

BANK OF ALBANIA BULLETIN NEWS, JULY-DECEMBER 2011

Open Forum "Collateral, Loans, Market and Legislation"

In the context of constantly assessing the banking system and addressing the concerns it is faced with, the Bank of Albania organized, on 12 July 2011, a roundtable on "Collateral, Loans, Market and Legislation", with the Albanian Association of Banks and other stakeholders in the banking system. This roundtable was also attended by the Minister of Finance Mr. Ridvan Bode, Deputy Minister of Justice Ms. Brikena Kasmi, and representatives from the Supreme Court and the public and private bailiff service.

The purpose of this forum went beyond identifying the bottlenecks in the execution of the collateral. In conclusion, the parties agreed to establish an inter-institutional working group to draft a detailed action plan for the solution of collateral execution-related concerns.

The Bank of Albania, a promoter of macroprudence and financial stability, invites all institutions to pay maximum attention and commit to all legal initiatives or any other practices that may be proposed on collateral execution.

Presentation of the Free-Choice Module "Personal Finances in Your Hands" for High Schools in the Republic of Albania

The Bank of Albania held on 1 September 2011 the presentation ceremony of the free-choice module for the financial literacy of high school students entitled "Personal Finances in Your Hands". The opening address was delivered by the Governor of the Bank of Albania Mr. Ardian Fullani, and the Minister of Education and Science Mr. Myqerem Tafaj. This ceremony was attended by representatives of the Bank of Albania, Ministry of Education and Science, Education Development Institute and Regional Education Directorates.

The new educational module on financial literacy will be one of the free-choice subjects of the high school education curriculum for the academic year 2011-12. In accordance with the curriculum itinerary that each student has planned to make and with the personal interests, the students may choose to take this subject in one of the three high school years.

The contents of the module "Personal Finances in Your Hands" was formulated by the Bank of Albania in 2010, in cooperation with the Education Development Institute (EDI) and teachers of Economics. The key objective of this project was to formulate a format equipped with information based on the Albanian reality, and in line with the educational goal that this module intends to achieve didactically for the target group.

The project for the inclusion of a free-choice module on the financial literacy of high school students in the education curriculum was born as an initiative of the Bank of Albania, which has for several years now been engaged in creating and promoting the financial culture in the Albanian society. The endorsement of the Memorandum of Understanding, on 13 December 2007, between the Bank of Albania and the Ministry of Education and Science was a major step in this regard. It provided the opportunity to institutionalize the educational programme of the Bank of Albania designed for students in the fields of economics, finance and banking studies.

In order to be successful, this project also envisaged the training of trainers. Representatives of the Regional Education Directorates were offered a two-day training workshop by Bank of Albania experts that provided insights on how to teach this high school subject.

On 13 September 2011, the Governor of the People's Bank of China, Mr. Zhou Xiaochuan, visited the Bank of Albania for an official visit at the invitation of the Governor of the Bank of Albania, Mr. Ardian Fullani.

Official Visit of the Governor of the People's Bank of China, Mr. Zhou Xiaochuan, to the Bank of Albania

Discussions in this bilateral meeting focused on the economic developments, where Governor Fullani presented Governor Zhou with an overview of the performance of the Albanian economy, and the banking system in particular. The Albanian Governor outlined the measures the Bank of Albania has taken in view of the prudential supervision of the banking system, and described the monetary policy framework in Albania. Governor Fullani also presented Governor Zhou with the policies pursued by the Bank of Albania to maintain price stability.

Mr. Fullani noted that the positive business climate, macroeconomic stability, the favourable geographical location, and the liberal legislation make Albania a very attractive destination for foreign investors. From this point of view, there is room for higher interest and presence of Chinese capital in Albania.

Governor Zhou commended the Bank of Albania's work to preserve financial stability and expressed his willingness to expand bilateral cooperation.

On 15 September 2011, the Bank of Albania hosted its 9th International Conference on "Building our Future through Financial Literacy". This Conference was organized in cooperation with Banca d'Italia, in the framework of the twinning project between the two central banks.

Bank of Albania's 9th International Conference "Building our Future through Financial Literacy"

The opening address was delivered by the Governor of the Bank of Albania Mr. Ardian Fullani, who pointed out the importance of establishing financial literacy on a broad national level.

Welcome remarks were also delivered by the Minister of Finance Mr. Ridvan Bode, the Ambassador of the European Union to Albania H.E. Mr. Ettore Sequi, the Deputy Minister of Education and Science Mr. Halit Shamata, and Managing Director of the Bank of Italy Mr. Franco Passacantando. Keynote conference speaker was Mr. Dejan Soskic, Governor of the National Bank of Serbia.

This Conference was attended by many central bank representatives of the region, managers of commercial banks operating in Albania, prominent academics in the field of economics and finance, diplomatic corps accredited to Albania, representatives of international financial institutions, and many Albanian and foreign personalities.

This Conference was prompted by the increasing importance of financial literacy worldwide, especially following the latest economic developments and the global financial crisis. The latter evidenced the need for establishing financial literacy in order to reduce risks and improve consumer welfare as a result of a more accountable decision-making.

The Bank of Albania's Governor Mr. Ardian Fullani concluded the proceedings of this Conference, emphasizing once more the importance of designing and implementing a national strategy on financial literacy. Governor Fullani pointed out that the Bank of Albania is willing to cooperate with the public and private sectors in Albania in order to design a national strategy on financial literacy in Albania.

