

BANK OF ALBANIA

MONETARY POLICY
MONTHLY REPORT

NOVEMBER 2006

I MAIN HIGHLIGHTS

- Annual inflation rate in November 2006 recorded 2.9 per cent, being close to the Bank of Albania targeted rate of 3 per cent. Monthly inflation in November recorded a relatively high rate of 0.9 per cent under the influence of foodstuffs price rise. Average inflation rate over the first 11 months of 2006 recorded 2.4 per cent.
- Inflation performance over 2006 was dominated by the inflation developments of “Foodstuffs and non-alcoholic beverages” and “Rent, water, fuels and energy”. Annual inflation rates of these groups recorded 1.1 per cent and 7 per cent, respectively, in November.
- Macroeconomic context over November 2006 continued to be presented as balanced, backing the control of inflationary pressures. Fiscal and monetary developments remained within the framework of the respective programs.
- Annual growth rate of import prices index suggests that the price rise in Italy and Greece over October has started to exert more evident pressure on the domestic CPI. On the other hand, exchange rate behaviour, manifested in the appreciation of the lek, continued to back the decrease of cost in lek of import goods.
- Annual growth rate of money supply recorded 12 per cent in October. This rate constitutes the point of return of monetary expansion rates towards higher rates projected for the year end. The acceleration of M3 growth reflects the change of the Government’s position to the banking system, aiming at meeting the projected borrowing for 2006.
- Credit to economy by the banking system continued to record rapid rates over 2006. Annual growth rate of credit recorded 57.2 per cent in October. The ratio of credit to economy to the GDP increased by 0.8 percentage points over October, reaching to 19.5 per cent. The acceleration of credit to business provided the main contribution to this credit growth rate.
- Government’s accounts for October display a decrease of about ALL 3.6 billion of budget surplus. Government’s demand for monetary assets grew by ALL 6.4 billion in October, influencing on the shift of budget deficit domestic financing to positive levels. The concentrated growth of Government’s borrowing may be associated by liquidity and interest rates fluctuations in the money market.
- There was an increase of interest rates in the financial markets over October and November. Over this period, were observed tendencies of interest rates increase in the deposits and credit market in lek and in the primary market. Meanwhile, the increase of the core interest rate by the end of November is expected to provide its impact in the following months.

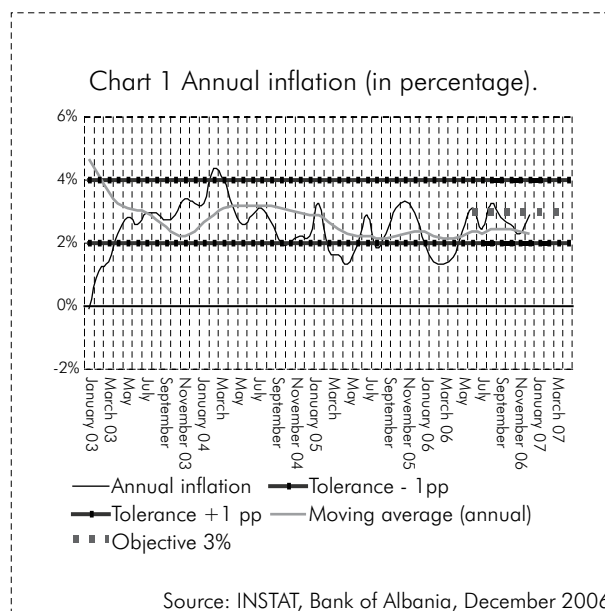
- Unlike the first half of the year, the second semester has been characterized by a more stable performance of the lek against the main currencies. However, the lek has maintained the appreciating tendency in annual nominal effective rates.

II INFLATION PERFORMANCE IN NOVEMBER

Annual inflation rate in November 2006 recorded 2.9 per cent, which is close to the Bank of Albania targeted rate of 3 per cent. With the exception of May and July, annual inflation rate has remained under 3 per cent, while the average rate throughout 2006 has been around 2.4 per cent. This rate is similar to the average annual rate of 2005, giving evidence of stable price rise rate.

Monthly inflation rate over November recorded 0.9 per cent, being the highest rate recorded throughout 2006 and the highest since November 2001. Over the same month, it was recorded a price rise in foodstuffs and falling prices in transport and household equipment. Meanwhile, the change of prices for the other groups was almost inconsiderable over November.

Despite the increasing fluctuations of monetary indicators, due to the pressure exerted by the concentration of Government's borrowing, the overall monetary and fiscal conditions have kept the demand and supply pressures in economy under control, leading to the observance of the inflation objective.

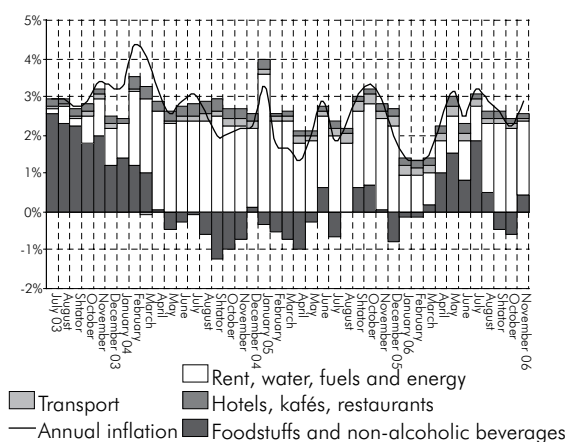


II.1 PERFORMANCE OF INFLATION AND OF CONSTITUENT GROUPS

Like in the preceding years, annual inflation rate developments over this year were dominated by the inflation performance of "Foodstuffs and non-alcoholic beverages" and of "Rent, water, energy and fuels". Over August-November, annual inflation rate has also reflected the annual price rise of "Alcoholic beverages and tobacco", due to the rise of the excise for these goods.

Inflation of "Foodstuffs and non-alcoholic beverages" over November contributed significantly to the change of direction of total annual inflation rate. In general, the end-year months are characterized by a gradual price rise of foodstuffs, in particular of agricultural products,

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



Source: INSTAT, Bank of Albania

as a consequence of the end of summer season and of the entry of import goods into the market. This development was distinctly reflected in almost all the constituents of Foodstuffs sub-group. The highest price rise rate was recorded in vegetables sub-group, which rose by 8.4 per cent. The entry into the market of some products of this sub-group influenced on the annual rise of its prices.

The expected price rise of agricultural products in November is assessed to have started earlier than the previous years¹. The prices of “Foodstuffs and non-alcoholic beverages” of Albania’s main trade partners (Italy and Greece) and of the Euro zone have risen over the last three months. The reduction of domestic production and the entry of import production, associated by the price rise of import goods, are assessed to have pushed the price rise of foodstuffs in the country over November 2006.

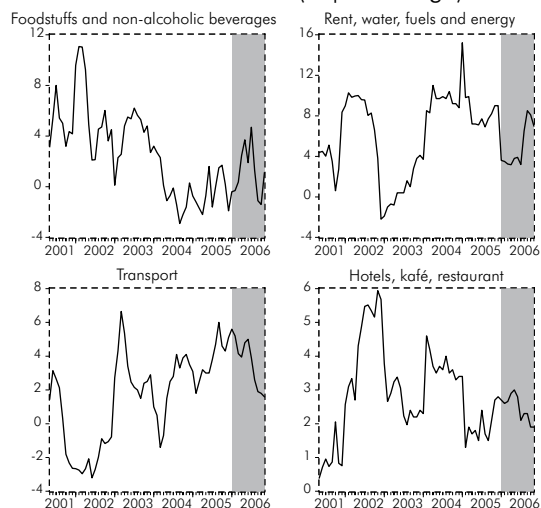
Table 1 Annual inflation of “Foodstuffs and non-alcoholic beverages” (in the country and abroad) and its contribution to total inflation

	Annual inflation '05	Annual contribution '05 (pp)	Annual inflation '06	Annual contribution '06 (pp)	Italy ² Annual inflation '06	Greece ³ Annual inflation '06	Euro zone ⁴ (12 countries)
March	-1.7	-0.7	0.4	0.2	1.0	2.1	1.3
June	1.6	0.7	1.9	0.8	1.3	3.5	2.0
September	1.5	0.6	-1.1	-0.5	2.5	4.6	3.0
October	1.7	0.7	-1.5	-0.6	2.7	5.1	3.0
November	0.2	0.1	1.1	0.5	--	4.5	

Source: Bank of Albania

The prices level of the second largest group in the consumer basket “Rent, water, fuels and energy” have not been undergoing significant changes since August 2006. As a consequence, the contribution of annual inflation rate of this group to total inflation rate over November was similar to the contribution of the three preceding months and equal to 1.9 percentage points. “Transport” and “Hotels, café and restaurants” continued to provide low positive rates to total annual inflation rate. The oil price fall over November caused the contribution of “Transport” inflation to total inflation rate to record a slight decrease.

