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FINANCIAL REFORMS TOWARDS EUROPEAN MONETARY UNION¹

Since the starting of the process on opening Albanian economy to global one, the Bank of Albania has been one of the main actors of economic and especially financial reform.

The achieving and maintaining of price stability has been the main Bank of Albania target right from the beginning.

Recently, the Bank of Albania objectives, commitments and obligations have been under continuous reforming process, approaching to Eurosystem principles and ECB model.

The Bank of Albania is playing a leading role in terms of sustainable banking system growth through banking supervision, development of a modern interbank payment system to and from the country. The Bank of Albania is committed especially to the process of capital account liberalisation¹

The Bank of Albania has been committed to economic-financial reform process in the framework of Stability–Association Agreement with the European Union, as it is part of Albanian team of negotiations headed by Ministry of European Integration. Also, co-operating with Ministry of Finance, the Bank of Albania is committed to realise financial reforms in the framework of memorandum of economic-financial policies with the IMF.

Allow me to remind you that the whole reforming process of financial sector, which in Albania's case is mainly constituted by the banking sector, is harmonised and monitored according to Albania's commitments to membership in WTO, IMF agreements, World Bank and European integrating process.

The willingness and commitment to promote financial reforms and country's economic development is reinforced even more strongly with the European integration target, which is being programmed to be carried out with a Stability -

Association Agreement signed between Albania and European Commission.

In the final Bank of Albania conference, I dwelt mainly on the process that Albania should undertake in terms of capital movement liberalisation, being convinced that the Bank of Albania can and should undertake concrete steps to encourage capital account liberalisation. But, to carry out this process, there are needed, above all, favourable macroeconomic conditions in a medium term, cautious maintaining of balance of payments position at proper parameters and sound banking and financial system duly supervised in compliance with international standards. Naturally, in this process special care is shown to fight against money laundering. The parties involved in this process will co-operate to forbid the use of their financial systems for laundering money derived from criminal and illegal activity.

Albania should not ask whether to liberalise further the capital account or not, but when and, what is more, how should it direct and manage successfully the difficult liberalisation process. So, liberalisation is inevitable. What we should care about and discuss in this round table is the setting forth of further concrete steps and preparation of an optimal liberalisation process so as it provides the desired benefits.

Capital account liberalisation process is based on the following arguments:

1. Empirical evidence that capital account liberalisation promotes economic growth in developed and especially developing countries.
2. Long term prospect to become more integrated with the international financial system.
3. Short –to- medium term commitment to meet the requirements of EU, WTO and other international organisations.
4. In Albania's case, controls on outflows may be fictitious even because of the presence of informal economy.

¹Bank of Albania Governor's speech in the meeting "Bank of Albania Draft –Strategy in European integration process" January 15th, 2004

5. World experience supports that controls on outflows are less efficient than controls on inflows of capital

Naturally, the process needs time and what is more important, it needs the commitment of all market players to analyse, suggest, decide and finally implement concrete legal and regulative measures in terms of capital account liberalisation.

Accepting that sequencing exists for capital account liberalisation and based on good work we have done so far, I think it is just the time to organise activities and **to set up**, after this round table, **a more complete matrix** of steps, activities and responsible units that will work in the process of capital account liberalisation.

The Bank of Albania is trying to play its leading and managing role in this process:

First, being the country's monetary authority, obviously we have the legal responsibility to compile rules and follow their reinforcement not only keeping abreast of the time, but even preceding it and promoting specially the banking system as the most important part of current financial system;

Secondly, in Albanian economic environment, the BoA role is important not only for monetary policy, but also for supervision (licensing and supervision) as well as for collecting statistical financial information.

Thirdly, analysis, studies, research, forecasting and programming should be made to develop a certain activity. I am convinced that the Bank of Albania has researching and forecasting abilities to undertake such responsibilities and to impact significantly on increasing the credibility of our work and institution.

The word "process" in itself indicates clearly that some activities are needed to this end, and I believe, especially co-operation and promotion of other central institutions. Undoubtedly, all government units are interested in the country's development, which needs much more capital inflows and investment promotion creating necessary conditions for increasing foreign investors' confidence. So in this process, which so far is carried out without taking into account an accurate sequencing of time and tasks, the

following should be defined:

- What steps will be taken,
- What responsibilities will be taken,
- Which are the units that will co-operate,
- How shall we address and inform the public and businesses on capital account liberalisation,
- How shall we co-operate with other central institutions?

Also, the development of a coherent payment system is a challenge for the Bank of Albania in the process of European integration. The European Central Bank and member banks of European Monetary Union are ready to render their contribution and their assistance for the development of an efficient payment system. But, on the other hand, applicant countries such as Albania are expected to play their role in terms of liberalising the sending and receiving of payments to/from member countries of Eurosystem.

The Bank of Albania targets in this aspect are the maintaining of banking system stability, promotion of efficiency, maintaining of public confidence in financial system, payment system, instruments and domestic currency, and the last but not the least the functioning of monetary policy transmission mechanism.

To meet these targets the BoA Supervisory Council has taken a number of decisions and has adopted international standards and it is our pleasure to observe that commercial banks are positively and coherently responding to the Bank of Albania steps.

A positive signal is even the one that comes from European Central Bank, which after the EU extension with 10 new member countries in May of this year, is showing special attention to financial reform of countries like Albania that are expected to join EU in some years to come. We hope this takes place at an earliest time possible.

Note: Capital account liberalisation means complete removal of controls and restrictions on movements of capital from and to a country. The word 'restriction' is used not only for outright legal prohibition, i.e. in cases when the law completely prohibits a certain transaction, but also when quantitative restrictions are imposed, and even in the cases when, for a given transaction, approval from an authority such as the central bank is required.

CONCLUSIONS OF THE CAMPAIGN AGAINST THE SPECULATIVE INCREASE OF PRICES¹

INTRODUCTION

Inflation is the main objective for the Bank of Albania as it generally is for modern central banks. In shooting the inflation target, the Bank of Albania makes use of all means at its disposal, from the classical and usual ones, like the monetary policy decisions and instruments, to the interim ones having a rapid impact, easily understood by the public. Such is the case of the campaign against the speculative increase of prices on the eve of year-end holidays.

The Bank of Albania has made use of all the reasonable means in maintaining the relative stability of prices. This stability from 1999 to 2003, estimated as the annual difference in percentage of the consumption price index, resulted within the Bank of Albania's forecasts of 2-4 percent interval.

GENERATE-IDEAS DEBATE

What can the central bank target: the exchange rate, employment and economic growth or only price stability? This is an open debate and various models are presented in this respect.

In the course of time, the Bank of Albania has tried to adopt its monetary policy to the development level of the country, as well as to the international experiences and recommendations. Therefore, the Bank of Albania tries to be transparent and not negligent towards the opinions of specialists, scholars and politicians, too on the main objectives of its monetary policy. However, the experiences of the European Central Bank and Fed converge to one point: price stability is a necessary condition to ensure a sustained economic growth, and consequently, it should be regarded as the sole, adequate objective of the monetary policy.

The complexity of the Bank of Albania's operations consists mostly in the manipulations to interest rates, or in a few cases, to the foreign currency repurchases. However, this is not enough for a successful central bank. These

operations should have the general understanding of the public or other economic agents in general. It requires a lot work, time and educational programs for the public, affecting thus clearly various indicators of the economy. The Bank of Albania wants to make the public aware against this widespread phenomenon: the speculative increase of consumption prices.

Though in the general logic of the market the higher demand for foodstuff products implies an increase of their prices, the Albanian case is quasi unique: the closer to the year-end, the higher the prices set by sellers. Thus, the Bank of Albania had a great support by the public, which in the questionnaires delivered, approved of the Bank of Albania commitment in such an activity.

TRANSPARENCY – A MORAL OBLIGATION OF THE BANK OF ALBANIA.

In these last years, the Bank of Albania has been stressing out transparency and public education with regard to its decisions. Of course, it is an empirical deduction nowadays, that the lack of transparency generates negative effects, especially in short-term plans. The unwillingness or the impossibility to explain such phenomena or certain decisions from the responsible intuitions gives rise to misunderstandings, "apriori" results based on no figures, wrong "conclusions".

Consequently, such a commitment as this last one, serves the sound public education, as a necessity in being understood and backed-up in our decision-making process.

This requires simplicity and clarity in each of the steps made. In this way, one can reach for the ally in the public. The public education is an "obligation" to be fulfilled by every institution. The Bank of Albania intended to make the public aware of market developments and the price level, being the responsible institution in designing, approving and implementing the monetary policy and inflation developments.

¹Speech of Bank of Albania's Governor, Prof. Dr. Shkëlqim Cani, January 22nd, 2004

We believe to have been successful in our intention and we now look for long-term profits of an open, transparent and overwhelming process. Here I include the cooperation and the support of representatives from the civil society, the well-known public and non-public organizations, such as the consumer and citizen protection association, as well as the media. Well, in the role of the Governor I should also understand even the part against the campaign, despite the inspiration from personal or temporary interests. The Bank of Albania's concern was related to the artificial inflation "jump" in December, and conveying this concern to the public was an important fact during the campaign.

MEDIA'S SUPPORT AND ANTI-CAMPAIGN VOICES

"Islami breaks his promises – mounting prices", "The Government halts feeding", "Why a campaign against price speculations", "Prices adjusted when intervened adequately", "Speculations harm all", "150 lek a kg of aubergines" "Rise of prices – an ostrich policy", "Government guilty of year-end rises" "Banks: prices jumped within 24 hours on Christmas", "Higher price – higher inflation" "2700 lek a kg of cherries", "No limitation for dealers". These were some of the headlines in our daily papers. They tried to reflect opinions and somehow articles on the campaign undertaken by the Bank of Albania.

WHAT WAS THE MEDIA'S REACTION TO THE CAMPAIGN?

The media started to support the campaign since the very early fazes. There has been no single day without the written or the electronic media giving space to the Bank's campaign.

A range of activities was organized throughout the campaign with the aim of making the public aware. Here, I would mention the introduction meeting with journalists, the launching of the campaign, leaflets, posters, and the constant information provided by the media on retail, wholesale and customs developments as to the updated data from working team. The intention was for the media – our partner in this process – to enhance the transparency of markets and promote somehow the cheapest markets for consumers.

The weaknesses of the campaign were mentioned in various comments made by the media, and we do understand and take them in consideration for the next campaign. However, we do not consider that normal the "cynical" part of arguments against the campaign. I should therefore clarify that the Bank of Albania is very sensitive to the media reaction. We appreciate all the help and welcome suggestions and ideas to reflect upon the campaign and for the Bank to improve things in the future.

THE HASTE TO COMMENT UPON RESULTS AND REACTIONS

Only a few days ago, the Bank of Albania made known the approximate data on credits interest rates, which were reduced twice more than deposits rates, denying the news that credits interest rates were not reduced despite the decisions made by the Bank of Albania. In this case, no comments were followed by figures or data, at least by a single bank. Of course, it was partly our fault as well in making appropriately public the figures and data of the system, not only to inform the public but also affect somehow a normal behavior of the system versus average interest rates.

The same situation was presented about the comments made on the outcomes of this campaign. Almost all the headlines and TV news would start with the phrase "... despite the Bank of Albania's campaign, prices have gone up this or that per cent". The Bank of Albania made it clear that it wasn't its intention of setting ceiling prices, controlling them, or being obtrusive as in Bolshevik times, nor force dealers to pay off their fiscal dues, and neither condemn consumers for their consumption and unnecessary purchases.

The intention was quite another and straightforward. The exaggerated purchases from consumers for holiday were "inflaming" inflation, quite the opposite from what normally happens in the economies of developed countries and the region. This speculative phenomenon put a rush to dealers in filling in their pockets and emptying out those of consumers, who albeit the fact of being poor, could not deprive themselves from celebrating. That's why the campaign underlined the awareness aspect. The Bank's aim was to make consumers, business and the state authorities aware that the increase of prices was a speculative one, and everyone could have

played its role so that Albanians too could celebrate as the rest of the world with normal prices.

The state authorities played also an important role in the campaign. Contrary to the support given by the customs, which did not change the reference prices, the presence of taxation authorities could be regarded as anemic, particularly in respect of monitoring markets, at least in calculating the fiscal obligations of traders or in giving the psychological effect of their presence in the market.

WHY WAS THE CAMPAIGN SUCCESSFUL?

The Bank of Albania deems the campaign successful if considering two main arguments: the public and media reaction, which implies that awareness effects and references of developments figures in December 2003 were achieved, contrary to the same periods in the previous years.

A. MEDIA SUPPORT

The principal objective of the campaign – the awareness of the public, consumers and businesses – was successfully achieved if we refer to the general surroundings, questionnaires and media reaction. This year’s campaign seems to have been more profound in everyone’s mind,

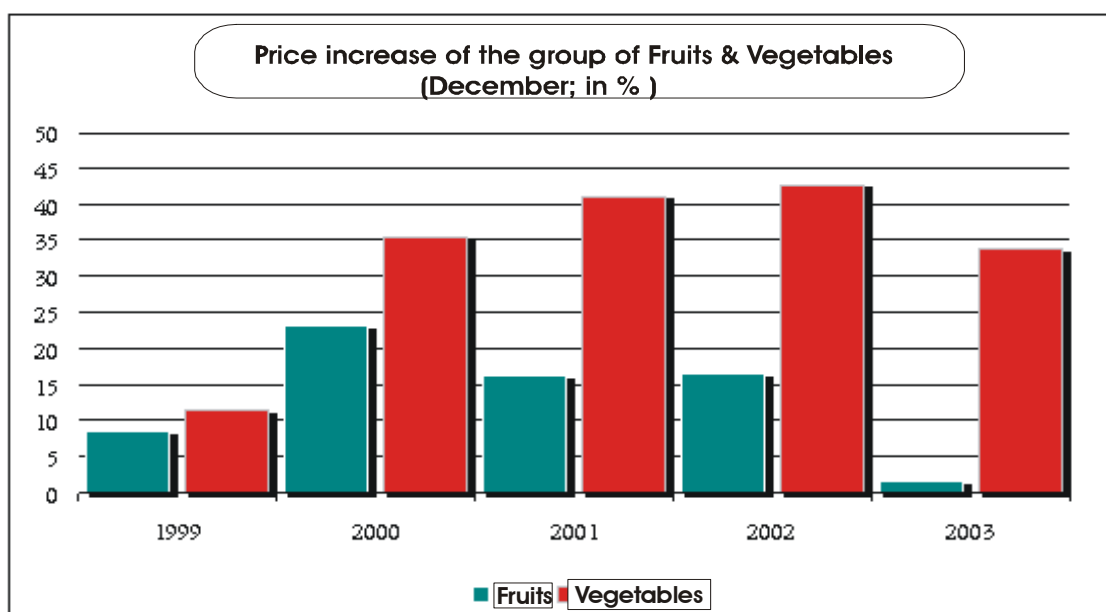
albeit opinions and viewpoints, positive or negative.

Referring to graphic 3 and 4, each newspaper has commented on the campaign in about 8 articles, 12 articles from the Bank’s authors, 6 TV editions and 6 interviews with authorities from the Bank. Thus, the purpose for the organization of such a campaign seems to be really important, and widely presented in the media, since the media does not generally react to all kinds of information sources. Despite all what was said and written, important for the Bank of Albania was it did affect the public. I would really like to thank all the mass media. This campaign was not the only one undertaken by us, as the Bank always transmits its messages. However, the media had a casting role, where in about 90 percent of the cases it took positive stance.

B. CONCLUSIONS THROUGH FIGURES

The Bank of Albania campaign and declarations made by its administrators during those days focused on a positive inflation rate, within the targeted interval of 2 – 4 percent. However, the Bank of Albania had to wait for the results of the Consumption Price Index, where the annual difference for December implies the annual inflation. This index is published by INSTAT, and the annual difference in December resulted to be 3.3 percent, that is within the targeted interval of the Bank of Albania. The campaign was

Graphic 1: Monthly increase of prices



successful, firstly because the Bank of Albania achieved for the fifth year in succession, its objective of having an inflation rate within the forecasted and announced interval at the beginning of the year.