*Fifth Regional Workshop:
"Economic Research in
South-Eastern Europe"*

Research Department of the Bank of Albania hosted, on 10-11 November 2011, the fifth regional workshop "Economic Research in South-Eastern Europe". There were 25 participants (presenters and discussants) from Bank of Albania and other central banks of the region (European Central Bank, Bank of Italy, Bank of Austria, Central Bank of the Republic of Macedonia and Hungarian National Bank) who attended the workshop. Following the success of previous workshops, the aim of this workshop was to further improve cooperation and open dialogue among research economists, and also to further widen the knowledge of regional central banks over some characteristics and specific developments of the participant countries.

Some of the research studies dealt with issues related to public finances of the region, economic uncertainties and the way banks should optimally react to productivity, trade, financial stability, and price stability. These topics were of high interest against a background of the difficult situation most of the euro area countries are going through, caused by sovereign debt crisis problems, and negative potential effects they might pose to the economies of our region.

*Bank of Albania Holds
a Roundtable with
the Banking System
on "Interbank Market
Development"*

On 24 November 2011, the Bank of Albania held a roundtable on "Interbank Market Development". This roundtable was attended by managers of commercial banks operating in Albania and representatives of the Albanian Association of Banks.

In the context of the European Integration process, the Bank of Albania has started to implement the Twinning Project between the Bank of Albania, Banca d'Italia and Banque de France. This project aims at strengthening the institutional capacity and approximating the legal and operational framework of the Bank of Albania with the best standards of the European System of Central Banks. "Interbank Market Development" is one of the modules in this project.

Interbank market development is a key objective of the Bank of Albania considering the important role it plays in improving the monetary policy transmission mechanism in the economy.

The Bank of Albania representatives pointed out the persistent efforts of the central bank in developing the interbank money market and the Government securities secondary market. They also noted that these efforts need to be supported with initiatives from the banking system.

During this roundtable, the commercial bank managers were introduced to the additional measures proposed by the Bank of Albania to develop the interbank market. In carrying out this process, cooperation with the market players is highly important.

On 19 December 2011, the Governor of the Bank of Albania, Mr. Ardian Fullani, hosted a reception to mark the end of 2011. This reception was attended by the Minister of Finance, Mr. Ridvan Bode, members of the Parliamentary Commission for Finance and Economy, representatives of the diplomatic corps accredited to Tirana, journalists and analysts of press and electronic media, and managers of the banking system in Albania.

Governor Holds Year-End Reception

In his speech, Governor Fullani commended the former members of the Supervisory Council of the Bank of Albania, whose term in office ended, for their contribution, and welcomed the new Council members. The Governor also commended the role of the media in transmitting the Bank of Albania's decision-making and activity to the public in a timely and reliable fashion. During his speech, Governor Fullani also highlighted the Bank of Albania's work in safeguarding macroeconomic stability in Albania.

The Governor placed special importance on the Bank of Albania's commitment to public education. At the end of reception, Governor Fullani announced the three winners of the Governor's Award for the Best Diploma Thesis for 2011.

The Research Department at the Bank of Albania organizes a fortnightly "Friday Seminar". This initiative welcomes Bank of Albania experts, researchers from the academia and other financial, research and scientific institutions to present and discuss their theoretical and empirical research papers.

Friday Seminar

During the second half of 2011, the Friday Seminar Series welcomed seven presentations, mostly from Bank of Albania participants, and also from domestic scholars. These presentations covered various issues, like: the financial crisis and its impact on the economies of the region, the financial system and its performance, fiscal policy sustainability, exchange rate, trade relationships, etc.

"The Impact of Global Financial Crisis on the Economies of South-Eastern Europe", by Evis Koplaku, Third Prize Winner of Governor's Award for the Best Diploma of Year 2010 was the first study presented in the Friday Seminar for the period July-December 2011. The aim of this study is to investigate the impact of the global financial crisis on four South-Eastern European

countries: Albania, Bulgaria, Croatia, and Romania. This investigation is done by using Unit Root tests and Johansen Cointegration tests, and by employing quarterly time series data from 1990 to 2009. First, this study identifies the possible transmission channels of the crisis grounded on empirical research and theoretical approaches relevant to the crisis. Once the variables have been identified as possible transmission channels, the author investigates their significance on the economic growth of the sample of the South-Eastern European countries. Findings show that exports and credit have been significant transmission channels of the global crisis. Interestingly, FDIs are found to have a significant but negative effect on growth, while the impact of remittances is positive but not statistically significant. In the case of Bulgaria, all variables, but degree of openness, positively affect economic growth. In the case of Croatia, the results show that exports are the most significant transmission channel of the global crisis, whereas openness has a negative impact on economic growth. In the case of the new EU member, Romania, FDIs, credit and remittances are found to be statistically significant, indicating that being more integrated increases the significance of the global crisis on the growth. The findings of this study in the future might serve as a very useful source of reference in developing policies, which try to minimize the costs of the global financial crisis.

“The Impact of Trade on Growth: A Gravity Model-Based Instrument Approach on Post-Communist Europe”, by Endrit Yzeiraj, Research Department. The study is based on the literature initiated by Frankel and Romer (1999) on using instruments for predicted trade to analyze its effect on growth. It uses panel data to better control for possible time-invariant characteristics. The fall of communism is used as an exogenous shock to the system. The study finds that not all attempts at creating good instruments are successful. However, the successful attempts are the ones that have coefficient results comparable to the literature. Also, trade is found to have a positive and significant effect on a country’s income.

