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Exchange rates in Western Balkan countries

Western Balkan countries include the following countries: Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia (FYROM)¹ and Serbia and Montenegro. This latter is divided into three entities for the purpose of monetary statistics: Republic of Serbia, UNMIK/Kosovo² and Republic of Montenegro.

The currencies of the above mentioned countries are the following:

Albania	Albanian lek (ALL)
Bosnia and Herzegovina	convertible mark (BAM)
Croatia	Croatian kuna (HRK)
FYROM/Macedonia	Macedonian denar (MKD)
Serbia and Montenegro	
Republic of Serbia:	Serbian dinar (CSD)
UNMIK/Kosovo:	euro (EUR)
Republic of Montenegro:	euro (EUR)

In July 2004 the exchange rates (monthly average) of these currencies vis-à-vis the euro (1 EUR =...) are the following:

Albanian lek:	129.668 (April 2004)
Bosnian and Herzegovinian convertible mark:	1.95583
Croatian kuna:	7.37124 ³
Macedonian denar:	61.3063
Serbian dinar:	71.5535 ³ (June 2004)

The Republic of Montenegro and UNMIK/Kosovo have adopted unilaterally the euro as official currency.

The results presented are based on a first pilot collection. Data should be considered as provisional.



¹The name FYROM/Macedonia is used in the text for the sake of simplicity.

² Since the UN resolution 1244 of 10th June 1999 the province of Kosovo has been placed under UN administration called United Nation for an interim administration of Kosovo (UNMIK). The name UNMIK/Kosovo is used in the text.

³ The official monthly averages as published by the Croatian and Serbian Central Banks are slightly different: 7.37208 for Croatia and 71.3984 for the Republic of Serbia. This is due to a standard methodology applied at the European level when calculating monthly averages.

Albania

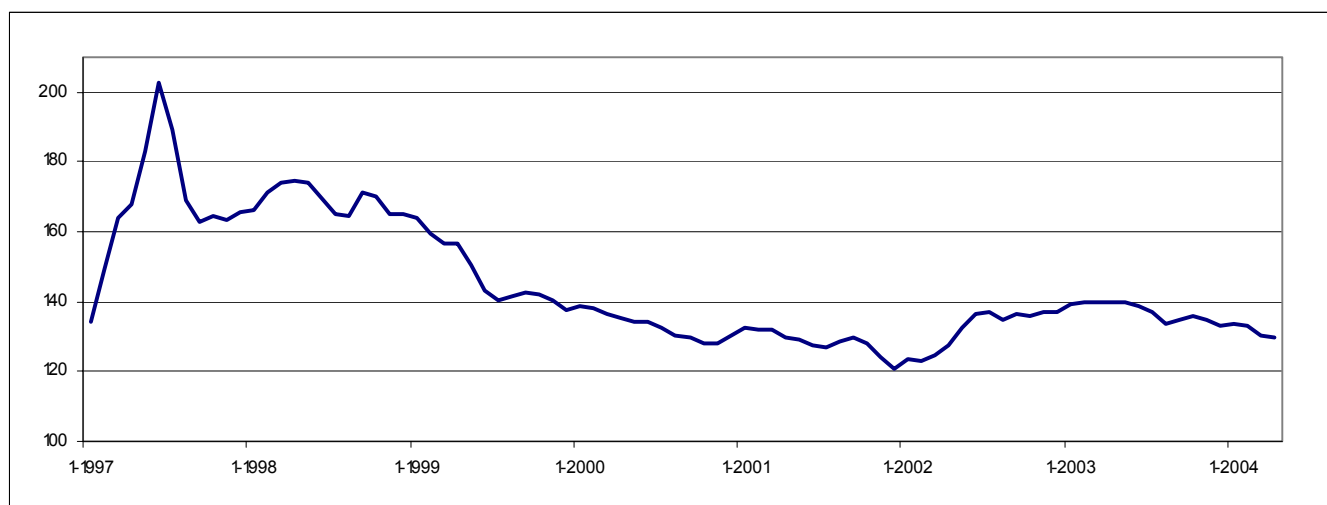


Figure 1: Exchange rate of the Albanian lek (1 ECU/EUR = ... ALL) – monthly averages

The Central Bank of Albania was first created in 1913 but exists in its present structure of performing all functions of a central bank in a two-tier system⁴ since 1992. Its seat is in Tirana and the currency in circulation in Albania is the lek (ALL). The exchange rate regime followed by the authorities is a free floating system.

