ECONOMIC BULLETIN

September 2005

Bank of Albania

If you use data from this publication, you are requested to cite the source.
Published by : Bank of Albania, Sheshi "Skënderbej", No.1, Tirana, Albania
Tel : 355-4-222230; 235568; 235569;
Fax : 355-4-223558
E-mail: public@bankofalbania.org

www.bankofalbania.org

Printed by: Printing House of Bank of Albania
Printed in: 640 copies

C O N T E N T S

Quarterly review of Albanian economy, third quarter 2005, June 2005 7
I. Governor's Speech 7
II. Economic developments and inflation 10
III. Monetary developments and financial markets 25

Economic developments during the first semester of 2005 39
I. Governor's Speech 39
II. Economic developments during the first half of 2005 41
III. Monetary developments and financial markets 57
IV. Economic developments during 2005 68

External sector developments of the Albanian economy during the first semi-annual of 2005, 5 October, 2005 72
I. Current account 72
II. Capital and financial account 74

Assessment of financial situation of the Albanian banking system for the second quarter of 2005, August, 2005 77

Bank of Albania statement on the financial system stability in Albania, July 29, 2005 80

Speech of Governor of the Bank of Albania, Mr. Ardian Fullani on the occasion of the signing of the Agreement on the field of Banking Supervision between the Bank of Albania and the Banking and Payments Authority of Kosovo, Pristine, July 6, 2005 84

Speech of the Governor of the Bank of Albania, Mr. Ardian Fullani at the meeting on the operation commencement of the Automated Electronic Clearing House System, Tirana, July 22, 2005 86

Speech of the Governor of the Bank of Albania, Mr. Ardian Fullani at the workshop "Experiences of the Bulgarian National Bank in its road towards the ESCB", organized in cooperation with the Bulgarian National Bank and the GTZ Office, Tirana, September 5, 2005 88

Interview of the Governor of the Bank of Albania, Mr. Ardian Fullani Given to Voice of America: "The Bank of Albania is a responsible and an independent institution" Washington, 24 September, 2005 90

Speech of the Governor of the Bank of Albania, Mr. Ardian Fullani at the High Level Conference organised by EBRD, "Workers" Remittances in Transition Economies: Main Issues and Policy Implications" London, September 28, 2005 92

A few words on Deposit Insurance 99

A comparative approach between the statistics standards of the Bank of Albania and the SDDS project standards of the International Monetary Fund 109

Bank of Albania news during July-September 2005 141

Legal events, during July-September 2005 144

Bank of Albania management, September 30, 2005 146

List of all entities licensed by the Bank of Albania 147

Banks and branches of foreign banks 147

Non-bank institutions 150

Financial institutions not licensed by the Bank of Albania to conduct of their activities according to the Supervisory Council decision No. 26, dated 29.03.2000 "On exemption of some institutions from applying the provisions of law No. 8365, dated 02.07.1998 "On Banking Law in the Republic of Albania" 152

Foreign exchange bureaus 153

Unions of savings and credit associations 158

Representative offices of foreign banks 158

T A B L E S

Quarterly review of Albanian economy, third quarter 2005, June 2005

Table 1 *Agroindustrial production performance during the first semester* 12
Table 2 *Investments in agroindusty during the first semester (in millions of ALL)* 12
Table 3 *Performance of industry sector in the first semester of 2005 (in percentage)* 12
Table 4 *Data on electricity supply and consumption* 13
Table 5 *Growth rates of fiscal indicators (in percentage)* 14
Table 6 *Growth rates of income during 2002-2005 (in percentage)* 15
Table 7 *Growth rates of expenditures during 2002-2005 (in percentage)* 16
Table 8 *Growth rates of deficit during 2002-2005 (in percentage)* 17
Table 9 *Labour market indicators (in thousands of persons)* 17
Table 10 *Performance of balance of payments (in millions of EUR)* 20
Table 11 *Annual inflation rate (in percentage)* 21
Table 12 *Inflation of "Foodstuffs and non-alcoholic beverages" group and its share to total inflation* 22
Table 13 *Inflation of "Rent, water, fuels and electricity" group and its share to total inflation* 22
Table 14 *Annual inflation in partner countries and changes in the exchange rate (in percentage) for 2005* 24
Table 15 *Meeting the quantitative objectives by the Bank of Albania* 27
Table 16 *Performance of monetary indicators in July-August (in billions of ALL)* 29
Table 17 *Peformance of some main credit indicators* 31
Table 18 *Credit balance indicators to the total (in percentage)* 32
Table 19 *New credit indicators to the total (in percentage)* 32
Table 20 *Performance of credit balance indicators by sectors (in percentage to the total)* 32
Table 21 *Interest quarterly change in the markets (in percentage points)* 34
Table 22 *Interest quarterly change (in percentage points)* 35
Table 23 *Interest quarterly change (in percentage points)* 35
Table 24 *Quarterly annual change average of Lek exchange rate* 36

Economic developments during the first semester of 2005

Table 1 *Some indicators of the first half of 2005* 42
Table 2 *Agroindustrial production during the first quarter of 2005 (in billions of ALL)* 44
Table 3 *Data on electricity supply and consumption* 45
Table 4 *Indicators of labour market (in thousands of people)* 46
Table 5 *Development of the main fiscal indicators (in percentage)* 47
Table 6 *Income from taxes and customs (in billions of ALL – progressive data)* 48
Table 7 *Composition of current expenditures (progressive data – in millions of ALL)* 48
Table 9 *Annual inflation (in percentage)* 51
Table 10 *Annual inflation rate of item "Foodstuffs and non-alcoholic beverages" (in the country and abroad) and contribution of inflation of this group to overall inflation* 52
Table 11 *Annual inflation rate and contribution of the "Rent, water, fuels, energy" item to overall inflation* 52
Table 12 *Annual changes in inflation in the main trading partners and changes in the exchange rate (in percentage)* 55
Table 13 *Reaction of interest rates in the banking system (in percentage points)* 57
Table 14 *Meeting of quantitative targets of Bank of Albania* 58
Table 15 *Performance of monetary indicators in May (in billions of ALL)* 60
Table 16 *Performance of some main indicators* 62
Table 17 *Indicators of the credit balance to total credit (in percentage)* 63
Table 18 *Performance of credit balance according to the main branches of the economy* 63
Table 19 *Core interest rate, July 2005 (in percentage)* 65
Table 20 *Interest rates in Lek during May 2005, their six-month and annual change in percentage points* 66
Table 21 *Interest rates of foreign deposits (in percentage points)* 67
Table 22 *Main macroeconomic indicators* 68

External sector developments of the Albanian economy during the first semi-annual of 2005, 5 October, 2005

Table 1 *Balance of Payments (in millions of EUR)* 76

A comparative approach between the statistics standards of the Bank of Albania and the sdds project standards of the International Monetary Fund

Table 1 *The SDDS dimensions and their monitorable elements* 111

C H A R T S

Quarterly review of Albanian economy, third quarter 2005, June, 2005

Chart 1 Performance of economy sales during 1st Q'01–2nd Q'05 10
Chart 2 Contributions of sectors to sales of economy (in percentage points) 10
Chart 3 Annual change of sales index for construction sector (right axis) and of construction cost index (right axis), in percentage 11
Chart 4 Quarterly rate of sales change in "Trade, hotels and restaurants" sector (in percentage) 11
Chart 5 Quantity of imported and exported energy for years 2004 and 2005 (in GWH) 13
Chart 6 Main fiscal indicators, January - September 2005 (in millions of ALL) 15
Chart 7 Budget income structure (in millions of ALL) 15
Chart 8 Structure of budget expenditures (in percentage) 16
Chart 9 Number of unemployed persons in the last three years (in thousands) 17
Chart 10 Balance of payments for the period of Q1'04-Q2'05 (in millions of EUR) 18
Chart 11 Current account for the period of Q1'04-Q2'05 (in millions of EUR) 19
Chart 12 Annual inflation (in percentage) 20
Chart 13 Contribution of the main groups to the annual inflation (in percentage points) 21
Chart 14 Annual inflation of four main groups of CPI basket (in percentage) 22
Chart 15 Annual growth of budget expenditures (left axis) and annual inflation (right axis) 23
Chart 16 Performance of monetary conditions 23
Chart 17 Annual changes in the prices of agricultural products, foodstuffs and total inflation 24
Chart 18 Annual changes of PPI and CPI for 2002-2004 25
Chart 19 Annual change of oil prices and the exchange rate (in percentage) 25
Chart 20 Core interest rate 26
Chart 21 Performance of monetary aggregates annual rates 27
Chart 22 The ratio performance of currency deposits to M3 28
Chart 23 Ratio of CoB to M3 and average real interest rate (right scale) 28
Chart 24 Contribution of net foreign assets growth to annual growth of M3 29
Chart 25 Level of net foreign assets of the banking system 30
Chart 26 Cumulative performance of budget deficit financing (in billions of ALL) 31
Chart 27 Annual credit growth rates (in percentage) 31
Chart 28 Liquidity level (daily average, in billions of ALL) 33
Chart 29 Core interest rate and interest performance in the markets (in percentage) 34
Chart 30 Performance of average weighted deposit interest in foreign currency 36
Chart 31 Performance of average weighted credit interests in foreign currency 36
Chart 32 Lek exchange rate performance 37

Economic developments during the first semester of 2005

Chart 1 Performance of exchange rate EUR/USD 42
Chart 2 Performance of crude oil price per barrel in USD 43
Chart 3 Performance of sales in the economy during 1Q '1 – 1Q '05 43
Chart 4 Sales in construction sector and annual growth by quarters 45
Chart 5 Number of construction permits according to types of construction 46
Chart 6 The structure of budget income (in billions of ALL – monthly data) 47
Chart 7 The structure of budget expenditures (in billions of ALL – monthly data) 48
Chart 8 Annual inflation (in percentage) 51
Chart 9 Contribution of the main groups in the annual inflation (in percentage point) 52
Chart 10 Contribution of other groups to the annual inflation (in percentage point) 53
Chart 11 Annual Inflation of four main groups of ICP basket (in percentage) 53
Chart 12 Annual growth of budget expenditures (left axis) and annual inflation (right axis) 54
Chart 13 Main monetary indicators 54
Chart 14 Annual changes of PPI and CPI (in percentage) 56
Chart 15 Core interest rate 57
Chart 16 Performance of annual rates of monetary aggregates 58
Chart 17 The ratio of CoB to M3 and the average real interest rate 59
Chart 18 Performance of foreign deposits ratio to M3 60
Chart 19 Annual contribution of NFA growth to M3 growth 61
Chart 20 Performance of net foreign assets of the banking system (in millions of USD) 61
Chart 21 Performance of the cumulative financing of fiscal deficit (in billions of ALL) 62
Chart 22 Ratio of total credit to M3 (in percentage) and annual growth of total credit (in percentage, right scale) 62
Chart 23 Daily level of excess liquidity in the banking system (in billions of ALL) 64
Chart 24 Daily volume of crediting in the interbank market (in millions of ALL) 64
Chart 25 Performance of Lek interest rates 65
Chart 26 The weighted average rate of credit in Lek (in percentage) 66

Chart 27 Real interest rates for 12-month demand deposits in Lek 66
Chart 28 Weighted average interest rates for 12-month deposits in foreign currency 67
Chart 29 Spread of interest rates Lek-USD and Lek-EUR for 12-month time deposits 67
Chart 30 Exchange rate performance during 2004 and 2005 (ALL/EUR, left scale) 68

Assessment of financial situation of the Albanian banking system for the second quarter of 2005, August, 2005
Chart 1 Share of groupbanks by total assets (June'05) 77
Chart 2 The asset structure of the banking system as by June'05 77
Chart 3 The liability structure of the banking system 78

Speech of the Governor of the Bank of Albania, Mr. Ardian Fullani at the High Level Conference organised by EBRD "Workers" Remittances in Transition Economies: Main Issues and Policy Implications", London, September 28, 2005
Chart 1 Funding of trade deficit by workers' remittances 93
Chart 2 Worker's remittances (inflow in million of USD) 94
Chart 3 Western Union commission rates in Albania 94

A few words on Deposit Insurance
Chart 1 Financial means of the agency 102
Chart 2 Changes in DIA's capital and earning in LEK 102
Chart 3 Portfolio by currency 103
Chart 4 Allocation of insured deposits in % 104
Chart 5 Structure of insured deposits in % (except Raiffeisen Bank) 104
Chart 6 Structure of individuals deposits by percentage 105
Chart 7 The coverage ratio 105
Chart 8 The coverage ratio for specific banks 31 December, 2004 106

QUARTERLY REVIEW OF ALBANIAN ECONOMY, THIRD QUARTER 2005, JUNE 2005

I. GOVERNOR'S SPEECH

The nine-month period of 2005 was characterized by positive highlights with regard to economic growth and macroeconomic stability. The economic activity has generally moved in line with the directions projected by the country's development program. This estimation is based on a series of indicators such as: the evident growth of sales volume; growth of fiscal revenues; expansion of exports; reduction of unemployment rate and increase of employment. A significant development highlighted during 2005, which contributed to the consolidation of economic activity is the better support of economy by credits from the banking system. The major part of credit was extended for financing the production activities as well as trade. The economy was underpinned also by the neutral monetary policy followed by the Bank of Albania, which has contributed to maintaining interest rates at low historical levels.

Based on the available data, Bank of Albania estimates that the economy showed evident growth rates during the nine-month period. In particular, the economic activity marked an evident progress in the second quarter, showing a revitalization of production in all the sectors of economy. Further to the consolidated dynamics of the Albanian economy, the growth of production is mainly supported in the sectors like "Electricity, water and gas", "Transport and telecommunication" and "Construction". At the end of June, the unemployment rate reached 14.3 per cent, marking a decrease of 0.5 percentage points compared to the previous year. According to Institute of Statistics (INSTAT), the Albanian economy created, in the course of one year, 13.4 thousand of new job vacancies in the private sector, which continues to remain the engine of the economic growth.

Balance of payments showed a positive result of EUR 11 million till June. Capital flows have been sufficient to cover the current deficit, which amounted to EUR 145 million, during the first semester of the year. The deficit in trade of goods and services has been the primary source of current deficit. The capital and financial account has registered net inflows of about EUR 197 million, while the foreign reserves of monetary authority increased by about EUR 7 million during this period. Like previously, the high trade deficit is for the most part financed by the current inflows in the form of emigrants' remittances and by capital and financial inflows in the form of grants, public and private debts, and direct investments.

The economic growth is underpinned by the stable macroeconomic environment, expressed in the low inflation, the observance of monetary values projected in the budget deficit and a monetary situation maintained under control. At the end of September, annual inflation was 3.1 per cent,

practically the middle-point of Bank of Albania target, while average annual inflation was inclined to move to the lower limit of this target. In response to the economic and monetary developments, inflationary pressures and expectations remain under control even for the periods to come. During the third quarter, inflation rate is conditioned on the contribution of "Foodstuffs and non-alcoholic beverages" and "Transport" groups. The third quarter of the year was characterized by a considerable rise of oil price in the international markets, representing a real challenge to the economic activity worldwide. However, amortised by the exchange rate appreciation, the price rise in the domestic market, has been almost two times lower. Considering the low share of fuels in the consumer commodity basket in Albania, oil price impact on inflation was low, while no increase of commodity costs due to oil price rise was applied.

The consolidation of macroeconomic stability has contributed to controlling inflationary pressures. The main indicators of the budget program are met in general. According to the Finance Ministry data, till the end of September, 97.5 per cent of the projected revenues were collected and about 96.4 per cent of the projected expenditures were performed. In addition, the budget deficit and its domestic financing have generally resulted within their expectations. However, during the third quarter, a slowdown of income flows was attributed to the long post-electoral process. On the other hand, this period is being accompanied also by a concentration on government borrowing, which, though it has met the annual limits, has created difficulties in managing the liquidity situation. Bank of Albania estimates that strengthening the fiscal management as well as meeting the criteria of maintaining macroeconomic stability should remain a constant priority for the fiscal policy.

Macroeconomic developments and inflation maintenance at low levels are also favoured by monetary situation. After the last cut of core interest rate in March, Bank of Albania has followed a neutral monetary policy. During the third quarter, there was a slowdown of money supply growth rates compared to the rapid growth of money supply in the first half of the year. The annual growth rate of M3 in August dropped down to 15.4 per cent from 18.3 per cent it was at the end of June. Under the effect of the narrowing of interest rate differences between Lek and foreign currency, and of the seasonal growth of inflows from remittances, the money supply structure was shifted towards foreign deposits, while the time structure resulted relatively stable.

The performance of net foreign assets of the banking system in August was satisfactory, with a growth of USD 112.7 million compared to June. Till August, the credit balance increased by about ALL 31 billion; this growth was about 60 per cent higher than the credit balance growth over the whole year of 2004. The intense lending activity was accompanied by the improvement of all credit indicators; its ratio to the broad money reached the level of 18 per cent, while the credit share to GDP the level of 11.8 per cent.

The growth of credit to the economy, the concentrated financing of budget deficit and the slowdown of deposits flow, brought about the decrease of

banking system liquidity during the third quarter, contributing to increasing pressures on Treasury bills yield. Under the conditions of a privatised banking market and of a relatively undeveloped Treasury bills market, Treasury bills yield marked an increase, which was not in compliance with the situation and the basic macroeconomic factors. For managing this situation, Bank of Albania has carefully assessed its operational frame and its forecasted position in the foreign market, aiming at maintaining monetary equilibriums. In July, Bank of Albania changed the direction of monetary operations, with the purpose of meeting the short-term needs of the system for liquidity, by performing reverse repurchase agreements.

Meeting the temporary needs of the market with liquidity as well as financing the budget deficit from the Bank of Albania through short-term direct credits to government have aimed at smoothing the pressure on Treasury bills interest rates, with a special emphasis on preventing their further increase. Meanwhile, the second half of October was accompanied by a normal situation and a decline of Treasury bills yield. Due to the narrowing of the interest rate difference during this year, emigrants' remittances were channelled in the banking system mainly as foreign deposits. Under the conditions of a flexible exchange rate regime, this phenomenon has restricted the spaces for the seasonal presence of Bank of Albania in the foreign exchange market. The characteristic activity of Bank of Albania in the foreign exchange market, at the end of summertime, has been restricted over this year.

These factors led to the temporary deviation of some monetary indicators from the expected values. Generalising the monetary developments performed in the 2005 summer, we may conclude that the monetary situation management from Bank of Albania was efficient and this is proved by the improvement of liquidity situation during September-October and by the smoothing of pressures on interest rates.

In spite of the generally positive developments highlighted during the nine-month period, the Albanian economy has to face some challenges of structural nature, and their solution would constitute a significant contribution to the consolidation of economic growth rates. The exacerbated energy situation constitutes a constant concern for the Albanian economy. The intensity of this crisis and the sensitiveness of Albanian businesses to such a situation, would also condition the achievement of the economic growth target of 6 per cent for year 2005. The situation becomes more challenging under the conditions of price rise of oil and energy in the whole region. The combination of these factors may constitute a risk, which may extend its influence even in the next year.

In this context, looking forward in the future, Bank of Albania estimates that we have to work for finding a sound solution to this problem, to extremely minimize the dependence of our economy on the subjective factors, including weather conditions. The improvement of business climate in the country requires, inter alia, the implementation of the projects relating to the increase of alternative energy resources in the country.

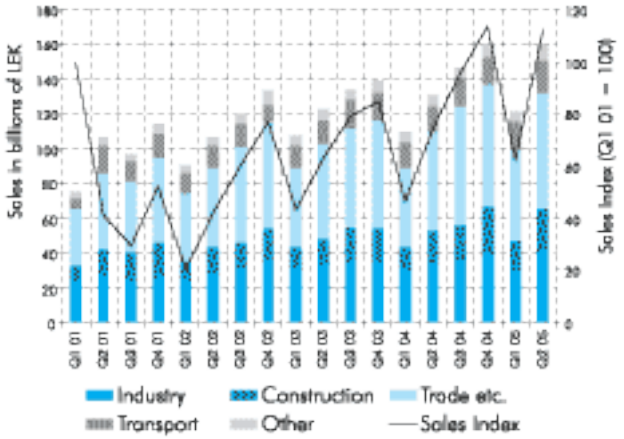
II. ECONOMIC DEVELOPMENTS AND INFLATION

II.1 ALBANIAN ECONOMY PERFORMANCE

The Albanian economy was characterised by a satisfactory performance throughout 2005. The growth of sales volume, of fiscal revenues and of credit to economy proves that there is an increase of economic activity in the country. Total sales of economy marked an annual increase of 21.54 per cent during the second quarter. In addition, sales increased by 30.9 per cent in comparison with the first quarter of the year, the highest increase of the last three years, indicating a production revitalization in all the sectors of economy.

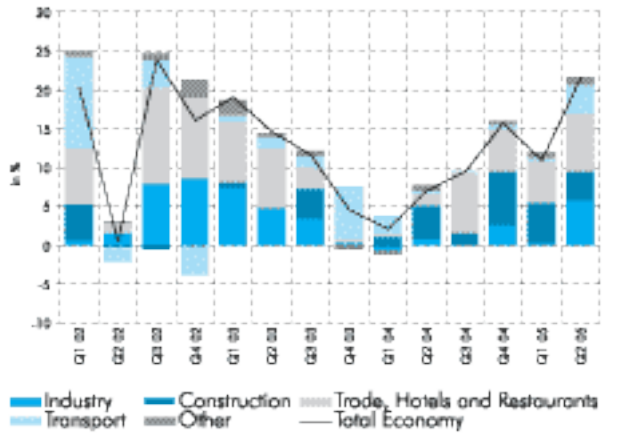
The sectors that have marked higher growth rates, on an annual basis, are "Electricity, water and gas", "Transport and telecommunication" and "Construction". However, the highest share in economy sales is covered by trade and service sectors, estimated at 42 per cent of total sales, followed by industry sector, at 26 per cent. As a result, these sectors gave their major contribution to the annual growth of economy sales during the second quarter of the year, by 7.4 and 5.8 percentage points, respectively.

Chart 1 Performance of economy sales during 1st Q'01–2nd Q'05



Source: Bank of Albania

Chart 2 Contributions of sectors to sales of economy (in percentage points)



Source: Bank of Albania

II.1.1 Production performance by economy sectors

Construction sector

Construction sector has been in one of the most active sector of the Albanian economy over the last years. During the second quarter, sales of this sector increased by about 24.8 per cent compared to the same period of the previous year and by 44.2 per cent compared to the previous quarter. This growth rates show a high demand for extension and improvement of infrastructure, producing capacities, trade activities and housing. Sales of construction sector represent 14.4 per cent of total sales of economy during the first semester of 2005, contributing to their annual growth by 4.8 percentage points. The same contribution, during the last two years, was 2.5 and 0.5 percentage points, respectively.

As a developing sector, construction has known an increase of private and public investments. During the first semester of this year, the

projected investment funds increased three times compared to the same semester of the previous year. After the "the period of quiet" in the first quarter, the second quarter knew significant increases of the projected investment funds. Private investments continue to represent the main share and their primary destination remain housing constructions. Also, during this quarter the number of construction permits increased, where permits granted for housing constructions increased nearly three times compared to the previous year.

Chart 3 Annual change of sales index for construction sector (right axis) and of construction cost index (right axis), in percentage

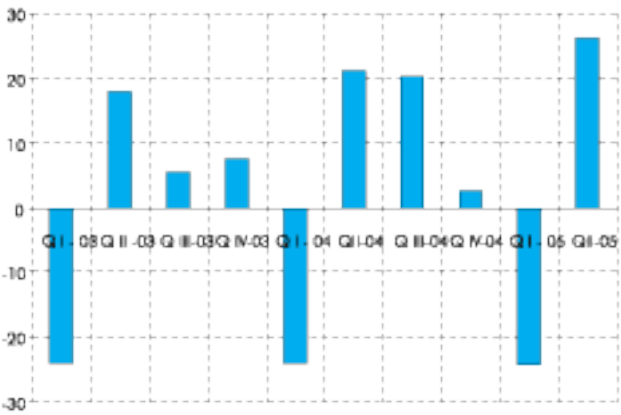
Source: Bank of Albania

Trade, hotels and restaurants sector

Sales of "Trade, hotels and restaurants" sector represented about 43 per cent of total sales of economy, during the first semester of 2005. This sector has contributed to the annual growth of total sales of economy by 6.4 percentage points. Like the other sectors of economy, "Trade, hotels and restaurants" sector marked an evident improvement during the second part of the semester. Its sales increased by 17.6 per cent compared to the second quarter of 2004 and by 26 per cent compared to the previous quarter.

This performance has followed the seasonal behaviour of sales in this sector, according to which sales decline each first quarter of the year to record positive growth rates during the other quarters. However, in total, it is estimated that the performance of this sector contributed positively in the developments of the country's economy during the first semester of 2005.

Chart 4 Quarterly rate of sales change in "Trade, hotels and restaurants" sector (in percentage)



Source: Bank of Albania

Agriculture sector

Agriculture sector[1] production is expected to increase by 4.7 per cent this year. In particular, agroindustry branch is expected to increase by about 12 per cent, the highest increase compared to the other branches of agriculture. Production in the agriculture branch is expected to increase by 3.1 per cent, this being supported by the positive weather conditions, the growth of investments in greenhouses and the extension of planted surfaces. Animal products are expected to mark the highest increase in agriculture branch, estimated at 3.8 per cent compared to the previous year. The production growth in this branch comes as result of rentability increase compared to the previous year.

Based on the data of agroindustry survey conducted for the first semester of 2005, the agroindustrial production increased by 15.7 per cent compared to

the same period of the previous year. This is the highest increase (semester by semester) of the last four years.

Table 1 Agroindustrial production performance during the first semester

	First semester '04	First semester '05	Change (in %)
Total	13.0	15.0	15.7
Meat and by-products	1.3	1.5	17.32
Fish conservation	0.3	0.4	39.86
Fruits-vegetables processing	0.2	0.1	-17.86
Oil	1.1	1.1	-2.04
Milk and by-products	2.9	3.0	3.78
Flour and bread	4.0	4.6	15.97
Sweets	0.5	0.6	19.26
Alcoholics	1.3	1.5	12.30
Water and refreshment drinks	1.4	1.8	23.98
Tobacco	0.1	0.5	385.71
Other	0.0	0.0	66.67

Source: Ministry of Agriculture and Food

Investments in agroindustry sector during the first semester, increased 2.3 times in comparison with the first semester of the previous year. This was due to the growth of investments financed by foreign credits, about 29 times, and to the growth of investments financed by bank credits, about 2 times in comparison with year 2004. These investments are mainly concentrated in the districts of Tirana, Shkodra and Dibra. According to relevant activities, there was a growth of investments in flour industry, in production of a variety of juices, in processing meat and in conserving fruits and vegetables.

Table 2 Investments in agroindusty during the first semester (in millions of ALL)

	First semester '04	First semester '05
By owned capital	572.4	941.7
By foreign credits	8.1	229.9
By bank credits	78.7	163.0
Total	659.1	1334.6

Source: Ministry of Agriculture and Food

Industry sector

Industry sector was characterised by positive developments during the first semester of 2005, contributing positively to the performance of total sales of economy. Sales in this sector increased by 12.14 per cent during the first half of 2005, in comparison with the same period of 2004. More in detail, branches of extracting industry, processing industry and "Electricity, water and gas" marked an increase during the second quarter, after a decrease noted in the first quarter. Processing industry marked the highest annual growth during the first half of the year, but continues to represent a small share in total industrial sales. In the processing industry, sub-branches of plastic production, mineral manufacturing, metal processing and paper industry increased particularly. The extracting industry increased by 18.4 per cent during the first semester, influenced mainly by the growth in the extraction of energy products.

Table 3 Performance of industry sector in the first semester of 2005 (in percentage)

	Share to the total	Sales '05/'04
Total industry	100	12.14
Extracting industry	7.2	18.43
Processing industry	65.1	10.26
Electricity, water and gas	27.7	14.9

Source: INSTAT

Energy sector

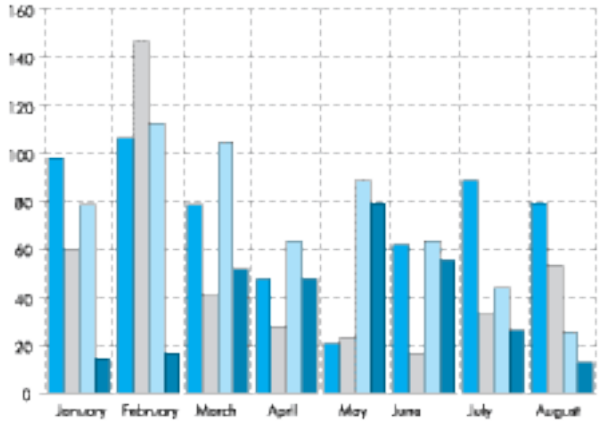
Energy sector developed in an equilibrated manner during the eight-month period of 2005. Household and non-household consumers were supplied with electricity by 1.2 per cent more, while energy imports and exports resulted pratically equal. However, within this period, the second quarter knew a significant improvement of the situation. During the second quarter of the year, sales index of "Electricity, water and gas" marked an annual growth of 34.6 per cent and a growth of 9.5 per cent in comparison with the previous quarter.

	January – August'04 (GWH)	January – August'05 (GWH)	Annual change (%)
Total supply	4,353	4,641	6.6
Production	3,954	4,061	2.7
Imports	398	579	45.4
Total consumption	4,353	4,641	6.6
Exports	302	581	92.1
Household consumption	1,485	1,450	2.3
Non-household consumption	1,019	1,083	6.3

Table 4 Data on electricity supply and consumption

During January-August 2005, the supplied quantity of energy in the country increased by 6.6 per cent, in comparison with the same period of 2004. The domestic production covered 87.5 per cent of energy supply, unlike the eight-month period of the previous year, when this production covered 91 per cent. Meanwhile, the imported quantity of energy increased in comparison with the period of January-August 2004, ensuring 12.5 per cent of energy supply, instead of 9 per cent provided in the previous year. The same dynamics prevailed in terms of exports performance. During this period, 12.5 per cent of energy supply was utilized for exports in comparison with only 7 per cent of exported energy during the eight-month period of 2004.

Chart 5 Quantity of imported and exported energy for years 2004 and 2005 (in GWH)



Source: Bank of Albania

Although the energy consumption by households declined on an annual level by 2.3 per cent, it continues to represent the main share (57 per cent) in energy consumption. On the other side, the energy consumption by non-households, for the eight-month period of this year, increased by about 6.3 per cent, in comparison with the previous year.

Transport sector

After the decrease of the sales index of transport during the first quarter of the year, this sector highlighted satisfactory developments during the second quarter, marking an increase of this index by 25.34 per cent. This is the highest

increase on a quarterly basis, since the fourth quarter of 2001. In comparison with the second quarter of the previous year, sales index increased by 30.57 per cent, contributing by 3.66 percentage points to the total increase of sales index of the entire economy.

The work volume in sea transport marked an increase of 9 per cent, during the eight-month period of this year. Imports in ports marked an increase of 5 per cent, while exports lowered to 2.1 per cent. Ports of Vlora and Saranda marked a more significant growth of work volume during the eight-month period of the year, but they represent only 13 per cent in terms of share in the work volume of four ports of the country. The work volume in Durres Port represented during this period about 80 per cent of work volume. Railway transport marked a decline of the passengers' number and of the volume of transported goods. Work volume decreased respectively by 13.2 per cent for goods and by 23.6 per cent for passengers, in comparison with the same period of the previous year.

During the first semester of this year, air transport increased by 27 per cent in terms of flights' number, in comparison with the same period of the previous year. Investments in transport sector during the first six months decreased by 31 per cent, compared to the first semester of 2004.

II.1.2 Fiscal sector

According to the Finance Ministry data, till the end of September, 97.5 per cent of the projected revenues were collected and about 96.4 per cent of the projected expenditures were performed. Budget deficit, till the end of September, was about ALL 18.9 billion, from ALL 21.4 billion being projected. The domestic financing of deficit till September amounted to ALL 15.2 billion, compared to the level of ALL 13.5 billion being projected, exceeding the plan by 12.5 per cent. While the foreign financing of deficit reached the level of 48.4 per cent of the projected value.

During the third quarter, there was a slowdown of income flows, bringing also a slowdown of budget expenditures. The main reason behind the decrease of fiscal revenue collection was the long post-electoral process. This period is being accompanied also by a concentration on government borrowing, which, though it has met the annual limits, has created difficulties in managing the liquidity situation. Bank of Albania estimates that strengthening the fiscal management as well as meeting the criteria of maintaining macroeconomic stability should remain a constant priority for the fiscal policy.

Table 5 Growth rates of fiscal indicators (in percentage)

	Jan.-Sep. 00/99	Jan-Sep. 01/00	Jan.-Sep. 02/01	Jan-Sep. 03/02	Jan.-Sep. 04/03	Jan-Sep. 05/04
Income	13.7	4.3	17.7	12.8	9.8	7.8
Expenditures	4.5	1.4	9.4	8.3	8.1	6.9
Capital expenditures	22.2	26.8	-18.5	(4.6)	4.2	8.8
Deficit	(15.7)	(6.9)	(18.2)	(13.1)	(2.4)	0.6

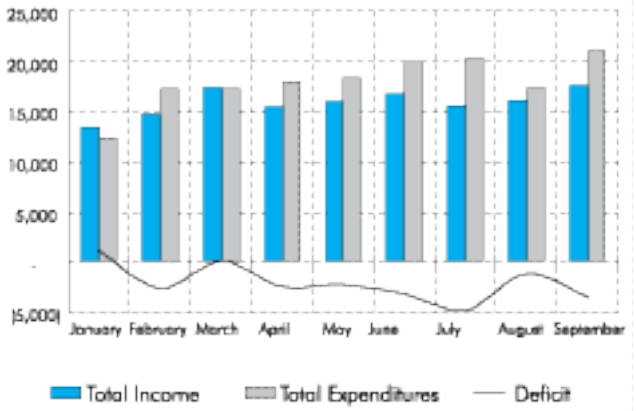
Source: Ministry of Finance

Budget revenues

Budget revenues were about 7.8 per cent higher during January-September 2005, compared to the same period of 2004. The level of fiscal revenues, at the end of September, reached about ALL 130.8 billion. Customs tax resulted about ALL 9.5 billion, achieving the expected level of the budget projected in the beginning of the year, respectively by 99.7 per cent.

Value Added Tax constitutes the main source of fiscal revenues. During the nine-month period there is noted that the growth velocity of VAT revenues is 8 percentage points lower than the average growth of this level in the last three years.

Chart 6 Main fiscal indicators, January - September 2005 (in millions of ALL)



Source: Ministry of Finance

	Jul-Sept 02/01	Jul-Sept 03/02	Jul-Sept 04/03	Jul-Sept 05/04	Average 02-05	Factual plan Sep '05
Total income	11.3	9.9	14.3	6.1	10.4	97.5
Tax revenues	18.6	35.8	16.2	8.6	19.8	99.7
From tax and customs	18.2	4.0	16.8	8.0	11.7	99.4
Added value tax	14.3	5.3	17.4	10.4	11.8	99.6
Profit tax	21.0	0.8	31.5	9.7	15.7	113.9
Excise	4.8	21.0	42.8	11.7	20.1	98.9
Tax on personal income	35.0	4.2	4.7	10.5	13.6	95.6
Customs tax	7.2	1.6	(0.1)	1.4	2.5	89.3
Revenues from local government	40.1	284.5	1.2	22.4	87.0	108.2
Independent budget revenues (contributions)	12.2	9.5	18.3	7.3	11.8	98.2
Non-tax revenues	(23.2)	(7.6)	1.9	(10.8)	(10.0)	87.4

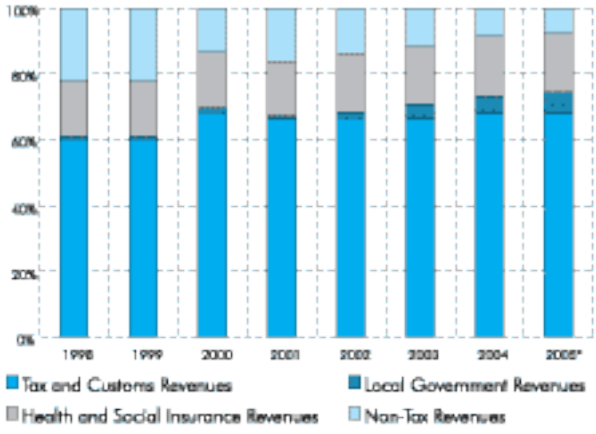
Source: Ministry of Finance

Table 6 Growth rates of income during 2002-2005 (in percentage)

The period of July-September 2005 was characterized by a slowdown of velocity in the work of tax authorities. Total income increased by 6.1 per cent in comparison with the same period of the previous year, representing the lowest level of income growth in the last four years.

Excise revenues and revenues from local government have shown the best performance of income. Meanwhile, compared to the same period of the previous year, non-tax revenues decreased by 10.8 per cent.

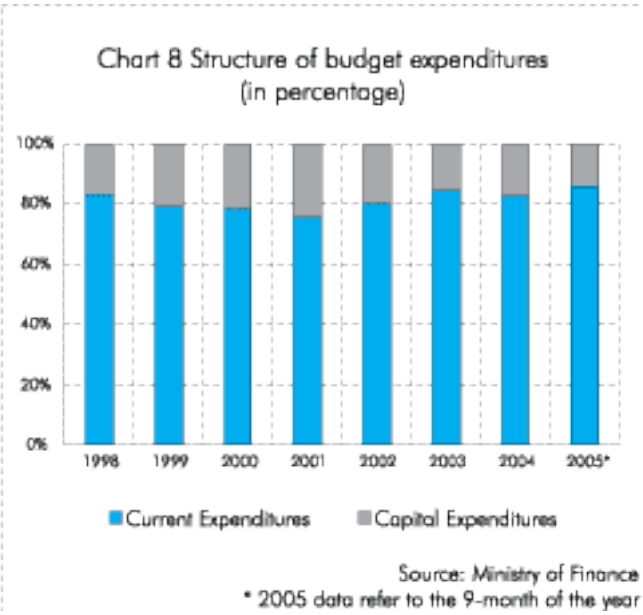
Chart 7 Budget income structure (in millions of ALL)



Source: Ministry of Finance
* 2005 data refer to the 9-month of the year

Budget expenditures

Budget expenditures during the nine-month period of the year were ALL 161.8 billion, representing about 96.4 per cent of the level projected for this period. Personnel expenditures, which constitute



Source: Ministry of Finance
* 2005 data refer to the 9-month of the year

about 27 per cent of current expenditures and 24 per cent of total expenditures, were performed at 99.7 per cent. Capital expenditures, even though considerably increased during January-September of this year, continue to be below the projected level, reaching 80.4 per cent of the plan. From capital expenditures, expenditures covered by the domestic and foreign financing were performed at 99.3 and 57.6 per cent, respectively.

In comparison with the same period of the previous year, total expenditures increased by 3.4 per cent during the period of July-September 2005. During this quarter, expenditures of personnel and those of contributions for social insurance marked the highest growth in the current expenditures. Meanwhile, operative expenditures for maintenance and those for interests reduced, being below the projected level. Capital expenditures marked a retrenchment during this period, but their behaviour over the years is irregular, which indicates that the performance of these expenditures is considerably influenced by the performance of specific projects. In the capital expenditures, the increasing share of the domestic financing against the foreign financing notably prevailed.

Table 7 Growth rates of expenditures during 2002-2005 (in percentage)

	Jul-Sept 02/01	Jul-Sept 03/02	Jul-Sept 04/03	Jul-Sept 05/04	Average 02-05	Factual plan Sep '05
Total expenditures	10.7	5.9	11.2	3.4	7.8	96.4
Current expenditures	13.3	10.3	10.8	5.4	10.0	101.4
Personnel	0.9	0.5	15.8	11.2	7.1	99.7
Payment	0.2	1.2	16.3	11.4	7.3	101.3
Social insurance contribution	3.6	(1.9)	13.7	10.7	6.5	96.2
Interests	11.7	24.5	4.9	(3.8)	9.3	89.7
Domestic	8.9	(23.5)	76.3	(4.4)	14.3	91.2
Foreign	72.3	(26.4)	(2.6)	9.4	13.2	70.3
Operative expenditures for maintenance	34.0	(0.8)	14.1	(5.8)	10.4	112.3
Expenditures for social security and other transfers	18.7	20.5	(16.9)	9.2	7.9	99.6
Capital expenditures	2.1	(10.6)	13.1	(5.7)	(0.3)	80.4
Domestic financing	(22.0)	12.7	34.9	(2.9)	5.7	99.3
Foreign financing	43.0	(32.2)	(20.6)	(12.8)	(5.7)	57.6

Source: Ministry of Finance

Fiscal deficit

Budget deficit, during the nine-month period of the year, was approximately 88.9 per cent of the projected level. The domestic financing, which represents the main share in the financing of deficit, was performed at 112.5 per cent of the plan, while the foreign financing was performed at only 48.4 per cent.

During the period of July-September 2005, the deficit marked a decrease of 8.6 per cent in comparison with the same period of the previous year.

	Jul-Sept 02/01	Jul-Sept 03/02	Jul-Sept 04/03	Jul-Sept 05/04	Average 02-05	Factual plan Sep '05
Deficit	8.7	(7.3)	(0.8)	(8.6)	(2.0)	88.9
Domestic financing	(61.5)	206.3	4.3	(8.5)	35.1	112.5
Foreign financing	149.9	(73.5)	(19.3)	(9.2)	12.0	48.4

Source: Ministry of Finance

Table 8 Growth rates of deficit during 2002-2005 (in percentage)

II.1.3 Labour market

During 2005 labour market continued to preserve the best performance demonstrated at the end of 2004, where labour indicators showed a strong upward trend. Thus, the number of employed persons increased by 10 thousand people, compared to the second quarter of the previous year. The employed persons in the non-agricultural private sector increased by 5400 people, being an important indicator for the revitalization of economic activity.

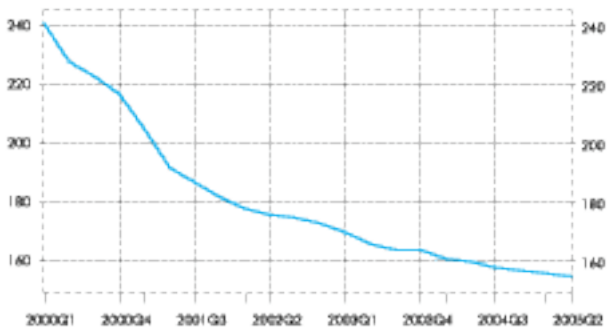
	2002	2003	Q.I	Q.II	Q.III	2004 Q.IV	Q.I	2005 Q.II
Total labour forces (in thousands)	1167	1093	1080	1081	1080	1088	1087	1086
A. Total employed persons (in thousands)	991	927	919	921	922	931	931	931
i) public sector	188	184	179	179	177	176	176	175.6
ii) non-agricultural private sector	160	209	206	208	211	213	213	213.4
iii) agricultural private sector	644	534	534	534	534	542	542	542
B. Unemployment (in thousands)								
i) total unemployed persons	175.5	165.8	161	160	158	157	156	155
ii) beneficiaries of unemployment payment	12.3	11	11.7	12.3	12	11	11.5	11.5
C. Unemployment degree (in %)	15.1	15.2	14.9	14.8	14.6	14.4	14.4	14.3

Source: INSTAT, Conjuncture, September 2005

Table 9 Labour market indicators (in thousands of persons)

Labour market did not experience any change in its structure, during 2005. Thus, the public sector, though there was a reduction in the number of employed persons, continues to represent 19 per cent of the total number. The non-agricultural private sector represents 23 per cent and the agricultural private sector 58 per cent of all the labour forces[2]. The most important changes during this quarter emerged in the unemployment figure. Unemployment declined by 0.5 percentage points in comparison with the previous year. In the second quarter, the number of unemployed persons decreased by one thousand people, leading the unemployment rate to 14.3 per cent. Another indicator showing this fact is also the number of the persons who benefit an unemployment payment. This number decreased further by 1.1 thousand persons in comparison with June of 2004.

Chart 9 Number of unemployed persons in the last three years (in thousands)



Source: Institute of Statistics, Conjucture

The improvement of employment indicators seems to have been accompanied by the growth of revenues. Data on the salary structure in the

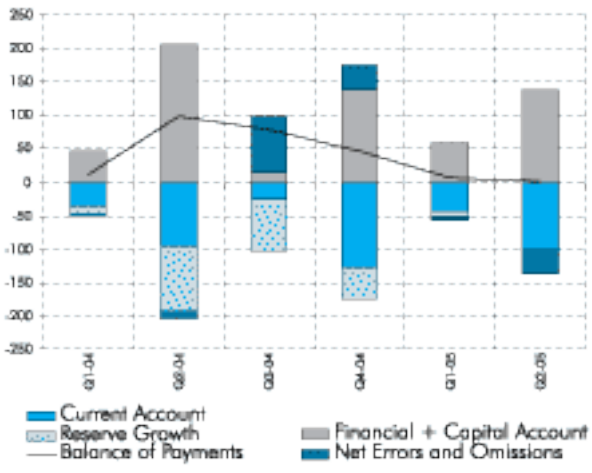
public sector, during the second quarter of 2005, indicate that the average public salary increased by 2 per cent, compared to the average of the first quarter of 2005. In annual terms (quarter by quarter), the average public salary increased by almost 10 per cent.

However, labour market data continue to have distortions in the indicators, which are due to the effect of certain phenomena such as: uncontrolled migration of population which brought about a continuous change of the ratio between rural and urban populations, as well as the continuous presence of a relatively large black market.

II.1.4 Foreign sector

Current and capital transactions of the country with the rest of the world were almost balanced during the first semester of 2005. During this period, an overall balance of payment of EUR 11 million was registered. The deficit in trade of goods and services has been the main source of current deficit. The latter amounted to about EUR 145 million during the first semester of the year. Capital and financial account recorded net inflows of about EUR 197 million, while foreign reserves of monetary authority increased by about EUR 7 million, during this period. The continuous deficit in trade of goods during the last years is compensated by the current inflows in the form of emigrants' remittances and by capital and financial inflows in the form of grants, public and private debts, and direct investments.

Chart 10 Balance of payments for the period of Q1'04-Q2'05 (in millions of EUR)



Current account

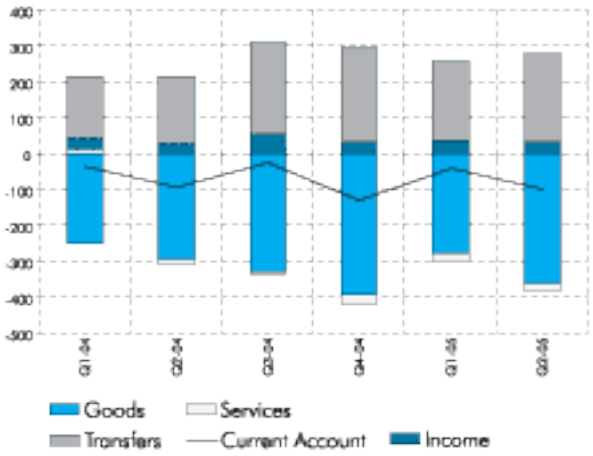
Current account of Albania during the first semester of 2005 was EUR 145 million or about 10 per cent higher than the deficit recorded in the first semester of the previous year. The major part of current payments have covered imports of goods (64 per cent) and those of services (34 per cent), while current revenues came mainly from the private transfers (37 per cent), services (35 per cent) and exports of goods (20 per cent).

Trade of goods represents the major part in the current transactions volume of the country with the world. The overall trade volume of the first semester of 2005 was about EUR 1.2 billion, from which about EUR 900 million were payments for imports and EUR 260 million revenues for exports. The annual growth of imports for the first semester was 14 per cent, while exports increased by 11 per cent. The coverage of imports by exports continues to be low. The major part of imports are represented by intermediate goods, while imports of capital goods marked a significant increase in comparison with the first semester of the previous year. These developments are an indication of good

performance of the processing industry and of investment performance in the country. The Albanian exports continue to demonstrate a low degree of diversification, being mainly represented by re-exports. The European Union countries continue to be the main source and destination of foreign trade.

Trade of services represents a smaller volume compared to trade of goods. The transactions volume in services, for the first semester of 2005, was about EUR 930 million or 20 per cent higher than the one of the same period of the preceding year. Services account is closed in a deficit of EUR 43 million. Tourism services represent the subgroup with the highest revenues and expenditures in the category of services. These services have provided about 70 per cent of revenues and have represented about 60 per cent of overall payments for services. Tourism activity represents not only one of the main sources of service revenues, but also one of the main sources of revenues in foreign currency for the Albanian economy. For the first semester of this year, the tourism revenues were 17 per cent higher than the revenues of the previous year, due to the increased number of foreign tourists and to the growth of their daily expenditures. However, during the last two years there was a growth of expenditures of the Albanian tourists outside the country, which led to a narrowing of the positive balance of this category.

