5.1 SecuritieS market

(33) During the period, average interest rates for government debt securities increased in both half yearly and annual terms. As at end 2017 H1, the average interest rate of the government debt was 2.9% or 0.5 p.p. higher than at the end of the previous period and 0.8 p.p. higher than a year earlier. Yields in the auctions of debt securities primary market rose as a result of the increase of yields on T-bills. The latter continue to dominate the structure of domestic debt in lek, with around 70%. Domestic debt in lek issued during 2017 H1 was around ALL 190 billion, 36% higher than the debt issued during the second half of the previous year, but comparable with the value of a year ago.

(34) Issues and average interest rates of short-term government debt increased compared with the previous six months. Issues of government debt securities in the form of T-bills were around ALL 130 billion, or around 30% higher than 2016 H2, but 12% lower than the value of a year earlier. Within short-term debt, 12-month maturity bills account for around 83% of the total. Average interest rates on T-bills for the 3 maturities increased by 0.5 p.p. from the previous period and by 0.8 p.p. against a year earlier, reaching 2.4%. 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, due to the decline of the yield for this maturity. As a consequence of the higher preference by the investors, the yield on 12-month bills decreased from 3.3% in the auctions at the beginning of the year to 2.2% at the end of June.
Issued government long-term debt during the period was higher than in the previous period, while the average yield did not mark significant changes. Government debt securities issues in the form of bonds amounted to around ALL 55 billion, or around 60% higher than in 2016 H2, but 5% higher than in the same period a year earlier. Around 77% of the issued bonds volume consists of 2 and 5-years fixed interest rate bonds. The bonds’ weighted average rate in lek for the first half of the year was 4.1%, 0.1 p.p. higher than in 2016 H2 and 0.5 p.p. higher than a year earlier. The increase of the weighted interest rate of bonds in lek during the 2016 H2 was reflected in the increase of the demand for investment in these securities in 2017 H1. Overall, the amount offered for investment in bond auctions was higher than the amount asked by the government; however, in some auctions, in which a declining trend of the yield was noted, the offer for investment was lower than the demand for borrowing.
(36) 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 H1 and represents around 3% of the domestic debt issued during the period. The debt in euro issued in January 2017 and amounted to around EUR 39 million, 13% higher than the amount issued during the previous period. The higher demand of the government for domestic borrowing in euro was accompanied with the increase of the security yield at 0.80% from 0.75% registered in the previous six months.

5.2 INTERBANK MARKET

(37) During the period, the average volume of transactions in the interbank market declined compared with the previous six months, while 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 H1, the average interbank overnight rate remained unchanged compared with the average of the previous period, at 1.20%. The average interest rate for 7-day transactions was 1.19% or 0.03 p.p. lower than the average in 2016 H2. The average volume of overnight borrowing increased 1.7% from the previous six months. Despite the low interbank rates, the average volume of 7-day transactions marked a decrease compared with the previous period. The 1-month borrowing rate also declined 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

(38) During the period, the Albanian lek appreciated against the euro and against the US dollar. Compared with the end of December 2016, at the end of the period, lek appreciated by around 2.0% against the euro, and around 10.2% against the US dollar. Developments in the ALL/USD rate overall have reflected the performance of the US dollar exchange rate in the international markets. In average half-yearly terms, the domestic currency appreciated by 2.5% against the euro and by 0.6% against the US dollar, compared to a year earlier.