“Equilibrium Exchange Rate in a Developing Economy”, by Bledar Hoda, Research Department. This study aims to estimate the equilibrium level of the real exchange rate by employing “The Statistical Approach of the Exchange Rate”. This approach enables effects, such as Balassa Samuelson and terms of trade to play an important role in guiding equilibrium RER. The estimation also includes other factors, like: the real interest rate differential and the level of foreign currency reserves of the banking system. The estimation employs vector error correction among variables with unit root. Empirical findings show that all the above-mentioned factors but the foreign currency reserves enter significantly a long-run relationship with the real exchange rate. Also, the study shows that terms of trade and the Balassa-Samuelson proxy result to have the greatest impact to relatively affect the real exchange rate, while the other factors have only a marginal effect.

“Sustainability of Fiscal Policy: The Case of Albania”, by Gerti Shijaku, Research Department. This study aims to estimate the long-run sustainability of fiscal policy, while answering at the same time the question: “Does the government undertake the right policies to avoid the excess accumulation of

debt?" Empirical results show that developments in public debt-to-GDP ratio are sustainable, even though such behaviour lacks when such indicator is measured in real terms. These results are further confirmed by the statistical test, Phillips-Perron. Also, findings, under the assumptions of the reaction function, show that fiscal authorities react to increasing indebtedness by generating future surpluses, but not enough for debt to be mean-reverting in the long-run, leading to a non-Ricardian regime. Empirical analysis shows that fiscal policy has been relatively stable over time, even though economic and financial global crisis have had a negative impact. Lastly, evidence seems to suggest that fiscal policy is relatively volatile when public debt is close or above the 60% of GDP ratio.

"How is Financial Performance of Banks in Albania Influenced by Sound Corporate Governance", by Oriela Kodra and Irini Kalluci, Research Department. This paper provides an overview on bank governance relation with their performance captured by several financial indicators. Among these indicators, we can mention: the return on assets and equity; the growth rate of assets and capital, interest income and expenses, and the size of banks. To measure the quality of banks governance, the study employs the values of Banking Governance Index, extracted from Ceca et al. (2010). All relations between this index and financial indicators proved with the expected sign. The testing of these correlations in the future will require other methods and additional time series.

"Free Trade Agreements and Trade Integration among South-Eastern European Countries: Gravity Model Estimations", by Alban Pllaha, Research Department. This study aims to estimate the impact of bilateral free trade agreements on regional trade integration of South Eastern European Countries (SEE-9). The author analyses the trade flows between nine countries of South Eastern Europe. The study employs the GMM approach, which enables the incorporation of dynamics in panel data assessment into gravity model for trade. Findings of this study show that trade is impacted by GDP, free trade agreements, colonial links, neighbourhood, and physical transportation distance between countries.

"A Financial System Stress Index for Albania", by Vasilika Kota and Arisa Saje, Financial Stability Department. The latest financial crisis reflected the need to properly understand, to measure and possibly to project the systemic events, which have a high probability of causing the interruption of the normal functioning of the financial markets, resulting in a suffering of the economic growth. This paper presents a Financial System Stress Index for Albania, which aims to capture the level of financial stress of the economy in a single and comprehensive index (FSSIA). The authors assess the linkages of the different market segments through evaluating their impact on economic growth, providing in this way a clear method in discussing the evolution of the sub-indices of the banking sector, money market, foreign exchange rate, and housing market into financial stress. The results indicate that FSSIA captures the pressures in the form of the financial stress, not only from different market segments, but also from their interaction through cross correlation.

MONETARY POLICY DECISIONS

26 January and 23 February 2011

The Supervisory Council of the Bank of Albania decided to keep the interest rate unchanged at 5.00%.

23 March 2011

The Supervisory Council of the Bank of Albania decided to increase the key interest rate by 0.25 percentage points to 5.25%.

27 April, 25 May, 29 June, 27 July and 31 August 2011

The Supervisory Council of the Bank of Albania decided to keep the interest rate unchanged at 5.25%.

29 September 2011

The Supervisory Council of the Bank of Albania decided to decrease the key interest rate by 0.25 percentage points to 5.00%.

26 October 2011

The Supervisory Council of the Bank of Albania decided to keep the interest rate unchanged at 5.00%.

30 November 2011

The Supervisory Council of the Bank of Albania decided to decrease the key interest rate by 0.25 percentage points to 4.75%.

28 December 2011

The Supervisory Council of the Bank of Albania decided to keep the interest rate unchanged at 4.75%.

LEGAL EVENTS, JULY-DECEMBER 2011

BANKING SUPERVISION

On 13 July 2011, the Supervisory Council of the Bank of Albania approved by Decision No. 49 "The Supervision Annual Report for 2010". According to this Report, the banking system's total assets increased by about 11.8%, which is higher than in the previous year when they increased by only 6.3%. The loan portfolio grew moderately by 9.1%, hence decelerating the credit growth rates compared to the previous year when the loan portfolio grew by 13.4%. Credit risk in the system appeared higher in 2010 considering an elevated non-performing loan ratio. Banks' overall risk level, however, remains moderate due to the preservation of a satisfactory bank capital adequacy ratio.

On 14 September 2011, the Supervisory Council of the Bank of Albania approved by Decision 62 the Regulation "On Credit Risk Management". The purpose of this Regulation is to lay out the rules and requirements for credit risk management in banks' activity. It also sets out the criteria for the assessment of risk and classification of loans and other assets, and for the calculation of reserve from loan loss as a result of their depreciation. This Regulation shall apply to banks and branches of foreign banks licensed by the Bank of Albania to conduct banking and/or financial activity in the Republic of Albania.