Chart 3 Annual inflation of 4 main groups of the CPI basket (in percentage)



Source: INSTAT, Bank of Albania

Annual inflation rate of “Alcoholic beverages and tobacco” continued to remain in the level of 11 per cent, just like over the previous months. The price level of this group reflects the gradual rise of reference prices (excises) for these

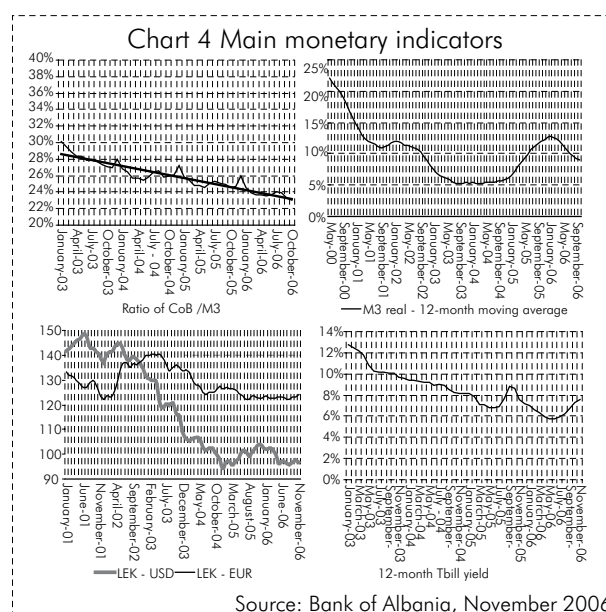
products. At the same time, the prices of “Education service” continued to provide a low positive rate to annual inflation. The prices of “Clothes and footwear” recorded a slight rise over November, reflecting the partial entry into the market of new seasonal clothes.

II.2 MACROECONOMIC ENVIRONMENT AND INFLATION

The main indicators of economy signal that both demand and supply factors have been relatively balanced over the second semester of 2006. Macroeconomic context over November 2006 continued to be presented as balanced, backing the mitigation of future inflationary pressures. Both fiscal and monetary developments remained within the framework of the respective programs. As such, they have played a pivotal role in maintaining price stability in the short-run, which is evidenced by the keeping of inflation rates within a narrow band around the 3 per cent target over January – November 2006. The influence of other factors over November, such as the further appreciation of domestic currency to the main currencies, the partial reflection of the oil price fall in the domestic market and the low inflation rates recorded in the previous months have favoured consumer prices stability. Being confronted with the constant and rapid expansion of crediting to economy, the restrained role of fiscal policy caused the aggregate demand to remain in controlled levels and led to the non-evident intensification of inflationary pressures. The increase by 0.25 percentage points of the core interest rate by the Bank of Albania in November aimed at absorbing the pressures caused by the growth of domestic demand and at mitigating the expected supply shocks. Its effects on inflation will be provided over the period to come.

MONETARY POLICY AND MONETARY INDICATORS

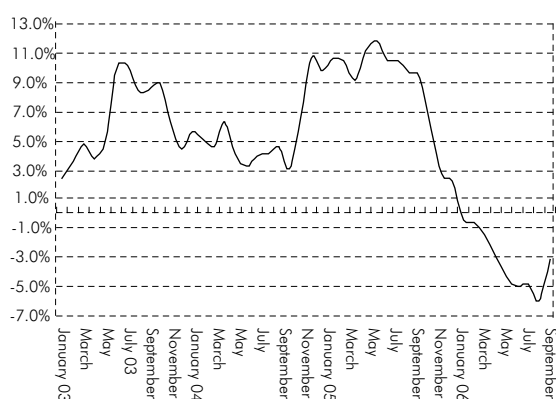
Money supply continued to grow over October within the limits set in the monetary programme, maintaining proportional structural developments of its liquidity. Real interest rates continued to be positive, while the exchange rate has resulted to be stable. The double increase of the core interest rate in July and November 2006 is assessed to have partly been transmitted to the further increase of monetary assets' interest rates in lek, of deposits, credit and of the Government's securities. This implies that the monetary policy stance has been positively received by the banking market, while its signals are expected to be transmitted and fully assimilated by the real sector of economy, as well. The so-far situation indicates that the monetary conditions are serving to keeping stable prices in the medium-term.



FISCAL POLICY

According to the data on budget indicators by October 2006, it is assessed that the fiscal sector performance was in line with the plan, in particular as far as the collection of the revenue is concerned,

Chart 5 12-month changes tendency of budget expenditure (in percentage)



Source: Ministry of Finance, December 2006

while lagging behind in the carrying out of expenditure⁵. Like in the previous month, the increasing acceleration of budget expenditure continued over October, being in line with the supplementary budget plan for the second semester of 2006. As opposed to September, the expenditure in October grew by 20.1 per cent. Considering these factual rates, budget expenditure over this period displayed similar allocation as in the preceding years, mostly concentrating on the last months of the year. Despite the positive fiscal balance over January – October 2006, the last two months of the year will be determinant for its side and amount. The concentration of budget expenditure and domestic borrowing affect the stability of monetary factor in the medium-term.

EXTERNAL ENVIRONMENT AND THE EXCHANGE RATE

The exchange rate performance is assessed to have backed the mitigation of inflation rate fluctuations. Domestic currency continued to appreciate over November under accelerating rates against the usd. Meanwhile, the stable exchange rate of the lek against the euro continued over this month. Referring to the performance of the main countries' currencies Albania has trade relations with, domestic currency has appreciated by 0.7 per cent. This development has caused the exchange rate behaviour to continue backing the decrease of cost in lek of import goods.

Table 2 Annual inflation rates in Italy, Greece, Euro zone and the annual exchange rate change (in percentage)

	Q1*-06	Q2*-06	Q3*-06	October 06	November 06
Greece ⁶	3.2	3.2	3.4	2.8	2.9
Italy ⁷	2.2	2.2	2.2	1.8	--
Euro zone ⁸	2.3	2.4	2.1	1.6	--
Lek/Euro	-2.9	-1.4	0.1	0.2	1.1
Lek/Usd	5.7	0.1	-4.1	-4.4	-7.3

Source: CPI, INSTAT

Notes: (*) The quarterly figures are the average of the respective monthly indicators. (**) Preliminary rate.

