



BANK OF ALBANIA
Governor

***PRESS CONFERENCE OF THE GOVERNOR OF THE BANK
OF ALBANIA Mr. SHKËLQIM CANI***

**ACHIEVEMENTS OF THE BANK OF
ALBANIA IN 2003 AND ITS
FORECASTING FOR 2004**

***TIRANE, FEBRUARY 6, 2004
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ACHIEVEMENTS OF THE BANK OF ALBANIA AND ITS FORTECASTING FOR 2004

I. Main developments during 2003 and forecasts on 2004

I. 1. Outline of the main achievements of the Bank and banking system in 2003.

I would gladly note that 2003 marked another positive step for the Bank of Albania in respect of its legal commitments, inflation target, banking system development, growth of foreign exchange reserve, a rather stable exchange rate, public image, etc.

The Bank of Albania shot its inflation target maintaining thus the annual inflation within the range of 2-4 percent. The annual inflation rate in December – despite the unexpected increase of telephony prices – resulted 3.3 percent, whereas the average annual inflation rate was 2.37 percent.

The Bank of Albania conducted a successful campaign against the speculative increase of prices on the eve of year-end holidays. The conclusions were presented a few days ago, and the Bank of Albania is grateful to all the media for the cooperation and the support offered during the campaign.

The monetary policy was characterized by a smoothing trend throughout 2003; the core interest rates were reduced by 2 percentage points upon four decisions made by the Supervisory Council. This did not bear any negative impacts on monetary indicators, which were in line with the monetary programmed forecasts. The Bank has observed its quantitative objectives, which are also its legal obligations, in the net international reserve level, net domestic assets and net domestic credit to the government.

The banking system marked positive developments in supporting the economic development of the country with crediting and banking infrastructure, especially in regard to increasing the number of branches and services.

The most significant event of 2003 was the privatization of the Savings Bank from the Austrian Raiffeisen Zentral Bank. The success of this process lies not only on the good reputation of the bank, expected

growth of competition, crediting and the banking system itself, but also on the higher confidence of the public in the banking system.

2003 recorded positive developments in the administration of the foreign exchange reserve. From USD 8369.6 million in January, it mounted to USD 1 billion and 25.6 million on December 31st, 2003. In the last 2-3 years, the Bank of Albania focused on the variety of instruments employed, decision-making structure and investment strategies, as well as on the method of selecting and establishing benchmarks, estimating the investment upshot against risk towards the final objective of identifying performance-influencing factors.

The Bank of Albania appreciates developments in the scientific field, the payments system progress, campaigns undertaken, publications, cooperation with international financial institutions and native institutional actors, intellectuals, civil society and media.

I.2. Forecasts for 2004.

The Bank of Albania has always tried to explain publicly what it intends by price stability and how it works to attain that. Attaining price stability means shooting low positive rates of inflation or consumption price difference. Maintaining price stability means ensuring low, positive inflation rates for a relatively long period of time.

The inflation target for 2003-2005 has been already established now in the Bank's three-year strategy "Mid-term development plan of the Bank of Albania (2003-2005)". The Bank of Albania is committed to maintaining the annual inflation in the level of about 3 percent. Consequently, the Bank of Albania will continue to keep its inflation target within the range of 2-4 percent during 2004. The inflation target is estimated through the annual growth of the consumption price index, calculated and published by INSTAT.

Hence, the monetary program is aiming at controlling the money supply, so that the real monetary assets level satisfies the real needs of the economy for an economic growth of about 6 percent. The economy demand forecast is based on the money circulation velocity forecast. Based on the nominal GDP level, this forecast is the bridging gap between inflation and the money supply growth (intermediate objective).

The monetary program guarantees the observance of the Bank's quantitative objectives, maintenance of NDA and NIR levels within the limits and government domestic borrowing at the level of 2.8 percent of the GDP.

The money outside banks ratio versus the money supply of 2003 is not expected to bear significant changes for the next year. However, an

upward trend is expected for the foreign exchange deposits ratio versus M3, reducing thus Lek deposits level versus the money supply. Foreign exchange deposits are expected to rise considerably by 18.2 percent or Lek 17.7 billion by the end of 2004.

The banking system is forecasted to meet the private sector need for credits in Lek and the deficit financing demand of the government. The Bank of Albania can finance up to 5 percent of the average revenue of the government in these last three years, or about Lek 7.5 billion. And consequently, borrowing or the investment of un-used funds from second-tier banks in the Bank of Albania will serve to ease the disproportional effects of demand and supply for domestic monetary assets on liquidity performance in the course of the year.

II. The Albanian economy during 2003 under the Bank of Albania perspective.

2003 is considered by the Bank of Albania and the Albanian economy a satisfactory year. Our appreciation lies on the improved macroeconomic indicators put in comparison with the previous year. The so far developments in economy suggest the attainment of the economic growth forecast of about 6 percent, versus the last-year growth of 4.7 percent. And what is more, a growth in all the sectors of the economy is forecasted, though it is likely to be higher in the construction and services sector.

Table: The forecasted real growth as to economy sectors 2002-2003 (in %).