On 14 September 2011, the Supervisory Council of the Bank of Albania adopted the Decision No. 63 "On some Amendments to Regulation "On Capital Adequacy Ratio"". The amendments addressed in this Decision affect Article 8 of this Regulation, which stipulates the ways balance sheet assets are risk-weighted.

On 12 October 2011, the Supervisory Council of the Bank of Albania adopted the Decision No. 70 "On Granting Credins Bank sh.a. Preliminary Approval to Conduct Additional Activity". Upon this Decision, Credins Bank sh.a. is granted preliminary approval to conduct trading activities, on its account or for the account of its clients, be it in a foreign exchange, over-the-counter or other negotiable instruments.

On 12 October 2011, the Supervisory Council of the Bank of Albania adopted the Decision No. 71 "On Granting Alpha Bank-Albania Preliminary Approval to Conduct Additional Activity". Upon this Decision, Alpha Bank-Albania is granted preliminary approval to offer guarantees and receive commitments as additional financial activities.

On 26 October 2011, the Supervisory Council of the Bank of Albania adopted the Decision No. 75 "On some Amendments to Regulation "On Liquidity Risk Management"". The articles the amendments to this Regulation apply to regulate the liquidity ratios, the calculation of liquid assets to current liabilities, and the reporting requirements.

On 30 November 2011, the Supervisory Council of the Bank of Albania adopted the Decision No. 77 "On Granting Banka Societe Generale Albania sh.a. Preliminary Approval to Conduct Additional Activity". Upon this Decision, Banka Societe Generale Albania sh.a. is granted preliminary approval to receive commitments, trade securities and other negotiable instruments and financial assets, intermediate monetary transactions, provide custody services, etc., as additional financial activities.

On 14 December 2011, the Supervisory Council of the Bank of Albania adopted the Decision No. 82 "On some Amendments to Regulation "On the Licensing, Organization, Activity and Supervision of Foreign Exchange Bureaus"". This Decision adds to this Regulation the self-declaration form, the declaration signed by the legal person's administrator on the acknowledgement and implementation of the legal and by-law obligations to carry out the foreign exchange activity, and the information on the necessary technical/administrative equipment that the bureau has in place to conduct the foreign exchange activity.

ISSUE

On 13 July 2011, the Supervisory Council of the Bank of Albania adopted the Decision No. 50 "On Minting Coins for Numismatic Purposes in 2012". The purpose of this Decision is to specify the technical information of non-circulating legal tender coins to be minted for numismatic purposes themed "100th Anniversary of the Declaration of Independence". The coins will have a face value of 200, 100 and 50 Lek. They will be minted in different materials and there will be minted 1000, 1000 and 10000 pieces, respectively.

On 31 August 2011, the Supervisory Council of the Bank of Albania adopted the Decision No. 60 "On Minting Coins for Numismatic Purposes Dedicated to Mother Theresa, in 2012". The purpose of this Decision is to specify the technical information, such as the weight, diameter and alloy of the non-circulating legal tender coins to be minted for numismatic purposes. The coins shall have a face value of 200 Lek and there will be minted 1000 pieces.

MONETARY POLICY

On 27 July 2011, the Supervisory Council of the Bank of Albania approved by Decision No. 52 "Bank of Albania's Monetary Policy Statement on the First Half of 2011". The Statement points out that in line with the past year's

performance, the growth of the Albanian economy in the first and second quarter of 2011 was mostly driven by the growth in industry and services sectors. Owing to the impact of foreign demand, industrial output grew by 12.3% y-o-y. Consumer prices experienced added inflationary pressures in the first half of 2011, mainly due to the rise in global import prices. Annual inflation in the first and second quarter of 2011 averaged 4.0% and 4.1%, respectively. The developments in the financial markets were relaxed, reflecting the low risk premium and the satisfactory liquidity situation. Taking into account the future outlook for the Albanian economy, Bank of Albania's projections and assessments suggest that economic growth will persist in the second half of the year.

On 29 September 2011, the Supervisory Council of the Bank of Albania adopted the Decision No. 68 "On Cutting the Interest Rate on Repo and Reverse Repos". According to this Decision, the Supervisory Council cut the interest rate on repo and reverse repos by 0.25 percentage points to 5.00%. The monetary policy accommodation aims at creating adequate monetary conditions to meet the medium-term inflation target, and driving economic activity by boosting consumption and investment in Albania.

On 26 October 2011, the Supervisory Council of the Bank of Albania approved by Decision No. 73 "Monetary Policy Report for 2011 Q3". According to this Report, the Albanian economy displayed, overall, a positive performance during 2011, albeit in the presence of an unfavourable external environment. Annual inflation averaged 3.2% in 2011 Q3, down 0.9 percentage points from the first half of 2011. The developments in the financial markets in Q3 indicate low liquidity premium and inflation. Projections show that economic growth will persist in the remainder of the year. In September, the Bank of Albania eased the monetary conditions further by cutting the key interest rate by 0.25 percentage points to 5.00%. Inflation is expected to fluctuate around the Bank of Albania's target in the medium run.

On 30 November 2011, the Supervisory Council of the Bank of Albania adopted the Decision No. 76 "On Cutting the Interest Rate on Repo and Reverse Repos". According to this Decision, the Supervisory Council cut the interest rate on repo and reverse repos by 0.25 percentage points to 4.75%. This Decision provides adequate monetary conditions to meet the medium-term inflation target and, at the same time, increase the monetary stimulus and boost the economic activity in Albania.