The free floating exchange rate regime is a system in which the exchange rate is determined by foreign exchange supply and demand without any direct intervention of the central bank.

In Albania the lek strongly depreciated during the first six months of 1997 due to the deep difficulties in the financial system.

Between January 1997 and June 1997 the lek dropped from 133.977 to 202.508 (in monthly average terms) against the ECU, which is a depreciation of 33.8%. In the second part of the year it appreciated by 22.2% finishing the year at a level of 165.671 ALL for one ECU.

During 1998 the lek was quite stable against the ECU except a slight decrease at the end of the first and the third quarter, and finished the year at 165.159 ALL/ECU, or a variation of only 0.3% against its level at the end of the previous year.

During the three following years the lek appreciated against the euro by respectively 20.0% in 1999, 5.6% in 2000 and 7.8% in 2001. At the end of 2001 the exchange rate of the lek

against the euro was at the level of 120.895 ALL/EUR, which is an appreciation of 67.5% compared to the level observed in June 1997.

During 2002 and the first half of 2003 the Albanian currency depreciated against the euro from 120.895 ALL/EUR at the end of 2001 to 140.022 ALL/EUR at the end of May 2003, that is a depreciation of about 13.7%.

This depreciation was again followed by an appreciation the lek reaching a level of 129.668 ALL/EUR at the end of April 2004 (an appreciation of 8.0% compared to the level of May 2003).

Bosnia and Herzegovina

The Central Bank of Bosnia and Herzegovina was established in accordance with the Law adopted by the Parliament of Bosnia and Herzegovina on 20 June 1997 and has its seat in Sarajevo. The Central Bank started its operations on 11 August 1997.

Convertible mark banknotes (BAM) were issued for the first time on 22 June 1998 and the value of the currency equalled 1 Deutsche Mark (DEM). The exchange rate regime in application since then is a currency board. The currency board is a system in which a country's

currency is irrevocably fixed against a foreign currency. Since the base money stock is totally financed by foreign reserves, the central bank only issues currency against the reserve currency at the predetermined exchange rate. Given that the central bank has, in

⁴ The Albanian banking system has developed from the centralized system into a two-tier system, including a central bank and commercial banks, which is the standard structure in market-based economies.

principle, no discount window it cannot offer lines of credit to private financial institutions experiencing short-term liquidity problems.

The evolution of the Bosnian currency vis-à-vis the ECU during 1998 is reflected in the evolution of

the DEM vis-à-vis the ECU.

The trend observed during the year first shows a slight depreciation of the BAM against the ECU in the first part of 1998 followed by a recovery of the Bosnian currency in the second part of 1998.

Since the beginning of 1999 the BAM has been pegged to the euro at a rate of 1.95583 BAM/EUR.