Sectors	2002	2003
GDP real growth	4.7	6.0
Industry	1.8	2.7
Agriculture ¹	2.1	3.0
Construction	8.7	11.3
Transport	9.7	10.8
Services	5.1	6.4

Source: Ministry of Finance.

Table : Weight of sectors on the GDP (in %).

	2002	2003
Agriculture	25.4	24.7
Industry	10.5	10.2
Construction	8.6	9.1

¹ Here are included agriculture and farming, only; agro-industry and fishing are not included.

Transporti	9.6	10
Services	45.9	46.1

Source: Ministry of Finance.

The greater macroeconomic consolidation can be proved also by the observance of: inflation target throughout 2003; budget deficit within the limits; satisfactory position of the balance of payments, expressed in the growth of the foreign exchange reserve.

II.1. Developments in various sectors of the economy:

Agriculture, is still one of the pillars of the growth rates, as long as its contribution to GDP is significant. According to the assessments made by the Ministry of Agriculture and Food, the growth in the agriculture sectors is expected to be 4.1 percent (agro-industry and fishing included).

The best growth rates in agriculture for 2003 are mainly attributed to the higher farming and fruit production. However, the agricultural production was damaged somehow by the unfavourable weather conditions, (low temperatures in April and high ones in June), where the grain production was badly hit.

Satisfactory growth rates were noticed during the third quarter of 2003 compared to the same period in the previous year in **various sectors of the economy**. Thus, the positive figures of the table, show a growth of the economic activity in **industry, transport and telecommunication**, highlighting here **construction**, as one of the most important sectors of the Albanian economy. Sales have been going upward, though prices keep mounting from one quarter to the other as well as from one year to the other. This implies that the upward demand is exercising its influence on construction prices, and certainly the apparent appreciation of Euro versus the domestic currency has had its own impact upon them.

The tendency of constructors to sell in Euro has affected directly the raise of prices converted into Lek in this sector. In the third quarter only, the construction cost index recorded a growth of about 3.47 percent versus the same period in the previous year.

Energetics is a sector which has had growths in several indicators throughout 2003. Thus, imports declined by 32 percent in comparison with the same period in the previous year. Also, the domestic production has satisfied nearly 63 percent of the domestic demand compared to 46 percent in the last year.

Various indicators of the domestic demand, such as the fuel consumption, motorcars and home appliances import marked a surge during January-September 2003, compared to the same period in the previous year.

No distinguished positive developments were noticed in **investments** during 2003. While foreign direct investments have been going upward, capital expenditures of the state budget were realized at an unsatisfactory level. Their level increased by 4.5 percent during the first nine months of the year. Also, capital expenditures were realized only 60 percent from what was forecasted. Over 60 percent of capital expenditures were financed by domestic sources in 2003.

Foreign trade activity. The trade volume during January-September 2003 increased significantly if compared to the same period of the previous year. This was noticed in imports and exports the like, by respectively 10 and 22 percent. Albeit this, the exports volume is still low in the overall volume of the foreign trade. Nevertheless, the highest impact on this increase of Albanian exports can be attributed to re-exports.

II. 2. Developments in the foreign sector of the economy.

The current account deficit resulted USD 258 million during January-September 2003, or 14 percent less than in the same period of the previous year. This period was characterized by higher current expenditures and revenues. The total of transactions was USD 3.5 billion, from which USD 1.9 billion were expenditures and USD 1.6 billion revenues. Nearly 67 percent of the current expenditures were import payments, which mounted to USD 1.4 billion. The biggest groups within revenues were the services and current transfers ones, respectively USD 518 million and USD 651 million. Nearly 75 percent of the current account deficit was financed by net capital and financial account inflows, which were estimated to be USD 193 million.

Table: The balance of payments items (January – September 2003).