IMPORTED INFLATION

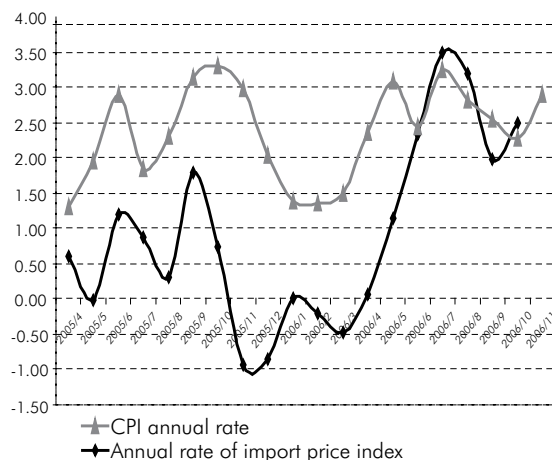
Annual growth rate of import prices index⁹ suggests that the price rise in Italy and Greece over October have started to exert more evident pressure on domestic CPI. Although total annual inflation rate for the Euro zone and the main trade partners has recorded relatively low

levels over October 2006, the annual inflation of "Foodstuffs and non-alcoholic beverages" fluctuated above the level of 3 per cent. Hence, the respective rate for Greece resulted to about 4.5 per cent over November. Under the conditions when the seasonal factor of winter has started to provide its effect in the country expressed in the price rise, the influence of this group's external inflation on domestic inflation may have been fully present, by increasing the pressure on the total level of prices.

OIL PRICES

Oil price decrease in the international market until October 2006 was followed by a slight increase in annual terms over November. As stated by the greatest world producers of oil, the year-end would reflect the tightening policy pursued by the latter on production. Furthermore, the first week of December recorded a rise of about 5 per cent compared to the average price of the previous month. This fact gives evidence of the presence of increasing pressures on the oil price in the international market. Meanwhile, the prices performance in the domestic market over November 2006 indicates that the oil price fall recorded over September and October 2006 continued to be reflected in this market. However, the annual rate of oil price rise in the country is higher than the rate recorded in the international market, giving evidence of the influence of other domestic factors on domestic oil price. The upward trend of the oil price in the international market over November and December 2006 is expected to hold back the prices fall in the domestic market, adding as such the possibility of intensified inflationary pressures from this external factor.

Chart 6 Annual change rate of the CPI and of the import prices index (in percentage)



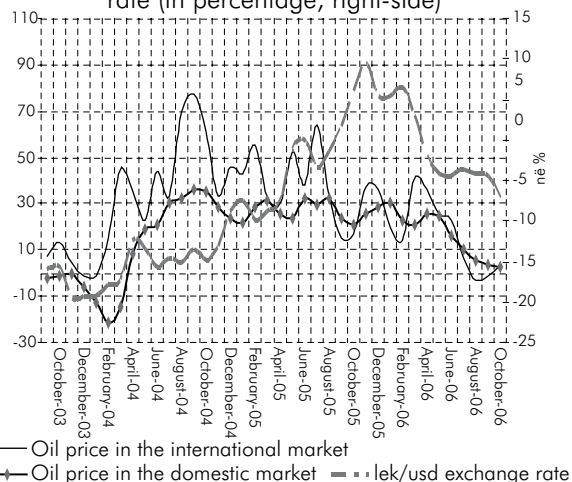
Source: CPI, INSTAT, December 2006; Bank of Albania, December 2006

III MONETARY DEVELOPMENTS AND FINANCIAL MARKETS

III.1 BANK OF ALBANIA MONETARY POLICY

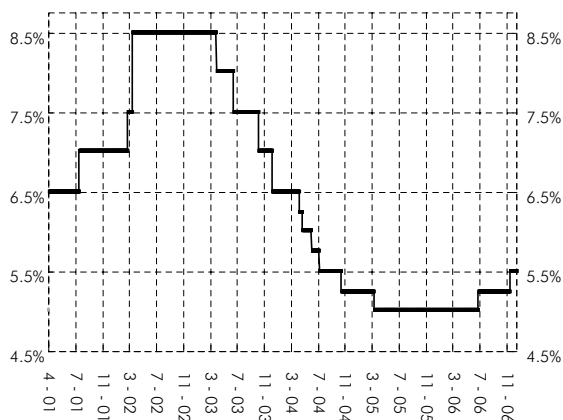
The Bank of Albania monetary policy continued to target the maintenance of adequate monetary conditions in order to guarantee the price stability in the period to come. Observing the analysis of economic and financial indicators, on 30 November the Bank of Albania increased the core interest rate by 0.25 percentage points. After this increase, the core interest rate of repurchase agreements is 5.5 per cent.

Chart 7 Annual change of oil price (ALL/USD, left-side) and of the exchange rate (in percentage, right-side)



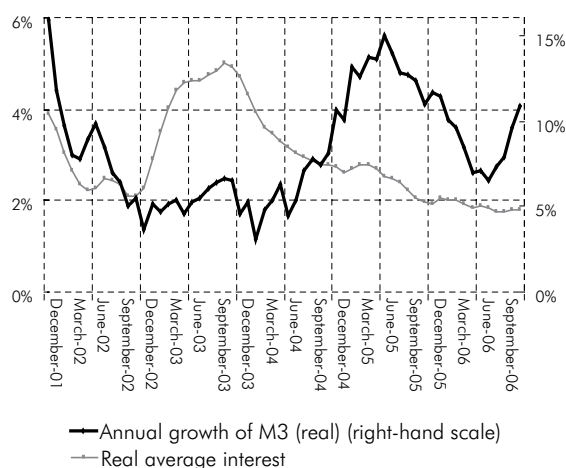
Source: Bank of Albania, INSTAT, Bloomberg, October, 2006

Chart 8 Performance of core interest rate (in percentage)



Source: Bank of Albania

Chart 9 Money supply and average interest in real terms



Source: Bank of Albania

The increase of the cost of money aimed at controlling the inflationary pressures deriving from the acceleration of money supply growth rate, from the spread reduction of interest rates to foreign currencies and from the low level of real interest rate in economy. Real interest rate fluctuated around the level of 2 per cent, while the M3 real growth rate varies to around 10-15 per cent. The increase of the core interest rate is projected to favour the stability of real interest rates and of monetary rates in the medium-term.

The Bank of Albania operations in the money market have aimed at administering the demand for liquidity and the implementation of the monetary policy. In response to the growth of the economy and Government's demand for monetary assets, the Bank of Albania injected liquidity through the reverse repos. The amount of liquidity injected through the reverse repos was about ALL 5.2 billion by the end of November. The absence of liquidity in the system affected the increase of reverse repos' interest rate to 6.31 per cent, compared to 5.85 per cent recorded in October. The injection of liquidity aimed at preceding the concentration of the public sector's demand for monetary assets at the end of the year. However, the securities' interest rates have maintained slight increasing tendencies.

The Bank of Albania monetary operations have allowed the observance of its operational objectives for October and November.

Table 3 Observance of the Bank of Albania quantitative objectives¹⁰

	December '05	March '06	June '06	September '06	October '06	November '06 *
Net international reserve of the Bank of Albania (in millions of USD)						
Objective	1,172	1,117	1,112	1,252	1,257	1,262
Current	1,172	1,202	1,224	1,296	1,301	1,305
Difference (C-Obj)	--	85	112	44	44	43
Net domestic assets of the Bank of Albania (in billions of ALL)						
Objective	82.0	85.0	90.0	82.9	84.2	85.6
Current	76.9	61.9	67.8	71.2	71.0	72.7
Difference (C-Obj)	-5.1	-23.1	-22.2	-11.7	-13.2	-12.9
Net domestic credit to the Government (in billions of ALL)						
Objective	317.8	325.8	329.8	335.8	337.8	341.8
Current	317.8	311.8	306.6	303.7	209.5	--
Difference (C-Obj)	--	-14.0	-23.3	-32.1	-28.4	--

* Preliminary data for November.