Chart 11 Current account for the period of Q1'04-Q2'05 (in millions of EUR)



Category of revenues has recorded a surplus of about EUR 66 million. Revenues from work of seasonal employees represent the main source of revenues, while expenditures for external debt interests are the main item in terms of expenditures. Current transfers have registered even for this semester a strong positive balance, serving as a counterbalance of trade deficit in goods and services. Emigrants' remittances have amounted to about EUR 420 million, representing about 76 per cent of overall volume of transfers, while the rest of transfers were ensured by government transfers as technical assistance.

Capital and financial account

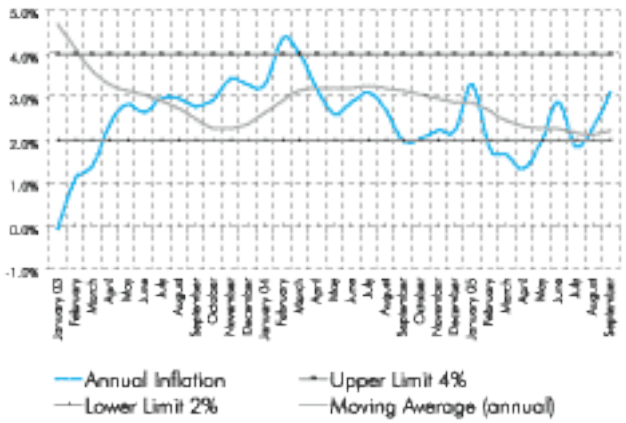
Net inflows in the capital and financial account, during the first semester of 2005, amounted to EUR 200 million. The surplus in the capital and financial account during the last years has financed the current deficit even in this period. Either the capital account or the financial account marked net positive inflows, respectively by EUR 50 and 150 million. Although positive capital inflows are translated into a growth of financial liabilities stock of the country against the rest of the world, the positive aspect of these developments consists in the fact that Albania relies rather on direct investments than on long-term foreign borrowing. Foreign direct investments for this semester amounted to about EUR 100 million, while foreign borrowing about EUR 80 million. Direct

investments of this period have been more oriented towards new investments in comparison with the previous year, when privatisation revenues ensured the major part of these investments. Financial claims of Albania to the world, represented mainly by portfolio investments and by deposits of resident banks with non-resident banks, marked an increase of about EUR 26 million. Financial assets stock in the form of portfolio investments, at the end of the period, amounted to EUR 164 million, with a semi-annual increasing flow of EUR 48 million. Foreign assets owned by the banking system in the form of deposits abroad, have decreased by about EUR 37 million. Also, cash foreign assets were estimated as decreasing. In the structural composition according to currencies, cash foreign assets in US dollar represented 39 per cent and those in Euro 53 per cent. Foreign assets inflows in the form of financial capital marked an increase of foreign reserves of the monetary authority by about EUR 11 million. The level of gross foreign reserves, at the end of the period, was estimated at EUR 1 billion and 72 million, being sufficient to cover 4.6 months of imports of goods and services.

Table 10 Performance of balance of payments (in millions of EUR)

	Sem.1-04	Sem.1-05
1. Current account	-131.8	-145.2
A. Goods	-551.5	-640.2
A.1. Imports	-790.5	-905.0
A.2. Exports	239.0	264.8
B. Services	-6.1	-42.8
B.1. Imports	-388.7	-484.0
B.2. Exports	382.6	441.2
C. Income	57.5	65.9
C.1. Outflows	-11.4	-14.5
C.2. Inflows	68.9	80.4
D. Current transfers	368.3	471.9
2. Capital account	48.5	50.1
3. Financial account	202.0	146.4
4. Growth of reserves	-109.7	-6.6
5. Net errors and omissions	-13.9	-44.7
6. Overall balance	109.7	6.6

Chart 12 Annual inflation
(in percentage)



II.2 INFLATION PERFORMANCE DURING THE THIRD QUARTER

Annual inflation marked a gradual growth during the third quarter, showing a different performance compared to the same period of the previous year. Annual inflation increased from 1.8 per cent in July to 3.1 per cent in September. However, inflationary pressures and expectations remained under control. Thus, inflation has been within the two-to-four per cent targeted range of Bank of Albania, during the third quarter. The average annual inflation rate did not experience any change during the third quarter, ranging between 2.2 and 2.3 per cent.

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

Source: INSTAT

Table 11 Annual inflation rate (in percentage)

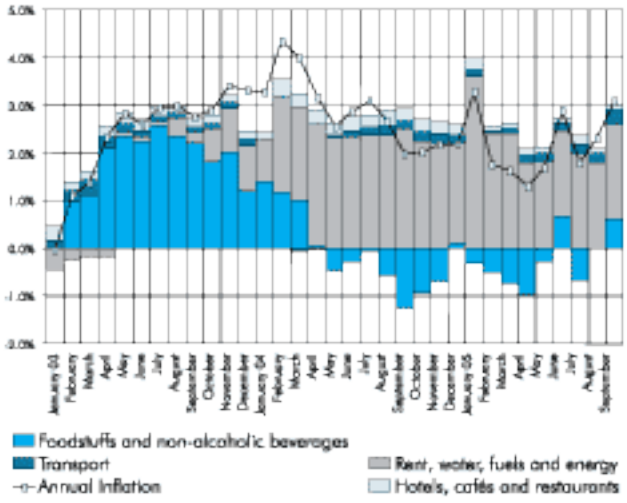
Inflation rise during the quarter came as a result of avoidance of the seasonal decline in prices of foodstuffs, this being combined as well by the inflationary pressures caused by oil price rise, particularly in August and in September.

II.3.1 Inflation performance and its constituent groups

During the third quarter of this year, annual inflation experienced some changes in both magnitude and direction, compared to the same period of the previous year. Compared to the previous year, annual inflation performance is determined by the contribution of "Foodstuffs and non-alcoholic beverages" and "Transport" groups. Unlike the last year, the first group has marked positive annual inflation rates, while the second group has almost doubled the annual inflation rate[3].

"Foodstuffs and non-alcoholic beverages" group changed the behaviour during the third quarter of 2005, without contributing to the decline of annual inflation. Its contribution to the annual inflation during the third quarter is zero, while last year it contributed to the decline of annual inflation by 1.2 percentage points. The main reason of this behaviour is the presence of a weaker seasonal effect during summertime, being reflected in the gradual decrease of domestic foodstuff supply during the quarter. The inflation rise of this group has also reflected the imported inflation. Foodstuff prices in Greece, from where most of these products are imported, marked high prices, unusual for this period. In total, the inability of domestic supply to satisfy the market demands and the introduction of imported products with higher prices, have resulted in the general increase of prices.

Chart 13 Contribution of the main groups to the annual inflation (in percentage points)



"Rent, water, fuels and electricity" group was inclined to move to lower values than the previous year.

Table 12 Inflation of "Foodstuffs and non-alcoholic beverages" group and its share to total inflation

	Annual inflation '04	Contribution (pp)	Annual inflation '05	Contribution (pp)	Italy* Annual inflation '05	Greece** Annual inflation '05
April	0.1	0.1	-2.3	-1.0	-0.2	-0.1
May	-1.1	-0.5	-0.7	-0.3	-0.2	-0.4
June	-0.7	-0.3	1.6	0.7	-0.2	-0.5
July	-0.1	0.0	-1.6	-0.7	-0.2	0.7
August	-1.4	-0.6	0.0	0.0	-0.2	1.3
September	-2.9	-1.2	1.5	0.6		

* Source: ISTAT; website: http://www.istat.it
** Source: General Secretariat of National Statistical Service; website: http://www.statistics.gr

However, this group continues to give its main contribution to total inflation. Inflation of this group represents about 65 per cent of total annual inflation during the third quarter. In September, annual inflation of "Rent, water, fuels and electricity" group marked 7.7 per cent from 6.9 per cent it was in the previous month. The increase of the rent price and imputed rent to 3.3 per cent, has affected this figure, as a result of the new school year period, which brought about an increase of demand for housing and accommodation.

Table 13 Inflation of "Rent, water, fuels and electricity" group and its share to total inflation

	Annual inflation '04	Contribution (pp)	Annual inflation '05	Contribution (pp)
April	11.0	2.5	7.2	1.8
May	10.0	2.3	7.2	1.8
June	9.7	2.3	7.1	1.8
July	9.9	2.4	7.7	2.0
August	9.7	2.4	6.9	1.8
September	10.4	2.5	7.7	2.0

During the third quarter of this year, and in particular in August and in September, there was a significant oil price rise in the international market. This fact caused the increase of operators' sensitiveness to oil price rise worldwide, being demonstrated in subsequent increases of its price during August-September even in the domestic market. As a result, "Transport" group marked the highest growth since September of the previous year, while the "Services to personal assets" subgroup[4] increased by 12.2 per cent. The contribution of this group to inflation rate was 0.7 percentage points during this quarter. The low share of this group in Consumer Price Index is not big enough to become directly decisive for important changes in inflation rate. Also, the Lek appreciation versus the Euro and US dollar in annual terms has eased the transmission of this effect to inflation.

Chart 14 Annual inflation of four main groups of CPI basket (in percentage)

Contributions of other groups have been fluctuating in a moderate manner during this quarter. Despite their small share, the education payment increase affected the inflation increase during this quarter. The other groups of basket[5] have influenced, in general, the decline of annual inflation rate, thus smoothing the price rise in the above-mentioned groups.

II.3.2 Macroeconomic environment and consumer prices

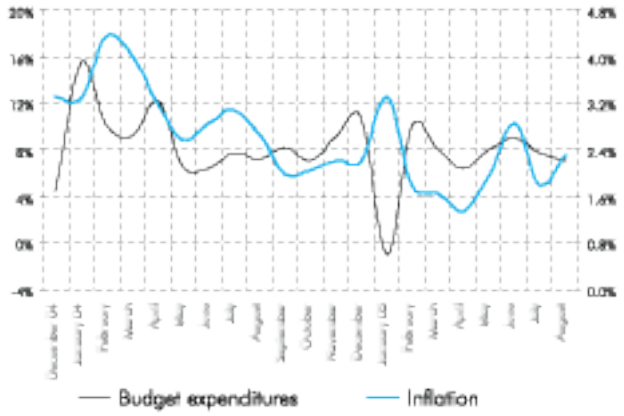
Macroeconomic environment in the country has by and large been favourable with regard to keeping inflation under control. It has been characterized by a satisfactory performance of sales in economy[6], by a stable situation in the labour market and by the maintenance of the annual appreciation of Lek against Euro and US dollar. Moreover, the economy has not suffered a shock as regards the demand, while the oil price shock, which acts on the demand part, has considerably depreciated due to a strong Lek. Under such circumstances, this quarter was not characterized by significant structural changes in the fluctuation of different groups of consumer goods basket.

Demand factors

- *Fiscal policy and fiscal indicators*

During the first three quarters, fiscal indicators have been within the forecasted levels in the budget program. Budgetary revenues and expenditures have not exceeded the ceiling set for the period. Until September, they were respectively met to the extent of 97.5 per cent and 96.4 per cent of the plan, thus, causing the budget deficit be within the forecasted parameters. Hence, fiscal policy has given a significant contribution to the maintenance of macroeconomic equilibriums. However, the budget deficit concentration during the third quarter caused liquidity problems to the banking system and increased the interest rates fluctuation in the market. This fact highlights the importance of the comprehensive observance of forecasted budgetary indicators in the maintenance of macroeconomic equilibriums.

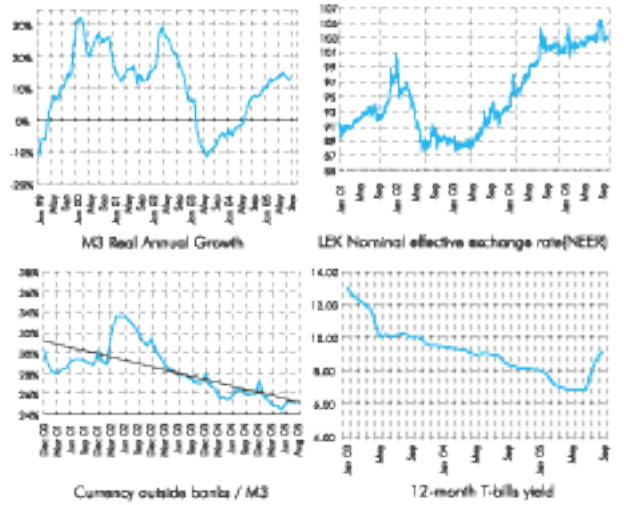
Chart 15 Annual growth of budget expenditures (left axis) and annual inflation (right axis)



- *Monetary policy and monetary indicators*

During the third quarter, the monetary policy of the Bank of Albania has had a neutral direction. After a long easing period of the monetary conditions in the economy, the Bank of Albania has aimed at the stability of interest rates in the market. However, as a result of a sudden change in the liquidity situation, during the third quarter the interest rates have experienced noticeable fluctuations. Although the situation has caused difficulties with regard to the operation of the liquidity administration, the monetary indicators equilibriums have not displayed considerable deviations and were not reflected in inflation. The ratio of currency outside banks to M3 has been relatively stable, while the growth of monetary

Chart 16 Performance of monetary conditions



supply has corresponded to the economy needs for monetary assets. In general, monetary policy has not given impulses to inflation increase.

- *Other indicators of domestic demand*

Domestic demand has marked a rise during the second quarter of the year. The sales index of the economy has had an annual growth of 21.6 per cent. Compared to the previous quarter this index grew considerably to 31 per cent, proving the revitalizing of the economic activity after the first quarter. Moreover, the Retail Trade Index has recorded a growth of 9.4 per cent compared to the previous quarter. Nonetheless, considering the performance and dynamics of the inflation indicators, it is assessed that the demand growth has not caused inflationary pressures to the economy.

Supply factors

- *Exchange rate and the imported inflation*

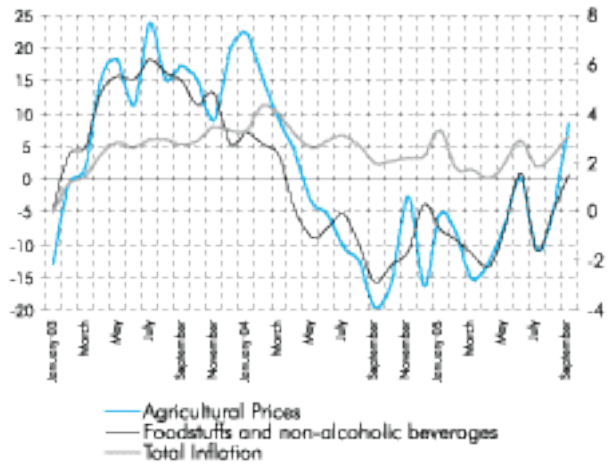
The appreciating tendency of Lek against Euro and US dollar remained apparent even during the third quarter of 2005. Although with a more moderate annual dynamics, Lek marked an average annual appreciation of 1.4 and 1.0 per cent against the American dollar and Euro. The exchange rate appreciation is one of the main factors in easing and absorbing the inflationary pressures in the country, in particular those of the imported inflation. External stability, as well as the favourable developments in the exchange rate, has limited the external shocks over the price performance. On the other hand, the exchange rate stability states the confidence in the Lek value and indicates low inflationary expectations in the economy.

Table 14 Annual inflation in partner countries and changes in the exchange rate (in percentage) for 2005

	March	June	July	August	September
Greece*	2.9	3.3	3.9	3.7	3.9
Italy**	1.9	1.8	2.1	2.0	
LEK/EUR	-3.1	-1.0	-1.8	-2.4	-1.4
LEK/USD	-9.8	-1.2	0.0	-3.3	-1.0

* Source: General Secretariat of National Statistical Service of Greece; website: http://www.statistics.gr
** Source: ISTAT; website: http://www.istat.it

Chart 17 Annual changes in the prices of agricultural products, foodstuffs and total inflation



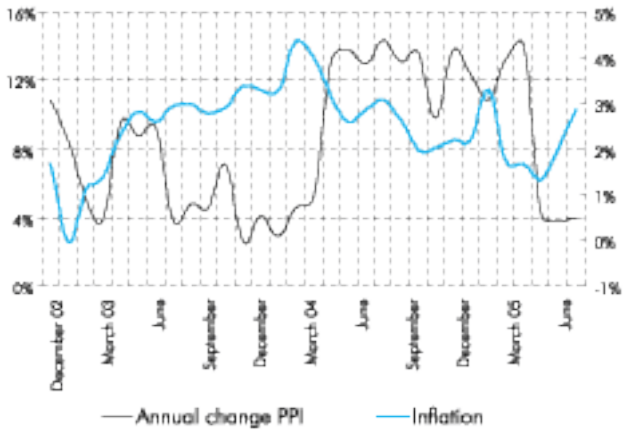
- *Performance of domestic agricultural product*

The forecasts of the Ministry of Agriculture with regard to the domestic agricultural product for 2005 indicate an annual growth of 3.1 per cent. This growth is underpinned by the good weather conditions, spread of sown areas, growth of the yield and the increase in the number of greenhouses. The performance of domestic agricultural product is a significant factor in determining the inflation rate since the agricultural products constitute around 43 per cent of the consumer goods basket.

- *Production prices index*

During the second quarter of 2005, the production prices have undergone less rapid growth paces, which were not reflected in the consumer prices. Compared to the second quarter of the previous year, the production prices increased by 4.0 per cent, while compared to the previous quarter they increased by 1.2 per cent. Growth was observed in all sectors of production[7].

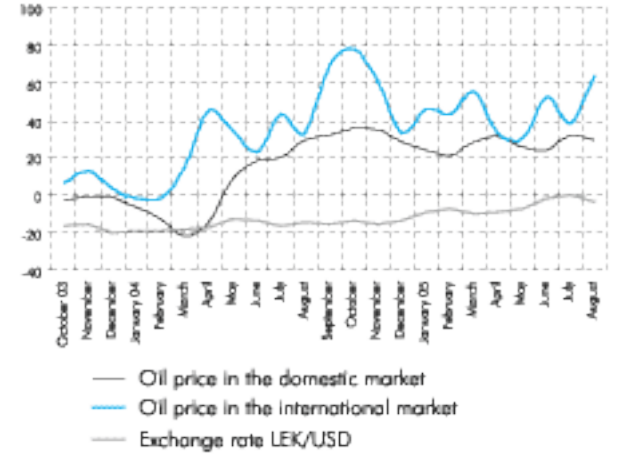
Chart 18 Annual changes of PPI and CPI for 2002-2004



- *Oil prices*

The increase of oil prices in the international market is one of the main concerns for the importing economies, wherein our country is part of. However, the reflection of the direct effect over the inflation growth, or of the indirect effect, by increasing the cost of goods and services using this input – has been less considerable in our country. The small share this product[8] holds in the consumer basket, as well as the appreciation of Lek against the US dollar, has hampered the full transmission of oil price rise in the domestic market. Nevertheless, along with the exacerbated energy supply situation, it remains a factor being continuously the focus of monetary policy.

Chart 19 Annual change of oil prices and the exchange rate (in percentage)



- *Unemployment and salaries*

The stable situation in the labour market, along with the modest rise of salaries in the public sector, has not generated inflationary pressures in the economy. The labour market during the second quarter of 2005 did not experience significant changes. Unemployment rate remained unchanged, while the average salary in the public sector increased by 2 per cent compared to the first quarter of the year[9]. Minimum salary and unemployment salary remained unchanged.

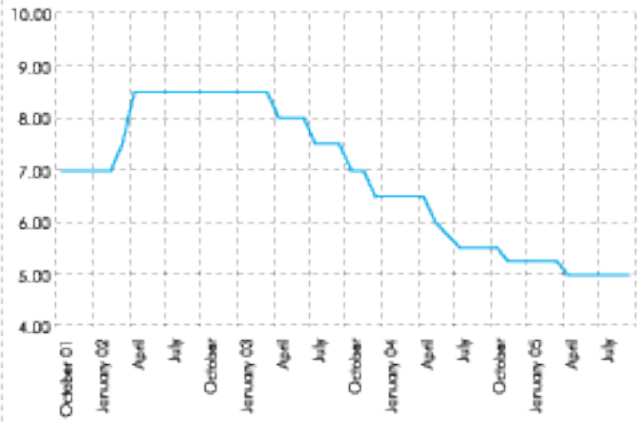
III. MONETARY DEVELOPMENTS AND FINANCIAL MARKETS

III.1 MONETARY POLICY OF THE BANK OF ALBANIA

Macroeconomic developments and inflation rate expectations conditioned the maintenance of an unchanged core interest rate during the third quarter. Nonetheless, the monetary conditions have been under the influence of external factors, whose effect has led to the deviation of monetary indicators from the forecasted performance. Assessing the monetary situation and other factors influencing on inflation as being under control, the Bank of Albania

has maintained an unchanged monetary policy. After the last decrease of core interest rate in March, the Bank of Albania has followed a neutral monetary policy, by employing its operational instruments in managing liquidity and in reducing short-term fluctuations of interest rates in the markets.

Chart 20 Core interest rate
(in percentage)



The increase of cash in circulation, beyond expectations, and the concentration of government's domestic borrowing were followed by the aggravation of the liquidity situation in the system. Moreover, as a consequence of tightening the difference of interest rates during the year, workers' remittances have been channelled in the banking system, mainly as foreign currency deposits in commercial banks. Bank of Albania has been considerably active in the money markets by using both short-term and long-term instruments in order to maintain the monetary conditions equilibriums. In July, Bank of Albania changed the direction of monetary operations, with the purpose of meeting the short-term needs of the system for liquidity, by performing reverse repurchase agreements. Simultaneously, the financing of the budget deficit by the Bank of Albania through short-term direct credits to the economy prevented the volatility of Treasury bills interest rates and it limited their increase as well. These factors led to the non-observance of the objective concerning the net domestic assets during the third quarter.

The average quantity of the injected liquidity into the system during the third quarter fluctuated to the level of ALL 1.5 billion. The continuous liquidity shortfall in the system and the growing tendency of the Treasury bills interest rates of all maturities, conditioned the intervention of the Bank of Albania through its long-term instruments. In the second half of September (at the end of the quarter), the Bank of Albania injected ALL 3.5 billion by means of outright purchase Treasury bills having commercial banks as partners.

The absence of Lek appreciation pressures during the summertime brought the need of reconsidering the forecasted position of the Bank of Albania in the foreign exchange market. The purchases in the foreign exchange market, which generally characterize the end of summertime, have been considerably limited over this year. The purchases of the Bank of Albania in the foreign exchange market have increased the money supply in Lek to the extent of ALL 3 billion, and have partly improved the system liquidity. Under these conditions, the liquidity situation turned quietened and the pressures of increasing the Treasury bills interests were lessened. Currently, the quantity of the injected liquidity through reverse repurchase agreements is ALL 1 billion.

Under the conditions of minimising the pressures against the bills interest rates and the risk the lack of liquidity in the system may cause, the performance of some monetary indicators has resulted beyond the projections

of the monetary program. Net domestic assets indicator (NDA) of the Bank of Albania has exceeded the objective level of ALL 59 billion, by about ALL 15.2 billion, while the level of net international reserves (NIR) at the end of September was USD 51.1 million below the objective level of the Bank of Albania. However, the forecasting excess of both indicators in total (with opposite directions) eases the potential influences on other macroeconomic indicators, in particular on inflation.

	December '04	March '05	June '05	July '05	August '05	September '05*
	Net International Reserves (in millions of USD)					
Objective	942	1,073	1,087	1117	1148	1,178.7
Current	1,105	1,107	1,098	1105	1103	1127.5
Difference	163	35	11	-12	-45	-51.1
	Net Domestic Assets (in billions of ALL)					
Objective	79	61	60	60	59	59.0
Current	61	53	64	65	66	74.1
Difference	-18	-8	4	5	7	15.2
	Net Domestic Credit to the Government (in billions of ALL)					
Objective	286	292	298	299	301.0	
Current	285	288	294	298	299.2	
Difference	-1	-4	-4	-1	-1.8	

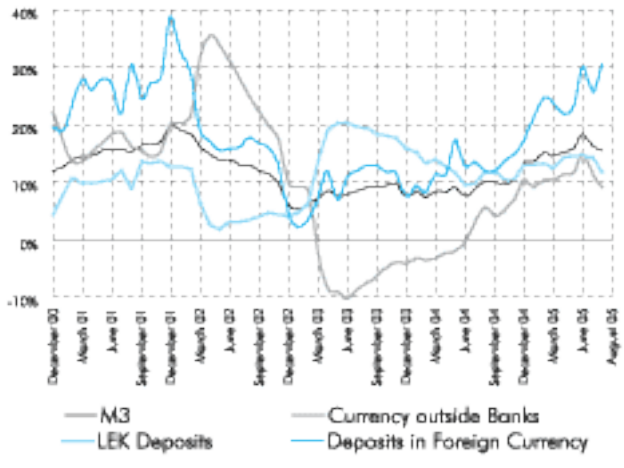
* Operative data

Table 15 Meeting the quantitative objectives by the Bank of Albania

III.2 PERFORMANCE OF MONETARY AGGREGATES

The third quarter was characterized by a significant slowdown of money supply growth rates compared to the rapid growth of money supply in the first half of the year. Annual growth rate of M3 aggregate fell to 15.4 per cent in August, compared to 18.3 per cent recorded at the end of June. The slowdown of the money supply pace was mainly reflected in its Lek component, M2 aggregate, whose demand reduced as a result of the fall of Lek deposits interest rates. On the other hand, the highest effect of Lek annual appreciation had a negative impact on the increase of foreign deposits, which, though at quite high levels, were in fact below their actual increase. Under the influence of low Lek interest rates and affected by the growth of seasonal inflows from remittances, the foreign currency structure of money supply shifted to foreign deposits, while the time structure has resulted as a relatively stable one.

Chart 21 Performance of monetary oggregates annual rates

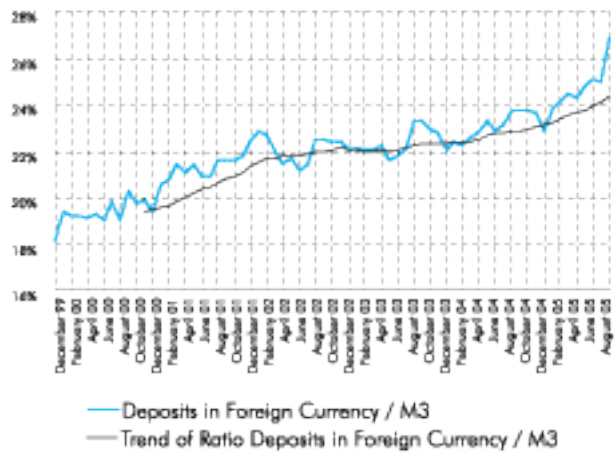


The monetary indicators with the most accelerated growth during July – August were foreign deposits, recording a growth of ALL 14.1 billion or 10.4 per cent. Their annual growth by 30.5 per cent in August represents the highest annual growth level of this indicator in the last three years. The annual effect of the exchange rate appreciation has weakened the growing tendency of foreign deposits annual rates.

Estimated in fixed exchange rates, the real annual growth of foreign deposits in August was about 33.6 per cent, in comparison to 29.0 per cent in June.

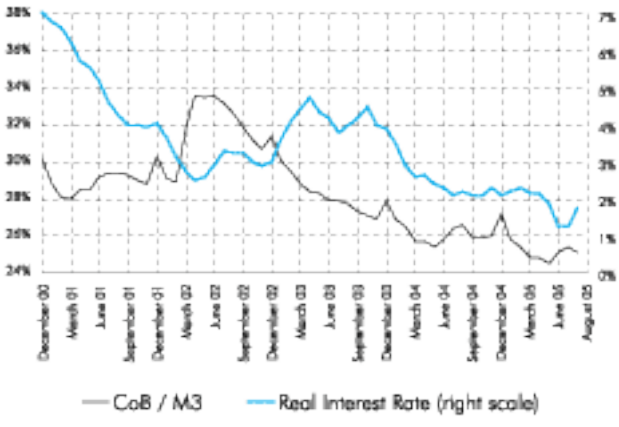
The growth of foreign deposits during July – August was mainly underpinned by the high growth of time deposits, which have represented about 71 per cent of total foreign deposits growth. Apart from the strengthening of foreign currency flows during the summertime, the positive performance of foreign deposits was also favoured by the reduction of Lek – foreign currency interest rates spread, which increased their attractiveness in relation to the savings instruments in Lek. The most accelerated growth of foreign deposits compared to other monetary indicators was reflected in the growth of their share in money supply. At the end of August, the ratio of foreign deposits to M3 aggregate reached its historical maximal level of 26.8 per cent, recording an increase of 1.7 percentage points compared to the level recorded in June.

Chart 22 The ratio performance of currency deposits to M3



Lek deposits contributed negatively to the growth of money supply during the period of July – August, recording a fall of ALL 1 billion or 0.4 per cent. The annual growth rate of Lek deposits also experienced a significant fall, decreasing to 11.5 per cent, compared to 14.7 per cent in June. This performance has reflected the considerable decrease of Lek household deposits by ALL 1.5 billion, while Lek deposits of other sectors have showed a normal performance. The withdrawal of Lek deposits by households has resulted as a consequence of a sudden decrease of interest rates by a number of banks in the system. The flow of deposits withdrawn by the banking system is estimated to have partly shifted towards investments in Treasury bills[10] and the rest in foreign currency deposits.

Chart 23 Ratio of CoB to M3 and average real interest rate (right scale)



The structure of Lek deposits with regard to terms has had a significant growth as to the share of demand deposits. During July – August Lek demand deposits marked an increase of ALL 19.0 billion, compared to the decrease of ALL 20.0 billion of Lek time deposits. This increase has come as a result of changes in the classification of Lek deposits by Raiffeisen Bank[11]. The growth of Lek demand deposits was reflected in the considerable growth of M1 aggregate. Annual growth rate of this indicator for the period July – August experienced an increase from 25.8 per cent to 30.1 per cent.

The fall of Lek deposits interest rates has not exerted a significant influence over the liquidity

equilibrium of money supply. The growth of currency outside banks by ALL 4.7 billion (3.4 per cent) for the period July – August, resulted in conformity with the seasonal performance of this indicator, as a response to the growing needs of the economy for liquid monetary assets. After its considerable growth in June, the annual growing rate of currency outside banks turned to the normal levels, decreasing to 9.0 per cent in August.

The ratio of currency outside banks to M3 in August resulted to be 25.1 per cent, marking an increase of 0.6 percentage points from the beginning of the seasonal effect at the end of May. It represents a slighter increase compared to the growth of this ratio in the same period over the previous years. It demonstrates the same continuous paces of the return of currency into the banking system, despite the low interest rates.

	August 2005	2-month change Absolute	2-month change Percentage	Annual change Absolute	Annual change Percentage
Currency outside banks	140.5	4.7	3.4	11.6	9.0
Total deposits	419.1	13.1	3.2	62.9	17.7
- in Lek	269.0	-1.0	-0.4	27.8	11.5
- in foreign currency	150.1	14.1	10.4	35.1	30.5
Demand deposits	113.5	23.0	25.4	42.7	60.3
- in Lek	59.9	18.9	46.0	34.8	138.7
- in foreign currency	53.6	4.1	8.3	7.9	17.3
Time deposits	305.7	-10.0	-3.1	20.2	7.1
- in Lek	209.1	-20.0	-8.7	-7.0	-3.2
- in foreign currency	96.5	10.0	11.6	27.2	39.3
M1	200.4	23.5	13.3	46.4	30.1
M2	409.5	3.7	0.9	39.4	10.6
M3	559.6	17.8	3.3	74.5	15.4
Monetary base	183.9	3.4	1.9	13.5	7.9

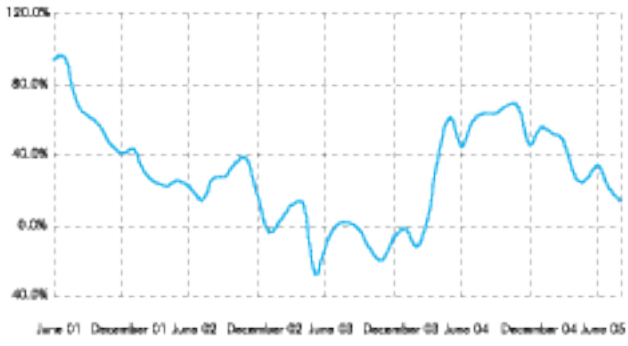
Table 16 Performance of monetary indicators in July-August (in billions of ALL)

III.3 DOMESTIC DEMAND

III.3.1 Net foreign assets

The performance of net foreign assets in the banking system during August has been satisfactory, with a growth of USD 112.7 million compared to the month of June. Excluding the exchange rate effect[12], the increase of these assets is USD 106.1 million. This period has been characterized by the lowest contribution of these assets to the annual growth of money supply from the beginning of the year, reaching 14 per cent in August. The decrease of this contribution is partly explained by the fall of annual growth rate of net foreign assets in Lek. The largest part of contribution to the annual growth of money supply has been given by the annual growth of net domestic assets during the third quarter.

Chart 24 Contribution of net foreign assets growth to annual growth of M3



Generally, the period July – August was characterized by a growth in foreign currency deposits; nevertheless, this year knew higher growth rates compared to the previous year. This performance of foreign currency deposits, influenced by foreign currency inflows, as well as by the fall of Lek interest rates, has created spaces for the growth of net foreign assets of commercial banks. Moreover, the decrease of foreign currency liabilities during this period influenced the net foreign assets to a larger extent. The growth of net foreign assets of commercial banks over the period is estimated at about USD 98.1 million. Calculated as a fixed rate, the growth of these assets is USD 97.1 million.

Chart 25 Level of net foreign assets of the banking system

The growth of net foreign reserve of the Bank of Albania over the period July –August resulted to be USD 14.6 million. This is a result of the disbursement increase of foreign credits (IMF, IDA). Calculated as a fixed rate[13], the net foreign reserve of the Bank of Albania has grown by USD 9.1 million.

III.3.2 Government demand for money

The budget deficit for the period July-August marked a considerable growth estimated at ALL 13.5 billion. Over this period, the deficit grew by ALL 6.7 billion, nearly ALL 2.2 billion more than the deficit increase during the same period in the previous year.

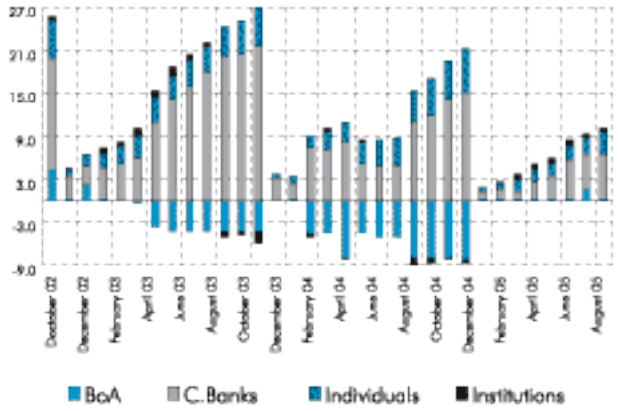
Overcoming the fiscal deficit was enabled through the new borrowing of about ALL 4.4 billion and the use of the government's deposit funds by ALL 2.3 billion. The Bank of Albania has financed the budget deficit by ALL 2.0 billion, in order to avoid the interest rate fluctuations in both the interbank and Treasury bills market. This financing was in the form short-term direct credit. The rest of the domestic financing has been provided by the issuance of two-year and three-year government bonds. This issuance during the period July – August was ALL 5 billion in two-year bonds and about ALL 2 billion in three-year bonds.

The growth of domestic borrowing by ALL 9 billion has compensated the decrease by ALL 4.6 billion of the Treasury bills level, purchased in the primary market. The Treasury bills portfolio of commercial banks has decreased by ALL 4.1 billion during July – August. A decrease of ALL 0.3 billion has also been noticed in the institutions' portfolio. On the other hand, individuals have increased their Treasury bills portfolio by ALL 0.9 billion. The Bank of Albania has not experienced movements in its portfolio over July-August, but has grown it by ALL 3.5 billion over September, as a result of operations in the secondary market.

III.3.3 Credit to the economy by the banking system

Year 2005 has been characterized by positive developments in crediting to the economy. The credit balance has grown by ALL 31 billion until the month of August; a growth of about 60 per cent higher than the growth of credit balance throughout 2004. The vigorous crediting activity has brought the growth of the share that the crediting to economy holds against M3, reaching the value of 18 per cent at the end of August. Moreover, the ratio of credit to GDP estimated at 11.8 per cent has recorded an evident growth, being reflected in the progress of all indicators related to crediting.

Chart 26 Cumulative performance of budget deficit financing (in billions of ALL)

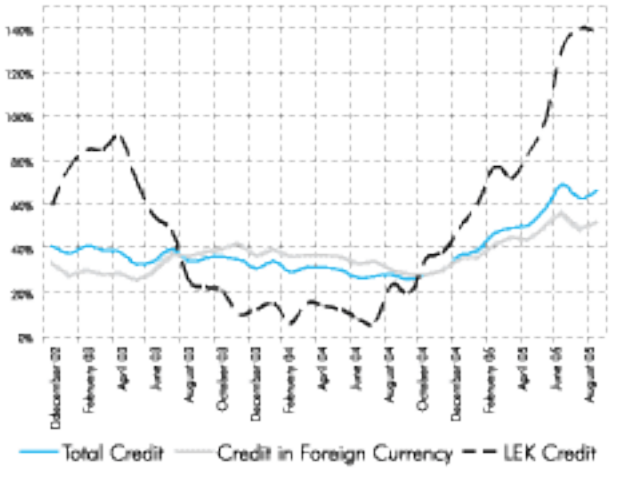


	2002	2003	2004	2005 Q1	2005 Q2	2005 July	2005 August
Money supply (in billions of ALL)	416.7	448.4	507.2	521.6	541.8	545.3	559.6
Domestic credit (in % to M3)	70.8	71.5	68.9	68.3	69.9	70.4	69.2
Credit to government (in % to M3)	61.5	60.2	55.1	53.4	52.2	52.4	51.1
Credit to economy (in % to M3)	9.3	11.3	13.8	15.2	17.7	17.9	18.0
Credit to economy (% to total assets)	11.5	13.7	16.9	17.7	20.8	21.1	21.5
Credit to economy (% to GDP)	5.7	6.8	9.0	10.0	11.2	11.4	11.8
Total deposits (% to GDP)	42.2	43.4	47.2	48.6	47.4	47.5	48.9
Credit/deposits ratio (in %)	13.5	15.7	19.0	20.3	23.6	24	24.1

Table 17 Peformance of some main credit indicators

The growth of credit balance over July-August is about ALL 5 billion, reflecting a decrease of credit growth rates, compared to the first half of 2005. This decrease has come partly as a result of seasonal factors and partly as a result of an unusual credit growth in June. In particular, the slowdown of credit balance growth is the outcome of the temporary growth that the short-term credit experienced during June. This fact is also based on the level of the new credit extended during these months, which has almost been at the same levels as the previous periods of the year. Moreover, the appreciation of Lek against Euro and US dollar has resulted in the decrease of foreign credit value by ALL 0.8 billion, so further decreasing the growth pace[14].

Chart 27 Annual credit growth rates (in percentage)



Credit in Lek recorded an annual growth of 135 per cent at the end of August. Credit in Lek is experiencing a relatively better growth compared to the previous years, reflecting a more considerable commitment of banks to crediting in the domestic currency. Nonetheless, the monthly growths of such credit have known a significant fall compared to the second quarter.

The high growth rates of crediting in Lek have also resulted in the growth of its share in total credit. Credit to individuals continues to reflect the same growth rates as in the first quarters of 2005. This form of credit gets the main impulse by Lek credit to individuals; its annual growth rate is about 3 times higher than in the previous year.

Table 18 Credit balance indicators to the total (in percentage)

	2002	2003	2004		2005			
			Q3	Q4	Q1	Q2	July	August
Credit balance (in billions of ALL)	38.7	50.7	61.0	70.0	79.9	95.9	97.7	100.97
Short-term credit	53.8	46.0	33.9	34.0	34.1	33.7	34.4	32.8
Mid-term credit	30.1	33.3	37.2	36.0	34.5	33.1	31.6	31.7
Long-term credit	16.1	20.7	28.9	30.0	31.4	33.1	33.8	35.1
Credit to individuals	18.3	24.5	30.8	30.6	31.0	30.8	31.4	32.4
Credit to the private sector	81.7	75.5	69.2	69.4	69.0	69.2	68.6	68.0
ALL	21.3	19.6	17	20.0	20.0	22.9	23.2	23.4
Foreign currency	73.7	80.4	83	80.0	80.0	77.1	76.8	76.6

During the months of July and August there was granted a total of about ALL 20.7 billion of new credit. In monthly terms, the new credit is almost at the same level as in the other months of the year and about 70 per cent more than in the same period of the previous year. Around 50 per cent of the new credit granted during the month was short-term credit. 29 per cent of this form of credit was granted in Lek. Credit to individuals represents only 25 per cent of the total granted credit. Compared to the previous quarter, the same structure of granted credit has been maintained, with regard to both currency and maturity term.

Table 19 New credit indicators to the total (in percentage)

	2002	2003	2004					2005
			Jan-Aug	Jan-Dec	Q-1	Q2	Aug	Jan-Aug
New credit (in billions of ALL)	62.6	92.6	68.6	99.7	21.8	32.8	10.6	73.4
Short-term credit	44.7	63.1	64.7	62.5	54.1	47.1	49.0	49.3
Mid-term credit	13	22.2	22.0	22.5	21.2	31.0	33.9	29.2
Long-term credit	4.8	7.4	13.3	14.9	24.7	21.9	17.1	21.5
ALL	20.8	30.8	31.3	32.6	30.4	32.8	26.0	30.9
Foreign currency	41.8	61.8	68.7	67.4	69.6	67.2	74.0	69.1

The months of July and August have not marked changes in the share of credit by sectors, compared to the two previous quarters. At the end of August, the trade sector continued to represent the major part of credit allocation, recording 19 per cent of the total. Meanwhile, the processing industry sector has reflected a decrease of its positions.

Table 20 Performance of credit balance indicators by sectors (in percentage to the total)

	2002	2003	2004	2005			
				T1	T2	July	August
Agriculture, hunting and silviculture	0.8	1	1.5	1.5	1.5	1.5	1.4
Processing industry	17	17	17.1	16.7	15.6	15.1	15.1
Construction	8.6	10	9.8	11.2	11.2	11.2	11.0
Trade, repairing of vehicles and household appliances	40.4	34	23.3	20.6	19.1	19.1	19.0
Hotels and restaurants	6	6	8.3	5.2	4.7	4.7	4.4
Real estate	9.1	13	9.8	14.7	13.5	13.4	13.0
Other	18.1	19	30.2	30.1	34.3	35.1	36.1
Total	100	100	100	100	100	100	100

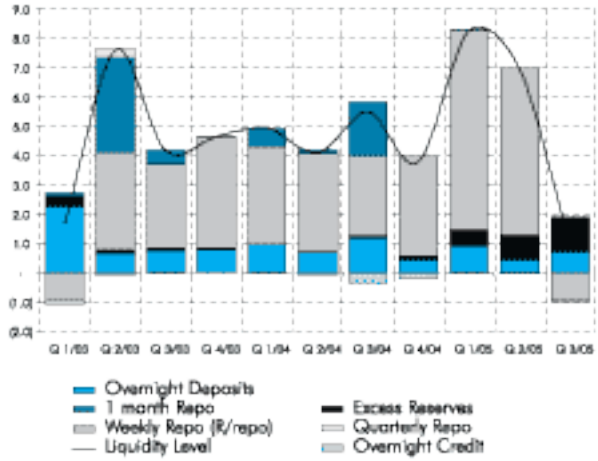
III.4 FINANCIAL MARKETS, INTEREST AND EXCHANGE RATES

III.4.1 Performance of liquidity

The growth of domestic credit, accompanied by the slowdown of bank deposits flow over the third quarter of the year, was reflected in the decrease of excess liquidity level in the banking system, in a few cases, recording negative values. On average, the daily liquidity level in this period resulted to be ALL 1.07 billion, while in the previous quarter the banking system calculated at an average ALL 7.05 billion of excess liquidity per day. In the previous year, this indicator recorded the value of ALL 5.49 billion or ALL 4.43 billion more than in the third quarter of this year.

The beginning of July resumed with the weekly organization of repo auctions for the liquidity withdrawal. In the sequel, in order to supply the liquidity needs, were mainly organized auctions of reverse repurchase agreements with weekly maturity, for the average value of ALL 1.44 billion. Apart from them, with the purpose of injecting liquidity permanently and regulating its structure in the market, were organized transactions for outright purchases of government securities. These operations, as well as the growth of Lek deposits during September[15] have influenced the improvement of liquidity situation, and the beginning of October has marked positive values with regard to this indicator.

Chart 28 Liquidity level
(daily average, in billions of ALL)



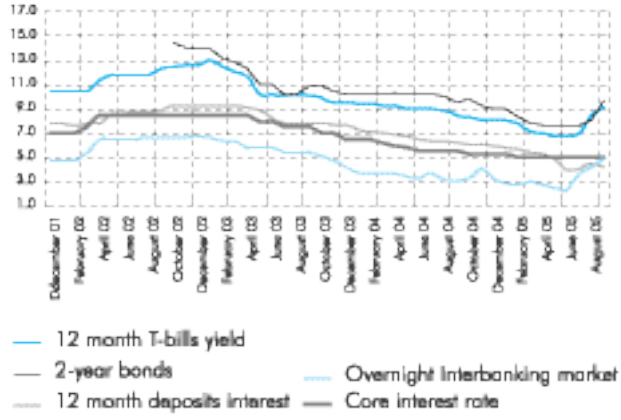
The average level of overnight deposit in the third quarter has amounted to ALL 0.72 billion or ALL 0.26 billion more than in the previous quarter and ALL 0.48 billion less than in the previous year. Overnight credit has been rarely used (by an average of ALL 0.04 billion) and daily needs for liquidity have been mainly met in the interbank market.

The daily average volume of total crediting in the interbank market, in the third quarter has resulted to be ALL 1.56 billion, from ALL 1.35 billion in the previous quarter and ALL 0.55 billion in the previous year. The average volume of crediting between banks stands over the average level of liquidity for the period, thus being an indicator of its non-symmetrical distribution. Crediting has been mainly in the form of overnight and weekly transactions. The average volume of overnight transactions has grown to ALL 0.84 billion from ALL 0.75 billion in the previous quarter and ALL 0.39 billion in the previous year.

III.4.2 Interest rate performance

During the third quarter of 2005, the monetary policy applied by the Bank of Albania has been neutral. The core interest rate has remained at the lowest

Chart 29 Core interest rate and interest performance in the markets (in percentage)



historical levels. Nonetheless, during this period, there were noticed pressures of interest rates increase in the interbank market, primary market, Lek deposits market, bonds market, credit market of less than a year term, etc.

The main factor that has influenced the interest increase in the markets was the change of the liquidity situation of banks. In the Treasury bills primary market it was observed a fall of liquidity offered by banks, which has also resulted in the increase of Treasury bills yield. In a few cases, government demand for the financing with Treasury bills has remained unaccomplished.

In the interbank market, overnight borrowing interests increased, following almost 4 years of their continuous decrease. The growth of liquidity demand in the market and the interest increase of overnight deposits by the Bank of Albania[16] have influenced, inter alia, this increase. In contrast, the interests of weekly borrowings showed a downward trend, mainly owed to the interest cut of overnight credit by 0.75 percentage points[17]. The interests' corridor narrowing of supporting facilities has also caused the tightening of spread between overnight and weekly interests in the interbank market.

Table 21 Interest quarterly change in the markets (in percentage points)

	Sept 2005	Q1	Q2	Q3
Core interest rate	5.00	-0.25	0.00	0.00
Interbank market				
Interbank market overnight interest	4.37	-0.26	-0.74	+2.10
Interbank market weekly interest	4.90	-0.33	-0.24	-0.38
Primary market				
3-month T-bills yield	6.73	-0.85	-0.18	+1.67
6-month T-bills yield	8.64	-0.71	-0.11	+2.25
12-month T-bills yield	9.13	-0.96	-0.35	+2.34
Bonds market				
2-year bonds yield	9.70	-1.15	-0.25	+2.10

In the primary market, it was noticed an increase of Treasury bills yield, in all terms, where the largest increase was experienced in the 12- month terms. The increase of Treasury bills yield was a result of the reduction of banks' demand in the primary market[18] and of the increase of government borrowing in this market. Considering that this volatility encourages the insecurity in the money market and the cost of government debt, the Bank of Albania has aimed at lessening the upward pressures through the injection of liquidity into the banking system by means of reverse repo[19] auctions. Moreover, it has provided direct credit to the government by reducing the speculating operations in the market.

In the Lek deposits and credit[20] market there was an increase of deposit interest in all terms and an increase of credit interest for terms up to one year.

