IS THE ALL/EURO EXCHANGE RATE STILL IMPORTANT TO THE ALBANIAN ECONOMY?

Elona Fejzaj[1], Aurora Hoxha[2]

[1]Agricultural University of Tirana, Albania. Email: efejzaj@ubt.edu.al
[2]Agricultural University of Tirana, Albania. Email: ahoxha@ubt.edu.al

Abstract

The Albanian economy is continually facing challenges. Albania has a fragile economy and transition is not gone yet. These are some of the reasons why economists have the duty to reevaluate the macroeconomic situation from time to time. In order to fulfill this purpose, exchange rates still serve as a strong indicator to prevent or regulate a lot of economic issues that occur or are about to. Since Albania lacks the presence of a real stock market and capital markets are also inexistent, exchange rates remain a precious economic and financial asset in order to judge over a few problems. The Albanian economic indicators are fully influenced by exchange rate fluctuations. It is impossible to study the effect of exchange rates apart from these influences. The aim of this study is to analyze and highlight the influence of exchange rates on macroeconomic indicators in Albania during the last five years and also forecast future trends based on what has been found and studied till now and also on econometric modeling. But there also some research questions and limitations such as: Are we able to define an econometric model using the data and information we have? Will our model certify our main study hypothesis? Are there discrepancies between existing and new scientific evidence? Has the financial and macroeconomic information in Albania been reliable during the last five years? It has been found that generally countries fall into three major groups according to exchange rate regimes: a. the regime of floating exchange rates b. managed floating exchange rates and c. fixed exchange rates. In a regime where exchange rates are flexible, the value of a currency is defined by the market or more precisely by the interaction of thousands of banks, firms and other financial institutions that ask to buy and sell currency for different reasons such as: liquidation, defense, arbitration or speculation. The methodology of this study will focus on the descriptive analyses of exchange rates indicator, other elements related and also macroeconomic indicators. Then in a second moment, based on this first analyses, quantitative methods will be used in order to build the econometric model.(Multiple regression model) .E-Views statistical program will be used for data analyses and defining appropriate econometric model.

Keywords: *exchange rate*, *fluctuation, macroeconomic*, *regression, e-views*

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