On the other hand, referring to the INSTAT report, “surprise” developments were registered in the indicator of Consumption Price Index, when the Alb telecom company decided to increase the telephony prices by 68.8 percent. This gave its impact by 0.7 percent in the monthly increase of consumption prices. This is not part of the campaign arguments of the Bank, and consequently it should be deduced. The campaign was also successful because the foodstuff group prices increased only by 0.9 percentage points, compared to 2.1 percentage points it was in 2002 and about 3 percentage points in 2001. The prices of the “fruits and vegetables” group, referred to as a problematic one, have been going downward; this implies another argument in favor of the campaign.

Price monitoring in December 2003 was deemed to be a crucial element, and therefore the number of items being monitored as well as markets under observation increased, implying thus a larger geographical area within Tirana. The list of these items counted to 51 foodstuff articles that were classified into three main groups: meat and dairy, fruits and vegetables, other items. The aim was not only to analyze the speculative phenomenon in such products, but also detect the most speculative link. That is why prices were monitored on a daily basis at the wholesale and retail¹ network, and the “Avni Rustemi” market was the reference for the media and us.

The results of the daily observations are presented in the table below. Fruits-vegetables

group showed the highest volatility, being thus a speculation object as in the previous year. Thus, there was a 28 per cent rise in this group and only 8 percent in meat – dairy one.

The highest increase within the group was marked by tomato 74 per cent, cauliflower 63 per cent, cucumber 37 per cent, pepper 21 per cent, grapes 27 per cent, pear 18 per cent, tangerine 15 per cent, bananas 16 per cent. In the meat – dairy group, the highest and perhaps the only increase was that of the turkey by 44 per cent. Volatility was quite high between prices in the beginning and end of December of the fruits- vegetables group. A basket of 18 items of the fruits-vegetable group was used to process an index on this basket. The index was calculated based on weighing the daily prices of these items. The index was calculated in each market under observation. The highest increase on December 31st was marked by the wholesale market by 58 per cent. At “Avni Rustemi” market the increase was 35 per cent and 44 per cent in the retail market. The following table the performance of this index throughout December.

An effort was made to establish a lag between the price increase transmissions to various links in trading. The daily differences of the fruit-vegetable basket in the retail and “Avni Rustemi” wholesale market were taken in examination. (Graphic1).

We could thus state that the wholesale market gave the first impulse of price increase. Then, the other markets reacted almost at the same time as to their ability to affect prices in the market.

Compared to December 2002, the highest increase was marked by vegetables, whereas fruits were much lower. In both years, the wholesale market is the starting point of putting up prices.

Table 1. Average price performance ² of fruits and vegetables

Market	First week	Second week	Third week	Fourth week
Wholesale	85	87	92	108
Retail	113	124	129	145
“Avni Rustemi” Retail Market	162	165	171	187

¹ In this classification reference was made to retail shops in different areas, the fruit-vegetable market in “Bardhyl” street, the one at “Ballet school”, in Lapraka and “Xhamllëku” area.

² The arithmetic mean for the 18 items.

Table 2: The index difference in markets inspected (in percentage)

	Whole sale		Retail		"Avni Rustemi" Market	
	Increase from the first day	Daily increase	Increase from the first day	Daily increase	Increase from the first day	Daily increase
25/12/03	21%	17%	27%	3%	20%	7%
26/12/03	41%	0%	28%	1%	20%	0%
29/12/03	41%	12%	39%	9%	29%	8%
30/12/03	58%	0%	45%	4%	35%	4%
31/12/03	58%	0%	44%	0%	35%	0%

Graphic 2: Daily index change in the monitored markets.
Daily index change in the "Avni Rustemi" retail market (December 2003)

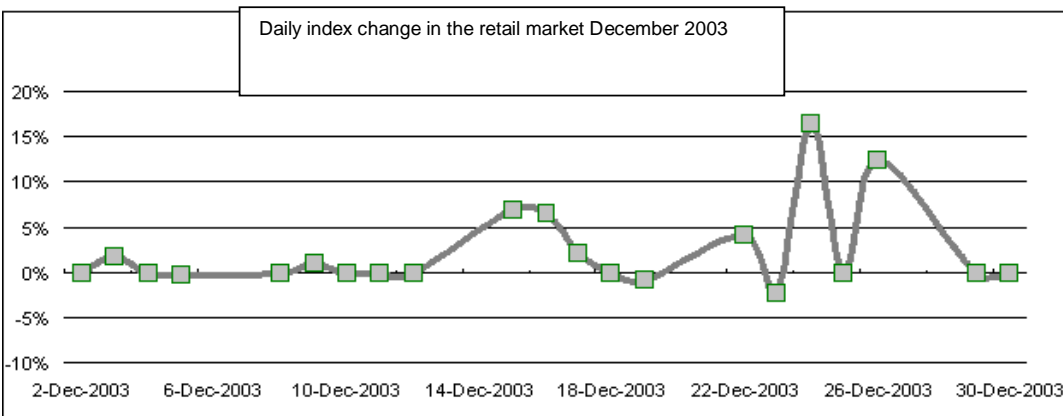
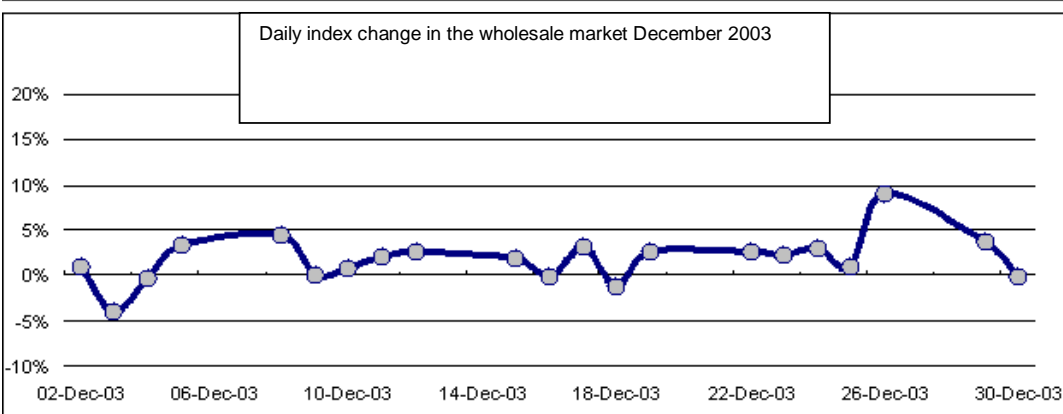
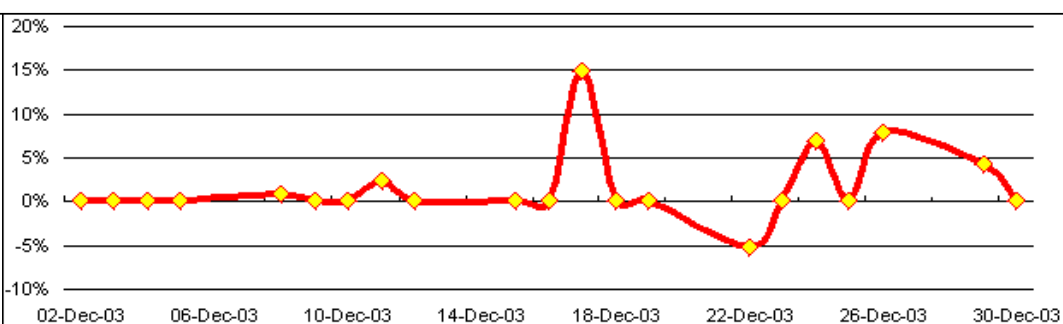


Table 3: Average price of some articles

2002				2003		
Products	Average price in the first day	Average price on December 31	Increase in % during the last week December 24-31, 2002	Average price in the first day	Average price on December 31	Increase in % during the last week December 24-31, 2003
Tomato	81	178	44%	55	161	43%
Potato	56	61	2%	69	77	10%
Carrot	46	66	6%	106	114	13%
Pepper	148	158	17%	163	247	18%
Cucumber	135	221	72%	170	261	28%
Apple	118	126	31%	126	131	-2%
Orange	93	97	9%	119	120	4%
Lemon	145	151	25%	150	154	10%
Tangerine	106	150	47%	120	139	25%
Grape	134	223	68%	140	228	14%

CONCLUSIONS

Though still early to say whether the Bank of Albania should engage in another campaign of the kind by the end of 2004 or not, it will be price performance throughout the year that will settle this thing and give us an adequate indication. However, the conclusions of the campaign drawn from the Bank of Albania are as follows:

1) Although there are no sufficient data to estimate the supply of foodstuff products, the conclusion that can be drawn is that the increased demand faces the increased supply, eliminating thus a logical cause, which could have led to an out-of-control increase of prices. Therefore, we admit that there have been again speculative increases of foodstuff prices by the end of 2003.

2) According to the survey carried out by the Bank of Albania, it clearly resulted that 92 percent of the population expected the increase of prices during December. Thus, the Albanian consumer, because it manifests such expectations, becomes a factor that stimulates speculations in the market.

3) The speculating phenomenon can be found in all the trading links of foodstuff products. The wholesale link serves as the start in this process, reinforced then in the other links as to their power in determining prices.

4) This campaign identified once more the need for close cooperation among institutions. Though the promise of prior Minister of Finances, that there shall not be changes in fees and there shall not be fiscal pressure on taxation authorities, became a reality, the taxation authorities were expected to be more active.

5) On the other hand the development of markets and competition should be anticipated. Perhaps, it is the Municipalities that should cooperate with agro-business associations and traders of fruits and vegetables.

6) Referring to the "Avni Rustemi" market as an expensive one bears negative effects. From our observations, this market is mainly frequented by well-off people and foreigners. Referring continuously to prices in this market takes one away from the truth and creates a psychological effect on the consumers and traders the like.

7) In the short-term plan, the campaign helped smoothing the negative impacts of this phenomenon on the monthly inflation rate during December 2003. This year's inflation, contrasted to the last four Decembers, was low.

8) Finally, the campaign is assessed as positive, especially towards public awareness. The place it occupied in the written and visual media, the reaction of many intellectuals, the figures published by INSTAT and the ones from the Bank of Albania observation leave no doubt in this respect.

ACHIEVEMENTS OF THE BANK OF ALBANIA IN 2003 AND ITS FORECASTS FOR THE YEAR 2004¹

I. MAIN DEVELOPMENTS DURING 2003 AND FORECASTS FOR 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 1billion 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

¹Press conference of the Governor of the Bank of Albania Mr. Shkëlqim Cani "Achievements of the Bank of Albania in 2003 and its forecasts for 2004", Tiranë, February 6, 2004.

(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

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.

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:

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	2.1	3.0
Construction	8.7	11.3
Transport	9.7	10.8
Services	5.1	6.4

Source: Ministry of Finance.

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-

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).

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

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
Transporti	9.6	10
Services	45.9	46.1

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.

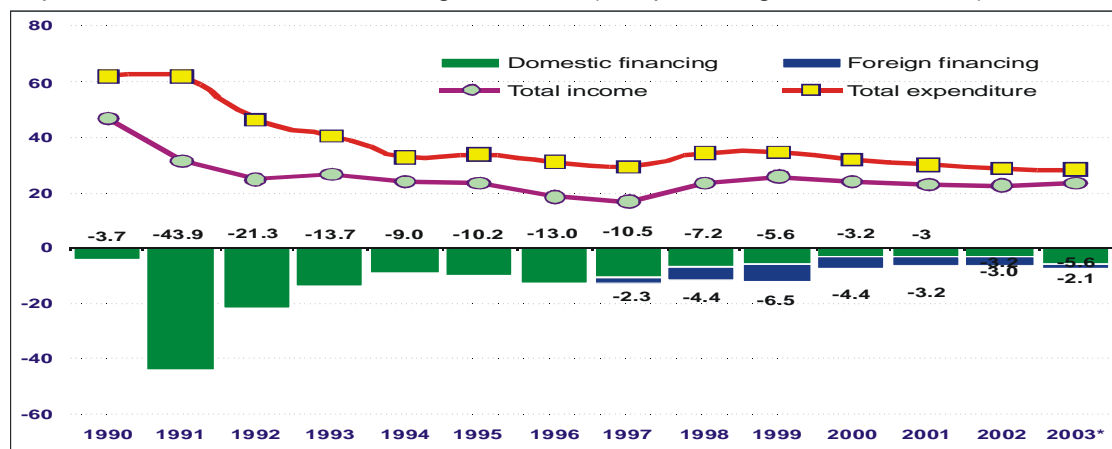
Balance of payments

In USD million

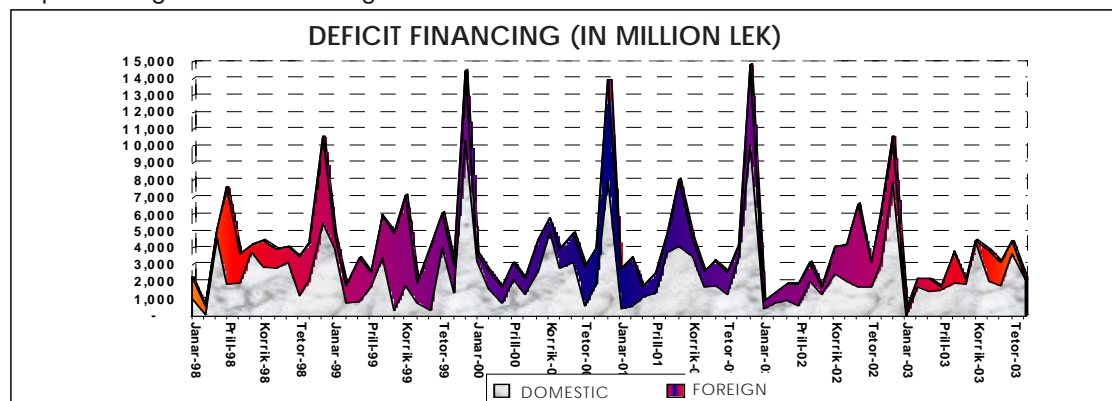
	9m-I 2002	3m-I 2003	3m-II 2003	3m-III 2003	9m-I 2003
Current account	-299.7	-31.6	-119.4	-106.6	-257.6
Export	234.2	108.6	113.7	102.0	324.3
Imports	-1059.1	-394.1	-453.8	-434.0	-1281.9
Trade balance	-824.8	-285.5	-340.1	-332.0	-957.6
services: Credit	408.8	128.1	177.8	212.0	517.9
Services: Debit	-443.0	-119.1	-185.4	-242.2	-546.7
revenues: Credit	113.2	44.0	49.2	56.8	150.0
Revenues: Debit	-16.5	-5.1	-6.8	-4.9	-16.8
Private free remuneration	433.1	198.2	177.8	189.8	565.8
State free remuneration transfers	29.5	7.9	8.1	14.0	29.9
Capital account	87.1	31.0	36.5	45.7	113.1
Financial account	174.8	40.7	30.3	8.5	79.6
Direct Investments	94.1	27.0	36.9	34.4	98.3
Portfolio Investments	-32.8	-11.4	6.8	-14.0	-18.5
Other capital	108.3	19.6	-13.4	-17.5	-11.3
Errors and omissions	74.5	16.9	56.8	69.7	143.3
General balance	36.7	57.0	4.2	17.2	78.5
Reserves and interrelated items					
Reserve assets	-36.7	-57.0	-4.2	-17.2	-78.5
Loans and credits from the IMF	5.3	5.5	0.0	5.6	11.1
Special mention					
Total difference in Reserves	-76.5	-61.0	-32.7	-19.7	-113.4
From which the foreign exchange difference	39.2	12.5	22.1	12.3	46.9

*/ Loans and credits from the IMF excluded

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



Graphic: Budget deficit financing from 1998.



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.