	August 2005	Q1 2005	Q2 2005	Q3* August '05-June '05
USD deposits				
1 - month	1.83	0.22	0.04	0.09
3 - month	2.13	0.26	0.09	0.09
6 - month	2.31	0.22	0.13	0.08
12 - month	2.79	0.22	0.13	0.17
24 - month	3.15	0.37	0.14	-0.01
Euro deposits				
1-month deposits	1.67	0.02	-0.01	0.01
3-month deposits	1.82	0.00	-0.01	0.08
6-month deposits	1.83	0.04	0.07	-0.06
12-month deposits	1.91	-0.07	0.31	-0.30

Table 22 Interest quarterly change (in percentage points)

The increase of deposit interests is expected to encourage depositors to put their savings in the banks, which would as a consequence bring about the deposits growth. According to operative data, the effects of this growth have been present in September.

In August 2005, the real interests of 12- month Lek time deposits reached 2.07 per cent, compared to 0.96 per cent at the end of the second quarter and 3.53 per cent in the previous year, influenced by inflation fluctuations and the change of nominal interests.

At the present, banks have also started to offer the acceptance of deposits up to 3 years. This would enable the investment of depositors' savings in longer terms, and it will provide a closer connection between these deposits' interests and the long-term credit and government bonds interests.

In Lek credit market, the average weighted interests have had an upward trend for credits less than a year and a downward trend for credits over a year[21]. The increase of Treasury bills yield, short-term and long-term expectations for the interest rates performance, the change of crediting structure, scale of risk, etc., have influenced the increase of short-term interests.

In the foreign deposits market, as in the Lek deposits market, it has been noticed an increase of interests in all terms, except for 24-month deposit interests in US dollar and 6- and 12-month deposit interests in Euro.

	August 2005	Q1 2005	Q2 2005	Q3* August '05-June '05
USD deposits				
1 - month	1.83	0.22	0.04	0.09
3 - month	2.13	0.26	0.09	0.09
6 - month	2.31	0.22	0.13	0.08
12 - month	2.79	0.22	0.13	0.17
24 - month	3.15	0.37	0.14	-0.01
Euro deposits				
1-month deposits	1.67	0.02	-0.01	0.01
3-month deposits	1.82	0.00	-0.01	0.08
6-month deposits	1.83	0.04	0.07	-0.06
12-month deposits	1.91	-0.07	0.31	-0.30
24-month deposits	3.06	0.75	-0.33	0.33

Table 23 Interest quarterly change (in percentage points)

What has influenced here was the increase of core interest rate for more than once by the Fed, within the third quarter; the increase of LIBOR and

Chart 30 Performance of average weighted deposit interest in foreign currency

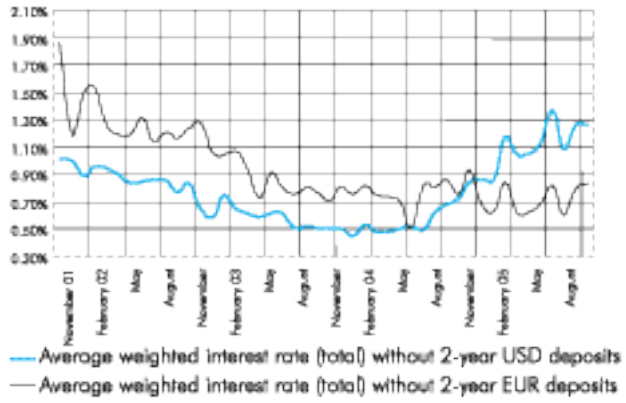
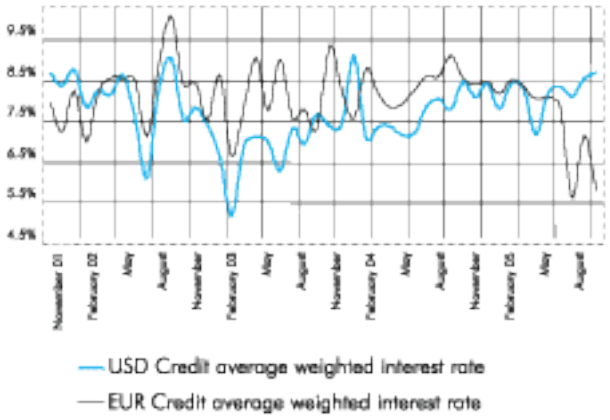


Chart 31 Performance of average weighted credit interests in foreign currency



EURIBOR interests in the international markets, the increase of competitiveness in the markets, etc.

The foreign currency credit market has been characterized by the fluctuations of interest from one quarter to another. In August 2005, the average weighted interests of USD credits reached 8.71 per cent compared to 8.1 per cent at the end of the second quarter and the interests of euro credits reached 5.8 per cent compared to 5.63 per cent at the end of the second quarter. However, considering them separately, according to terms, in the USD and EUR credit market there were noticed cases of increase and decrease of these interests as a result of the policy applied by banks, the scale of risk according to the kind of credit, the change of creditors' share, competitiveness, etc.

III.4.3 Exchange rate

The beginning of the third quarter of 2005 presented Lek's appreciation trends and then continued with its depreciation against the main currencies. On average, during the quarter, Lek appreciated by 1.5 per cent against the US dollar and 1.7 per cent against the Euro, on an annual basis. The seasonal effect of summertime has not been considerably evident this year, resulting in a decrease of the Lek appreciation rates, in particular compared to last two years. Bringing the seasonal pressures under control mainly owes to the reduction of Lek - foreign currency interest rates difference.

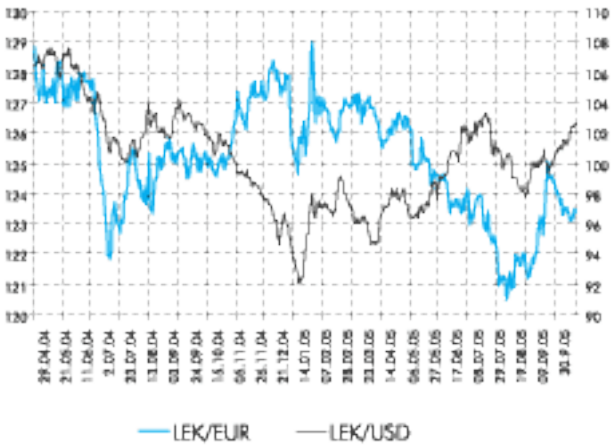
Table 24 Quarterly annual change average[22] of Lek exchange rate

	Q3'2003	Q3'2004	Q3'2005
LEK/ USD	-13.10	-15.12	-1.56
LEK/ EUR	-0.79	-7.72	-1.75

Until mid-August, Lek has continued to present the same appreciation rates against the Euro, noticed since the beginning of the year. After this period, Lek was positioned in the depreciating direction. With regard to the US dollar, though there have been fluctuations, the Lek's depreciating trends, which continued over September, were outstanding. The higher demand for tourism outside Albania seems to have favoured the growing demand for foreign currency. Moreover, the pre- and post-election situation appears to have influenced on the public behaviour and its decisions for keeping foreign currency.

On the other hand, the continuous tightening of the difference of Lek and foreign currency interest rates does not anymore constitute a sustainer to Lek appreciation, which has resulted in the growth of foreign deposits over the quarter. At the end of September the levels of Lek exchange marked 123.41 Lek/EUR and 102.6 Lek/USD.

Chart 32 Lek exchange rate performance



NOTES

[1] *Agriculture sector includes branches of agriculture, agroindustry and fishery. Agriculture branch includes subbranches of agriculture and animal farming.*
[2] *Unlike the first two sectors, on which data can be considered within statistical standards, for the third sector the figure should be taken with reserves. It does not express the moves that may happen during the quarters of the year (in fact the value remains unchanged throughout the year) being utilizable only at yearend, where results of Survey of Standard Living Measurement, on which its relies, are announced.*
[3] *Annual inflation of this group increased from 3.3 per cent in September 2004 to 6 per cent in September of this year.*
[4] *Annual inflation of this subgroup for July and August 2005 is respectively 8.8 and 10.3 per cent.*
[5] *"Communication", "Hotels, cafés and restaurants", "Clothing and footwear", etc.*
[6] *Index of Sales for all the economy recorded during the second quarter an annual growth of 21.6 per cent.*
[7] *The price index of extracting industry grew by 4.8 per cent, the processing industry by 3.7 per cent, and the production, distribution of electricity, gas and water by 7.4 per cent.*
[8] *Subgroup "Services to personal vehicles", where oil price has a share of 1.6 per cent in the CPI basket.*
[9] *The rise of salaries followed the decision of the Council of Ministers for the salary increase in a few sectors of health and education.*
[10] *The Treasury bills individual portfolio in July – August grew by about ALL 1 billion or twice as high as its growth over the same period in the previous year.*
[11] *The policy of non-extending the Lek time deposits of individual clients of Raiffeisen Bank at the end of the maturity term caused their re-classification as demand deposits. The influence of this re-classification for the months of July and August was about ALL 18.2 billion.*
[12] *Net foreign assets of the fixed EUR/USD exchange rate system.*
[13] *The difference is an outcome of the appreciation of Euro against US dollar by 1.4 per cent for the period July – August, which implies a higher value of investments in Euro expressed in USD.*
[14] *During the previous quarter, the depreciation of Lek against the USD influenced the growth of credit balance by about ALL 0.8 billion.*
[15] *Operative data.*
[16] *In July 2005, the Bank of Albania decided the overnight deposit interest to be 1.75 percentage points below the core interest rate, thus, causing the interest increase by 1.25 percentage points.*
[17] *In July 2005, the Bank of Albania decided the overnight credit interest to be 1.75 per cent above the core interest rate.*
[18] *During the third quarter, the government demand for liquidity in the primary market was met to the extent of 97 per cent compared to 131 per cent in the previous quarter.*
[19] *The Bank of Albania used both kinds of repos (fixed and multi-rate) depending on the situation.*
[20] *See Q3* August '05-June '05 in the table.*
[21] *See Q3* August '05-June '05 in the table.*
[22] *Minus indicates the Lek appreciation against foreign currency.*

ECONOMIC DEVELOPMENTS DURING THE FIRST SEMESTER OF 2005

I. GOVERNOR'S SPEECH

During the first half of 2005 the Albanian economy is characterized by positive developments within the expected parameters. The economic activity in Albania has been revitalized throughout a slight improvement of the world economy, which has continued to develop at a moderate pace during the first half of 2005. The American economy was one of the crucial driving forces of the world economy, while the economic situation in the euro area and Japan, even though it is improving, continues to remain fragile. The growth of the world economy is being accompanied by a growth with regard to the trade exchange volume. Moreover, the negative developments of oil price and the instability of exchange rate have not been reflected with their full amplitude in the internal economy.

Considering the developments in specific sectors, the fiscal indicators as well as the rapid growth of credit to the economy, it can be said that this period has been assessed as favourable for the country's economy and the achievement of development objectives. In general, the most vital sectors of the Albanian economy, at the beginning of 2005, have registered a satisfactory growth compared to the same period of the last year. The annual growth rates of these sectors have been increasing, thus showing a long-term trend of the development of the economy. The sectors that have marked the highest annual growth in terms of sales are construction, trade, services, agriculture and agro-industry, while the transport and industry sectors have performed almost the same volume of sales compared to the first quarter of the last year. The positive developments of the economic activity in the country are accompanied by a further improvement of labour market. This improvement has been shown in the increased number of the employed persons compared to the same period of the last year. The unemployment rate of the first quarter of this year has marked the lowest rate of the last seven years.

During January – March of this year, the current account resulted in a deficit of USD 56.2 million, thus indicating a slight worsening compared to the same period of the last year. While the rates of imports, exports of goods and services remained almost similar, the high volume of imports resulted in a deep current deficit. The trade deficit of USD 363 million as well as the deficit of USD 40 million in the service category is covered by the inflows of current transfers, mainly private ones. The inflows of the capital during the first quarter were sufficient to cover the current deficit, thus resulting in a positive level of the overall balance of payments of around USD 13 million. The appreciation of Lek against USD and Euro has lead to the decline of price of goods and foreign services, while this appreciation has not threatened our

exports competitiveness, because of the structure of exports oriented towards re-exports.

Despite the electoral campaign of 2005, Bank of Albania estimates that the fiscal situation has been kept under control. The fiscal developments during the first half of 2005 were moderate and the indicators have not surpassed the projected level for this period. According to the Finance Ministry data, up to the end of June there are 98.3 per cent of the revenues collected and 97,7 per cent of the expenditures planned. As a result, the budget deficit by the end of June was about ALL 9.4 billion out of ALL 10.2 billion projected. The budget deficit for this period was mainly financed by domestic sources, while the foreign financing was 50 per cent of the projected amount.

The first half of 2005 is characterised by low inflation rates. The annual inflation has known a downward trend during the first half of the year, thus reaching the 1.3 per cent in April, while in May and June they evidenced an increase of inflation up to 2.9 per cent. The average annual inflation has been continuously within the targeted band of Bank of Albania, having stabilized at 2.25 per cent in June. The orientation of fiscal and monetary policies towards maintaining the macroeconomic stability as well as the positive developments in various groups of consumer goods, within a favourable macroeconomic environment, has made possible the inflation rate control. The balance of demand and supply factors has not resulted in inflationary pressures during this period. The modest rise of salaries, oil and administered prices is compensated by the effect of disinflation factors, such as the sustained level of domestic demand, the controlled monetary situation, the stable appreciation of Lek and the growth of domestic agricultural production.

The Bank of Albania monetary policy was generally a smoothing policy during the first half of the year. This tendency was more pronounced during the first quarter of the year, thus decreasing by 0.25 percentage point of the core interest rate at the end of March, while during the second quarter of the year the monetary policy has been gradually taking a neutral stance. The easing of the monetary policy has been reflected in the continuous decrease of interest rates in the financial markets. This decrease was more pronounced in relation to the medium-term maturities, thus affecting the curve of Lek interest rates towards its levelling. The easing monetary policy of Bank of Albania is followed by a decrease of demand for monetary assets. The main source of monetary expansion during this period was crediting to the economy, unlike the past years when this function was performed by the government loan or the foreign inflows. The credit balance increased by an average of ALL 3.7 billion per month, during January – March of 2005, thus indicating by the end of the period a total increase of ALL 18.7 billion. This level is the same as the credit growth during 2004. The positive developments of crediting to the economy from the banking system have considerably influenced the improvement of all macroeconomic indicators of credit.

The continuous consolidation of macroeconomic stability during the recent years constitutes a sound foundation for the development of the Albanian

economy for the rest of year 2005. The Albanian economy has all the premises for a development within the scheduled framework. However, during the last few weeks there has been noticed a movement of monetary funds from the banking channels in the economy, as a result of the seasonal factor, payment of the frozen funds in the pyramid schemes and the uncertainties that characterise in general the pre and post-electoral situation. Therefore, we are carefully following the latest developments of liquidity, especially those related to the financing of the budget deficit.

In favour of guaranteeing the stable development and the maintenance of the macroeconomic equilibrium, we believe that these developments will be temporary and the normal management of income will be recuperated very soon with the creation of the new Albanian government. Bank of Albania remains greatly committed towards observing the indicators of economic and financial development in the country for year 2005 and, in this context, we hope that there will be also the commitment of the competent authorities.

At the same time, Bank of Albania takes this opportunity to call on all the economic institutions for observing the fiscal obligations based on the applicable rules and regulations. On the other hand, Bank of Albania will aim at preserving the monetary conditions in the economy in line with the inflation targeted range of 2-4 per cent, thus aiming at the same time at developing the financial market, improving the payment infrastructure and increasing the financial intermediation in the economy. Bank of Albania estimates that to achieve the goal of developing the country, the cooperation and the support of all the responsible institutions in the field of economic policies is a crucial factor for preserving the progress of economic structural reforms.

II. ECONOMIC DEVELOPMENTS DURING THE FIRST HALF OF 2005

II.1 WORLD ECONOMY

The world economy has been growing with the same moderate pace even during the first half of 2005. The positive performance of the American economy has been one of the main factors giving the impulse to the world economy. The economies of the euro area and Japan have had a better performance compared to the previous period, but the economic situation in these countries continues to remain fragile. China's economy continues to grow with rapid pace, stimulating the economic activity even in the rest of Eastern Asia.

The world economic activity for this year has been based on the positive performance of the service sector compared to production sector. The increase of costs in the production sector due to oil price rise, has affected this asymmetry. The high oil price continues to be one of the crucial problems of the world economy.

Table 1 Some indicators of the first half of 2005

	GDP – 1Q	Unemployment rate	CPI
USA*	3.8	5.0 (June)	2.5 (June)
Euro area	1.3	8.8 (May)	1.9 (May)
France	1.8	10.2 (May)	1.5 (May)
Germany	1.1	11.7 (June)	1.9 (June)
Italy	-0.2	7.8 (March)	1.8 (June)
United Kingdom	2.1	4.6 (March)	1.9 (May)
Japan	0.8	4.4 (April)	0.2 (May)
China	9.5	-	2.7 (March)

Source: Monthly Bulletin of Central European Bank and Eurostat.
* The data for the American economy are taken from the American Department of Labour and American Department of Trade.

The American Economy. The American economic activity marked satisfactory growth rates even during the first half of 2005. The real growth rate of GDP during the first quarter was 3.8 per cent. The growth of the American economy indicates the growth of consumer expenditures, exports and investments. The consumer expenditures are supported by the improvements in the labour market conditions as well as by the positive developments in the housing market. Taking into consideration the revitalization of inflationary pressures, the USA central bank, the Federal Reserve, has continued to tighten the monetary policy "with diligence". In the meeting of 30 of June, FOMC increased for the ninth time in succession the core interest rate, leading it to 3,25 per cent.

The Euro area economy. The economic developments during 2005 are more positive for the economy of the euro area. According to the first estimations, the GDP growth in the euro area was 0,5 per cent during the first quarter, from 0,2 per cent it was during the fourth quarter of the last year[1]. The GDP growth has come as a result of the growth of exports, at a time when the domestic demand has not increased, while the investment growth has been lower than that of the previous period. In the euro area the core interest rate continues to be 2 per cent since June 2003. The low interest rates continued to have a driving impact on monetary expansion and credit. The level of inflation (according to Harmonised Consumer Price Index) in May dropped down by 1.9 per cent after a three-month period during which this indicator was at the level of 2.1 per cent. During this period the salary increase was moderate, without exerting any inflationary pressure.

Chart 1 Performance of exchange rate EUR/USD

Source: Bloomberg

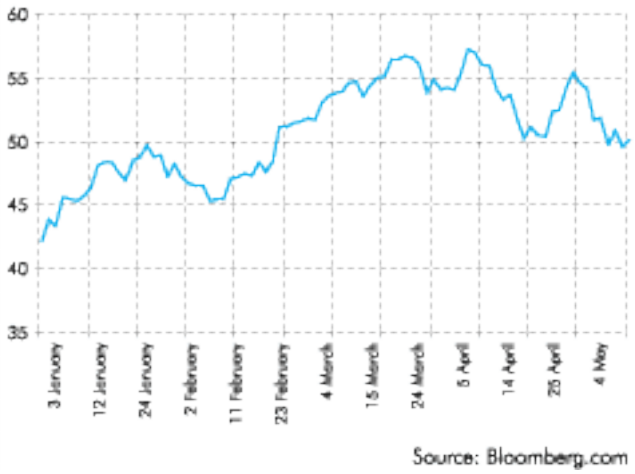
Exchange Rate

The euro area currency is depreciated in nominal terms as well as in real terms during 2005. At the beginning of June, the ratio between euro and currencies of 23 main trade partners marked a decrease of 2.8 per cent against the average of 2004. The political debates on the EU constitution as well as the vote against it in France and Netherlands have negatively affected the performance of the currency in the euro area. The increase of interest rates in the USA has made

the investors be under the effect of the expected yield rather than the American economy deficits.

Oil Price. The oil price has continued to increase during the first half of 2005, thus exceeding the highest price reached in October last year. In April 2005 price for a barrel of crude oil[2] exceeded USD 57. Oil price rise during the past few years has come as a result of the growth of demand and the tightening of supply for oil. The rise is estimated to have had a moderate effect on the world economic activity as well as on inflation.

Chart 2 Performance of crude oil price per barrel in USD

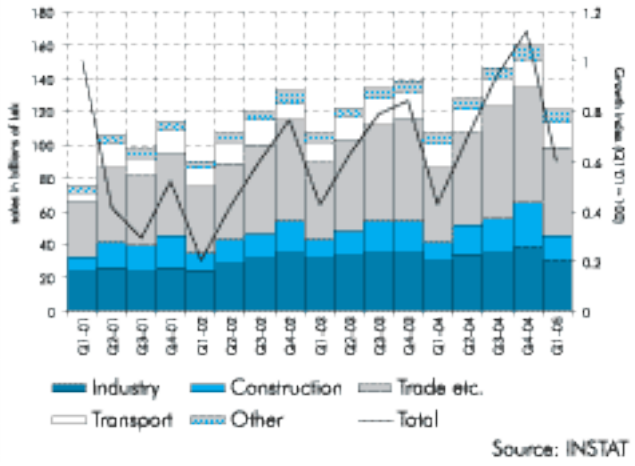


Source: Bloomberg.com

II.2 ALBANIAN ECONOMY DURING FIRST HALF OF THE YEAR

The Albanian economy is characterised in general by a good performance and estimated within the expected parameters during the first half of 2005. Considering the sales in the economy, the developments in the respective sectors, the performance of fiscal indicators as well as the rapid growth of credit to the economy, it can be said that this period has been favourable for the economy of the country. According to the data from VAT, which are considered as approximate indicators of the performance of the production in various sectors of the economy, the first quarter of 2005 has shown an increase in comparison with the first quarter of the last year. The first quarter of this year has experienced the highest percentage of sales for this quarter in the last four years. The sectors that have shown the highest percentage of sales, on an annual basis, are "Construction", "Trade", and "Other Services". Meanwhile, the sectors of transport and industry have performed almost the same volume of sales compared to the first quarter of the last year.

Chart 3 Performance of sales in the economy during 1Q '01 – 1Q '05



Source: INSTAT

The income from VAT recorded an annual growth of 8.9 per cent during the first five-month period of the year, showing at the same time a growth in the trade exchanges in the country. The credit to economy has shown an annual growth of 50 per cent. Together with the shift of the loan structure towards the production sectors, this development shows a wider utilization of the financial potential of the country towards supporting the needs for the development of the country. The first quarter of the year has shown a higher competition of the Albanian exports, which is reflected in the annual growth of 16.1 per cent of the exports during this period. In addition, the total number of the employed persons grew by 12,000 compared to the first quarter of 2004. Based on these

data and taking into consideration the limitations they show for giving a clear opinion about the development of the economy, especially the quantitative aspect, Bank of Albania believes that the Albanian economy has shown signs of growth during this period. However, the expected information during the months to come will help us create a reliable and clearer opinion on the development of the economic activity.

II.2.1 Production performance according to the sectors of the economy

Agriculture

According to the Ministry of Agriculture and Food, the agricultural production is expected to grow to the degree projected at the beginning of the year, by 4.7 per cent. The weather conditions are in general estimated as favourable for performing the expected production. Due to the late springtime the domestic production is introduced in the market later than the other years, but summertime has been favourable for the development of the agricultural production.

During the first half of 2005 it has been noticed a growth in the surfaces planted with vegetables, forage crops and cereals. According to the survey of the agro-industry, the agro-industrial production has increased by 11 per cent during the first quarter of 2005 compared to the first quarter of the previous year. During the first half of 2005, 40 new entities, of which 35 have started their activity, have been registered in the agro-industrial sector. The total number of the employed persons in agro-industry has not changed compared to the same period of the previous year.

Table 2 Agroindustrial production during the first quarter of 2005 (in billions of ALL)

	1Q '05	1Q '05/1Q '04 (in percentage)
Agroindustrial production	6.8	11
Meat and its by-products	0.6	23
Conserved products	0.2	82
Milk and its by-products	1.2	4
Flour and bread	2.2	25
Beverages	0.6	10
Water and refreshment drinks	0.7	-24
Other	0.7	28

Source: Ministry of Agriculture and Food

Energy

The production of energy has been relatively at satisfactory levels during the first half of 2005. The quantity of the produced energy during this period has been 3.200 GWH or 4 per cent higher than the same period of the previous year. The exported quantity of electricity during this period is 2 times higher than the one exported in the same period of 2004. Non-household consumption has shown a growth of 7 per cent compared to the same period of the last year, while household consumption has dropped down by 3 per cent.

Table 3 Data on electricity supply and consumption

	6 M - 2004	6 M - 2005	Change	Consumption per KWH (in percentage) 2005
Production	3,133	3,259	4%	
Imports	314	412	31%	
Supply	3,447	3,671	7%	100%
Exports	264	512	94%	13.95%
Looses	1,263	1,221	-3%	33.26%
Household consumption	1,145	1,107	-3%	30.15%
Non-household consumption	765	822	7%	22.39%

Source: Ministry of Industry and Energy

Transport

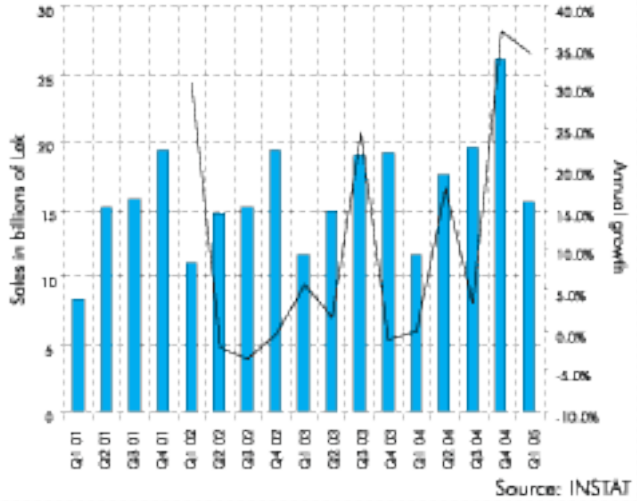
The sales index in the transport and telecommunications sector showed an increase of 6.6 per cent during the first quarter of the year compared to the first quarter of the previous year. The sea transport marked an increase of 6 per cent during the first half of this year. Imports in the main ports of the country increased by 7 per cent, while the exports, which are 10 times lower than imports, decreased by 0,4 per cent. During the first half of 2005, the railway transport of goods decreased by 20 per cent, while the railway transport of passengers decreased by 24 per cent. The air transport marked an annual increase of 15 per cent during the last 10 years. During the first half of 2005, the air transport continued to increase, which is reflected in the increase of 27 per cent of number of flights as well as the increase of 22 per cent of the number of passengers.

Investments in the transport sector decreased by 31 per cent during the first half of this year compared to the same period of the previous year. This decrease is due to the reduction of domestic investments, which were 33 per cent less than the same period of the previous year. Meanwhile, even the foreign investments decreased by nearly 27 per cent.

Construction

During the first quarter of 2005, sales in construction sector were about 34 per cent higher than in the first quarter of 2004. The annual growth for the first quarter of this year represents a positive development for the construction sector, especially taking into consideration the lack of annual growth in the first quarters of the two previous years. Construction cost index increased by 3 per cent in the first quarter of this year. In this index it is noted an increase in the total direct expenditures. The items that have shown the highest annual increase, respectively 8.8 per cent and 9.7per cent, are salaries and transport. Furthermore, it is noticed that the projected income has decreased by 1.5 per cent, thus reflecting the increase of construction costs.

Chart 4 Sales in construction sector and annual growth by quarters



The investments in construction sector, from both the private and government sources, have shown an increase during the first quarter of this year. Thus, the funds projected for investments during the first quarter increased by 55 per cent. Investments for housing construction, which increased by 30 per cent, take the main share in this increase. Furthermore, there is a considerable increase even in the engineered construction. The number of construction permits increased considerably during the first quarter of the last year and a major part of them is given for housing construction.

Chart 5 Number of construction permits according to types of construction

Source: INSTAT

II.2.2 Labour Market

According to statistics from INSTAT[3], the labour force for the first quarter of 2005 has decreased by 1000 people, compared to the end of the last year. Meanwhile, compared to the first quarter of 2004, the labour force has increased by 7000 people. This increase has been reflected in the increase of the number of the employed persons by 12000 people, and in the decrease of the number of the unemployed persons by 5000 people, in annual terms.

Among all the employed persons, 19 per cent are employed in the government sector, 58 per cent in the agricultural sector and 23 per cent in the non-agricultural private sector. This distribution structure of the employed persons according to sectors remained unchanged during the last year and the first quarter of 2005. The number of unemployed persons, during the first quarter, has decreased by 1000 people. Compared to the first quarter of 2004, the number of unemployed persons has decreased by 5000 people. The unemployment rate by the end of the first quarter is estimated at 14.3 per cent, thus being the lowest rate registered during the last seven years.

Table 4 Indicators of labour market (in thousands of people)

				2004	2005
	Q I	Q II	Q III	Q IV	Q I
Total labour force	1080	1081	1080	1088	1087
A. Total employed persons	919	921	922	931	931
i) Government sector	179	179	177	176	176
ii) Non-agricultural private sector	206	208	211	213	213
iii) Agricultural private sector	534	534	534	542	542
B. Unemployment					
i) Total unemployed persons	161	160	158	157	156
ii) Beneficiaries of unemployment payment	11.7	12.3	12	11	14.3
C. Unemployment rate (in percentage)	14.9	14.8	14.6	14.4	14.3

Source: INSTAT, Conjuncture, June 2005.

The average public administration salary has increased by 3 per cent during the first quarter of 2005. This increase includes the salary increase in some groups of education employees. The minimum salary, the payments of the unemployed people and the average economic assistance per household have remained at the same level as at the end of the last year. In annual

terms, the average public administration salary has increased by 7 per cent and the payment to the unemployed people by 10 per cent.

II.2.3 The fiscal sector

The fiscal indicators have in general been below the projected level during the first half of this year. According to the data from the Ministry of Finance, by the end of June, around 98.3 per cent of the revenues were collected and 97.7 per cent of the intended expenditures were performed. As a result, the budget deficit, by the end of June, has amounted to 9.4 billion out of 10.2 billion of Lek that it was planned. Compared to the same period of the last year, the revenues and budget expenditures have increased by 8.7 per cent and 9 per cent, respectively. The budget deficit for this period is being mainly financed by domestic sources (ALL 7.3 billion), while foreign financing was 43 per cent of the projected amount.

	6M '99	6M'00	6M '01	6M '02	6M '03	6M '04	6M '05	Average '99-'05
Total income	17.6	15.6	1.0	21.4	14.3	7.5	8.7	12.3
Tax revenues	9.8	30.8	-5.8	27.7	48.5	11.1	8.8	18.7
Revenues from local governments	4.3	61.0	36.4	32.5	242.3	18.0	5.2	57.1
Independent budget revenues	6.2	16.0	-2.5	31.7	14.9	8.5	11.1	12.3
Non-tax revenues	61.6	-25.2	37.9	-7.8	-9.9	-20.7	-0.6	5.1
Total expenditure	19.6	1.2	3.6	8.7	9.8	6.4	9.0	8.3
Current expenditure	12.9	0.0	-4.8	22.5	11.1	7.7	7.3	8.1
Capital expenditure	77.6	3.9	39.8	-31.4	1.1	-3.0	22.5	15.8
Deficit	24.5	-31.8	13.9	-34.9	-19.2	-4.2	12.0	-5.7
Domestic financing	26.6	-8.5	-16.7	-14.0	-10.2	14.6	17.7	1.3
Foreign financing	23.0	-49.3	55.5	-50.0	-30.4	-34.5	-4.0	-12.8

Source: Ministry of Finance

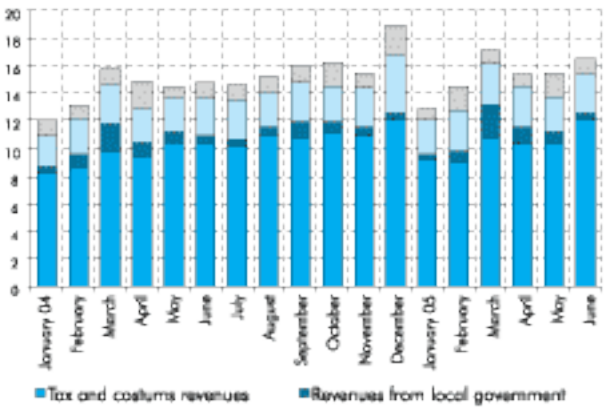
Table 5 Development of the main fiscal indicators (in percentage)

Budget revenues

During the first half of this year, the budget revenues were about 8.7 per cent higher than the same period of the last year. The total revenues were ALL 93.4 billion, of which 61.8 billion have been collected from taxes and customs, 17 billion from the independent budget and the rest from the local governments and other sources.

With exception of the revenues from the local governments, the revenues of other categories have been below the projected level, however being close to that level. Revenues from VAT, excise and customs have been lower than the projected level, while the contrary has been observed with the revenues from income tax and from vehicles tax.

Chart 6 The structure of budget income
(in billions of ALL – monthly data)



Source: Ministry of Finance

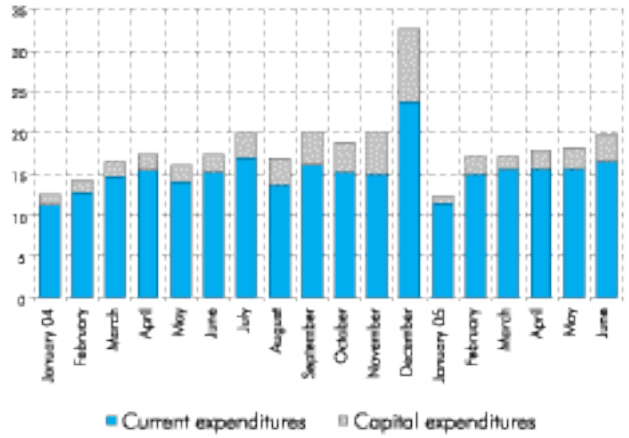
The income from the taxes continues to be the main source of budget income, thus representing around 91 per cent of total income. The structure of income has not showed significant changes compared to the same period of the last year.

Table 6 Income from taxes and customs (in billions of ALL – progressive data)

	June	6-month plan	Fact (in %)	To annual plan (in %)
Total	93.4	95.0	98	45
Tax revenues	84.8	85.2	99	47
VAT	28.5	29.4	97	45
Income tax	9.1	8.0	113	57
Excise tax	7.9	8.3	95	43
Personal income tax	3.3	3.4	98	43
National tax and others	4.9	6.3	78	40
Customs tax	5.9	6.1	96	38
Vehicles tax	2.1	1.0	206	98

Source: Ministry of Finance

Chart 7 The structure of budget expenditures
(in billions of ALL – monthly data)



Source: Ministry of Finance

Budget expenditures

Budget expenditures, during the first half of 2005, were estimated at ALL 102.9 billion, thus performing the planned expenditures at 97.7 per cent. The current expenditures have been performed at 102.9 per cent and they represent 87 per cent of total expenditures for the first semester of 2005. Unlike the last three years, the performance of capital expenditures improved considerably during the first semester of 2005, being 22,5 per cent higher than the previous year.

However, these expenditures have been performed at 80.1 per cent. The concern in this regard seems to be the capital expenditures financed from foreign sources, which were performed only at 61 per cent of the plan, while the expenditures financed from domestic sources were performed at 100 per cent. Expenditures on interests and social security have remained within the projected level, so being performed at 92.8 per cent and 98.8 per cent, respectively.

Table 7 Composition of current expenditures (progressive data – in millions of ALL)

	March	June	6– month plan	Fact (in %)	To annual plan
Total expenditures	46.8	102.9	105.2	97.75	41.37
Current expenditures	42.0	89.7	87.2	102.86	46.52
Personnel	12.0	24.6	24.6	100.11	44.51
Interest	7.0	13.2	14.2	92.82	44.05
Domestic	6.8	12.3	12.9	94.93	45.01
Foreign	0.3	0.9	1.2	70.71	33.81
Maintenance - operative expenditures	4.5	11.0	9.5	115.62	50.25
Subventions	0.6	1.7	1.2	143.74	63.23
Expenditures on social security and others	12.7	26.2	26.5	98.76	47.46
Expenditures for local budget	3.0	8.0	6.5	124.20	45.57
Other expenditures	2.2	5.0	4.8	104.82	48.67

Source: Ministry of Finance

II.2.4 External sector

The balance of payments closed with a positive balance during the first quarter of the year, thus being reflected in the growth of foreign reserves of Bank of Albania. Current account, during January – March of this year, resulted in a deficit of USD 56.2 million, revealing a slight worsening compared to the same period of the previous year, but with an evident tightening of deficit compared to the fourth quarter of 2004. The volume of current transactions increased by 26 per cent compared to the first quarter of the previous year. While the growth rates of imports and exports of goods have been almost similar, the high volume of imports has resulted in a deepened current deficit. The trade deficit of USD 363 million and the deficit of USD 40 million pertaining to the service item are covered in the largest part by the inflows of the current transfers, mainly private ones. The net capital inflows, during the first quarter, reached USD 60 million and were sufficient to cover the current deficit. At the same time, in our balance of payments it was recorded an increase of foreign reserves by USD 13 million.

Current account

During the first quarter of this year, a volume of current transactions of about USD 1.7 billion was performed. The major activity in the category of current transactions continues to be that of merchandise trade, followed by the exchange of services. The current expenditures for this period were estimated at USD 860 million, of which 60 per cent were intended for the financing of imports of goods and 30 per cent for the financing of services purchased from the foreign residents. The exports of goods during the first quarter of this year were three times lower than the imports, while the exports of services financed about 90 per cent of the expenditures of the residents for services abroad. The current transfers have continued to register positive net flows, thus serving as balancing power for the high expenditures for purchasing goods and services. The current transfers account was USD 297 million by the end of the first quarter, or 33 per cent higher than the one in the first quarter of the previous month.

The trade exchanges in goods continue to be characterised by a high demand for imports and by limited exports, which, however, have registered continuous increase throughout the last quarters. Consumer's goods represent about one third of the imported goods, while the major part of imports comes as intermediary goods. The increase in the imports of capital goods is a good indicator for the performance of investments in the country. The exports have continued to be dominated by the re-exports, which during the first quarter of the year have represented about 80 per cent of total exports.

During the first quarter of the year, the residents have spent about USD 300 million for services insured by the non-residents and have earned about USD 260 million for providing these services to the non-residents. "Travel" or "Tourism" category continues to be the item that registers the highest inflows and outflows among the different types of services. During this period, the non-residents have spent in Albania about USD 200 million. A positive

development in this regard is the increase of the number of non-resident travellers by about 15 per cent compared to the same period of the last year. In line with the revenue growth from tourism, expenditures of the residents for travels abroad have increased as well. This phenomenon led to the tightening of the surplus of travel services.

Table 8 Balance of payments (in millions of USD)

	Q1-04	Q4-04	Q1-05
1. Current account (A+B+C+D)	-45.8	-167.3	-56.2
A. Trade of goods	-317.9	-509.8	-363.0
A.1 Imports of goods	-454.4	-671.5	-521.5
A.2. Exports of goods	136.5	161.7	158.5
B. Trade of services	12.2	-38.1	-37.0
B.1. Imports of services	-208.2	-299.2	-301.7
B.2. Exports of services	220.4	261.1	264.7
C. Income	37.5	42.4	46.4
C.1. Outflow	-5.3	-8.6	-5.0
C.2. Inflow	42.8	51	51.4
D. Current transfers	222.4	338.2	297.3
D.1. Outflow	-17.3	-30.3	-34.8
D.2. Inflow	239.7	368.5	332.1
2. Current account and financial account (E+F)	65.0	188.8	60.0
E. Capital account	34	37	46.6
F. Financial account	31	151.8	13.4
3. Net errors and omissions	-10.2	39.1	2.8
4. Overall balance	14.9	60.6	12.7
5. Growth of reserves	-14.9	-60.6	-12.7

Capital and Financial account

Like the capital account, the financial account also resulted in positive net flows during the first quarter. The common balance evidenced USD 66 million, of which USD 47 million have come as capital flows and USD 19 million as financial flows. The last ones were due to the increase of the financial obligations of the country to the world by USD 64 million and to the increase of the assets of residents abroad by USD 44 million. The increase of residents' obligations is mainly represented by the inflow of foreign direct investments in the country. The last ones, during this quarter, are estimated at USD 54 million, thus being higher than the investments of the same quarter during the last year. During this period, Albania has increased the stock of its external debt by about USD 22 million, meanwhile the cut of debt burden as a result of the principal and interest settlement, has been USD 10 million. During the first quarter of this year, the portfolio investment of residents abroad increased by USD 56 million, reaching the level of USD 200 million. The inflows of foreign assets as financial capital were reflected in the increase of foreign reserves of the monetary authority, by about USD 13 million. The level of foreign reserves by the end of the period was estimated at USD 1 billion and 350 million, which is sufficient to cover 4.9 months of imports of goods and services compared to 4.6 months in the first quarter of 2004.

II.3 INFLATION PERFORMANCE DURING THE FIRST SEMESTER

The first quarter of 2005 is characterised by low inflation rates. The annual inflation decreased gradually during the first part of the year, thus reaching

the level of 1.3 per cent in April; meanwhile May and June registered a slight increase of inflation up to 2.9 per cent. While there are fluctuations in the annual rates, the average annual rate for each month of this period was maintained within the 2 – 4 per cent targeted range. The average inflation showed downward trends during the first four months of the year, thus remaining stable at 2.25 per cent during the two subsequent months.

Table 9 Annual inflation (in percentage)

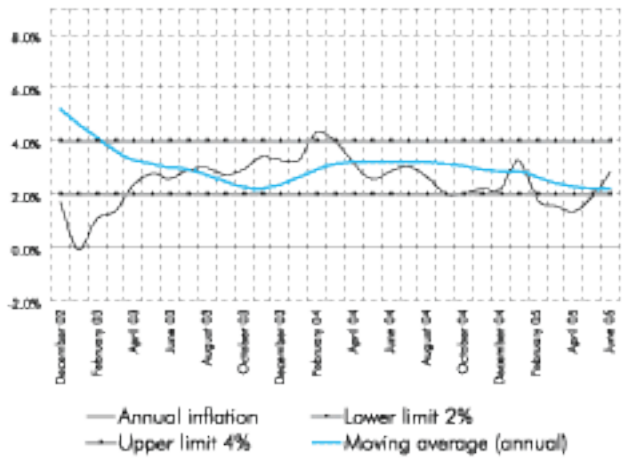
	2001	2002	2003	2004	2005
January	2.2	6.5	0.0	3.3	3.3
February	1.5	7.6	1.1	4.4	1.8
March	2.9	7.5	1.3	4.0	1.6
April	3.0	6.5	2.3	3.2	1.3
May	2.5	4.6	2.8	2.6	2.0
June	4.0	3.7	2.6	2.9	2.9
July	5.6	4.2	3.0	3.1	
August	4.1	5.5	3.0	2.7	
September	3.5	5.3	2.8	2.0	
October	1.8	5.8	2.9	2.0	
November	2.8	3.7	3.4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

Source: INSTAT

The good harmonisation of fiscal and monetary policies as well as the positive developments in various groups of consumer goods, within an appropriate macroeconomic environment, has made possible the control of inflation rate.

The interaction of the demand and supply factors has not resulted in inflationary pressures during this period. The modest increase of salaries and the rise of oil price and administered prices at the beginning of the year have exerted pressure on the increase of consumer prices. The effect of these factors has been balanced by the stable level of the domestic demand[4], the stable performance of the Lek exchange rate and the domestic agricultural production.

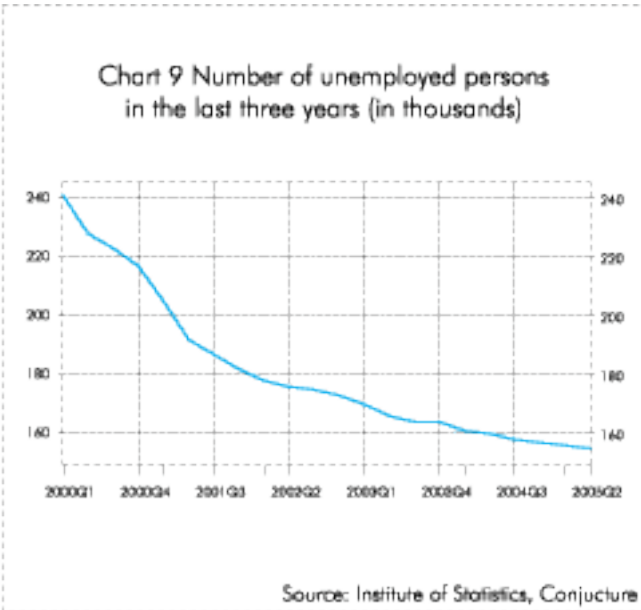
Chart 8 Annual inflation (in percentage)



II.3.1 Inflation performance and its constituent groups

The developments in the annual inflation rate during the first half of 2005 can be divided into two periods. During February – April, the consumer price index marked a downward tendency, dropping below the level of 2 per cent. After April, the annual inflation rate increased, thus reaching the level 2.9 per cent by the end of the first semester of the year.

The fall of foodstuff prices and especially the agricultural products have continued to exert pressure, like the last year, on the decline of consumer prices during the first five months of the year. The "Foodstuffs and non-alcoholic



beverages" item has marked negative inflation annual rates, except for the month of June. During the first five months of the year, the contribution of this group to the annual inflation rate was around – 0.6 percentage points, thus being lower than the contribution of 0.6 percentage points for the same period of the last year. Unlike the last year, the inflation of this group registered a turning point in June with a positive inflation rate of 1.6 per cent, thus contributing to the total inflation rate by 0.7 per cent. This development reflected a temporary deflation of the offer, as a result of the substitution of the greenhouse products with cornfield. The greenhouse agricultural product, which is present in the market over the whole year, the decline of foodstuff prices in the trading partner countries like Italy and Greece, as well as the appreciation of Lek against the euro have reduced the inflationary pressures of the goods included in this group.

Table 10 Annual inflation rate of item "Foodstuffs and non-alcoholic beverages" (in the country and abroad) and contribution of inflation of this group to overall inflation

	Annual Inflation'04	Contribution (pp)	Annual Inflation'05	Contribution (pp)	Italy* Annual Inflation'05	Greece** Annual Inflation'05
January	3.2	1.4	-0.7	-0.3	-0.5	0.6
February	2.7	1.2	-1.2	-0.5	-0.2	-0.9
March	2.3	1.0	-1.7	-0.7	-0.2	-1.4
April	0.1	0.1	-2.3	-1.0	-0.1	-0.1
May	-1.1	-0.5	-0.7	-0.3	-0.2	-0.4
June	-0.7	-0.3	1.6	0.7	-0.5	-0.5

* Source: INSTAT; website: http://www.instat.it.
** Source: General Secretariat of National Statistical Service of Greece, http://www.statistics.gr.

Another important factor in estimating the annual inflation rate profile during the last two years is the performance of administered prices. This factor has been present even during the first half of the year. The rise of electricity price by 25.7 per cent in January was indeed an increase to the annual inflation of the "Rent, water, fuels, energy" item by 15.2 per cent. The average contribution (2.3 percentage points) of this item to the total figure of inflation during this semester was almost the same as the one of the first semester of the last year (2.0 percentage points).

During the second quarter of 2005, the annual inflation of the "Rent, water, fuels, energy" item has been decreasing, thus reflecting the decrease of rent prices and imputed rent. The subgroup "Rent" and "Imputed rent" has preserved its annual inflation norm of 2.3 per cent for the period April '05 – June '05.

Table 11 Annual inflation rate and contribution of the "Rent, water, fuels, energy" item to overall inflation

	Annual Inflation'04	Contribution (pp)	Annual Inflation'05	Contribution (pp)
January	3.7	0.9	15.2	3.6
February	8.5	2.0	9.8	2.4
March	8.3	1.9	9.9	2.4
April	11.0	2.5	7.2	1.8
May	10.0	2.3	7.2	1.8
June	9.7	2.3	7.1	1.8

Another group, whose development is conditioned by the administered price fluctuations, is the "Communication" group. The changes made during the last year to the fixed telephony prices, have affected the annual inflation of the first half of this year. During the first quarter of this year, the "Communication" group contributed to the decrease of annual inflation rate by 0.5 percentage points, while during the second quarter the contribution of this group increased. April marked the end of the effect of the decrease of telephony prices a year ago[5], so making the further contribution of this group to overall inflation be insignificant.

Oil price rise, though it constitutes a potential cost in the Albanian market, has transmitted weak inflationary pressures in the consumer price index. The inflation of "Transport" group, during this period, was lower than the rates registered over the most part of the last year. The annual inflation of this group, during the first semester, marked the highest rate in April (3.3 per cent). During January – June, this group has given an average contribution to the overall inflation rate by 0.13 percentage points.