Source: Bank of Albania

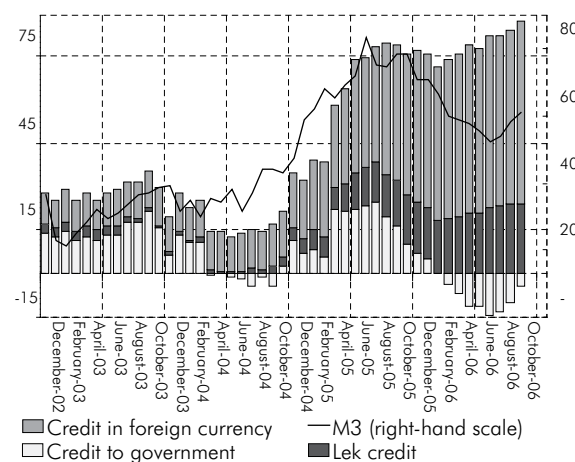
III.2 PERFORMANCE OF MONETARY AGGREGATES

Annual growth rate of money supply recorded 12 per cent in October. This rate constitutes the point of return of monetary expansion rates towards higher rates projected for the year end. The acceleration of M3 growth reflects the change of the Government's position to the banking system, aiming at meeting the borrowing projected for 2006. Despite the Government's increasing demand, credit to the private sector remains the main source of money supply growth. The banking system claims on the private sector grew by 4.55 per cent in November, while net claims on the Government grew by only about 1 per cent compared to the previous month.

Both time and foreign currency structure of money supply continued to follow the same growth trend of deposits in foreign currency, of the reduction of currency outside banks and of the increase of deposits share in the total. The reduction of currency outside banks is also reflected in its share to M2 aggregate. This ratio marks 32.7 per cent for October, compared to 33.0 per cent for September. However, the time structure of money supply is expected to reflect the seasonal money developments in the last months of the year. While in October the ratio of currency outside banks to M3 recorded 22.9 per cent, this ratio is expected to increase by the end of the year, due to the increase of the circulation of money in December.

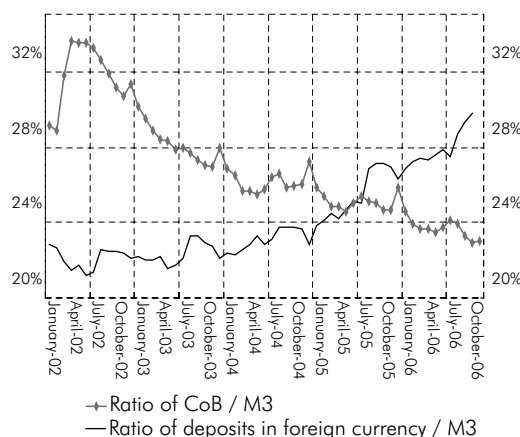
The reduction of the level of currency outside banks in October was followed by the increase of the level of deposits. Meanwhile, the ratio of deposits in foreign currency to total deposits increased by 0.5 percentage points. The most rapid growth of deposits in foreign currency for this month was concentrated in demand deposits. The ratio of demand deposits to total deposits in foreign currency increased by 0.75 percentage points. The opposite held true for deposits in lek, which have recorded a more rapid growth in time deposits. The ratio of time deposits in lek to total deposits in lek for this

Chart 10 Contribution of demand factors to the generation of money (in billions of ALL)



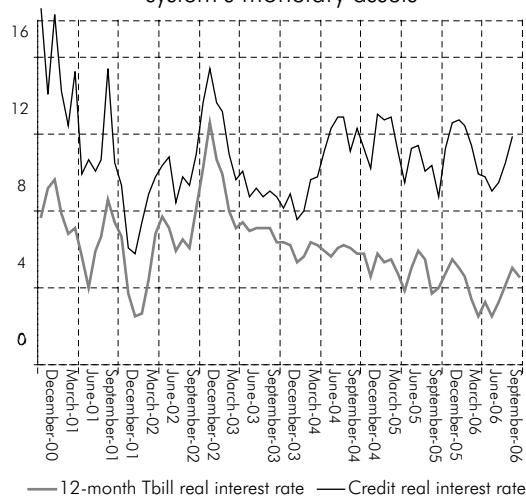
Source: Bank of Albania

Chart 11 Ratio of currency outside banks to M3 and of deposits in foreign currency to M3



Source: Bank of Albania

Chart 12 Real return rates of the system's monetary assets



Source: Bank of Albania

month increased by 0.5 percentage points. The increase of banks' monetary assets return rates is expected to be followed by an increase of deposits' interest rates, mainly of deposits of long-term maturity.

Table 4 Performance of monetary indicators in October (in billions of ALL)

	October	Monthly change		Annual change	
	2006	Absolute	Percentage	Absolute	Percentage
Currency outside banks	145.8	-0.4	-0.3	6.0	4.3
Total deposits	489.5	8.7	1.8	62.0	14.5
- in lek	300.1	3.0	1.0	26.6	9.7
- in foreign currency	189.5	5.7	3.1	35.4	23.0
M1	225.5	-1.1	-0.5	10.7	5.0
M2	445.9	2.6	1.5	32.5	8.9
M3	635.3	8.3	1.3	67.9	12.0
Monetary base	205.7	0.3	0.2	17.7	9.4

Source: Bank of Albania

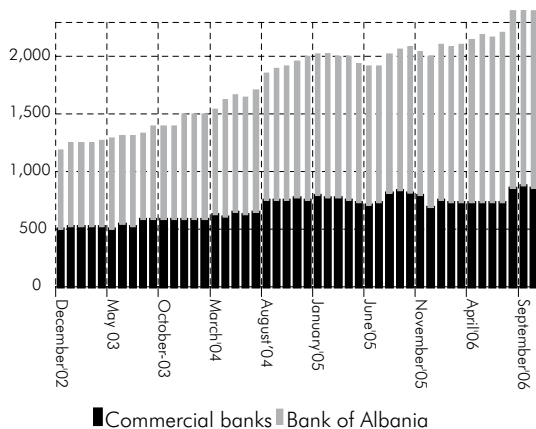
III.3 DOMESTIC DEMAND

III.3.1 NET FOREIGN ASSETS

The performance and structure of net foreign assets of the banking system did not display significant developments over October. In total, these assets grew by about USD 1.6 million, under the influence of the increase by USD 12.6 million of the Bank of Albania net foreign reserve. Commercial banks have influenced the decrease of the system's assets, since their foreign assets decreased by about USD 10.9 million. In the absence of the exchange rate effect, the banking system foreign assets have decreased by about USD 3.9 million.

The transfer of foreign disbursements in foreign currency and the purchase of foreign currency by the Ministry of Finance, have had a major influence on the increase of the Bank of Albania foreign reserve. The level of commercial banks' net foreign assets was negatively affected

Chart 13 Net foreign assets of the banking system (in millions of USD)



Source: Bank of Albania

by the increase of foreign currency liabilities by about USD 10.7 million. Non-residents' credit have provided greater growth of these foreign currency liabilities by USD 19 million. Moreover, the continuous rapid rates of credit to economy in foreign currency have brought the further reduction of these assets.

III.3.2 GOVERNMENT DEMAND FOR MONEY

Government's accounts for October display a decrease by about ALL 3.6 billion of budget surplus. Government's demand for monetary assets grew by ALL 6.4 billion in October, influencing on the shift of budget deficit domestic

financing to positive levels. In response to the Government's strategy for the extension of its debt maturity term, domestic financing over October was carried out through the sale of 2 and 3-year bonds. These instruments' portfolio has grown by ALL 1.9 and 3.7 billion respectively, while the level of Treasury bills has further reduced by ALL 1.8 billion in October. In November, the Government issued for the first time bonds of 5-year maturity, amounting to ALL 6.36 billion. Operative data for November indicate that the Government has also augmented the issue of 2-year bonds by ALL 3 billion.

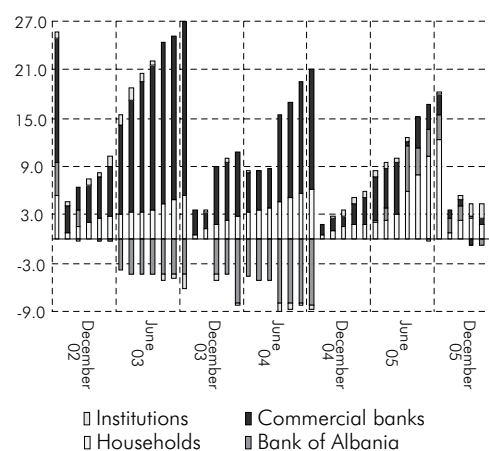
The Government's excess liquidity, invested in the banking system, has decreased over October. The level of reverse repos to commercial banks by the Government has decreased by ALL 2.6 billion, while the level of the Government's deposit held with the Bank of Albania has grown by ALL 2.7 billion.