III. INFLATION DEVELOPMENTS 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

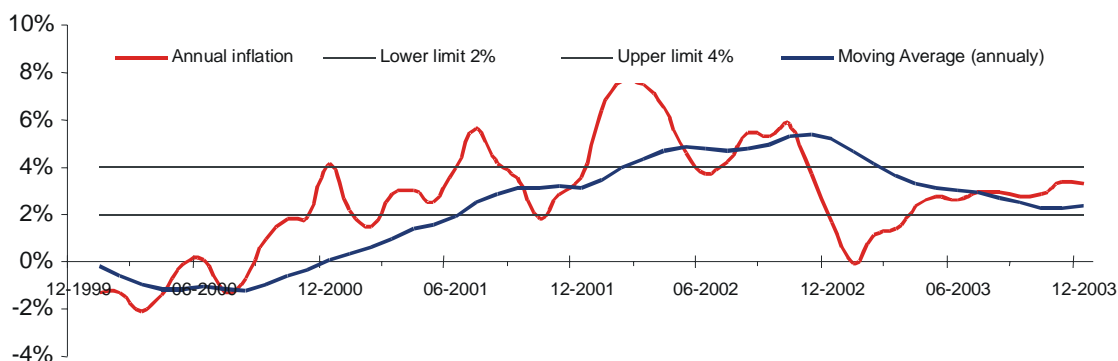
equilibriums and developing the banking system.

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 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

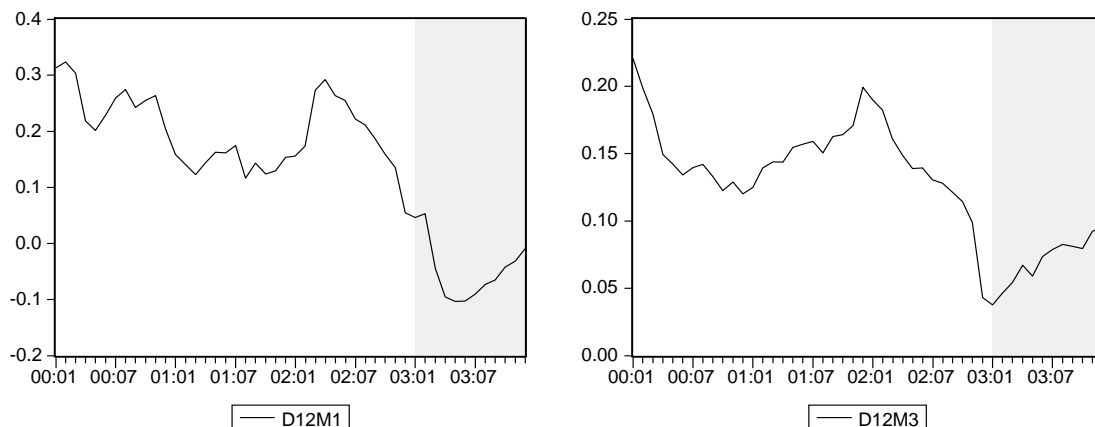


² You can find these in details in the "Mid-term development plan of the Bank of Albania.

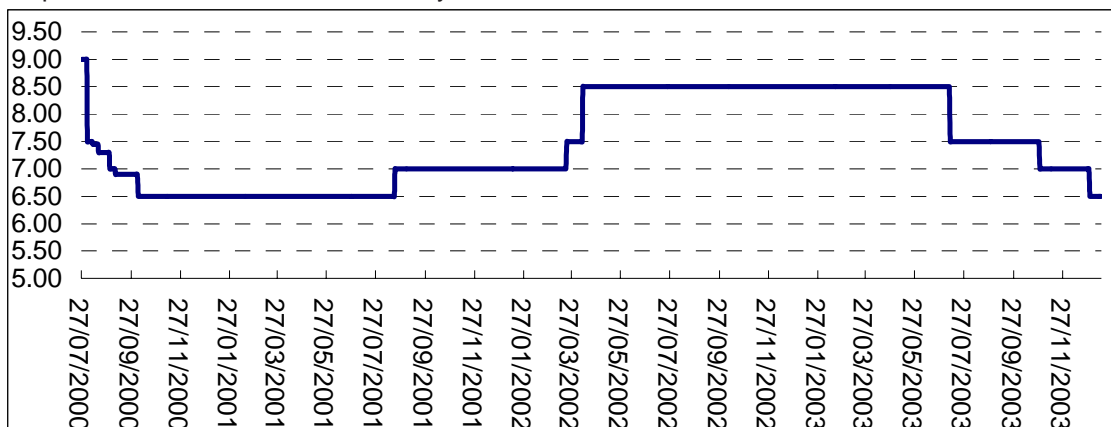
³ Compared to the historical levels of this indicator.

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.

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



Graphic: Core interest rate in economy.



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.

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.

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.

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 THE YEAR 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.

Graphic 13. Interest rates performance.

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

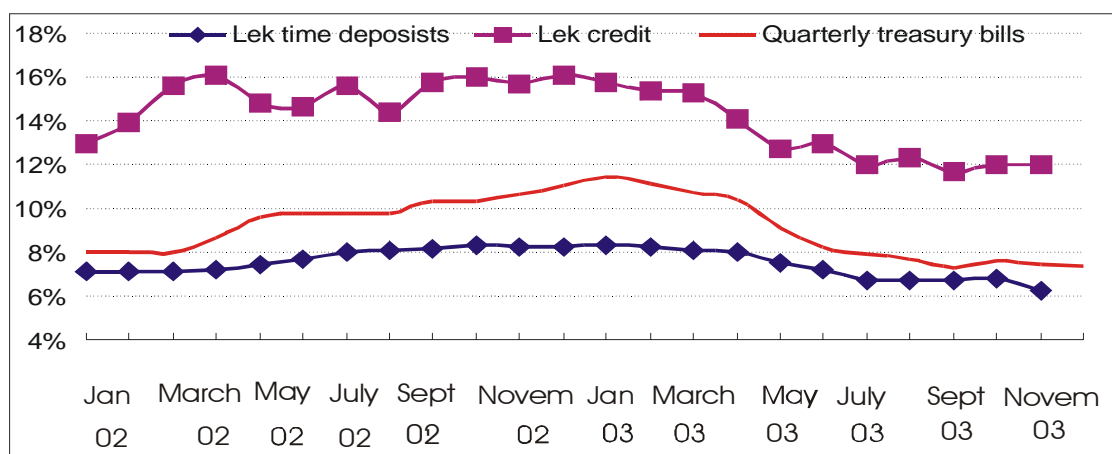
- **Performance of administered prices.** Here are included the performance of the electrical power and telephony prices. The Bank of Albania is aware of the changes put forward. However, our concern is the incorporation of these increases in the cost of goods, and in addition the speculation with them, as it was noticed recently. In such a case, their impact on inflation would be amplified.

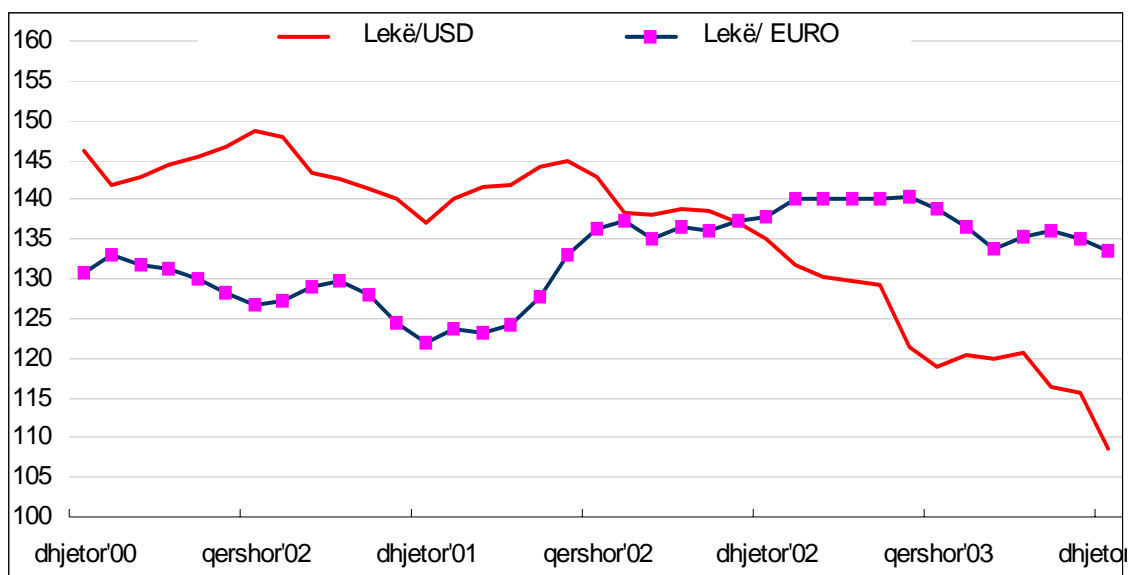
- **Maintenance of structural reforms in the sector of agriculture, with regard to increasing the production capacities.** Inflation in Albania is mostly related to developments in the foodstuff group. 2003 showed that the spur of tourism activity brought about the increase of the economy demand during 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





Graphic. Lek exchange rate performance.

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.

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

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:

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
- 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

Tab. 1. Herfindahl⁵ Index on the assets concentration.

Periods	December 2000	December 2001	December 2002	September 2003
Assets concentration index.	0.44	0.37	0.32	0.30

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

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.

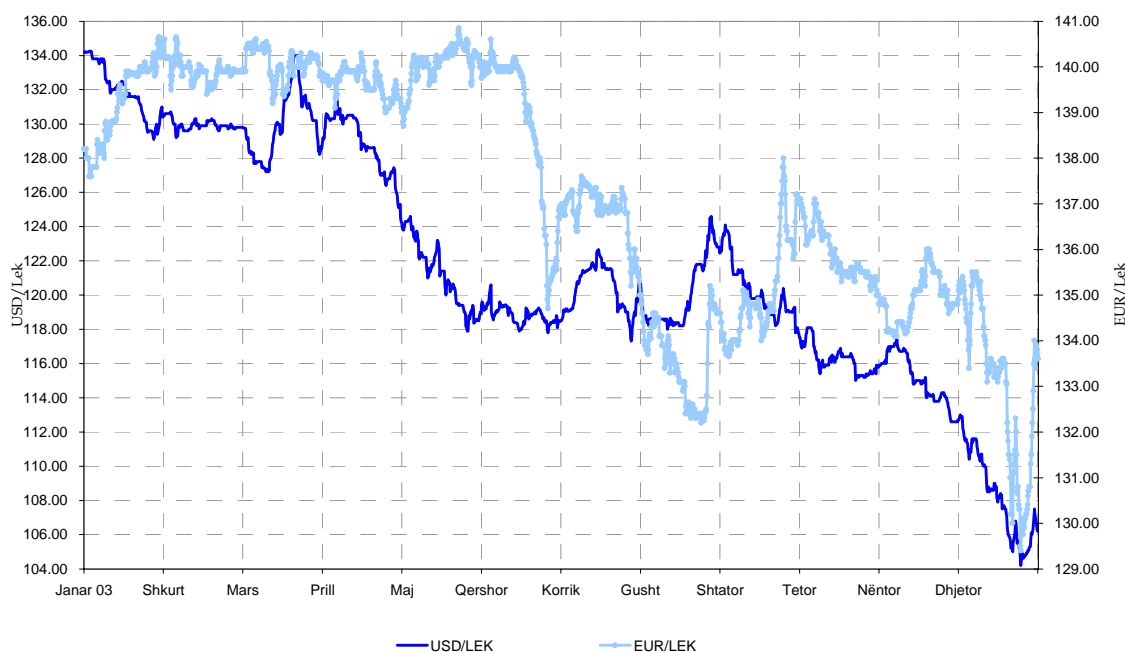
- Banking supervision will improve according to the international standards.

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).

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 commercial banks and the Ministry of Finance (USD 87.80 million);**
- **inflows from commercial 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 amounted to USD 127.23 million, representing transfers carried out by the Ministry of Finance, commercial banks and foreign debt settlement.

VII. BANK OF ALBANIA PROJECTS FOR 2004:

VII.1. BEYOND MONEY 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 Economy 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 Power 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 settlements;
- 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 thank the commercial banks – members of the AIPS – as well as the World Bank as one of the co-financers and supporters of the system.

THE SPEECH HELD BY THE BANK OF ALBANIA GOVERNOR, PROF. DR. SHKËLQIM CANI IN THE CEREMONY INAUGURATING ALBANIAN INTERBANK PAYMENT SYSTEM¹

Thanking you for your participation, I have the pleasure to inform you officially on the implementation and inauguration of the real time interbank payment system. I say officially because the Albanian Interbank Payment System is fully operative since January 30, 2004, after having successfully passed through all necessary tests.

I don't think I exaggerate saying that the Bank of Albania has made one of the most important steps in the reforming process of the banking system towards international standards over the recent years to develop and perfect the country's banking system infrastructure. When we launched the project, I didn't fully believe in the implementation of the project within the term set forth, given the non-positive experiences in the countries that have implemented the same project. The process faced difficulties, among which, the most important, I think, are: the coordination of a large number of actors in the project, the overall country's infrastructure, which, we should accept, has remained unfavorable to the extended information system implementation, and the limited experience in implementing important payment systems, which are complex and aim at a high degree of technical and legal issues.

However, the system implementation within 8 months generally, was a very positive result if compared to same experiences of similar countries. I think this was an outcome of a joint work of the Bank of Albania and the banks using the system. Albanian Interbank Payment System - AIPS, may currently be regarded as the main linking infrastructure of the whole banking system. It establishes optimal and equal conditions, either for carrying out exchanges between banks or for safe interbank market development. It is installed at the Bank of Albania and is extended in all participant banks through safe communication networks. The system holds banks' accounts and enables immediate and real

time settlement of all payment instructions, which are set in motion through electronic messages. The settlement and finalization of these instructions is performed through immediate movement of funds between accounts that the banks hold in with the system. Then the system takes care of immediately advising the beneficiary of funds and of allowing their usage.

Turning to some of the benefits that the system will bring about, I would briefly highlight that, it is expected to:

- 1) Reduce the degree of banking system operational risk.
- 2) Enhance the overall banking system stability.
- 3) Increase efficiency in managing financial funds and in exchanging values between the banking system.
- 4) Further encourage developments in payment area and in the overall financial sector.
- 5) Directly impact on increasing reliability and reputation of Albanian banking system in the eyes of foreign and domestic public.

It would also be beneficial to:

- Albanian business, which may settle intraday payments or fund transfers to any bank branch.
- Public at large, which may settle intraday "fast payments - AIPS" at any time.

Given the experience of similar countries, I believe that the benefits of the new system will be comprehended and felt soon enough by all its users.

HOW IS THE SYSTEM FUNCTIONING?

The so far performance and behavior of the system is positive. Since the first day of operation the processing of 94 payments at a value of about 40 million dollars was carried out, while during the first month of operation, the system has finalized on average 100 payments daily, with a

¹Bank of Albania, March 8th, 2004

value of 48 million dollars. The maximum loading recorded is to about 130 payments per day, at a value exceeding 100 million dollars. The full instruction processing time is on average less than 2 seconds.

We deem that the system itself will promote on the one hand banks, to be more active in managing their funds, and on the other hand Albanian business and public, to use the fast payment system more and more.

I take advantage of the opportunity to greet banks that are members of the system, expressing my belief and that of the institution I govern that this cooperation will be further enhanced in the future, especially in two major Bank of Albania projects: that of small value payment clearing and that of cash reduction in economy.

After the implementation of this project the Bank of Albania has planned to further continue the country's financial infrastructure improvement, being committed to another project at national extent, that of small value payment crossing. Given my belief that even in this case the inter-institutional cooperation and understanding would be the same, I express my assessment that a successful implementation of this new project would note an important step in terms of meeting our major objectives. I would consider the new project so much important also in the function of the latest initiative undertaken by the Bank of Albania to public opinion, that of cash reduction in economy.

