3. MARKETS AND PAYMENT SYSTEMS

3.1 MARKETS

PRIMARY MARKET OF SECURITIES

In 2019 H2, the average yield on government debt securities increased. At the end of the year, this yield increased at 2.4%, around 0.6 percentage point higher from the historical minimum of 1.8% in 2019 H1, but comparable with the average yield in the same period of the previous year. Domestic debt in lek issued during the second half of year was around ALL 130 billion, or 25% lower compared with 2019 H1, but close to the value in the previous year. The concentration of issues during the first half of year has been a characteristic of the last years.

The structure of domestic debt in lek continues to be dominated by the short-term one, 63% of total. Nevertheless this share has been gradually downward.

The average yield on short-term debt securities stood at 2.0%, upwards in semi-annual and annual terms. The increase by around 0.7 percentage point of average yield on 12-month T-bills, which currently represent the entire short-term debt, affected the performance of the average yield. The issuance of Treasury-bills amounted to ALL 82 billion, or 30% lower than in 2019 H1, but at the same level with the previous year. During the period, the bid for investment in treasury bills was equal or higher than government’s demand for borrowing. The yield on 12-month T-bills was equal or higher than government’s demand for borrowing. The yield on 12-month T-bills was 1.3% and 1.7% in 2018 and 2019, respectively.
on T-bills with 12-m maturity increased from 1.7% up to 2.3% during the third quarter, but the continuing increase of the bid for investments affected the gradual decline of yield during the last quarter of year, and its return to 1.7%.

The average yield on long-term debt securities of the government increased standing at 3.1%, from 2.8% during 2019 H1. All long-term securities, except of 10-year maturity\(^1\), recorded an increase of the average yields, from 0.04 up to 0.7 percentage point. The issued volume amounted to around ALL 48 billion, or 13% lower than in 2019 H1, but a comparable level with the previous year. Around 60% of the amount of issued bonds consists of 2 to 5-year maturity bonds, at a fixed yield rate. Overall, public’s bid for investment in long-term securities has exceeded government’s demand for borrowing, driving to a declining trend of yields during the last quarter of year.

\(^1\) Average yield was down by 0.2 percentage point.
SECONDARY MARKET OF SECURITIES

During the period, the secondary market of government debt securities registered a decline in value and number of transactions. The volume of both long and short-term securities retail transactions carried out in the secondary market was around ALL 3 billion, and 33% lower compared with 2019 H1 and 27% lower compared with the previous year. The number of transactions was 1,120, or 11% lower compared with 2019 H1. The main impact in this trend came from the decline in volume and number of long-term securities by 70% and 40%, respectively, compared with the values of 2019 H1.

T-Bill transactions dominate securities transactions in the retail market, accounting for around 70% of the traded volume. Although the number of transactions has trended downwards compared with previous half-year and year, the traded volume increased slightly compared with 2019 H1, but remained at similar levels to those of 2018 H2. Investors in the retail secondary market continue to show a preference to keep securities until maturity (only around 30% of them are traded).

Market makers have continued the daily quotations of benchmark securities (reference bonds with 3 and 5-year maturity), but the volume and number of transactions register lower values compared with the previous six-months and year, but remained at similar levels to those of 2018 H2. Investors in the retail secondary market continue to show a preference to keep securities until maturity.

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Lower by 7% and 8%, respectively.
INTERBANK MARKET

During 2019 H2 the number of transactions in the interbank market has contracted, while interest rates have fluctuated near the policy interest rate decided by the Bank of Albania. The interbank market continues to be dominated by one-week transactions (64% of the volume of interbank borrowing) followed by overnight transactions (22%). Compared with 2019 H1, the volume of transactions registered a decline due to the contraction of the volume of overnight and one-week transactions. Meanwhile, after a long period of absence, one-month transactions have reappeared in the market. The volume of these transactions accounted for 10% of the overall volume. Banks have also carried out 2-day and 3-day transactions, but at lower volumes, compared with other types. Interest rates remained near the policy interest rate of 1%.

