The Experience of Exchange Rate Regimes in Southeastern Europe in a Historical and Comparative Perspective

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Major Monetary Events

Monetary economic data have been strongly related with historical events Albania has experienced in years. The favorable geographic position in the Balkan Peninsula transformed Albania into a battlefield, where different foreign countries had interest in invading it. We have classified historical monetary events into two periods: pre-1914 and 1914–1942.

Pre–1914

Due to the historical and political developments in the country, pre-1914 Albania lacks significant data. This stems primarily from the fact that Albania had not yet gained its independence and the notion of its territory was therefore very hazy and without clearly defined frontiers. Its independence dates back to 1912. Second, the needs for arranging the banking system in Albania were reflected in the efforts of the first Albanian government after the Declaration of Independence, in 1912. Despite all the attempts made, the national systems of currency and lending were not established during this period (1912–1913). These were the two main reasons that caused the lack of data before 1914.

1914–1942

The most important monetary event was the establishment of the Bank of Albania in 1925. The Albanian gold franc was approved as the monetary official unit. The gold content of the Albanian currency was set at 0.290322 grams to the franc, which was the gold content used by the former Latin Monetary Union. Albania adopted a currency with the same gold content as the Latin Union because the country did not possess a currency regime of its own before the First World War.

The Bank of Albania remained the sole institution vested with the right to issue banknotes (monopoly of note issue). It implemented the policy of maintaining the
currency in circulation under the level of the real needs of the economy (restrictive monetary policy). The little circulation which did exist in the country was for the most part made up of coins (gold coins-napoleons and silver coins) from countries belonging to the Latin Monetary Union. The Bank of Albania’s paper circulation had to be composed of reserves equal to at least 1/3 of the banknotes in circulation. The reserves, in turn were to consist of gold and foreign financial assets, which could not exceed 2/3 of the total reserves.

Albania experienced the bimetallic standard during 1928/1929. The debate for establishing this regime took place between the Albanian government and the Italian government. But in Albania the bimetallic standard could not survive as the bimetallism can only survive when the mint ratio is close to the market ratio and in Albania the monetary authority lost out, as it was forced by law to accept the overvalued silver against gold.

Until 1930, the Albanian system compiled fully with the gold exchange standard, with the greater part of its reserve being made up of foreign currency.

A main characteristic of the currency is that it was never devaluated, in spite of the 1931 devaluation of the sterling, the dollar’s devaluation in 1933 and the Swiss franc’s depreciation in 1936.