III.3.3 CREDIT TO ECONOMY

Credit to economy by the banking system continued to record rapid rates over 2006. The annual growth rate of credit marked 57.2 per cent in October. Outstanding credit to the private sector grew by ALL 7.2 billion in October, amounting to ALL 173 billion. The ratio of credit to economy to the GDP increased by 0.8 percentage points over October, reaching to 19.5 per cent. However, the level of credit to the GDP is yet low for Albania compared to the average level of about 32 per cent for the Central and Eastern Europe and too far from the percentage of EU developed countries, averaging 106 per cent.

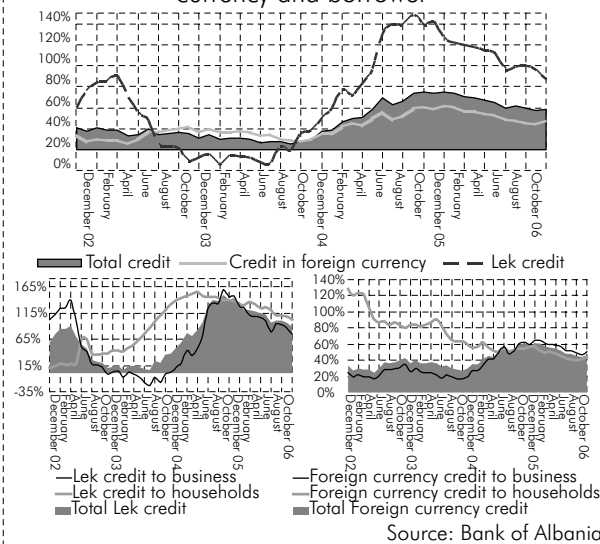
In October was extended a total of ALL 15.3 billion of new credit, from ALL 11.3 billion of 2006 monthly average. The acceleration of credit to business has provided the main contribution to this credit growth rate. Credit in foreign currency was the main incentive of credit growth in October. Its annual rate grew by 47.3 per cent from 43.9 per cent the previous month. Outstanding credit in lek grew by ALL 2.2 billion, as in September. However, the growth rate of credit in lek in October reflected further decrease to 87.7 per cent, in annual terms, from 95.9 per cent in September. The continuous reduction of credit in lek to business was also associated with a slight decrease of credit in lek to households.

Chart 14 Budget deficit financing (in billions of ALL)



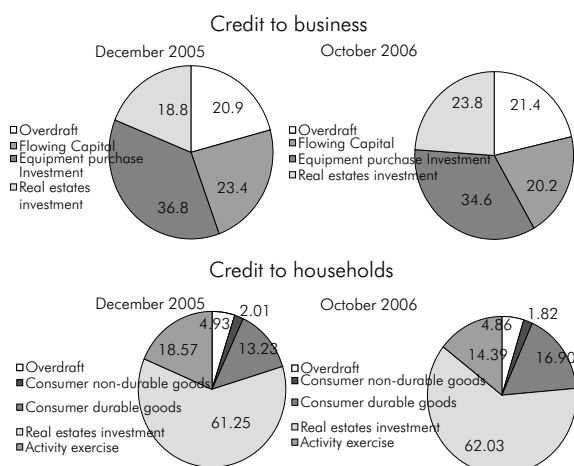
Source: Bank of Albania

Chart 15 Credit growth rate by currency and borrower



Source: Bank of Albania

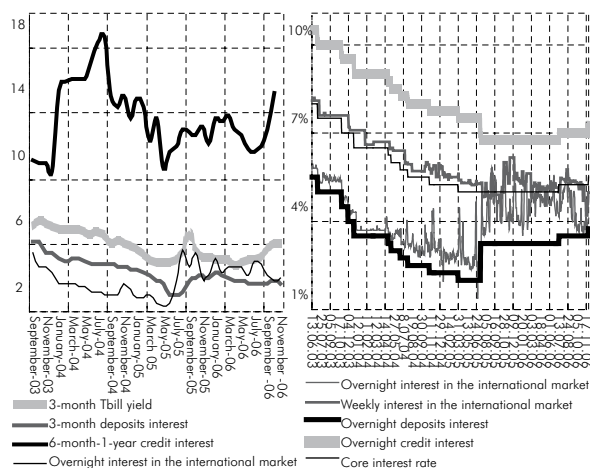
Chart 16 Credit by purpose of use (in percentage)



Source: Bank of Albania

Time structure of credit over October has generally reflected growth in long-term credit and a moderate decrease in credit of medium-term and short-term maturity. Credit extended to households accounts for 33 per cent of credit portfolio and has maintained the annual rate of 66 per cent of the last three months. Credit in lek to households has displayed lower rates over October, while credit in foreign currency is slightly higher. Credit to households mainly finances the purchase of real estates (62 per cent of credit portfolio). However, the highest growth for October was recorded by credit for the purchase of durable goods, accounting for 17 per cent, from 15.4 per cent in September.

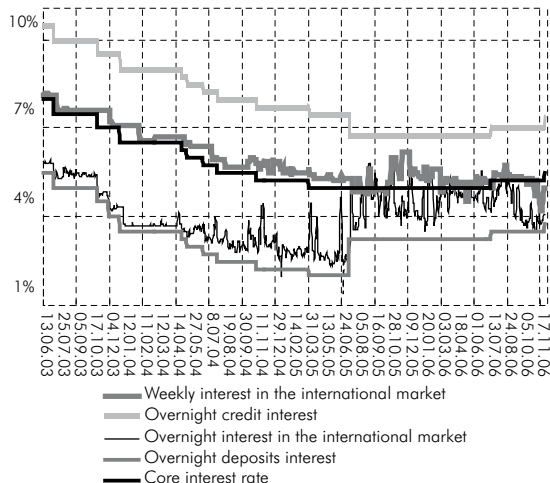
Chart 17 Short-term (left-side) and long-term (right-side) interest rates in the markets



Source: Bank of Albania

Credit to business has had a relatively higher growth over October, giving evidence of a significant growth in credit for the financing of businesses' real estates from 19 per cent of the portfolio in September, to 23 per cent in October. Meanwhile, credit for machinery constitutes the main share in the credit portfolio for business, accounting for 35 per cent. With regard to the size of businesses, October gave evidence of a greater orientation of large business, reducing the exposure to medium-size business.

Chart 18 Borrowing interests in the interbank market and the core interest rate



Source: Bank of Albania

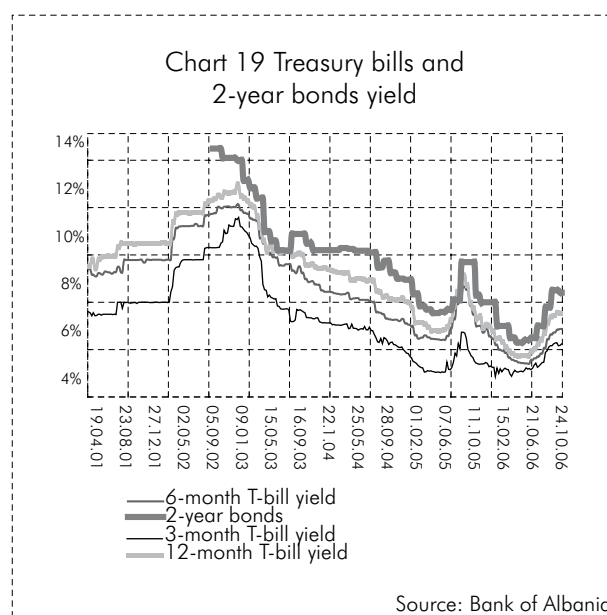
III.3.4 FINANCIAL MARKETS, INTEREST RATES AND THE EXCHANGE RATE

The interest rates in the financial markets increased further over October and November. Over this period were observed increasing tendencies of the interest rates in the deposits, credit in lek¹¹ and in the primary market. The interest rates in the market of deposits in lek increased in almost all terms over October¹². However, the increase of interests was more considerable in the system's assets, causing its intermediation cost to increase. Meanwhile, the increase of the core interest rate at the end November is expected to provide its impact in the following months.