On 28 December 2011, the Supervisory Council of the Bank of Albania approved by Decision No. 85 "Monetary Policy Document for the Period 2012-2014". According to this Decision, in quantitative terms, the Bank of Albania will, for the period 2012-2014, continue to target an inflation rate of 3.0%, with a tolerance band of ± 1 percentage point around this figure. The Bank of Albania considers that, by keeping inflation around 3%, monetary policy will continue to provide positive contribution to the development of the Albanian economy. The operational objective of the Bank of Albania's monetary policy will be steering the short-term interbank rates close to the

Bank of Albania's key interest rate, set by the Supervisory Council, and smoothing their movements.

FINANCIAL STABILITY

On 29 September 2011, the Supervisory Council of the Bank of Albania approved by Decision No. 69 "Financial Stability Report for 2011 H1". According to this Report, at the end of the reporting period, the financial system and banking sector's situation was assessed as stable. The banking sector, which continues to dominate the financial system's activity, expanded its activity further and increased its share in the country's economy. Liquidity situation appeared satisfactory and the public deposits continued to grow at similar rates as well. Credit growth rates are improving, however, the loan portfolio quality continued to deteriorate. Nevertheless, the financial profit remains positive and concentrated. Capital adequacy ratio has been downward, remaining, however, considerably above the minimum capital requirement. The Bank of Albania assesses and has required that banks strengthen the capitalization of their activity by raising the shareholders' equity.

INFORMATION AND TECHNOLOGY

On 12 October 2011, the Supervisory Council of the Bank of Albania approved by Decision No. 72 the Regulation "On the Functioning of the SWIFT at the Bank of Albania". The purpose of this Regulation is to lay out the functions and responsibilities of the organizational units at the Bank of Albania in relation to the SWIFT, and the rules and procedures for the management, operation, monitoring and control of this system.

SUPERVISORY COUNCIL

On 28 December 2011, the Supervisory Council of the Bank of Albania adopted the Decision No. 90 "On the Election and Appointment of the First Deputy Governor of the Bank of Albania". According to this Decision, Ms. Elisabeta Gjoni is appointed the First Deputy Governor of the Bank of Albania.

ECONOMIC POLICY

On 2 July 2011, the Council of Ministers adopted the Decision No. 471 "On Raising the Pensions". According to this Decision, pensions are raised by 4% and 7%, for different categories of full, partial and early retirement pensions, full, partial and reduced invalidity pensions, payments for the insurance against accidents at work and occupational illnesses etc. The financial effects arising from the implementation of this Decision, estimated to amount to ALL 1,634 million, shall be covered by the contingency fund provided for in the 2011 State Budget.

On 2 July 2011, the Council of Ministers adopted the Decision No. 472 "On Disciplining the Use of Budget Funds for 2011". The purpose of this Decision is to provide for different measures, such as: the public administration functions, approved in the organizational chart but not filled in yet, will freeze until the institutions are restructured; the special planned fund shall not be used for social and cultural activities; administration employees' overtime hours shall be converted into leave hours/days; all budget funds subject to public procurement procedures, unprocured as at 1 August 2011, shall freeze.

On 4 July 2011, the Minister of Finance adopted the Instruction 12/3 "On some Amendments to Instruction No. 12, dated 18 May 2011 "On the Procedures for the Implementation of Law No. 10418, dated 21 April 2011 "On the Legalization of Capital and Cancellation of Part of Tax and Customs Liabilities"". These amendments mainly affect Section II of the Instruction, which sets out the provisions for the cancellation of tax and customs liabilities. They provide the details for the conditions when these liabilities are cancelled, the documentation to be completed by the debtors, and the procedures to be followed by the Cancellation Management Commission during the examination of applications.

On 7 July 2011, the Parliament of the Republic of Albania ratified by Law No. 10439 "The Agreement between the Council of Ministers of the Republic of Albania and the Government of the Republic of Serbia for the Settlement of the Debt of the Republic of Albania to the Republic of Serbia". Through this Agreement, the parties agree that the final settlement amount of the Republic of Albania's debt, including the accrued interest for the period 31 March 2006 - 30 September 2009 is USD 8,528,802.42. The interest for the period from 1 October 2009 to the signature date of the Agreement, that is 31 March 2011, amounts to USD 66,318.32. The debt will be settled through ten semi-annual payments of the principal and the interest, on 31 March and 30 September each year.

On 13 July 2011, the Council of Ministers approved by Decision No. 502 "The Uniform Regulation on the Control of Territory Development". The purpose of this Regulation is to achieve uniform form and structure of national and local investment, and control of territory development, in order to discipline the control of development based on the effective planning instruments. This Regulation aims at providing for the general and specific rules on the form and structure of national and local regulations on the control of territory development.

On 14 July 2011, the Parliament of the Republic of Albania ratified by Law No. 10443 "The Loan Agreement between the Republic of Albania and the International Bank for Reconstruction and Development (IBRD) for the Financing of the Social Sector Reform Development Policy Loan Programme". Through this Agreement, the IBRD agrees to lend EUR 18,100,000 to the Republic of Albania for carrying out the actions provided for in the programme. These actions include a number of amendments to the legal framework that

regulates social assistance and services, and the mandatory health care insurance.