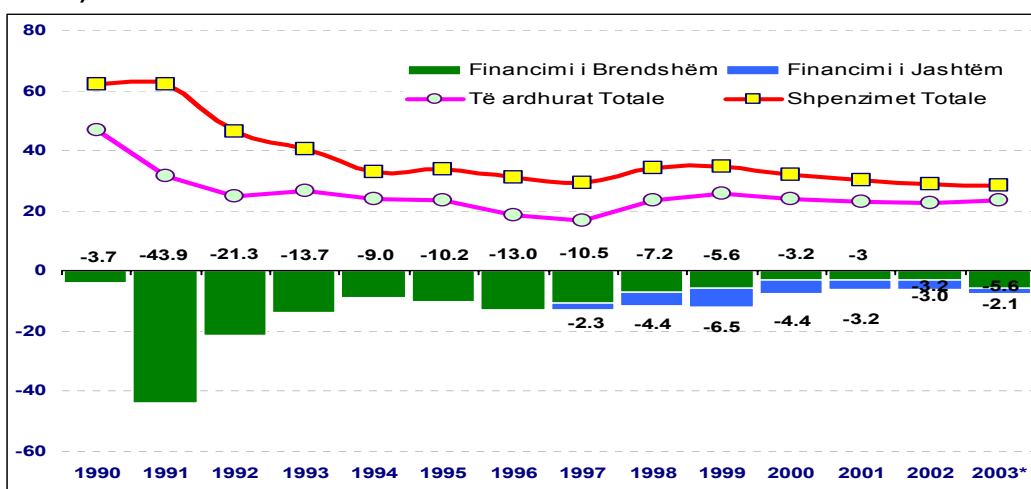
Balance of payments in USD million	Jan-1 2002	Jan-1 2003	Jan-1 2003	Jan-11 2003	Jan-1 2003
Current account	-299.7	-31.6	-119.4	-106.6	-257.6
Export	234.2	108.6	111.7	102.0	234.3
Imports	-1491.1	-281.1	-451.8	-434.0	-1331.3
Trade balance	-1256.9	-172.5	-340.1	-332.0	-1097.0
services: Credit	408.8	125.1	177.8	212.0	517.9
Services: Debit	-413.0	-110.1	-185.4	-242.2	-546.7
services: Credit	113.2	44.0	49.2	54.8	109.0
Revenues: Debt	-16.5	-5.1	0.8	-4.9	-16.8
Private non-resident	411.1	188.2	177.8	189.8	505.0
State non-resident	20.5	7.9	3.1	14.0	20.0
Financial account	87.1	11.0	36.3	42.7	113.2
Direct investment	174.8	46.7	36.1	8.1	79.6
Direct investments	164.1	37.0	36.9	34.4	68.3
Portfolio investments	10.7	9.0	0.0	0.0	11.0
Other capital	108.3	19.8	-13.4	-17.5	-11.3
Errors and omissions	-74.2	16.9	98.8	60.7	242.3
General balance	36.7	57.0	4.2	11.2	76.5
Reserve and identified items					
Reserve assets	-38.7	-57.0	-4.2	-11.2	-76.5
Loans and credits from the IMF	5.3	5.5	0.0	5.4	11.2
Special Reserves	-76.5	-41.0	-32.7	-19.7	-115.4
Total difference in Reserves	39.2	11.5	23.1	12.3	46.3

* Loans and credits from the IMF excluded

II.3. Developments in the fiscal sector

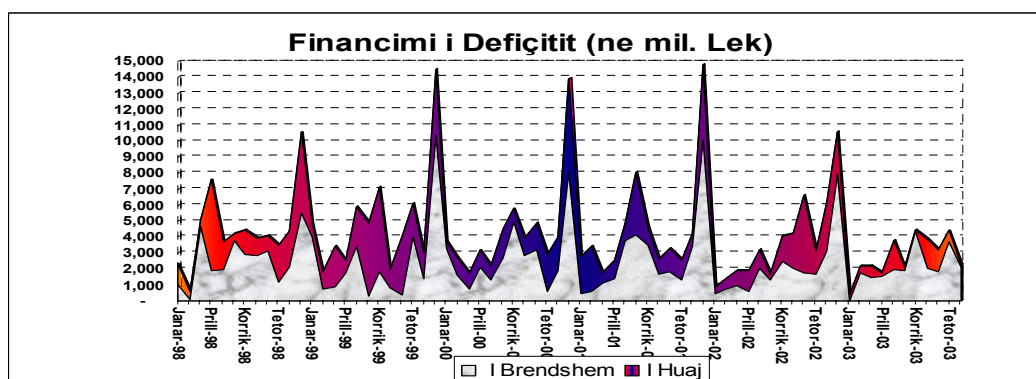
The fiscal indicators performed at lower levels from the forecasted ones during January-November 2003. According to the Ministry of Finance, until the end of November were collected only 93 percent from the forecasted total revenues and realized about 88 percent of the programmed expenditures for this period. Consequently, the budget deficit resulted Lek 27 billion from Lek 40.4 billion forecasted. The domestic deficit financing through treasury bills enabled the observance of the objective set at the beginning of the year. The foreign deficit financing reached to Lek 7.7 billion or 32 percent of the forecasted value.

Graphic: Annual fiscal indicators during 1990-2003 (as a percentage versus the GDP).



* 2003 data are forecasted for the year-end.

Graphic: Budget deficit financing from 1998.

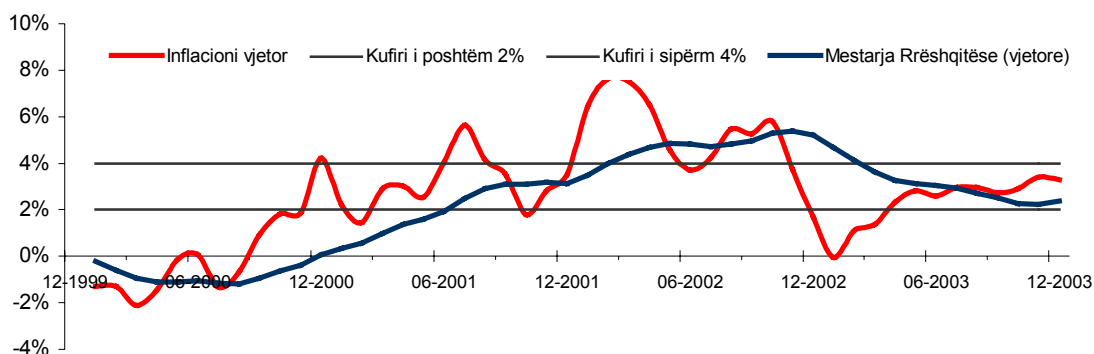


III. Inflation performance and monetary policy.

III.1. INFLATION.