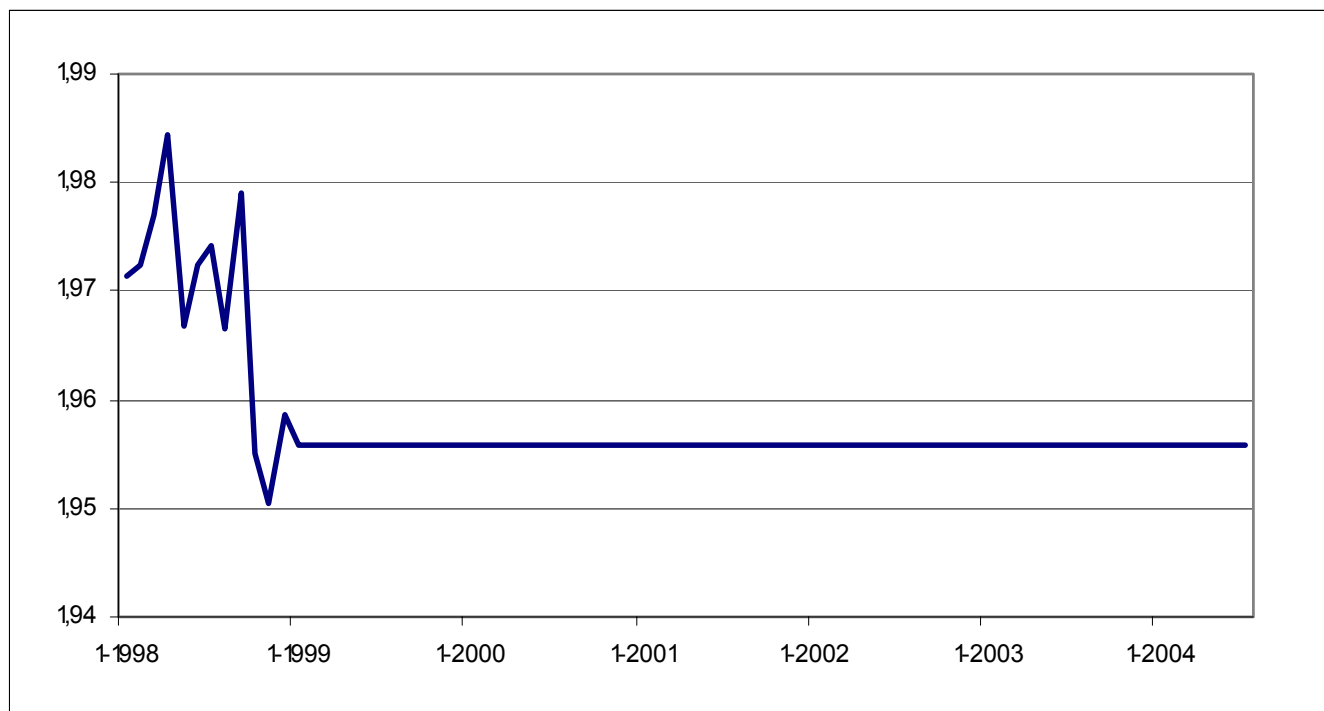


Figure 2: Exchange rate of the Bosnian and Herzegovinian convertible mark (1 ECU/EUR = ...BAM) – monthly averages

Croatia

The Croatian national bank was set up on 21 December 1990 as the Central Bank of the Republic of Croatia, having had its seat in Zagreb.

The Yugoslav dinar was replaced by the Croatian dinar on 23 December 1991.

The Croatian dinar became the sole

legal tender in the Republic of Croatia on January 1, 1992. It was replaced by the kuna (HRK) on 30 May 1994, when this currency was introduced as the official legal

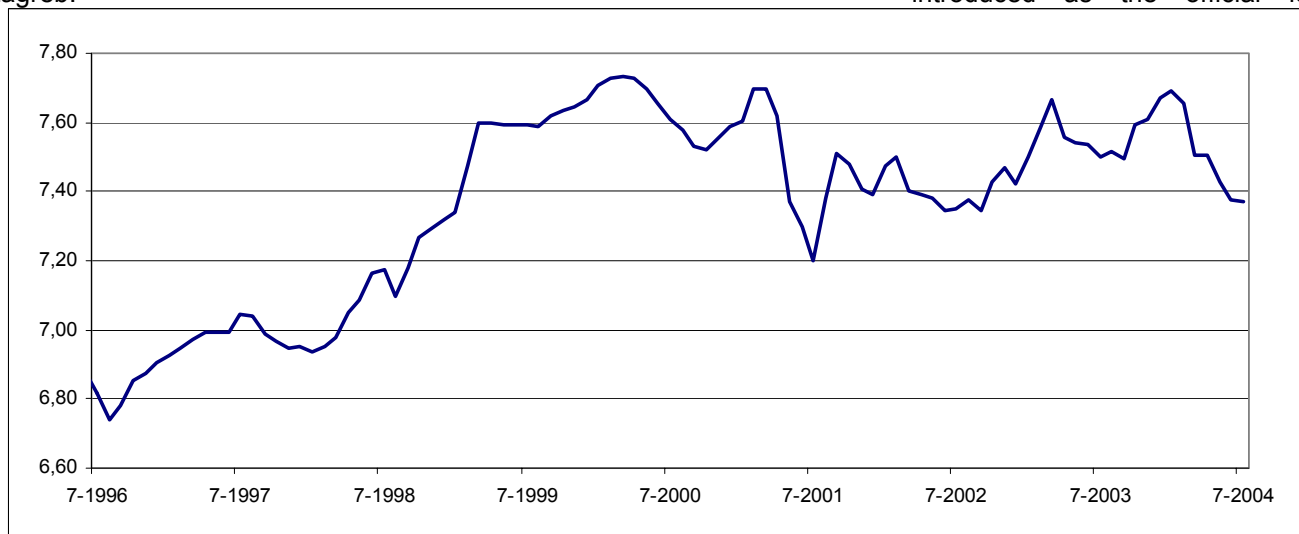


Figure 3: Exchange rate of the Croatian kuna (1 ECU/EUR = ...HRK) – monthly averages

tender in the Republic of Croatia.