During the first half of 2005, the other groups of basket are not in line with the price performance. Their effect on the inflation rate is small. The highest inflation was registered in the groups mainly composed of goods and services with administered prices, such as "Health" and "Education" but also in the other groups like "Alcoholics and tobacco", "Goods and various services". Groups like "Clothes and Footwear", "Furnishing, equipment and maintenance", "Entertainment and culture" have continued to register negative inflation rates. "Hotels, cafés and restaurants" have registered slower growth rates. These groups have contributed averagely to the annual inflation by 0.05 percentage points.

Chart 10 Contribution of other groups to the annual inflation (in percentage points)

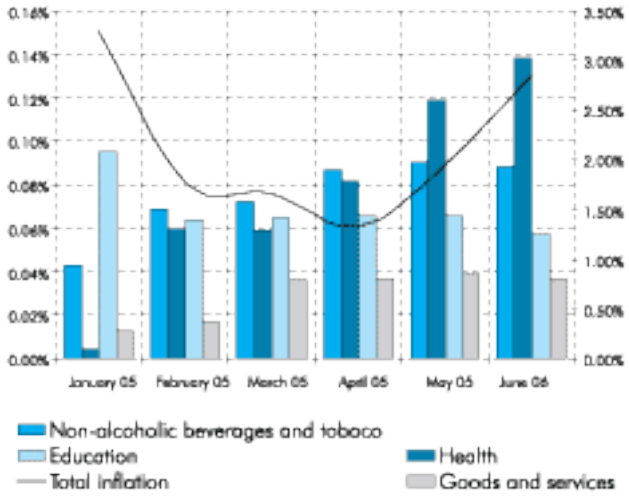
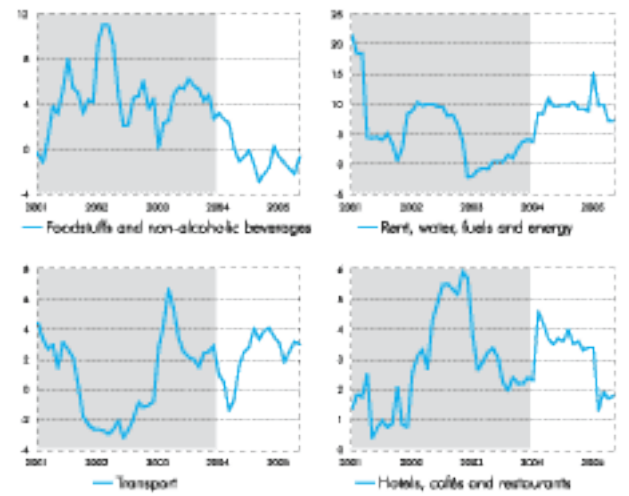


Chart 11 Annual Inflation of four main groups of ICP basket (in percentage)



II.3.2 Macroeconomic environment and consumer prices

The macroeconomic environment has been in general stable during the first half of 2005. The prudential monetary policy and the lack of inflationary pressures from the supply and demand factors have made possible the control of the inflation rate. The inflationary impulses stemming from the increase of salaries, the rise of oil price and of administered prices, are balanced by the developments in the exchange rate and the better performance of the domestic production.

Demand Factors

- *Fiscal policy and Fiscal indicators*

The fiscal policy and fiscal indicators did not have strong deviation from the approved budget. During the first five months of this year there has been noticed a tendency of increasing annually budget expenditures. However, the increase of current and capital expenditures has been within the projected level and in line with the other macroeconomic objectives. The increase of current expenditures has also been affected by the increase of salaries in the public sector, an increase that has not caused inflationary pressures during the first half of 2005.

Chart 12 Annual growth of budget expenditures (left axis) and annual inflation (right axis)

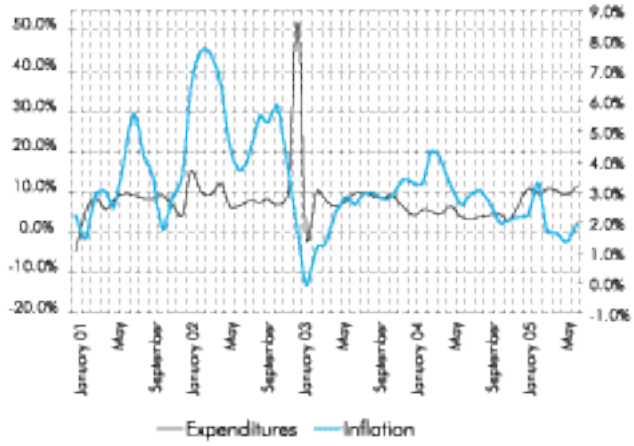
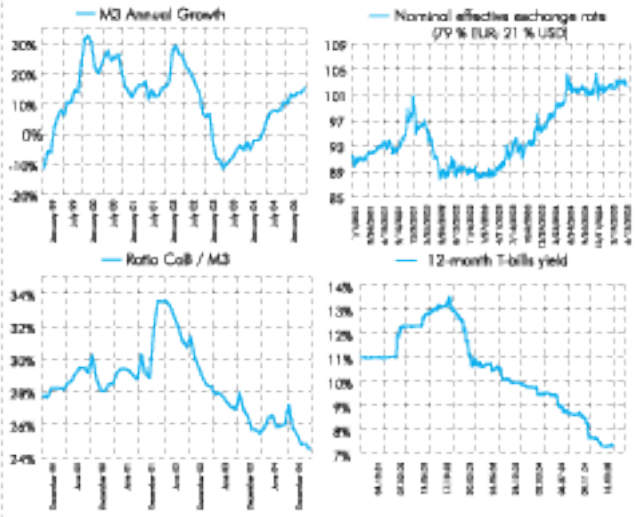


Chart 13 Main monetary indicators



- *Monetary policy and monetary indicators*

The monetary policy, through the control of monetary aggregates, has a long-term impact on inflation. It also has a medium-term impact on the economic activity through the control of interest rate. During the first half of 2005, Bank of Albania has cut the interest rate by 0,25 percentage points, thus bringing it to 5.0 per cent. The easing of the monetary policy has contributed to further stimulating the credit to economy. However, low inflation has maintained the real interest rate in positive terms. It has contributed to establishing an appropriate equilibrium between the increase of monetary aggregates (as a result of credit increase) and the required increase of liquidity in the economy, thus failing to inject uncontrolled impulses of inflation. In addition, the falling trend of the ratio between currency outside banks and monetary supply has been maintained during the first half of this year. In May this ratio resulted to be 24.5 per cent.

- *Other indicators*

Retail trade index[6]. During the first quarter of 2005, this index did not change considerably, thus following the seasonal model of the economy, which shows a slowdown during this period. The retail trade index decreased by 2.5 per cent compared to the same period of the previous year. The behaviour of this index can be interpreted as a stability of the domestic demand, thus affecting the demand to keep under control the inflationary pressures.

Demand factors

- *Domestic agricultural production*

During the last year the domestic agricultural production marked a strong increase. The growth of the production has come as a result not only of a

good harvesting year, but also due to the increase of investments in building greenhouses, whose products were present in the market even during this semester.

- *exchange rate and imported inflation*

One of the determining factors of inflation in the country is the exchange rate. Lek has shown an appreciation trend against the two main currencies – Euro and USD. During the first half of the year the same characteristic has been preserved, but at a smoothing pace of Lek appreciation. The tourist season and summertime are accompanied by high foreign currency flows (mainly Euro) and by the rising demand for Lek, meaning its appreciation. The favourable performance of the exchange rate has managed to amortize the inflationary pressures that are transmitted in the country by the imported inflation.

	January	February	March	April	May	June
Greece*	4.0	3.1	2.9	3.4	3.2	3.3
Italy**	1.8	1.8	1.7	1.9	1.7	
ALL/EUR	-5.3	-4.8	-3.1	-1.6	-2.3	-1.0
ALL/USD	-8.8	-7.4	-9.8	-8.9	-7.4	-1.2

* Source: website of General Secretariat of National Statistical Service of Greece http://www.statistics.gr.
** Source: website of ISTAT, http://www.istat.it.

Table 12 Annual changes in inflation in the main trading partners and changes in the exchange rate (in percentage)

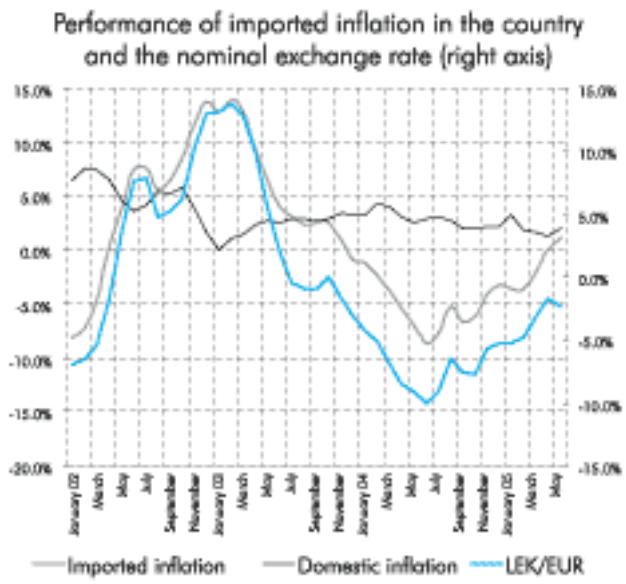
A small and open economy to the foreign market such as Albania is inevitably affected by the imported inflation. Imported inflation is a combination of the developments in the consumer prices of partner countries with the performance of the exchange rate. The main trading partners of our country, Italy and Greece, have registered low inflation rates. The low and stable annual changes of consumer prices in these countries, accompanied by the Lek appreciation against the Euro, have resulted in a decrease of imported prices denominated in Lek.

Imported inflation has not exerted strong inflationary pressures. Furthermore, the cheapest prices of imported goods have exerted a competitive downward pressure on the prices of goods in the country.

Box Imported inflation

As a result of lack of data on import prices, a simple calculation is made to evaluate the performance of imported inflation during January '02 – May '05.

The major share in the Albanian imports consists of imports from Italy and Greece, respectively by 31.6 per cent and 15.7 per cent of total imports. To evaluate the performance and impact of imported prices (in terms of local currency) on inflation in the country, the import price index was established, taking into consideration imports from Italy and Greece. The import price index was established in two steps:



- *A foreign price index was computed as a weighted average of consumer price indexes of Italy and Greece with the respective weights;*

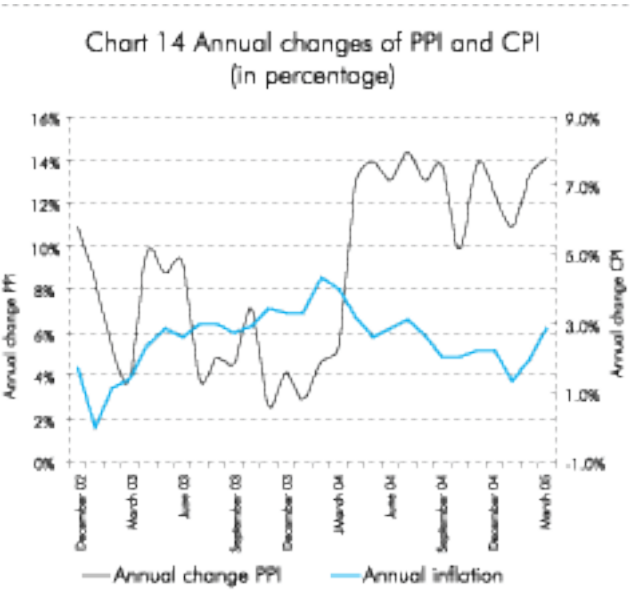
- *This index was translated into Lek terms, by multiplying with the exchange rate Lek/Euro for January '02 – May '05.*

The chart below indicates the annual changes of imported inflation, of domestic inflation and the exchange rate of Lek against Euro.

Imported inflation has not exerted inflationary pressures in the country. Of course, this conclusion must also be corrected with the characteristics of the local market, especially with the degree of competition in it. However, it illustrates the fact that the combination of inflation in the partner countries and of the exchange rate performance has not encouraged inflationary pressures in the country. As stated in the periodical reports of Bank of Albania, the continuous appreciation of Lek versus the Euro has prevented the external inflationary pressures.

- *Producer price index*[7].

From the analysis of Producer Price Index, it results that production prices have recorded an increase for more than a year. However, the rising tendency in the first link of merchandise trade is not reflected in the final price, paid by the consumer. The lack of transmission of costs can be explained by the rising of competition in the retail trade segment.



- *Other Indicators*

Unemployment - salary. According to INSTAT data, the first quarter of this year did not bring about significant changes in terms of unemployment rate and the general level of salaries. The unemployment rate slightly decreased to 14.3 per cent, while the average salary level in the public sector increased by 3 per cent compared to the previous quarter. The increase of salaries in the public sector has come mainly as a result of the increase of salaries of some groups of employees in the health and education sector. On the other hand, the minimum salary, the payment for the unemployed people, as well as the average economic assistance per household, remained unchanged.

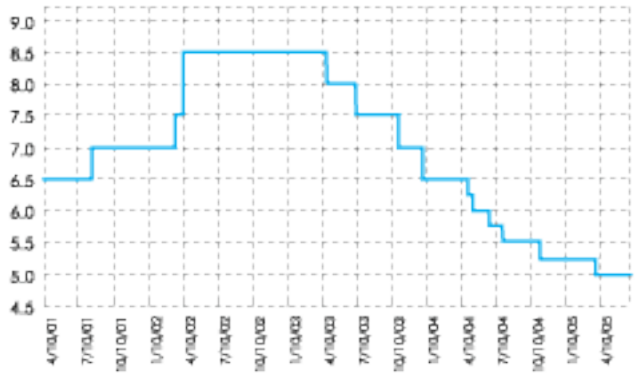
Oil price. Like in the previous year, this factor has not influenced the inflation in the country. Oil price rise in the international market has not been fully transmitted in the domestic market, because of a variety of factors such as: the appreciation of our currency against USD, the decrease of domestic demand (by 23.5 per cent[8] compared to the last quarter of 2004) and the small share[9] occupied by the "Transport" item in the consumer goods basket. On the other hand, oil price during the first quarter of 2005 increased by an average of 2.6 per cent compared to the same period of the previous year.

III. MONETARY DEVELOPMENTS AND FINANCIAL MARKETS

III.1 MONETARY POLICY OF BANK OF ALBANIA

The monetary policy of Bank of Albania has been in general a smoothing policy during the first half of 2005. This tendency was more pronounced during the first quarter, thus finalising the cut by 0.25 percentage points of the core interest rate on 30th of March. Meanwhile, during the second quarter Bank of Albania has followed a more neutral monetary policy. This policy has been in line with the dynamics of inflationary pressures in the economy. The factual inflation rates were relatively low, while the monetary indicators have shown stability, thus contributing to give an optimistic picture on the inflation forecasting.

Chart 15 Core interest rate



The effect of the cut of core interest rate is shown clearly in the deposits interest rates. Meanwhile, the reaction scale of Treasury bills rates has resulted to be close to the indicated cut. The cut of interest rate of deposits by commercial banks was more pronounced for the mid-term maturity, thus contributing to the levelling of the interest rate curve.

Maturity	Time deposits	Government security yield
3-month	(1.14)	(0.20)
6-month	(1.32)	(0.09)
12-month	(1.71)	(0.32)
24-month	(2.26) *	(0.30)

Operative data for the period 30 March – 8 July.
*Changes for the period 30 March – 1 July.

Table 13 Reaction of interest rates in the banking system (in percentage points)

The smoothing monetary policy of Bank of Albania is followed by the increase of demand for monetary assets. The main source of monetary expansion, during this period, is the crediting to economy, unlike the other years when this function was carried out by the government loan or the foreign inflows. Low inflation rates during this period have enabled high growth rates of monetary aggregates in real terms. The annual growth of real M3 has kept the same trends as the last two years.

In the money market, the interventions of Bank of Albania have been limited in withdrawing liquidity through the repurchase agreements with a fixed and very unlimited price. Bank of Albania has eased the functioning of monetary markets through the supporting instruments, mainly the use of overnight deposits. The development of monetary operations has created the conditions for transmitting the monetary policy signal and it has been accompanied by the decline of interest rates in the monetary markets. The monetary policy of Bank of Albania has also enabled the meeting of its quantitative objectives.

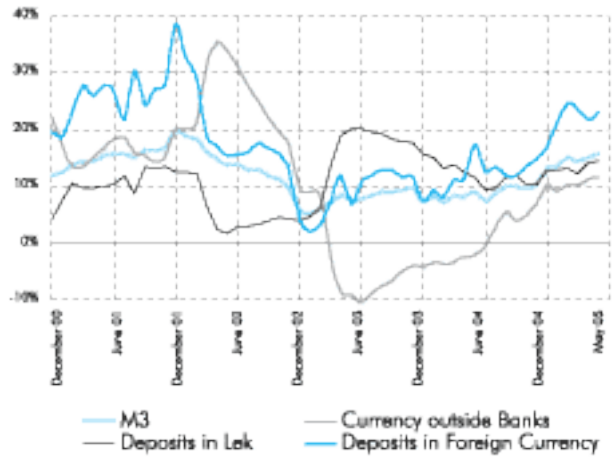
Table 14 Meeting of quantitative targets of Bank of Albania

	December '04	January '05	February '05	March '05	April '05	May '05
Net international reserves of Bank of Albania (in millions of USD)						
Objective	941.7	985.3	1,029.0	1,072.7	1,077.3	1,082.0
Currently	1,105.2	1,108.8	1,108.7	1,107.4	1,109.0	1,104.6
Difference	163.5	123.5	79.7	34.8	31.7	22.6
Net domestic assets of Bank of Albania (in billions of ALL)						
Objective	79.0	73.1	67.2	61.3	61.6	61.9
Currently	61.0	56.3	56.5	53.3	56.1	57.0
Difference	-18.0	-16.7	-10.7	-7.9	-5.5	-4.9
Net domestic credit to government (in billions of ALL)						
Objective	286.4	288.2	289.9	291.7	293.7	295.7
Currently	285.7	286.9	288.9	287.8	290.4	291.3
Difference	-0.7	-1.3	-1.0	-3.9	-3.3	-4.3

III.2 MONETARY AGGREGATES

The monetary developments, during the first half of the year, have been in line with the trends designed in the monetary programme. As expected, the growth rate of monetary supply increased, being consistent with the positive developments of the economic activity in the present period as well as with the increased volume of money retained by the economic agents for financing their transactions. In addition, the growth rate of monetary supply during this period has reflected also the positive developments towards the deepening of financial intermediation in the country and the consolidation of confidence in the banking system. As a result, there is a higher increase of less-liquidity monetary assets and especially that of time deposits in foreign currency.

Chart 16 Performance of annual rates of monetary aggregates



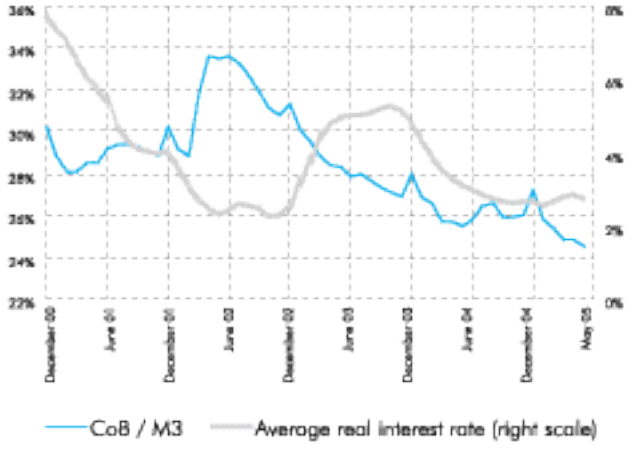
The annual growth rate of monetary supply in May was 15.8 per cent, from 13.1 per cent in December. The growth of monetary supply during this period is being supported by the faster increase of foreign deposits and the maintenance of a moderate upward trend of M2 aggregate. The contribution of credit to the economy to generating monetary assets in Lek has been increasing, while the government demand for money has been almost at the same levels as the previous year. The developments in the time and currency structure of monetary assets suggest

that their trends have been maintained and consolidated as previously. During the five months of the year, the ratio of currency outside banks to M3 has registered a significant decline, dropping down to its minimum level. Meanwhile, the ratio of foreign deposits to monetary supply has always been increasing.

The indicator of currency outside banks was the component with the slowest increase in the monetary supply. Its annual growth rate, during January – May, increased slightly from 10.3 per cent to 11.6 per cent, thus following the same upward trend of M2 and M3 aggregates. The slowest rising tendency of currency outside banks compared to the other components of monetary supply is accompanied by the significant decrease of the ratio CoB/M3. By the end of May, this ratio dropped down to 24.4 per cent, thus marking a decrease of 2.7 percentage points compared to December, and of 0.9 percentage points compared to May of the last year.

The continuation of the falling trend of this index is mainly attributed to the positive developments in the payment infrastructure, which have been accompanied by the increase of banking services used by the public. At the same time, the maintenance of real interest rates at stable positive levels has supported investments in the financial assets in Lek, thus serving as premises to maintain the equilibrium of the liquidity infrastructure of monetary supply.

Chart 17 The ratio of CoB to M3 and the average real interest rate



Source: Bank of Albania

The rising trend of M2 aggregate and the continuation of channelling the currency outside banks in the banking system are reflected in the acceleration of growth rates of Lek deposits. The annual growth rate reached 14.6 per cent from 12.9 per cent it was in December. The upward performance of Lek deposits has shown mainly the higher contribution of time deposits from households, whose growth constitutes 67 per cent of the general growth of deposits during January – May. Moreover, the Lek deposits from the private sector and the demand deposits from households have evidenced high growth rates, thus impacting positively on the performance of Lek deposits.

The time structure of Lek deposits has known an increase of the share of demand deposits, which in turn is influenced by the shifting of the deposits of government sector, from time deposits into demand deposits[10]. This development has defined also the performance of M1 aggregate, whose annual growth rate reached 24 per cent in May from 19.4 per cent it was in December. As a result of lack of this shifting, the annual growth rate of M1 aggregate would result to be 20.1 per cent in May, thus representing a more moderate upward trend than the one of broader currency indicators.

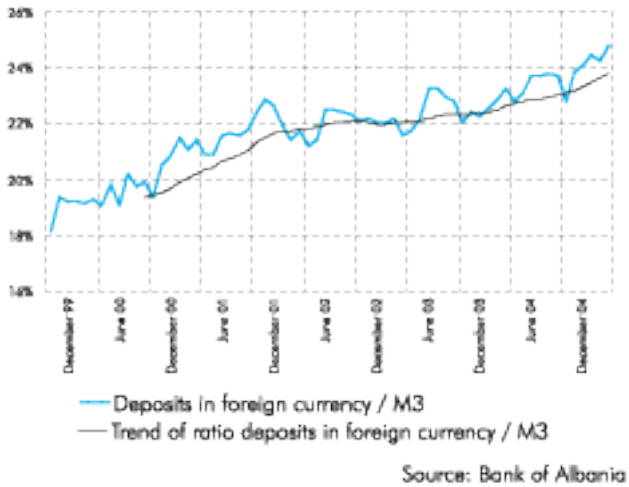
Table 15 Performance of monetary indicators in May (in billions of ALL)

	May 2005	Five month change Absolute	Five month change Percentage	Annual change Absolute	Annual change Percentage
Currency outside banks	130.7	-7.4	-5.4	13.6	11.6
Total deposits	402.5	33.4	9.0	59.4	17.3
- in lek	270.5	17.2	6.8	34.5	14.6
- in foreign currency	132.0	16.2	14.0	24.9	23.2
Demand deposits	89.2	11.6	15.0	22.5	33.7
- in lek	42.5	7.8	22.3	20.0	88.6
- in foreign currency	46.7	3.9	9.0	2.6	5.8
Time deposits	313.3	21.8	7.5	36.9	13.3
- in lek	228.0	9.4	4.3	14.5	6.8
- in foreign currency	85.3	12.3	16.9	22.3	35.5
M1	173.2	0.4	0.2	33.5	24.0
M2	401.2	9.8	2.5	48.1	13.6
M3	533.2	26.0	5.1	72.9	15.8
Monetary Base	174.5	-4.1	-2.3	20.9	13.6

The first half of the year has shown a significant increase of the contribution of foreign deposits to the increase of monetary supply. Their annual growth rate by the end of May reached 23.2 per cent from 17.1 per cent it was in December. This growth of deposits in foreign currency has indicated mainly the depreciation of the Lek exchange rate during January – May[11], and as a result the negative effect of Lek appreciation decreased considerably from -9.2 per cent in December to -3.5 per cent in May. In real terms, the annual growth rate of foreign deposits has known a stable performance, thus recording a high level of 27.6 per cent in May.

The main contribution to the growth of foreign deposits has been given by the time deposits and those of households, which represent respectively 76 per cent and 73 per cent of the overall growth of foreign deposits during January – May. The highest growth of time deposits in foreign currency from households is assessed to have been influenced by the continuity of high foreign currency flows from the remittances, the increase of confidence in the banking system and the most favourable interest rates in US currency. The fastest growth of foreign deposits compared to the component in Lek of monetary supply is accompanied by the increase of their share in the M3 aggregate. By the end of May, the ratio of foreign deposits to monetary supply reached 24.8 per cent, thus recording an increase of 1.5 percentage points compared to the same period of the previous year.

Chart 18 Performance of foreign deposits ratio to M3



Source: Bank of Albania

III.3 DOMESTIC DEMAND

III.3.1 Net foreign assets

The banking system has preserved a stable position during the first part of the year. Under

the influence of depreciation of Euro against the USD, the level of net foreign assets registered a decrease of USD 76.5 million, while measured by fixed exchange rates they resulted to have increased by USD 12.8 million during the period of January – May.

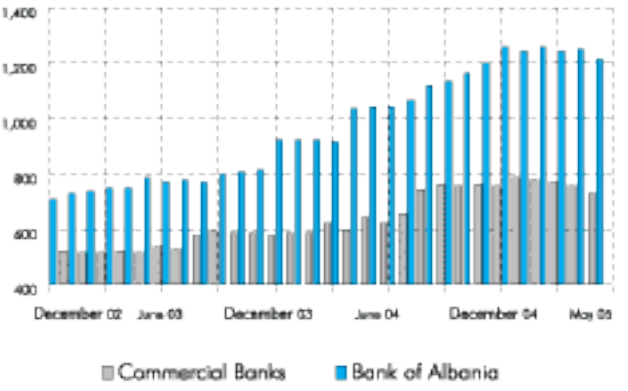
The net foreign assets of Bank of Albania, during the first five months of the year, have registered a decrease of USD 46.5 million. In the absence of the interventions from the Bank of Albania in the foreign exchange market and in the presence of the low inflows and outflows from other sources, the decrease of net foreign assets during this period is totally affected by the depreciation of Euro against the USD. This depreciation has reduced the value of the foreign reserve portfolio in Euro denominated in USD, thus affecting negatively the net foreign assets of Bank of Albania by USD 60.5 million.

Net foreign assets of commercial banks have also decreased by USD 30 million. The significant acceleration of crediting in foreign currency during the first half of the year could not be entirely financed from the foreign deposits growth in commercial banks, thus posing the use of a part of their foreign assets as a necessity.

Chart 19 Annual contribution of NFA growth to M3 growth

Source: Bank of Albania

Chart 20 Performance of net foreign assets of the banking system (in millions of USD)



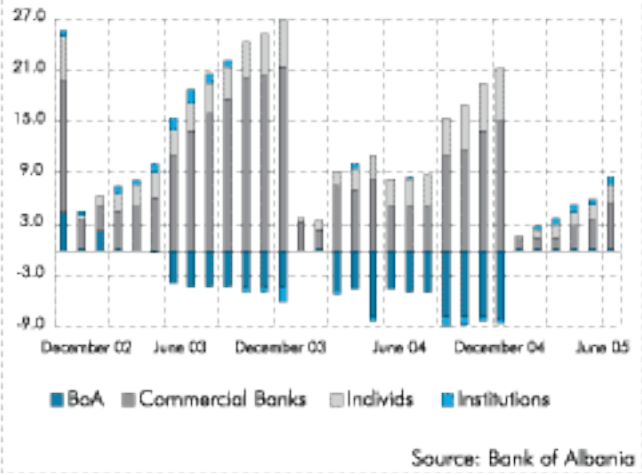
Source: Bank of Albania

III.3.2 Government demand for monetary assets

Government demand for money, during the first five months of 2005, had a similar performance with that of the last year. Its relative contribution to the increase of monetary supply has continued to remain low and below the projected level. The fiscal accounts of the government show an increase of budget deficit during this period, marking a cumulative level of ALL 4.7 billion by the end of May. This performance has reflected, on one hand, the financing by ALL 7.7 billion and the increase by ALL 3 billion of government deposits in Bank of Albania, on the other hand.

The banking system has satisfied nearly 56 per cent of the needs for the financing of the government until May, increasing the portfolio of securities by ALL 3.3 billion. This increase is entirely reflected in the increase of commercial banks portfolio, while Bank of Albania portfolio has remained unchanged from the last level of 2004. The structure of commercial banks portfolio is oriented towards the long-term issues of government, with the decrease of the portfolio of Treasury bills by ALL 6 billion and the increase of government

Chart 21 Performance of the cumulative financing of fiscal deficit (in billions of ALL)



Source: Bank of Albania

bonds portfolio by ALL 9.3 billion[12]. The other part of the loan of ALL 2.5 billion is financed by individuals and institutions, respectively 1.8 and 0.7 billion ALL.

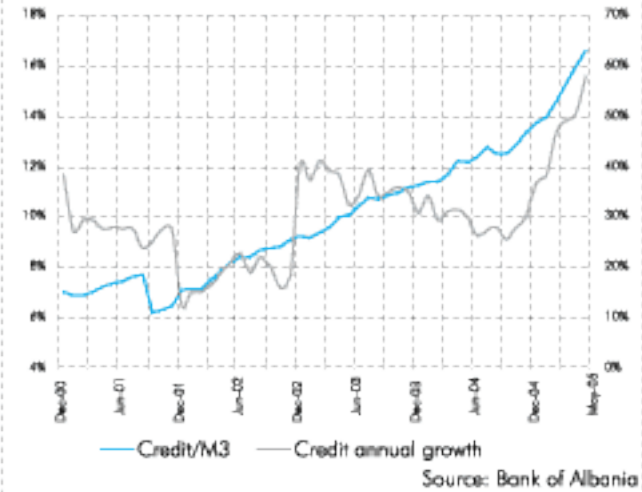
III.3.3 Credit to economy

The credit balance has increased by about ALL 3.7 billion per month during January – May 2005, thus totalling by the end of the period to ALL 18.7 billion. This level is the same as the increase of credit during the 2004. The positive developments of crediting to the economy from the banking system have positively influenced the improvement of all macroeconomic indicators of credit.

Table 16 Performance of some main indicators

	2002	2003	2004 6'M- I	2004 6'M- II	2005 May
Money supply (in billions of ALL)	416.7	448.4	458.2	507.2	533.2
Domestic credit (in % of M3)	70.8	71.5	69.5	68.9	69.4
- Credit to government (in % of M3)	61.5	60.2	57.1	55.1	52.7
- Credit to economy (in % of M3)	9.3	11.3	12.4	13.8	16.6
Credit to economy (in % of total assets)	11.5	13.7	14.6	16.9	19.5
Credit to economy (in % of GDP)	5.7	6.8	7.4	9.0	10.9
Ratio credit/deposits (in %)	13.5	15.7	16.7	19.0	22.0

Chart 22 Ratio of total credit to M3 (in percentage) and annual growth of total credit (in percentage, right scale)



Source: Bank of Albania

In annual terms the credit to economy marked an increase of 59 per cent by the end of May. This increase has come mainly as a result of the increase of credit with maturity over one year, which has contributed by about 79 per cent to the total increase. In addition, it has been noticed that the long-term loans have gained ground on a continuous basis compared to the medium-term ones, thus indicating an increasing commitment of banks towards long-term maturity investments.

The main contribution to the increase of the total credit continues to be given by the increase of credits in foreign currency (about 71 per cent), which also represents 79 per cent of the whole credit portfolio. As a result of Lek strengthening against the Euro and its depreciation against the USD[13], for January – May 2005, the credit in foreign currency has increased by ALL 1.1 billion.

However, during the first five months of 2005, it has been noticed a high annual growth of credit in Lek[14], which contributes further to the increase of total credit. The positive rates of credit growth in Lek are dedicated to the

increasing commitment of banks to provide services for meeting the demands of the customers (57 per cent). This fact is shown in the high annual growth of credit for this group, around 72 per cent. In total the loan to individuals constitutes 30 per cent of the loan portfolio.

Table 17 Indicators of the credit balance to total credit (in percentage)

	2002	2003	Q-1 '04	Q-2 '04	Q-3 '04	Q-4 '04	May '05
Credit balance (in billions of ALL)	38.7	50.7	53.4	56.8	61.0	70.0	88.7
Short-term credit	53.8	46.0	41.6	35.4	33.9	34.0	32.2
Medium-term credit	30.1	33.3	35.4	37.8	37.2	36.0	34.5
Long-term credit	16.1	20.7	23.0	26.8	28.9	30.0	33.2
Credit to households	18.3	24.5	26.0	29.3	30.8	30.6	30.8
Credit to private sector	81.7	75.5	74	70.7	69.2	69.4	69.2
LEK	21.3	19.6	17	17	17	19.5	21.0
Foreign currency	73.7	80.4	83	83	83	80.5	79.0

The first five months of 2005 showed the decreasing preference of commercial banks to credit the trade sector, and their expectations to finance the construction sector and real estate business.

Table 18 Performance of credit balance according to the main branches of the economy

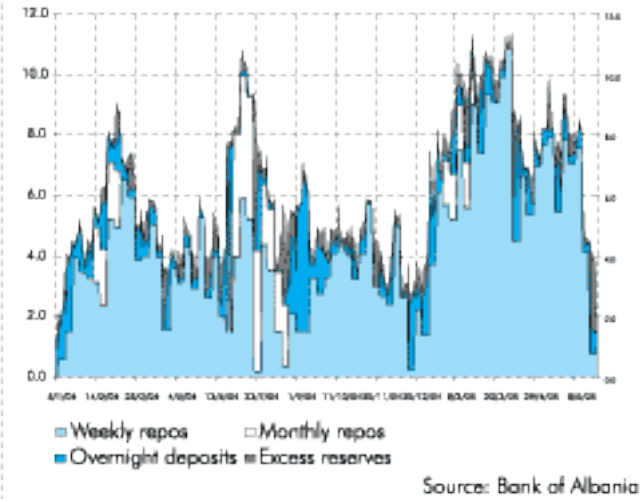
	2002	2003	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 May
1 Agriculture, hunting and silviculture	0.8	1.0	0.9	1.2	1.6	1.5	1.5
2 Processing industry	17.0	17.0	16.9	18.4	18.2	17.1	16.2
3 Construction	8.6	10.0	9.7	10.7	10.2	9.8	11.3
4 Trade, vehicles repairing and household furniture	40.4	34.0	31.4	23.5	21.9	23.3	18.9
5 Hotels and restaurants	6.0	6.0	7.1	8.3	8.3	8.3	5.0
6 Real estate	9.1	13.0	13.7	14.8	15.6	9.8	14.3
7 Other	18.1	19.0	20.3	23.1	24.2	30.2	32.8
Total	100	100	100	100	100	100	100

During the period of January – May of 2005, it has been extended about 42.3 billion ALL or 13.4 per cent less than the same period of the previous year. This fact shows that the increase of credit balance comes mainly as a result of the orientation of banks towards long-term maturity investments. In addition, unlike the preceding year, banks have committed around 60 per cent more towards the credit with maturity over one year, thus decreasing considerably the financing of the economy with short-term credit.

Only 30 per cent of the new credit is extended in Lek, while the rest in foreign currency. This structure of crediting has remained unchanged compared to the previous year.

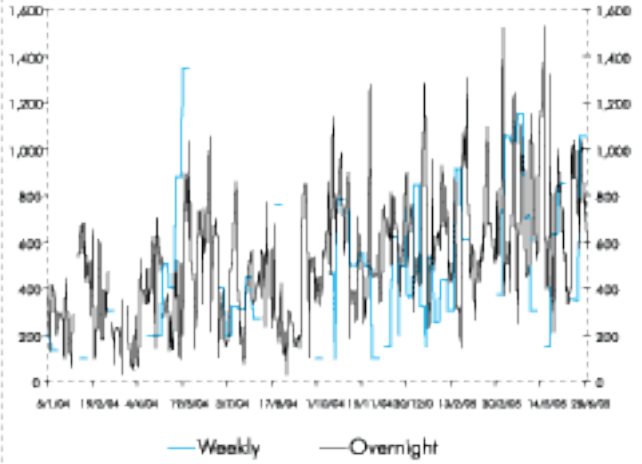
According to the sectoral distribution it has been noticed that the trade sector has absorbed about one-fourth of the new credit granted for the whole period. However, this level is less than half of the credit extended to this sector a year ago. The other part of credit is mainly absorbed by the production sectors (about 21 per cent), construction sector (8.2 per cent) and real estate (12.2 per cent).

Chart 23 Daily level of excess liquidity in the banking system (in billions of ALL)



Source: Bank of Albania

Chart 24 Daily volume of crediting in the interbank market (in millions of ALL)



Source: Bank of Albania

III.4 FINANCIAL MARKETS AND INTEREST RATES

III.4.1 Liquidity performance

During the first half of 2005, a considerable level of excess liquidity has characterized the banking system, which was due to the growth of Lek deposits in the first months of the year. The average level of excess liquidity during the first half of the year amounted to ALL 7.9 billion, compared to ALL 5.0 billion in the same period of the previous year and to ALL 5.2 billion in the second half of 2004.

The increase of excess liquidity was noticed mainly in the first quarter of the year, when an increase of deposits in Lek is repeated as a result of the return of currency outside banks into the system. By the end of the second quarter, the level of liquidity decreased by around ALL 4.0 billion.

During the first quarter of this year, the excess liquidity withdrawal is made mainly by the weekly auctions of repo with a predetermined interest rate, in contrast to the previous year when, apart from this instrument, its withdrawal was performed with structural operations (outright purchase and weekly repo). The average level of investment in weekly repos has registered the amount of ALL 6.2 billion, compared to ALL 3.5 billion in the first half of 2004 and ALL 3.1 billion in the second half. Occasionally it has been applied also the weekly repo.

The overnight deposit facility is used regularly as a mean for investment of liquidity. The overnight deposit has registered on average the amount of ALL 0.67 billion during the first half of 2005 or ALL 0.17 billion and ALL 0.18 billion less than the second half of the last year. The overnight loan is used rarely and in small amounts.

The short-term needs for liquidity are supplied in the interbank market, which is dominated by overnight transactions. During the first half of the year, the volume of transactions in the market has increased, compared to the last year. The average level of overnight loans increased to ALL 0.69 billion, from ALL 0.48 billion in the first half of 2004 and ALL 0.37 billion in the second half of the same year. The average of weekly loans resulted in ALL 0.49 billion, from ALL 0.27 billion in the first half of 2004 and ALL 0.18 billion in the second half of the same year.

The primary market is characterised by the increase of demand from banks to invest in government securities. The supplied amounts from the banks in the primary market have surpassed at all cases the amounts demanded from the government. For the first time in April, three-year securities were issued, a demand that was afforded by the banking system. The Treasury bills market has resulted in a creation of liquidity, because the matured amounts were higher than the new investments, which has exerted pressure on the further decrease of interest rates in this market. However, the decrease of Treasury bills portfolio by ALL 5.3 billion during January – June is compensated with the increase of the two-year and three-year bonds portfolio by ALL 10.8 billion.

III.4.2 Interest rates

During the first half of 2005, the core interest rate reached the lowest historical levels, of 5.00 per cent. This interest rate, compared to the other countries, is shown below:

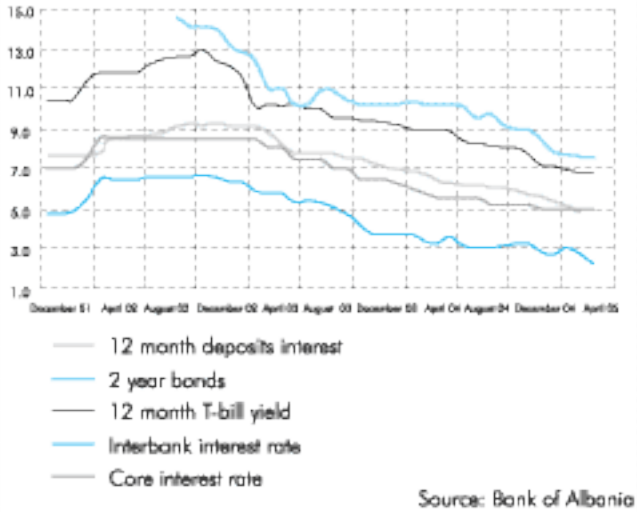
Albania	Euro area	USA
5.00	2.00	3.25

Table 19 Core interest rate, July 2005 (in percentage)

During the first half of 2005, the markets responded to the smoothing monetary policy of Bank of Albania by decreasing the interest rates in the interbank market, the Lek deposits market, Treasury bills market, government bonds market and the credit market.

By the end of the first half of the year, yield of Treasury bills and government bonds dropped to the lowest historical levels, while the interests of time deposits in Lek reached the lowest levels in the last 13 years. Despite the fluctuations of interests in the interbank market, especially during the period the required reserve is kept, during the first half of 2005 this market evidenced a significant decrease of interest rates reaching the lowest historical levels[15].

Chart 25 Performance of Lek interest rates



Source: Bank of Albania

In the credit market in Lek, which is characterised by huge fluctuations of interests from a month to another, the end of May resulted in a decrease of interest rates, except for the six-month maturity credits. In fact, the average weighted rate of credit has shown a downward trend from March 2005. The interest rates movement in this market was influenced by the cut of core interest rate, the enhancing of competition in the banking system, degree of credit risk, change of loan structure from a month to another, the huge differences between the minimum and maximum interests in the credit market, etc.

Table 20 Interest rates in Lek during May 2005, their six-month and annual change in percentage points

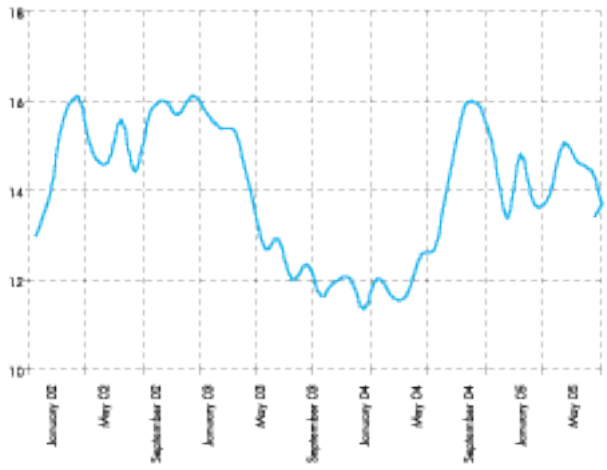
	June '05*	Change from December '04	Change from June '04
Core interest rate	5.00	-0.75	-1.00
Interbank market	2.50	-0.92	-0.77
3-month deposits	3.65	-0.83	-1.24
6-month deposits	4.41	-1.00	-1.69
12-month deposits	4.85	-1.14	-1.67
Yield of 3-month T-bills	5.06	-1.03	-1.76
Yield of 6-month T-bills	6.40	-0.82	-1.78
Yield of 12-month T-bills	6.79	-1.31	-2.21
2-year bonds	7.55	-1.45	-2.63
Credits in Lek (weighted average interest rate)	13.41	-0.30	-0.86

* The data of deposits and credits in Lek refer to May 2005.

As it can be observed in the table below, the interest rates in Lek have decreased compared to the end of the last year and to the previous year.

During the first semester of 2005[16], real interest rates of 12-month deposits in Lek fluctuated at an average level of 3.35 per cent from 3.75 per cent during the second semester of 2004. This level has been influenced by the continuous decrease of nominal rates and the low inflation rate during this period.

Chart 26 The weighted average rate of credit in Lek (in percentage)

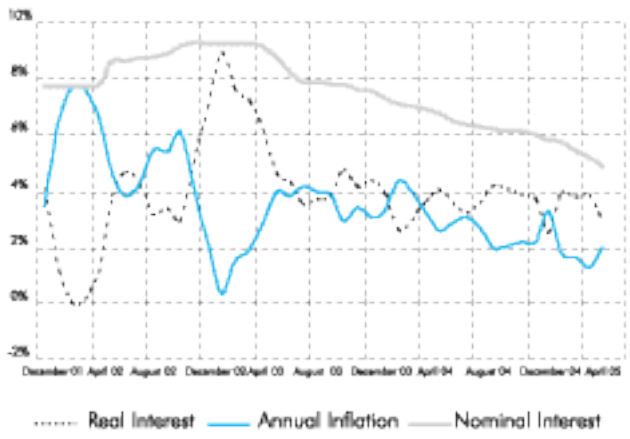


Source: Bank of Albania

In the foreign deposits market, interest rates have been generally characterized by upward trends. During the first half of 2005[17], nominal interest rates in USD increased remarkably at all maturities, while interest rates in Euro were, in overall, stable.

The performance of foreign interest rates has been affected by the developments of LIBOR and EURIBOR rates in the international markets, by a tightening monetary policy of FED and a neutral monetary policy of ECB, and by the competition in the banking system.

Chart 27 Real interest rates for 12 month demand deposits in Lek



Source: Bank of Albania

The decrease of interest rates in Lek and the increase of interest rates in foreign currency have contributed to narrowing the spread between them. The narrowing of spread has reflected the stability in the market, a reaction to the monetary policy signals, a low inflation rate, as well as the Lek strengthening during the first half of 2005.

Interest rates of credits in foreign currency have shown a different trend for the two main currencies. At the end of May, the weighted average interest rate of credits in USD increased by 8.39 per cent, compared to a 7.78 per cent increase in June 2004 and 7.79 per cent at the end of 2004. The weighted average interest rate of credits in Euro

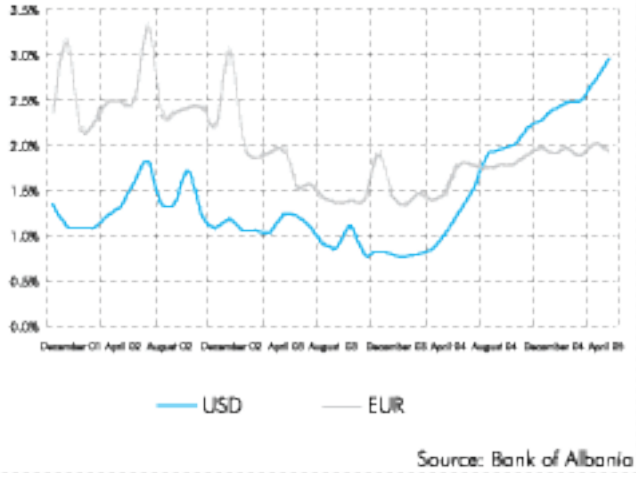
	May '05	Change from December '04	Change from June '04
USD			
Interest rate, 3	2.07	+0.38	+1.32
Interest rate, 6	2.30	+0.42	+1.45
Interest rate, 12	2.95	+0.68	+1.69
EUR			
Interest rate, 3	1.77	+0.02	+0.13
Interest rate, 6	1.81	+0.03	+0.14
Interest rate, 12	1.94	-0.03	+0.14

Table 21 Interest rates of foreign deposits (in percentage points)

decreased to 7.89 per cent from 8.62 per cent in June 2004 and 8.17 per cent at the end of the year.

Interest rates of credits in foreign currency have been mainly affected by their performance in the international markets, however, the specifics of the lending market in the country (competition, concentration, risk, etc.) have brought about volatile rates from a month to another.

Chart 28 Weighted average interest rates for 12-month deposits in foreign currency

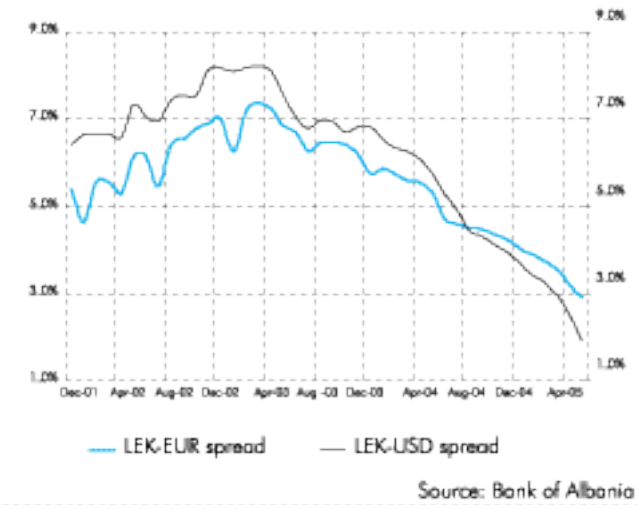


Source: Bank of Albania

III.5 EXCHANGE RATES

The value of the domestic currency against the Euro and USD has fluctuated at narrow levels. During January - June, Lek appreciated by 1.9 per cent against the Euro and depreciated by 10.9 per cent against the USD. Nevertheless, nominal effective exchange rate, which takes in account the relevant volume of foreign trade, shows a slight appreciation of Lek by 0.6 per cent during this period.