The price consumption performance, the stability of which represents the main objective of the Bank of Albania, was quite satisfactory during 2003. Inflation rate resulted 3.3 percent by the end of the year, whereas the average annual rate was 2.37 percent throughout 2003. Considering the inflation impact on the Albanian economy and the reasons for setting its target², I would like to underline the fact that inflation has been a positive player in the development of the Albanian economy, in sustaining the macroeconomic equilibriums and developing the banking system.

Graphic. Inflation performance in 2003.



The consumption prices were under the influence of many factors throughout 2003. However, not all of them are under the control of the Bank of Albania. **High inflation³ in our partner countries**, Italy and Greece, has affected the price of imported goods. The structure of the consumption price index includes considerably imported goods⁴, making thus the price level volatile versus the inflation of other countries. Also, the **increase of the administered prices** of water in February, electric power in May and fixed line telephony in December, gave direct impacts on the rise of consumption prices.

Albeit all these, inflation resulted low, reflecting thus the control of domestic demand pressures in respecting thus the design of fiscal and monetary policies and their objectives.

Fiscal policy. Fiscal indicators have had a positive impact on inflation. Therefore, there has been a more uniform allocation of budget expenditures and borrowing demands of the government, avoiding thus

² You can find these in details in the “Mid-term development plan of the Bank of Albania.

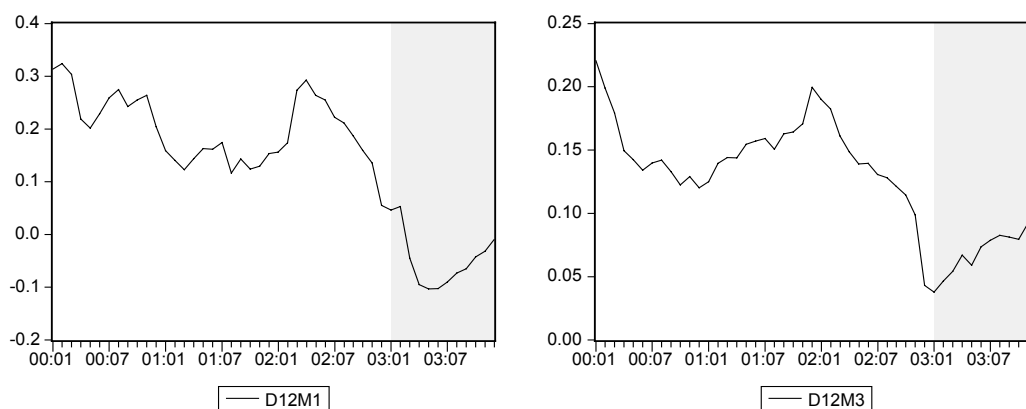
³ Compared to the historical levels of this indicator.

⁴ The Albanian economy, being a growing economy and of a small production base, is import-oriented. Thus imports were 4 times higher than exports.

their concentration in the last quarter of the year. The local government elections in October and the exacerbated political climate in the second half of the year were not associated with a concentration of the budget expenditures of the fiscal policy. In addition, the government observed the limitation of the government domestic borrowing at the level of 2.7 percent of the GDP, making it easier for the Bank of Albania to control liquidity and interest rates.

Monetary policy in 2003, though characterized by easing trends, paid attention to the inflationary pressures introduced to the economy. The real interest rates, in positive terms, have still attracted the public interest in depositing their savings in the banking system, contributing thus to a sustainable liquidity situation and observance of the monetary program forecasts.

Graphic. Annual changes of the monetary aggregates M1 and M3 in percentage



The Bank of Albania believes that there is an **enhancement of the public expectation orientation**, such as the banking system, towards inflation within the target of the Bank of Albania. The public expectations are important in setting prices in economy. According to various surveys of the banking system, the expectations were for a low inflation. This accelerated the banking system reaction against the decisions of the Bank of Albania monetary policy.

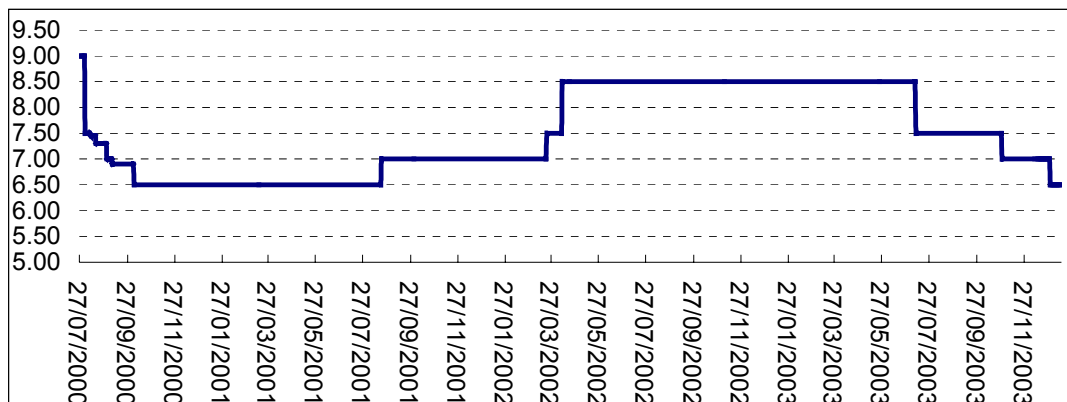
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I would like to focus more on the Bank of Albania monetary policy throughout 2003. The easing monetary policy was conditioned by the amelioration of the inflation performance, its positive forecasts and the reestablishment of the general equilibrium of monetary indicators. Such a policy was implemented by the reduction of the core interest rate in the economy, aiming thus at reducing the money cost and stimulating economy crediting. The Bank of Albania reduced the core interest rate in April, July, October and December, by 0.5 percentage points each time, or 2 percentage points all in all. This reduction not only stamped