On 14 July 2011, the Parliament of the Republic of Albania adopted the Law No. 10444 "On some Amendments to Law No. 9902, dated 17 April 2008 "On Consumer Protection"". The purpose of these amendments is to specify some definitions in Law No. 9902 and they affect the articles that provide for the unfair business practices, transparency requirements, indemnification of consumers, consumer loan and related obligations, Consumer Protection Commission and the handling of consumer complaints.

On 14 July 2011, the Parliament of the Republic of Albania adopted the Law No. 10450 "On some Amendments to Law No. 10355, dated 2 December 2010 "On 2011 Budget"". The Amendments affect the articles that set out the provisions for the state budget, local budget, social insurance and health insurance budget, the threshold level of budget deficit financing, the threshold level for the annual increase of total existing state and state-guaranteed debt, etc.

On 20 July 2011, the Council of Ministers approved the Decision No. 527 "On Establishing the National Minimum Wage". According to this Decision, as from 1 July 2011, the base monthly minimum wage of employees, on a national level and required to be observed, is ALL 20,000, while the base minimum wage per hour is ALL 115.

On 20 July 2011, the Council of Ministers adopted by Decision No. 522 "Draft-Document on 2012-2014 Medium-Term Budget Programme". The Medium-Term Budget Programme is an operational instrument for the management of public expenditure and it is a key component in the Integrated Planning System. It aims to encourage the efficiency in carrying out public expenditure, and establish a direct linkage between the Government priorities and the allocation of public resources and carrying out of public expenditure. It also seeks to promote fiscal discipline, enabling public expenditure to be planned within a realistic macroeconomic and fiscal framework.

On 21 July 2011, the Parliament of the Republic of Albania approved the Law No. 10457 "On some Amendments to Law No. 9632 "On Local Tax System", as Amended". The purpose of this Law is to abrogate those articles in Law No. 9632 that regulate the annual registration charges for road transport vehicles, and the cases exempt from these charges.

On 21 July 2011, the Parliament of the Republic of Albania approved the Law No. 10458 "On Some Amendments to Law No. 9975, dated 28 July 2008 "On National Taxes", as Amended". The purpose of this Law is to change the traffic tax on petrol and gasoil, and the carbon tax on petrol, gasoil, coal, coal-oil, solar and mazut. The traffic tax on petrol and gasoil shall be ALL 5 per litre until 31 December 2011. After this date, the traffic tax on petrol and gasoil shall be ALL 7 per litre, while the fixed tax on the type of fuel shall be ALL 25 for oil and ALL 20 for petrol.

On 25 July 2011, the Minister of Finance adopted the Guideline No. 17 "On the Accomplishment of Public Financial Inspection and Quality Control". The purpose of the activity of public financial inspection is to protect the financial interests of public entities against serious financial mismanagement, fraud and corruption. This Guideline establishes the ways, conditions and procedures for the execution of public financial inspection and quality control.

On 27 July 2011, the Council of Ministers adopted the Decision No. 541 "On some Amendments to Decision No. 1114, dated 30 July 2008 of the Council of Ministers "On some Issues Pursuant to Laws No. 7703, dated 11 May 1993 "On Social Insurance in the Republic of Albania", as amended, No. 9136, dated 11 June 2003 "On the Collection of Compulsory Social and Health Insurance Contributions in the Republic of Albania", as amended, and No. 7870, dated 13 October 1994 "On Health Insurance in the Republic of Albania", as amended". The amendments generally relate to the re-establishment of the minimum monthly wage for the calculation of social and health insurance contributions, to no less than ALL 17,540 and no higher than ALL 87,700. This Decision also establishes the minimum monthly amount of social and health insurance contribution of contributors of different categories.

On 3 August 2011, the Council of Ministers adopted the Decision No. 562 "On Establishing the Base Unemployment Benefit". According to this Decision, the base unemployment benefit shall be ALL 6850 per month. The financial effects arising from the implementation of this Decision shall be covered by the 2011 state budget funds allocated to the Ministry of Labour, Social Affairs and Equal Opportunities, under "Household budget transfers and disability benefit" (unemployment income).

On 18 August 2011, the Council of Ministers adopted the Guideline No. 2 "Modalities on the Execution of Monetary Obligations in Treasury Accounts of Budgetary Institutions". The purpose of this Guideline is to determine the modalities on the execution of monetary obligations in treasury accounts of general government entities arising from irrevocable judicial decisions. The execution of judicial decisions shall be carried out by the responsible spending entity, using the budget funds allocated for this purpose, and other income provided by the general government entity.

On 24 August 2011, the Council of Ministers adopted the Decision No. 602 "On the Approval of the Modalities on the Use of Counterparty Funds, Collected from Japanese Grants for Agriculture and Food Sector". According to this Decision, the counterparty funds extended by the Japanese Government amounting to ALL 200,000,000 shall be used during 2011 to promote the growth and processing of agricultural and farming products. The monetary values that will be used to support agricultural development shall be proportional to the amount of beneficiary's investment. They shall be extended to support the development of agricultural and farming activities in the form of interest-free loans of 7-year maturity term.

On 7 September 2011, the Council of Ministers adopted the Decision No. 615 "On Distance Selling Contracts Relating to Financial Services to Consumers". The provisions set forth in this Decision regulate the distance selling contracts relating to financial services to consumers based on four articles of the Law "On Consumer Protection", according to the European Parliament and Council Directives. The provisions in this Decision establish the rights and obligations of the consumer and trader of financial services, as well as the procedures to be followed during their trading.

