

## Shkëlqim Cani: Review of the Albanian economy

Statement by Dr Shkëlqim Cani, Governor of the Bank of Albania, for Euromoney Yearbooks, Global banking and financial policy review, Tirana, 9 August 2004.

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The Albanian economy experienced a recovered pulse of economic growth over the year 2003. Positive developments are marked in respect of consolidating the country's macroeconomic stability, economic growth and a sound development of the financial system. A recovery in economic activity and 6% growth of Gross Domestic Product in real terms was proved by all sectors of the economy, but was particularly evident in the construction, transport and services sectors, which are the most dynamic sectors of Albanian economy.

The year 2003 was characterised by a low inflation rate, within 2%-4% of the targeted range. The inflation rate as of December was 3.3%, meeting the Bank of Albania (BoA) target. Despite the various factors this low rate emerged from a diligent management of the domestic demand as an outcome of appropriate fiscal and monetary policies.

BoA's monetary policy has been a moderate one throughout 2003. Such a trend will continue during 2004 and was recently reflected by the reduction of the core interest rate in the economy. Since April 2003 the REPO rate has been lowered by 2.5%. The 6% REPO rate, decided on May 12, 2004, is the lowest ever in the Albanian economy. The policy aims to reduce borrowing costs in the economy and maintain price and financial stability.

At the end of 2003 the foreign reserves of BoA reached US\$1.03bn covering 4.7 months of imports. BoA continues to maintain its view of a free exchange rate regime. This was reflected in the fewer episodes of BoA's intervention in the foreign exchange market during the first half of 2003, when the purchase of foreign currency was almost four times that of the second half of the year.

Nonetheless, this did not hold back the domestic currency from appreciating against the euro and the US dollar, with a stronger appreciating trend in place in the second half of the year. The appreciation of the domestic currency was one of the factors behind BoA's 2.0% interest rate cut during year 2003.

Monetary indicators have generally been performed in compliance with the forecasts set out in the Bank's monetary programme. The annual growth rate of lek deposits was 19.1% by the end of the year, which is significantly higher than the annual rates of the previous years.

The credit balance rose by L11.9bn or 30.9%. The new credit increased by 50% meanwhile 76% is in foreign currency. The loans/GDP ratio is still low, at about 7%.

The banking system experienced important developments during 2003 and in the beginning of 2004. The entry of two new banks of Albanian capital was soon followed by the successful privatisation of the Savings Bank from the Raiffeisen Zentralbank (RZB) Austria. Now, all in all there are 16 banks in the Albanian Banking system.

The BoA has progressed in reforming the banking system towards international standards, with the aim of the developing and refining the country's banking infrastructure. AIPS, inaugurated in early March 2004, can be considered as the backbone of the whole banking system infrastructure.

The BoA wishes to bring its central bank closer to that of the European Central Bank. Therefore, changes and amendments of the Bank's regulations are aimed towards achieving this goal.