out the 1.5 percentage point increase of the core interest rate during 2002, but it also brought it back to its minimum historical level in these three last years.

Graphic: Core interest rate in economy.



In compliance with the easing monetary policy, the Bank of Albania has been present also in the foreign exchange market so as to prohibit Lek appreciation and to inject liquidity in the market. The appreciation trends were forced by the difference between Lek and foreign exchange interest rates, and the higher foreign currency supply compared to the Lek one in this period. Through purchases in the foreign exchange market, the Bank of Albania withdrew the surplus foreign exchange supply by injecting liquidity in the system.

The review of monetary policy instruments served not only the easing monetary policy, but also the new realities of the Albanian banking system they have been adopted to and modified according to the standards of the most developed central banks. These changes have aimed mainly at reducing the financial intermediation cost and stimulating the interbank market.

III.2. INFLATION EXPECTATIONS FOR 2004.

The forecasted inflation rate is expected to be within the range of 2-4 percent. This is based on the positive trends noticed in 2003 with regard to the consolidation of macro-economic stability. The Bank of Albania deems that fulfilling the programmed macroeconomic indicators – especially the control of expenditures and domestic financing of the budget deficit respectively within the levels 29.3 and 2.8 percent of the GDP – shall serve as a sustainable basis for price stability.

On the other side, monetary developments in 2003 are expected to favour price stability. The rise of the money supply at the level of 10.6 percent during 2004 shall meet the demand of the economy and the liquidity structure is expected to be stable. Also, the foreign exchange floatations are not expected to threaten the inflation target.

However, there is a number of number of unpredictable factors that affect inflation forecast. Following are some of them:

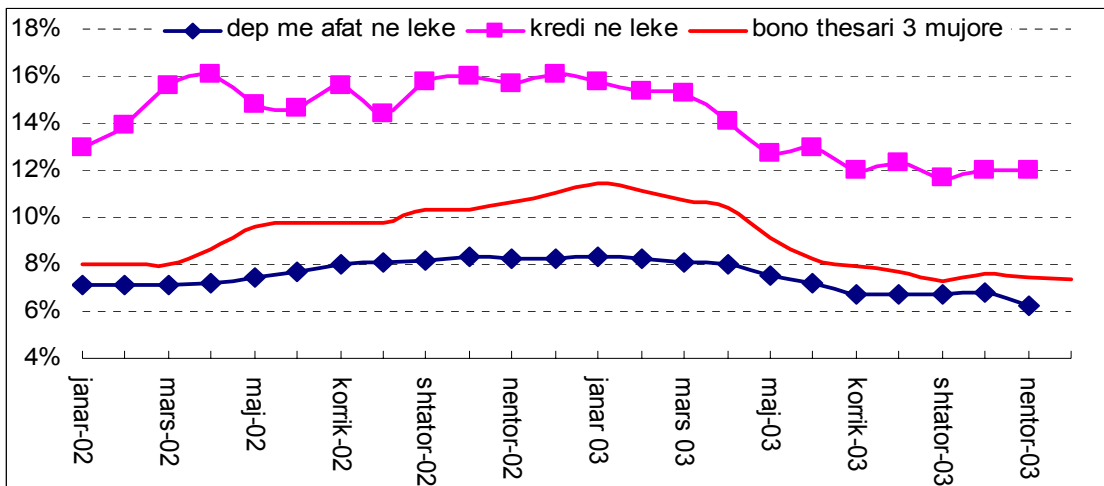
- **Performance of administered prices.** Here are included the performance of the electrical power and telephony prices. The Bank of Albania is aware of the changes put forward. However, our concern is the incorporation of these increases in the cost of goods, and in addition the speculation with them, as it was noticed recently. In such a case, their impact on inflation would be amplified.
- **Maintenance of structural reforms in the sector of agriculture, with regard to increasing the production capacities.** Inflation in Albania is mostly related to developments in the foodstuff group. 2003 showed that the spur of tourism activity brought about the increase of the economy demand during summer. Producers and Albanian production should play a more active role in satisfying this demand and substituting imported goods.

It is still early to give the right figures of inflation rise as an outcome of the increase of the price of bread and electrical power; however, the Bank of Albania - relying on the preliminary data and estimations - deems that these impacts are not avoidable and not to be neglected.

