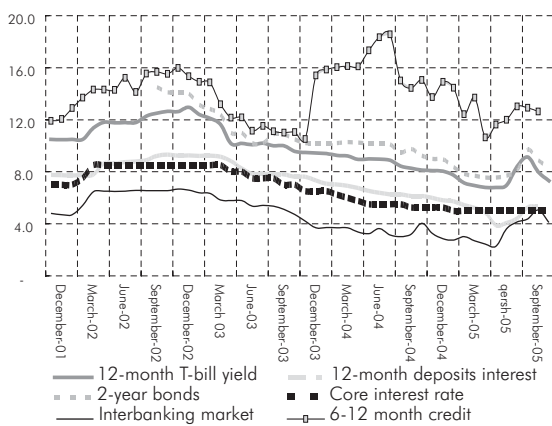


Households have increased their treasury bills portfolio for October by about ALL 1.8 billion, while commercial banks and institutions have decreased it by ALL 0.1 billion and ALL 0.6 billion, respectively. Total treasury bills portfolio has increased by about ALL 1.1 billion.

### III.4 MARKETS, INTEREST RATES AND EXCHANGE RATE

In November, money market has been characterized by a stable level of liquidity. Short-term needs for liquidity have been met in the interbank market, while liquidity provided in the primary market has exceeded the liquidity required by the Government. The improvement of the liquidity situation in the system has rapidly affected the decrease of interest rates in both these markets for the period October-November. October data related to lek deposits market indicate an increase in interest rates, causing the difference with the treasury bills yield to narrow down. The real interest for lek deposits in October has decreased as a consequence of the annual inflation rise during this month.

Chart 16 Interest rates trend in markets (in percentage)



Source: Bank of Albania and commercial banks

#### III.4.1 LIQUIDITY PERFORMANCE

The daily average level of liquidity in November resulted in ALL 3.8 billion or ALL 0.1 billion more than in October. Part of it has been invested in one-week repurchase agreements auctions with fixed price, in the amount of ALL 2.0 billion, on average.

In the interbank market, lending activity has almost remained in the same paces as in the previous month. The average volume of overnight transactions

in the interbank market marked ALL 0.5 billion, compared to ALL 0.6 billion in October, while the average volume of one-week transactions marked ALL 1.5 billion or ALL 0.2 billion more than in October.

The liquidity provided in treasury bills and two-year bonds auctions has been sufficient to cover the budget deficit financing, by not requiring the need for direct loans in November.

### III.4.2 INTEREST RATES PERFORMANCE

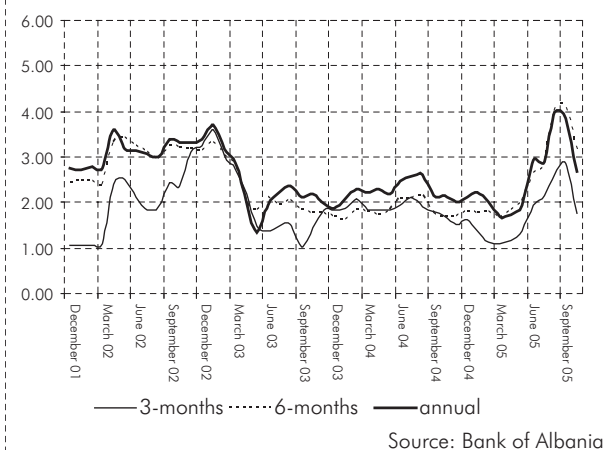
During October 2005, money and lek deposits market has displayed opposite trends of interest rates. October data indicate that lek deposits rates have, on the whole, increased. Regarding the money market, the data for October-November indicate a decrease of Interest rates, due to the improvement of the liquidity situation in the market. This fact is observed in the decrease of overnight transactions interests in the interbank market and in the decrease of treasury bills yield for all terms. The decrease of treasury bills and two-year bonds yield has caused the Government domestic debt cost to reduce.

The opposite trends of treasury bills and lek deposits interest rates have influenced on the tightening of interests spread between them. While in September the spread had reached the highest levels in the last years, in October it dropped to the level of 1.8 per cent, 3.2 per cent and 2.7 per cent, for 3, 6 and 12-month terms, respectively.

During October, real interests of 12-month time deposits in lek have decreased, reaching to the level of 1.96 per cent compared to 2.11 per cent in the previous month and 4.02 per cent in the previous year. This decrease has been mainly due to the increase of inflation compared to the previous month and year.

Lek credit market continues to be characterized by fluctuations in the interest rates, wherein different banks display different trends on interests shifting directions, depending on the nature of extended loans in the respective month. The average risk-weighted rate of credit in lek resulted in 14.04 per cent in October, which is 0.52 percentage points higher than in September and 0.67 percentage points higher than the previous year.