Regardless of the complexity and inter-institutional dependence existing in accomplishing this

incentive successfully, I am convinced that the payment crossing system, along with the modern system that is being inaugurated today, will be two determinant steps in ensuring success.

Naturally, a number of actors participated in implementing the project, to which I would like to express:

- My sincere thanks to the World Bank and its staff in being committed to the project, as initiators, co-financiers, and main supporters of the Bank of Albania for this project. Simultaneously, I take advantage of the opportunity to express my confidence in the successful cooperation for the project on establishing the automated small value payment clearing.
- Special compliments to Montran company, Mr. Charls Walch, Vice President – and staff, who managed the timely and qualitative implementation of the project through cooperating continuously with the Bank of Albania.
- Special thanks to the International Monetary Fund and to the Project Implementation Unit at the Ministry of Finances.
- Finally, sincere thanks to the Bank of Albania staff who made possible the successful implementation of this project with their professionalism.

Successes to all users of the system and thank you !

BANK OF ALBANIA VERSUS THE PUBLIC & MEDIA ¹

WHAT IS THE RESPONSE GIVEN BY THE PUBLIC AND MEDIA TO THE DECISIONS MADE AND ADVICES GIVEN BY THE CENTRAL BANK? IS IT IMPORTANT TO THE BANK OF ALBANIA?

INFLATION BETWEEN THE BoA AND THE PUBLIC

“A debate on the increase of prices has been going on for long time now. Why did you choose this specific moment and not a previous one to present their impacts on inflation?” - An interesting question made in the last press conference of February 6, 2004.

Of course, the answer came to me quite spontaneously, and at the same time it was a kind of assistance to achieve a long-expected goal. The Bank of Albania has been trying for several years to make the public aware of the importance of inflation opposition.

THEORETIC EXPLICATION

If the public has the tendency to oppose inflation², then the central bank has a greater authority, its decisions are more likely to find a good support and as such, it is more independent. Hence, the Bank of Albania's independence is strongly linked to the support given by the society in achieving its price stability objective.

One of the most typical examples of “opponent” behavior to inflation is that of Germany, which having been through two hyperinflations in the previous century chose the independent central bank and price-stability oriented model.

Albania went through a rather similar experience when, leaving behind the high inflation of 1997, greater efforts were noticed in giving more independence to the central bank (Revision of the Law “On the Bank of Albania”, December 1997).

The working paper “How independent is the Bank of Albania” raised the question: Is there an

opposition to high inflation? The question at that times for the public in general and even in financial environments was: “No”.

WHAT HAPPENED AT THE BEGINNING OF 2004 – OR THE FACTUAL ANSWER³

Actually, I expected the journalist to ask me why I had not started to speak in November 2003 (the start-up of the campaign) about the public reaction towards price speculations, or why had I said a long time ago that Albanians were not much reactive against inflation, that is, against the increase of prices.

This is an issue that has been a concern for the Bank of Albania for about 4 years, and we respond here to any criticisms on the fact that we were spending a lot on public education.

We draw away from the public debate when the issue on bread and energy prices became that public, that there was no more place for the Bank of Albania and as it was the public reaction, this was really important to us. Now we are evaluating the impacts of what we before put the alert about, and it is indeed positive that the public is sensitive to the increase of prices.

On the other hand, the Bank of Albania's concern was rather bigger on the increase of the administered prices, which would un-doubly affect inflation.

And indeed, it did.

BoA BETWEEN THE MEDIA AND THE PUBLIC

Economic developments are becoming more and more part of reforms, discussions, debates, and conflicts, which in fact constitute the

¹ Lecture held by the Governor, Prof.Dr. Shkëlqim Cani in the Department of Journalism at the Faculty of Social Sciences, Tirana University, March 18, 2004.

² The Bank of Albania: How independent is it? Sh.Cani; T.Baleta.

³ The answer unchanged, as given to the journalists.

foundations of the aspirations we are inspiring of.

The public needs information in order to reflect adequately on institution's decision-making, as it is the case of the central bank. The information has to be clear, correct, quick and true.

Therefore, the central bank – being a monetary institution - has established its own communication means. The people in charge of public and media relations are legally responsible of making the unknown known to the public. The Bank of Albania strategy on public communication relies strongly on the international standards suggested by the IMF and widely applied by central banks, mainly the European Central Bank and other western central banks.

The Bank of Albania has always tried to establish close contacts with the public; however, the media remains a crucial factor of good communication. It has been considered with great priority and even the ally, as it was the case of public campaigns. This is for the very reason that the media is a transmitting, intermediating, gathering and selecting information body, fulfilling the needs of the reader, onlooker or the listener.

I would gladly say that, compared to other institutions, the Bank of Albania is in good relations with the media. Though there have been no reactions to articles or comments in the media from the BoA, this does not mean that as a central, monetary institution we have fully agreed to everything in papers or televisions or news agencies.

Most journalists complain that “they don't have enough time” to face the news, the stance or the comment. Whereas institutions generally complain about the media shifting from reality, most significant arguments as these inaccuracies affect negatively the public and there might be consequences in the design and implementation of monetary policy.

The Bank of Albania – being the central bank of the country and in compliance with the legal framework – has set a final objective: achieving and maintaining price stability. Information on consumption price indexes forecasts could either affect positively or negatively the decisions made

by consumers, the business and policy-makers, giving rise to the so-called “psychological inflation”.

Therefore, the aim of public and media relations' strategy is the good understanding of the Bank's objectives and functions, in order to increase credibility and public support in its decision-making process.

I. PUBLIC COMMUNICATION PRINCIPLES.

- Maintaining price stability and promoting an efficient payment system requires “legitimacy” and public support. This latter one depends considerably on the transparency of the Bank's policies and the uninterrupted relationship of various strata and levels from the public.
- The Bank's methods and communication regulative framework are such as to enable the media and public to become familiar with its decisions.
- Having the public support, the Bank of Albania could be assisted in achieving its target of maintaining inflation rate within the 2-4 per cent range, and also keeping a sound banking system. At the same time, it would help enhance the Bank's position as a relatively independent institution.
- In achieving all the above-mentioned, the Bank is trying to effectively manage its relations with the media and public.

I.1. PUBLIC COMMUNICATION ASPIRATION

The basic aspiration of the Bank of Albania in its relations with the public is certainly the fulfillment of objectives set at the beginning of 2004. The Bank of Albania will try to help the public in understanding its objectives and its indispensable position as a public institution independent from politics.

I.2. PRINCIPLES TO WIN PUBLIC'S CONFIDENCE

Some of the most prevailing principles that guide the BoA's relations with the public are:

- Transparency: every institution in its activity should be as transparent as possible, always presenting the decisions made and results achieved.
- Credibility: the activity should build up credibility in declarations and decisions made based on constant studies.
- Honesty: related to the others and consists in producing accurate data.
- Integrity: the institutions should not be financially liable or other that could influence negatively or even halt its activity.

I. 3. STRATEGY PROFILE

The Bank of Albania and the Governor's attitudes should be seen by the media and the public as the assurance of price stability. They would provide the grounds for the country's development, rise of employment and enhancement of citizens' living.

The Bank of Albania's profile could be analyzed as follows:

- Price stability maintenance.

Achieving and maintaining price stability are certainly the most important pillars of economic development and decision-making, proving the grounds for a real and sustainable economic growth. The main instrument employed by the Bank of Albania in keeping under control the price level is the core interest rate (REPO). The public is periodically informed on the price level and the change of the core interest rate.

- development and consolidation of the banking system and financial stability

The Bank of Albania is working on the further development and modernization of the banking system. The diligent banking supervision, Savings Bank privatization, license of new banks and the periodical declaration on "Financial system stability threatening" – these are arguments, which are keeping more and more busy the whole media and present them to the public. The reporting process has bettered, and the reaction to the semi-annual declaration of 2003 was more appropriate, complete and without misunderstandings as otherwise it did a year before.

- Development of a safe and efficient payments system

A safe and sound payment system is crucial in a market economy since it provides facilities in transaction markets of goods and services. At present, the Bank of Albania is implementing the RTGS project, and in the course of the year it will be working on the ACH project.

- Necessity for research in monetary policy

Considering the fact that the REPO's impact on the price objective is a mid-term and long-term one, it is indispensable for the Bank of Albania to constantly rely on analysis and research in order to adjust its transmission mechanism.

- Accessible transparency reflects democracy

An independent institution – such a position "forces" the Bank of Albania to be transparent, understandable and credible to the public in its decision-making.

The bases of transparency are reports, periodicals and Governor's speeches. Establishment of mediums, where presentations could be held as well as information served, is one things listed in the short-term public relation strategy.

The Public Relations Department provides straightforward information to the public through all means of communications: contacts, telephone, internet, fax, etc.

I. 4. TARGET GROUPS

Public relations strategy targets mainly are:

- Public in general

The Governor and the Bank of Albania are constantly communicating to the public what happens at/with the Bank. The public can receive information for free, or access and require information through the internet. In addition, the public is welcomed to give its opinions on the banking system and the Bank.

- Members of parliament

The Governor and Bank's administrators establish regular contacts with MP-s and commissions, such as those of Economy, Finance and Privatization.

According to the Law "On the Bank of Albania", the Governor reports twice in parliament on the main economic and financial developments, and offers the Bank's opinion about specific issues.

- Financial experts

According to the Law "On the Bank of Albania" (Article 24), all drafts of economic and financial character get first the opinion of the Bank of Albania. Also, the Governor participates regularly and gives his opinions in the Inter-ministerial Committee of Economic Policies and in the Integration one. In addition, according to the Law, the Bank of Albania and the Governor are the government's financial advisers.

- The Albanian and foreign media

It is a long time now that the media is seen as a target group of the Governor and Bank of Albania's relation with the public. The Bank's profile is now that of a credible and productive institution in the media, and cooperation is deepening more and more.

- Albanian and foreign financial market actors

It is indeed important for the Bank of Albania to have an undisputable credibility of the financial market actors in general and of the banking one in particular. The Bank's relations with second-tier banks are accurate and overwhelming, aiming at a sounder banking system.

- High school pupils and teachers

The Bank of Albania is making a new experience in its public relations by providing periodically its publications, not only in Tirana but also in other cities. This is the first step made, to be then followed by lectures given by the Bank's administrators and specialists, and also the compilation of economics textbooks for high schools.

- Students and professors in Tirana and other cities

Such an experience can be regarded as a consolidated one; however, new elements are needed in making this type of communication more interesting.

- International institutions

Missions from the IMF, the World Bank, and foreign embassies are regarded as another outside "window" of the Bank's public relations. The Bank of Albania is trying to improve the image of the country and its economy.

I.5. PUBLIC RELATIONS STRATEGY IMPLEMENTATION ASPECTS

1. PRESS CONFERENCES

Press conferences offer a chance to the public, that through the media it can thus become familiar with the main and recent developments of the banking system. They also offered the possibility to make questions to the Bank's administrators. The Governor appears about 4 times a year, but recently there have been more joint press conferences with the IMF and the Ministry of Finance.

2. INTERVIEWS

Interviews given by the Governor are part of the communication strategy with the media. They focus mainly on campaigns; however, other activities and things that interest the public, are not to be excluded.

3. ARTICLES AND PROGRAMS

In the coming period, the Governor, administrators and specialists from the Bank of Albania will be present in the written and electronic media through articles and programs. Their focus will be on campaigns, such as the reduction of cash in economy.

4. HELPING THE PUBLIC TO UNDERSTAND

The focus of the strategy is to explain the Bank's performance to groups that have expressed interest thereof. The inexperienced citizen, most of our entrepreneurs, students studying economics do still see banks rather in a distance and frightened. This because the functioning principles and rules are not familiar to them. The strategy will therefore focus also on bringing them closer, and making their intervening mechanisms and activity in the market more transparent. The result expected is for the public to understand that the Bank of Albania is an ally, and it guarantees the money invested in the banking system. The mid-term objective: no citizen without a banking account.

5. INFORMATION TO INSTITUTIONS

Recently, a greater volume of materials is being delivered to MPs and particularly to the members of the Economy and Finance Parliamentary Commission. Thus, the Governor and the Head of Public Relations Department have meetings and introduce them with the Supervisory Council's decisions and other materials from the Bank. This is done with the aim of increasing the lawmaker's awareness towards the Bank's activity.

6. SEMINARS WITH REPRESENTATIVES

from the media (economic journalists) and their training in basic economic concepts, macroeconomic interests of a central bank and present monetary policy instruments will continue. The spokesman in cooperation with the main departments arranges these once a month.

II. MEDIA REACTION AND PUBLIC EXPECTATIONS. A REAL EXAMPLE

Leaving behind the theoretical aspect, now we will examine relations under a more practical view. You might have heard about the recent declaration made by the Governor in the Economy Parliamentary Commission, March 8th, 2004.

II.1. WHAT DID REALLY HAPPEN, AND HOW DID THE MEDIA SERVE IT?

The information sent to the Supervisory Council meeting – with regard to this issue – is as follows:

In the meeting of the Economy, Finance and Privatization Parliamentary Commission held on March 8th, 2004 where I presented myself with the Monetary Policy Report (January 2004) and the declaration on Financial System Stability Threatening in Albania, I underlined the fact that the Bank of Albania does not see any potential threats to the financial system in Albania. However, as such a declaration is a periodical, legal obligation for us, authorities have tried to concentrate and work on particular directions, such as the reduction of cash in economy, banking system performance, etc.

The coincidence that the reporting date in parliament was the same with date of declaring inflation rate from INSTAT was inevitable, and therefore it took a good part in the following

assessments on monetary policy.

The 1.9 per cent shift of the monthly inflation rate is a relatively acceptable development, since inflation in February was somehow influenced by the volatility of administered prices.

The Bank of Albania noticed that the annual inflation rate jumped by 0.4 per cent the above target set. The annual average rate went up from 2.65 per cent in January to 2.92 per cent in February, approaching thus the level of 3 per cent. Consequently, the Bank of Albania deemed to be cautious with the inflation performance and future monetary policy.

However, the present inflation rate is thought to be within acceptable ranges for an economy in transition. Monetary aggregates are its monetary policy assessment criteria, and its inflation target remains in the range of 2-4 per cent.

Nevertheless, the coming inflation rates will be affected by the final decision on the reduction of administered fees of fix –line telephony, still under negotiations.

In addition, the next Supervisory Council meeting is going to dwell upon these fluctuations, and it is of the opinion that the monetary policy stance will be the same for another two-three months, remaining thus neutral. In the meeting, I also made it clear that fluctuations in inflation – reflecting movements on the supply directions – are not strong enough to lead to changes in monetary policy orientation from an easing to a more tightening attitude. However, February serves as a moment of reflecting about economic policies and next decisions.

II.2. MEDIA'S REACTION AND THE POSSIBLE RESPONSE GIVEN BY THE BANK OF ALBANIA

The Bank of Albania followed closely the reaction and presentation made by the media. In many cases, the comments of the media rely on information provided by journalists to one another and not on the source material offered by the Bank of Albania.

The Bank of Albania – taking advantage from this occasion – draws the attention of the public on the fact that we did not hinder, at least not for many years, and will not be shocked by an 4.4 per cent inflation rate of one or more months, given the fact that such a thing is not due to

deregulations in the demand aggregate. The Bank of Albania holds to the idea that such volatilities of administered prices will be accompanying the country's development.

On the other hand, the Bank of Albania underlines the fact that policy-making authorities can and must be more careful about the price liberalization process and administered fees, aiming thus in the reduction of negative effects in economy, especially by creating negative expectations on inflation.

As mentioned above, the Bank's objective is maintaining the annual inflation rate (December), and inflation will serve as a communication topic for the central bank, the public and media.

What some media might say, such as when one reads headlines like: "Inflation out of control jumps to 4.4 per cent", "Again mounting prices – the Bank of Albania gives up", "Rise of price becomes threatening", " '98 inflation back" or "Alarm: can't control inflation", are far beyond the official stance of the Governor and the Bank of Albania.