Chart 29 Spread of interest rates LEK-USD and LEK-EUR for 12-month time deposits

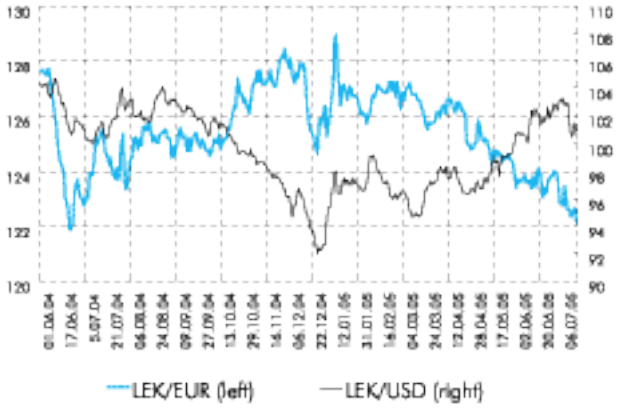


Source: Bank of Albania

The main factors that affected the Lek appreciation during the last two years have showed a declining trend, while short-term factors influencing the exchange rate, like the growth of the foreign currency supply from tourism and remittances, have balanced the effect of demand for imported goods. Increases of foreign currency supply and introduction of domestic agricultural production, by the end of the first half of the year, had only temporary effects on the exchange rate performance.

Exchange rate performance of domestic currency versus foreign currencies has been subject of international exchange market developments as well. The performance of the ratio EUR/USD in the international market in favour of US dollar is mainly reflected as a depreciation of Lek against the US dollar and as a slight appreciation of

Chart 30 Exchange rate performance during 2004 and 2005 (ALL/EUR, left scale)



Source: Bank of Albania

Lek against the Euro in the domestic market. This development was dictated by the domination of US dollar versus many currencies of the leading economies in the international markets. In overall, US dollar appreciated against the major part of the other currencies, included the European currency. Under these conditions, domestic exchange market developments are estimated as having positive effects on maintaining the equilibriums of trading conditions with partner countries, which use in their economies the Euro or another currency that has been subject of the USD appreciation. At the end of the first half of the year, Lek was exchanged at the levels of 123.9 ALL/EUR and 102.8 ALL/USD, against the respective levels of 126.4 ALL/EUR and 92.6 ALL/USD, at the beginning of the year.

IV. ECONOMIC DEVELOPMENTS DURING 2005

Economic developments during the first half of the year show that the main guidelines and basic forecasts of the economic development program have been materialized. The first indicators of the year suggest that the Albanian economy has grown and macroeconomic stability is further consolidated. The low inflation during the first part of the year, the positive trend of balance of payments, the monetary stability in terms of stable ratios of monetary aggregates and exchange rate, indicate that the main objectives of the program have been achieved. The continuous consolidation of macroeconomic stability over the last years is a good basis for the development of the Albanian economy during 2005. Also, the Albanian economy is being supported increasingly by credits from the banking system, making a better use of financial capitals.

Bank of Albania will aim at preserving the monetary conditions in consistency with the inflation targeting, aiming at the same time at developing the financial market and crediting to the economy.

Table 22 Main macroeconomic indicators

	2002	2003	2004	2005
Monetary indicators (in percentage)				
GDP growth	4.7	6.0	6.0	6.0
Annual CPI (average)	5.2	2.4	2.9	3.0
Nominal GDP (in billions of ALL)	630.0	695.1	780.1	857.3
Foreign sector (as a percentage of GDP)				
Trade balance	-25.8	-24.8	-22.9	-22.2
Current balance	-9.7	-8.2	-7.0	-7.0
Fiscal indicators (as a percentage of GDP)				
Fiscal deficit	-6.9	-4.7	-4.9	-4.9
Domestic borrowing	3.2	2.7	1.9	2.7
Monetary indicators (in percentage)				
M3 growth	7.0	9.5	12.4	9.8
Credit growth to economy	32.1	28.5	31.3	47.1
Interest rates of 3-month T-bills	11.2	7.3	6.1	...

Source: IMF, Ministry of Finance, and Bank of Albania.

In overall, the picture of macroeconomic projections for the rest of the year did not change from that part in the beginning of the year. Albanian economy is expected to grow by 6 per cent during 2005, with an inflation rate estimated within the 2-4 per cent targeted range.

Fiscal sector

The 2005-fiscal budget proposes a moderate performance of fiscal policy, with an emphasis on its positive contribution to maintaining macroeconomic stability in the country. During 2005 budget expenditures are projected to be 29 per cent of GDP, from which capital expenditures 5.9 per cent of GDP. The projected level of budget income is almost the same as the one of the last year, 24.1 per cent of GDP.

The contribution of the 2005 budget to fiscal consolidation consists in keeping the budget deficit at the level of 4.9 per cent of GDP. The domestic financing, which is projected to be about 2.7 per cent of GDP, will back up the main part of this deficit. The financing of domestic borrowing of the government from the banking system is projected to be ALL 15.7 billion or 1.8 per cent of GDP, while the rest is expected to be backed up by households and other private entities.

Monetary sector

The main objective of monetary policy for year 2005, included in the monetary program, remains maintaining annual inflation rate within the 2–4 per cent targeted range. This objective will be achieved through controlling the growth of money supply, bringing it close to the nominal GDP growth, under the assumption of a stable performance of the velocity of money circulation in the economy.

Controlling monetary aggregates serves as an intermediary instrument for controlling inflation. Bank of Albania will aim at maintaining the growth of money supply during 2005 at the level of 9.8 per cent. Despite the decrease of nominal interest rates in the economy, the low inflation has preserved real interest rates on stimulating levels for money channelling in the banking system. The low level of currency outside banks is a result of long-term declining tendency, a characteristic period in a stabilizing economy.

As a result, it is expected a lower growth rate for the indicator of currency outside banks, whose annual growth is expected to decrease to 4.8 per cent by the end of the year. The expected return of currency into the system will be reflected on the satisfactory growth of Lek deposits. The annual growth rate of Lek deposits is expected to be 10.8 per cent at the end of the year, compared with the initial projection of 10.6 per cent. The foreign currency structure of money supply is expected to shift towards the foreign component. The annual growth rate of foreign deposits is projected to be 13.7 per cent at the end of the year, supported by stable foreign currency inflows from remittances and the increasing trend of interest rates in US dollar.

Albanian economy is projected to benefit credits at the level of ALL 33.8 billion during 2005. In terms of GDP, credit balance to the economy is projected to increase by 3.9 percentage points, compared to 2.5 per cent of GDP in 2004. The credit balance in Lek is projected to grow by ALL 12.2 billion, being 36 per cent of the growth of total credit balance. The domestic financing of budget deficit for year 2005 is projected at the level of ALL 23.3 billion, from which the banking system will cover the amount of ALL 15.7 billion or 1.8 per cent of GDP. A lower growth of net claims of the banking system to the government, compared to crediting to the economy, shows that there is a better effectiveness in managing the funds of the banking system. For year 2005, annual growth of net foreign assets of the system is projected to be ALL 11.6 billion.

NOTES

[1] *The specialists of European Central Bank estimate that a part of this growth is a statistical effect. It is estimated that the effect of adjustment according to working days has affected the underestimation of GDP for the fourth quarter of 2004 and its overestimation for the first quarter of 2005.*
[2] *US light crude.*
[3] *The estimation of Ministry of Labour and Social Affairs on the number of the employed persons during the first half of 2005 is missing.*
[4] *Estimated based on the performance of sales and retail trade index, published by INSTAT.*
[5] *The decision taken in April '04 to reduce the price by 28.5 per cent after being increased in December '03.*
[6] *Source: INSTAT.*
[7] *Source: INSTAT, Producer Price Index.*
[8] *Source: INSTAT, Conjuncture, January – March 2005.*
[9] *The weight of this group in consumer goods basket is 4.8 percent.*
[10] *The effect of this shift is about ALL 4 billion. It relates to the shifting of funds of pyramid schemes from the time deposits in Lek into current accounts, with the purpose of distributing them further to the creditors.*
[11] *Lek exchange rate against the Euro and USD, combined with the weight these currencies take in the foreign deposits, depreciated by around 2.6 per cent during December-May.*
[12] *The increase of government bonds portfolio is due to the increase of 2-year bonds by ALL 7.3 billion and to the issue for the first time of 3-year bonds at the level of ALL 2.0 billion in April.*
[13] *For the period of January – May 2005 Lek appreciated by 2 per cent against the euro and depreciated by 8 per cent against the USD.*
[14] *At the end of May, credit balance in Lek doubled compared to the same period of the previous year.*
[15] *The lowest historical levels have been 2.36 per cent for overnight loans (end of May) and 5.23 per cent for weekly loans (middle of June 2005).*
[16] *Data until May 2005.*
[17] *Data until May 2005.*

EXTERNAL SECTOR DEVELOPMENTS OF THE ALBANIAN ECONOMY DURING THE FIRST SEMI-ANNUAL OF 2005, 5 OCTOBER, 2005

The overall balance of payments for the first semi-annual of 2005 resulted in a surplus of EUR 11 million. The capital inflows have been fully adequate to cover the level of the current deficit.

The main highlights in the external sector of the Albanian economy may be summarized as follows:

- Intensive activity in the external sector, expressed in the increase of income and current expenditures.
- Deepening of current and trade deficit.
- Reduction of inflows as foreign direct investments.
- Decrease of the level of private borrowings, compared to the previous year.
- Increase of domestic claims to non-residents, mainly expressed in the increase of portfolio investments with abroad.
- Simultaneous increase of foreign assets and liabilities and increase of the monetary authority foreign reserves.

I. CURRENT ACCOUNT

Current transactions during the first half of 2005 are estimated at about EUR 2.8 billion or 23 percent higher than the previous year. Trade exchanges in goods and services lead the volume of Albanian current transactions with the world. During this period, more than 93 percent of current expenditures have been used for the purchase of goods and services. About 41 percent of current income has entered in the form of current transfers, while the services and exports of goods provided respectively 33 percent and 20 percent of the income. Net factor income increased by about 26 percent, however, they could not reduce the high trade deficit (goods and services). As a result, at the end of the semi-annual, current account had a deficit of EUR 145 million, with an annual growth of 10 percent.

I. 1. FOREIGN TRADE

Even during the first half of 2005, it was noticed a growing trend of the Albanian trade activity in international markets. At a level of EUR 1.2 billion, the general trade volume was estimated to be 14 percent higher compared to the same period the previous year. Trade exchanges in goods during this period held about 41 percent of the current transactions volume. The Albanian economy and the domestic market remained import oriented, estimated to be 3.4 times higher than export. Domestic demand continued to push the import

increase, while the exports positive performance has not been sufficient to narrow down the trade deficit. Import expenses were about EUR 905 million, EUR 114.5 million or 15 percent higher than in 2004. The income from the export of goods increased by 11 percent, reaching the value of EUR 265 million.

At the end of the semi-annual, trade deficit reached the value of EUR 640 million or 16 percent higher than that of the correspondent period in the previous year. The rising high deficit of foreign trade draws the attention towards policies that aim at replacing imports and inciting exports.

Intermediate goods continued to represent the overwhelming part in the structure of imports, having a share of 46 percent of the total. Their ongoing volume increase implies a positive performance of the domestic processing industry. Moreover, the performance of capital goods is estimated as promising, a positive indicator to the investments level, renovation of technological basis as well as productivity of the private sector. At the end of this semi-annual this item resulted with the highest growth pace compared to the other items (27 percent). We also notice that the consumer goods continued to maintain a considerable weight in total imports, about 32 percent; such a weight has easily decreased compared to the first semi-annual of 2004.

Re-exports (exports with orderer's material) were the main contribution to the rise of Albanian export; such exports remain predominant in the Albanian exports, by holding 67 percent of their overall volume. However, it is worth emphasizing the growing tendency of the domestic export, in particular during the second quarter, by remaining within the seasonal tendencies that characterize the performance of this export item. Export income for active manufacturing was estimated to be 5 percent higher than the income during the first semi-annual of the previous year.

I. 2. DEVELOPMENTS IN OTHER ITEMS OF THE CURRENT ACCOUNT

Service trade, under rising paces even during this period, is becoming more and more a crucial integration element of Albania with other countries. Trade service transactions reached to EUR 925 million and were estimated to be 20 percent higher, compared to the first semi-annual of 2004. Service account closed with a negative balance of EUR 43 million, being higher than the negative balance of EUR 6 million, recorded at the end of the first semi-annual of 2004. This deficit has been mainly due to a negative balance in the "Other Services" item against a surplus noticed in this item the previous year, as well as a surplus narrowing of "Travel" item.

Movements in the services account were significantly influenced by the performance of services in "Tourism" (Travel), which contributed considerably to the inflows and outflows of this item, respectively 72 and 61 percent of the total for this semi-annual. Actually, the tourism activity continues to represent to the Albanian economy, one of the main sources of foreign income. According to Bank of Albania estimations, the export in tourism during the first

semi-annual of 2005 generated about EUR 319 million income flows, which is about 21 percent higher than the value of export of goods. Income from tourism were estimated to be 17 percent higher than this period in the previous year, mainly influenced by the increasing flow of foreign citizens and emigrants visiting the country as well as a slight increase of evaluating coefficients of daily expenses. During the first semi-annual of 2005, the number of foreign citizens entering the country increased by 9 percent compared to the same period in the previous year.

An accelerated activity was noticed in services of tourism, which displayed increasing annual rates. Albanian residents spent in their travels abroad nearly EUR 298 million or 70 percent of the total workers' remittances. Increase of Albanian traveller's expenses abroad was higher than the income growth, causing the narrowing of the positive balance of this item from EUR 28 to 22 million in the first semi-annual of 2005.

"Other services" item resulted in a deficit of EUR 19 million, different from the surplus of EUR 11 million during the first semi-annual of 2004. The current year deficit has been mainly due to the expenses increase in "Culture and business services" items.

Albanian economy benefits foreign income from the work of seasonal workers and investments of foreign reserves of the banking system in financial non-resident institutions, and at the same time it pays the external debt interest. Net transactions result on income remained positive even during this semi-annual and it was estimated at about EUR 66 million.

Work income compared to the first semi-annual in the previous year, rose to about EUR 9 million, by reaching the level of EUR 47 million. A growth was also recorded in the interest income from investing our foreign reserve in non-resident institutions, while interest income received from portfolio investments in resident institutions abroad, were lower than the previous year.

At the end of the first semi-annual, current transfers balance was estimated at about EUR 472 million or 28 percent higher than that of the first semi-annual in the previous year. Albanian workers' remittances remained the main contribution to the income of this item (about 76 percent). During this period these transfers reached to EUR 424 million, which is 24 percent higher than those of the same period in the previous year. These transfers represent the main source of trade deficit financing (in goods and services) with more than 50 percent. Worker's remittances (EUR 424 million) were also associated by state transfers, mainly in the form of technical assistance (EUR 18 million), which were estimated to be decreasing (28 percent).

II. CAPITAL AND FINANCIAL ACCOUNT

Even during this semi-annual, net capital flows recorded EUR 201 million, fully enabling current deficit financing and contributing to the increase of

foreign reserve. Behind this positive figure, there were inflow capital transfers of EUR 50 million and the financial account positive balance of about EUR 151 million. Compared to the first semi-annual of 2004, capital and financial account net position was estimated at around EUR 54 million lower. Let us remind that during the first half of 2004 high capital flows were recorded owing to privatisation.

Capital transfers during this period, grew by around EUR 1.5 million, while financial account positive balance was estimated to have decreased compared to the previous year (by about EUR 56 million). Financial account position during this quarter was defined as an increase of Albania's financial liabilities held with the world (by about EUR 177 million) and an increase of our assets held abroad (around EUR 26 million). However, compared to the first semi-annual in the previous year, financial liabilities net flow was estimated to be lower, about USD 78 and Albania's financial claims to the rest of the world were also set at a lower level (EUR 22 million).

The increase of financial liabilities to the world during this semi-annual was mainly due to capital inflows in the form of direct investments (EUR 96 million) and borrowings from abroad (by EUR 77 million). Foreign direct investments were estimated at EUR 79 million lower than the same period in the previous year where more than 60 percent of FDI's flow entered in the form of privatisation.

During this semi-annual, the granting of long-term loans and loan facilities from abroad, which remain another important factor in the growth of Albania's financial liabilities to the world, was EUR 26 million lower: state borrowing had a slight increase of about EUR 1.2 million, while unlike the previous year where it was noticed the private sector presence in long-term loans, during this semi-annual loan disburse of this sector was lower (less than about EUR 27 million).

External debt services in the form of principal and interest amounts were estimated at about EUR 25.5 million, equivalent to 10 percent of export of goods.

On the other hand, Albania's financial claims to the rest of the world grew by EUR 26 million. Assets growth was mainly determined by the increase in portfolio investments of resident units abroad, while banking system assets in the form of deposits abroad have been decreasing.

Financial assets stock in the form of portfolio investments, amounted to EUR 164 million with an increasing semi-annual flow of EUR 48.1 million. Regarding the structural composition by denomination, 47 percent of portfolio investments were in US currency, 52 percent in EUR and 2 percent in British pound. Foreign assets held with the banking system in the form of deposits abroad, decreased to about EUR 37 million. 56 percent of deposits held with the banking system was in US dollar and the other part in Euro (40 percent) and the British pound (3 percent). Cash foreign assets were estimated to have

been decreasing. In the structural composition by denomination, cash foreign assets denominated in US dollar were 39 percent, EUR 53 percent and the British pound 8 percent.

Inflows of foreign currency assets as financial capital were reflected in the growth of foreign exchange reserve of the monetary authority, by about EUR 11 million. By the end of the period, the level of gross foreign exchange reserve was estimated at EUR 1.72 billion, a sufficient level to cover 4.6 months of goods and services import.

Table 1 Balance of Payments (in millions of EUR)

BALANCE OF PAYMENTS in million of EUR	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005
Current Account, nie.	-36.91	-94.75	-25.55	-128.95	-44.81	-100.50
Merchandise: Exports, fob	109.10	129.90	121.58	125.00	121.46	143.33
Merchandise: Imports, fob	-362.78	-423.75	-450.87	-514.40	-396.44	-505.12
Trade Balance	-253.68	-293.85	-329.29	-389.40	-274.98	-361.79
Servises: Credit	176.54	206.07	223.81	201.12	201.65	239.46
Servises: Debit	-166.77	-221.87	-229.04	-230.36	-226.37	-257.57
Income: Credit	34.21	34.70	55.79	39.30	39.28	41.11
Income: Debit	-4.42	-7.03	-5.11	-6.77	-4.93	-9.59
Private Unrequired Transfers	166.25	176.64	244.46	242.34	210.28	243.30
Official unrequired Trans., nie	11.68	13.83	16.66	18.49	11.80	6.46
Capital Account	27.21	21.34	29.14	28.53	35.52	14.58
Financial Account	18.29	183.67	-15.24	110.72	22.37	123.97
Direct Investment, nie	28.01	138.06	58.75	42.58	43.33	50.34
Portofolio Investment, nie	-1.06	3.33	98.23	-95.87	-42.85	-5.22
Other Capital, nie	-8.67	42.28	-172.22	164.02	21.88	78.86
Net Errors and Omissions	-1.53	-12.39	84.88	35.59	-8.04	-36.68
Overall Balance	11.83	97.88	78.06	45.89	9.67	1.37
Reserve and Related Items						
Reserve Assets	-11.83	-97.88	-78.06	-45.89	-9.67	-1.37
Use of Fund Credit and Loans	4.78	0.00	4.83	0.00	4.63	0.00
Memorandum Items						
Total Change in Reserve Assets	-2.07	-94.48	-84.39	-95.16	15.75	35.29
of which: Revaluation	-9.77	-3.40	6.32	49.27	-25.42	-36.66
*/ not included use of Fund Credit and Loans						

ASSESSMENT OF FINANCIAL SITUATION OF THE ALBANIAN BANKING SYSTEM FOR THE SECOND QUARTER OF 2005
AUGUST 2005

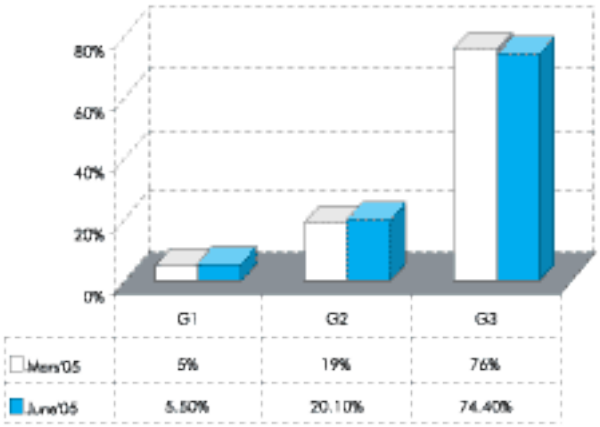
The second quarter of year 2005 evidenced an increase in total assets of the banking system by ALL 21.9 billion, accounting for 4.8 per cent, compared to ALL 28.5 billion or 6.7 per cent of the previous quarter.

As regards the peer-groups, G3, G2 and G1 experienced an asset growth of ALL 10.4 billion, ALL 8 billion and ALL 3.5 billion, respectively. The G3 banks continue to mainly affect the total assets growth of the system, though a decreasing trend compared to the previous quarter is evidenced.

The asset structure of the banking system shows the considerable decrease of share in the item "Treasury and Interbank Transactions", by 12 percentage points compared to the same period of the previous year. The banking system evidenced an increase of lending and securities transactions, respectively by 6.3 and 5 percentage points to the total assets. Furthermore, the system assets structure shows a considerable growth in fixed assets, by 28 per cent compared to the same period of the previous year, which indicates an expansion in the banking network with new branches and agencies.

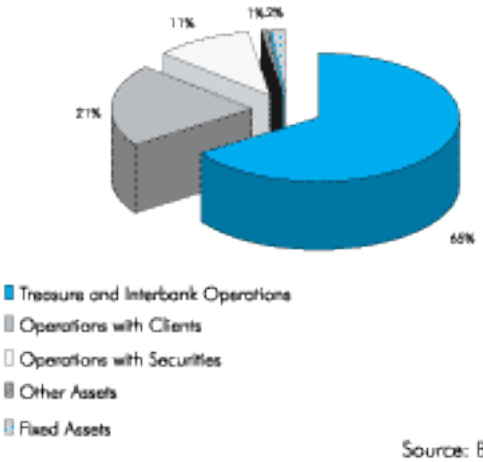
During the second quarter of 2005, the credit balance of the banking system marked an increase of ALL 18.8 billion or 23.5 per cent compared to ALL 10.1 billion or 14.4 per cent of the previous quarter. Besides the largest banks, this increase is also an attribution of the small and medium banks of the system.

Chart 1 Share of groupbanks by total assets (June'05)



Source: Bank of Albania

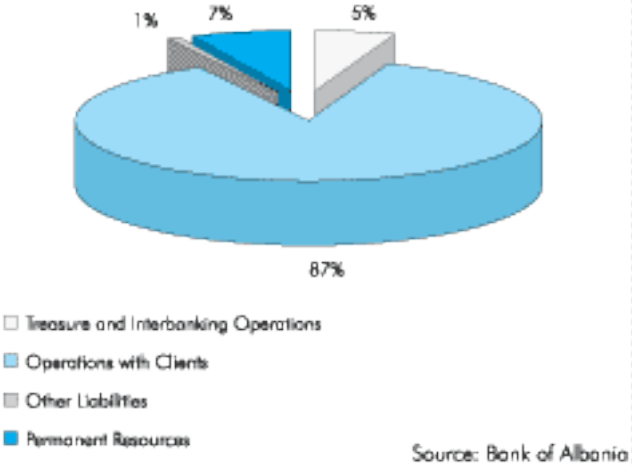
Chart 2 The asset structure of the banking system as by June '05



Source: Bank of Albania

The growth of credit balance by ALL 18.8 billion is many times higher than the increase of the loan by ALL 3.3 billion outstanding during the second quarter of 2004. Meanwhile, the new credit during the second quarter is almost comparable with the one extended in the same period of the previous year. The common analysis of the trend of these two indicators, explains the shift of the lending activity from the short term to medium and long terms.

Chart 3 The liability structure of the banking system



Source: Bank of Albania

For the contribution of the group of banks in the credit balance growth during the second quarter, G3, G2 and G1 groups are assessed as having contributed by ALL 11.7 billion, ALL 4.9 billion and ALL 2.2 billion, respectively. 'Bad loans/ (gross) credit balance' indicator, which estimates the effectiveness of credit portfolio management, resulted to be 2.4 per cent compared to 3.5 per cent in the previous quarter. This decrease is explained by the upward trend of the loan portfolio (by +18.8 per cent), versus the downward trend of the non-performing loan portfolio (by –17.5 per cent). The loan structure, according to its quality, evidenced an improvement relative to the one in the previous quarter.

The limited exposure of the banking system to the credit risk is also highlighted by the low values in the indicator "non-performing loans/total outstanding (on net basis)". This ratio is 0.8 per cent compared to 1.3 per cent it was during the first quarter. Furthermore, the banking system capacity to cover the potential looses of the lending activity with capital, implies an improvement in the second quarter, due to the rising trend of the regulatory capital (+8.4 per cent), versus the decrease of net non-performing loans (-29 per cent).

The banking system continues to experience a good performance as well as in the second quarter of 2005. The net profit follows the positive series of the previous periods, and is estimated to be around ALL 1,879 million, that is about ALL 442 million higher than the first quarter of 2005 or about ALL 533 million higher than the same period of the previous year. The net profit at the end of the first semester of 2005 is estimated at about 65 per cent of the net profit reported by the end of year 2004. This implies a good basis for the effectiveness indicators, for the second half of the current year. Net profit growth on absolute basis is evidenced not only by quantitative factors such as the increase of the interest-bearing assets, about 2.85 per cent, but also is evidenced by the improvement of qualitative factors relative to the previous periods, such as net interest margin (NIM) or the return on average assets (RoAA).

A more analytic point of view shows that the main elements that influenced a higher net profit are net interest income, net other activities income and the overhead expenses. The first two elements had a positive impact but the last one, the overhead expenses, had a negative impact on the net banking system result. This last factor should be considered as a necessary condition for the enlargement of the banking system, for its further consolidation in the future.

The second quarter continues to know further increase of the shareholder capital levels in the banking system, amounting to ALL 30.4 billion.

The shareholder capital of the system marked an increase of ALL 4 billion compared to the previous quarter. The system indicator is mainly influenced by the group of medium banks (G2) estimated at about ALL 2.1 billion and the group of large banks (G3) at about ALL 1.3 billion, while the contribution of small banks (G1) is estimated at only ALL 0.4 billion. The essential element of the shareholder capital – paid-in capital – continues to keep the main weight (nearly 73 per cent) in the shareholder capital of the system, with a contribution of ALL 1.3 billion in this quarter comparable with the one evidenced in the previous quarter. Capital adequacy ratio for the banking system in the second quarter is estimated at 20 per cent or 1 percentage point lower than in the first quarter. The decrease of capital ratio is due to higher growth of assets classified according to risks (about ALL 17 billion or 15 per cent) than the growth rates of regulatory capital (about ALL 2 billion or 8.4 per cent). The second quarter consolidates the downward trend of capital adequacy ratio mainly due to the growth of investments the banks perform in higher-risk activities.

Capital adequacy analysis according to the groups of banks in the system continues to distinguish the group of small banks G1 with the highest value of the ratio (42%). Small banks continue to have limited expansion on high-risk activities, while medium and large banks marked credit growth, so highlighting levels of capital adequacy ratio, respectively of 18 per cent and 16 per cent. During the second quarter, the banking system continues to have liquid assets at a level of more than 20 per cent of total assets and the ratio of short-term assets against short-term liabilities is estimated at 97 per cent.

1) The second quarter marked 20 per cent for the ratio "liquid assets/ total assets" of the banking system, which means that on average banks are capable to cope with a shrink of 20 per cent of their balance, in case a deposit out-flow happens, before strained to sell their not-liquid assets, which have higher costs for banks.

2) The indicator of short-term assets against short-term liabilities for the banking system is estimated at 97 per cent in this quarter or 3 percentage points lower than the previous quarter. The decline of the indicator is due to higher growth rates of short-term liabilities (10 per cent or ALL 16.6 billion) rather than the short-term assets (7 per cent or ALL 11.2 billion).

The operational data from the Bank of Albania linking liquidity marked on a continuous basis an excess liquidity from banks, even though its average level is lower than the previous quarter. The declined level of liquidity is due to the increased financing of government debts during the second quarter. In order to manage the liquidity in the system, the Bank of Albania made use of the main instrument of the market (weekly maturity repo) and some commercial banks made use of overnight loans to supply their needs, while others invested in the overnight deposits their excess liquidity.

Finally, the Albanian banking system showed a stable financial situation during the second quarter of the year.

BANK OF ALBANIA STATEMENT ON THE FINANCIAL SYSTEM STABILITY IN ALBANIA
JULY 29, 2005

Pursuant to the Law No. 8269, dated 23.12.1997 "On the Bank of Albania" and in view of to the obligation to draw the attention of the Government Authorities, of the financial market and its operators, and the public, on the potential risks that may threaten the stability of the financial system, particularly of the Albanian banking system, the Bank of Albania issues the following statement:

The Bank of Albania does not observe any element or development that may threaten the stable progress of the banking and financial system, in the subsequent months.

However, like in the past, the Bank of Albania uses this opportunity to raise, in addition to the identification of potential risks, other issues that serve the progress of the banking system in its everyday operations and that assist for a better functioning of the financial system, overall.

1. The Bank of Albania observes that in the first part of 2005, positive developments in the banking system were highlighted, accompanied with more tangible and higher benefits for the bank's customers and the economy in general. More specifically:

- In order to fulfill the market demand, the lending activity is extended and associated with new lending products. According to its maturity, a better loan structuring is performed. The good current loan quality as well as the stable environment, represent a safe basis for maintaining this quality in the future;
- The downward trend of the interest rates has created the appropriate circumstances for a better support of the financial and banking system to the economic development of the country.
- The Bank of Albania has further consolidated the payment system with the introduction of contemporary payment instruments, especially debit and credit cards issued by the banking system, as well as with the implementation of AECH system. The banking system is being extended across the country through opening of the new branches and agencies. By the end of June 2005, the total number of bank branches and agencies reached 110 and 108, respectively.

2. During the last period, the activity of the Deposit Insurance Agency has been further consolidated. The deposit insurance fund growth managed by this agency is being accompanied with an enrichment of its investments. The Deposit Insurance Agency aims at reviewing its legal framework in order to improve its current instruments and better know the financial condition of the insured institutions and to enhance its role throughout their operational

activity. In view of the legal obligations, the Bank of Albania has supported the development needs of this institution.

3. During the first half of 2005, new developments were also highlighted in terms of the enrichment of the variety of the financial institutes. We mention the growth in the number of insurance and reinsurance companies, and the founding of the first non-public pension funds. These developments, which are expected to continue, should be accompanied with the enrichment and the consolidation of its regulatory framework as well as with the strengthening of their supervisory function.

Among the main financial indicators of the banking system for the last period, we may mention:

Indicator	December '04	May '05
Capital adequacy	21.63%	21.00%*,**
Shareholder capital (in millions of Lek)	25,949.50	28,087.87
Net outcome (in millions of Lek)	5,106.11	2,583.04
New credit (in millions of Lek)	99,726.57	42,298.00
Bad loan, net / net loan	1.43%	0.95%
Bad loan, gross / total balance	0.69%	0.51%

* End of march 2005
** In English this assessment is known as "Financial Sector Assessment Program" (FSAP).

During the first half of 2005, the foreign experts submitted the financial system to a professional assessment[2] as part of a global program organized by the World Bank and International Monetary Fund. The assessment is not limited to only knowing the state of the financial system and its ability to manage different types of risks and develop in a stable way, but is also extended to the ability of the authorities in supervising this development in accordance with the best international standards. The final report is not published yet, but the preliminary results of this assessment for the banking system and its supervisory authority, are positive. The recommendations of this report will be part of the further development plan of the banking system, in the near future.

Despite these facts, Bank of Albania stresses on the following topics, which need a greater and periodic assessment from all of the banking system players.

The fast growth of credit, under the conditions of stronger competition, puts the Albanian banking system toward the real risk of credit malfunctioning, if banks lose the ability to identify the high-quality borrowers, which are able to provide stable incomes from the financial support. Apart form applying the procedures for "loan approval", banks should also put as soon as possible in place the proper structures, which are responsible for monitoring these loans. Likewise, it is necessary that banks must show conservative behaviour in loan provisions, at first signs of borrower's difficulty to repay loan. In this way, each single bank and the system as a whole, might avoid the deepening of problems arising from the quality deterioration of the loans, providing so stable financial outcomes.

In this framework, Bank of Albania is responsible for putting as soon as possible into operation the Credit Register, with the assistance of the international financial institutions.

In the environment of the competition growing, it is being noted an increase of the staff movements, especially high-qualified staffs, toward banks and financial institutions which provide better job conditions. Even though this is a natural development, the Bank of Albania requires each bank to do its best for keeping and motivating its staff. The objective of providing better job conditions to the staff does not only mean the material awarding based on the professional performances, but also the opportunities that the institution must provide for training, for professional upgrading, for promotions and benefits, etc. So, if these opportunities are not entirely used, some banks might experience an increase in their operational costs and a worsening of their services quality toward the public, thus having a significant negative impact in their market position and in their financial outcomes.

These repeated resignations of the staffs at a time when a real attempt to motivate it is lacking, are considered from the Bank of Albania as an incapability of the management, which will affect the overall estimation of the bank.

It's significant that an open and periodic conversation exists between the most important players of the banking market and monetary and supervisory authority. Within their respective legal responsibilities and aware of their roles, the Parties should assure that this communication helps the constructive discussion of the relevant topics, concerning the implementation of monetary policy and supervisory regulatory framework. In this way, a better equilibrium would be reached between the monetary and supervisory authority from one part and the most important banking system players from the other, thus avoiding the one-way movements in the policies and instruments used by both parties, in order to signal the forthcoming objectives of their activities.

The second half of the year, represents the period of time when the reviewing of the existing Law No. 8365, dated 02.07.1998 "On Banking Law in the Republic of Albania" should be terminated. The project will be submitted to a wide discussion within the banking industry and all other institutions, which have an important role in the development of the financial market. The project is designed with the assistance of the international financial institutions and includes the best international practices in the field of the development and supervision of banking systems. The Bank of Albania requires the support of the Government and the Parliament, in order for this project to be reviewed and approved within the year 2005.

The begining of the next year, represents the period during which by law, is projected that the implementation and the effectiveness of the International Accounting Standards/International Financial Reporting Standards will be applicable for the commercial banks as well. The Bank of Albania, uses once again the opportunity in this statement, to require banks and other financial

institutions, which play a role in the effective implementation of the above mentioned standards, to build up a strategy regarding the realization of this role and the achievement of their objective. The Bank of Albania stresses the need to institutionalize a mutual proces of discussion, where the institutions might discuss the problems emerged during the preliminary stage and the implementation of these standards, for a better understanding of the problems and for their stable and synchronized solution in time.

The Bank of Albania belives that during the period of time till the end of year 2005, the banking and financial system will continue to demonstrate a normal conduct of its activity, in the ongoing progress toward its consolidation and stability.

SPEECH OF GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI

on the occasion of the signing of the Agreement on the field of Banking Supervision between the Bank of Albania and the Banking and Payments Authority of Kosovo
Pristine, July 6, 2005

I would like to take the opportunity on this occasion of the signing of the Agreement on the Banking Supervision to say that I really feel excited for being here in Pristine today. It is my first visit since I took over the position as Governor of the Bank of Albania and I would like to assure you that it will not be the last one.

There are many reasons that pushed me to make this commitment today in front of you, and among them, I would like to focus on the necessity that our two institutions, the Banking and Payments Authority of Kosova and the Bank of Albania should raise the level of cooperation and reciprocal assistance.

During this last period, I have personally attended meetings not only at the central banks of our region, but I have also met with senior representatives of the interested international institutions. I have found everywhere an atmosphere of understanding and support, particularly with regard to the initiative for a greater cooperation between the region's central banks.

I would like to focus a bit more on this point, as I consider that it represents one of the relevant directions to which we should pay more attention in the future. The agreement that we signed today is a supporting evidence in this direction and based on the conversations I had with Mr. Svetchine, the UNMIC officials and with Mr. Kosumi, I can say that they have shown their goodwill and commitment as regards cooperation in this field.

More specifically, we have established contacts with all the central banks of the region, up to the high levels of representation and I have realized that in every case they have expressed their readiness to further intensify the regional cooperation in this context. On the other hand, in the contacts with relevant international organizations such as the European Commission, World Bank, as well as the European Central Bank and many of the members of the European System of Central Banks, I have widely discussed this issue and I have found their total support in relation to the specific problems that characterize the economic and financial development of our region. At present, there exist many opportunities that we should use in a wise manner, since a collective action from our part would greatly improve the image of the region in front of the international community and it would make our final aspiration for EU membership easier to achieve.

On the other hand, I think that we should benefit from the work in group for yet another reason. Regardless of the different levels of the countries' developments and despite many other geopolitical factors, I hold the opinion that in the fields of economy, the banking sector, structural reforms, finance and markets, we show the same symptoms and to a certain degree, priorities

converge. This is why I think that foreign assistance will be more effective. This is why I think that the several projects that may be prepared by the foreign donors would be more effective. I think that the region will show more or less the same progress without creating wide contrasts which – according to a long-term perspective – could emerge as serious problems.

I hope that the agreement we sign today will only be the first step in the long road towards the comprehensive cooperation between our two institutions. Personally, I consider the fields of payments, research, human resources and statistics as other areas of reciprocal interest. Cooperation should be concrete and should serve to the adoption of better standards, as well as to the exchange of opinions with regard to various matters related to the regulatory framework.

As regards the Agreement of Understanding in the field of Banking Supervision, I would like to emphasize the fact that a standard model which is in compliance with the European directives and the Basel Committee has been adopted. This is a concrete and appropriate common commitment with regard to cooperation in the field of supervision. It is worth mentioning that both parties, among other things, will extend their cooperation in the field of organizing common events as well as various training programs of mutual interest.

Personally, I think that the Bank of Albania has already developed its supervisory and analyzing capabilities to a satisfactory level, and as a consequence, I think that our assistance in this field will be useful. At the same time, I think that in the Banking and Payments Authority of Kosovo, as a more recent institution, these capabilities are being developed at a satisfactory pace and I believe that its staff holds many practices and findings that they could offer to their colleagues at the Bank of Albania.

At the conclusion of this short speech please let me express once more the great pleasure that this visit gives me. I avail myself of this opportunity to assure my Kosovar friends that they will always find in me and in the Bank of Albania an open window not only for hospitality, but also an infinite opportunity for cooperation, assistance and devotion.

Thank you once more.

SPEECH OF THE GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI

at the meeting on the operation commencement of the Automated Electronic Clearing House System
Tirana, July 22, 2005

IMPLEMENTATION OF THE CLEARING SYSTEM IN THE BANK OF ALBANIA

Good day to everyone,

I would like to thank you for your presence in this plain ceremony on the occasion of the operation commencement of the Automated Electronic Clearing House System – AECH. As I have already stated last November, when we gathered for the project implementation commencement, I have the pleasure to express that the Bank of Albania kept its promise of accomplishing this important project on time.

The establishment and putting this system into function is the second significant step taken by the Bank of Albania, co-financed by the World Bank, in cooperation with the commercial banks, towards the growth of efficiency in the banking system and the payment system.

After a year of operation of RTGS system, the infrastructure expansion of payments with the automated clearing system, AECH, creates the necessary conditions for the confrontation of our economy's growing needs. AECH system relies on the best international standards and practices. Accomplished by means of contemporary technology investments, the system shall enable the significant reduction of small value payments processing time, as such increasing the popularity of banking payments, and offering a better service to bank clients.

The extension of equipment, computer programs, regulative basis and operation procedures, which are an integral part in the system, on its whole have comprised the Bank of Albania and the commercial banks operating in Albania. For this reason, the role and contribution of banks during the implementation process, has been assessed to be very significant. Transparency and inclusion during all the project has led to reflection in a serious commitment and joint decision-taking by all Banks. Obviously, in order to be entirely successful, this project should be followed by an awareness campaign of the public and utilities which would lead to a wider use of the payment instruments. In this context, it is foreseen the organization of a meeting with the directors of commercial banks and of the Albanian Banking Association, representatives of utilities and other interested parties, as well as with the media's assistance, aiming at promoting the wide use of this system.

It is a great pleasure for me, as the head of the Bank of Albania, to observe that this project was finalized on time accomplishing all the objectives set,

thanks to our fruitful cooperation, and media's assistance with all the difficulties and complexity that such a project has presented.

I believe that this mechanism is a very crucial part of the system that we are establishing towards the reduction of cash in the economy and also the reduction of informal economy.

On this occasion, I would like to express my congratulations and thank you for your support and contribution to the progress of this project.

I wish you success in your work!

SPEECH OF THE GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI

at the workshop "Experiences of the Bulgarian National Bank in its road towards the ESCB", organized in cooperation with the Bulgarian National Bank and the GTZ Office
Tirana, September 5, 2005

Dear participants,

First of all, I would like to say good morning to all of you.

Today's meeting with our Bulgarian friends takes place in the context of several activities that we have recently organized with a clear focus on the future challenges related to the integration process. I am pleased that the fall season of this year starts with this activity and first of all, I avail myself of this opportunity to extend my gratitude to the representatives of the Bulgarian National Bank, the GTZ and to my friend, Professor Bolle.

Since the very first days of my appointment to this position, I have publicly declared that Bank of Albania's institutional preparation in its road towards the ESCB remains our main challenge. Meanwhile, in all the meetings that I have had with the representatives of the regional central banks, as well as with high officials from Brussels and the ECB, I have underlined the idea that the future of the EU will be both more prosperous and unproblematic if the countries on its periphery look not only towards Brussels, but also if they start looking to each other. We – the central banks of the region – should represent an example in this direction.

As pioneer institutions of progress, the central banks of the region should cooperate with each other in order to expand the road for a further political, social and economic integration.

I believe that the chances for a rapid and secure process of European integration could be accelerated if we will have – among others – a healthy and safe financial and banking system, which should be able to promote the economic development of the country. Nevertheless, in order to materialize the objective for the approximation of their model with that of the EU member states, we hold the opinion that the central banks of the transition countries have more difficult "homework" than the classical responsibilities carried out by a central bank. Speaking in more concrete terms, this has to do mainly with the challenges related to the development of markets, with the unification of different norms and standards and with enhancing credibility in the country, thus aiming at the creation of an atmosphere that inspires confidence to foreign investors.

Even though they have passed into the consolidation stage, our banking systems still remain fragile, and as such, they require greater commitment and care. Regardless statistical developments, the scale of financial intermediation is relatively low, whereas time after time the shadow of shocks on the economic equilibrium shows up itself in different countries. Future changes will not be

simple at all, but all of us together, by exchanging experiences and necessities for change, will build a safer environment, which I hope will make future challenges somewhat easier.

Granting independence to central banks represents one of the most relevant steps in the financial system reform in the countries of our region, as an important precondition for maintaining inflation under control and becoming an ESCB member. However, our endeavors for the consolidation of the institutional and real independence should be coordinated carefully by taking into consideration the specific features of our economies in transition, and not as a mere implementation of what may seem to be a successful model for the ESCB countries.

In this framework, I consider today's meeting as very important, since the Bulgarian economy and the Bulgarian National Bank have been going through substantial reforms in the context of EU accession. I believe that the challenges that we have faced and those that we will face in the future are more or less the same with those experienced by the Bulgarian authorities, including the Bulgarian National Bank.

As a consequence, I think that the bilateral cooperation between our banks carries a high potential, and in the name of my institution, I avail myself of this opportunity to offer maximum guarantees with regard to the fruitful development of these relations.

Passing into a multilateral framework, I will return once more to the idea that focuses on the institutionalization of the inter-regional cooperation between central banks. If we look to the meetings organized with some of the regional banking authorities, the initiative on regional cooperation has been welcomed, but I also believe that time has come to carry out concrete measures towards this cooperation. Based on my personal experience, not as governor but as a banker, I hold the opinion that it would be appropriate to establish a club of regional central banks. The regular meetings of this club would certainly enable the exchange of experiences and the further strengthening of our cooperation.

INTERVIEW OF THE GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI

Given to Voice of America: "The Bank of Albania is a responsible and an independent institution"
Washington, 24 September, 2005

Voice of America: Mr. Fullani, you have just signed the project on the administration of currency reserves with the World Bank. What shall Albania benefit from this project?

Ardian Fullani: This program is part of my vision for the Central Bank. To the accomplishment of this vision, I would like to express my sincere thanks to the World Bank, which assisted us during our eight-month cooperation to the finalization of the agreement signed today (Friday). This is an expression of an outstanding close bilateral cooperation with the World Bank. This cooperation bears a significant importance for other projects as well, such as Real Time Gross Settlements (RTGS), Automated Electronic Clearing House (AECH) system, which is now finalized and it shall be a very sound foundation for the "utility" payments. This payment system via banks and undoubtedly, by increasing the number of credit cards, shall be an encouragement to the perfection of the payment system, fight against the informal economy and at the same time, it shall influence the reduction of cash circulation in economy. By means of this agreement with the World Bank, in two to three years, Albania shall not only benefit the administration of that part administered by the World Bank, but at the finalization of this project, it shall be technically and administratively capable of administering its currency reserve under contemporary principles, itself.

Voice of America: Budget deficit remains challenging to the Albanian finances. A few days ago, the Government approved a decision to reduce the small businesses taxes by half. Did the Albanian Government consult any of the international institutions and your institution before reaching such a decision, and what shall be the impact over the Albanian budget deficit?

Ardian Fullani: Albania is part of Monetary Fund program and we are present here (in Washington) together with the Minister of Finance, to discuss all issues related to fiscal policy and monetary policy of the Bank of Albania. Evidently, this new initiative shall be taken into consideration by the new program, compiled in cooperation with the Monetary Fund, and at the same time, all possible calculations shall be made for next year budget. What is important is that the Ministry of Finance and the Bank of Albania should further enhance their cooperation to the establishment of one or more new instruments for the administration of domestic debt. Regarding the decisions it takes, the Government has a wide consultation and all these (expected) effects shall be subject for discussion here with the (World Bank) in order to have a better grounding for the next year budget.

Voice of America: Mr. Fullani, the Albanian press has recently published sceptical articles regarding high interest rates of Treasury bills. How does

this issue relate to your initiative to liberalise the Treasury bills market for commercial banks?

Ardian Fullani: The message we give, and it was quite evident in the Statement of the Bank of Albania a few days ago, is that we all have to realize that now, we do have a private market; we now have what we had hoped for. In the first days of my assignment as a Governor, I stated that year 2005 and on, shall be different from year 2004, because there is a different market. At least 60 percent of a state-owned market, such as the Savings Bank, now is privatised. There is a bank with private features, which, above all, has its own principles of consolidation and achievement of good financial results.

Voice of America: Has the change of the political majority and the ministers in the economy sector affected your work, as an independent institution?

Ardian Fullani: I believe that the Bank of Albania is a consolidated, independent, responsible, and above all, a vigilant institution. I emphasize vigilant, for the care that we provide to the market. If there is an increase of Treasury bill yields, it implies that the market is acting as it should in a private manner. If there are "distortions", manipulations, or disproportions regarding the monopoly or competition role, these are issues to be carefully looked at, and we are paying a special attention to them. Pursuant to the law, the Bank of Albania is an independent, well-organized institution, with its foremost objective of maintaining price stability. Changes have always been considered in the cooperation context and such a concept derives from me and the institution I represent; the concept of cooperation is crucial and essential to the Central Bank, it is a modern concept. Being an independent institution, it should be at the same time, a responsible and collaborative institution, with the Government, Ministry of Finance, Ministry of Economy and other ministries, in order to achieve the main goal, macroeconomic and financial stability.

SPEECH OF THE GOVERNOR OF THE BANK OF ALBANIA, MR. ARDIAN FULLANI

at the High Level Conference organised by EBRD
"Workers" Remittances in Transition Economies: Main Issues and Policy Implications"
London, September 28, 2005

KEY POLICY ISSUES FOR REMITTANCES IN TRANSITION ECONOMIES: A VIEW POINT FROM A RECIPIENT COUNTRY

Remittances these days can easily classify as one of the most important sources of finance assisting the convergence of developing nations, to the point of overshadowing conventional funding like bank credit. The flow of remittances worldwide goes beyond 100 billion USD per year, with developing countries being recipients of more than 60 percent of this considerable amount. Remittances' estimations in these countries often exceed trade inflows, or foreign financing and investment. Therefore, they have become an important device for channelling funds and resources from developed countries toward countries in need. Moreover, remittances, like foreign direct investments (FDI), are regarded as very stable and safe capital flow, helping developing countries to achieve sustainable high growth rates.