Chart 17 Spread between treasury bills yield and lek deposits interests with 3, 6 and 12-month term (in percentage points)



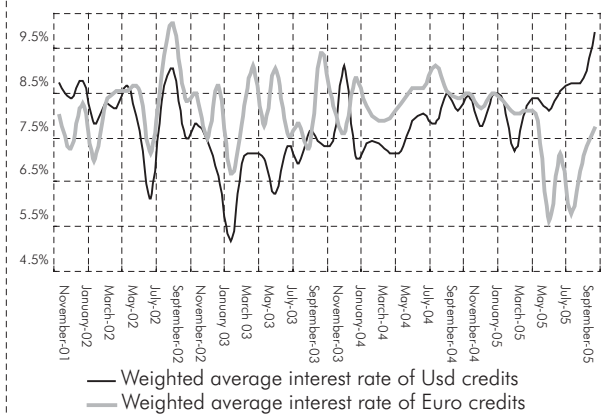
The overall tendency of currency deposits (euro, usd) interests in October has been their increase in all terms, with the exclusion of 1 and 3-month time deposits in euro. The tightened monetary policy applied by Fed, expectations for monetary policy tightening by ECB and Fed, competition boosting in the banking system, etc., have influenced on the increase of currency deposits

interests. There has also been an increase of currency deposits interests compared to the same period the previous year.

In October, currency credit market, like the currency deposits market, has been characterized by an increase in interest rates. Despite demand factors

for loans, the change of lending structure, etc., the rise in the cost of currency deposits acceptance has influenced on the increase of these interests. In October 2005, the risk-weighted average interest of credit in usd reached to 9.8 per cent compared to 8.9 per cent in the previous month and 8.11 per cent in the previous year. Meanwhile, the risk-weighted average interest of credit in euro reached to 7.1 per cent, compared to 5.8 per cent in the previous month and 8.6 per cent in the previous year.

Chart 18 Performance of risk-weighted average interests of currency credits

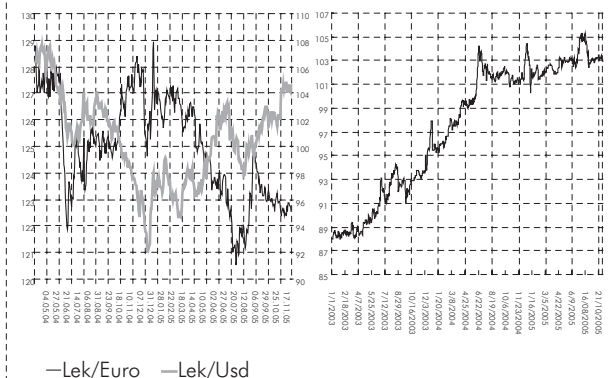


Source: Bank of Albania and Commercial Banks

### III.4.3 EXCHANGE RATE

In the foreign currency market, it has been observed almost the same foreign currency performance, by reinforcing the previous months' performance. During November, lek has continued to appreciate against euro and depreciate against usd, although in lower paces. Thus, at the end of November lek appreciated by 0.2 per cent against euro and depreciated by 2.2 per cent against usd. The exchange rate levels of lek at the end of November were 122.79 lek/euro and 104.26 lek/usd. In nominal effective terms<sup>11</sup>, lek appreciated by 1.7 per cent during November.

Chart 19 Performance of nominal effective exchange rate (NEER) of lek



Even during November, the Bank of Albania has been present in the foreign currency market by purchasing foreign currency. The Bank of Albania foreign currency interventions during this period have contributed to maintaining the lek exchange rate in stable levels by diminishing its fluctuation.

## NOTES

<sup>1</sup> Source: ISTAT; website <http://www.istat.it>

<sup>2</sup> Source: General Secretariat of National Statistical Service of Greece: <http://www.statistics.gr>

<sup>3</sup> Annual inflation of this subgroup for October is 10 per cent.

<sup>4</sup> Source: General Secretariat of National Statistical Service of Greece; website: <http://www.statistics.gr>

<sup>5</sup> Source: ISTAT; website: <http://www.istat.it>

<sup>6</sup> The last change of core interest rate, that is, its fall by 0.25 points percentage, was in March 2005.

<sup>7</sup> Until November 2005.

<sup>8</sup> The quantitative objectives of the Bank of Albania have been revised in the framework of the new agreement negotiation with the International Monetary Fund. The quantitative objectives of the last quarter of 2005 are not of a conditioning nature.

<sup>9</sup> The decrease of time deposits in lek has been due to the reclassification of households' deposits by Raiffeisen Bank, from time deposits to demand deposits.

<sup>10</sup> The improvement of credit indicator to the GDP has been partly due to the positive performance of credit in October and partly as a consequence of the decreasing revision of the GDP forecasted value for the end of 2005.