The interest rates of overnight and weekly borrowing increased over October and November 2006. At the end November,

overnight borrowing interests reached to 4.1 per cent from 3.8 per cent the previous month. Weekly borrowing interests reached to 4.98 per cent, from 3.65 per cent the previous month.

There was an increase of Treasury bills yields, mainly of those of 6 and 12-month maturity in the primary market. At the end November, Treasury bills yields of 3, 6 and 12-month maturity reached to 6.24 per cent, 6.87 per cent and 7.54 per cent, respectively. 2-year Government's bonds yield fluctuated to similar intervals as in October. Moreover, the issue of 5-year bonds in November was carried out with a yield rate of 9.68 per cent. The increase of the Treasury bills yield came due to the growth of Government's demand for monetary assets.



Source: Bank of Albania

The tightening monetary policy pursued by the European Central Bank is assessed to have affected the increase of deposits' interests in EUR of 1-, 3-, 6- and 24-month maturity in October. Moreover, the neutral policy of the Federal Reserve and the expectations for the decrease of the core interest rate in the months to come, have started to be reflected in the USD deposits market, where was observed a decrease of USD interests. In October, there was a decrease of interests in both time and demand deposits of 3-, 6-, 24- and 36-month maturity.

	2-year	3-year	5-year
Government's bonds average yield	8.4%	8.8%	9.68%

Source: Bank of Albania

Table 5 Government's bonds average yield at end November 2006

In the credit market, USD credit interests of up to 3-year maturity increased, while over 3-year credit interests decreased. The performance of interests corresponds with the expectations for a decrease of the core interest rate by the Federal Reserve. Meanwhile, EUR credit interests of up to 1-year maturity increased, while long-term credit interests decreased.

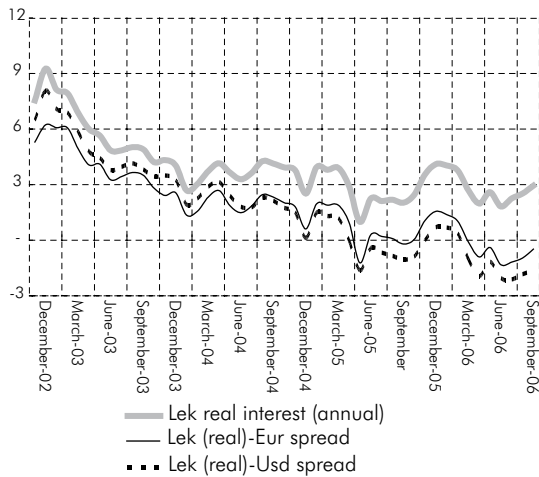
Table 6 Intermediation cost in lek

	October - 05	July - 06	August - 06	September - 06	October - 06
6-month credit - deposits	8.64%	6.22%	7.70%	11.33%	10.70%
1-year credit - deposits	7.30%	6.56%	6.83%	7.81%	10.02%

Source: Bank of Albania

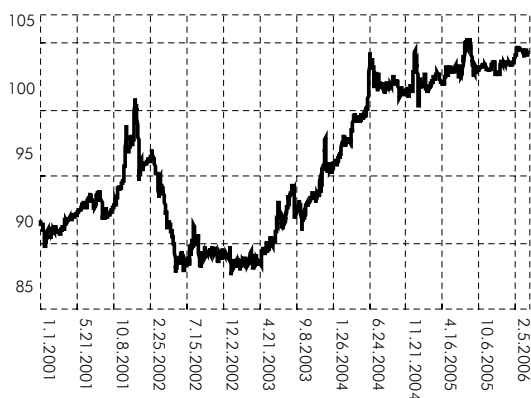
In October, EUR credit interests averaged 7.39 per cent, compared to 8.06 per cent the previous month. Meanwhile, USD credit interests remained in higher levels than those in EUR. USD credit interests average 10.29 per cent in October, compared to 9.55 per cent the previous month.

Chart 20 Real interest spread of deposits in lek to deposits in foreign currency



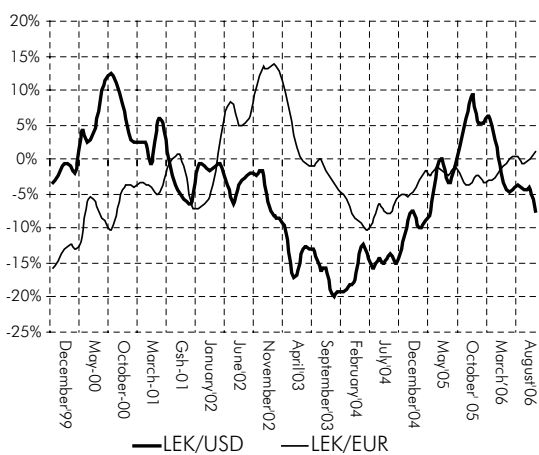
Source: Bank of Albania

Chart 21 Nominal effective exchange rate (NEER¹³)



Source: Bank of Albania

Chart 22 Annual changes in the exchange rate (- / appreciation)



Source: Bank of Albania

In October, there was an upward change of the spread of lek-foreign currency deposits' interests of 3-, 6- and 12-month maturity. This increase was most significant for the ALL-EUR interests spread, compared to the ALL-USD spread, respectively over 1.08 per cent and below 0.74 per cent. This owes to the fact that EUR deposits interests stand in lower levels than USD deposits, oriented by the core interest rates of the respective countries.

EXCHANGE RATE

Over November and December, the lek was characterized by a rapid appreciation against the dollar and by a relative stability against the euro. In annual terms, in November the lek appreciated by about 7.3 per cent against the dollar and depreciated by 1.1 per cent against the euro. In annual nominal effective terms, the lek results to have appreciated by 0.7 per cent.

The lek performance over this period continued to mostly reflect the movements of foreign currencies in the foreign international market. The dollar depreciated by 4.5 per cent against the euro and 4 per cent against the lek. As at any year-end, the lek displays appreciating tendencies against the main currencies, being affected by the usual foreign inflows.

NOTES

¹ Weekly Bulletin of Agricultural Prices, Bank of Albania, November 2006, operative data.

² Source: ISTAT; web page <http://www.istat.it>

³ Source: General Secretariat of National Statistical Service of Greece; web page <http://www.statistics.gr>

⁴ Source: EUROSTAT; web page <http://epp.eurostat.cec.eu.int>

⁵ As of October 2006 was collected about 98 per cent of revenue and carried out about 92.4 per cent of projected expenditure. Budget surplus by the end of October was about ALL 6.2 billion, from ALL 4.5 billion of projected deficit.

⁶ Source: National Statistical Service of Greece; web page <http://www.statistics.gr>

⁷ Source: Italian National Statistics Institute; web page <http://www.istat.it>

⁸ Source: EUROSTAT; web page <http://epp.eurostat.cec.eu.int>

⁹ This index is produced by the Bank of Albania. It considers the consumer prices developments in the main trade partner countries (Italy and Greece), combined with the respective trade shares and the data on the ALL/EUR exchange rate.

¹⁰ The quantitative objectives of the Bank of Albania are part of the new PRGF/EFF arrangement for 2006-2008, signed between the IMF, the Albanian Government and the Bank of Albania.