In recent years, we have seen a growing awareness about emigrants' remittances as an important financial source for development. This issue was included in the G8 meeting agenda of 2004 and in the spring meeting of IMF and World Bank earlier this year, emphasizing the growing significance of migration, and with it, of migrants' remittances, calling for intensification of efforts to improve and identify their causes, as well as to establish an environment that could enhance the impact of remittances on development process.

Let me briefly give you our (Albanian) experience with remittances and some suggestions to improve their ingress and effectiveness in the economy.

During 90s, Albania experienced a massive migration movement abroad, which soon became a crucial financial source for the new market economy. According to some studies (Barjaba, 2004; INSTAT, 2002; Kule et al, 2002, 2002), since 1990, nearly 800,000 Albanians may have left the country either permanently or temporarily. Some more recent estimations show that the number of Albanians living abroad may have reached 1 million. This is a considerable figure for a small country like Albania with just 3 million of inhabitants. As a result, exodus phenomenon has attracted a great deal of attention in political and economic circles.

Remittances role in the economy has grown considerably over time. We can appreciate their weight easier if we put them against some main economic indicators. However, before doing that I want to say a few words on data reliability of remittances. It is very difficult to carry out an accurate estimation of remittances in Albania bearing in mind that a large share does not go through formal (official) transferring channels, therefore escaping the official registration of capital flows. The Bank of Albania traces only that part

of remittances that goes through the official network, which includes banks and money transfer agencies. Remittances sent unofficially such as, cash brought by emigrants or their friends during their visits to Albania, need to be estimated.

Transition experience so far has shown that high trade deficits were not just financed through official capital flows, which undoubtedly have played a key role, but also through remittances that have increased financing opportunities within current account. During the period 1994 – 2004, out of 6.3 billion USD current transfers that entered the country, 5.8 billion is estimated to be contribution of Albanian emigrants.

In principle, capital and remittance inflows depend on expectations about economic developments. Although during the first stage of transition, inflationary and depreciation expectations were high, monetary policy reaction by the Bank of Albania of keeping high (Lek) interest rates, ensured a normal inflow of remittances in Albania. Between 1994 and 1996 the attraction of foreign exchange inflow was further boosted by extraordinarily interest rates offered by pyramid schemes, reaching a historical peak level in 1996. A considerable drop in the volume of remittances was recorded during 1997 and 1999, a period characterized by a political and social unrest.[1] With the return of serenity remittances inflow picked up again.

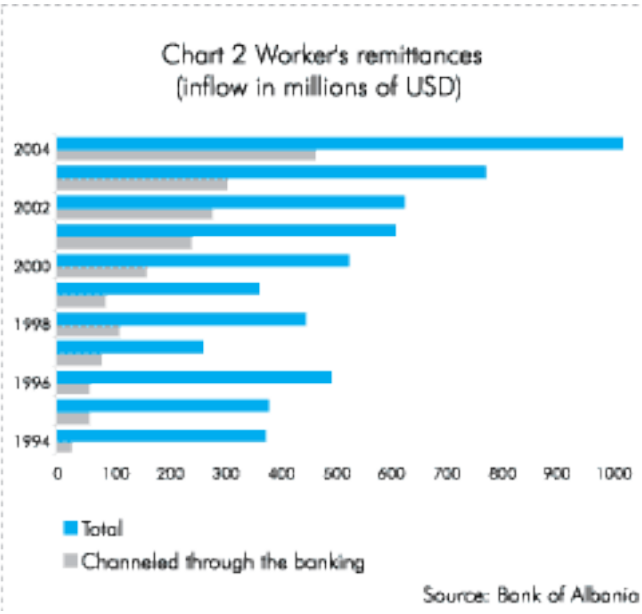
Chart 1 Funding of trade deficit by workers' remittances

The Bank of Albania estimations indicate that total workers' remittances has reached around 1,028 million (one billion) of USD or 13.5 percent of GDP. This is twice as high as revenues from export of goods, which makes "labour force" our main country export. Furthermore, remittances are estimated to be three times higher than foreign direct investments (FDI) inflow and its value exceeds by far official aid from abroad.

I want to concentrate a bit more on the mechanism of transfers and on the ways remittances are used.

In the case of Albania, as in many other developing countries, remittances enter the country by either formal or informal means. The most recent surveys show that only 22.6 percent of emigrants prefer to use official means, whereas 77.4 percent turn to unofficial channels – in most cases by themselves.

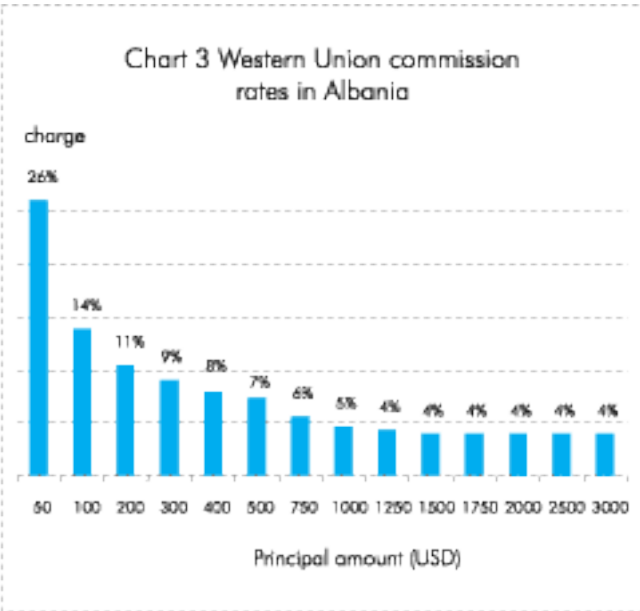
The official network includes the commercial banks and money transfer companies, the activity of which is regulated and supervised by BoA. Money transfer companies (Western Union and Money Gram) have played a significant role in transferring remittances from the beginning of their activity in the 90s. Their wide geographical extension throughout the country covering also



many rural areas has complemented adequately the rather slow expansion of the banking sector in facilitating money transfers.

Lately, the official network has gained considerable grounds over the informal ways in terms of total transfers carried out. The volume of remittances channelled via official means in 2004 is estimated to have been around 46 percent of the total, as opposed to just 12 percent - the average for the period 1994-1996. It seems the official network has earned Albanian emigrants' trust for transferring their money. The development of the financial system in Albania it's a key factor in explaining the movement of transfers toward official means. Thus, only during 2004, there have been 30 new branches and banking agencies opened throughout the country. Nevertheless, the unofficial flows remain still high, accounting for more than half of the total volume.

Banks and licensed agencies, despite being safer, are more expensive than the alternative unofficial means to the point of inducing many emigrants to stick to the latter means. In a comparative study of Manuel Orozco, 2003 looking at transfer costs across different countries, show that banks appear to charge less than money transfer companies. These latter tend to be costlier because of higher transfer charges and disadvantageous exchange rates they face. Moreover, some research shows that transaction costs of transferring remittances via money transfer companies in the South-Eastern Europe are higher than the region risk. Banks becoming aware of this comparative advantage, have introduced lower transfer charges while offering at the same time new financial products and services to encourage and attract savings of this segment of clients. However, I retain that although banks have the opportunity to be cheaper than money transfer companies, remain quite bureaucratic and less flexible compared to money transfer agencies, not to mention their inadequate geographical coverage of rural areas where more than 60 percent of population lives. Therefore, despite recent promising developments, banks have not gained much market share of remittances in Albania.



The results obtained by a survey[2] on remittances carried out recently also show that, the banking system still remains less preferable by Albanian emigrants who send money to their family members or relatives - only 15.2 percent of emigrants show interest in using banking

system. Some of the reasons influencing migrants' decision for (not) choosing banks to transfer their money were:

- Geographical proximity of Albania and Greece (Albanians residing in Greece and Italy travel to Albania frequently, on average 2 to 3 times a year, transferring money themselves).
- Insufficiency of emigrants' families to the banking system. Empirical measures have shown that while a considerable number of emigrants have become familiar with banking in the resident country (74.4 percent of them hold their savings in the banks of their country of residence), the corresponding families in Albania appear to be less familiar with the banking system in Albania. Only 45.3% of Albanian families hold a bank account.

At this point, some policy implications are evident: improving population awareness of banking services, encouraging expansion of banking throughout the country and facilitating possibilities of money transfers. BoA, is in process of designing a public communication strategy that aims at brining the public closer to banking products and services, including transfers. The flow of remittances may also raise if the fiscal burden of financial transfers is reduced. Enhancing competition by increasing the number of participants in the market would also push transfer commissions down. Here, the government has to incite the establishment of other companies as well as apply the reduced taxes. Another way of amplifying competition in the sector is by pressing on price transparency.

Remittances, as mentioned earlier, are also affected by economic and financial situation in beneficiary country. International experience brings many examples to illustrate this point. After a constant growth of remittances in Philippines, as a result of improvements in the investments environment in the early 90s, they became very shaky as the financial crisis affected the Asian countries at the end of the 90s. Likewise, Turkey after experiencing a stable growth of remittances during the 90s, saw a drastic fall as the financial crisis broke out in 1999-2000. However, an interesting observation in these cases is that, the fall of remittances and their volatility were lower than those of private capital flows. Remittances seem to react less to economic ups and downs compared to other capital flows displaying considerable stability over time (Ratha, 2003). In this context, countries with high remittance percentage relative to other capital flows could be more immune to capital drain during crises.

Remittances are not simply expression of emigrants' fondness to assist their families in adverse situations. They also represent an important financial source that augments capital inflows and investments in economy. Remittances may have a positive impact not only on the volume but also on the quality of investments. Migrants and/or their relatives being more familiar with the local economic and social environment could make a better use of the capital brought into the country than foreign investors. Nowadays this is not just a theoretical inference. A growing number of emigrants that fled during 90s,

are returning and trying to set up their own small or medium size businesses, bringing in not just funds but also a lot of know-how.

However, there is always another side of the coin. Remittances inflow might have negative effects as well. If the recipient country remains dependant on money transfers, it will encourage further migration of labour by reducing the effectiveness of investments of domestic and foreign investors because of the unstable labourforce. What's more important, if remittances go mainly for financing imports, their impact in the development of the domestic economy drops significantly. I fear Albania is one of these cases.

Remittances are being mainly used to secure daily family needs and to improve lifestyle, as well as to construct or reconstruct houses, and to finance traditional family ceremonies. Only a small portion goes into banks as savings deposits. In fewer cases, remittances have been invested in real estates, manufacturing or services and agricultural sectors. This distribution of remittances alleviates poverty but does not lead to new job creation via investments, which would prevent new emigration by generating local opportunities. Being utilised little as resources for the economic and social development of the country, remittances may have led to individual, family or local dependency.

During the first stage of transition in Albania policies for optimising the administration and utilisation of workers' remittances for developing purposes have been completely lacking. A few sporadic measures have aimed at driving workers' remittances into official channels and improving savings and investments incentives of emigrants in the country but have been by and large inadequate.

More recently, the Albanian government has taken a more attentive approach toward remittances and their potential contributions in financing the growth and development of the country. With the assistance of the European Union by means of CARDS program, and the support of the International Organization of Migration (IOM), this year the Albanian government has compiled two important documents regarding migration and remittances issues, called: National Strategy of Migration and Action Plan. The main objectives are: (i) the review of remittances flows and (ii) the identification of political constraints and institutional and regulatory framework that influence these inflows, in order to:

- increase the volume of remittances;
- help shifting them into formal channels; and
- enhance their use in support of country's economic growth.

Bank of Albania role in achieving these objectives consists primarily in maintaining the macroeconomic and financial stability, which constitute important preconditions for the success of any policy related to workers' remittances. Emigrants will be more willing to send and invest remittances if inflation is kept under control and exchange rate and financial conditions are reasonably stable.

Furthermore, the Bank of Albania in cooperation with other governmental and non-governmental institutions has been considering some more concrete measures in order to enhance the role of remittances in the economy. I would like to mention a few of them:

First: improvement of statistics on remittances. Reliable data regarding remittances is a key ingredient in designing and assessing policies about enhancing their developing role. The Bank of Albania has continuously stressed the importance of accurate estimation of capital inflows in the form of migrants' remittances. Assisted by IMF missions, it has been working to bring the methodology closer to the international standards in defining remittances. Also, there is a close cooperation with our main partner countries Greece and Italy, as the main destinations of the Albanian emigrants, to harmonise our methodologies in order to improve the accuracy of remittances' estimation.

Second: Bringing workers' remittances into formal channels. The high portion of remittances that goes through unofficial channels asks for actions to make official channels more appealing in terms of efficiency, safety, cost and anonymity. Although, I mentioned earlier that emigrants seems to have more access to banking that their families back home, their relation with the banks is still difficult due to language problems (most often the forms are in the native language of the resident country) and in many cases excessive document requirements to open a bank account. Regulatory authorities in respective countries could be of help in this respect. Also, Albanian banks may receive Albanian workers' remittances via "banking correspondent institutions" in the resident country and microcredit and microfinance Albanian organizations which could serve as local agencies to handle this process.

Third: Directing workers' remittances toward country's development needs. Usually, emigrants are out of the main focus of banking services, since this category of clients is considered to have unstable jobs. Nonetheless, there exists opportunities to offer financial services to emigrants too. Among others I could mention here: linking of workers' remittances with investments for example by channelling remittances flows toward microcredit loans or projects; also, supporting of emigrants' contribution and emigrants societies in the development of the country. Remittances could also help approaching rural areas population to the banks. If the recipient families also decide to keep remittances in their bank accounts this could assist economic development as more funds are available to be lent to private sector. Microcredit programs and qualitative improvements of banking infrastructure, in concert with introduction of new financial instruments that would attract more remittances, are also important.

Finally, I would like to express my sincere appreciation to those involved in this conference which provides us a valuable support in our efforts to improve effectiveness of remittances utilization in our economies. I am confident that the distinguished speakers from various institutions, who are present in this conference, would share further helpful ideas and suggestions (we already heard some very interesting ones in the previous discussions), thus ensuring

the formulation of sound measures to be incorporated in our policies on remittances. And I strongly hope this exchange of experiences and expertise will continue in the future and contribute to producing adequate human, infrastructure, and institutional capacities to transform remittances from potential into real driving forces for the development of our countries.

Again, my highest consideration for this activity and,

Thank you for your attention!

Notes

[1] Year 1997 represents a year of chaos for the Albanian economy and society, as a result of the collapse of pyramid schemes and 1999 the year of Kosovar crisis.

[2] A survey carried out with the assistance of the International Organization of Migration (IOM) in Albania and CARDS project. The questionnaire period comprises April-June 2005.

A FEW WORDS ON DEPOSIT INSURANCE*,**

What is deposit insurance? In simple words, it is the protection of depositors when the bank is not able to pay.

In such cases the deposit insurance system, if it exists, and has been previously institutionalized, compensates the depositors. The amount of compensation or insurance differs from country to country. In many countries, in fact, in most developed countries, deposit insurance is a crucial and essential actor of the financial insurance net (safety net player) – which supports the stability of the financial system.

The primary connections of this insurance net are the legal regulative system, the strict system of supervision and internal decision-taking authorities, as well as the banks examination mechanism, mainly exercised by the Central Banks.

Under the position of the lender-of-last-resort, the Ministry of Finance might also grant its assistance.

If the above mentioned connections of the financial insurance net are not able to prevent a bank from being incapable of paying (insolvent), - something which in fact is rare to occur in a sound banking system, - the deposit insurance system becomes an actor as the last source for depositors. In general, deposit insurance systems focus their attention on the utmost protection of depositors. This is since these depositors are not able to assess the bank where they have invested or want to invest their savings, due to their limited knowledge of the financial activity and the financial banking operations.

The primary goal of the insurance scheme is the protection of small depositors. Banks are obliged to be members of the deposit insurance scheme and pay the insurance premium according to the law applicable to that country. Thus, if a bank is unable to pay (insolvent), we would have enough funds worth of compensating the depositors; as a result the insurance scheme is funded by the bank itself and the beneficiary is the depositor (its client). For the most part of the depositors, the coverage amount enacted by the law covers almost all the deposited funds, always according to the coverage amount actual limit. Therefore, if a bank is not able to pay, the deposit insurance is able to prevent the panic unrest or at least the effect of upheaval; thus, contributing to the maintenance of the financial system stability.

In our country, the coverage amount is up to ALL 700.000 or its equivalent in a foreign currency. Basic characteristic is that this limit is calculated on the aggregated amount of the total deposits per depositor. The legal administrator of deposit insurance in Albania is the Deposit Insurance Agency DIA.

SOME WORLD HISTORY

Since the 19th century, the economic developments or instabilities have often led to crisis, upheavals or collapse in the banking system or in some big banks. Failures and in particular the small depositors losses apparently ask the need to prevent such losses or facilitate the collapses' consequences when they occur.

As a result, the need of regulating and supervising the deposits and loan financial institutions is becoming more and more severe.

In the second half of the 20th century, it was understood that the banks and the world banking system are closely connected and interdependent, and as such their examination could not be limited to the national state borders. For this reason it was established the known-as Basel Agreement which represents the first agreement on rules and principles of international banking.

The second effort was the establishment of financial legal institutions in order to initially facilitate the losses in some of the countries and later on, in the end of the 20th century, in most countries.

In the light of facts, regardless of the legal initiatives from particular countries to compile the necessary regulations for the savings deposit insurance, it is a surprise that the introduction of deposit insurance schemes held in banks was established only after a relatively long time and it was the banking crisis in the USA, which reached catastrophic dimensions leading to failure of more than 10.000 banks, the one that minimized the trust in the banking system, caused panic by forcing crowds of people leave their banks.

Right at this time, the USA took the initiative to protect the depositors in a legal institutional level by making deposit insurance mandatory by means of establishing one institution to enable the deposit insurance called FDIC (Federal Deposit Insurance Corporation).

Later on, deposit insurance schemes and their institutions were established in different European countries, such as in Germany 1974, Spain 1977, France and the Netherlands 1980, Great Britain 1982, Belgium 1985. Nevertheless, these systems were very different from each other. In some of them, there was a state scheme, and in others private ones; membership was mandatory or voluntary.

What is observed is that there are significant changes in different schemes regarding products, calculations and premium payment in the insurance scheme.

In the mid 90s, after a long preparation of work, Western Europe undertook other steps regarding the deposit insurance. Directives no 94/95 EEC entered in force on 1 July 1995. The new Directive enabled the collection of deposits to be stipulated by their insurance.

This Directive determined that there should be at least one deposit insurer in every country.

In the end of 1995 the last countries of Eastern Europe, Hungary, Czech Republic and Poland established their institutions of deposit insurance. This period corresponds with the time when under the recommendation of international financial institutions such as World Bank and International Monetary Fund, Albania started the preliminary work for the establishment of the deposit insurance institution, which was finalized on 29 March 2002 when the Albanian Assembly approved law 8873 On Deposit Insurance.

WHAT IS DEPOSIT INSURANCE AGENCY AND THE SETTINGS WHERE IT WAS ESTABLISHED?

Deposit Insurance Agency in Albania, as an institution having an entirely public character, was established in October 2002 as enforced by law 8873 date 29.03.2002 On Deposit Insurance approved by the Albanian Assembly and enacted by the President of Albania, in an economical and banking environment bearing minimal risk for the insurance fund. However, the possible changes in the banking sector combined with a few weaknesses in the regulative system created in medium terms a less safe surroundings.

Being a member of prestigious international organisms, such as IADI International Association of Deposit Insurers centered in Basel and headquartered in BIS (Bank of International Settlements) as well as EFDI European Forum of Deposit Insurers, the agency is intensifying its efforts in developing and enhancing the activities of deposit insurance to contemporary international levels.

The relatively conservatory nature of funds administration, prime capital investment from the state budget and banks for the deposit insurance fund raise, as well as the insurance premium cashing from Banks, are all factors which affect the risk minimization and the financial system stability in the country.

Support to the financial system stability and the administration of hard times is a responsibility of different institutions which are actors in the financial system insurance net, and DIA plays a very crucial role in this net. Its mission is to protect the depositor from failure of the bank where his money has been deposited in, compensate the deposits in the established level and according to the provisions of the law, and help the country's financial system stability.

Its vision is to enhance the public trust in the banking system, in particular, and the national financial system on the whole.

Its goal is to focus the attention on the utmost protection of depositors through offering the deposit insurance scheme to people, thus performing their savings insurance.

OBJECTIVES

- Improvement and perfection of deposit insurance deposit scheme of the banking system.
- Improvement and perfection of the existing legal basis.
- Improvement and perfection of deposit compensation procedures.
- he establishment of a computerized program for the insured deposit compensation, and in its function the feasibility study for the project and the software purchase which would facilitate the payment procedures in the compensation phase.
- This software requires the development of a system capable of managing the individual phases of the compensation process separately and easy to be used and modified.

Chart 1 Financial means of the agency

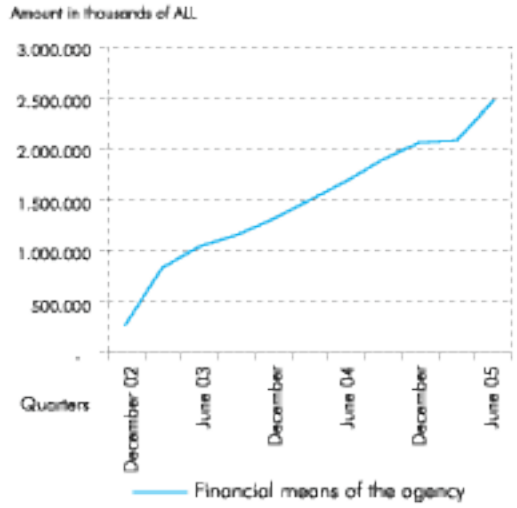
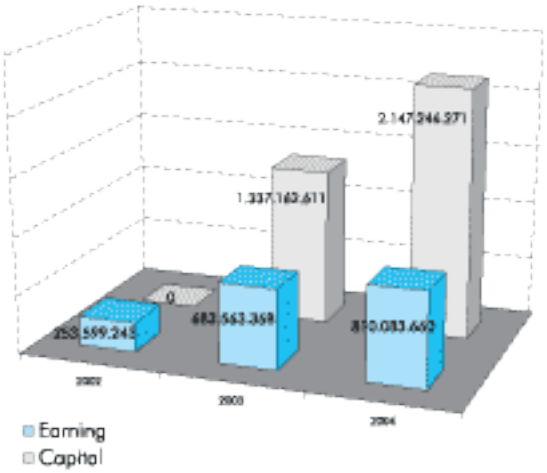


Chart 2 Changes in DIA's capital and earning in ALL



MEMBERSHIP

Members of the Deposit Insurance Agency are all banks, which are actually licensed by the Bank of Albania and perform banking activities in the Republic of Albania. They are the Savings Bank, National Commercial Bank, Italian-Albanian Bank, Dardania Bank, American Bank of Albania, ProCredit Bank, Tirana Bank, Branch of the National Bank of Greece, Branch of Alpha Bank, Commercial Bank of Greece, International Commercial Bank, United Bank of Albania, First Investment Bank, Credit Bank of Albania.

In case a new bank or branch of a foreign bank applies for license at the Bank of Albania to operate in the territory of Albania, at the same time it applies for the deposit insurance. With the beginning of its activity, the deposits deposited in it, shall be insured according to the respective law.

In its investments portfolio administration, Deposit Insurance Agency, as a public institution, is guided by the principles of responsibility and transparence.

Financial means of DIA are:

first, the state budget contribution with 400.000.000 ALL;
second, primary contribution of newly licensed banks;
third, insured banks premiums; and
fourth, earnings from their investment.

The Agency is responsible for the efficient administration of funds and in accordance with the accepted standards of risk management. This is achieved by investing the financial means of Deposit Insurance Agency in securities of the Albanian Government, as well as of the governments and institutions of other countries, the currency of which is deposited in insured banks. Financial means of Deposit Insurance Agency in December 2004 compared to December 2003 had an increase of 58 percent. In June 2005 DIA's financial means reached 2.480.000.000 ALL and its earnings in the same period were 439,918,794.65 ALL, marking an increase of 47% compared to the same period in the previous year.

The objectives of DIA's administration policy regarding its financial means are to establish a portfolio with the following terms:

1. zero risk.
2. maturity term, from the moment of purchase, not more than a year.
3. high liquidity.

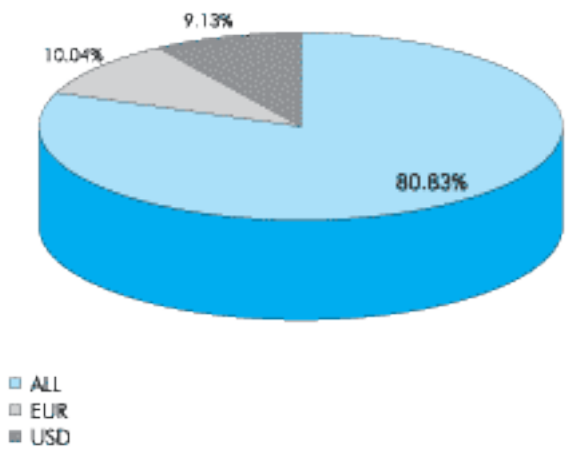
PROGRESS OF INSURED DEPOSITS

Total deposits of the banking system in the end of June 2005 were ALL 414 billion, which compared to end of June 2004 marked an increase of 20 percent. In this total of deposits 81 per cent constitute the individual deposits, with the respective amount of ALL 336 billion, whereas the insured deposits reach the amount of 178 billion lekë, which expressed in percentage represent around 53 per cent of individual deposits. Deposits in lek represent the most part of individual deposits and the currency deposits only 29 percent. For the one-year period June 2004 – June 2005 it is noted an increase of 7 per cent in currency deposits, and a decrease of 3 per cent in Lek deposits, a phenomenon which might be explained by the decrease of interest rates in Lek deposits.

Individual deposits, during this one-year period marked an increase of 16 percent, and the insured ones 14 percent. Deposits over ALL 700.000, dominate by holding around 75 per cent of the total in individual deposits.

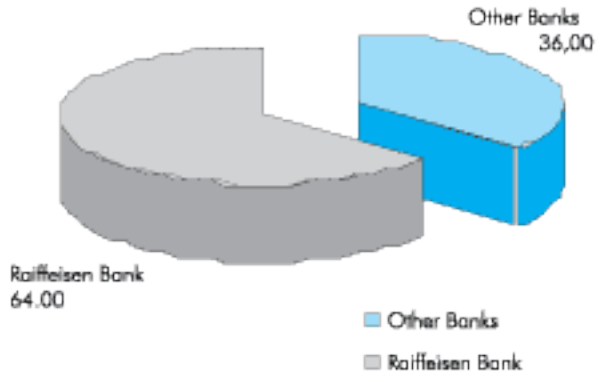
Whereas the depositors who have deposits up to ALL 700.000, dominate by holding 82 per cent of the total number of depositors, marking an increase of 9 per cent compared to June 2004. An influence on the growing trend of the small depositors' number might be the existence of deposit insurance scheme. In the banking market, Raiffeisen Bank continues to have a dominant role, by holding 64 per cent of the insured deposits in the system.

Chart 3 Portfolio by currency



Denomination	December 2004	June 2005
Total deposits in the system (1)	375,843,000	414,000,000
Total individual deposits in the system (2)	309,871,406	336,436,214
Total insured deposits in the system (3)	167,250,478	177,508,204
Ratio (3)/(2) in percentage	54	53

Chart 4 Allocation of insured deposits in per cent



STRUCTURE OF INSURED DEPOSITS

In the insured deposits structure of the banking system, as well as in the total deposits structure, Raiffeisen Bank continues to represent the biggest holding.

This bank holds 64 per cent of total deposits.

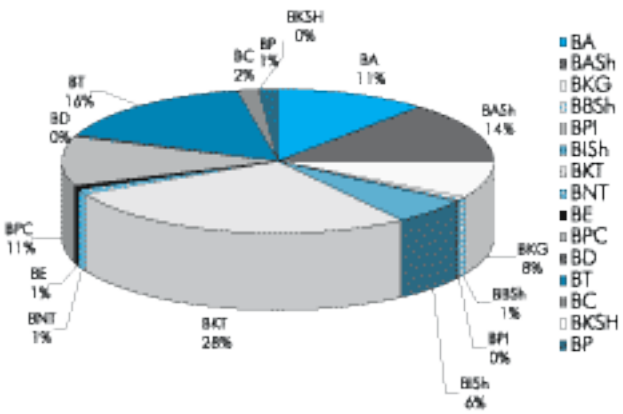
THE STRUCTURE AND NUMBER OF DEPOSITS BY COMPENSATION LEVELS AS DEFINED BY THE LAW

The law "On deposit insurance" determines the deposits compensation levels, with a maximal level of ALL 700,000, and insuring:

100 per cent of deposit up to ALL 350,000 and 85 per cent of the part over ALL 350,000.

Noting the deposits structure by compensation levels as defined by the law, it is observed the domination of deposits over ALL 700,000 (seven hundred thousand), the amount of which marks around 74 per cent of the total amount in individual deposits.

Chart 5 Structure of insured deposits in per cent (except Raiffeisen Bank)



Since the Deposit Insurance Agency is in its third year of activity, and the depositors' acquaintance with the insurance scheme is not in a high level, it is noticed the lack of portfolio allocation of their deposits. The opposite of this phenomenon is present in the countries having a long practice in the insurance schemes.

The analysis of the number of individual deposits, according to compensation structure, shows that the small depositors, whose deposits reach up to ALL 700,000 (seven hundred thousand) mark the biggest holding with 77 per cent of the total number of depositors. This is in line with the objective of the law, which is to protect at first the small depositors, who are more exposed to lack of economic information risk.

CHARACTERISTICS OF THE PREMIUM RATE

According to Article 24 of the Law "On Deposit Insurance", for every insured bank, the annual insurance premium rate is 0.5 per cent of the arithmetic average amount of insured deposits, registered at the end of every business day for the last quarter of the year. The Deposit Insurance Agency has the right of lowering the premium rate to 0.1 per cent, only if its financial resources amount to not less than 5 per cent of these deposits' average (at present this ratio is 1.4 per cent). Along with its insurance policies, Deposit Insurance Agency might increase the premium rate up to 0.7 per cent, when it is deemed that the risk sustained by the banks is considered too high. In both cases this is achieved by proposing statutory acts, which are approved by the Supervisory Authority.

It is applied the 0.5 per cent non-based risk premium, the same for all insured banks.

Chart 6 Structure of individuals deposits by percentage

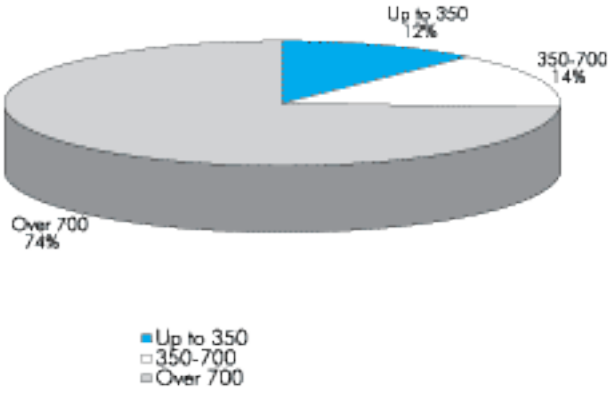
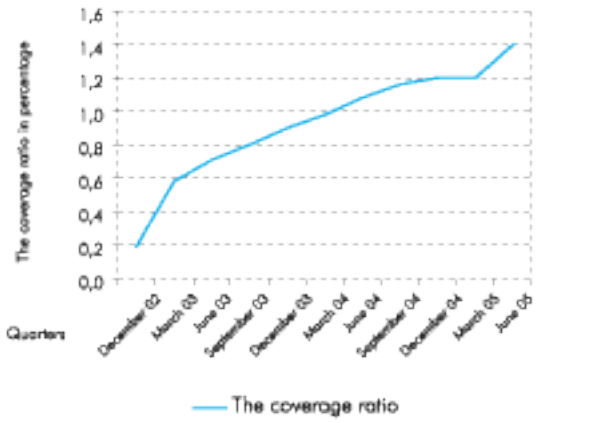


Chart 7 The coverage ratio

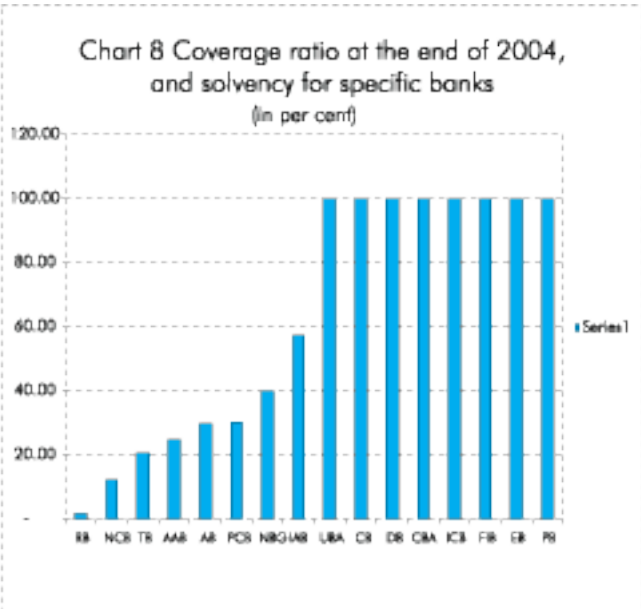


COVERAGE RATIO AT THE END OF 2004, AND SOLVENCY FOR SPECIFIC BANKS.

The coverage rate is a significant indicator to the deposit insurance scheme. This indicator is similar to the provision funds established to face the risk and it is calculated as the ratio between the agency's financial means and the total deposits.

This indicator is advantageous because it is easy to be calculated and it is meaningful in the fund exposure scale to risk, though it does not provide information on the risk that the agency faces from the concentration on the banking sector or crediting capacities of the member banks.

During 2005 Deposit Insurance Agency increased its revenues from contributions of new banks, deposit insurance annual premiums, as well as from its investment policies (in accordance with the provisions of the Law "On Deposit Insurance"), an increase which has implied the growth in coverage ratio. This ratio expresses the ratio between the Deposit Insurance Agency financial means and the total insured deposits. The coverage ratio in December 2004 was 1.2 per cent in comparison to 0.9 per cent at the end of 2003. This coverage ratio in June 2005 reached 1.4 per cent compared to 1.1 per cent of the same period in the previous year.



The financial situation of the Deposit Insurance Agency at present allows coverage of every bank in the system in case of failure, as presented in the following graphic:

Deposit Insurance Agency in its third year of activity is able to entirely compensate the insured depositors of the above mentioned 8 banks from 16 present in the system.

COMPENSATION, DIA'S PRIORITY OF OBJECTIVES

One of the obligations of Deposit Insurance Agency is the compensation of insured deposits according to the level and procedures as defined by the law, not later than three months from the day of intervention of the Supervisory Authority in the insured bank.

In function to this process Supervisory Authority, Bank of Albania approved two proposed instructions by the Deposit Insurance Agency; instruction "On the admission procedures of banks in the deposit insurance scheme" and the instruction "On DIA's relations with the insured banks". Together with their respective annexes, these instructions were distributed to all insured banks. The instruction annexes "On DIA's relations with the insured banks" contain information on the deposit and depositor, and such information shall facilitate the compensation in a short time, with no difficulties, in case of any possible failure of one or more than one bank. In order to accomplish the compensation process there is the need of creating a computerized program in accordance with the provisions of the law "On deposit insurance", defining in this way the priority of our institution's objectives.

In this way, the computerized program of the compensation process shall easily perform the accomplishment of all clauses in article 6, "Compensation of the insured deposit", starting from:

- the aggregation of all client's deposits in one,
- determination of credit surplus and the calculated interest from the day of intervention,
- the exchange in lek of all deposits insured in a foreign currency, according to the official exchange rate as determined by the Supervisory Authority in the day of intervention,
- detailed data storing for every depositor, in order to avoid incorrect and deceitful data.

According to article 7, compensation of insured deposits is performed by the Agency within a short period of time, but at any case not later than three months from the day of intervention. The Agency compensates the insured

deposit by acknowledging the ownership over it, as well as according to the compensation levels.

The computerized program that we aim to implement shall check all the data received from banks, in order to satisfy the requests for the deposit and depositor.

It shall enable the intervention in case of subsequent amendments in some articles of the law, such as the article on the calculation procedures of the insurance premium, or the change in the increase of the insurance premium.

Protection of depositors' interests as the final goal of the activity of our institution, developments of the banking and financial system in Albania, observance of western countries best practices aiming at our country's integration in the European community, makes the application of modern procedures and techniques indispensable and easily executable.

GENERAL INFORMATION

What does the Deposit Insurance Agency insure?

Deposit Insurance Agency in our country, provides the savings insurance of individuals and small depositors.

The agency insures savings deposits in lek and other currency, deposits which are not used for commercial purposes.

Thus, the savings deposited from individuals in an insured bank in the form of:

time deposits in Lek,
time deposits in foreign currency,
demand deposits in Lek,
demand deposits in foreign currency,
deposit certificates in Lek,
deposit certificates in foreign currency

are insured according to the law.

The above mentioned types of deposits are insured for both resident and non-resident depositor. Resident is considered anyone who has resided in Albania for at least one year.

What does not DIA insure?

Uninsured deposits are mainly commercial deposits, the main function of which is the execution of settlements, transfer etc. More concretely they comprise the deposits of private companies and businesses, the accounts of which are used for production, trade, servicing activities, deposits of

governmental and non-governmental organizations, the part of deposits over ALL 700,000, deposits used for criminal purposes, deposits belonging to the insured bank's shareholders, bank's administrators, auditors and accounting experts of the insured bank, deposits of every depositor with preferential interests, deposits of people having obligations to the insured bank, deposits held with the branch of the insured bank out of the territory of the Republic of Albania, deposits deposited on the day of bank's liquidation, and other similar deposits.

Who bears the cost of deposit insurance?

The client or the depositor is not charged for the deposit insurance. The compensation expenses of the Agency are mainly covered by the banks, but it might also be granted a loan, or be financed by the state budget.

What is the coverage amount?

According to the law, the agency pays the deposit's principle and the current (aggregated) interests from this deposit per depositor, to the day of intervention, up to ALL 700.000.

Can the coverage amount be increased?

According to the principle that insurance is applied per depositor per bank, this amount can be increased. There are two possibilities for such an increase: the deposit in more than one Bank and the increase in the number of deposit holders (depositors).

If a person deposits the money in more than one bank, the coverage amount might be increased to the maximum limit per bank.

If a depositor/family member puts the money in different deposits held by each family member, the total insured deposits per family shall be increased.

Note
** The views expressed in this paper are those of the authors and do not necessarily reflect those of the Bank of Albania.*
*** Silva Seiko, Head of DIA.*

A COMPARATIVE APPROACH BETWEEN THE STATISTICS STANDARDS OF THE BANK OF ALBANIA AND THE SDDS PROJECT STANDARDS OF THE INTERNATIONAL MONETARY FUND*,**

ABSTRACT

The purpose of this material is to compare the existing practice of the statistics dissemination at the Bank of Albania and the SDDS standards, as well as to identify the standards deviations. The evaluations expressed in this material are the views of the statistics' specialists of the Bank of Albania and the respective SDDS specialist at the International Monetary Fund and they do not necessarily express a final evaluation.

The first section of the material takes a glance on the work of the Fund regarding data dissemination and it describes the requirements of the SDDS standard. The second section describes the existing data dissemination practices at the Bank of Albania, compares them to the standard and identifies the possible deviations. Finally, section 3 lists a number of responsibilities that the units generating statistics at the Bank of Albania need to assume in the context of Albania's membership in the SDDS.

ACRONYMS:

SDDS – Special Data Dissemination Standards.
GDDS – General Data Dissemination System.
DQAF – Data Quality Assessment Framework.
DSBB – Dissemination Standards Bulletin Board.
NSDP – National Summary Data Page.
ROSC – Report on Observance of Standards and Codes.
BoP – Balance of Payments.
IIP – International Investment Position.

1. DEFINITION OF THE SDDS

I.1 A GENERAL FRAMEWORK ON THE DEVELOPMENT OF STATISTICAL DATA DISSEMINATION

Special data dissemination[1] standards (SDDS), based on countries' best practices, were set by the International Monetary Fund in 1996, for those countries participating in the international financial markets and those applying to participate in them. Given that the existence of similar standards while compiling the statistical data enhances transparency and facilitates the macro-economical policies monitoring, the implementation of the SDDS is deemed to improve the functioning of financial markets. By means of the SDDS,

investors are provided with control instruments on each link of statistical data dissemination and the IMF enables their quality monitoring. As a consequence, investors' reliability and their interest for the country implementing the SDDS increase. Various empirical studies show that participation in the SDDS, decreases one country's lending cost and it has a positive effect over the evaluation of the country by the listing crediting agencies. Observing the accomplishment of certain aspects of the SDDS by member countries, Allum and Agca (2001) came to the conclusion that the improvement of statistical data compilation has a positive effect over the authorities' decision-taking process and the public debate over them.

A country subscription to the SDDS is made on voluntary basis, but it requires its commitment in order to meet the standards and provide the IMF will all necessary information regarding data dissemination. Member countries to the SDDS publish this information in the IMF web page, in its electronic bulletin (DSBB) and they have provided a web site connection to the data, called "National Summary Data Page" (NSDP). Today, there are 61 member countries part of SDDS, out of which 17 are countries in transition[2] and those which have overcome this phase.

Apart from the SDDS, International Monetary Fund has established another set of standards, the General Data Dissemination System (GDDS), aiming at developing the statistical systems as a basis to data dissemination. In the fifth review of the Fund's data standards initiatives, the purpose of the GDDS is defined as follows:

(1) Encourage member countries to improve data quality;
(2) Provide a framework for evaluating needs for data improvement, setting priorities in this respect, and mobilizing technical assistance; and
(3) Guide member countries in the dissemination to the public of comprehensive, timely, accessible, and reliable economic, financial and socio-demographic statistics[3].

The GDDS is focused on improving statistical systems, whereas the SDDS is focused on the dissemination of data used by financial markets. In comparison with the SDDS, the GDDS could be implemented for all countries without exceptions, and it is considered as an intermediate link to the membership in the SDDS, since its aim is to increase transparency for the existing practices of the member country and strategy compilation for their development in order to accomplish the SDDS standards. Until currently, four[4] countries participating in the GDDS are members of the SDDS. In order to monitor the practices of these countries, reports on the observance of standards and codes (ROSC) are used, which are undertaken for the member countries to the SDDS and the GDDS. The ROSC assesses not only the data dissemination practices against the SDDS/GDDS, but also the full range of statistical practices governing the production of specific macroeconomic datasets.

Regarding the assessment of countries' practices for statistical data dissemination was established the DQAF system (Data Quality Assessment

Framework), which covers every aspect of the data production cycle. Despite its main function as a basis to the ROSC, the DQAF could be easily used by national agencies themselves, which disseminate statistical data to assess their performance against their standards and to identify the existing shortfalls[5].

I.1 WHAT DOES THE SDDS CONTAIN?

The SDDS contains four data dissemination dimensions and to which of them the elements described in Chart 1 could be monitored.

Dimensions:	Elements of dimensions:	
1. Data	1.1.	Coverage
	1.2.	Timeliness[7]
	1.3.	Periodicity
2. Access by the public	2.1.	Advance publication of a calendar for data dissemination.
	2.2.	Simultaneous release of data to all interested parties.
3. Integrity of the data	3.1.	Dissemination of the terms and conditions under which official statistics are produced, including those relating to the confidentiality of individually identifiable information.
	3.2.	Identification of internal government access to data before release.
	3.3.	Identification of ministerial commentary on the occasion of statistical releases.
	3.4.	The provision of information about revision and advance notice of major changes in methodology.
4. Quality of the data	4.1.	The dissemination of documentation on methodology and sources used in preparing statistics.
	4.2.	The dissemination of component detail, reconciliations with related data, and statistical frameworks that support cross-checks and provide assurance of reasonableness.

Table 1 The SDDS dimensions and their monitorable elements

The SDDS comprises the most important data in assessing the macroeconomic policies. The categories of these data include four sectors of the economy: fiscal sector, real sector, financial sector and the external sector. A comprehensive statistical framework is used for each sector, respectively:

- national accounts for the real sector, where as a reference point is used "The System of National Accounts", IMF, 1993,
- government's accounts for the fiscal sector, where as a reference point is used "Government Finance Statistics Manual", IMF 2002,
- analytical data on banking and financial system, where as a reference point is used "Monetary and Financial Statistics Manual", IMF 2000,
- balance of payments data for the external sector, where as a reference point is used the fifth edition of "Balance of Payments Manual", IMF 1993.

In each of these sectors are identified two categories of data; category of base data and category of encouraged data, which the member country is not obliged to apply in order to accomplish the SDDS standards. To monitor the observance of the SDDS standards, the categories of base data are analyzed under the dimensions described in table 1. Another characteristic of the SDDS worth to be mentioned is the impossibility of one country to observe for some

time one of the standards, such as, for instance, the standard relating to timeliness or periodicity for certain categories of data (possibility of tolerance). Through this possibility, a member country is given time to adopt its own practices being within the SDDS framework.

II. STATISTICS STANDARDS OF THE BANK OF ALBANIA VERSUS THE SDDS

Starting from 1999, Albania is a member of the GDDS, being a pilot country in the project. During all this time, the statistical processes at the Bank of Albania, Ministry of Finance and INSTAT have undergone important developments as to transparency and quality, human resources qualification and assistance to users. Regarding data dissemination, the ROSC mission visited Albania in May 2000 and left a number of tasks, including the compilation of a national accounts system, improvement of the legal framework and coverage of economic activities, in particular statistics-related of the real and external sector, as well as the efficient use of sources of information. During this period, many important steps have been taken to the improvement of the statistics at the Bank of Albania, owing to the continuous support and cooperation with the IMF experts. Another step to be taken is the assessment of data dissemination practices for the financial and external sector, based on the elements presented in table 1, and the areas which need further improvement.

II.1 FINANCIAL SECTOR STATISTICS

Base categories of the data in this sector are the banking system analytical data, the central bank analytical data and interest rates. In Annex 1 are summarized the SDDS dimensions in relation to these categories, their monitorable elements according to the requirements of the SDDS standard (on the left of the table) and the actual practice at the Bank of Albania.

i) Data

Monetary and financial statistics in Albania cover other deposit corporations (savings and credit associations and commercial banks) and the Bank of Albania. The data relating to the banking system are released monthly, as a rule, 40 days from the last reference date for the first 11 months of the year and within two months from the reference date for December. The data on savings and credit associations are updated quarterly.

The data on the central banks are released monthly, and as a rule, within 10 days from the reference date.

The interest rates published by the Bank of Albania include the interest rates for the indirect instruments of the Bank of Albania monetary policy, interest rates of government's securities in the prime market and the interest

rates for loans and new deposits of the banking system in lek, usd and euro per every maturity and in total. The interest rates of indirect instruments and government's securities in the prime market, are released on the day when they are changed or on the day of their emission, while the interest rates for loans and the banking system deposits are published monthly, 40 days from the end of reference month.

First, regarding the coverage and periodicity, it could be said that for all categories our practice is in conformity with the SDDS standards. Moreover, the quarterly update of savings and credit associations' data to the analytical data of the banking system, does not imply a deviation from the SDDS standard since this standard requires only the coverage of commercial banks.

Regarding this dimension, the timeliness in the compilation of the banking sector indicators constitutes a deviation. This timeliness derives from the banks' impossibility to report sooner, which is mostly observed at the end of the year. However, in such a case it could be used the above mentioned tolerance possibility, for as long as the reporting time from the commercial banks is reduced. Concerning the central bank accounts, the compilation is made and released in due time.

ii) Access by the public

The monitorable elements with respect to this dimension are the advance and simultaneous information access by all parties.

The first monitorable element of this dimension relates to an advance publication of a calendar specifying the date (given in a fixed or interval form) in which the statistical data are to be published. Such a calendar is useful to the users out of the institutions, because it enables them to plan their time and activities. The standard provides that the calendar has to be published at least three months before the date of data release specifying the interval (within five days) in which the data shall be released or its due date. In a second step, a week before the date of data release, the set date of release has to be made published.

Currently, the publication of such a calendar is not a practice to any of the data categories of the financial sector. The calendar may be published in the Bank of Albania web page or in the DSBB, and in one of the periodic publications of the Bank of Albania, for instance, the monthly report (bulletin).

Another monitorable element regards the simultaneous release of statistics to all interested parties[7]. In this respect, the release refers to the first data publication, regardless of the publication means. This element is necessary in those cases when the access to the statistical information provided to a party in advance, could cause the latter benefits to the detriment of other parties. As to the monetary and financial statistics and the interest rates, the release is made possible by publishing the statistical information in the Bank of Albania web page.

iii) Integrity of the data

With respect to this measure, the guide on the SDDS[8] refers to it as:

"To fulfil the purpose of providing the public with information, official statistics must have the confidence of their users. In turn, confidence in the statistics ultimately becomes a matter of confidence in the objectivity and professionalism of the agency producing them. Thus, transparency of practices and procedures is a key element in creating this confidence".