II.3. INFLATION AND THE IMPORTANCE OF COMMUNICATION CHANNELS

Actually, the real concern of the Bank of Albania was the significant impact of administered prices, which were soon confirmed by INSTAT.

Official declaration of INSTAT:
Consumption price index in February was 106.8 per cent compared to December 2001, marking thus a rise of 1.9 per cent from the previous month. the annual difference in February was 4.4 per cent, whereas a year ago it was 1.1 per cent. Thus, INSTAT states that "Foodstuff and alcoholic" group had an increase of 1.4 per cent, where worth mentioning was the increase of the bread price by 11 per cent. "Rent, water, fuel and energy" marked an increase by 4.9 per cent, the electric power increased by 31.2 per cent. "Transport" group increased by 1.5 per cent, which was mainly due to the increase by 32.2 per cent of bus fares.

The February inflation rate was not the Bank's objective, and besides inflation rate of 4.4 per cent is not a big concern. What really could be called a concern is exactly the increase of administered prices, and we wish the media accurately transmitted it.

Different policy regimes, especially the Inflation Targeting one, require accuracy and clarity from the media. Thus, a misinterpretation of the Governor's opinion could lead second-tier banks, depositors and borrowers to a wrong path in their decision-making.

The Bank's forecasts are based on historical developments of inflation, as well as on models updated from Research and Monetary Policy Departments.

Inflation expectancies are backed up by quantitative evaluations as well as qualitative ones. Thus, it offers a wider view of what might happen to consumption prices. Based on such scenarios, new suggestions are made on monetary policy attitude and interest rates if they are to go up or down, or remain the same.

Forecasts are occupying a greater role each day at the Bank of Albania. Can there be anything that could impede accurate and complete forecasts on macroeconomic parameters at the today's conditions of Albania? Well, first more complete and accurate information is needed. The informal economy and other barriers need also alternative information sources, expect for those provided by INSTAT.

III. A CENTRAL BANK' TRANSPARENCY AND PUBLIC REACTION

III.1. WHY IS TRANSPARENCY IMPORTANT? IS A CENTRAL BANK' TRANSPARENCY RELATED TO INFLATION?

We focus on one particular form of transparency, namely the publication of inflation forecasts and forward-looking analysis. The recent theoretical literature⁴ suggests that transparency in publishing forecasts will reduce inflation to the extent that it makes central bank credibility more sensitive to policy actions.

⁴ Does it pay to be transparent? International evidence from central bank forecasts, *Georgios Chortareas, David Stasavage, Gabriel Sterne*

According to empiric analysis:

First, theory asserts the publication of forecasts will have a smaller impact on inflation when credibility is secured by other means. We do not detect a significant impact of transparency on inflation for those countries with inflation targets, and the effects are smaller for lower inflation countries whose credibility may be relatively strong.

It is the attainment of low inflation that leads central banks to become more transparent, and not the other way round. Furthermore, there are few if any examples of either (a) a framework in which policy-makers have reduced transparency in response to an increase in inflation, or (b) a transparent framework in which inflation has markedly increased.

Finally, we argue that many central banks have not yet completed the transition to greater transparency. The theoretical and empirical evidence on the effects of transparency is relatively new.

Faust & Svensson (2000, 2001), Jensen (2000), Geraats (2001a), Tarkka & Mayes (1999) models imply a greater transparency on information and the central bank's objectives and targets.

In summary, we argue that the robustness tests have gone far enough to make us confident that we have identified empirically a channel for reducing and maintaining low inflation. Furthermore, there are global policy implications: there remain many central banks around the world that may achieve lower average inflation by publishing their forecasts in greater detail.

III.2. HOW TO ACHIEVE TRANSPARENCY?

Secrecy is no longer the byword in central banking circles. Now, the unmistakable trend is towards greater openness and transparency⁵. Increasingly, central banks are trying to make themselves understood, rather than leaving their thinking shrouded in mystery. The way central banks ought to talk depends on the decision-making process.

Let's suppose the minutes of Supervisory Council

are published in details and meetings broadcasted live. The problem is the gap between the technical arguments and the knowledge of the audience. If we want to be effective, one has to speak differently from one audience to another. On the other side, it is already known that Supervisory Council members would react quite differently before cameras, and he/she would be straightforward if that would help him win credit from the public. The Fed meetings – being broadcasted – changed somehow afterwards. The people were not willing to debate as they used to. That is why that increasing transparency is difficult. The press release on the Supervisory Council meeting is soon delivered and announced on the web site. Also, the decisions approved are published in the official bulletin in about a week's time. There is a growing interest on this publication proved also by good comments made in the daily press. And this is what we might call the basis of transparency. Policy model applied by a central bank defines also its communication strategy.

At a time when the Bank of Albania is seriously considering to implement inflation targeting regime, it is also working on public communication strategy. A public acknowledging monetary policy decisions will definitely be more active in the decision-making of a central bank.

III.3. HOW DOES THE PUBLIC REACT AND WHAT DOES IT EXPECT?

These factors should be examined:

- 1) The level of the audience
- 2) Financial system development in Albania⁶
- 3) The public and the banking system.

The public is getting more and more interested in the banking system and monetary policy decisions. Generally speaking, it is a fact that there is no "opposition" to inflation in Albania; expect for the power and fix-line telephony prices.

The relatively short market economy experience does not spur any interests, or better say does not make the public that sensitive to news on interest rates and inflation rates. Most of you would agree with the Bank of Albania's target of

⁵ Does it pay to be transparent? International evidence from central bank forecasts, *Georgios Chortareas, David Stasavage, Gabriel Sterne*

⁶ "Albanian financial system: progress or fragility" The third national conference "The Bank of Albania in the second time decade of transition" Shkëlqim Cani, Sulo Hadëri, December 2002

keeping inflation within the 2-4 per cent range, if sensible enough to consider its impacts. The stability would bring about a higher GDP and a lower unemployment level. Businesses would make greater profits and money would keep its value. However, things are moving in financial mediums now. This is the outcome of the cooperation platform between the Bank and institutions in Albania. An effective opposition generates ideas and new models for monetary policy.

PUBLIC-BANKING SYSTEM RELATION AND THE ANTI-CASH CAMPAIGN

Banking system development and higher public confidence are influenced by factors such as:

- expansion;
- competition;
- payments system;
- diligent supervision;
- real economy development;
- country's political stability.

ALBANIANS AND THE BANKING SYSTEM

The number of deposits in the banking system is 514 981, and the number of loans extended is 14 003. Thus, despite positive developments in these last years, there is still much to be done in this respect.

	Deposits	Loans extended
Total in the banking system	514.981	14.003
Account holders versus total population ratio	16.6	0.5 %

This was why in November 2003 the Bank of Albania undertook a campaign on the reduction of cash in economy through interbank payments. We would regard it positive that the media has started to be more sensitive to the Bank's incentive, and we would appreciate the pressure of all the media in bringing forward the steps taken for the replacement of cash with bank and interbank payments.

The objective of cash reduction in economy will be followed by a big, intensive campaign throughout 2004.

Channeling financial transactions through banks and having the money circulating through banks

will increase budgetary incomes, the banking system activity, products and services, and avoid:

- difficulties of economic parameters estimation;
- fiscal evasion and problems stemming from it;
- doubtful business emergence;
- corruption and smuggling,

A bank account is not and should not be the privilege of businesses only. Now that is a most common thing to every citizen in developed countries, a fact that is being noticed recently in Albania.

It is far better to endorse a check, use credit and debit cards, bank transfers and other payments methods, rather than using cash. It gives a more profound breathing and freedom to people.

Stability, safety and guarantee are some of the other advantages of bank accounts, giving the accountholder the confidentiality of the income and deposits.

Well, we have already got the first results; many institutions are using banks for their employees' salaries, payment of power and telephone bills.

III.4. THE CAMPAIGN AND PRICE STABILITY

In achieving its main objective – price stability - the Bank of Albania makes use of all means at

its disposal, from the classical and usual ones, like the monetary policy decisions and instruments, to the interim ones having a rapid impact, easily understood by the public. Such is the case of the campaign against the speculative increase of prices on the eve of year-end holidays.

The aim of the campaign, the second one in succession undertaken on the eve of year-end holidays, was to make consumers, business and the state authorities aware that the increase of prices was a speculative one, and everyone could have played its role so that Albanians, too could

celebrate as the rest of the world with normal prices.

The Bank of Albania campaign and declarations made by its administrators during those days focused on a positive inflation rate, within the targeted interval of 2 – 4 percent.

However, the Bank of Albania had to wait for the results of the Consumption Price Index, where the annual difference for December implies the annual inflation.

This index is published by INSTAT, and the annual difference in December resulted to be 3.3 percent, that is within the targeted interval of the Bank of Albania.

The campaign was successful, firstly because the Bank of Albania achieved for the fifth year in succession, its objective of having an inflation rate within the forecasted and announced interval at the beginning of the year.

On the other hand, referring to the INSTAT report, “surprise” developments were registered in the indicator of Consumption Price Index, when the Alb telecom company decided to increase the telephony prices by 68.8 percent.

This gave its impact by 0.7 percent in the monthly increase of consumption prices. This is not part of the campaign arguments of the Bank, and consequently it should be deduced.

SUPPLEMENTARY MATERIALS

PRESS RELEASE "INCREASE OF ELECTRICAL POWER AND BREAD PRICES – POSSIBLE IMPACTS ON INFLATION AND PUBLIC REACTION".

The Bank of Albania is watching attentively the recent developments regarding the reaction of the public, public institutions, non-profit organizations and media against the expected increase of electrical power and bread prices, article bearing a significant weight in the Consumption Price Index basket.

Maintaining the general price level under control and an inflation rate in the interval of 2-4 percent, are the main responsibilities and objectives of the Bank of Albania, being the central bank of the country, and this is the reason why the Bank of Albania is making a public declaration thereof.

The first thing to be noticed is the positive reaction of the public towards the general price increases, a reaction that the Bank of Albania has been expecting for a long time now from the Albanian public, as such positive experiences are already acknowledged in developed economies.

During its campaign against the speculative rise of prices, the Bank of Albania had required apart from other entities, the commitment of the taxation organs in tracing the speculative rise of prices. Contrary to the support shown by the media and non-profit organizations and the general understanding by the public, the taxation organs were rather reluctant and we had to wait for the recent events of expected price increases to see their commitment.

I. EXPECTED RISE OF THE BREAD PRICE

The bread and the electrical power are vital articles for Albanians and as such they require proper attention from the public actors who are supported by the taxes and have to serve the public.

In the framework of its transparency with the public and meeting its legal obligations as financial adviser of the government, the Bank of Albania would suggest:

- Competition Protection Agencies should consider the existence of potential monopolies in the import and trade of wheat and flour - they should aim at reducing monopolistic influences and stimulate competition.
- Fiscal organs should observe the continuous price speculations, even in the case of wheat products; one of the ways would be collecting taxes and impeding price speculations and tax evasion.
- Standard and quality control organs should pay attention towards the observance of national and international standards of products by verifying the observance of weight standards and real prices, in the case being, the bread.

The Bank of Albania certainly seeks the well-understanding of the whole market actors, state organs and that of the public, as prices in the market economy are set by the market itself and market liberalization reforms are indispensable. However, these reforms have to be combined with the role of the state in protecting its citizens, as well as with policies either already known or anticipated ones in the framework of commitments with international institutions, focusing on Stabilization-Association Agreements with the European Union.

II. EXPECTED RISE OF THE ELECTRICAL POWER PRICE

Considering the following points:

- the status as defined by law of the public companies Albtelcom and KESH (Albanian Electrical Corporation) as limited liability enterprises and market economy-oriented companies;
- their monopolistic position in the market and administered pricing in the respective areas;
- significant impacts on the consumption goods basket, telephone and electrical prices and

public reaction, the Bank of Albania believes that these developments, not positive towards inflation, emerged from the slowdown of structural reforms of this last decade and to the abrupt administered rise of prices.

III. EXPECTED IMPACTS ON INFLATION.

In 2003, Albania had the lowest fix line telephony prices compared to the member countries of the European Union. However, their rise in December was quite of a sudden and transparent. The Altelecom price reforms could have been gradual and not a spontaneous or surprise development on the eve of its privatization. Thus, referring to the INSTAT report "surprising" developments were registered during December in the Consumption Price Index indicator, when Altelecom decided to increase the telephone prices by 68.8 percent. This gave its impact with a 0.7 percentage point in the monthly increase of the consumption price index. The Bank of Albania became fully aware of this unexpected increase bearing considerable impact on December 2003 inflation.

It is rather early to announce the exact figures of inflation rise due to the increase of bread and electrical power prices. Nevertheless, the Bank of Albania believes these impacts are unavoidable and not to be neglected.

From the experience the Bank of Albania has in watching and controlling inflation, our considerations would be:

Referring to the rise of the administered electrical power price, we believe that it would give its impacts on two aspects:

The first impact, reflected directly on inflation, is impossible to be estimated as long as the new prices are not officially published, though it is known that the electrical power payment occupies an average of 3.84 percent of its expenses. However, the improvement of CPI calculating methodology since October 2003 is expected to reflect better the impact of the announced increase of electrical power price.

At a second stage, the impact of the increase can be transmitted to the prices of goods and services, where the electrical power constitutes one of the essential elements of their overall cost. This impact is estimated to be transmitted within the first two-three months, once the application

of the new prices has started.

On the other side, the Bank of Albania, has always drawn the attention against the invigorated speculative climate during the noisy announcement of expected rise of prices, when prices surge unreasonably from the additional costs the rise generates.

The expected increase of the bread price, which is liberalized a long time ago, is another point of concern to the future inflation. Undoubtedly, it will bear direct impacts on the total inflation. Considering the fact that its consumption occupies only 4.37 percent of the average in the Albanian families' budget, and then the rise of the bread price would have an immediate impact on inflation.

IV.2: TRAINING WORKSHOPS FOR JOURNALISTS AND STUDENTS OF JOURNALISM

2004 is expected to mark another step forward towards a training program for journalists mainly in economics, undertaken by the Bank of Albania in these recent years. The new training dimension relies on a wider range of arguments as well as people interested in this field. Thus, this process will include students from the Faculty of Journalism and those from the Faculty of Economics. The process shall intertwine the design of central banking textbooks for high schools and secondary ones, as well as lectures in different universities of the country.

These training seminars will:

- Deepen the knowledge of journalists, especially the young ones, conveying thus more complete and accurate reports on Bank of Albania's decisions and activity.
- Avoid part of misunderstandings on Bank of Albania's publications, website materials, press conferences and declarations.

The spokesman shall coordinate these seminars in close cooperation with relevant departments.

Public relations department is responsible for arranging the protocol service and designing the work programs in covering costs, offering the premises and contacting students interested in joining these seminars.

By the end of the training program, journalists and students will be issued a participation certificate by the Bank of Albania.

