4. MARKETS AND PAYMENT SYSTEMS

4.1 MARKETS

SECURITIES MARKET

(18) During the period, the average yields on government debt fell. At the end of the year, this yield was about 2.4%, lower by almost 1 percentage point compared to the level of 2018 H1 and by about 0.6 percentage point compared to the level at the end of 2017. The structure of domestic debt in lek continues to be dominated by the short-term one (66%), although this share has been declining. Domestic debt in lek issued during the second half of the year was about ALL 124 billion, or 32% lower compared to the debt issued during the previous six months, and almost the same with the level of debt issued during 2017 H2.

(19) For short-term debt securities, the average yield declined under the conditions of the decline in the volume of issuance. During the period, the issuance of government debt securities in the form of Treasury bills amounted to about ALL 82 billion, about 36% and 10% less than the end of 2018 H1 and the end of the previous year. The bid for investment in treasury bills has almost always covered the government demand for borrowing in Treasury Bills. As a result, the average yield of treasury bills declined from the previous six months by 0.7 percentage point and by 0.6 percentage point from the end of 2017, standing at 1.7%. For T-Bills with 12-m maturity, which are highly preferred by
the investors, the yields declined during the period by around 0.4 percentage point, at 1.5% in the last issue of 2018.

(20) The average yield on long-term debt securities also declined, although their volume of issuance in annual terms was higher. Issuance of debt securities in the form of bonds amounted to around ALL 43 billion, or 24% less than in the previous six months, but compared to the same period a year earlier, the volume of issuance was about 16% higher. Around 80% of the issued bonds is composed by 2 to 5-years maturity bonds, at fixed yield rate. In any case, the bid amount was higher than the borrowing demand by the government. As a result, the weighted average bond yield in lek for the second half of the year was 3.7%, almost 0.7 percentage point lower compared to the previous year.
INTERBANK MARKET

(21) During the period, the average volume of transactions in the interbank market increased, while the average interest rates stood close to the Bank of Albania’s policy rate. Thus, the average 1-day borrowing volume increased by 13% compared to the previous six months, while the 7-days transactions volume increased by 62%. Average interest rates for 1-day and 7-days interbank transactions declined to 1.04% and 1.05%, respectively. The 1-month maturity borrowing also declined (by 86%), although this instrument is rarely used and used at lower volumes compared with the short-term borrowing instruments.

FOREIGN EXCHANGE MARKET

(22) During the period, the appreciation of lek against the euro continued at a slower pace. This performance reflected Bank of Albania’s temporary interventions in the foreign exchange market. At the end of the year, one euro was traded for around 123.4 lek, from around 125.9 lek and 133 lek, at the end of June 2018 and end of 2017, respectively. Against the US dollar, the Albanian lek depreciated reflecting developments in the euro/US dollar international foreign exchange markets. Over the period, in average terms, the lek appreciated by 3.3% against the euro and depreciated by 1.4% against the US dollar. Compared with the previous year, the lek appreciated by 6% against the euro and by 4% against the US dollar.

4.2 REAL ESTATE MARKET

(23) In the real estate market, the main indicators suggest a positive situation. Compared to the previous period and the long-term trend in this market, the volume of sales and prices increased. Agents’ expectations for the short and long-term future continue to be optimistic, albeit at lower levels compared to the two previous periods. Also, the performance of construction permits, which can be considered as a lead indicator of developments in the real estate market, was positive, given that the number of permits during the second half of the year increased significantly compared to the previous periods.

16 In the meeting of 6 June, the Supervisory Council approved the use of interventions in the domestic foreign exchange market and an instrument of the monetary policy.
(24) House prices, calculated according to the Fischer House Price Index, were up by 5% compared to the previous six months and by 15.2% compared with the base period (2013). The index is built on the basis of data reported by construction companies and agents operating in the real estate market. The Fischer House Price Index for Tirana, which include the centre, suburbs and extra urban areas, increased by 3.8% compared to the previous period and 14.2% compared to the base period.

(25) The agents’ assessment on the overall situation in the real estate market was generally neutral¹⁷, but the balance of responses, starting from 2017 H2 improved notably compared to the long-term average of this indicator. Also, the net balance on the expected performance of prices was positive, but somewhat lower compared to the previous two periods.

(26) Direct and indirect activity indicators in the real estate market suggest that supply and demand were generally up during the period. In the real estate market, demand generally reflects the demographic developments, revenues and financing conditions for purchase or development of real estate, whilst supply is related to the number of construction permits and the number of properties (new and existing) that are offered for sale in any given period. When interpreting the performance of the index, the factors listed below and the possibility that their effect may extend beyond the period under review, should be considered.

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¹⁷ This means that the number of respondents who answered “the situation has deteriorated compared to the previous period” is almost the same as the number of respondents who answered “the situation was better”.

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a) From the perspective of demand:

- data from the banking sector on the period show the level of outstanding loans for real estate purchase decreased during the six months, but the level is higher compared to the previous year;
- interest rates for real estate loans increased slightly during the second half of the year;
- respondents reported that around 54% of residential and commercial properties sold by them are purchased with a bank loan;
- based on the lending survey of the Bank of Albania for 2018 Q4, households’ demand for real estate loans increased, while the conditions for approval for this type of loan and this category of borrowers are continued to ease;
- respondents said that the average period needed to sell these properties at country level in the second half of the year, was on average 10.9 months, or around 1 month longer compared with the previous six months; for Tirana and Other Areas, the sales time increased by 1-2 months while for the Coastal Area the selling time reduced by 2.5 months.

b) From the perspective of supply:

- similar to 2018 H1, 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 suburb of Tirana and declined in other areas, such as the Coastal Area and Other Areas;
- outstanding loan portfolio for construction increased by 8.7% compared with the end of the first half of the year, and by 3.1% compared with the end of the previous year. Loans for construction account for 15% of outstanding loans to enterprises, and this share has increased but remains below the 20% recorded during the 2007-2011 period;
- quality of real estate loans improved and the non-performing loans ratio was down to 5.7% from 6.8% in June 2018, and 7% a year earlier.

4.3 PAYMENT SYSTEMS

(27) During the period, the core infrastructure for the clearing and settlement of payments in the domestic currency continued to operate effectively and securely, thus supporting the financial stability and the implementation of monetary policy. In terms of processing activity, in AIPS, 63,569 payments accounting for ALL 5,408 billion were settled/processed during the period. The number and value of transactions increased by 1.8% and 45%, respectively, compared to the first half of the year. In parallel, in the small-value payment
system - AECH, during the period 340,849 payments were cleared, with an average value per transaction of around ALL 172,000. Compared with 2018 H1, the activity of AECH increased, both in number and value (by around 17%).

(28) Regarding payments, the use of electronic payments continues to increase. Credit transfers continue to dominate the payment instruments, but the share of this instrument decreased reflecting the fall in the volume of instruments in paper form. On the other hand, the non-paper credit transfers (e-banking, mobile banking) increased, also payments by card increased in terms of both volume and value.