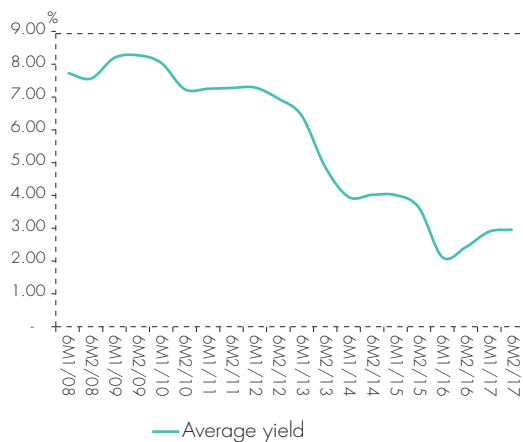


## 5. FINANCIAL MARKETS

### 5.1 SECURITIES MARKET

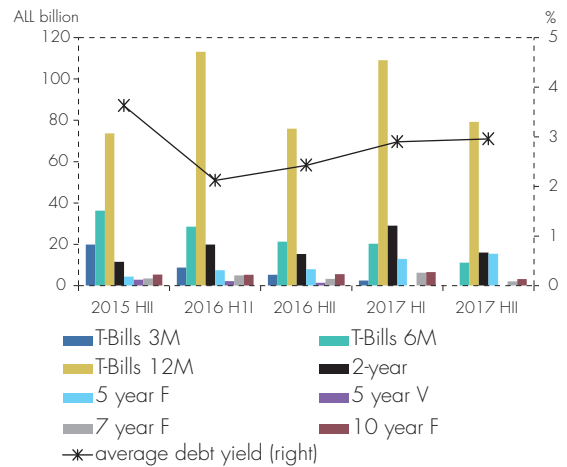
(35) During the period, the Albanian Government's debt denominated in lek was about ALL 127 billion, almost 32% lower than in 2017 H1 and 7% lower compared to 2016 H2. The debt structure of the Albanian Government in the lek continues to be dominated by treasury bills (70%). At the end of the year, the weighted average yield for the Albanian Government debt in lek was about 3%, maintaining almost the same value as in the first half of the year and about 0.5 percentage point higher compared to the previous year. Over the period, the average yield on treasury bills decreased, whereas the bonds' yield increased.

Chart 5.1 Average yield on debt securities, in %



Source: Bank of Albania.

Chart 5.2 Composition of debt issued during 2015 H2-2017 H2

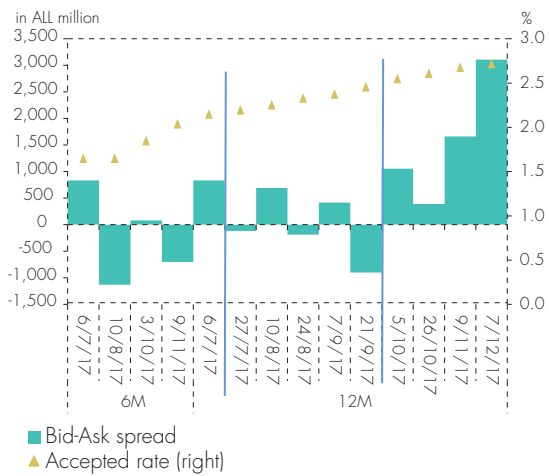


Source: Bank of Albania.

(36) **Issues and average yields on short-term government debt increased compared with the previous period.** Issues of government debt securities in the form of T-bills were around ALL 90 billion, or around 32% lower than in the previous period, and 12% lower than in the previous year. Within short-term debt, 12-month bills account for about 90% of the total. Average yield on T-bills for the three maturities (3, 6 and 12 months) was 2.4%, decreasing from the previous period and increasing by 0.8 p.p. from 2016 H2. Over the period, yields have been upward, from 2.2% in July 2017 to about 2.7% in the last auctions of 2017. In some T-bills auctions, and mainly those of 6-months maturity, the supply for investment was lower than the demand for borrowing or the amount announced by the government.