This measure regards the transparency of practices and procedures for the data release.

The first elements deals with the dissemination of terms and conditions under which official statistics are produced, including those relating to the confidentiality of individually identifiable information. More concretely, there is a comprehensive regulative basis for the financial sector statistics which regulates the information collection, processing, dissemination and storage. In most cases, the relevant laws and regulations could be referred to through the Bank of Albania web page.

The Law "On the Bank of Albania" explicitly gives the right to the Bank of Albania to produce and disseminate the financial sector statistics. Moreover, the law on the commercial banks and the law on savings and credit associations oblige them to report the statistical data to the Bank of Albania. The Law on the Bank of Albania provides that, every institution, juridical or physical person shall be required to report to the Bank of Albania (Article 27, the Law on the Bank of Albania), but there are not any specifications if the opposite occurs (for instance, the penalties awarded to those entities which do not meet this requirement).

The Bank of Albania ensures the confidentiality of the individual data as provided by the Law "On the Bank of Albania", "The Code of Ethics of the Bank of Albania" and "The Regulation on Transparency and Confidentiality at the Bank of Albania".

Apart from the law provisions, there are procedures which prevent the release of individual information. These rules prevent the illegal information release, such as, for instance, by providing the database, by limiting the number of personnel consulting the individual data, etc. Something to be considered is the indirect release of individual information. Regarding the regulative protection, the Law on the Bank of Albania and the aforementioned regulations provide the confidentiality of the individual data, by prohibiting the Bank of Albania personnel release or transfer the individual data to a third party, for any purposes. Nevertheless, the regulative basis needs to specify "the prevention of confidential information indirect release" (as an illustration could serve the case when a bank has a predominant position over a certain instrument which enables the information disclosure even when these data are in an aggregated level).

The second element regards the identification of the internal government[9] to access the data before release. By means of this element it is aimed at the protection of the statistical data from the government influence, being fully transparent with the public on the list of units which enjoy the right of using the data before their release. Concerning the monetary and financial statistics, none out of the compiling agencies – the Bank of Albania, enjoys this right.

The third element relates to the identification of ministerial commentary on the occasion of statistical releases. Given that the government may not objectively assess the statistical data, in particular, in those cases when they relate to its responsibilities, the standard provides the identification of the commentary source on the data. For the monetary and financial statistics there are not any ministerial commentary regarding the data released.

The last element of this dimension relates to the provision of information about revision and advance notice of major changes in methodology. The users of the statistics need to be informed on the practices of the data revision. Moreover, they need to know whether these are preliminary or final data.

As a rule, the revisions of monetary and financial statistics are a consequence of the balance sheets revision of commercial banks after the auditing performed by the external auditors or by the on-site supervision by the Bank of Albania. In the monetary statistics, the changes are included in the following publication. Consequently, the data are considered to be final when they are published and, if needed, they are revised. Since, there is not an approved policy on the revision of the data yet, their revision cannot be known in advance. The revision documentation, which includes the reasons of changes, the measure of changes, etc., though it is regularly maintained by the Monetary and Financial Statistical Office, it is not published along with the data.

iv) Quality of the data

The quality of the data is the most complicated dimension to be measured, since the pressure to meet another element, such as coverage or timeliness, results in consequences over the quality of the data.

First, the documentation on the concepts, coverage, classification, registration methods, sources of information and statistical techniques, must be published. The differences between the international standards must be published, too.

Regarding the monetary and financial statistics there is comprehensive information on the approach of compiling the statistical indicators. "Methodology of the monetary and financial statistics, BoA, July 2003", which is the methodological basis to the compilation of the monetary and financial statistics, and the analytical metadata for the compilation of the indicators are published in the Internet. It could be concluded that there are not any deviations from the international standard[10].

Concerning the interest rates, their calculation methodology is in conformity with the regulation "On the indirect instruments of the Bank of Albania monetary policy" approved upon the decision no. 08 dated 07.02.2001, published in the Bank of Albania web page.

The calculation methodology of the government securities interest rates is stipulated in the agreements on "The issuance of long-term government bonds in the form of registration, dated September 25, 2002" and "The issuance of treasury bills in the form of registration, dated July, 8 2002".

The second element relates to the dissemination of component detail, reconciliations with related data, and statistical frameworks that support cross-checks and provide assurance of reasonableness.

The publication of the monetary and financial statistics indicators is performed according to a framework as stipulated in the "Manual on Monetary and Financial Statistics, IMF, 2000". According to the latter, the criteria on the monetary and financial statistics are provided within a short period of time. Moreover, the data series of the Bank of Albania are published in the "Monthly Statistical Report".

II.2 EXTERNAL SECTOR STATISTICS

In accordance with the manual and the first module of the SDDS, compiled by the International Monetary Fund in 1996, the main categories of the external sector statistics were: the balance of payments, international reserves, foreign trade, international investment position and the exchange rates.

In the second review of this standard, December 1998, was supported the proposal on the augmentation of the external debt, as a statistical category to be compiled within the external sector framework. Later on, in the third review in March 2000, the International Monetary Fund decided on a three-year transition period (until the end of March 2003) for the statistics quarterly reporting of the external debt, as a mandatory category of the SDDS standard. These statistics must be released with a lapse of no more than one quarter and cover the external debt of the general government, monetary authority, banking system, private sector and other.

Currently, the Bank of Albania compiles and disseminates the data on these categories: the balance of payments, foreign trade, exchange rates and international reserves, while it is far off the meeting of the SDDS requirements for the compilation of the international position and external debt statistics. As regards the international reserves statistics, the Bank of Albania disseminates only the monthly data on the net foreign assets, which include the monetary authority assets and liabilities, published by the Sector of the Monetary and Financial Statistics and the change of the net foreign assets in the framework of balance of payments statistics, published by the Sector of Balance of Payments.

Meanwhile, during the second review of the SDDS in March 1999, the IMF approved the inclusion of a new dissemination module on the international reserves statistics – the data module on the international reserves and liquidity in foreign currency, and it determined a transition period ending at the end of March 2000. After the end of this transition period the member countries compiled the data according to this module. This database became operative in October 2000 and it included the data from the monetary authority and the government, too.

In the context of the membership to the SDDS, the Bank of Albania must compile such a module and set the respective inter-institutional contacts (with the Ministry of Finance) to the accomplishment of this mission.

Annex 2 presents, in a summarized way, the SDDS dimensions relating to the three categories of the external sector, which are closer to the requirements of this standard: the balance of payments, foreign trade and the exchange rates.

i) Data

In principle, the Balance of Payments of Albania covers all transactions between residents and non-residents, although some illegal activities are not covered. The balance of payments data are compiled in millions usd and they are classified according to the table structure of the balance of payments and the definitions of the standard components listed in the IMF Balance of Payments Manual, BPM5[11]. These components are classified into three main categories: I – Current account, comprising goods and services, income and current transfers; II – Capital account involving capital transfers, where included are debt forgiveness and other transfers; III – Financial account with the financial claims and liabilities of Albania to non-residents, divided into international reserves and financial transactions.

The current account balance is equalized by the net capital and financial account balance. The statistical table of the balance of payments is based on the principle of double entries and the offsets are included in the "Errors and Omissions" item, according to the recommendations of the IMF Balance of Payments Manual, BPM5. Moreover, the periodicity (quarterly) and timeliness (not more than a quarter from the reference period) are observed for the data release and dissemination.

Due to insufficient or weak source of data are made estimations for several units of the external sector. For the balance of payments, adjustments are made in the customs data relating to import and export, import evaluation on the contraband goods and electricity, as well as evaluation of imports on f.o.b. basis. Evaluations are also made for the compilation of some kinds of services, worker's remittances and foreign direct investments. However, there are not any seasonal adjustments for the financial data Currently, work is being done to improve the sources of data in order to provide a wider coverage of the balance of payments statistics.

The exchange rates at the Bank of Albania are disseminated in accordance with the SDDS requirements regarding the data dimension. The current methodology of the official exchange rate calculation has been implemented since May 31, 2003, upon the approval of the Instruction "On the calculation method of the exchange rate at the Bank of Albania". According to this method, the exchange rate is calculated on the quotation average of six banks and four exchange bureaus, while the previous one calculated the average rate of the performed transactions from six banks and four exchange bureaus. The volume increase of the operations and the spread narrowing in quotations caused the second method to lead to a real exchange rate, less costly and in conformity with the world practice. The exchange rate of the usd against the lek is calculated on the aforementioned quotations, while the exchange rate of other currencies is calculated as a cross rate of the usd/lek exchange rate with the currencies exchange rate against the usd, at 12.00 of the respective day.

Foreign trade, in the form of statistics and statements relating to the merchandise trade, is compiled and released by the Bank of Albania and the Statistics Institute (INSTAT) based on the monthly information received from the Directorate of General Customs, which reports the total of the customs statements during the period. The data are entered upon the completion of the customs statement. The information source is the same for both agencies for the compilation of these data. INSTAT publishes the monthly data on the external sector in lek, according to 21 commodity groups of the Harmonized System[12] and 30 countries. Imports are published in c.i.f. value and the exports in f.o.b value. The Bank of Albania refers to the balance of payments methodology by publishing the goods imports and exports in f.o.b. value in millions usd. Regarding the type of goods to be included or excluded from the commercial import and export, the Bank of Albania observes the methodological standards, defined by Eurostat, UN and IMF.

With regard to the estimation of imports in f.o.b. value, imports in c.i.f. value are exempt from the insurance and transportation costs. The coefficients for the goods insurance and transportation costs are provided through the foreign trade research. Moreover, the Bank of Albania uses estimation for the contraband or non-registered imports.

ii) Access by the public

Currently, there is not an advance publication of a calendar for the Balance of Payments. The compilation of a policy for the establishment and publication of such a calendar is to be made.

The first introduction of the public to the balance of payments data and the foreign trade statistics is the publication of the quarterly press statement along with the tables. The publication of trade statistics according to 21 commodity groups and countries is made monthly, two months after the reference month. Within three weeks from the press release there is the electronic release and its publication in the Bank of Albania web page, in the database and the

statistical report, which is disseminated in a hard copy according to the users' list. Upon request (only after the publication date of the statistics) the users may have access to the published data in the standard format, electronically or in hard copy. Actually, the balance of payments and the foreign trade data are accessible by all parties simultaneously.

With regard to the exchange rate, the requirement for the simultaneous release of data is met through the publication of the exchange rate in the Bank of Albania web page and in Reuters (NBAL) web page of the institution. Similar to the other statistics, the practice of an advance publication of a calendar is not applied.

iii) Integrity of the data

The compilation of the Balance of Payments data is made pursuant to Article 27 of the Law "On the Bank of Albania", according to which the Bank of Albania compiles the Balance of Payments of the Albania, organizes and directs the statistical system of this balance of payments. In this context, the compilation of the foreign trade statistics by the Bank of Albania derives from its obligation to compile the balance of payments of the Albania. For the collection of information in compiling the BoP and the foreign trade statistics, and with regard to the confidentiality in the data dissemination, the legal and regulative basis supporting this sector is the same as the one used for the financial statistics and it is published in the Bank of Albania web page.

There is no governmental units' preliminary access or any commentary over the published data. Relating to the adjustments in the balance of payments statistics, though final when published, they are continuously subject to adjustments due to changes in the preliminary evaluations, changes in methodology, and additional new sources of information or improvements of the existing ones. Similarly and for the same reasons there may be adjustments and revisions in the foreign trade statistics. The adjusted tables are released, but not the documentation on the respective adjustments history. Moreover, there are not any reliable adjustment policies which would determine an accurate revision calendar, and the users' information on the external sector statistics regarding these revisions. In the context of the improvement of the balance of payments statistics dissemination, the compilation and implementation of this policy remains a task.

The Law "On the Bank of Albania" entitles it to calculate and publish the official exchange rate of the country. With regard to this statistical datum, governmental units do not have prior access to the publication. As to the adjustments to these data category, their dissemination is final upon the first publication instance.

iv) Quality of the data

The Balance of Payments of Albania is compiled pursuant to the "Balance of Payments Methodology", which is based on the standards of the "Balance

of Payments Statistics Manual, IMF, Fifth Edition, 1993". It contains technical details in compiling the balance of payments statistics, basic concepts and definitions of the balance of payments items, as well as orientations on the information sources being used. This methodology is widely used by the sector, but it is not published.

In this context, in order to meet the SDDS standard requirements, the methodology must be published after the changes and amendments through the years have been displayed, and room has been left for any changes in the future. The publication of deviations of this methodology from the international standards relating to these statistics is recommended.

With regard to the publication of detailed data, the balance of payments statistics are detailed to the point where the comprehensiveness of information sources permits. Further details are expected upon their extension. In the Balance of Payments Statistical Bulletin and the aggregated series, published in the Bank of Albania web page, are presented detailed data and time series for the last four quarters and for at least the last 10 years.

Foreign trade statistics are compiled based on the recommendations in the "Balance of Payments Statistics manual, IMF, Fifth Edition, 1993", and in accordance with the details given in the "Balance of Payments Compilation Guide, IMF, 1995". The data compilation is based on the methodology determined in the "International Merchandise Trade Statistics: Concepts and Definitions" (1998).

The methodology on the exchange rates calculation is published in the Bank of Albania web page. With regard to the working procedures, work is being done to enable the electronic entering and compilation of the commercial banks quotations and the rates in the international market, at the moment of calculation. The presence of the exchange rates time series in the Bank of Albania web page, in the "Monthly Statistical Report", enables their control.

III. TASKS AND ISSUES TO BE SOLVED

Aiming at the improvement of the data dissemination in order to achieve the SDDS standards, below it is given a list of tasks deriving from the existing deviations:

- Completing the law on penalties in case of non-reporting from the entities for statistical purposes.
- Upgrading the regulations on the prevention of the indirect data dissemination and the limited access to individual data. Introduction of the personnel to the transparency rules.
- Creating the necessary conditions for the statistics compilation of the external debt IIP.
- Compiling the statistics of the international reserve according to the "International Reserves and Foreign Currency Liquidity" module.

- Updating the compilation methodology of the balance of payments, its approval and publication.
- Listing, publishing and reviewing the regulations regarding the terms and conditions in which the statistical data are collected, processed and disseminated.
- Reducing the reporting time of the commercial banks, and setting due dates for end year.
- Increasing transparency for the statistics revision by publishing calendars, documentation commentary associated to the adjustment.
- Extending the coverage of the monetary and financial statistics to the other financial institutions.
- Advance publication of statistical publication calendar produced by the Bank of Albania.

ANNEX 1: FINANCIAL SECTOR

Notes:

1. The tables are given according to the breakdowns of table 1.
2. The presented estimations are made by the authors; some preliminary consideration are taken from the SDDS unit of the International Monetary Fund. In order to have the real estimations, the International Monetary Fund needs to be contacted.
3. In the third column of the tables below, the symbol "√" implies that the existing practice is in accordance with the SDDS standard, while the symbol "X" implies that the existing practice is not in accordance with the SDDS standard.

I) ANALYTICAL ACCOUNTS OF THE BANKING SECTOR

Data: coverage, periodicity and timeliness		
SDDS Requirements	Our Practice	
Characteristics of coverage: The standard requires as a minimum the involvement of: the monetary aggregates, domestic loan broken down into the general government/ the rest of the resident sectors or general government/ nonfinancial public enterprises/ private sector or public sector/ private sector; and the external position of the banking sector given in gross or net basis.	The analytical accounts of the banking sector are disseminated through the "Monetary situation", in million lek. The data cover the commercial banks operating in the territory of Albania and the Bank of Albania. The data include: (1) The monetary aggregates: (a) M1, which comprises money in circulation and the demand deposits (current accounts and the demand deposits) of non-bank resident sectors, (local government, nonfinancial public enterprises, other nonfinancial enterprises, other financial institutions and other resident sectors); (b) M2, which comprises M1 and time deposits of non-bank resident sectors; and (c) M3, which comprises M2 and currency deposits of non-bank resident sectors. (2) Net claims to central government (including claims to government, such as borrowings, securities and other accounts; and liabilities to the government, such as loan deposits and other accounts). (3) Domestic loan to resident sectors divided into claims to local government, claims to nonfinancial public enterprises, claims to other nonfinancial enterprises, claims to other financial institutions and claims to other resident sectors. (4) The external position of the banking sector in gross basis (including the monetary gold and assets and liabilities of the Bank of Albania to the IMF).	√
Periodicity: Monthly.	Monthly	√
Timeliness: One month.	Not later than 40 days after the end of the reference month for the data of the first eleven months of the year and within 2 months from the reference date for December.	X

Access by the public		
SDDS Requirements	Our Practice	
Advance release of the publication calendar: At least a quarter in advance, the participating members must announce the publication date or its due date. A period up to 5 business days could be identified, during which the publication is mode, provided that the exact date is announced a week prior to the publication day.	Not any.	X
Simultaneous release of data to all parties: The standard recommends the simultaneous release of data to all interested parties. In this case, the publication does not refer to the ministries or governmental agencies. Simultaneous release refers to the first instance when the data is accessible by all users at any kind of format (document, floppy disc, electronically, etc.)	The data are simultaneously released to all interested parties in the Bank of Albania web page. Information is also given in the Bank of Albania monthly bulletin.	√
Integrity of the data		
SDDS Requirements	Our Practice	
Publication of terms and conditions, under which the statistics are produced and disseminated, including the protection of individual information: Terms and conditions may refer to issues, such as, the relationship between the statistical unit and one department or ministry in which it takes part. For instance, they might refer to the dependency (in the budget or human resources aspect) of the agency producing the statistics on an external authority, to the independence (in choosing the statistics methodology and decisions related to the publication of statistical results). Moreover, the terms and conditions may refer to the requirements to the agency to publish the data collected as a protection from the political pressure to hide certain results, qualification and terms of reference of the statistics director, and the revision of statistical programs by independent expert groups. Another issue concerning the conditions, in which the statistical agencies operate, refers to the procedures and processes related to the individual data confidentiality. These procedures cover various issues, varying from the computer security to the exchange of information between statistical agencies.	The compilation of monetary and financial statistics is in accordance with the "Monetary and financial statistics methodology, Bank of Albania, July 2003". The individual data confidentiality is provided by Article 58 of the Law No. 8269 "On the Bank of Albania" in 1997, where it is stipulated that the administrators, employees and agents are prohibited to release or transfer the information gained during their employment at the Bank of Albania to a third party or use and let the information be used for personal purposes. The individual data confidentiality is also provided by the Regulation "On the transparency and confidentiality at the Bank of Albania", approved upon the Decision No. 53, dated June 21, 2000 of the Bank of Albania Supervisory Council. The Laws and Regulations are published in the Bank of Albania web page.	√
Identification of the government access prior to data publication: In order to be protected by the influences of the authorities out of the agency publishing the data, the standard recommends the listing of persons or officials with certain positions in the government, but out of the data compilation agencies, which have access to the data prior to the publication, and the reporting of an accessible calendar. This practice is recommended in order to grant full transparency to every prior access by the government, deemed as necessary.	None out of the Bank of Albania enjoys the right of using the monetary and financial statistics indicators prior to their publication.	√

Identification of ministerial commentary related to the statistical data: Considering that the government may not objectively assess the statistical data, in particular in those cases when they are directly related to its responsibilities, the standard provides the identification of the commentary source over the data.	There are not any commentaries from the officials out of the Bank of Albania related to the data on the monetary and financial statistics indicators.	√
The provision of information about revision and advance notice of major changes in methodology: Essential information regarding the data revision might be the one related to the observed policies and the extent of previous revisions. The adjustments are made in order to reflect the amendments or changes concerning different aspects of the statistical methodology, such as: fundamental concepts and definitions; sources of information; evaluation methods. The adjustment policies referring to these changes must determine the frequencies of the respective procedures that these adjustments have to observe and they must be made public. Notices on the above mentioned changes may vary from short press releases to public presentations and materials. The members are encouraged to provide quicker information on the revisions after they have been made (for example, via telephone, fax or internet by a contact person who could answer questions related to the adjustments).	The data are final upon publication. However, these data may be revised due to changes in the commercial banks reports after the auditing by their external auditors. The revised data are presented in the following publication, while the reasons for the changes are not published. Regarding the changes in methodology, they are announced at the moment when the data is released and not prior to that.	X
Quality of the data		
SDDS Requirements	**Our Practice**	
The dissemination of documentation on methodology and sources used in preparing statistics: The dissemination of documentation on methodology and sources used is the key to the users' awareness on the advantages and shortfalls of statistics. The recommended documentation may take different forms, including the summary notes accompanying the data dissemination, special disseminations or prepared materials to be released upon request. The members are encouraged to include and highlight statements on the most essential characteristics of quality. These statements may clarify the type of error, subject to which might be the data, reasons of the data non-comparativeness in time or the selection errors in cases of research, etc.	The methodology used for the compilation of monetary and financial statistics is provided in the "Monetary and financial statistics methodology, Bank of Albania, July 2003", available in the Bank of Albania web page.	√
The dissemination of component detail, reconciliations with related data, and statistical frameworks that support cross-checks and provide assurance of reasonableness: This element recommends the dissemination of component detail, emphasizing the release within a statistical framework and/or the dissemination of the comparison and reconciliation with other related data. The component detail must be in a way so that it does not cause conflicts to other elements and the individual information reliability and confidentiality.	The data are disseminated according to the statistical framework of the monetary reporting, which ensures the base accounting identity: net foreign assets plus domestic assets, equals total liabilities plus capital account. Moreover, special data relating to the monetary authority and commercial banks are published in the Bank of Albania web page and in the "Monthly Statistical Report" of the Bank of Albania, as such allowing the cross-checks.	√

II) ANALYTICAL ACCOUNT OF THE CENTRAL BANK

Data: coverage, periodicity and timeliness		
SDDS Requirements	Our Practice	
Characteristics of coverage: The SDDS requires the involvement of these components: i) Monetary basis (monetary reserve) according to the concept used in the country. ii) Internal credit divided into public sector or central government (depending on the statistical framework of fiscal statistics) and private sector; and, iii) The foreign position of the central bank, in gross or net basis.	The analytical data of the central bank are given in million lek and are based on the accounting registrations of the Bank of Albania. The data are disseminated according to these components: 1) Net foreign assets of the central bank, divided into assets to non-residents and liabilities to non-residents. 2) Net claims to the central government, divided into claims to the central government and liabilities to the central government. 3) Domestic assets to the rest of the economy (including claims to individuals, claims to nonfinancial public units, other nonfinancial units, other financial units and claims to other deposit corporations). 4) Monetary basis, including money in circulation, reserves of the commercial banks with the central bank and deposits included in broad money. 5) Deposits excluded from broad money, such as blocked deposits of resident sectors, other than the central government. 6) Loans to the central bank in the form of repurchase agreements. 7) Other payable accounts to other resident sectors, other than the central government. 8) Other net items. 9) Capital accounts.	√
Periodicity: Monthly, weekly encouraged.	Monthly.	
Timeliness: Two weeks.	Not later than ten days after the last date of the reference month.	

Access by the public		
SDDS Requirements	Our Practice	
Advance release of the publication calendar: At least a quarter in advance, the participating members must announce the publication date or its due date. A period up to 5 business days could be identified, during which the publication is made, provided that the exact date is announced a week prior to the publication day.	Not any.	X
Simultaneous release of data to all parties: The standard recommends the simultaneous release of data to all interested parties. In this case, the publication does not refer to the ministries or governmental agencies. Simultaneous release refers to the first instance when the data is accessible by all users, at any kind of format (hard copy, floppy disc, electronically, etc.).	The data are simultaneously released to all interested parties through the Bank of Albania web page. This information is also given in the Bank of Albania Monthly Statistical Report.	√

Integrity of the data		
SDDS Requirements	Our Practice	
Publication of terms and conditions, under which the statistics are produced and disseminated, including the protection of individual information:	The data are compiled in accordance with the Law No. 8269 "On the Bank of Albania" in 1997, (Article 24) which stipulates the obligation of the Bank of Albania to prepare periodical analysis on economic and monetary issues, publish results and make proposals to the government.	
Terms and conditions may refer to issues, such as, the relationship between the statistical unit and one department or ministry in which it takes part. For instance, they might refer to the dependency (in the budget or human resources aspect) of the agency producing the statistics from an external authority, to the independence in choosing the statistics methodology and decisions related to the publication of statistical results. Moreover, the terms and conditions may refer to the requirements to the agency to publish the data collected as a protection from the political pressure to hide certain results, qualification and terms of reference of the statistics director and the revision of statistical programs by independent expert groups. Another issue concerning the conditions, in which the statistical agencies operate, refers to the procedures and processes related to the individual data confidentiality. These procedures cover various issues, varying from the computer security to the exchange of information between statistical agencies.	The compilation of monetary and financial statistics is in accordance with the "Monetary and Financial Statistics Methodology, Bank of Albania, July 2003". The individual data confidentiality is provided by Article 58 of the Law No. 8269 "On the Bank of Albania" in 1997, which stipulates that the administrators, employees and agents are prohibited to release or transfer the information gained during their employment at the Bank of Albania to a third party, or use and let the information be used for personal purposes. The individual data confidentiality is also provided by the Regulation "On the transparency and confidentiality at the Bank of Albania", approved upon the Decision No. 53 dated 21.06.2000, of the Bank of Albania Supervisory Council. The Laws and Regulations are published in the Bank of Albania web page.	√
Identification of the government access prior to data publication: In order to be protected by the influences of the authorities out of the agency publishing the data, the standard recommends the listing of persons or officials with certain positions in the government, but out of the data compilation agencies, which have access to the statistical data prior to the publication, and the reporting of an accessible calendar. This practice is recommended in order to grant full transparency to every prior access by the government, deemed as necessary.	None out of the Bank of Albania enjoys the right of using the monetary and financial statistics indicators prior to their publication.	√
Identification of ministerial commentary related to the statistical data: Considering that the government may not objectively assess the statistical data, in particular in those cases when they are directly related to its responsibilities, the standard provides the identification of the commentary source over the data.	There are not any commentaries from the officials out of the Bank of Albania related to the data on the monetary and financial statistics indicators.	√

I) INTEREST RATES

Data: Coverage, Periodicity and Timeliness		
SDDS Requirements	Our Practice	
Characteristics of coverage: The SDDS requires the dissemination of interest rates for short-term and long-term government securities. The SDDS also requires the dissemination of a core interest rate, such as, for instance a loan rate of the central bank or a discount rate. The SDDS encourages the dissemination of interest rates over loans and deposits.	The Bank of Albania disseminates data on: (1) 3, 6 and 12-month treasury bills annual rates, and 2-year governmental bonds; (2) monthly risk-weighted average rates of interests for new loans of commercial banks in lek, usd and euro, for every maturity and the total, too; (3) monthly risk-weighted average rates of interests for new deposits of commercial banks in lek, usd and euro, for every maturity and the total, too; and (4) interest rates of the monetary policy indirect instruments of the Bank of Albania, where included are: • The repurchase agreement interest rate, which is the base rate used by the Bank of Albania. • Overnight deposit, whose interest rate is 3.0 percent below the interest rate declared by the Bank of Albania for repurchase agreements. • Overnight credit, whose interest rate is 2.5 percent above the repurchase agreement interest rate. • Lombard credit, whose interest rate is calculated as 6 percent above the repurchase agreements rate, approved by the Bank of Albania Supervisory Council.	√
Periodicity: Daily.	The periodicity for repurchase agreements rate and the interest rate of the Bank of Albania is daily. The periodicity for the treasury bonds of the prime market is weekly (whenever they are issued). The periodicity for the governmental bonds of the prime market is monthly (whenever they are issued). The periodicity for credit and deposit interest rates of commercial banks is monthly. The interest rate of repurchase agreements and the interest rates of the Bank of Albania are disseminated on the day of their change.	√
Timeliness: Not specified.	The interest rates for governmental bonds and treasury bonds are disseminated on the day of their issuance. The interest rates for credits and deposits of the banking system are disseminated in no longer than 40 days from the end reference month.	√
Access by the public		
SDDS Requirements	Our Practice	
Advance release of the publication calendar: At least a quarter in advance, the participating members must announce the publication date or its due date. A period up to 5 business days could be identified, during which the publication is made, provided that the exact date is announced a week prior to the publication day.	Not any.	X

Simultaneous release of data to all parties: The standard recommends the simultaneous release of data to all interested parties. In this case, the publication does not refer to the ministries or governmental agencies. Simultaneous release refers to the first instance when the data is accessible by all users at any kind of format (hard copy, floppy disc, electronically, etc.)	The data are simultaneously released to all interested parties in the Bank of Albania web page. Information is also given in the Bank of Albania "Monthly Statistical Report".	√
Integrity of the data		
SDDS Requirements	**Our Practice**	
Publication of terms and conditions, under which the statistics are produced and disseminated, including the protection of individual information: Terms and conditions may refer to issues, such as, the relationship between the statistical unit and one department or ministry in which it takes part. For instance, they might refer to the dependency (in the budget or human resources aspect) of the agency producing the statistics on an external authority or the independence in choosing the statistics methodology and decisions related to the publication of statistical results. Moreover, the terms and conditions may refer to the requirement to the agency to publish the data collected as a protection from the political pressure to hide certain results, and the revision of statistical programs by independent expert groups. Another issue concerning the conditions, in which the statistical agencies operate, refer to the procedures and processes related to the individual data confidentiality. These procedures cover various issues, varying from the computer security to the exchange of information between statistical agencies.	The data are compiled in accordance with the Law No. 8269 "On the Bank of Albania" in 1997 (Article 24), which stipulates the obligation of the Bank of Albania to prepare periodical analysis on economic and monetary issues, publish results and make proposals to the government. The individual data confidentiality is provided by Article 58 of the Law No. 8269 "On the Bank of Albania" in 1997, which stipulates that the administrators, employees and agents are prohibited to release or transfer the information gained during their employment at the Bank of Albania to a third party, or use and let the information be used for personal purposes. The individual data confidentiality is also provided by the Regulation "On the transparency and confidentiality at the Bank of Albania", approved upon the Decision No. 53, dated 21.06.2000, of the Bank of Albania Supervisory Council. The Laws and Regulations are published in the Bank of Albania web page.	√
Identification of the government access prior to data publication: In order to be protected by the influences of the authorities out of the agency publishing the data, the standard recommends the listing of persons or officials with certain positions in the government, but out of the data compilation agency, which have access to the statistical data prior to the publication, and the reporting of an accessible calendar. This practice is recommended to order to grant full transparency to every prior access by the government, deemed as necessary.	None out of the Bank of Albania enjoys the right of using the indicators prior to their publication.	√
Identification of ministerial commentary related to the statistical data: Considering that the government may not objectively assess the statistical data, in particular in those cases when they are directly related to its responsibilities, the standard provides the identification of the commentary source over the data.	There are not any commentaries from the officials out of the Bank of Albania related to the data on the interest rates.	√

The provision of information about revision and advance notice of major changes in methodology: Essential information regarding the data revision might be the one related to the observed policies and the extent of the previous revisions. Revisions are made in order to reflect the amendments or changes concerning different aspects of the statistical methodology, such as: fundamental concepts and definitions; sources of information; evaluation methods. The revision policies referring to these changes must determine the frequencies of the respective procedures that these revisions have to observe. The revision policies must be made public. Notices on the above mentioned may vary from short press releases to public presentations and materials. The members are also encouraged to provide quicker information on the revisions after they have been made (for example, via telephone, fax or internet by a contact person who could answer questions related to the revisions).	The data are final upon publication.	√
Quality of the data		
SDDS Requirements	Our Practice	
The dissemination of documentation on methodology and sources used in preparing statistics: The dissemination of documentation on methodology and sources used is the key to the users' awareness on the advantages and shortfalls of statistics. The recommended documentation may take different forms, including the summary notes accompanying the data dissemination, special disseminations or prepared materials to be released upon request. The members are encouraged to include and highlight statements on the most essential characteristics of quality. These statements may clarify the type of error, subject to which might be the data, reasons of the data non-comparativeness in time or the selection errors in cases of research etc.	The methodology used for the interest rates calculation of repos and other instruments of the Bank of Albania are provided in the Regulation "On indirect instruments of the Bank of Albania", approved upon the Decision No. 08, dated 07.02.2001 of the Bank of Albania Supervisory Council. The methodology on the interest rate calculation of the treasury bonds in the prime market is established in the agreement between the Bank of Albania and the Government of the Republic of Albania "On the issuance of the long-term government bonds in registration form" dated 25.09.2002, but it is not published. The methodology on the interest rate calculation of the treasury bills in the prime market is established in the agreement between the Bank of Albania and the Ministry of Finance "On the issuance of the treasury bills in registration form" dated 08. 07. 2002, but it is not published. Regarding the interest rates on the banking system deposits and credits, respective explanations along with the data are provided in the Bank of Albania web page.	X
The dissemination of component detail, reconciliations with related data, and statistical frameworks that support cross-checks and provide assurance of reasonableness: This element recommends the dissemination of component detail, emphasizing the release within a statistical framework, and/or the dissemination of the comparison and reconciliation with other related data. The component detail must be in a way so that it does not cause conflicts to other elements and the individual information reliability and confidentiality.	The data are disseminated in Reuters, in the "Monthly Statistical Report" through a series published the last 6 years and in the Bank of Albania web page.	√

ANNEX 2: EXTERNAL SECTOR

I) BALANCE OF PAYMENTS

Data: Coverage, Periodicity and Timeliness		
SDDS Requirements	Our Practice	
Characteristics of coverage: Regarding the current account, the SDDS recommends: goods and services imports and exports coverage, net income and net current transfers. With regard to the capital and financial account, the recommended key elements include the international reserve and other financial transactions. It is encouraged a sub-division of financial transactions in direct and portfolio investment. Classifications according to the IMF Manual, BPM5, and the one on the separate division of the financial derivatives are recommended.	In principle, the Balance of Payments of Albania covers all transactions between residents and non-residents, although some illegal activities remain uncovered. The balance of payments data are compiled in million usd and classified according to the table structure of the balance of payments and definitions of standard components listed in the IMF Balance of Payments Manual, BPM5. These components are classified in three main categories: I – Current account, covering goods, services, income and current transfers. (a) Goods – cover moveable goods, whose ownership posses from residents to non-residents (exports) and vice-versa, from non-residents to residents (imports). (b) Services – cover services performed by residents to non-residents (loans) and by non-residents to residents (debit). Services are further divided into the following groups: • transportation services; • insurance services; • travel; • other services. (c) Income – cover the income that residents gain from non-residents (loans) or that non-residents gain from residents (debit). They are further divided into: 1. compensation of employees; 2. investments income. (d) – Current transfers are balance records applied in cases of real values (goods or services) ownership change from residents to non-residents (debit) or from non-residents to residents (loans), which are not followed with compensation from the other party. Current transfers in the balance of payments in Albania are classified into: 1. state assistance from abroad; 2. worker's remittances; 3. others. II – Capital account – capital transfers are divided into the following sub-components: (a) debt forgiveness; and (b) other transfers. Other capital transfers are mainly related to the assistance investments aiming at the supplement or the financing of the fixed capital formation of the beneficiary economy. III – Financial account, financial claims and liabilities of Albania to non-residents. The main division in the financial account is as follows: (a) International reserves – foreign financial assets which are controlled and available to be used by the Bank of Albania, for the financing of international payments unbalances, for interventions in the currency markets, etc. (b) Financial transactions which are classified in assets and liabilities according to these items: 1. direct investment; 2. portfolio investment; 3. other investment. The current account balance is equalised by the net balance of the capital and financial account. The statistical chart of the balance of payments is based on the double entry principle and the remaining is included in the "Errors and Omissions" item. Main data sources are the customs statistics, data on the foreign exchange, reporting from the banks and enterprises collected by the Bank of Albania, and the information received by the government.	√

Identification of the government access prior to data publication: In order to be protected by the influences of the authorities out of the agency publishing the data, the standard recommends the listing of persons or officials with certain positions in the government, but out of the data compilation agencies, which have access to the statistical data prior to the publication, and the reporting of an accessible calendar. This practice is recommended in order to grant full transparency to every prior access by the government, deemed as necessary.	The governmental units do not have prior access to the published data for the balance of payments statistics.	√
Identification of ministerial commentary related to the statistical data: Considering that the government may not objectively assess the statistical data, in particular in those cases when they are directly related to its responsibilities, the standard provides the identification of the commentary source over the data.	There are not any commentaries along with the published data.	√
The provision of information about revision and advance notice of major changes in methodology: Essential information regarding the data revision might be the one related to the observed policies and the extent of previous revisions. Revisions are made in order to reflect the amendments or changes concerning different aspects of the statistical methodology, such as: fundamental concepts and definitions; sources of information; evaluation methods. The revision policies referring to these changes must determine the frequencies of the respective procedures that these revisions have to observe. The revision policies must be made public. Notices on the above mentioned changes may vary from short press releases to public presentations and materials. The members are also encouraged to provide quicker information on the revisions after they have been made (for example, via telephone, fax or internet by a contact person who could answer questions related to the revisions).	The balance of payments statistics are final once they are published. However, they are regularly revised due to changes regarding the preliminary evaluations, changes in methodology, and new additional sources of information and amendments of the existing ones. The revised tables are published, but not the documentation of the respective revisions. Moreover, there are not any real revision policies.	X
Quality of the data **SDDS Requirements**	**Our Practice**	
The dissemination of documentation on methodology and sources used in preparing statistics: The dissemination of documentation on methodology and sources used is the key to the user's awareness on the advantages and shortfalls of statistics. The recommended documentation may take different forms, including the summary notes accompanying the data dissemination, special dissemination or prepared materials to be released upon request. The members are encouraged to include and highlight statements on the most essential characteristics of quality. These statements may clarify the type of error, subject to which might be the data, reasons of the data non-comparativeness in time or the selection errors in cases of research, etc.	The balance of payments of Albania is compiled pursuant to the "Balance of payments methodology", which is based on the standards of the "Balance of Payments Statistics Manual, IMF, Fifth Edition". It contains technical details of the balance of payments statistics compilation, fundamental concepts and definitions of the balance of payments items as well as the sources of information used. This methodology is widely used by the Balance of Payment and Research Section, but it is neither official nor published. Moreover, the changes and amendments made in years need to be presented.	X
The dissemination of component detail, reconciliations with related data, and statistical frameworks that support cross-checks and provide assurance of reasonableness: This element recommends the dissemination of component detail, emphasizing the release within a statistical framework, and/or the dissemination of the comparison and reconciliation with other related data. The component detail must be in a way so that it does not cause conflicts to other elements and the individual information reliability and confidentiality.	In the Statistical Bulletin of the Balance of Payments and in the aggregated series published in the Bank of Albania web site, are included detailed data and time series for the last quarters and for at least the last 10 years.	√

Identification of the government access prior to data publication: In order to be protected by the influences of the authorities out of the agency publishing the data, the standard recommends the listing of persons or officials with certain positions in the government, but out of the data compilation agencies, which have access to the statistical data prior to the publication, and the reporting of an accessible calendar. This practice is recommended in order to grant full transparency to every prior access by the government, deemed as necessary.	The governmental units do not have prior access to the published data for the balance of payments statistics.	√
Identification of ministerial commentary related to the statistical data: Considering that the government may not objectively assess the statistical data, in particular in those cases when they are directly related to its responsibilities, the standard provides the identification of the commentary source over the data.	There are not any commentaries along with the published data.	√
The provision of information about revision and advance notice of major changes in methodology: Essential information regarding the data revision might be the one related to the observed policies and the extent of previous revisions. Revisions are made in order to reflect the amendments or changes concerning different aspects of the statistical methodology, such as: fundamental concepts and definitions; sources of information; evaluation methods. The revision policies referring to these changes must determine the frequencies of the respective procedures that these revisions have to observe. The revision policies must be made public. Notices on the above mentioned changes may vary from short press releases to public presentations and materials. The members are also encouraged to provide quicker information on the revisions after they have been made (for example, via telephone, fax or internet by a contact person who could answer questions related to the revisions).	The balance of payments statistics are final once they are published. However, they are regularly revised due to changes regarding the preliminary evaluations, changes in methodology, and new additional sources of information and amendments of the existing ones. The revised tables are published, but not the documentation of the respective revisions. Moreover, there are not any real revision policies.	X
Quality of the data **SDDS Requirements**	**Our Practice**	
The dissemination of documentation on methodology and sources used in preparing statistics: The dissemination of documentation on methodology and sources used is the key to the user's awareness on the advantages and shortfalls of statistics. The recommended documentation may take different forms, including the summary notes accompanying the data dissemination, special dissemination or prepared materials to be released upon request. The members are encouraged to include and highlight statements on the most essential characteristics of quality. These statements may clarify the type of error, subject to which might be the data, reasons of the data non-comparativeness in time or the selection errors in cases of research, etc.	The balance of payments of Albania is compiled pursuant to the "Balance of payments methodology", which is based on the standards of the "Balance of Payments Statistics Manual, IMF, Fifth Edition". It contains technical details of the balance of payments statistics compilation, fundamental concepts and definitions of the balance of payments items as well as the sources of information used. This methodology is widely used by the Balance of Payment and Research Section, but it is neither official nor published. Moreover, the changes and amendments made in years need to be presented.	X
The dissemination of component detail, reconciliations with related data, and statistical frameworks that support cross-checks and provide assurance of reasonableness: This element recommends the dissemination of component detail, emphasizing the release within a statistical framework, and/or the dissemination of the comparison and reconciliation with other related data. The component detail must be in a way so that it does not cause conflicts to other elements and the individual information reliability and confidentiality.	In the Statistical Bulletin of the Balance of Payments and in the aggregated series published in the Bank of Albania web site, are included detailed data and time series for the last quarters and for at least the last 10 years.	√

I) INTEREST RATES

Data: Coverage, Periodicity and Timeliness		
SDDS Requirements	Our Practice	
	The Bank of Albania, the central bank, calculates the official exchange rate for 13 main currencies, precious metals and the currency of the International Monetary Fund, SDR as well as for 9 currencies of Central/Eastern European Countries and Asia.	
Characteristics of coverage:	The exchange rates are calculated as arithmetical average of the quotations of 6 commercial banks and 4 exchange bureaus at 12.00.	
The SDDS requires the spot exchange rate dissemination of the national currency against the main foreign currency. The SDDS also requires the dissemination of 3 and 6-month term exchange dissemination when such a market exists.	The official exchange rates are used for non-trade purposes and they are not obligatory for the foreign exchange market operators; meanwhile the Bank of Albania requires their use in the evaluation of the currency positions from the commercial banks. One of the main uses of these rates may be the evaluation of the customs liabilities by the customs administration, balances evaluation of companies by the tax authorities, as well as the evaluation of the foreign assets of the Bank of Albania itself.	√
	Every day, the exchange rates of 13 main currencies, where included are gold, silver and the SDR.	
Frequency: Daily.	The exchange rates of 9 currencies of Central and Eastern European countries are calculated once in two weeks.	√
Timeliness: Not specified.	At 12.00 and it is effective for the day in which it is published.	√
Access by the public		
SDDS Requirements	Our Practice	
Advance release of the publication calendar: At least a quarter in advance, the participating members must announce the publication date or its due date. A period up to 5 business days could be identified, during which the publication may be made.	Not any.	X
Simultaneous release of data to all parties: The standard recommends the simultaneous release of the data to all interested parties. In this case the publication does not refer to the ministries or governmental agencies. Simultaneous release refers to the first instance when the data is accessible by all users at any kind of format (hard copy, floppy disc, electronically, etc.)	The exchange rate after the calculations is published in the Bank of Albania web page and in the Reuters (NBAL) web page of the institution, thus, being useful for the interested parties at the same time.	√
Integrity of the data		
SDDS Requirements	Our Practice	

Publication of terms and conditions, under which the statistics are produced and disseminated, including the protection of individual information: Terms and conditions may refer to issues, such as, the relationship between the statistical unit and one department or ministry in which it takes part. For instance, they might refer to the dependency (in the budget or human resources aspect) of the agency producing the statistics from an external authority or to the independence in choosing the statistics methodology and decisions related to the publication of statistical results. Moreover, the terms and conditions may refer to the requirement to the agency to publish the data collected as a protection from the political pressure to hide certain results, and the revision of statistical programs by independent expert groups. Another issue concerning the conditions, in which the statistical agencies operate, refers to the procedures and processes related to the individual data confidentiality. These procedures cover various issues, varying from the computer security to the exchange of information between the statistical agencies.	The publication of the official exchange rate is made pursuant to Law no. 8269 "On the Bank of Albania", Article no. 59 and Article no. 60, which authorizes the Bank of Albania as the responsible institution for the calculation and the publication of the official exchange rate.	√
Identification of the government access prior to data publication: In order to be protected by the influences of the authorities out of the agency publishing the data, the standard recommends the listing of persons or officials with certain positions in the government, but out of the data compilation agencies, which have access to the statistical data prior the publication, and the reporting of an accessible calendar. This practice is recommended in order to grant full transparency to every prior access by the government, deemed as necessary.	The governmental units do not have prior access to the published data.	√
Identification of ministerial commentary related to the statistical data: Considering that the government may not objectively assess the statistical data, in particular in those cases when they are directly related to its responsibilities, the standard provides the identification of the commentary source over the data.	There are not any commentaries along with the published data.	√
The provision of information about revision and advance notice of major changes in methodology: Essential information regarding the data revision might be the one related to the observed policies and the extent of previous revisions. Revisions are made in order to reflect the amendments or changes concerning different aspects of the statistical methodology, such as: fundamental concepts and definitions; sources of information; evaluation methods. The revision policies referring to these changes must determine the frequencies of the respective procedures that these revisions have to observe. The revision policies must be made public. Notices on the above mentioned changes may vary from short press releases to public presentations and materials. The members are also encouraged to provide quicker information on the revisions after they have been made (for example, via telephone, fax or internet by a contact person who could answer questions related to the revisions).	The published data are final and they are not subject to revision.	√

Quality of the data		
SDDS Requirements	Our Practice	
The dissemination of documentation on methodology and sources used in preparing statistics: The dissemination of documentation on methodology and sources used is the key to the user's awareness on the advantages and shortfalls of statistics. The recommended documentation may take different forms, including the summary notes accompanying the data dissemination, special disseminations or prepared materials to be released upon request. The members are requested to include and highlight statements on the most essential characteristics of quality. These statements may clarify the type of error, subject to which might be the data, reasons of the data non-comparativeness in time or the selection errors in cases of research, etc.	The procedure of the official exchange rate calculation is made public in the Bank of Albania web page under the rates column.	√
The dissemination of component detail, reconciliations with related data, and statistical frameworks that support cross-checks and provide assurance of reasonableness: This element recommends the dissemination of component detail, emphasizing the release within a statistical framework and/or the dissemination of the comparison and reconciliation with other related data. The component detail must be in a way so that it does not cause conflicts to other elements, as well as provide the individual information reliability and confidentiality.	The daily exchange rates series has been available in the Bank of Albania web page and after its reconfiguration there was the need of their re-entering. Any interested person may quickly and freely get the exchange rate of every day though a request sent to this electronic mail address: public@bankofalbania.org. The monthly average data of the exchange rate are published in the Monthly Statistical Report of the Bank of Albania. The series of average exchange rates is published in the "Monthly Statistical Report" and in the "Economic Bulletin".	√

II) FOREIGN TRADE

Data: Coverage, Periodicity and Timeliness		
SDDS Requirements	Our Practice	
Characteristics of coverage: The SDDS requires the data compilation for merchandise trade as an auxiliary and explanatory category, which provides more frequent and detailed information on developments of the current account in the balance of payments. The data regarding the total of imports and exports are recommended to be disseminated separately according to the most detailed categories, commodity groups and partner countries.	The data on the merchandise trade are compiled and disseminated by the Bank of Albania and the Statistics Institute (INSTAT) based on the information received from the Directorate of General Customs, which reports the total of the customs statements for the period. The data are entered at the moment of the customs statement acceptance. The Bank of Albania observes the balance of payments methodology, by publishing the imports and exports of goods in f.o.b. value, in million dollars. With regard to the type of goods to be included or excluded by the trade import and export, the Bank of Albania observes the methodological standards defined by Eurostat, UN and IMF. For the evaluation of imports in f.o.b. value, the imports in c.i.f. value are exempt from the insurance and transportation costs. The coefficients for the goods insurance and transportation costs are provided through the foreign trade research. Moreover, the Bank of Albania uses estimation for the contraband imports and the unregistered ones. The foreign trade statistics are not seasonally regulated.	√
Periodicity: Monthly.	The foreign trade statistics are disseminated on monthly, quarterly and annual basis.	√
Timeliness: Eight weeks (encouraged 4-6 weeks).	Not longer than two months after the reference period.	√
Access by the public		
SDDS Requirements	Our Practice	
Advance release of the publication calendar: At least a quarter in advance, the participating members must announce the publication date or its due date. An initial period up to 5 business days could be identified, during which the publication could be made.	Not any.	X
Simultaneous release of data to all parties: The standard recommends the simultaneous release of data to all interested parties. In this case, the publication does not refer to the ministries or governmental agencies. Simultaneous release refers to the first instance when the data is accessible by all users, at any kind of format (hard copy, floppy disc, electronically, etc.).	The first introduction of the public to the foreign trade data is the publication of the quarterly press statement along with the summary table. This table contains the total of imports and exports and the trade deficit in dollars for the last three quarters. Within three weeks from the statement publication, there is the electronic dissemination and the publication in the Bank of Albania web page, in the "Time Series" database and in the Statistical Report, which is disseminated in hard copy according to the users' list. Based on the user's requests (always after the statistics publication date), published data according to the standard format can be disseminated electronically or in printed. Moreover, the foreign trade data statements, according to the respective breakdowns in commodity groups and partner countries, are published in the monthly and annual statistical reports of the Bank of Albania. Practically, the foreign trade data are disseminated to all users at the same time.	√