IV. MAIN MONETARY DEVELOPMENTS.

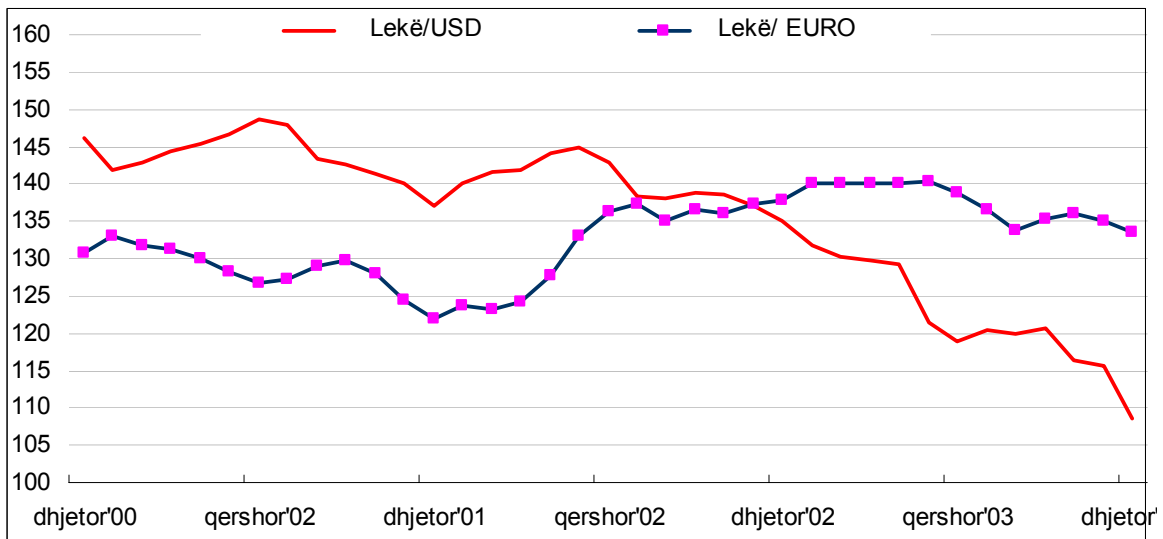
The feedback from second-tier banks due to the reduction of the core interest rate from the Bank of Albania was the reduction of the interest rates of deposits, treasury bills and crediting in Lek. **Interest rates of treasury bills and credits in Lek were reduced more than Lek deposits interest rates, reducing thus the total financial intermediation cost of the banking system in 2003.** Interest rates of time deposits in Lek were reduced by 1.9 percentage points; treasury bills yield by 3.1 percentage points, whereas interest rate of credits in Lek were reduced by 4 percentage points.

Graphic 13. Interest rates performance.



Lek appreciation during 2003 was affected by positive interest rates and their difference with foreign exchange financial assets.

Graphic. Lek exchange rate performance.



The amelioration of the overall economic climate, the reduction of interest rates and the sustainable liquidity situation contributed to the upgrade of economy crediting throughout 2003, sustaining thus the economic growth in general. **The newly extended credit in the first eleven months of the year was about Lek 78 percent or 44 percent more than the same period in the previous year.**

The reduction of the core interest rate did not affect negatively monetary indicators and consequently they have been performing according to the forecasts of the monetary program. In addition, it helped the observance

of quantitative objectives of the Bank, the floor of net international reserves and the ceiling of net domestic assets.

V. Banking system developments

One of the developments during 2003 was the entrance of two other banks in the banking market, bringing to 15 the number of banks operating in Albania. Another achievement of the past year was the successful privatization of the largest bank in the system – the Savings Bank; now there are 2 banks operating with joint capital, one with national private-owned capital and 11 other with foreign, private-owned capital.

The banking system assets surged about Lek 40 billion or 11.8 percent since the end of 2002, and their main source were mainly deposits from the public. However, their reinvestment process brings to light hedging against various risks the banking system might be faced with. Therefore, to be evidenced are:

- Increase of the **reserve requirement** at the Bank of Albania (an outcome of the growth of deposits)
- Increase of **treasury bills investments**, albeit their falling shares versus the total of assets (from 51.6% in the end of 2002 to 49.8% in the end of 2003), due to the higher growth rate of the latter ones.
- **Increase of crediting investment, from 11.4 % of the total assets in the end of 2002 to 13.2 % in 2003.** Worth mentioning is the rise of loans to the private sector and households (from 10.9 % to 12.5% in the end of 2003), as well as that of mid-term and long-term loans (though the short-term loan comprises 41.4% of the total loans).
- **Increase of investments in “securities” from 4.9% to 5.5%.** 7 banks are evidenced of having such a portfolio, from 3 they were in the previous year. The two-year bonds of the Albanian government play a significant role in expanding this portfolio.
- **The banking system shot a positive net result of Lek 4.5 billion, from Lek 3.9 billion in the end of 2002.** The main income-generating source are the “incomes on interest”, though incomes on other activities” are not to be neglected.