The seminar to be held	Time	Responsible persons	Notes
Bank of Albania integration in the European Monetary System. What does it mean being a member of the European community under the light of a central bank.	April 2004	Research Dept, Monetary Policy Dept, and the Cabinet, and/or Public relations Department	How close and how far are we from the European Union membership if comparing our figures with those of the regional countries becoming members in May 2004, and with the group entering in a second phase. The material makes an interesting comparison among countries such as Greece, Portugal, and Ireland.
The new website of the Bank of Albania. The most significant changes and how to use it.	March 2004	Information Technology and Statistics Department.	This seminar will be divided into two part. The journalists will be introduced to the search engines, updates and content.
Statistics at the Bank of Albania. Statistical report and searching data online.	October 2004	Information Technology and Statistics Department.	Though one seminar was made in 2003, the redesign of a new one, which will explain clearly the statistical data as well as the interpretation of data and conclusions, is thought necessary.
The balance of payments – its methodology and concepts.	May 2004	Balance of payments division	Maybe the report's publication methodology should be revised, introducing the exchange rate effects or other phenomena as well as impacts on economic policies.
Treasury bills and budget deficit crediting. Bank of Albania's restrictions and the expected commitment of the Savings Bank once privatized.	June 2004	Monetary operations Department	Journalists can now get familiar with the Savings Bank participation in treasury bills auctions and Bank of Albania's restrictions on budget deficit financing.
One day in the REPO auction. REPOs as instrument	November 2004	Monetary operations Department	Journalists are introduced with Bank of Albania's interventions in money and forex markets. Why does BoA publish interventions at a 3-month lag, explaining at the same time why there should be no requests on making public the BoA's interventions in the market?
Bank of Albania's interventions in the money and forex market.			
Inflation targeting and opinions on the type of inflation that Bank of Albania should report. Preconditions for a successful macroeconomic environment, institutional issues and budget, etc.	July 2004	The Governor Monetary policy, Research Departments Monetary policy Dept.	The journalists will be the first to be introduced with Inflation targeting regime. How is it measured, what does it express, what are the alternatives? Other aspects related to the target mode and other types, which could be targeted by monetary policy.
Inflation – Bank of Albania's target. Why inflation is the sole target of Bank of Albania?	October 2004		
Why a central bank's success is closely related to its independence, responsibility and transparency.	December 2004	The Governor Monetary policy Dept.	How (in)dependent is the Bank of Albania practically and theoretically? How to achieve it?
Banking supervision in Albania.	November 2004	Banking Supervision Dept.	General principles of banking supervision and its activity. Experts will simply introduce an examining report of a bank (without mentioning which bank that is), the bank's responses, recommendations made and BoA's replies.
Business confidence index and consumers' confidence index.	September 2004	Research Dept.	Publication of indexes required that journalists be trained, since it will be them who will transmit Bank of Albania's evaluations.

NEWS FOR THE PERIOD JANUARY – MARCH 2004

BANK OF ALBANIA STRATEGY OF INTEGRATION SUBMITTED

On January 15, 2004, a meeting took place at the Bank of Albania for the submission of the Draft-strategy of the Bank of Albania for European integration. In the opening speech, the Bank of Albania Governor, Mr. Shkelqim Cani, stated that the "Bank of Albania has been committed to the process of financial – economic reforms, in the framework of Stability – Association Agreement with the European Union. It is part of the Albanian negotiating team, headed by the Ministry of European Integration. Also, in cooperation with the Ministry of Finance, the Bank of Albania is committed to carry out financial reforms in the framework of the memorandum of financial-economic policies with the International Monetary Fund". According to Mr. Cani, the capital account liberalization is inevitable and it is the duty of this table to determine further and concrete steps and to prepare an optimal liberalization process, so as to provide the desired benefits.

Albania is committed to liberalize its capital account and has undertaken to do so within a certain time limit. In the Work Group Report on the acceptance of Albania in WTO, the lifting of controls on capital is one of the horizontal commitments. The report emphasizes that the Bank of Albania reserves the right to keep controls on capital movement, which will be carried out on the basis of national treatment. The regime currently in place will be abolished not later than 2010'. In the mean time, Albania is getting ready to sign the Stability Association Agreement, which constitutes the first step towards integration to EU. This agreement will also constitute issues related to capital account liberalization and time limits, beyond which each of the transactions will be carried out freely.

CONCLUSIONS OF PRICE CAMPAIGN SUBMITTED

On January 22, 2004, the Bank of Albania organized the concluding meeting of the Campaign against speculative price rise at the threshold of year-end celebrations. The Bank of Albania Governor, Mr. Shkelqim Cani, headed

the meeting. It was organized in the form of a round table with representatives from INSTAT, Ministry of Finance and Economy, public institutions, civil society closely related to the protection of interests of consumers and citizens, written and electronic media journalists, etc. The Governor submitted concisely the arguments on which the campaign was established and developed, the debates that went with it, media support in general, the campaign outcomes in respect of public awareness and the conclusions, through figures of consumer price index performance during 2003.

According to Mr. Cani, "inflation is the primary Bank of Albania objective, as it generally is in modern central banks of the world. In order to accomplish this primary objective, the Bank of Albania uses all available means, starting from the classical ones to the permanent ones, such as monetary policy decisions and instruments, up to those having temporary character, rapid impact, which are simpler and more directly comprehended by the public. This is the concrete case of the campaign against price speculations at the threshold of year-end celebrations.

The Governor stated that "we succeeded in making the public be the ally in our mission and naturally it is just here that we see the long-term benefits of an open and transparent process, especially a comprehensive one. The most important aim of the campaign was to convey to the public this Bank of Albania concern, regarding an artificial "surpassing" of inflation in December, but which in conclusion is important for everyone, since we are all consumers and in a way or another we are all interested in having price stability.

The Bank of Albania has estimated the campaign as successful, based mainly on two main arguments: public and media reaction, meaning the achievement of awareness effects and the reference of figures in December 2003, compared to the same period of the previous years.

IMF APPROVES US\$5.9 MILLION DISBURSEMENT

On January 26, 2004, the Executive Board of the International Monetary Fund completed the third review of Albania's economic performance and the financing assurances review under Albania's Poverty Reduction and Growth Facility (PRGF) arrangement. In completing the review, the Board approved the disbursement of SDR 4 million (about US\$5.9 million) to Albania. The Board further granted Albania's request for waiving the non-observance of a September 30, 2003 structural performance criterion, regarding measures to regularize arrears between public sector enterprises. In the meantime, these measures were implemented as a prior action for the completion of this review.

The three-year PRGF arrangement was approved on June 21, 2002 for a total of SDR 28 million (about US\$41.5 million). So far, Albania has drawn SDR 12 million (about US\$17.8 million) under its current PRGF arrangement from the IMF.

The PRGF is the IMF's most concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper. This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Following the Executive Board discussion, Agustín Carstens, Deputy Managing Director and Acting Chairman, said: "Albania's performance during the first half of the three-year PRGF-supported program has been satisfactory overall, in spite of some delays on the structural side. Growth has recovered, inflation remains low, and the exchange rate has strengthened. However, revenue shortfalls persist, and could compromise the program's poverty reduction objectives.

In view of the authorities' strong commitment to the program and the policy package, the Executive Board granted a waiver for the

nonobservance of a structural performance criterion—which has since been implemented—and completed the third review under the arrangement and the Financing Assurances Review.

BANK OF ALBANIA PRESS STATEMENT ON MANAGED PRICES RISE

On January 31, the Bank of Albania published a Press Statement on the latest developments concerning the managed prices of electrical power and fixed-phones, and the price rise of bread and flour sub-products, articles having a significant weight in Consumer Price Index basket of goods.

Naturally, the keeping under control of the overall price level and the maintaining of an inflation within 2-4 per cent band are the primary objectives of the Bank of Albania, being the country's central bank and this is also the main reason of the Bank of Albania public pronouncement.

The observance is related to a positive reaction of the public against the general price level rise, a reaction that the Bank of Albania is requesting for years from the Albanian public, since such positive experiences are also known in the advanced economies. The Bank of Albania requested more attention of the public companies for a more prudential price reform performance.

BANK OF ALBANIA ACCOMPLISHMENTS OVER 2003

In the usual Press Conference taking place at year-start, the Bank of Albania Governor, Mr. Shkelqim Cani submitted the Bank of Albania accomplishments over 2003 and the challenges over the current year. According to Mr. Cani, year 2003 marked another positive step for the Bank of Albania regarding 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 target for an annual inflation rate within 2-4 per cent was met. The annual inflation rate in December – despite the unexpected increase of telephony prices – resulted to 3.3 percent, whereas the average annual inflation rate was 2.37 percent.

The Bank of Albania conducted a successful campaign against the speculative price rise on the eve of year-end holidays. The monetary policy of the Bank of Albania over 2003 was characterized by a smoothing trend throughout 2003; the base interest rate was 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 of Albania 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 loans and banking infrastructure, especially with regards to increasing the number of branches and the variety of services.

The most significant event of 2003 was the privatization of the Savings Bank from the Austrian Raiffeisen Bank. The success of this process lies not only on the good reputation of the bank, but also on the expected rise of competition, lending. '2003 recorded positive developments in the management of the foreign exchange reserve. From USD 8369.6 million on January, it mounted to USD 1billion and 25.6 million on December 31st, 2003. In the last 2-3 years, the Bank of Albania focused on the variety of instruments used, on decision-making structure and investment strategies.

GOVERNOR MET WITH THE DEPUTY GOVERNOR OF THE NATIONAL BANK OF MACEDONIA

On February 7-8, the Governor of the Bank of Albania, Mr. Shkelqim CANI, met with the officials of the National Bank of Macedonia and University of Tetova.

In the meeting held with the deputy Governor of the National Bank of the Republic of Macedonia, Mr. Fatmir Besimi, they discussed several issues on the cooperation between the two central monetary authorities.

The main issues under discussion were inspection and banking supervision, including the entire banking system and financial associations. Both countries, host representatives of branches

of the same banks, and therefore possibilities for joint inspection and supervision practices should be considered.

One of the conclusions of the Governor's visit in Macedonia was the organization of joint seminars and conferences of a regional character, touching upon central banking and the economy in general. The Bank of Albania and the National Bank of Macedonia could also organize training workshops in the respective countries, especially when they are supported and co-initiated by international organizations, such as the IMF, WB, USAID, BIS Basel, etc.

The campaign of cash replacement by alternative payment means is being conducted simultaneously in both countries, and the experience of Macedonia can and should serve as "experience" to the Bank of Albania campaign for the reduction of cash, as stated by Governor Cani.

The deputy Governor of the National Bank of Macedonia, Mr. Besimi, stated that most of these issues are under implementation in Macedonia; however, we have encountered problems and delays in the their outcome".

Both agreed on cooperating in the field of statistics and exchange of information between the two monetary authorities. According to Mr. Cani, "in Macedonia, there are foreign direct investments from Albania and vice-versa, which can be used for the purpose of the balance of payments statistics and research from the two central banks. Likewise, cooperation could be further extended even in the area of the expected and attained results from the Free Trade Agreement, which can undergo joint analysis."

GOVERNOR MET IMF' S MISSION OF TECHNICAL ASSISTANCE

On February 17, 2004, the Bank of Albania Governor, Mr. Shkelqim Cani held a meeting with the IMF' Mission of Technical Assistance, headed by Mr. Karl Driessen. Thanking them on the continuous and effective assistance to the Bank of Albania, the Governor Cani informed the IMF' s Mission on the main Bank of Albania challenges in the area of monetary policy and operations, banking supervision, accounting, statistics and information and technology

developments, European integration, etc.

The Governor stated that "The Bank of Albania is getting ready to adopt the new inflation targeting regime".

"Though the Bank of Albania has maintained an annual inflation rate within the 2-4 per cent targeted band over the recent years, yet it has been more an issue of credibility than primary obligation of its monetary policy. However, the Bank of Albania experts are making efforts to achieve the above target in a medium-term period and therefore, the Mission's technical assistance would be very worthy" stated Mr. Cani.

Also, an important issue being dealt with in this meeting was the development of a modern payment system and the reduction of cash used in economy. Mr. Cani stated that "The Bank of Albania has just completed successfully the project of interbank payment system on high value payments, financed by the World Bank, implemented since January 30th of the current year.

Mr. Driessen, appreciating the Bank of Albania performance in implementing the IMF's assistance programs, stated "The Mission, during its stay over some days, will assist the Bank of Albania departments in all the issues and in problems of concern, up to details".

GOVERNOR MET WITH REPRESENTATIVES OF THE EURO-MONEY

On March 4, 2004 the Bank of Albania Governor, Mr. Shkelqim Cani met Mr. Richard Ensor, Managing Director and Mr. Martin Born, Director of Publications at "Euromoney" company, a well-known authority in the area of forecasting the international banking developments and capital market.

In his speech, the Governor made a synthetic presentation of the main highlights of economy in general and of Albanian banking system in particular over 2003 and the forecasts on the current year.

"The Savings Bank's privatization from Raiffeisen Bank was a succesful process for Albanian banking system and for encouraging strategic foreign investments in Albania" stated Mr. Cani. "Currently", stated the Governor, "after the

definitive licensing of a domestic capital bank, the banking system records 16 banks and is the most reformed and consolidated sector in the country's economy, according to assessments by international financial institutions, such as IMF, EBRD, etc. However, the Bank of Albania continues to encourage the banking activity extension, the reduction of banking transaction cost and the increase of types of services provided by the banks".

"In the meantime", went on the Governor, "the Bank of Albania will be re-involved, in cooperation with other institutions, in a campaign on promoting banking payments and replacing cash operations, thus assisting in the banking system and overall formal economy development.

Euro Money representatives invited the Bank of Albania Governor to participate in the regional conference on Southeastern Europe titled "Conference on Regional Finances and Investments", which will be held in Dubrovnik, Croatia on October 26-27, 2004.

Mr. Cani expressed the willingness of the institution he governs to further enhance the cooperation, aiming at a better marketing of Albanian economy in the regional and global capital markets, so as to attract potential foreign investments.

INTERBANK PAYMENT SYSTEM INAUGURATED

On March 8, 2004, the real time interbank payment system was inaugurated officially, which had started to operate since January 30, 2004, after passing successfully through all tests required.

The Bank of Albania Governor, Mr. Shkelqim Cani held the opening speech, which is briefly presented as follows:

The Bank of Albania has recently made one of the most important steps in the process of reforming the banking system according to international standards, for developing and enhancing the country's banking system infrastructure. The Albanian Interbank Payment System - AIPS, may currently be regarded as the main linking infrastructure of the whole banking system. It establishes optimal

conditions, equal either for carrying out exchanges between banks or for safe interbank market development.

AIPS is installed at the Bank of Albania and is extended in all participant banks through safe communication networks. The system holds banks' accounts and enables immediate and real

time settlement of all payment instructions, which are set in motion through electronic messages. The settlement and finalization of these instructions is performed through immediate movement of funds between accounts that the banks hold in with the system. Then the system takes care of immediately advising the beneficiary of funds and of allowing their usage.

LEGAL EVENTS

DECISION OF COUNCIL OF MINISTERS, NO. 1,
DATE 7.1.2004

On the approval of the contract, between the Ministry of Finance and Raiffeisen Zentralbank, Austria regarding the transaction of the Saving's Bank, altered with decision no. 630, date 18.9.2003 from the Council of Ministers and proposed by the Ministry of Finance.

DECISION OF COUNCIL OF MINISTERS NO. 7,
DATE 14.1.2004

On the discussion journal's approval between the Council of Ministers of the Republic of Albania and the Government of the Federal Republic of Germany, "On the treaties and international agreements", proposed by the Ministry of Foreign Affairs.

DECISION OF THE COUNCIL OF MINISTERS, NO.
45, DATE 22.1.2004

"On the travelling fare changes of the civic transportation" proposed by the Council of Ministers and the Ministry of Transport and Telecommunications.

DECISION OF THE COUNCIL OF MINISTERS, NO.
14, DATE 14.1.2004

On the changes to the decision no.351, date 28.7.1999 from the Council of Ministers "Regarding the approval of the food quotas in the military hospitals" proposed from the Ministry of Defense.

DECISION OF THE COUNCIL OF MINISTERS,
NO.48, DATE 27.1.2004

On the selection of the preferable bid participant "Regarding the preparation and organization of the concession contract for the national airport "Mother Tereza".

DECISION OF THE COUNCIL OF MINISTERS, NO.
54, DATE 29.1.2004

"On the procedures and the special financial treatment given to the retired pilots" supporting the purview no. 100 of the Constitution as well

as purviews no. 3 and 8 of law no. 9128, date 29.7.2003, proposed by the Ministry of Defence and the Minister of Labour and Social Affairs.

LAW NO. 9173, DATE 29.1.2004

On the ratification of "The agreement between the Government of the Republic of Albania and the Government of the Federal Republic of Germany, regarding the financial collaboration on the "Social Investment Fund ADF-III-Northern and Eastern Albania" proposed by the Council of Ministers.