Croatia implements the exchange rate regime of managed floating, where the exchange rate of the domestic currency is not fixed against another foreign currency or basket of currencies, but is rather freely determined by the foreign exchange market.

The exchange rate thus floats depending on the foreign exchange supply and demand on the foreign exchange market. However, the central bank prevents too excessive exchange rate fluctuations by occasional market interventions in an attempt to maintain relative stability of the exchange rate.

The interventions can take the form of foreign exchange auctions through which the central bank purchases or sells foreign exchange to commercial banks. The most common type of these auctions are those at which commercial banks

indicate in their bids to the central bank the desired amounts and price (exchange rate) of foreign exchange transactions. On the basis of the bids received, the central bank adopts a decision on the amount of the intervention and the exchange rate.

The central bank can also indirectly intervene on foreign exchange markets by raising or lowering the level of its official interest rates, to influence the level of the exchange rate in the desired direction.

Analysis of the evolution of the kuna against the ECU/EUR in the period between June 1996 and May 2004 shows that a short period of appreciation occurred (from June 1996 until August 1996) when the kuna appreciated by 2.0%, up to a level of 6.74198 (monthly average) HRK/ECU in August 1996.

Then the kuna depreciated almost steadily against the ECU/EUR during the period between September 1996 and March 2000, reaching a low point of 7.73288 in March 2000 (monthly average).

During this period the kuna lost respectively 2.3% in 1996, 0.7% in 1997, 5.0% in 1998 and 4.5% in 1999.

Between March 2000 and July 2001 the kuna appreciated against the euro by 7.4%, to a level of 7.20130 in July 2001.

In the period from August 2001 until January 2004, periods of appreciation were followed by periods of depreciation. However, the kuna reached a level of 7.68988 in January 2004. This was a depreciation of 6.4% compared to the rate of July 2001.

Since then the kuna recovered by 4.3%, to 7.37124 in July 2004.

FYROM/Macedonia

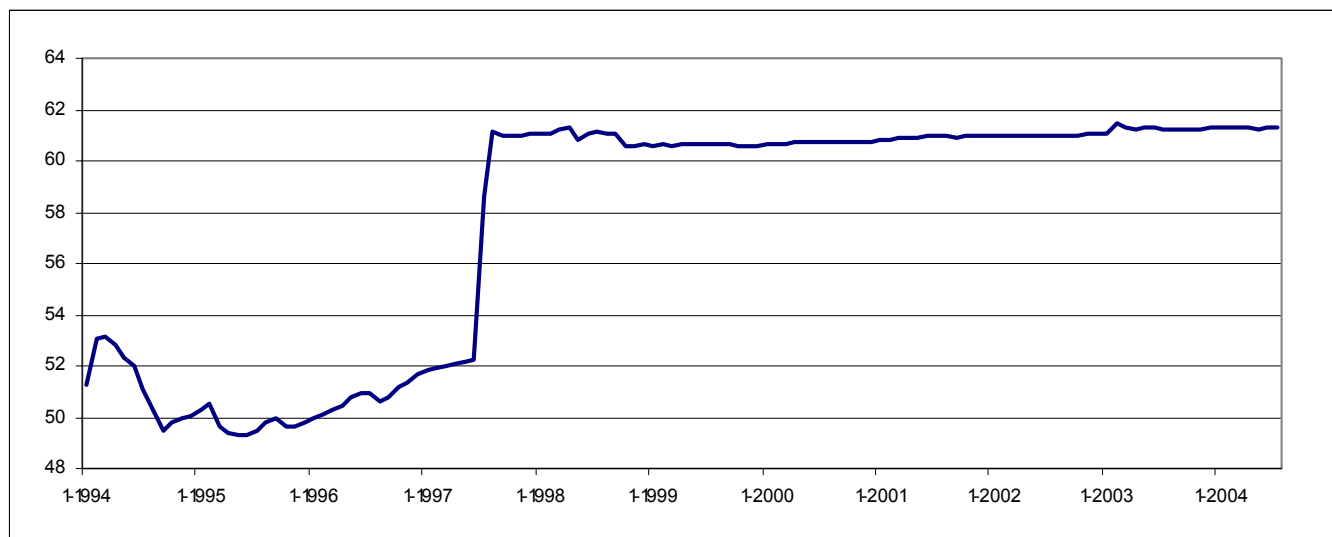


Figure 4: Exchange rate of the Macedonian denar (1 ECU/EUR = ... MKD) – monthly averages

The Macedonian Central Bank was established on 17 November 1991 and is located in Skopje.