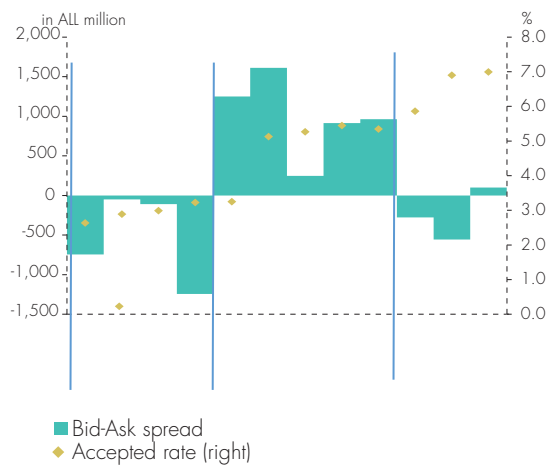


Chart 5.3 Investment announced amount surplus and T-bill yields for 2017 H2



Source: Bank of Albania.

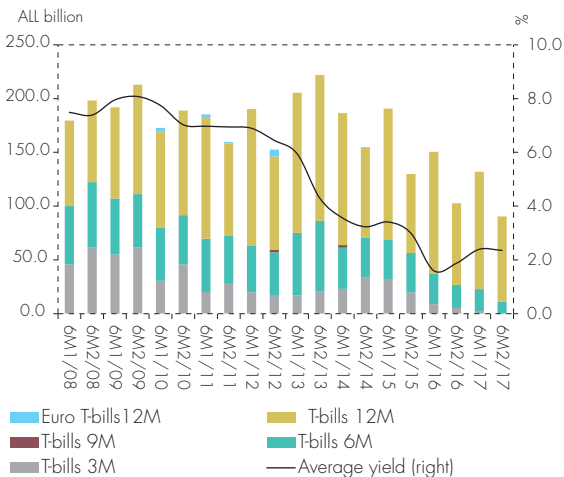
Chart 5.4 Investment announced amount surplus and bonds yields, for 2017 H2



Source: Bank of Albania.

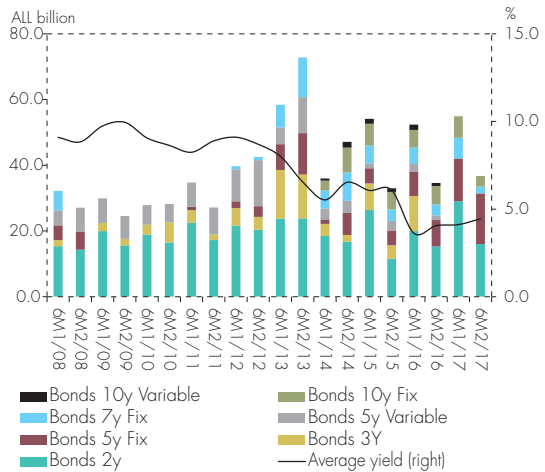
(37) Government long-term debt issued during the period was lower than in the previous period, while the yields increased for all maturities issued in this period. Issues of Government debt securities in the form of bonds were around ALL 37 billion, or around 33% less than in the previous period, but 6% higher than the same period the previous year. Around 85% of the issued bonds is composed by fixed rate for 2 to 5-year bonds. Bonds' weighted average yield in lek for the period was 4.5%, or 0.3 p.p. higher than in the previous period and 0.4 p.p. higher than in the previous year. The increase of the weighted interest rate of bonds in lek for three consecutive 6-month periods was not reflected in the increase of the demand for investment in these securities. In some auctions, the offer for investment was lower than the demand for borrowing.

Chart 5.5 Volume and weighted average yield of T-bills in the primary market

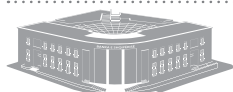


Source: Bank of Albania.

Chart 5.6 Volume and weighted average yield on bonds in the primary market



Source: Bank of Albania.



(38) At the beginning of the year, the government reissued in the domestic market medium-term debt in euro in the form of 2-year bonds. This was the only issue in euro in 2017 H2 and represents around 4.2% of the domestic debt issued during the period. The debt in euro was around EUR 39.6 million and the yield rate was around 0.8%.