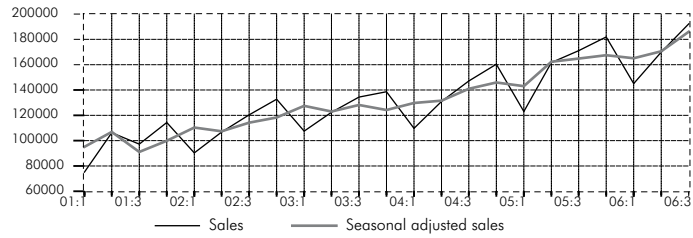
¹¹ The most recent data on deposits and credit interests refer to October.

¹² Excluding interests of current accounts and of 3-year maturity deposits, which remained unchanged.

¹³ NEER – nominal effective exchange rate, calculated against the two currencies according to an approximate share they have in trade with abroad, EUR (80 per cent) and USD (20 per cent). Since April 2004, NEER has been above the level of 100. An increase of the NEER implies the appreciation of the lek.

STATISTICAL ANNEX

Chart 1 Real sales indicator (in absolute value)



Source: Bank of Albania, INSTAT

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

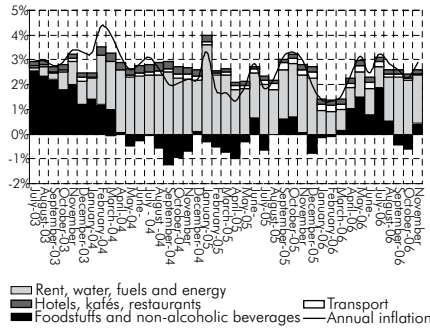
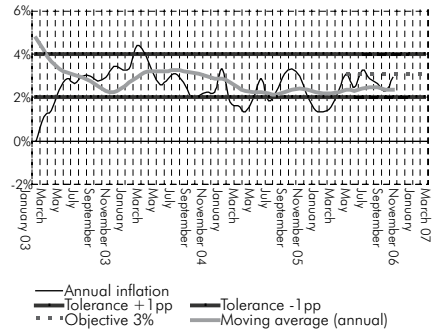


Chart 3 Annual inflation (in percentage)



Source: INSTAT

Chart 4 Cumulative and actual fiscal expenditure (in percentage)

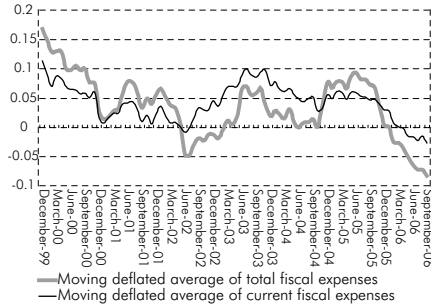
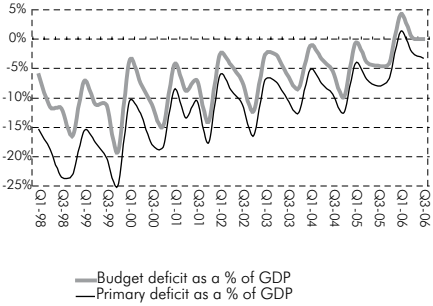


Chart 5 Total and primary deficit (in percentage)



Source: Ministry of Finances

Chart 6 Monthly trade balance and current account (in billions of USD)

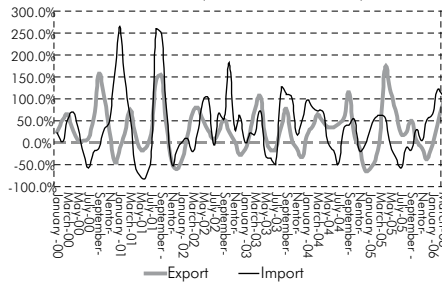
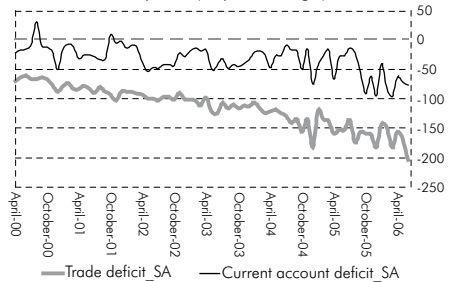
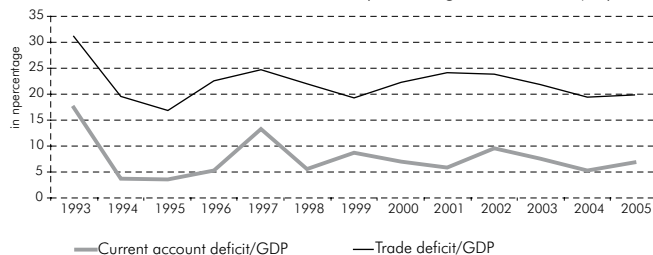


Chart 7 Annual growth of imports and exports (in percentage)



Source: INSTAT

Chart 8 Current account and trade deficit as a percentage to the GDP (in percentage)



INFLATION

Table 1 Annual inflation rate (in percentage)

	2001	2002	2003	2004	2005	2006
January	2.2	6.5	0.0	3.3	3.3	1.4
February	1.5	7.6	1.1	4.4	1.8	1.3
March	2.9	7.5	1.3	4.0	1.6	1.5
April	3.0	6.5	2.3	3.2	1.3	2.4
May	2.5	4.6	2.8	2.6	2.0	3.1
June	4.0	3.7	2.6	2.9	2.9	2.4
July	5.6	4.2	3.0	3.1	1.8	3.2
August	4.1	5.5	3.0	2.7	2.3	2.8
September	3.5	5.3	2.8	2.0	3.1	2.6
October	1.8	5.8	2.9	2.0	3.3	2.2
November	2.8	3.7	3.4	2.2	3.0	2.9
December	3.5	1.7	3.3	2.2	2.0	
Average	3.1	5.2	2.2	3.0	2.4	2.3

Source: INSTAT

Table 2 Contribution of basket constituent groups to total inflation

	February '06	March '06	April '06	May '06	June '06	July '06	August '06	September '06	October '06	November '06
Foodstuffs and non-alcoholic beverages	-0.11	0.16	1.03	1.51	0.80	1.86	0.51	-0.45	-0.59	0.45
Rent, water, fuels and energy	0.93	0.85	0.84	1.00	1.04	0.88	1.78	2.32	2.19	1.91
Transport	0.1	0.14	0.13	0.23	0.24	0.19	0.13	0.10	0.09	0.08
Hotels, café and restaurants	0.19	0.20	0.22	0.22	0.22	0.16	0.18	0.18	0.15	0.15
Other	0.10	0.11	0.12	0.10	0.15	0.15	0.24	0.40	0.40	0.32
Total	1.33	1.48	2.35	3.1	2.45	3.24	2.84	2.55	2.24	2.91

Source: INSTAT, Bank of Albania

MONETARY AGGREGATES

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

	October '06	Monthly change		Annual change	
		Absolute	Percentage	Absolute	Absolute
Currency outside banks	145.8	-0.4	-0.3	6.0	4.3
Total deposits	489.7	8.9	1.8	62.1	14.5
- in lek	300.1	3.1	1.0	26.7	9.7
- in foreign currency	189.6	5.8	3.2	35.5	23.0
Demand deposits	150.3	2.8	1.9	21.5	16.7
- in lek	79.7	-0.7	-0.9	4.8	6.4
- in foreign currency	70.6	3.5	5.2	16.7	31.0
Time deposits	339.4	6.1	1.8	40.6	13.6
- in lek	220.4	3.8	1.7	21.9	11.0
- in foreign currency	119.0	2.3	2.0	18.8	18.7
M1	225.5	-1.1	-0.5	10.7	5.0
M2	445.9	2.7	0.6	32.6	7.9
M3	635.5	8.5	1.4	68.1	12.0
Monetary base	205.7	0.3	0.2	17.7	9.4

Source: Bank of Albania

Table 4 Performance of NFA indicators by main groups (in millions of USD)

	October - 06	Monthly change	Annual change
Net foreign assets	2,405.0	1.6	324.3
Foreign assets			
Bank of Albania	1,655.0	15.3	280.7
ODC	1,087.0	0.0	150.6
Foreign liabilities			
Bank of Albania	106.9	2.7	- 1.7
ODC	230.1	10.7	108.6