The efficiency indicators have risen in comparison to the pas year:

-ROA is estimated to be 1.4% from 1.2%

-ROE resulted 21.6% from 19.1% in the same period of the previous year. Deposits comprise about 87 % of the banking system funds. They increased considerably by about Lek 46 billion. The highest contribution was that of private banks, though the Savings Bank continues to hold the highest level of deposits in the system.

The structure of deposits in the system shot its highest level of Lek deposits (69%), term deposits (81%) and household's deposits (85%). The stakeholder's capital of the system marked the value of Lek 24.3 billion. The capital adequacy ratio at the level of 33.5 % presents a capitalized system. The Savings Bank share versus the whole system is characterized by a considerable decline in the course of the years, due to the growing importance of other banks. This event is considered to be positive with regard to increasing competition in the market and reducing the banking activity concentration.

The reduction of the banking activity concentration can be concluded also by the following values of the *Herfindahl* Index, as presented in the table below:

Tab. 1. *Herfindahl*⁵ Index on the assets concentration.

Periods:	Decem ber 2000	Decem ber 2001	Decem ber 2002	Septe mber 2003
Assets concentration index.	0.44	0.37	0.32	0.30

However, the reduction of the above index does not suggest a full competition in the banking system. Although there are about 15 new branches in 2003, new products and services, new payments methods (credit cards, ATM-s, etc.) there is still much more to achieve full competition.

V.2. The Savings Bank

The Savings Bank, established in 1992, is currently the biggest bank in Albania. While operating as a universal commercial bank, it consists of 36 branches spread throughout Albania. Its investments are mainly in treasury bills of the Albanian Government and deposits in foreign banks.

The reconstruction plan, drafted by the Ministry of Finance preceded by an intensive reconstruction phase, consisted mainly in:

- Further development of information technology and telecommunication
- Curtailment and qualitative upgrade of the staff
- Fiscal services
- Bank's net reconstruction
- Improvement of the payments system
- Regional spread of the Bank
- Bank's domination reduction

⁵ $H = \sum (\text{banks assets} / \text{total assets of the banking system} * 100)^2$.

-Marketing

The Bank of Albania notices that the Reconstruction Measures Plan has been fully realized and it gave positive impacts on the Bank's recent privatization, approved with the decision issued by the Council of Ministers of the Republic of Albania.

Its new owner, the Austrian Raiffeisen Bank, is expected to take necessary steps towards the further reconstruction of the Savings Bank, which will influence the banking infrastructure in general.

The sales contract of 100 percent of the Savings Bank shares has been lately presented to the Bank of Albania and once having taken the opinion of specialists thereof, shall be submitted to the Supervisory Council for approval.

Meanwhile, the Raiffeisen Bank is expected to submit its request on taking the approval for activity conduct in the Albanian banking system. The request shall be considered and approved by the Supervisory Council of the Bank of Albania.

2004 is expected to bring about many positive changes in the banking and financial system due to the privatization of the Savings Bank.

V.2. Main trends and perspectives of the banking system during 2004.

- Upgrade of bank investment structures, focusing on assets bearing higher risk (mainly in crediting, over 15% of the total assets) giving its contribution to the economy;
- Growth of the system incomes from other activities, apart from incomes on interest;
- Liquidity facilities offered by the Bank of Albania will reduce liquidity risk
- Adequate capital levels present banks hedged against credit risk
- Increase of crediting activity, especially towards small businesses.

There will be smoothing Lek and foreign exchange interest rates.

- Trade activity will still be one of the most favourable sectors for crediting.
- Strengthening the auditing structures in banks in respect of crediting.
- Increasing competition and further spreading branches throughout the country.

- Another private bank of Albanian capital is expected to apply shortly for the final license.
- Banking supervision will improve according to the international standards.

VI. Developments in the foreign exchange reserve in the BoA, and the exchange rate.

During 2003, Lek appreciation trends have prevailed in the domestic foreign exchange market. An important factor in Lek strengthening against other currencies was the considerable difference between the interest rates of investments in the domestic currency (deposits in Lek, treasury bills) and thus in foreign exchange, and all this under the conditions of a low inflation rate within the target range of the Bank of Albania. These strengthening trends of Lek were noticed also during the first part of the year. In addition, the weakness of the USD in the international markets – psychologically important currency – instigated volatility in the domestic market. There were these two factors that stimulated the Bank of Albania to be present in the market during the first half of the year, and it intervened with a sum of USD 40 million. The strengthening trends of Lek lessened the presence of the BoA which brought about the appreciation of Lek versus Euro in the second half of the year as well as a higher volatility of EUR/Lek ratio in the same period. The Bank of Albania interventions in the second half of the year occurred mainly when traditionally Lek tries to strengthen more. Thus, during August it was purchased about USD 6.4 million. However, the absence of aggressiveness in the market from the Bank of Albania in December (USD 3.4 million purchased) brought the two main currencies – Euro and USD – to the lowest level in 2003. Generally speaking, Lek strengthening had positive impacts on inflation, reducing thus the imported inflation and stimulating a greater confidence in the domestic financial markets (greater participation of households in treasury bills auctions).