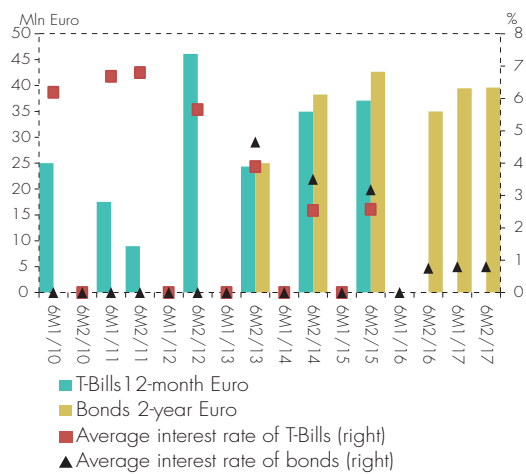
### 5.2 INTERBANK MARKET

(39) During the period, the average volume of transactions in the interbank market increased compared with the previous period, whereas interest rates remained close to the policy rate. The unchanged policy rate during the period favoured low interest rates 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. In 2017 H2, the average interbank overnight rate increased compared with the average of the previous period, at 1.24%. The average interest rate for one-week transactions was 1.28%, almost unchanged compared to the first half of the year. The average volume of overnight lending increased by 19% compared to the previous period. The same performance was also observed in the average volume of one-week transactions, up 18% compared to the previous period. The one-month borrowing rate also increased slightly during this period, although this instrument is rarely used and at lower volumes compared with the shorter-term borrowing instruments.

### 5.3 FOREIGN EXCHANGE MARKET

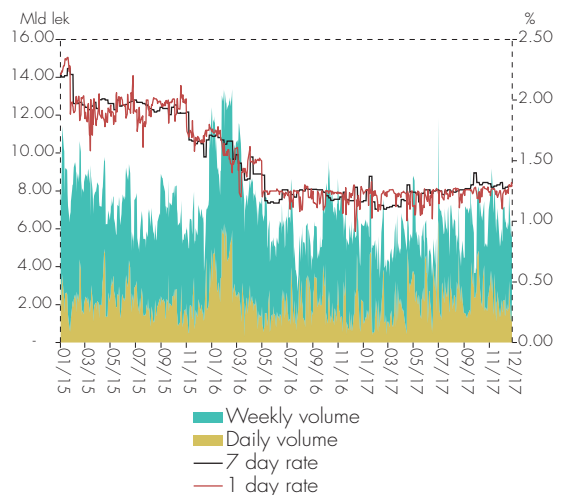
(40) During the period, the lek's exchange rate against the euro remained almost unchanged, showing a slight depreciation (0.05%) and appreciated against the US dollar (5.1%). In half-yearly terms, on average, compared to the previous year, the domestic currency appreciated against both currencies: 1.4% against the euro and 9.3% against the US dollar.

Chart 5.7 Domestic borrowing in euro



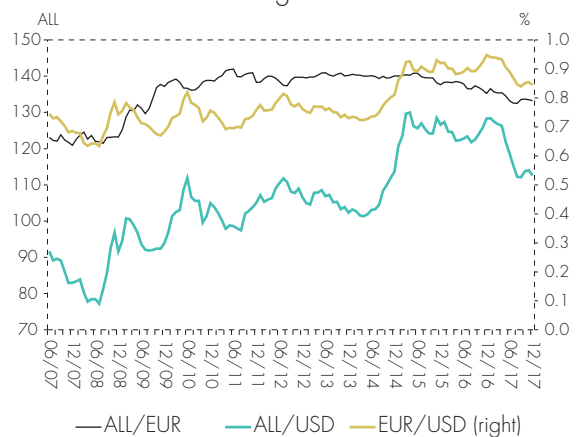
Source: Bank of Albania

Chart 5.8 Interbank rates



Source: Bank of Albania

Chart 5.9 Exchange rate in the domestic foreign exchange market



Source: Bank of Albania