Source: Bank of Albania

Table 5 Performance of Net Credit to Government indicators by main groups

	October - 06	Monthly changes	Annual changes
Net claims on the Government	274,479.8	2,513.4	- 7,202.3
Bank of Albania	52,432.3	- 1,957.0	- 4,598.7
ODC	222,047.5	4,470.3	- 2,603.5
Deposits with the Bank of Albania	7,706.5	2,728.2	1,873.4
Budget deficit	3,420.8	- 3,646.5	14,691.2

Source: Bank of Albania

Table 6 Performance of some main indicators

	2003	2004	2005		2006	
			S1	S2	S1	October
Money supply (in billions of ALL)	448.4	507.2	541.8	578.04	594.5	635.4
Domestic credit (in percentage to M3)	71.5	68.9	69.9	70.03	71.0	68.9
Credit to the Government (in percentage to M3)	60.2	55.1	52.2	48.94	45.3	43.2
Credit to economy (in percentage to M3)	11.3	13.8	17.7	21.10	25.71	27.2
Credit to economy (in percentage to total assets)	13.7	16.9	20.8	25.11	28.7	30.6
Credit to economy (in percentage to GDP)	6.8	9.0	11.2	14.57	17.6	19.5
Credit/deposits ratio (in percentage)	15.7	19.0	23.6	28.47	33.7	35.3

Source: Bank of Albania

Table 7 Outstanding credit indicators as a percentage to total

	2003	2004	September '05	Q1-06	Q2- 06	September '06	October '06
Outstanding credit (in billions of ALL)	50.7	69.3	106.0	134.6	152.8	165.3	172.8
Credit to households	24.5	30.6	31.4	31.9	32.3	33.3	33.3
Credit to the private sector	75.5	69.4	68.6	68.1	67.6	66.7	66.7
Short-term credit	46.0	34.0	33.7	32.5	31.1	30.0	29.6
Medium-term credit	33.3	36.0	33.1	30	31.2	32.6	32.3
Long-term credit	20.7	30.0	33.1	37.5	37.7	37.4	38.1
Lek	19.6	19.5	23.7	26.0	28.2	29.8	29.4
Foreign currency	80.4	80.5	76.3	74.0	71.8	70.2	70.6

Source: Bank of Albania

Table 8 New credit indicators as a percentage to total

	Total 2004	2005				2006			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	October
New credit (in billions of ALL)	99.7	22.1	32.8	32.1	32.9	29.4	35.7	11.7	15.3
Short-term credit	62.54	53.2	47	47.4	48.7	44.2	42	46	54
Medium-term credit	22.53	22.4	31	30.3	25.6	30.1	33	31	46
Long-term credit	14.93	24.4	22	22.2	25.7	25.7	26	23	29
Credit in lek	32.59	30.1	32.8	30.2	31.4	27.7	35	39	27
Credit in foreign currency	67.41	70	67.2	69.8	68.6	72.3	65	61	73

Source: Bank of Albania

Table 9 Distribution of credit by sectors of economy

	2004	Q1 '05	Q2 '05	Q3 '05	Q4 '05	Q1 '06	Q2 '06	Q3 '06	October '06
Agriculture, Hunting and Silviculture	1.5	1.3	1.5	2.4	2.7	2.2	0.9	0.75	0.7
Fishing	0.1	0.01	0.1	0.1	0.1	0.1	0.1	0.11	0.1
Extracting Industry	0.3	2.35	0.6	0.5	0.5	1.4	2.3	1.0	0.9
Processing Industry	17.1	15.8	15.6	13.9	13.8	14.2	15.3	15.5	14.9
Production, Distribution of Electricity, Gas and Water	2.8	6.27	2.9	2.9	2.6	2.4	1.1	1.2	1.6
Construction	9.8	10.61	11.2	12.8	13	13.0	12.2	12.6	12.2
Trade, Repair of Vehicles and Household Equipment	23.3	20.46	19.1	20	18.9	19.0	22.5	23.1	23.2
Hotels and Restaurants	8.3	2.5	4.7	4.4	4.3	4.8	4.1	3.9	3.7
Transport and Telecommunication	2	2.5	1.7	1.7	1.5	1.3	1.6	1.6	1.6
Financial Activities	0.2	0.19	1.1	0.7	0.8	0.7	1.3	0.7	1.4
Health and Social Activities	0.5	0.08	0.4	0.6	0.7	0.6	0.6	0.3	0.3
Collective, Social and Personal Activities	4.8	8.31	7.4	5.9	5.8	4.6	1.7	2.0	2.1
Other*	29.1	29.64	33.7	34.1	35.4	35.7	36.2	35.1	37.5
Total	100	100	100	100	100	100.0	100.0	100.0	100

Source: Bank of Albania

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

FINANCIAL MARKETS

Table 10 Interest rates at the end of the month and their change compared to previous periods (in percentage points)

	November '06	Change November '06 – October '06	Change November '06 – November '05
Core interest rate*	5.50%	+0.25	+0.50
Interbank market			
Overnight interest	4.10%	+0.32	-0.40
Weekly interest	4.98%	-0.27	-1.20
Primary market			
3-month Treasury bills yield	6.24%	0	+0.83
6-month Treasury bills yield	6.87%	+0.15	-0.13
12-month Treasury bills yield	7.54%	+0.09	+0.24
Bonds market			
2-year bonds yield	8.40%	-0.10	+0.10

Source: Bank of Albania and commercial banks

* Core interest rate throughout November was 5.25 per cent. At the end of November, it increased to 5.50 per cent.

Table 11 Interest rates and their change in the lek deposits and credit market (in percentage points)

	October '06	Change October '06 – September '06	Change October '06 – October '05
Core interest rate	5.25	0.00	0.25
Interest of deposits in lek			
3-month	3.85%	+0.20	-0.26
6-month	4.50%	+0.19	-0.24
12-month	5.20%	+0.01	-0.12
24-month	5.78%	+0.10	-0.79
Interest of credit in lek			
Up to 6-month credit	15.20%	-0.44	+1.82
6-month to 1 year credit	15.22%	+2.22	+2.60
1-3 years credit	16.84%	+0.65	-0.77
Over 3-year credit	12.35%	+0.65	+0.20

Source: Bank of Albania and commercial banks

Table 12 Interest rates of deposits in foreign currency (in percentage points)

	October - '06	Change October '06 – September '06	Change October '06 – October '05
Fed – Core interest rate	5.25%	+0.00	+1.50
Interest of deposits in USD			
1-month	3.08%	+0.03	+1.11
3-month	3.52%	-0.45	+1.17
6-month	3.76%	-0.07	+1.13
12-month	4.59%	+0.24	+1.51
24-month	4.76%	-0.11	+0.93
ECB – Core interest rate	3.25	+0.25	+1.25
Interest of deposits in EUR			
1-month	2.47%	+0.07	+0.77
3-month	2.77%	+0.01	+1.08
6-month	3.17%	+0.09	+1.17
12-month	3.42%	-0.06	+1.19
24-month	4.06%	+0.24	+0.40

Source: Bank of Albania and commercial banks

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

Spread of deposits interest				
	ALL-USD		ALL-EUR	
	October '05	October '06	October '05	October '06
3-month	1.76%	0.33%	2.42%	1.08%
6-month	2.11%	0.74%	2.74%	1.33%
12-month	2.24%	0.61%	3.09%	1.78%
Spread of credit interest				
	ALL-USD		ALL-EUR	
	October '05	October '06	October '05	October '06
6-month	3.84%	5.25%	5.30%	7.38%
6-month – 1 year	1.93%	4.11%	5.80%	7.61%
1-3 years	8.17%	5.74%	10.01%	10.88%
Over 3 years	2.81%	3.45%	3.94%	4.29%

Source: Bank of Albania and commercial banks