On 7 September 2011, the Council of Ministers adopted the Decision No. 619 "On the Approval of the National Energy Efficiency Action Plan for the period 2011-2018". This plan is based on EU Directives and it provides a description of measures to be taken to improve the efficiency of energy in the sectors of the economy, planned to achieve the short-term objectives until 2012, and the long-term ones until 2018, through the implementation of energy efficiency policies. The improvement of energy efficiency in all the sectors of the economy represents one of the main goals in the national energy strategy.

On 14 September 2011, the Council of Ministers adopted the Decision No. 643 "On the Approval of the Sectoral National Strategy for Water Supply and Sanitation Services". The purpose of this strategy is to present Albania's vision, mission objectives and action plans for this sector in a clear, specific, quantitative and timely fashion, along with the responsibilities pertaining to each institution. It aims at clarifying Albania's directions and objectives as a co-sponsor of the United Nations Resolution, to turn access to safe drinking water and sanitation into a human right.

On 19 September 2011, the State Aid Commission approved the Decision No. 38 "On State Aid Allocation Plan on Promoting the Employment of Women Belonging to Certain Groups". This scheme aims to promote and support the opening of new jobs through their subvention from the state budget. The cost shall be covered by the annual funds approved in the state budget law of the respective year. Beneficiaries of this scheme shall be those private enterprises or institutions that intend to hire, under regular contracts, unemployed women jobseekers from the employment office list. The intensity of the aid shall not exceed 75% of the wage cost for employees limited in their ability to work, and 50% of the wage cost for employees in difficulty.

On 19 September 2011, State Aid Commission approved the Decision No. 39 "On State Aid Allocation Plan "On Financing Amount, Criteria and Procedures for the Implementation of the Employment Promotion Programme of Unemployed Jobseekers Finding a Job for the First Time". The aid allocation plan aims to help employers hiring young people aged 16-25 years, who do not have any previous work experience. This aid scheme shall enable the project-winning enterprises to be financed by the state budget. The intensity of the aid shall not exceed 75% of the wage cost for employees limited in their ability to work, and 50% of the wage cost for employees in difficulty.

On 28 September 2011, the Council of Ministers adopted the Decision No. 667 "On Establishing the Innovation Fund". This Decision provides the provisions for the establishment of the Innovation Fund totalling ALL 40,000,000 over a 4-year implementation duration covering the period 2011-2014. This fund will assist micro, small and medium-sized enterprises through direct subsidies amounting to ALL 400,000. The Decision also establishes the conditions to be met for benefitting the assistance from this fund and the procedures for its extension.

On 6 October 2011, the Parliament of the Republic of Albania adopted the Law No. 10468 "On the Approval of the Factual 2010 State Budget". According to this Law, 2010 State Budget revenues amounted to ALL 273,090 million, while expenditure amounted to ALL 300,467 million. Budget deficit totalled ALL 38,031 million.

On 20 October 2011, the Parliament of the Republic of Albania ratified by Law No. 10472 "The Agreement between the Council of Ministers of the Republic of Albania and the Government of the Republic of Kosovo on International Road Transport of Travellers and Goods". By signing this Agreement, the two countries aim at taking a step forward toward the development of commercial and economic relations between them and promoting road transport cooperation in the framework of the market economy.

On 20 October 2011, the Council of Ministers adopted by Decision No. 725 "The Agreement between the Council of Ministers of the Republic of Albania and the Government of the Republic of Cyprus for the Promotion and Reciprocal Protection of Investments". Through this Agreement, the two countries aim at intensifying economic cooperation and create favourable conditions for the investment made by the investors of each contracting party in the territory of the other party.

On 27 October 2011, the Parliament of the Republic of Albania adopted the Law No. 10475 "On an Amendment to Law No. 9901, dated 14 April 2008 "On Entrepreneurs and Commercial Companies". The Amendment increases the minimum share capital of joint stock companies privately held to ALL 3,500,000.

On 27 October 2011, the Parliament of the Republic of Albania ratified by Law No. 10473 "The Agreement between the Council of Ministers of the Republic of Albania and the Government of the Republic of Italy on the Debt-for-Development Swap". By signing this agreement, the parties agree that the funds arising from debt swap operations, amounting to EUR 20,000,000, shall be used to finance social development projects and particularly projects focused on generating education, health and employment.

On 2 November 2011, the Council of Ministers approved the Decision No. 752 "On the Approval of the Draft-Document on 2012-2014 Medium-Term Budget Programme". This Document provides detailed description of the

purposes, objectives and products of the programmes of each line ministry, on a programme level for 2012, 2013 and 2014, as well as a summary of budget requirements of other budgetary institutions included in this process for the third time. Hence, it outlines the linkages between policy purposes and objectives and the allocation of budget resources in the medium run.

On 3 November 2011, the Parliament of the Republic of Albania approved the Decisions No. 134, No. 135, No. 136, No. 137, No. 138 and No. 139, on the appointment of the members of the Supervisory Council of the Bank of Albania. Accordingly, Mr. Ardian Fullani, Mr. Petraq Milo, Ms. Elisabeta Gjoni, Mr. Dhori Kule, Ms. Ela Golemi and Ms. Ermelinda Meksi are appointed members of the Supervisory Council of the Bank of Albania. In addition, based on Decision No. 144, dated 15 December 2011, Mr. Adrian Civici is also appointed member to this Council.