The first national currency was introduced on 26 April 1992 and was equivalent to the Yugoslav dinar at that time. This first currency was established in the form of a coupon or temporary currency unit. On 5

May 1993 the official Macedonian currency the Macedonian denar (MKD), was introduced, replacing the coupon at the rate of 1 MKD for 100 coupons.

As in Croatia the exchange rate regime is a managed floating system, but the exchange rate of the domestic currency is de facto

pegged to euro (before to Deutsche Mark (DEM)). Since the beginning of 1994 the MKD showed a remarkable stability against the DEM/EUR, with the exception of a 15% devaluation of the denar in the mid-1997. In the last 7 years the exchange rate was fluctuating in a very narrow band of 60.5-61.5 MKD to 1 ECU/euro.

According to the strategy of exchange rate targeting and the role of the nominal MKD exchange rate as an anchor in the economy, foreign exchange policy measures are focused towards maintaining

exchange rate stability against the euro. Consequently, in the case of depreciation or appreciation of MKD exchange rate, the Central Bank intervenes by selling or buying foreign exchange in the market. The

central bank can also indirectly intervene on foreign exchange markets by raising or lowering the level of its official interest rates in order to maintaining exchange rate stability against the euro.

Serbia and Montenegro

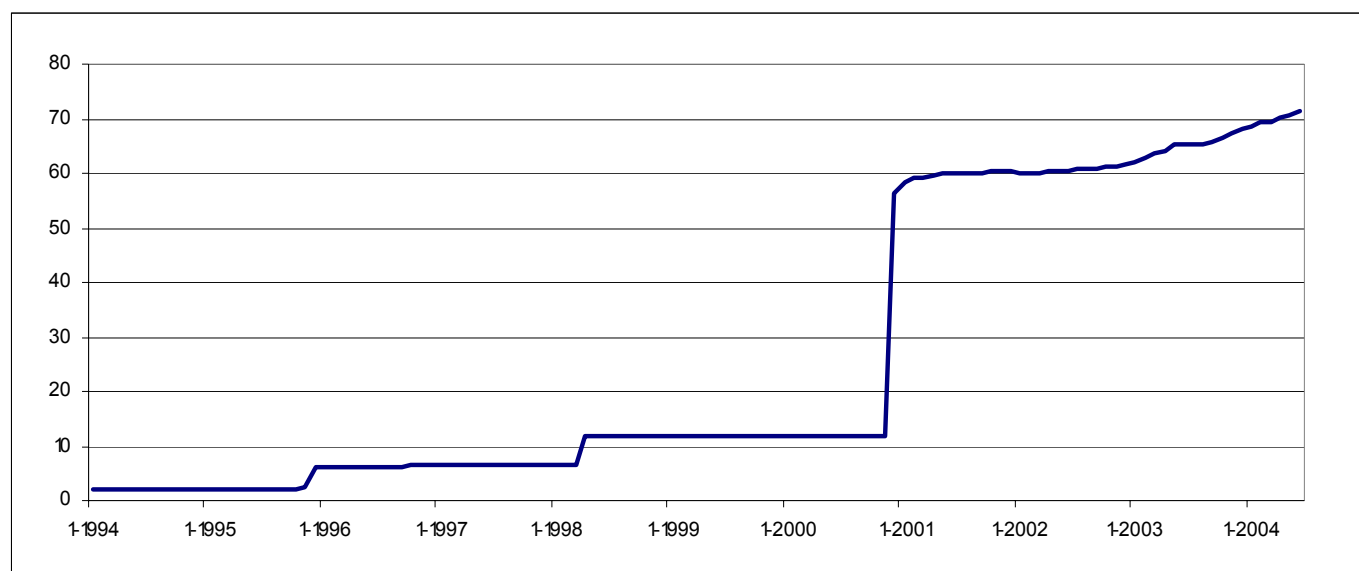


Figure 5: Exchange rate of the Yugoslavian/Serbian dinar (1 ECU/EUR = ... CSD) – monthly averages

Two different currencies are in circulation in Serbia and Montenegro: the Serbian dinar in Republic of Serbia and the euro in the Republic of Montenegro and in UNMIK/Kosovo.