LAW NO. 9174, DATE 29.1.2004

On the ratification of the "Agreement between the Government of Republic of Albania and the Government of the Federal Republic of Germany, regarding the financial collaboration "The Research and Specialist's Fund, V-Year 2001)".

LAW NO. 9175, DATE 29.1.2004

On the ratification of the "Loaning Agreement between the Government of the Republic of Albania and the Islamic Bank for the development, participation and financing the project of the national road Vorë-Rinas-Fushë-Krujë realignment".

LAW NO. 9176, DATE 29.1.2004

On the ratification of the "Agreement between the Ministry of Finance, acting on behalf of the Albanian state, International Finance Corporate and the European Bank for Reconstruction and Development (EBRD), for the purchase of the INSIG Ltd shares".

LAW NO. 9177, DATE 29.1.2004

On the ratification of the "Agreement between the shareholders of the Ministry of Finance acting on behalf of the Albanian state, INSIG Ltd and the European Bank for Reconstruction and Development (EBRD)".

DECISION OF THE SUPERVISORY COUNCIL OF BANK OF ALBANIA, NO.01, DATE 28.01.2004

On the approval grounded on law no. 8269, date 23.12.1997 regarding the Bank of Albania "On the report of the economic and monetary developments during second half of 2003".

DECISION OF THE SUPERVISORY COUNCIL OF BANK OF ALBANIA, NO.02, DATE 28.01.2004

Regarding the approval of the tariffs for using the Albanian Interbank Payment System.

DECISION OF THE SUPERVISORY COUNCIL OF BANK OF ALBANIA, NO. 03, DATE 28.01.2004

Regarding some changes to the regulation "On the functioning of the accounting system and the treasury administration" approved by decision no. 75, date 25. 09.2002.

DECISION OF THE SUPERVISORY COUNCIL OF BANK OF ALBANIA, NO. 04, DATE 28.01.2004

Regarding some changes on the regulation "On the functioning of the services system SWIFT" approved by decision no. 16, date 01.03.2000.

DECISION OF THE SUPERVISORY COUNCIL OF BANK OF ALBANIA, NO. 05, DATE 28.01.2004

On the approval of some ratifications on the decision of the Supervisory Council of Bank of Albania "On the approval of the regulation "The working performance' evaluation criteria of the employees of Bank of Albania".".

DECISION OF THE SUPERVISORY COUNCIL OF BANK OF ALBANIA, NO. 06, DATE 28.01.2004

On the licensing procedure to practise banking activities by the "People's Bank" Ltd.

DECISION OF THE SUPERVISORY COUNCIL OF BANK OF ALBANIA, NO. 07, DATE 28.01.2004

On determining the salary rates of the employees of Bank of Albania.

DECISION OF THE SUPERVISORY COUNCIL OF BANK OF ALBANIA, NO. 08, DATE 28.01.2004

On the approval of the "Monetary Policy Report, January 2004".

DECISION OF THE SUPERVISORY COUNCIL OF BANK OF ALBANIA, NO. 09, DATE 28.01.2004

On the approval of the declaration by the Bank of Albania "Regarding the financial stability threats in Albania".

DECISION OF THE SUPERVISORY COUNCIL OF BANK OF ALBANIA, NO. 10, DATE 28.01.2004

On the approval of the regulation "Money laundering prevention".

DECISION OF THE SUPERVISORY COUNCIL OF BANK OF ALBANIA, NO. 11, DATE 28.01.2004

On the approval of the manual "The issuing procedures of the compensation decree at Bank of Albania" based on law no. 8269 for the Bank of Albania.

DECISION OF THE SUPERVISORY COUNCIL OF BANK OF ALBANIA, NO. 12, DATE 28.01.2004

On the approval of the balance and the usage of the profit of the Bank of Albania for 2003.

DECISION OF THE SUPERVISORY COUNCIL OF BANK OF ALBANIA, NO. 13, DATE 28.01.2004

On the suspension and the forbiddance of certain operations included in the Italian-Albanian Bank licence.

DECISION OF THE SUPERVISORY COUNCIL OF BANK OF ALBANIA, NO. 14, DATE 28.01.2004

On the approval of the numismatic fund of the Albanian coins and banknotes.

DECISION OF THE SUPERVISORY COUNCIL OF BANK OF ALBANIA, NO. 15, DATE 28.01.2004

On the approval of some alterations to certain services in the Unified Reporter System.

BANK OF ALBANIA
MARCH 30, 2004

SUPERVISORY COUNCIL

SHKËLQIM CANI	Chairman
FATOS IBRAHIMI	Deputy Chairman
SULO HADËRI	Member
SABAH HILMIA	Member
TONIN KOLA	Member
LLAZI BALLIU	Member
BAJRAM MUÇA	Member
DRINI SALKO	Member

GOVERNOR

Mr. SHKËLQIM CANI

FIRST DEPUTY GOVERNOR

Mr. FATOS IBRAHIMI

DEPARTMENTS AND OTHER UNITS

Governor's Office	Mrs. Ermira Haxhi
Monetary Policy Department	Mr. Gramoz Kolasi
Research Department	Mr. Erjon Luçi
Monetary Operations Department	Mr. Marjan Gjermeni
Banking Supervision Department	Mr. Klodion Shehu
Issuing Department	Mr. Zihni Djepaxhia
Accounting and Payments Department	Mr. Llazi Balliu
Department of Information Technology and Statistics	Mr. Sokol Qeraxhiu
Human Resources Department	Ms. Doloreza Arapi
Public Relations Department	Ms. Esmeralda Uruçi
Auditor's Department	Ms. Elsa Bizhga
Logistics Department	Mr. Ergys Misha
Printing Services	Mr. Alfons Theka

GENERAL INSPEKTOR

Ms. Elsa Bizhga

BRANCHES

Shkodra	Ms. Ermira Istrefi
Elbasani	Ms. Valentina Dedja
Gjirokastra	Ms. Anila Thomaj
Korça	Ms. Liljana Zjari
Lushnja	Ms. Shpresa Meço

LIST OF ALL SUBJECTS LICENSED BY THE BANK OF ALBANIA

BANKS AND BRANCHES OF FOREIGN BANKS

1. ITALIAN - ALBANIAN BANK

Licence No. 1/1996, dated 17.07.1998.

Approved with the Supervisory Council Decision No. 89, dated 18.06.1998.

Director: Adrian FULLANI
Address: Rruga "Barrikadave", No. 70, Tirana - Albania
Tel: 356 97, 356 98, 262 62
Fax: 330 34

2. SAVINGS BANK

Licence No. 2/1998, dated 11.01.1999.

Approved with the Supervisory Council Decision No. 163, dated 11.12.1998, Certificate No.2, "On Deposit Insurance"

Director: Ardian KAMBERI
Address: Rr. Dëshmorët e 4 Shkurtit. No.6, Tirana - Albania
Tel: 245 40, 226 69, 254 16
Fax: 235 87, 236 95, 240 51

3. UNITED BANK OF ALBANIA

Licence No. 3/1998, dated 11.01.1999.

Approved with the Supervisory Council Decision No. 165, dated 11.12.1998, Certificate No.3 "On Deposit Insurance".

Director: Abdul Waheed ALAVI
Address: Bulevardi Dëshmorët e Kombit. No. 8, Tirana - Albania
Tel. central: 22 84 60, 223 873, 274 408
Fax: 284 60, 283 87

4. DARDANIA BANK

Licence No. 5/1998, dated 11.01.1999.

Approved with the Supervisory Council Decision No. 164, dated 01.12.1998, Certificate No.4 "On Deposit Insurance".

Director: Beqir MEZELXHIU
Address: Bulevardi "ZOGU I" Tirana - Albania
Tel: 228-759, 259-350, 259-351
Fax: 230-566
Telex: 2298 db banc ab
E-mail: db@albaniaonline.net ; dardaniabank@hotmail.com .

5. NATIONAL COMMERCIAL BANK

Licence No. 6/1998, dated 11.01.1999.

Approved with the Supervisory Council Decision No. 162, dated 11.01.1999, Certificate No. 5, "On Deposit Insurance".

Director: Seyhan PENCAPLIGIL
Address: Bulevardi .Zhan Dark. Tirana - Albania
Tel: (0)4250 955
Fax: 4250 956

6. TIRANA BANK

Licence No. 07, dated 12.09.1996.

Approved with the Supervisory Council Decision No. 9, dated 12.09.1996, Certificate No. 6 "On Deposit Insurance".

Director: Dimitris KARAVIAS
Address: Bulevardi "Zogu I", No. 55/1, Tirana - Albania
Tel: 334 41, 42, 43, 44, 45, 46,47
Fax: 334 17

7. BRANCH OF NATIONAL BANK OF GREECE IN TIRANA

Licence No. 08, dated 25.11.1996.

Approved with the Supervisory Council Decision No. 4. dated 14.03.1996, Certificate No.7 "On Deposit Insurance".

Director: Spiro BRUMBULLI
Address: Rruga e Durrësit, Godina Comfort, Tiranë
Tel: (04) 233 623 / 4
Fax: (04) 233 613

8. INTERNATIONAL COMMERCIAL BANK

Licence No.09, dated 20.02.1997.

Approved with the Supervisory Council Decision No.9, dated 30.04.1996, Certificate No. 8 "On Deposit Insurance".

Director: Lee Chong Pa
Address: Rr. .Ded Gjon Luli., Tirana - Albania
Tel: 37567, 37568, 37569
Tel/fax: 37570

9. BRANCH OF ALPHA BANK IN TIRANA

Licence No.10, dated 07.01.1998.

Approved with the Supervisory Council Decision No. 01/03/96, dated 27.12.1997, Certificate No. 9 "On Deposit Insurance".

Director: Andrea Antonios GALATOULAS
Address: Bulevardi "ZOGU I", No.47, Tirana - Albania
Tel.: 335 32, 333 59, 404 76, 404 77
Tel/fax: 321 02

10. AMERICAN BANK OF ALBANIA

Licence No.11, dated 10.08.1998.

Approved with the Supervisory Council Decision No. 105, dated 10.08.1998, Certificate No. 10, "On Deposit Insurance".

Director: Lorenzo RONCARI
Address: Rruga .Ismail Qemali. No.27, P.O. Box 8319 . Tirana - Albania
Tel.: 48753/4/5/6
Tel/fax: 487 62

11. PROCREDIT BANK (JOINT-STOCK COMPANY)

Licence No. 12, dated 15.03.1999

Approved with the Supervisory Council Decision No.22, dated 03.03.1999, Certificate No. 11, "On Deposit Insurance".

Director: Emmanuel DECAMPS
Address: Rruga .Sami Frashëri., Tirana e Re, P.O. Box. 2395, Tirana - Albania
Tel.: 304 99, 334 96
Tel/fax: 334 81

12. FIRST INVESTMENT BANK - TIRANA BRANCH (JOINT-STOCK COMPANY)

Licence No. 13, dated 16.04.1999.

Approved with the Supervisory Council Decision No.45, dated 13.04.1999, Certificate No. 12, "On Deposit Insurance".

Director: Pettier Gavrillov KRASTEVI
Address: Bulevardi "ZOGU I", No. 64, Tirana - Albania
Tel.: 564 23, 564 24
Tel/fax: 564 22

13. COMMERCIAL BANK OF GREECE (ALBANIA) (JOINT-STOCK COMPANY)

Licence No. 14, dated 28.10.1999.

Approved with the Supervisory Council Decision No.105, dated 19.10.1999, Certificate No. 13, "On deposit Insurance".

Director: George CARACOSTAS
Address: Rruga "Kavajës", .Tirana Tower., Tirana - Albania
Tel.: 587 55, 56, 57, 58, 59, 60
Tel/fax: 587 52

14. CREDIT BANK OF ALBANIA (JOINT-STOCK COMPANY)

Licence No. 15, date 28.08.2002.

Approved with the Supervisory Council Decision No. 66, date 28.08.2002, Certificate No. 14, "On Deposit Insurance".

Director: Kamal Adbel MANEIM.
Address: Rruga "Perlat Rexhepi, Al-Kharafi Group Administration Building, Kati 1&2" Tirana-Albania.
Tel.: 272 168; 272 162.
Tel/Fax: 272 162.
E-mail: creditbkalb@icc-al.org

15. "CREDINS" BANK, TIRANA (JOINT-STOCK COMPANY)

Licence No. 16, date 28.03.2003.

Approved with the Supervisory Council Decision No. 22, date 26.03.2003.,Certificate No.15, "On Deposit Insurance".

Director: Artan SANTO
Address: "Rruga Ismail Qemali", No.21, Tirana-Albania.
Tel.: 222916; 234096.

16. "POPULAR BANK" (JOINT-STOCK COMPANY)

Licence No. 17, date 16.02.2004.

Approved with the Supervisory Council Decision No. 22, date 26.03.2003.

Certificate No.16, "On Deposit Insurance".

Director: Edvin LIBOHOVA

Address: "Donika Kastrioti", Pall. 11/1, First Floor Tirana, Albania.

Tel.: 272788; 272789.

NON BANK SUBJECTS

1. UNIONI FINANCIAR I TIRANËS S.R.L. (WESTERN UNION)

Licence No. 1, dated 08.12.1999 to conduct the following financial activities:

- offering payment services;
- mediating in the conduct of monetary transactions;
- acting as financial agent or advisor .

Director : Niko Leka

Address: Rr. "Reshit çollaku", Pall. Shallvareve, sh 2. No. 18, Tirana-Albania.

Tel.: 250 653.

2. DINERS CLUB ALBANIA S.R.L.

Licence No. 2, dated 09.10.2000 to conduct the following financial activity:

- mediating in the conduct of monetary transactions.

Director: Vebi Velia

Address: Rr. Bulevardi "Zogu I", VEVE Business Center, Tirana - Albania

3. POSTA SHQIPTARE (JOINT STOCK COMPANY)

Licence no. 3, dated 18.04.2001 to conduct the following financial activity:

- Offering payment services.
- acting as financial agent or advisor .

Type: state-owned

Director: Aleksandra Çollaku

Address: Rr. .Reshit Çollaku. , No.4 Tirana - Albania

4. CREDINS. (JOINT STOCK COMPANY) TIRANA

Licence No. 04, dated 13.06.2001 to conduct the following financial activities:

- granting credit;
- offering payment services;
- mediating in the conduct of monetary transactions (foreign currency included);
- offering guarantees;
- acting as financial agent or advisor (excluding herein the services set forth in point 3/a and 3/b of Article 26 of *the Law on Banks in the Republic of Albania*).

Director: Monika Milo

Address: Rr. "Ismail Qemali" No.21, Tirana - Albania

Tel: 222916; 234096.

5. MOUNTAINOUS AREA FINANCING FUND

Licence no. 5, dated 29. 03.2002 to conduct the following activity:

- granting credit.

Created according to the Decision of the Council of Ministers of the Republic of Albania.

Director: Arben Jorgji

Address: Rr. "Mustafa Matohiti" No.12, Tirana - Albania

Tel: 250633

6. "ALBACREDIT S.R.L."

Licence No.6, dated 18.04.2003 as a non-bank financial institution to conduct the following activity:

- offering payment services;
- mediating in the conduct of monetary transactions (including foreign exchange).

Manager: Ermira Skënderi.

Address: Rruga "Ded Gjon Luli", No. 5 Tirana-Albania

Tel.: 230 956

Fax: 228 929

7. "AK-INVEST ." (JOINT STOCK COMPANY)

Licence No.7, dated 31.12.2003 as a non-bank financial institution to conduct the following activity:

- offering payment services;
- mediating in the conduct of monetary transactions (including foreign exchange).
- acting as financial agent or advisor

Manager: Ildir Adili

Address: Rruga "Ded Gjon Luli", No. 2/3 Tirana-Albania

Tel.: 240 147

THE FINANCIAL SUBJECTS NOT LICENSED BY BANK OF ALBANIA FOR THE CONDUCTION OF THEIR ACTIVITIES ACCORDING TO THE SUPERVISORY COUNCIL DECISION NO. 26, DATED 29.03.2000 . ON EXEMPTION OF SOME SUBJECTS FROM THE REQUIREMENTS OF THE PROVISIONS OF LAW NO. 8365, DATED 02.07.1998. ON BANKS IN THE REPUBLIC OF ALBANIA.