Integrity of the data		
SDDS Requirements	Our Practice	
Publication of terms and conditions, under which the statistics are produced and disseminated, including the protection of individual information: Terms and conditions may refer to issues, such as, the relationships between the statistical unit and one department or ministry in which it takes part. For instance, they might refer to the dependency (in the budget or human resources aspect) of the agency producing the statistics from an external authority or to the independence in choosing the statistics methodology and decisions related to the publication of statistical results. Moreover, the terms and conditions may refer to the requirements to the agency to publish the data collected as a protection from the political pressure to hide certain results, and the revision of statistical programs by independent expert groups. Another issue concerning the conditions, in which the statistical agencies operate, refers to the procedures and processes related to the individual data confidentiality. These procedures cover various issues, varying from the computer security to the exchange of information between statistical agencies.	The compilation of foreign trade statistics by the Bank of Albania derives from its obligation of compiling the balance of payments of Albania, based on Article 27 of the Law "On the Bank of Albania". The individual information confidentiality is provided by Article 58 of the Law no. 8269, dated 23.12.1997, "On the Bank of Albania", and the Regulation "On the Transparency and Confidentiality at the Bank of Albania", approved upon the decision of the Bank of Albania Supervisory Council, no. 53, dated 21.06.2000 along with the respective amendments. The mentioned laws and regulations are published in the Bank of Albania web page.	√
Identification of the government access prior to data publication: In order to be protected by the influences of the authorities out of the agency publishing the data, the standard recommends the listing of persons or officials with certain positions in the government, but out of the data compilation agencies, which have access to the statistical data prior the publication, and the reporting of an accessible calendar. This practice is recommended in order to grant full transparency to every prior access by the government, deemed as necessary.	The governmental units do not have prior access to foreign trade statistics.	√
Identification of ministerial commentary related to the statistical data: Considering that the government may not objectively assess the statistical data, in particular in those cases when they are directly related to its responsibilities, the standard provides the identification of the commentary source over the data.	There are not any commentaries regarding the published data.	√
The provision of information about revision and advance notice of major changes in methodology: Essential information regarding the data revision might be the one related to the observed policies and the extent of previous revisions. Revisions are made in order to reflect the amendments or changes concerning different aspects of the statistical methodology, such as: fundamental concepts and definitions; source of information; evaluation methods. The revision policies referring to these changes must determine the frequencies of the respective procedures that these revisions have to observe. These revisions must be made public. Notices on the above mentioned changes may vary from short press releases to public presentations and materials. The members are also encouraged to provide quicker information on the revisions after they have been made (for example, via telephone, fax or internet by a contact person who could answer questions related to the revisions).	With regard to the revisions in the foreign trade statistics, though considered final at the moment when they are published (that is, they are not labelled as operational data), they are regularly revised, due to changes in the preliminary evaluations, changes in methodology, new additional sources of information and amendments of the existing ones. The revised tables are published, but not the documentation of the respective revisions. Moreover, there are not any real revision policies to determine an accurate revision calendar, as well as the information of the foreign trade statistics users regarding these revisions.	X

Quality of the data		
SDDS Requirements	Our Practice	
The dissemination of documentation on methodology and sources used in preparing statistics: The dissemination of documentation on methodology and sources used is the key to the user's awareness on the advantages and shortfalls of statistics. The recommended documentation may take different forms, including the summary notes accompanying the data dissemination, special disseminations or prepared materials to be released upon request. The members are requested to include and highlight statements on the most essential characteristics of quality. These statements may clarify the type of error, subject to which might be the data, reasons of the data non-comparativeness in time or the selection errors in cases of research, etc.	The foreign trade statistics are compiled based on the recommendations presented in the "Balance of Payments Statistics Manual, IMF, Fifth Edition, 1993", as well as based on the details of the "Balance of Payments Compilation Guide, IMF, 1995". The data compilation observes the methodology defined in the "International Merchandise Trade Statistics: Concepts and Definitions" of the United Nations. In this context, in order to meet the SDDS standard requirements, the methodology has to be published, by presenting in it the changes and amendments made through the years, as well as proving room for changes in the future.	X
The dissemination of component detail, reconciliations with related data, and statistical frameworks that support cross-checks and provide assurance of reasonableness: This element recommends the dissemination of component detail, emphasizing the release within a statistical framework and/or the dissemination of the comparison and reconciliation with other related data. The component detail must in a way so that it does not cause conflicts to other elements, as well as provide the individual information reliability and confidentiality.	In the "Balance of Payments Bulletin" and the aggregated series, published in the Bank of Albania web page, are included data on the foreign trade statistics in monthly, quarterly and annual detailed time series, for at least the last 10 years.	√

REFERENCES

Allum, P. Agca, M., (2001), Economic Data Dissemination: What Influences Country Performance on Frequency and Timeliness? Middle Eastern Department, IMF Working Paper No. 01/173.
Banka e Shqipërisë (2000), Rregullore "Mbi transparencën dhe konfidencialitetin në Bankën e Shqipërisë", miratuar me vendim nr. 53, datë 21.06.2000, të Këshillit Mbikëqyrës të Bankës së Shqipërisë.
Bank of Albania (2001), Regulation "On the indirect instruments of the Bank of Albania monetary policy", approved upon the Bank of Albania Supervisory Council decision no. 08, dated 07.02.2001.
Banka e Shqipërisë (2003), Metodika e Statistikave Monetare dhe Financiare, Korrik 2003, Banka e Shqipërisë.
Banka e Shqipërisë (2003), Udhëzim "Mbi mënyrën e llogaritjes së "fiksit" të kursit të këmbimit të lekut, në Bankën e Shqipërisë", miratuar me vendim të Këshillit Mbikqyrës, nr.36, datë 30.04.2003.
The Information Technology and Statistics Department, Bank of Albania (2004), Assessment of Statistics Dissemination Standards at the Bank of Albania, Bank of Albania.
IMF (1993), Balance of Payments Manual, fifth edition, International Monetary Fund.
IMF (1995), Balance of Payments Compilation Guide, International Monetary Fund.
IMF (1996), Guide to the data dissemination standards, Module 1: The SDDS –Provisional, International Monetary Fund.
IMF (1998), Guide to the General Data Dissemination System, International Monetary Fund.
IMF (1998), The Special Data Dissemination Standards (Updated Guidance), International Monetary Fund.
IMF (2000), Manual on monetary and financial statistics, International Monetary Fund.
IMF Statistics Department (2003), Data Quality Assessment Framework (DQAF) for Monetary Statistics, International Monetary Fund.
IMF Statistics Department (2003), Fifth Review of the Fund's Data Standards Initiatives, International Monetary Fund.
IMF Statistics Department and the Policy Development and Review Department, (1996), Standards for the Dissemination of Economic and Financial Statistics to the Public by Member Countries: Progress Report and Implementation of the Special Data Dissemination Standards, International Monetary Fund.
IMF Statistics Department and the Policy Development and Review Department, (1998), Second Review of the Fund's Data Standards' Initiatives, International Monetary Fund.
IMF Statistics Department and the Policy Development and Review Department, (2000), Third Review of the Fund's Data Standards' Initiatives, International Monetary Fund.
IMF Statistics Department and the Policy Development and Review Department, (2001), Fourth Review of the Fund's Data Standards' Initiatives, International Monetary Fund.
Kester, A. (2001) International Reserves and Foreign Currency Liquidity – Guidelines for a data template, International Monetary Fund.
Parliament (1997), Law "On banks in the Republic of Albania" no. 8365, dated 02.07.1998.
Parliament (1997), Law "On the Bank of Albania" no. 8296, dated 23.12.1997.
Marrëveshja midis Bankës së Shqipërisë dhe Ministrisë së Financave "Mbi emetimin e bonove të thesarit në formë regjistrimi", datë 08. 07. 2002.
Marrëveshja midis Bankës së Shqipërisë dhe Qeverisë së Republikës së Shqipërisë "Mbi emetimin e obligacioneve afatgjata të qeverisë në formë regjistrimi" datë 25.09.2002.
United Nations (1998), International merchandise trade statistics: concepts and definitions, United Nations.

NOTES

** This material was prepared by: Kliti Ceca, Deputy Director of Information Technology and Statistics Department, Edmond Thanati, Deputy Director of Monetary Operations Department, Hilda Shijaku, Chief-Specialist at the Monetary and Financial Statistics Section and Endrita Xhaferaj, Specialist at the Balance of Payments and Research Statistics Section. Special thanks for her useful contribution to Ms. Yin-Fun LUM, Senior Economist at the Data Dissemination Standards Division, Statistics Department, IMF.*

*** The views expressed in this paper are those of the authors and do not necessarily reflect those of the Bank of Albania.*

[1] Data dissemination, in the context used in this material, includes all the chain of actions starting from the source data collection to their access by the public out of the agency producing these data.

[2] Allum and Agca (2001) indicate a "positive transition effect" in the data dissemination evaluation. It shows the serious engagement on the part of the authorities in enhancing the data dissemination quality, something which is related to their interest in participating in the international financial markets.

[3] "Fifth Review of the Fund's Data Standards Initiatives", page 9.

[4] The GDDS includes 83 member countries in total. The countries which are already members of the SDDS are Kazakhstan, Kyrgyzstan, Armenia, Bulgaria and Romania.

[5] The ROSC mission has visited Albania twice, in May 2000 for the data dissemination and in July 2003 for the fiscal transparency. For more information please refer to http://www.imf.org/external/np/rosc/rosc.asp.

[6] The term "timeliness" in this material shall mean the time period from the reference date of the statistical indicator to its release.

[7] Here it refers to the media and private users, not to the governmental units.

[8] IMF (1996), Guide to the data dissemination standards, page 39.

[9] It refers to the governmental units out of the agency producing the data.

[10] Manual on Monetary and Financial Statistics, IMF (2000).

[11] Balance of Payments Manual, Fifth Edition, 1993.

[12] Classification system of commodity groups according to the manual of international merchandise trade statistics "International Merchandise Trade Statistics: Concepts and Definitions", United Nations, 1998.

BANK OF ALBANIA NEWS DURING JULY-SEPTEMBER 2005

Visit of the Bank delegation to B and Payments A Kosovo.

During July 5-7, 2005 a delegation from Bank of Albania, headed by Governor Mr. Ardian Fullani, visited the Banking and Payments Authority of Kosovo, invited by the Managing Director, Mr. Michel Svetchine. Numerous meetings with senior officials of this institution and of other central institutions of Kosovo were held during this two-day visit. The purpose of the visit was to further enhance the cooperation in the fields of mutual interest. The signing of a new joint agreement constituted one of the main objectives of this visit.

Visit of Governo Bank of Albania Fullani, to the E Central Bank

On July 20, 2005 the Governor of the Bank of Albania, Mr. Ardian Fullani, visited the European Central Bank (ECB). He met with Mr. Jean-Claude Trichet, President of the ECB and with Mr. Lorenzo Bini Smaghi, Member of the Executive Board in charge of International and European Relations. The meeting focused on the issues dealing with the monetary developments in Albania as well as the challenges the Bank of Albania is facing for developing and consolidating the banking and financial system in Albania. At the end of the meeting, President Trichet expressed the willingness of the European Central Bank and the Eurosystem to further enhance the technical cooperation with Bank of Albania.

Finalizing the implementation Automated Elec Clearing House

On July 22, 2005 the implementation of the Automated Electronic Clearing House (AECH) was finalized. This project aims at automating the clearing service that Bank of Albania provides to commercial banks for processing payments of their customers. The implementation of this system, realized by modern technology investments, will provide significant benefits for the national payment system in terms of augmenting the speed, decreasing the costs as well as increasing the security in their processing. Representatives of Bank of Albania, as well as representatives and specialists of 14 commercial banks affiliated with this system, to which were granted the participation certificate, participated in the meeting organized on this occasion.

Visit of the Bank delegation to B Greece

On July 26, 2005 the Governor of the Bank of Albania, Mr. Ardian Fullani, headed the Bank of Albania delegation during the visit to Bank of Greece, where he met with its counterpart, Mr. Nicholas C. Garganas. The two governors had the opportunity to reconsider the economic developments in Greece and in Albania, the functioning of the financial systems in both countries and to discuss the possibility of expanding the co-operation between the two central banks, especially in the monetary policy and banking supervision areas.

On the workshop "Experiences of the Bulgarian National Bank in its road towards the European System of Central Banks"

On September 5, 2005 Bank of Albania, in collaboration with the GTZ Office in Tirana and the Bulgarian National Bank, organized the workshop on "Experiences of the Bulgarian National Bank in its road towards the European System of Central Banks". The workshop was chaired by Professor Michael Bolle, Adviser for Bank of Albania on behalf of German Government and by Mrs. Daniela Bobeva, Director of International Relations and European Integration, at the Bulgarian National Bank.

Workshop topics focused mainly on issues dealing with the challenges the central banks are facing during the process of the approximation and membership to the European Union. More specifically, the workshop focused on institutional and operational changes the central banks must undertake in the framework of membership in the European System of Central Banks and on the approximation of national legislation with the EU legislation.

On the meeting of Governor of the Bank of Albania Mr. Ardian Fullani with Mr. Alan Greenspan, President of the Federal Reserve Governors Board

On September 26, 2005 the Governor of the Bank of Albania, Mr. Ardian Fullani, following his visit in Washington, on the occasion of the Annual Meeting of International Monetary Fund and World Bank, met with the President of the Federal Reserve Governors Board, Mr. Alan Greenspan. At first, Mr. Fullani presented a brief exposé on the latest economic developments in Albania, and using this opportunity he expressed his gratitude for the assistance given recently by the Federal Reserve, especially for the further enhancement of banking supervision. During the conversation both governors concluded that there are further possibilities to provide assistance in this direction.

Activities of the Governor of the Bank of Albania, Mr. Ardian Fullani, during the Annual Meeting of International Monetary Fund and World Bank

During September 22-26, 2005 the Governor of Bank of Albania and at the same time as Governor of Albania to International Monetary Fund, Mr. Ardian Fullani, headed the Bank of Albania delegation participating to the Annual Meeting of the World Bank Group and International Monetary Fund. During his visit in Washington, the Governor of the Bank of Albania met with a number of senior representatives of IMF, WB, Federal Reserve and FSVC. In the meetings with representatives of IMF and WB, the Albanian party was represented by the participation of the Minister of Finance, Mr. Ridvan Bode, and the Governor of the Bank of Albania, Mr. Ardian Fullani.

In all the meetings, a special attention was given by both parties to the further performance of relationships between IMF and Albania. The Albanian party requested in unison the IMF to begin the negotiations as soon as possible with respective authorities for a new medium-term joint agreement between IMF and Albania.

The signing of the agreement with the World Bank on "Management and consultancy of foreign reserve investment" was of particular importance. In addition to the management expertise, this agreement will provide also training programs and assistance for the technical staff of Bank of Albania. Meanwhile, on September 23, 2005, Treasury Department of the WB, in collaboration with Monetary and Financial Department of the IMF, organized

the Governors Forum on foreign reserve management, where Mr. Fullani moderated the panel on "Composition of currencies in the foreign reserve, capital and regulations of profit distribution".

The EBRD Conference on "Remittances in transition economies: Key policy issues"

On September 28, 2005 the European Bank for Reconstruction and Development (EBRD), sponsored by the Swiss Ministry for Economic Affairs, organized in London an international summit on "Remittances in transition economies: Key policy issues". The purpose of this summit was to discuss key issues relating to remittances as well as the practices of different countries on the transferring channels of remittances. Senior representatives of the EBRD, administrators of central banks, as well as experts of various international financial institutions participated in this conference.

In this conference, Mr. Ardian Fullani addressed a speech on the topic "Key policy issues for remittances in transition economies: A viewpoint from a recipient country", where he presented the Albanian experience about remittances and put forward some suggestions on the enhancement of their use and effectiveness in the Albanian economy.

LEGAL EVENTS, DURING JULY-SEPTEMBER 2005

MONETARY OPERATIONS

On July 13, 2005, the Supervisory Council of the Bank of Albania approved upon the Decision No. 56 the Regulation "On outright sale/purchase transactions". Outright open market transactions refer to the operations of the Bank of Albania for the outright sale/purchase of treasury bills with maturity up to one year and term to maturity of at least seven days, and other securities. These operations aim at managing liquidity and interest rates.

On July 13, 2005, the Supervisory Council of the Bank of Albania approved upon the Decision No. 57 the Regulation "On Lombard loan". The aim of Lombard loan is to meet the short-term liquidity needs of commercial banks. It represents the last lending instrument and it is the most expensive loan available to commercial banks.

On July 13, 2005, the Supervisory Council of the Bank of Albania approved upon the Decision No. 58 the Regulation "On overnight deposit". Overnight deposit represents a short-term investment instrument to the commercial banks. It aims at regulating the liquidity level in the banking system and stabilising the interest rates in the money market.

On July 13, 2005, the Supervisory Council of the Bank of Albania approved upon the Decision No. 59 the Regulation "On overnight loan". Overnight loan represents a short-term debt instrument available to commercial banks. It is a fully guaranteed loan, which aims at increasing liquidity in the banking system and assisting the administration of short-term interest rates.

On July 13, 2005, the Supervisory Council of the Bank of Albania approved upon the Decision No. 60 the Regulation "0n treasury bills commission in the counters of the Bank of Albania". This commission shall be calculated on the marginal cost base and it shall be the same for all participants in the treasury bills prime market and in all counters of the Bank of Albania in Tirana and all branches of the Bank of Albania.

On August 31, 2005, the Supervisory Council of the Bank of Albania approved upon the Decision No. 71, the Instruction "On the calculation of the Lek exchange rate in the Bank of Albania". This instruction aims at defining the calculation method of "the fix" in order to generate a sole reference level of lek exchange rate, which could later be used by the interested parties for statistical, comparative, accounting, estimating and trading purposes.

On September 14, 2005, the Supervisory Council of the Bank of Albania approved upon the Decision No. 75 "Agreement with the World Bank (IBRD)

on the administration and counselling of foreign reserve investment". By means of this agreement, the Bank of Albania shall be part of the Counselling Program on the Administration of Currency Reserve, which provides technical assistance in the area of foreign reserve administration to the central banks of various countries.

BANKING SUPERVISION

On August 31, 2005, the Supervisory Council of the Bank of Albania approved upon the Decision No. 68 the Regulation "On consolidated supervision". Consolidated supervision assesses the position to risk/risks not only of the company, but the activity of its subsidiaries and significant interests, as well. Subject to this regulation are all entities licensed by the Bank of Albania.

ECONOMIC POLICY

On August 3, 2005, the Council of Ministers approved the Decision No. 552 "On the approval of the instrument on the engagement of the Republic of Albania in the rise of IDA's sources "The fourteenth supplement". The supplement of Lek 652 182 shall be covered by the budget of 2005, approved to the Ministry of Finance.

On September 1, 2005, the President of the Republic of Albania approved the Decree No. 4644 "On the summoning of the Assembly of the Republic of Albania". Pursuant to this decree, the first convention of the 17th legislature of the Assembly of the Republic of Albania is summoned on Friday, September 2, 2005, 18.00 hrs.

On September 3, 2005, the President of the Republic of Albania approved the Decree No. 4645 "On the appointment of the Prime Minister". Pursuant to this decree, Mr. Sali Berisha is appointed the Prime Minister of the Republic of Albania, after the proposal of the parliamentary majority.

On September 7, 2005, the Council of Ministers approved the Instruction No. 1 "On the recruiting required criteria and the income declaration of the employees of the General Directorate of Money Laundry Prevention". The definition of these criteria aims at ensuring a professional, independent and qualified administration, with high moral integrity, through transparent selective procedures and grounded on entirely professional criteria.

BANK OF ALBANIA MANAGEMENT
SEPTEMBER 30, 2005

SUPERVISORY COUNCIL

ARDIAN FULLANI	Chairman
FATOS IBRAHIMI	Vice Chairman
LIMOS MALAJ	Member
SULO HADËRI	Member
TONIN KOLA	Member
TEFTA ÇUÇI	Member
KSENOFON KRISAFI	Member
ADRIAN CIVICI	Member
ELISABETA GJONI	Member

GOVERNOR

ARDIAN FULLANI

GOVERNOR'S OFFICE

GENC MAMANI

DEPUTY GOVERNORS

FATOS IBRAHIMI -	First Deputy Governor
LIMOS MALAJ -	Second Deputy Governor

GENERAL INSPECTOR

ELSA BIZHGA

DEPARTMENTS AND OTHER UNITS

GRAMOZ KOLASI	Monetary Policy Department
ERJON LUÇI	Research Department
MARJAN GJERMENI	Monetary Operations Department
KLODION SHEHU	Supervision Department
SONILA TAÇI	Issue Department
MARSEDA DUMANI	Accounting and Payments Department
XHILDA DELIANA	Information Technology and Statistics Department
DASHMIR HALILAJ	Legal and Human Resources Department
INA KRAJA	Public Relations Department
ELSA BIZHGA	Audit Department
AGRON SKËNDERAGA	Logistic Services Department
ALFONS THEKA	Printing House

BRANCHES

ERMIRA ISTREFI	Shkodra
VALENTINA DEDJA	Elbasani
ANILA THOMAJ	Gjirokastra
LILJANA ZJARRI	Korça
SHPRESA MEÇO	Lushnja

LIST OF ALL ENTITIES LICENSED BY THE BANK OF ALBANIA*

BANKS AND BRANCHES OF FOREIGN BANKS

1. ITALIAN - ALBANIAN BANK (JOINT-STOCK COMPANY)
License No. 1/1996, dated 17.07.1998
Approved by the Supervisory Council Decision of the Bank of Albania No. 89, dated 18.06.1998.
Certificate No. 1 "On Deposit Insurance".
Delegated Administrator: Giovani BOGANI
Address: Rruga e Barrikadave, No. 70, Tirana, Albania
Tel.: 23 56 97, 23 56 98, 22 62 62
Fax.: 23 30 34

2. RAIFFEISEN BANK (JOINT-STOCK COMPANY)
License No. 2/1998, dated 11.01.1999
Approved by the Supervisory Council Decision of the Bank of Albania No. 163, dated 11.12.1998.
Certificate No. 2 "On Deposit Insurance".
Director: Steven GRUNERUD
Address: Rruga "Dëshmorët e 4 Shkurtit", No. 6, Tirana, Albania
Tel.: 22 45 40, 22 26 69, 22 54 16
Fax.: 22 35 87, 22 36 95, 22 40 51

3. UNITED BANK OF ALBANIA (JOINT-STOCK COMPANY)
License No. 3/1998, dated 11.01.1999
Approved by the Supervisory Council Decision of the Bank of Albania No. 165, dated 11.12.1998.
Certificate No. 3 "On Deposit Insurance".
Director: Abdul Waheed ALAVI
Address: Blv. "Dëshmorët e Kombit", No. 8, Tirana, Albania
Tel.: 22 84 60, 22 38 73, 22 74 08
Fax: 22 84 60, 22 83 87

4. DARDANIA BANK (JOINT-STOCK COMPANY)
License No. 5/1998, dated 11.01.1999
Approved by the Supervisory Council Decision of the Bank of Albania No. 164, dated 01.12.1998.
Certificate No. 4 "On Deposit Insurance".
Director: Beqir MEZELXHIU
Address: Blv. "Zogu I", Tirana, Albania
Tel.: 22 87 59, 25 93 50, 25 93 51
Fax.: 23 05 66
Telex: 2298 db banc ab

5. NATIONAL COMMERCIAL BANK (JOINT-STOCK COMPANY)
License no. 6/1998, dated 11.01.1999
Approved by the Supervisory Council Decision of the Bank of Albania No. 162, dated 11.01.1999.
Certificate No. 5 "On Deposit Insurance".
Director: Seyhan PENCAPLIGIL
Address: Blv. "Zhan D'Ark", Tirana, Albania
Tel.: 25 09 55
Fax.: 25 09 56

* Up to September 30, 2005

6. TIRANA BANK (JOINT-STOCK COMPANY)
License No. 07, dated 12.09.1996
Approved by the Supervisory Council Decision of the Bank of Albania No. 9,dated 12.09.1996.
Certificate No. 6 "On Deposit Insurance".
Director: Dimitrio FRANGETIS
Address: Blv. "Zogu I", No. 55/1, Tirana, Albania
Tel.: 23 34 41/42/ 43/44/45/46/47
Fax.: 23 34 17

7. NATIONAL BANK OF GREECE – TIRANA BRANCH (JOINT-STOCK COMPANY)
License No. 08, dated 25.11.1996
Approved by the Supervisory Council Decision of the Bank of Albania No. 4, dated 14.03.1996.
Certificate No. 7 "On Deposit Insurance".
Director: Spiro BRUMBULLI
Address: Rruga e Durrësit, Godina Comfort, Tirana, Albania
Tel.: 23 36 23/24
Fax.: 23 36 13

8. INTERNATIONAL COMMERCIAL BANK (JOINT-STOCK COMPANY)
License No.09, dated 20.02.1997
Approved by the Supervisory Council Decision of the Bank of Albania No. 9, dated 30.04.1996.
Certificate No. 8 "On Deposit Insurance".
Director: Ooi Kooi KEAT
Address: Qendra e Biznesit, Rruga "Murat Toptani", Tirana, Albania
Tel.: 23 75 67/68/69
Tel/Fax: 23 75 70

9. ALPHA BANK – TIRANA BRANCH (JOINT-STOCK COMPANY)
License No.10, dated 07.01.1998
Approved by the Supervisory Council Decision of the Bank of Albania No. 01/03/96, dated 27.12.1997.
Certificate No. 9 "On Deposit Insurance".
Director: Andreas GALATOULAS
Address: Blv. "Zogu I", No.47, Tirana, Albania
Tel.: 23 33 59, 24 04 76/77/78
Tel/Fax: 23 21 02

10. AMERICAN BANK OF ALBANIA (JOINT-STOCK COMPANY)
License No.11, dated 10.08.1998
Approved by the Supervisory Council Decision of the Bank of Albania 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.: 34 87 53/54/55/56
Tel/Fax: 34 87 62

11. PROCREDIT BANK (JOINT-STOCK COMPANY)
License No. 12, dated 15.03.1999
Approved by the Supervisory Council Decision of the Bank of Albania No. 22, dated 03.03.1999.
Certificate No. 11 "On Deposit Insurance".
Director: Ralf RAITEMEIER
Address: Rruga "Sami Frashëri", Tirana e Re, P.O. Box. 2395, Tirana, Albania
Tel.: 23 04 99, 23 34 96
Tel/Fax: 27 12 76

12. FIRST INVESTMENT BANK - TIRANA BRANCH (JOINT-STOCK COMPANY)
License No. 13, dated 16.04.1999
Approved by the Supervisory Council Decision of the Bank of Albania No. 45, dated 13.04.1999.
Certificate No. 12 "On Deposit Insurance".
Director: Martin Isvetkov BOGDANOV
Address: Blv. "Zogu I", No. 64, Tirana, Albania
Tel.: 35 64 23, 3 564 24
Tel/Fax: 35 64 22

13. EMPORIKI BANK OF ALBANIA (JOINT-STOCK COMPANY)
License No. 14, dated 28.10.1999
Approved by the Supervisory Council Decision of the Bank of Albania No.105, dated 19.10.1999.
Certificate No. 13 "On Deposit Insurance".
Director: George CARACOSTAS
Address: Rruga e Kavajës, Tirana Tower, Tirana, Albania
Tel.: 25 87 55/ 56/ 57/ 58/ 59/ 60
Tel/Fax: 25 87 52

14. CREDIT BANK OF ALBANIA (JOINT-STOCK COMPANY)
License No. 15, dated 28.08.2002
Approved by the Supervisory Council Decision of the Bank of Albania No. 66, dated 28.08.2002.
Certificate No. 14 "On Deposit Insurance".
Director: Kamal Abdel MONEIM
Address: Rruga "Perlat Rexhepi", Al-Kharafi Group Administration Building, Kati 1&2" Tirana, Albania
Tel.: 27 21 68, 27 21 62
Tel/Fax: 27 21 62
E-mail: creditbkalb@icc-al.org

15. "CREDINS" BANK (JOINT-STOCK COMPANY)
License No. 16, dated 28.03.2003
Approved by the Supervisory Council Decision of the Bank of Albania No. 22, dated 26.03.2003.
Certificate No.15 "On Deposit Insurance".
Director: Artan SANTO
Address: Rruga "Ismail Qemali", No. 21, Tirana, Albania
Tel.: 22 29 16, 23 40 96

16. popular BANK (JOINT-STOCK COMPANY)
License No. 17, dated 16.02.2004
Approved by the Supervisory Council Decision of the Bank of Albania No. 06, dated 11.02.2004.
Certificate No.16 "On Deposit Insurance".
Director: Edvin LIBOHOVA
Address: Rruga "Donika Kastrioti", Pall. 11/1, Kati I, Tirana, Albania
Tel.: 27 27 88 / 89 / 90 / 91
Fax: 27 27 81

NON-BANK INSTITUTIONS

1. TIRANA FINANCIAL UNION S.R.L. (WESTERN UNION)
License No. 1, dated 08.12.1999, on conducting the following financial activities:
- offering payment services;
- mediating in the conduct of monetary transactions;
- acting as financial agent or advisor.

Director: Niko Leka, Edmond Leka
Address: Rruga "Reshit Çollaku", Pall. Shallvare, Sh 2, No. 18, Tirana, Albania
Tel.: 25 06 53
Fax: 25 06 54

2. DINERS CLUB ALBANIA S.R.L.
License No. 2, dated 09.10.2000, on conducting the following financial activity:
- mediating in the conduct of monetary transactions.

Director: Vebi Velia
Address: Blv. "Zogu I", VEVE Business Center, Tirana, Albania

3. ALBANIAN POST-OFFICE (JOINT STOCK COMPANY)
License No. 3, dated 18.04.2001, as a non-bank financial institution to conduct the following financial activities:
- offering payment services;
- acting as financial agent or advisor.

Director: Luiza Hoxha
Address: Rruga "Reshit Çollaku", No. 4, Tirana, Albania
Tel.: 22 23 15

4. CREDINS TIRANA (JOINT STOCK COMPANY)
License No. 04, dated 13.06.2001, as a non-bank financial institution 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 Banking Law in the Republic of Albania".

Director: Mrs. Monika Milo
Address: Rruga "Ismail Qemali" No. 21, Tirana, Albania
Tel.: 22 29 16, 23 40 96

5. MOUNTAINOUS AREA FINANCING FUND
License No. 5, dated 29. 03.2002, on conducting the following activity:
- granting credit.

Director: Arben Jorgji
Address: Rruga "Mustafa Matohiti" No. 12, Tirana, Albania
Tel.: 25 06 33

6. "AK-INVEST" (JOINT STOCK COMPANY)
License No.7, dated 31.12.2003, as a non-bank financial institution to conduct the following activities:
- offering payment services;
- mediating in the conduct of monetary transactions (foreign currency included);
- acting as financial agent or advisor.

Manager: Ilir Adili
Address: Rruga "Ded Gjon Luli", No. 2/3, Tirana, Albania
Tel.: 24 01 47

7. "TIRANA LEASING SH.A."
License No. 8, dated 09.11.2004, as non-bank entity to conduct the following activities:
- financial leasing.

Director: Fatos ALIAJ
Address: Rruga Ismail Qemali, Samos Tower, Kati II, Zyra 2/1B, Tirana, Albania
Tel.: 26 97 05, 26 97 06

FINANCIAL INSTITUTIONS NOT LICENSED BY THE BANK OF ALBANIA TO CONDUCT OF THEIR ACTIVITIES ACCORDING TO THE SUPERVISORY COUNCIL DECISION NO. 26, DATED 29.03.2000 "ON EXEMPTION OF SOME INSTITUTIONS FROM APPLYING THE PROVISIONS OF LAW NO. 8365, DATED 02.07.1998 "ON BANKING LAW IN THE REPUBLIC OF ALBANIA"

(These organizations are not licensed or supervised by the Bank of Albania but they have to report to the Bank of Albania).

1. RURAL FINANCING FUND
Founded by the Decision of the Council of Ministers of Republic of Albania No. 207, dated 28.04.1999
Object of activity: Financing the rural area.
Exempted by the Bank of Albania's note No.1843, dated 01.08.2000

Director: Zana Konini
Address: Rruga "Ismail Qemali", P.32, Tirana, Albania

2. BESA FOUNDATION
Founded by Open Society Fund for Albania (SOROS).
Object of activity: Financing small and medium size firms.
Exempted by the Bank of Albania's note No. 2895/1, dated 19.01.2001

Director: Bajram Muça
Address: Rruga "Asim Vokshi", No. 35, Tirana, Albania

3. ALBANIAN PARTNER ON MICROCREDIT.
Shareholder: "Opportunity International" (East Europe).
Object of activity: Granting credit.
Exempted by the Bank of Albania's note No. 828/1, dated 08.04.2002

Director: James Reiff
Address: Rruga "Gjin Bue Shpata", No. 7/1, Tirana, Albania

FOREIGN EXCHANGE BUREAUS

1. "JOARD" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 1, dated 01.10.1999
Address: Rruga "Ded Gjon Luli", No.2, Tirana, Albania
Brokers: Josif Kote, Pajtim Kodra

2. "AMA" FOREIGN EXCHANGE BUREAU S.R.L., DURRËS
License: No. 2, dated 01.10.1999
Address: Rruga "Tregtare", Lagja 3, Durrës, Albania
Brokers: Mirlinda Ceka, Ilir Hoxha

3. "ARIS" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 3, dated 01.10.1999
Address: Rruga "Luigj Gurakuqi", Tirana, Albania
Brokers: Ardian Goci, Ismet Noka

4. "UNIONI FINANCIAR" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 4, dated 01.10.1999
Address: Rruga "Reshit Çollaku", Pall. Shallvare, Shk. 2/18, Tirana, Albania
Brokers: Arjan Lezha (Manager), Albert Sara, Dhimitër Papadhopulli, Genta Angjeli (Agalliu), Piro Teti, Flora Simixhi, Petrika Mano (Manager), Lindita Shala, Mirela Bakalli, Anila Demiri, Emili Bakalli (Nako), Astrit Sfërdelli, Mirela Kaiku, Erisa Emiri

5. "AGLI" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 5, dated 01.10.1999
Address: Agency No.1: Rruga "Islam Alla", No.1, Tirana, Albania
Agency No.2: Rruga "Kavajës", Tirana, Albania
Brokers: Kujtim Nina (Manager), Agim Cani, Selim Luli

6. "EXCHANGE" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 08, dated 24.11.1999
Address: Rruga "Durrësit" No. 170, Tirana, Albania
Brokers: Ivan Pavllovski, Ervis Myftari

7. "UNISIX" FOREIGN EXCHANGE BUREAU S.R.L., KORÇA
License: No. 09, dated 26.11.1999
Address: Blv. "Republika", Pall.4, Korça, Albania
Brokers: Pandi Cunoti, Ernest Golka, Nikolin Bicka, Eli Bode

8. "EKSPRES J & E" FOREIGN EXCHANGE BUREAU S.R.L., DURRËS
License: No. 10, dated 26.11.1999
Address: Lagja 11, Rruga "Prokop Meksi", Durrës, Albania
Brokers: Kostandin Ekonomi, Entela Ekonomi

9. "ILIRIA 98" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 12, dated 25.02.2000
Address: Sheshi "Skënderbej", Teatri i Kukullave, Tirana, Albania
Brokers: Edmond Ymeri, Ali Topalli, Ilir Janku

10. "SERXHIO" FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN
License: No. 14, dated 07.04.2000
Address: Lagja "Luigj Gurakuqi", Rruga 11 Nëntori, Pall. 70, No.14,
Elbasan, Albania
Brokers: Amarildo Canku

11. "ALBTUR" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 15, dated 07.04.2000
Address: Blv. "Zogu I", Pall. 32, Shk.1, Tirana, Albania
Brokers: Albert Rahmani, Artur Rahmani

12. "R & M" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 16, dated 22.05.2000
Address: Rruga "Punëtorët e Rilindjes", Pall. 182, Tirana, Albania
Brokers: Edmond Stepa, Miranda Stepa

13. "TEUTA 2000" FOREIGN EXCHANGE BUREAU S.R.L., DURRËS
License: No. 17, dated 22.05.2000
Address: Lagja 4, Rruga "Skëndërbej", Ap. 950, Durrës, Albania
Brokers: Qemal Hoxha, Arben Çuni

14. "T & E" FOREIGN EXCHANGE BUREAU S.R.L., DURRËS
License: No. 18, dated 11.06.2000
Address: Lagja 4, Rruga "9 Maji", Durrës, Albania
Broker: Shpëtim Hysa

15. "SHIJAK 2000" FOREIGN EXCHANGE BUREAU S.R.L., SHIJAK
License: No. 19, dated 24.11.2000
Address: Lagja "Popullore", Shijak, Albania
Brokers: Nazmi Ademi, Farije Ademi

16. "R & T" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 20, dated 20.12.2000
Address: Blv. "Zogu I", Tirana, Albania
Broker: Renis Tershana

17." MANUSHI" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 22, dated 18.04.2001
Address: Blv. "Zogu I", VEVE Business Center, Tirana, Albania
Brokers: Roland Manushi

18. "UNIONI SELVIA" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 23, dated 21.05.2001
Address: Rruga e Saraçëve, Pall.124/1, Tirana, Albania
Brokers: Leonat Zenelaj, Gani Xhaja

19. "KALENJA" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 24, dated 29.06.2001
Address: Rruga e Kavajës (next to Turkish Embassy), Tirana, Albania
Brokers: Hair Shametaj, Fatmir Shametaj

20. "TILBA" FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN
License: No. 25, dated 30.09.2001
Address: Lagja "Luigj Gurakuqi", Blv. "Qemal Stafa", Njësia No.12, Elbasan, Albania
Brokers: Kristaq Bako, Vjollca Bako

21. "ANAGNOSTI" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 26, dated 31.10.2001
Address: Agency No. 1 - Blv. "Zogu I", Pall.97, Shk.3, Ap.28, Tirana, Albania
Brokers: Jani Anagnosti, Odise Anagnosti, Edlira Anagnosti
Agency No. 2 - Rruga "Kajo Karafili", No. 11, Tirana, Albania
Broker: Fredi Cami

22. "KO-GO" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 27, dated 12.11.2001
Address: Rruga "Vaso Pasha", Pall.16, Shk.2, Ap. 9, Tirana, Albania
Brokers: Mihal Konomi, Përparim Goxhaj

23. "ALB-FOREX" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 28, dated 22.11.2001
Address: Agency No. 1: Rruga "Abdyl Frashëri", No.3, Tirana, Albania
Brokers: Almir Duli, Agim Xhemo

Agency No. 2: Rruga "Mine Peza", Pall. 102, Shk. 1, Tirana, Albania
Broker: Fatmir Baholli

24. "L&N" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 29, dated 22.11.2001
Address: Rruga "Muhamet Gjollesha", Tirana, Albania
Broker: Leonora Mihalcka

25. "EXHANGE ALOG" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 31, dated 22.11.2001
Address: Rruga "Mine Peza" , Tirana, Albania
Brokers: Almida Sterio, Fatmir Tafaj, Eduard Andoni, Elida Hasamemi

26. "BASHKIMI 2001" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 35, dated 12.12.2001
Address: Rruga e Kavajës,Tirana, Albania
Brokers: Bashkim Shametaj, Luan Shametaj, Ilir Mesini

27. "ARJON 2002" FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN
License: No. 36, dated 14.12.2001
Address: Lagja "Kongresi i Elbasanit", Blv. "Qemal Stafa", Pall. 9-katësh, Elbasan, Albania
Brokers: Arben Kovaçi, Besnik Lulja

28. "ALAKTH" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 42, dated 18.01.2002
Address: Rruga e Dibrës, No.105/1, Tirana, Albania
Brokers: Kosta Papa, Arben Memko, Lorenc Konomi, Thoma Konomi, Aleko Plaku

29. "FORMAT" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 43, dated 21.01.2002
Address: Rruga e Durrësit, Pall. 85, Shk. 1, Ap. 1, Tirana, Albania
Brokers: Diana Lemi, Egon Sinani

30. "TRI URAT" FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN
License: No. 44, dated 05.02.2002
Address: Lagja "29 Nëntori", Elbasan, Albania
Brokers: Fahri Sanco, Ismail Bejta

31. "BESA 2001" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License No. 46, dated 15.02.2002
Address: Rruga "Myslym Shyri", No. 25, Tirana, Albania
Brokers: Belul Lleshi, Vladimir Avda, Mimoza Avda

32." MARIO" FOREIGN EXCHANGE BUREAU S.R.L., SARANDA
License: No. 47, dated 14.03.2002
Address: Lagja 1, Saranda, Albania
Brokers: Vangjel Gramozi, Blerim Dhima

33. "JAV" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 48, dated 20. 03.2002
Address: Blv. "Zogu I", Godina e "Zërit të Popullit", Tirana, Albania
Brokers: Ervin Lera, Ilir Gurashi

34. "DROGU" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 49, dated 23.04.2002
Address: Rruga "Vaso Pasha", Kulla 1, Kati I, Tirana, Albania
Brokers: Shkëlqim Drogu, Kostandin Koteci

35. "HYSEN-C" FOREIGN EXCHANGE BUREAU S.R.L., LAÇ
License: No. 50, dated 23.04.2002

Address: Lagja No. 3, Laç, Albania
Broker: Cen Hyseni

36. "UNIONI FIER" FOREIGN EXCHANGE BUREAU S.R.L., FIER
License: No. 51, dated 08.05.2002
Address: Lagja "15 Tetori", Rruga "Kastriot Muça", Fier, Albania
Brokers: Gjergj Dulaj (manager)

37. "TAXI EKSPRES" FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN
License: No. 52, dated 20.05.2002
Address: Rruga "Sami Frashëri", nr. 11 (pranë shkollës "Edith Durhan", Tirana, Albania
Brokers: Arben Sharra, Sokol Kaleci

38. "GLEAR" FOREIGN EXCHANGE BUREAU S.R.L., SHIJAK
License: No. 55, dated 23.07.2002
Address: Lagja "Kodër", Shijak, Durrës, Albania
Ex.broker: Argjend Calliku, Afërdita Calliku

39. "ALBA-POST" FOREIGN EXCHANGE BUREAU, TIRANA
License: No. 56, dated 28.08.2002
Address: Rruga "Reshit Çollaku", No. 4, Tirana, Albania

40. "UNIONI BALLSH" FOREIGN EXCHANGE BUREAU S.R.L., BALLSH
License: No. 57, dated 11.09.2002
Address: Rruga "8 Nëntori", Ballsh, Albania
Brokers: Luan Zenelaj, Lavdimir Zenelaj

41. "ESLULI" FOREIGN EXCHANGE BUREAU S.R.L , TIRANA
License: No. 58, dated 17.10.2002.
Address: Rruga "Reshit Çollaku", Pall."Shallvare", Shk. 4/1, Tirana, Albania
Brokers: Selim Luli, Kleomen Gjiknuri

42. "DENI&KRISTI-2002" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 61, dated 02.06.2003
Address: Rruga "Myslym Shyri", Pall. 60, Ap. 3, Tirana, Albania
Broker: Maksim Çeku

43. "YLDON" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 62, dated 03.06.2003
Address: Rruga "Qemal Stafa", Pall. 382/2/2, Tirana, Albania
Broker: Ylli Ndoqi (manager)

44. "BILLI" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 63, dated 16.02.2004
Address: Sheshi "Wilson", Tirana e Re, Tirana, Albania
Broker: Sybi Cenolli (manager)

45. "ALBA&ARBËR" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 65, dated 06.05.2004
Address: Rruga e Kavajës, Pall. 3. Kati I, Tirana, Albania
Brokers: Pëllumb Mehmetaj, Bukurosh Jaho (managers)

46. "I.S.N." FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 66, dated 06.05.2004
Address: Rruga e Kavajës, Pall. 3. Kati I, Tirana, Albania
Brokers: Evzi Zemzadja (manager), Nexhmi Uka, Salandi Brojaj

47. "ARIABA" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 67, dated 07.06.2004
Address: Ruga "Abdyl Frashëri", Kati I, Shk. 5, Tirana, Albania
Brokers: Agim Xhemo (manager), Astrit Hado

48. "ALBACREDITS" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 68, dated 13.07.2004
Address: Rruga "Ded Gjon Luli", No. 5, Tirana, Albania
Brokers: Ermira Skënderi (manager), Engjëll Skënderi, Burhan Kodra

49. "ALB-KREDIT" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No.69, dated 19.07.2004
Address: Rruga e Durrësit, No. 2, Tirana, Albania
Brokers: Arben Cani (manager), Vasil Marto, Rudina Muskaj, Valbona Kadriu, Teuta Koltarka, Hajredin Toca

50. "IDEA - 2" FOREIGN EXCHANGE BUREAU S.R.L., KAVAJA
License: No. 70, dated 02.09.2004
Address: Lagjja No.2, Rruga "10 korriku", Kavaja, Albania
Broker: Taulant Karkini (manager)

51. "O & G" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 71, dated 30.09.2004.
Address: Rruga e Kavajës, Tirana
Brokers: Pranvera Ago (manager), Teuta Broqi

52. "OMEGA" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No. 72, dated 20.12.2004.
Address: Rruga "Abdyl Frashëri", Pall.1, Shk.2, Ap.10, Tirana
Broker: Mihallaq Peko (manager)

53. "ELBA 2005" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No.73, dated 28.04.2005
Address: Blv. "Bajram Curri", Pallatet Agimi, No. 16, Tirana
Brokers: Kujtim Elbasani (manager)
Associates: Kujtim Elbasani

54. "JONADA – 05" FOREIGN EXCHANGE BUREAU S.R.L., TIRANA
License: No.74, dated 27.06.2005
Address: Rruga e Kavajes, Pallati 185, shkalla 2, apt.# 9, Tirana
Brokers: Liliana Zyfi (manager), Pellumb Zyfi
Associates: Liliana Zyfi, Pellumb Zyfi

55. "BASHA – N.B." FOREIGN EXCHANGE BUREAU S.R.L., ELBASAN
License: No.75, dated 08.07.2005
Address: Lagja "Shenkoll", rruga "Thoma Kaleshi", Pall. 110, Shk.1, Kati I, Elbasan.
Brokers: Nashifer Basha, Çlirim Basha, Sonila Alla

56. "ÇELA 2005" FOREIGN EXCHANGE BUREAU S.R.L., LUSHNJE
License: No.76, dated 02.08.2005
Address: Lagja "Çlirim", Lushnje.
Brokers: Bledar Çela

57. "I & K 2005" FOREIGN EXCHANGE BUREAU S.R.L., LEZHE
License: No.77, dated 09.09.2005
Address: Lagja "Beselidhja", Pll. 73, Lezhe.
Brokers: Ilir Malaj

UNIONS OF SAVINGS AND CREDIT ASSOCIATIONS

1. "JEHONA" SAVINGS AND CREDIT ASSOCIATIONS UNION, TIRANA
License: No.1, dated 27.06.2002
Address: Rruga "Kajo Karafili", No. 26/1, Tirana, Albania
Head of the Executive Board: Vojsava Rama
This union consists of 41 savings & credit associations licensed also as special associations and technically assisted by the foundation "Movement for the savings & credit associations
development".

2. "ALBANIAN SAVINGS AND CREDIT UNION" SAVINGS AND CREDIT ASSOCIATIONS UNION, TIRANA
License: No. 2, dated 09.08.2002
Address: Rruga "Ismail Qemali", No. 32, Tirana-Albania
Head of the Executive Board: Zana Konini
This union consists of 91 savings & credit associations, licensed also as special associations and technically assisted by "Mountain Area Financing Fund".

REPRESENTATIVE OFFICES OF FOREIGN BANKS

THE REPRESENTATIVE OFFICE OF BANCA POPOLARE PUGLIESE IN ALBANIA
License: No. 01, dated 02. 07.2003
Representative: Pasquale Guido Vergine
Address: Sheshi "Skënderbej", Pallati i Kulturës, Kati III, Tirana, Albania
Tel.: 25 67 82