<sup>11</sup> Lek exchange rate measured against euro and dollar and their respective weight in the foreign trade.

## STATISTICAL ANNEX

## INFLATION

Table 1 Annual inflation rate (in percentage)

	2001	2002	2003	2004	2005
January	2.2	6.5	0.0	3.3	3.3
February	1.5	7.6	1.1	4.4	1.8
March	2.9	7.5	1.3	4.0	1.6
April	3.0	6.5	2.3	3.2	1.3
May	2.5	4.6	2.8	2.6	2.0
June	4.0	3.7	2.6	2.9	2.9
July	5.6	4.2	3.0	3.1	1.8
August	4.1	5.5	3.0	2.7	2.3
September	3.5	5.3	2.8	2.0	3.1
October	1.8	5.8	2.9	2.0	3.3
November	2.8	3.7	3.4	2.2	3.0
December	3.5	1.7	3.3	2.2	
Average	3.1	5.2	2.2	3.0	2.4

Source: INSTAT

Table 2 Contribution to total inflation of the basket constituent groups

	Dec -03	Dec -04	March -05	June -05	Sep -05	Oct -05	Nov -05
Foodstuffs and non-alcoholic beverages	1.20	0.12	-0.74	0.65	0.61	0.71	0.09
Rent, water, fuels, energy.	0.95	2.08	2.40	1.83	2.00	2.13	2.30
Transportation	0.14	0.16	0.11	0.14	0.29	0.23	0.22
Hotels, café and restaurants	0.18	0.25	0.14	0.12	0.12	0.17	0.21
Other	0.84	-0.42	-0.27	0.15	0.11	0.07	0.13
Total	3.31	2.19	1.64	2.89	3.14	3.32	2.94

Source: INSTAT, Bank of Albania

## MONETARY AGGREGATES

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

	October 2005	Monthly change		Annual change	
		Absolute	Percentage	Absolute	Percentage
Currency outside banks	139.9	-1.6	-1.1	13.2	10.4
Total deposits	427.6	2.9	0.7	65.3	18.0
- in Lek	273.5	2.2	0.8	27.4	11.1
- in foreign currency	154.1	0.7	0.4	38.0	32.7
Demand deposits	128.8	4.3	3.5	58.9	84.2
- in Lek	74.9	4.0	5.6	49.2	191.0
- in foreign currency	53.9	0.3	0.6	9.7	21.9
Time deposits	298.8	-1.5	-0.5	6.5	2.2
- in Lek	198.5	-1.8	-0.9	-21.8	-9.9
- in foreign currency	100.2	0.3	0.3	28.3	39.3
M1	214.8	2.4	1.1	62.4	41.0
M2	413.3	0.6	0.1	40.6	10.9
M3	567.4	1.2	0.2	78.6	16.1
Monetary base	188.0	-6.1	-3.1	21.0	12.6

Source: Bank of Albania



Table 4 Performance of some main indicators

	2003	2004	Q1-05	Q2- '05	Q3-'05	Oct '05
Money supply (in billions of ALL)	448.4	507.2	521.6	541.8	566.2	567.4
Domestic credit (in % to M3)	71.5	68.9	68.7	69.9	69.1	69.0
- Credit to government (in % to M3)	60.2	55.1	53.4	52.2	50.3	49.6
- Credit to economy (in % to M3)	11.3	13.8	15.3	17.7	18.7	19.4
Credit to economy (in % to total assets)	13.7	16.9	17.9	20.8	22.2	22.9
Credit to economy (in % to GDP)	6.8	9.0	9.3	11.2	12.4	13.2*
Credit/deposit ratio (in %)	15.7	19.0	20.3	23.6	25.0	25.8

Source: Bank of Albania

Table 5 Performance of monetary indicators in October (in millions of ALL)

	In absolute value	Weight in M3 (in %)	Annual contribution (in %)	Monthly change	Annual change
Net foreign assets	212,656	37.5	27.8	168.49	21,824.40
Net claims to the Government	281,682	49.6	17.5	(3,231)	13,730
Credit to economy	110,039	19.4	59.8	4,005.6	46,983.9

Source: Bank of Albania

Table 6 Performance of NFA indicators by main groups

	In absolute value	Monthly change	Annual change
Net foreign assets	2,080.7	13.8	163.0
Foreign assets	2,310.8	25.6	100.5
Bank of Albania	1,374.3	28.0	100.5
ODC	936.4	(2.4)	
Foreign liabilities	230.1	11.8	(2.2)
Bank of Albania	108.6	0.1	(2.2)
ODC	121.5	11.7	

Source: Bank of Albania

Table 7 Performance of NCG indicators by main groups

	In absolute value	Monthly change	Annual change
Net claims to the Government	281,682	(3,230.6)	13,729.7
Bank of Albania	57,031.0	(6,288.7)	5,904.8
ODC	224,651.0	3,058.1	7,824.8
Deposits with the Bank of Albania	12,149.2	4,288.7	(2,586.6)
Budget deficit	(11,270.4)	2,190.4	3,994.0