Developments in the foreign exchange reserve

By the end of December, the gross foreign exchange value is estimated to be USD 1.0265 billion, recording thus a growth of about **USD 186.62 million or about 22 percent**, only in 2003.

Some of the factors that gave a contribution of about USD 236.85, would be the inflows from:

- funds delivery, issued by the International Monetary Fund, the World Bank and other international financial institutions (USD 68.05 million);
- purchase of foreign exchange from second-tier banks and the Ministry of Finance (USD 87.80 million);
- inflows from second-tier banks to the Bank of Albania, in amplifying the reserve requirement (USD 28.08 million);
- incomes on the foreign exchange reserve investment (USD 28.95 million).

Purchases with second-tier banks, which are referred to as the Bank of Albania's interventions in the domestic foreign exchange market, increased significantly the foreign exchange reserve; such a contribution in 2002 was given by loans extended by international financial institutions.

Foreign exchange outflows in 2003 mounted to USD 127.23 million, representing transfers carried out by the Ministry of Finance, second-tier banks and foreign debt settlement.

VII. Bank of Albania projects for 2004:

VII.1. Anti-cash campaign

The campaign initiated by the Bank of Albania – aiming the reduction of cash in economy, its necessity and possibility - could be regarded effective. An important outcome was the willingness of institutions in taking the appropriate measures and incentives, and including this issue in their plans and programs.

One of the objectives of the Ministry of Finance for 2004 is the accounts and budget service liberalization in all the second-tier banks, within the first quarter of '04 as well as the posting of wages to accounts for at least 10 % of state employees until September 2004. The Bank of Albania is working closely with second-tier banks in hosting the new clients and offering good services.

The new fiscal package includes foresees that every business agency should hold a bank account and that any payments exceeding the sum of Lek 500 thousand should be carried out in banks.

The Ministry of Economics has already planned a number of activities throughout Albania, presenting the cash replacement advantages to the business community.

Most of the banks have started their investments in appliances and ATM network; have spread their banking services advertising campaigns and non-cash payments appealing offers. The cooperation between KESH (Albanian Electrical Corporation) and Alb telecom with banks on the possibility of paying their fees through a bank is regarded as another positive step.

The Bank of Albania is seriously committed to fighting cash even during 2004, supporting thus the incentives from partner institutions and investing on an effective payments system satisfying the European standards.

VII.2. European integration

Main strategic objective of Albania is the European integration. Together with the Stabilization-Association Agreement to be signed with the European Union will become a contract agreement implying tasks and objectives to be observed by every Albanian institution.

The main objective of the European countries union in a single community, as already known, is the establishment of a common market and monetary and economic union, encouraging thus a harmonious, well-balanced and sustainable economic development, high employment level and social protection, stable, non-inflationary growth, etc. What I would like to underline here are the Bank of Albania duties requiring a maximal commitment in this challenging and long process.

Some of our goals – presented since January of this year – will be part of a special European integration strategy of the Bank.

First and foremost is the capital movements liberalization. Though a long, necessary and important process, free capital movement is presumed in the integration process. We have modified our foreign exchange legal framework, reflecting this way the highest development phases. Foreign capital mobilization in the form of direct investments or other forms bears significant impacts on the economic development. A matrix of operations, cooperating institutions, responsibilities and public and businesses awareness will be compiled on the capital account liberalization.

Second, there is no free capital movement without a strong banking system, that is, without a banking supervision development. This activity undertaken by the Bank of Albania is in the phase of further development, supported also by a World Bank project. A strong supervision and a consolidated and developed financial system will help also the anti money laundering fight.

Third, completing and perfecting payments system projects.

Fourth, strengthening public and business confidence in the Bank of Albania and banking system activity will be achieved through increasing transparency in this activity. Attention will be given also to public education relying also on the traditional and consolidated cooperation with the media.

VII.3. Launch of the Albanian Interbank Payments System project.

The Albanian Interbank Payments System project could be now considered successful and the Bank of Albania announces its implementation to all the participants in the system.

Such a system represents one of the main steps made by the Bank of Albania towards deepening financial reforms in Albania, strengthening stability and increasing financial and banking sector stability.

AIPS relies on the best international standards and practices. Its outcome is expected to be the higher qualitative operational capacities for an efficient and reliable exchange of monetary assets. The implementation of this system implies lower operational cost and shorter time in payments instruments processing.

The new system will guarantee:

- ❖ Real time gross interbank payments;
- ❖ Increasing-efficiency facilities in the liquidity daily administration from the banks themselves
- ❖ Banking system risk reduction
- ❖ A sound infrastructure in setting up another important system of small payments settlement
- ❖ A sound infrastructure in encouraging the further financial market developments, enabling thus an efficient transmission of monetary policy.

The new AIPS system will expand its activity also in gross settlements of business and households, having thus a considerable impact even outside the banking system. Though this system is administered by the Bank of Albania, essentially that is a new service offered to the whole banking system. The policy implemented by the Bank of Albania shall be transparent, equal, overwhelming, requiring also a high commitment and cooperation from banks, too.

In conclusion, the Bank of Albania would like to thanks the commercial banks – members of the AIPS – as well as the World Bank as one of the co-financers and supporters of the system.

Thank you!

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