FOREIGN EXCHANGE MARKET

During 2019 H2, ALL/EUR and ALL/USD exchange rates maintained the trends registered in 2019 H1, while also following the trend of EUR/USD exchange rate in international markets. During 2019, the domestic market registered a slight appreciation of lek against euro (by 1%) and its depreciation against US dollar (by 1.4%). In December 2019, the average values of the exchange of euro and US dollar were ALL 122.2/unit and ALL 109.9/unit, respectively. Compared with June 2019, these values registered a slight depreciation of lek.
Indicators in the real estate market indicate an increase of demand and supply in 2019 H2. Overall, demand is supported by the increase of households’ loans for real estate purchase, favoured by low interest rates and the easing of terms and conditions by banks for this type of lending. The reporting from real estate trading agents also indicate an increase of demand in 2019 H2, which shows a decline of the number of real estate unsold and an increase of real estate sold. Supply in real estate market continues to be supported by lending for construction, which has maintained the level of the two previous periods. Data on the number of construction permits and surface size indicate that the interest for new constructions continues to be high. In 2019 H2, real estate trading agents have reported higher selling prices compared with the previous half-year. House prices, calculated based on the Fischer Index, for sales carried out during the period have increased by 13.8% compared with the previous half-year and by 33.5% compared with the base period (2013). For sales realized in the Tirana area, which includes downtown, suburbs and the areas outside the city, the Index registered an increase of 14.9% compared with the previous period and 34.7% compared with the base period.

The agents remain relatively optimistic on the developments of the real estate market, and overall the situation in this market is assessed as sustainable. Regarding the successive period, the agents expect the same number of real estate to register for sale and an increase of their prices.

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23 The Index is calculated on the basis of data reported by construction companies and agents that operate in the real estate market.
Banking sector data show an increasing level of lending surplus for real estate and an improvement of its quality for the period against the previous year. Lending stock for real estate purchase for households registered around ALL 120 billion at the end of 2019 and was around 6% higher compared with the end of 2018. The performance of this credit is also favoured by somewhat lower interest rates for this category of lending. Non-performing loans ratio for this type of lending decreased at 4.4%, from around 5.5% in the previous year. Outstanding loans for construction maintained similar levels with those at the end of 2019 H1 and the end of the previous year. The share of loans for construction accounts for 14% of outstanding loans to enterprises, maintaining levels almost unchanged over the last two years.

At the end of the period, the stock of loans collateralized with real estate increased, mainly based on the performance of collateralized loans in the domestic currency. Within this subdivision, 62% of the stock is held by the households sector and the rest by the enterprises sector.

**BOX 4 SUMMARY OF RESULTS FROM THE “REAL ESTATE MARKET” SURVEY AND THE PERFORMANCE OF HOUSE PRICES INDEX FOR 2019 H2**

The data on the performance of prices and the assessment of the situation by real estate market agents is collected through the field survey of a sample composed by 230 subjects whose main activity is trading real estate. The selected subjects are real estate agents and construction companies whose sales represent 75%-80% of the turnover of the entire population. The Bank of Albania conducts the drafting of the questionnaire as well as the submission and processing of the results, while the Institute of Statistics conducts the interviewing on-site, the main sampling and the physical control of the completed questionnaires.

General assessment: The assessment of the agents on the overall situation of the market does not show relevant changes compared with the previous period. Responding to the question “How do you assess the market situation compare with the previous period (six-months)?”, the net balance of responses resulted [-2.2]% and shows that the number of agents that gave positive responses (better) has been almost the same with the number of those that have responded “worse”, meanwhile around 60% of responses were neutral - “no change”. This balance, although with a slight negative value, during the last years has narrowed significantly compared with the long-term average of around [20.7]%.