Source: Bank of Albania

Table 8 Credit balance indicators as a percentage to the total

	2003	2004	Q-1 '05	Q-2 '05	Q-3 '05	October '05
Credit balance (in billions of ALL)	50.7	69.3	79.0	95.9	106.0	110.0
Short-term credit	46.0	34.0	34.1	33.7	31.6	31.8
Mid-term credit	33.3	36.0	34.5	33.1	31.2	31.3
Long-term credit	20.7	30.0	31.4	33.1	36.9	36.9
Credit to households	24.5	30.6	31.0	30.8	31.4	31.7
Credit to private sector	75.5	69.4	69.0	69.2	68.6	68.3
Lek	19.6	19.5	20.1	22.9	23.7	24.5
Foreign currency	80.4	80.5	79.9	77.1	76.3	75.5

Source: Bank of Albania

Table 9 Credit performance for the main branches of economy

	2002	2003	2004	Q1 '05	Q2 '05	Q3 '05	Oct'05
Agriculture, Hunting and Silviculture	0.8	1	1.5	1.5	1.5	2.4	2.51
Processing Industry	17	17	17.1	16.7	15.6	13.9	13.8
Construction	8.6	10	9.8	11.2	11.2	12.8	12.9
Trade, Repairing of Vehicles and Household Equipment	0.4	34	23.3	20.6	19.1	20.0	18.9
Hotels and Restaurants	6	6	8.3	5.2	4.7	4.4	4.4
Real Estates	9.1	13	9.8	14.7	13.5	13.9	14.0
Other	18.1	19	30.2	30.1	34.3	32.6	33.5
Total	100	100	100	100	100	100	100

Source: Bank of Albania

Table 10 New credit indicators in percentage to total

	2004		2005			
	September	Total	Q1	Q2	Q3	October
New credit (in billions of ALL)	5.7	99.7	22.1	32.8	32.1	8.5
Short-term credit	58.78	62.54	53.2	47	47.4	44.5
Mid-term credit	22.56	22.53	22.4	31	30.3	30.0
Long-term credit	18.66	14.93	24.4	22	22.2	25.5
Lek	38.79	32.59	30.1	32.8	30.2	33
Foreign currency	61.21	67.41	70	67.2	69.8	67

Source: Bank of Albania

## FINANCIAL MARKETS

Table 11 Interest rates at the end of November and their change compared to previous periods (in percentage points)

	Interest rates November 2005	Change November-October 2005	Change November 2005 –November 2004
Core interest rate	5.00%	0.00	-0.25
Interbank market			
Overnight interest	4.1%	-0.98	+0.1
Weekly interest	6.2%	+0.2	+0.3
Primary market			
3-month treasury bills yield	5.4%	-0.5	-0.9
6-month treasury bills yield	7.0%	-0.9	-0.3
12-month treasury bills yield	7.3%	-0.7	-0.8
Bonds market			
2-year bonds yield	8.3%	-0.6	-0.95

Source: Bank of Albania and commercial banks

Table 12 Interest rates and their change in Lek deposits and credit market (in percentage points)

	Interest rates October 2005	Change October- September 2005	Change October 2005 – October 2004
Core interest rate	5.00%	0.00	-0.50
Deposits interests in Lek			
3-month	4.11%	0.24	-0.65
6-month	4.74%	0.19	-0.89
12-month	5.32%	0.04	-0.81
Credit interests in Lek			
Up to 6-month credit	13.38%	0.84	2.41
6 month – 1 year credit	12.62%	-0.29	-1.81
1-3 years credit	17.61%	1.31	-1.63
Over 3 years credit	12.15%	-0.04	0.46

Source: Bank of Albania and commercial banks

Table 13 Currency deposits interest rates (in percentage points)

	Interest rates October 2005	Change October- September 2005	Change September 2005 –September 2004
Fed-core interest rate	3.75%	+0.00	+2.00
Deposits interests in USD			
1-month	1.97%	+0.02%	+0.93%
3-month	2.35%	+0.03%	+1.01%
6-month	2.63%	+0.08%	+1.02%
12-month	3.08%	+0.06%	+1.07%
24-month	3.83%	+0.65%	+1.33%
ECB-core interest rate	2%	0.00	0.00
Deposits interests in EUR			
1-month	1.70%	-0.04%	+0.13%
3-month	1.69%	-0.10%	+0.04%
6-month	2.00%	+0.09%	+0.29%
12-month	2.23%	+0.14%	+0.43%
24-month	3.66%	+0.13%	+1.76%

Source: Bank of Albania and commercial banks

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