(These subjects are not licensed or supervised by Bank of Albania but they are obliged to report to the Bank of Albania according to the approved reporting system).

1. RURAL FINANCING FUND.

- Created according to the Decision of the Council of Ministers of the Republic of Albania No. 207, dated 28.04.1999.
- Object of the activity: Financing the rural area.
- Address: Rr."Ismail Qemali", P. 32, Tirana
- Director: Zana Konini
- Exempted with the document of the Bank of Albania no.1843, dated 01.08.2000

2. BESA FOUNDATION.

- Created by .Open Society Fond for Albania. (SOROS).
- Object of the activity: Financing small and medium firms.
- Address: Rr."Asim Vokshi", No. 35, Tirana
- Director: Bajram Muça
- Exempted with the document of the Bank of Albania no. 2895/1, dated 19.01.2001.

3. ALBANIAN PARTNER ON MICROCREDIT.

- Shareholder: .Opportunity International.(East Europe).
- Object of the activity : Granting credit.
- Address: Rr. "Gjin Bue Shpata", No. 7/1, Tirana
- Director: James Reiff
- Exempted with the document of the Bank of Albania no. 828/1, dated 08.04.2002.

FOREIGN EXCHANGE BUREAUS

1. JOARD. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA

Licence: No. 1, dated 01.10.1999
Address: Rruga .Ded Gjon Luli. No.2, Tirana

2. AMA. FOREIGN EXCHANGE OFFICE S.R.L., DURRËS

Licence: No. 2, dated 01.10.1999
Address: Rruga "Tregtare", Lagja 3, Durrës

3. ARIS. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA

Licence: No. 3, dated 01.10.1999
Address: Rruga .Luigj Gurakuqi. , Tirana

4. UNIONI FINANCIAR TIRANË" FOREIGN EXCHANGE OFFICE S.R.L.

Licence: No. 4, dated 01.10.1999
Address: Rruga .Reshit Çollaku., Pall. Shallvare, Shk. 2/18, Tirana

5. AGLI. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA

Licence: No. 5, dated 01.10.1999
Address: Agjencia No.1: Rruga .Islam Alla. No.1, Tirana
Agjencia No.2: Rruga "Kavajës", Tirana

6. ALBAKREDIT. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA

Licence: No. 06, dated 24.11.1999
Address: Rruga .Ded Gjon Luli. No.5, Tirana

7. GUDEN. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA

Licence: No. 07, dated 24.11.1999
Address: Rruga .Konferenca e Pezës. , Tirana

8. EXCHANGE. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA

Licence: No. 08, dated 24.11.1999
Address: Rruga "Durrësit" No. 170 and Rruga .Reshit Çollaku. , Pall. Shallvare Shk. 4, Ap.42, Tirana

9. UNISIX. FOREIGN EXCHANGE OFFICE S.R.L.,KORÇA

Licence: No. 09, dated 26.11.1999
Address: Bulevardi .Republika., Pall.4, Korça

10. EKSPRES J & E. FOREIGN EXCHANGE OFFICE S.R.L.,DURRËS

Licence: No. 10, dated 26.11.1999
Address: Lagja 11, Rruga .Prokop Meksi. ,Durrës

11. MI & CO. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANË

Licence: No. 11, dated 29.02.2000
Address: Rruga .Ded Gjon Luli., No.2/3, Tirana

12. ILIRIA .98. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA

Licence: No. 12, dated 25.02.2000
Address: Sheshi "Skenderbej", Teatri i Kukullave, Tirana

13. SERXHIO. FOREIGN EXCHANGE OFFICE S.R.L., ELBASAN

Licence: No. 14, dated 07.04.2000
Address: Lagja .Luigj Gurakuqi., Rr.11 Nëntori, Pall. 70, No.14, Elbasan

14. ALBTUR. FOREIGN EXCHANGE OFFICE S.R.L., TIRANË

Licence: No. 15, dated 07.04.2000

Address: Agency no.1, Bulevardi .Zogu I., Pall. 32, Shk.1, Tirana

15. R & M. FOREIGN EXCHANGE OFFICE S.R.L., TIRANË

Licence: No. 16, dated 22.05.2000

Address: Rruga .Punëtorët e Rilindjes., Pall. 182, Tirana

16. TEUTA 2000. FOREIGN EXCHANGE OFFICE S.R.L., DURRËS

Licence: No. 17, dated 22.05.2000.

Address: Lagja 4, Rruga .Skëndërbej., Ap. 950, Durrës

17. T & E. FOREIGN EXCHANGE OFFICE S.R.L., DURRËS

Licence: No. 18, dated 11.06.2000

Address: Lagja 4, Rruga .9 Maji., Durrës

18. SHIJAK 2000. FOREIGN EXCHANGE OFFICE S.R.L., SHIJAK

Licence: No. 19, dated 24.11.2000

Address: Lagja .Popullorë., Shijak

19. R & T. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA

Licence: No. 20, dated 20.12.2000

Address: Bulevardi "ZOGU I", Tirana

20. DV-ALBA. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA

Licence: No. 21, dated 11.01.2001

Address: Sheshi "Skënderbej", Tirana Internacional Hotel, Tirana

21. MANUSHI. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA

Licence: No. 22, dated 18.04.2001

Address: Bulevardi .Zogu I., VEVE Business Center, Tirana

22. UNIONI SELVIA. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA

Licence: No. 23, dated 21.05.2001

Address: Rruga "Saraçëve", Pallati 124/1, Tirana

Tel. 376 274

23. KALENJA. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA

Licence: No. 24, dated 29.06.2001

Address: Rruga .Kavajës. (near Turkish Embassy), Tirana

24. TILBA. FOREIGN EXCHANGE OFFICE S.R.L., ELBASAN

Licence: No. 25, dated 30.09.2001

Address: Lagja "Luigj Gurakuqi", Bulevardi "Qemal Stafa", Njësia no.12, Elbasan

25. ANAGNOSTI" FOREIGN EXCHANGE OFFICE S.R.L., TIRANA

Licence: No. 26, dated 31.10.2001.

Address: Zyra 1- Bulevardi Zogu I, Pallati 97, shk.3.ap28, Tirana

Zyra 2- Rruga "Kajo Karafili", No. 11, Tirana

26. KO-GO. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA

Licence: No. 27, dated 12.11.2001

Address: Rruga .Vaso Pasha., Pall.16, Shk.2, Ap. 9, Tirana

27. ALB- FOREX. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA

Licence: No. 28, dated 22.11.2001

Address: Agjencia 1: Rruga .Abdyl Frashëri No.3., Tirana
Agjencia 2: Rruga. Mine Peza, Pall. 102, Shk. 1, Tirana

28. L&N. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA

Licence: No. 29, dated 22.11.2001

Address: Rruga .Muhamet Gjollështa., Tirana

29. TERBACI- GJ. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA

Licence: No. 30, dated 22.11.2001

Address: Rruga .Muhamet Gjollështa., Pall.215, Tirana

30. EXCHANGE ALOG. FOREIGN EXCHANGE OFFICE S.R.L.,TIRANA

Licence: No. 31, dated 22.11.2001

Address: Rruga .Mine Peza", Tirana

31. EX-CHANGE BEBI&FLORI. FOREIGN EXCHANGE OFFICE S.R.L., FIER

Licence: No. 32, dated 26.11.2001

Address: Lagja "Kongresi i Përmetit", Fier

32. GERSILDA. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA

Licence: No. 33, dated 03.12.2001

Address: Lagja nr.2, Rr. .Mihal Grameno., Pall.10, dyqani no.5, Tirana

33. CHANGE-ARIZAJ. FOREIGN EXCHANGE OFFICE S.R.L., TIRANA

Licence: No. 34, dated 03.12.2001

Address: Rr. "Pandi Madhi", Pall.60/2, Ap.15, Tirana

34. BASHKIMI 2001" FOREIGN EXCHANGE OFFICE S.R.L., TIRANA

Licence: No. 35, dated 12.12.2001

Address: Rr. "Kavajës", Tirana

35. ARJON 2002. FOREIGN EXCHANGE OFFICE S.R.L., ELBASAN

Licence: No. 36, dated 14.12.2001

Address: Lagja .Kongresi i Elbasanit., Bulevardi.Qemal Stafa., Pall.9-katësh, Elbasan

36. EURO 2002. FOREIGN EXCHANGE OFFICE S.R.L., DURRËS

Licence: No. 39, dated 20.12.2001

Address: Lagja nr.11, Rr. .Ismail Qemali., Durrës

37. EURO TRAVELS INTERNATIONAL. FOREIGN EXCHANGE OFFICE S.R.L., TIRANË

Licence No. 40, dated 14.01.2002.

Address: Bulevardi .Bajram Curri., pallatet Agimi Nr.1, Tiranë,

38. G&3. FOREIGN EXCHANGE OFFICES.R.L., KAVAJË,

Licence No. 41, dated 15.01.2002.

Address: Rruga.Kajo Karafili., Kavajë,

39. ALAKTH. FOREIGN EXCHANGE OFFICES.R.L., TIRANË,

Licence No. 42, dated 18.01.2002.

Address: Rruga e Dibrës,nr.105/1, Tiranë,

40. FORMAT. FOREIGN EXCHANGE OFFICES.R.L., TIRANË,

Licence No. 43, dated 21.01.2002.

Address: Rruga e Durrësit,Pall.85, shk.1,ap.1, Tiranë,

41. TRI URAT. *FOREIGN EXCHANGE OFFICES* S.R.L., ELBASAN,
Licence No. 44, dated 05.02.2002.
Address: Lagja .29 nentori., prane filialit te postes Elbasan,
42. CROWN TOWN. *FOREIGN EXCHANGE OFFICE* S.R.L., TIRANË,
Licence No. 45, dated 05.02.2002.
Address: Rruga .Mihal Grameno., Pall 10,Tiranë
43. BESA 2001. *FOREIGN EXCHANGE OFFICES* S.R.L., TIRANË,
Licence No. 46, dated 15.02.2002.
Address: Rruga .Myslym Shyri., Nr.25,Tiranë
44. MARIO. *FOREIGN EXCHANGE OFFICES* S.R.L., SARANDË,
Licence No. 47, dated .03.2002.
Address: Lagja 1, prane ish komitetit ekzekutiv te rrethit Saranda.
45. "JAV" *FOREIGN EXCHANGE OFFICES* S.R.L., TIRANË,
Licence No. 48, dated 20. 03.2002.
Address: Bulevardi Zogu I Godina e Zerit te Popullit Tiranë.
46. DROGU. *FOREIGN EXCHANGE OFFICES* S.R.L., TIRANË,
Licence No. 49, dated 23.04.2002.
Address: Rruga .Vaso Pasha. Kulla 1, Kati I (pas pallatit Agimi) Tiranë.
47. HYSEN-C. *FOREIGN EXCHANGE OFFICES* S.R.L., LAÇ,
Licence No. 50, dated 23.04.2002.
Address: Lagja nr.3, perballe Komisaritatit te Policise, Laç.
48. UNIONI FIER. *FOREIGN EXCHANGE OFFICE* S.R.L., FIER,
Licence No. 51, dated .05.2002.
Address: Lagja 15 Tetori, Rruga Kastriot Muca, Fier.
49. TAXI EKSPRES. *FOREIGN EXCHANGE OFFICES* S.R.L., ELBASAN,
Licence No. 52, dated 20.05.2002.
Address: Rruga Sami Frasherit, 11(prane Shkolles .Edit Durhan..
50. MERO. *FOREIGN EXCHANGE OFFICES* S.R.L., DEVOLL,
Licence No. 53, dated.05.2002.
Address: Zyra nr.1 : Bulevardi Fuat Babani, Bilisht.
Zyra nr.2 : Dogana Kapshtice
51. "GLEAR" *FOREIGN EXCHANGE OFFICE* S.R.L. SHIJAK
Licence No. 55, date 23.07.2002.
Address: Lagja Kodër Shijak Durrës
52. ALBA-POST JOINT-STOCK COMPANY *FOREIGN EXCHANGE OFFICE* , TIRANË
Licence No.56, dated 28.08.2002.
Address: Rruga "Reshit Çollaku", No. 4, Tiranë
53. UNION BALLSH *FOREIGN EXCHANGE OFFICE* S.R.L BALLSH
Licence No. 57, dated 11.09.2002.
Address: Rruga "8 Nentori", Ballsh
54. ESLULI *FOREIGN EXCHANGE OFFICE* S.R.L , TIRANË
Licence No. 58, dated 17.10.2002.
Address: Rruga "Reshit Çollaku", Pallati iShallvareve, shkalla No. 4/1.

55. "AMERICAN GLOBAL CAPITAL FUND-WORLDWIDE INVESTMENT" FOREIGN EXCHANGE OFFICE S.R.L ,TIRANË

Licence No.59, dated 26.11.2002.

Representative with power of attorney : Dashar Sheshaj, Vilson Ahmeti

Address: Rruga "Ismail Qemali", Parcela 167/187 "Euroapartment", Tiranë

56. "UNIONI KUÇOVË" FOREIGN EXCHANGE OFFICE S.R.L, KUÇOVË

Licence No. 60, dated 27. 03. 2003

Address: Lagjja "Llukan Prifti" Kuçovë

Tel. 03112515

57. "DENI&KRISTI-2002" FOREIGN EXCHANGE OFFICE S.R.L, TIRANË

Licence No. 61, dated 02.06.2003

Address: Rruga "Myslym Shyri", pallati 60, ap.3, Tiranë.

Exchange-broker: Maksim Çeku.

58. YLDON FOREIGN EXCHANGE OFFICE S.R.L, TIRANË

Licence No. 62, dated 03.06.2003

Address: Ruga "Qemal Stafa", pall. 382/2/2 Tiranë

Exchange-broker: Ylli Ndroqi (founder and manager)

Tel. 343 476, 0692095681.

SAVING-CREDITING ASSOCIATION UNIONS

1. JEHONA SAVING-CREDITING ASSOCIATION UNION, TIRANË

Licence: No.1, dated 27.06.2002

Head of the leading board : Vojsave Rama

The members of this union are 41 saving-crediting associations licensed also as special ones. They rely on technical assistance by the foundation “ The movement for the saving-crediting associations development”.

2. ALBANIAN SAVING-CREDITING UNION SAVING-CREDITING ASSOCIATION UNION, TIRANË.

Licence: No. 2, dated 09.08.2002.

Address: Rruga “Ismail Qemali”, No. 32.

Head of the leading board : Zana Konini

Tel. 25 19 10

E-mail: ffrural@albaniaonline.net

The members of this union are 71 saving-crediting associations, licensed also as special associations. They rely on technical assistance by “Mountain Area Financing Fond”.

REPRESENTATIVE OFFICES OF FOREIGN BANKS

THE REPRESENTATIVE OFFICE OF BANCA POPOLARE PUGLIESE IN ALBANIA

License nr. 01, date 02. 07. 2003

Representant : Giancarlo STASI

Address: Sheshi "Skënderbej", Pallati i Kulturës, Third Flor, Tirana;

Telefon number: +355 4 256 782

Pursuant to Law "On the Bank of Albania" No. 8365, dated 02.07.1998, Article 9, section 4 and 5, and the Regulation "On Granting a license for performing banking activity in the Republic of Albania", approved with the Bank of Albania Supervisory Council decision No. 71, dated 11.09.2002, the Bank of Albania

provides the right to establish the Representation Office to Banca Popolare Pugliese in Albania. The office will be entitled to perform the following activities:

- *organize studies on Albanian market*
- *advertise the financial activity*

The Representation Office of Banca Popolare Pugliese is not allowed to perform banking activity. The license is not time-limited and non-transferable.