The same indicator assessed only for subjects that have reported sales during the period resulted, as expected, with a positive value of 13.4%, in line with the long-term trend.

Performance of prices and sales: At the end of the period, Fischer House Prices Index, on a national level, registered an increase by 33.5% compared with the base period (2013) and an increase by 13.8% compared with the previous six-months. Sales volumes have declined slightly only in the central areas of Tirana, and have increased in all other areas of the capital and on a national level. The Price Index for Tirana increased by 34.7% compared with the base period and by 14.9% compared with the previous period. Average prices* are reported to have significantly increased in all the country, but they have been relatively stable in coastal cities. In Tirana, they increased by 15.3% in the
centre, around 25% in the areas outside the city and very slightly in the suburbs. In other areas**, prices also increased by 15.4% compared with the previous period. This performance may reflect the impact created by the earthquake of November 2019 where the demand for low-rise houses, mainly outside Tirana, is reported as upwards.

Number of listed proprieties: Agents report a lower number of new proprieties listed in their books; the net balance of those reporting an increase of the number of listed proprieties and those that report a decrease was around \([-11.5\)%\], showing slight changes from the previous period. The number of unsold proprieties, both for residential and commercial buildings, continues to be down for several consecutive six-months.

Average sale period: The average sale period of proprieties, at the national level, is reported to be 10.3 months, and registered a slight increase compared with the previous six-month. For Tirana, interviewed subjects reported an average sale period of 9.2 months or two months shorter than that reported for the previous six-months. For the coastal area, the sale period has increased from 8.3 months to around 10.3 months and for other areas the sale period increased from 9.2 months to 11.3 months.

Financing through bank credit: According to agents, around 65% of both residential and commercial proprieties sold by them were purchased with a bank loan. This figure registers an increase compared with the value of 46% reported in the previous period.

Expectations for the future: Agents have positive expectations about market performance in the territory in which they operate for the short-term future and are optimistic for a longer-term future (up to two years). The new listing for sale in the forthcoming period are expected to not have significant changes (net balance resulted \([-2.3\)%\]). Agents expect an increase of real estate prices. Net balance was positive for residential (16%) and commercial (15.8%) buildings, reflecting that the agents are optimistic. This balance has registered positive values at similar levels to the current value for several consecutive six-months.

Rent demand and price: Most responses from agents show constant demand for renting during the period, for both residential and commercial buildings. In the same line, rental prices are reported as unchanged. It should be emphasised that this responses are concentrated in Tirana.

* The increase of the Price Index for Tirana and for the entire territory changes from the increase of average prices because Price Index also takes into account the “sales volume during base period/sales volume during reference period” ratio. The base period (2013) is characterized by high volumes and low prices of sales compared with the current period. For this reason, the increase in Price Index is lower compared with the increase of just average prices, which does not take into account sales volume.
* “Other areas” include all areas except for Tirana and the coastal area.
3.2 PAYMENT SYSTEMS

The core infrastructure for clearing and payment settlements in the domestic currency has continued to function reliably and efficiently, supporting financial stability and the implementation of monetary policy. In terms of processing activity, in the AIPS system were cleared 61,643 payments during the period with a value of ALL 5,026 billion. The number and value of transactions registered a decline of 4% and 7%, respectively, compared with 2019 H1. In parallel, in the small payments system, AECH, during the period were cleared 370,856 payments, with an average value for transactions of around ALL 172,000. Compared with 2019 H1, the activity of the AECH system registered an increase in both number and value of almost 11%, respectively.

Use of payment instruments registered a significant increase during 2019 H2. In this period were carried out around 10.3 million payments with a total value of ALL 2,374 billion. Compared with 2019 H1, the number of transactions increased by 23% while the value increased by 11%. Credit transfers continue to dominate in payment instruments, but the share of this instrument has declined, driven by the decrease in number and value of credit transfers in non-paper form (internet banking, mobile banking) as well as an increase of transactions carried out by card.