4. MARKETS AND PAYMENT SYSTEMS

(13) In the government debt securities market, the volume of issues increased, while the average interest rate did not show significant changes. Domestic debt in lek issued during the first half year was around ALL 182 billion, or 43% higher compared with the debt issued in 2017 H2, and only 2% lower compared to 2017 H1. Compared to the previous six months, issues were 40% higher for T-bills (ALL 127 billion) and 50% higher for bonds (ALL 56 billion). At the end of the period, the weighted average interest rate was about 3.1%, slightly up towards the end of 2017 and being about 0.2 percentage point higher than the previous year. Treasury bills rates were upward during this six-month period, while bonds’ rates dropped very slightly. The domestic debt structure remains dominated by treasury bills (70%).

(14) In the interbank market, banks have traded overall lower volumes at rates constantly below or close to the policy rate level, thus reflecting a stable liquidity situation. Average interest rates for one and seven day interbank transactions remained almost unchanged at 1.25% and 1.28% respectively. In June, they declined, reflecting the Bank of Albania’s key interest rate cut to 1%. The average 1-day borrowing volume dropped by 40% compared to the previous six months. The same performance was also observed in the average volume of 7-day transactions, which fell by 14% compared to the previous six months. The borrowing at 1-month maturity also registered a significant increase during this period (more than double), although this instrument is rarely used and at lower volumes compared with the shorter term borrowing instruments.
(15) In the foreign exchange market, the lek appreciated against the main currencies, particularly against the euro. At the end of the period, lek was 5.5% stronger against the euro and 4.3% stronger against the US dollar, compared to the end of 2017. Lek’s appreciation was stronger in the second part of the period, turning it into a factor that could hinder or postpone the achievement of the inflation target by the Bank of Albania. For this reason, the Bank of Albania took the decision to intervene in the market in order to mitigate this performance by removing from the market the currency surplus associated with one-time event factors.

(16) In the real estate market, the main indicators appear upward. As in any other market, the performance of this market is determined by demand and supply, with demand generally sustained by the level of income and financing conditions for purchase or development of real estate, whereas on the supply side, the number of properties for sale, both new (newly built) and existing ones was a determinant for the trading volumes and their prices.

(17) Based on the available information, housing prices rose during the period. Bank of Albania Survey results show that the Fischer house price index at country level, increased by 8.1% compared to the previous six months, and 8.8% compared with the base period (2013)\(^16\). The rise in the index from the previous six months is attributable to the respective sub-indices for Tirana and the coast, and reflects the respondents’ positive expectations for the developments in this market.

When interpreting the index performance, we should consider the following factors and the possibility for their effect to extend beyond the period under review. Specifically:

a) From the demand point of view:
   - the data from the banking sector on the period, show an almost unchanged level of outstanding loan for real estate purchase, followed by a slight decrease (0.5%) of the interest rates on this credit\(^17\);
   - the respondents report that about 75% of residential and commercial properties sold by them are purchased via a bank loan and this value

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\(^{16}\) The first year of the survey is taken as a base period.

\(^{17}\) The average interest rate of real estate during 2008-2013 was 8.7%.
is similar to the one reported in the previous period;

- the relative cost of credit payment\(^{18}\) for real estate purchase has declined, reflecting more eased financial conditions for the purchase of real estate from the borrower’s aspect.

- based on the lending survey of the Bank of Albania for 2018 Q2, the households’ demand for real estate loans increased, while the conditions for credit approval for this type of loan and this category of borrowers are reported to be more eased;

- survey respondents said that the average period needed to sell these properties at country level in the first six months of the year, was on average 10 months or 2.2 months shorter compared with the previous six months.

b) from the supply point of view:

- INSTAT data show a significant increase in the floor area index and number of construction permits for residential buildings;

- survey results show that sales volume increased only for the periphery of Tirana, and declined in other areas of Tirana, such as the coastal and other areas of the country;

- the outstanding loan portfolio for construction decreased by 5.2% at the end of 2017, and 3.2% compared to the previous year. Construction loans is accounted for 13.7% of outstanding loans to enterprises, remaining well below the level of around 20% recorded over the 2007-2011 period;

- the quality of real estate credit improved and the ratio of non-performing loans decreased to 6.8% from 7% in December 2017 and 8.3% in the previous year.

\(^{18}\) The relative cost of payment for real estate purchase is estimated as the difference between the real estate loan interest rate and the average rate of house price increase over the past four quarters. In case this difference increases, then the relative cost is estimated to increase and vice versa.
(18) Payment systems have handled a greater number of transactions compared to the previous year, but the volumes were volatile. In the large value payments system (AIPS), the number of transactions increased by 1.2%, while the value of the transactions went down by 14.7% compared to 2017 H1. In the small value payment system (AECH), the number of transactions increased by 12.6% and the value of transactions was about 9.3% higher compared to the respective indicators of 2017 H1.

(19) By use of instruments, during the period, credit transfers continue to dominate in the payments instruments, but the share of this instrument has decreased. Within this category, the use of the instrument in the form of ‘paper’ decreased and transactions with non-paper instruments (e-banking and mobile platforms) recorded a double-digit increase (32% in number and 19% in value). During the period, payments by card have also recorded a faster growth.