The following analysis shows in more detail the different systems in place.

Republic of Serbia

The national bank of Serbia was created on 4 February 2003 and is located in Belgrade.

The official currency in Serbia is the Serbian dinar (CSD), which replaced the Yugoslav dinar on 4 February 2003.

Since 1 January 2001 the exchange rate regime in Serbia is a managed floating system in the sense that the central bank intervenes on the foreign exchange market to avoid

unwanted volatility of its currency.

Beforehand and due to a period of hyperinflation during the years 1992 and 1993, monetary authorities were obliged to replace four times the currency in the period between 1 July 1992 and 24 January 1994.

On 1 July 1992 the reformed dinar (YUR) replaced the new dinar (YUN) at a rate of 1 to 10. On 1 October 1993, the “October dinar” (YOU) replaced the YUR at the rate of 1 to 1,000,000.

On 1 January 1994 the 1994 dinar (YUG) was exchanged against the YOU at the rate of 1 to 1,000,000,000.

Finally on 24 January 1994 the super dinar was created at par to the Deutsche Mark (DEM) and independently from the YUG, this latter being withdrawn thereafter.

The super dinar was devalued on 26 November 1995 by 69.7% in terms

of DEM to reach the level of 3.3 dinars to 1 DEM.

The dinar was again devalued on 1 April 1998 and 6 December 2000 by 45.0% and 80.0% respectively.

At the end of 2001 the dinar exchange rate was reaching a level of 60.0605 for one euro.

Since then the depreciation of the dinar became less pronounced, reaching 1.8%, 9.9% and 4.7% respectively in 2002, 2003 and during the first semester of 2004.

UNMIK/Kosovo

The Banking and Payments Authority of Kosovo (BPK) was established on 15 November 1999 and has its seat in Pristina.

In UNMIK/Kosovo the legalisation of

foreign currencies as means of payment was adopted as from September 1999.

However, as the authorities were using the DEM in their official transactions (collecting duties, taxes and fines) the DEM imposed itself and was then legally recognised as the commonly used currency in Kosovo.

In January 2002 the euro replaced the DEM and became the official currency in circulation in Kosovo.

Republic of Montenegro

Using the same currency as in Serbia, the monetary history in the Republic of Montenegro was also characterised by a period of hyperinflation at the beginning of the nineties, leading the Montenegrin authorities to adopt the Deutsche Mark (DEM) as parallel means of payment as well as reserve currency.

The system of double currency in circulation was officially adopted in

1999 (DEM and Yugoslav dinar). However, in 2000 the DEM became the only legal means of payment in the Republic of Montenegro.

When the Central Bank of the Republic of Montenegro started its operations on 15 March 2001, having its seat in Podgorica, it confirmed the DEM in its statute of legal means of payment. The DEM was then substituted by the euro when this latter came in circulation in January 2002.

Useful web-site links

Albania

Central Bank: <http://www.bankofalbania.org/>

Statistical Office: <http://www.instat.gov.al>

Bosnia and Herzegovina

Central Bank: <http://www.cbbh.ba>

Statistical Office: <http://www.bhas.ba/index.html>

Croatia

Central Bank: <http://www.hnb.hr/>

Statistical office: <http://www.dzs.hr/>

FYROM/Macedonia

Central Bank: <http://www.nbrm.gov.mk/default-MK.asp>

Statistical office: <http://www.stat.gov.mk>

Serbia and Montenegro

Statistical office: <http://www.szs.sv.gov.yu/homee.htm>

Republic of Serbia

Central Bank: <http://nbs.yu/english/index.htm>

Statistical office: <http://www.statserb.sr.gov.yu/>

UNMIK/Kosovo

Banking and payment authority of Kosovo: <http://www.bpk-kos.org/>

Statistical office: <http://www.sok-kosovo.org/>

Republic of Montenegro

Central Bank: <http://www.cb-mn.org/indexE.htm>

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For information on methodology:

Giuliano Amerini, Eurostat / C3, L-2920 Luxembourg, Tel. (352) 4301 34122, Fax (352) 4301 32929,

E-mail: Giuliano.Amerini@cec.eu.int

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