On 3 November 2011, the Parliament of the Republic of Albania ratified by Law No. 10477 "The Agreement between the Council of Ministers of the Republic of Albania and the Council of Ministers of Bosnia and Herzegovina on the Solution of Republic of Albania's Debt for the Settlement of Amounts in the Merchandise Trade Account between the Republic of Albania and former Socialist Federal Republic of Yugoslavia". Through this Agreement, the parties agree that the final settlement of debt of the Republic of Albania to Bosnia and Herzegovina, including the regular interest, which amounts to USD 3,696,189.56, shall be made through six semi-annual payments, on 31 March and 30 September.

On 8 November 2011, the Minister of Finance approved the Guideline No. 25 "On Some Amendments to Guideline No. 17, dated 13 May 2008 "On Value Added Tax", as Amended". The purpose of this Guideline is to re-establish a number of points in the Guideline "On Value Added Tax", which regulate the supply of services from abroad, the supply of medicaments, health-related services, education-related services, etc.

On 17 November 2011, the Parliament of the Republic of Albania adopted the Law No. 10481 "On some Amendments to Law No. 9662, dated 18 February 2006 "On Banks in the Republic of Albania". The amendments to this Law aim at further approximation of the Law "On Banks in the Republic of Albania" to EU Directives in the area of banking and financial services and handling and solution of non-performing banks. In this context, banking activity is redefined by removing the exclusive right of banking institutions to issue means of payments in the form of electronic money. In addition, an important amendment is made to the existing Law relating to the definition of systemic risk as the risk related to factors that may threaten the stability, asset value and confidence in the banking and financial system or market. In view of supplementing the tools and techniques widely used by the supervisory authorities to handle and solve non-performing banks, this Law also introduces the term "bridge bank" as a temporary solution for a non-performing bank, allowing the latter to continue the operations until a permanent solution can be found.

On 17 November 2011, the Parliament of the Republic of Albania approved the Decision No. 142 "On the Appointment of the Governor of the Bank of Albania". According to this Decision, Mr. Ardian Fullani is appointed Governor of the Republic of Albania.

On 5 December 2011, the Parliament of the Republic of Albania adopted the Law No. 10487 "On 2012 Budget". According to this Law, State Budget revenues for 2012 are projected to amount to ALL 281,622 million and expenditures to ALL 322,785 million. Budget deficit is expected to be ALL 41,163 million. The threshold limit of the state budget deficit financing through domestic and foreign resources is ALL 41,163 million, of which ALL 300 million shall be financed through privatization receipts.

On 15 December 2011, the Parliament of the Republic of Albania adopted the Law No. 10489 "On Trade and Supervision of Non-Food Products Market". The purpose of this Law is to determine the rights and obligations of economic operators in order to guarantee their compliance with the legal requirements. The Law also establishes the organization mode, rights and competences of the responsible structure, as well as the principles for the control of imported products entering the Albanian territory, in cooperation with the customs authorities.

On 27 December 2011, the Minister of Finance approved the Guideline No. 30 "On Asset Management in Public Sector Entities". The purpose of this Guideline is to establish the standard procedures and the audit trail for the documentation, preservation, circulation and removal from use of assets in the public sector entities. The Guideline establishes that all public sector entities have the obligation to take the necessary measures for the documentation, protection, circulation and removal from use of assets, in order to manage them efficiently and preserve them from damage and misuse.

BANK OF ALBANIA MANAGEMENT, AS AT 31 DECEMBER 2011

SUPERVISORY COUNCIL

ARDIAN FULLANI	Chairman
ELISABETA GJONI	Vice Chairwoman
ADRIAN CIVICI	Member
ARJAN KADAREJA	Member
DHORI KULE	Member
ELA GOLEMI	Member
ERMELINDA MEKSI	Member
HALIT XHAFA	Member
PETRAQ MILO	Member

GOVERNOR

ARDIAN FULLANI

DEPUTY GOVERNORS

ELISABETA GJONI First Deputy Governor

GENERAL INSPECTOR

ELIVAR GOLEMI

GOVERNOR'S OFFICE

GENC MAMANI

HEAD OF COORDINATION

GRAMOZ KOLASI

DEPARTMENTS AND OTHER UNITS

HUMAN RESOURCES DEPARTMENT	Roden Pajaj
MONETARY POLICY DEPARTMENT	Erald Themeli
RESEARCH DEPARTMENT	Altin Tanku
MONETARY OPERATIONS DEPARTMENT	Marjan Gjermeni
SUPERVISION DEPARTMENT	Indrit Banka
FINANCIAL STABILITY DEPARTMENT	Klodion Shehu
INFORMATION TECHNOLOGY DEPARTMENT	Xhilda Deliana
STATISTICS DEPARTMENT	Diana Shtylla
ISSUE DEPARTMENT	Dorian Çollaku
ACCOUNTING AND FINANCE DEPARTMENT	Fatos Ibrahim
PAYMENTS SYSTEM DEPARTMENT	Dashmir Halilaj
LEGAL DEPARTMENT	Toni Gogu
AUDIT DEPARTMENT	Elivar Golemi
FOREIGN RELATIONS, EUROPEAN INTEGRATION AND COMMUNICATION DEPARTMENT	Oneda Andoni
ADMINISTRATION DEPARTMENT	Agron Skënderaga
SECURITY AND PROTECTION DEPARTMENT	Eduard Sinani

BRANCHES

SHKODRA	Ermira Istrefi
ELBASANI	Valentina Dedja
GJIROKASTRA	Anila Thomaj
KORÇA	Liljana Zjarri
LUSHNJA	Shpresa Meço