

## DIRECT GOVERNMENT DEBT AND COSTS

### STATE'S DIRECT DEBT OUTSTANDING


The nominal amount of the State's direct debt outstanding on 31 December 2011, evaluated at end-of-period exchange rates, amounted to EUR 174,891 million (on a public account basis). Taking into account the effect of exchange rate hedging operations, the debt outstanding totalled EUR 174,522 million.

**Table 16 – Direct Government debt**  
(public account basis; unit: EUR million)

	Outstanding		January - December 2011			Outstanding	
	31 Dec 2010	Structure	Issues	Redemptions	Others	31 Dec 2011	Structure
<b>1. Euro-denominated debt (excluding external aid)</b>	<b>149,436</b>	<b>98.5%</b>	<b>87,292</b>	<b>99,969</b>	<b>164</b>	<b>136,922</b>	<b>78.3%</b>
Marketable	127,015	83.7%	36,634	44,249	164	119,564	68.4%
ECP (discounted value)	394	0.3%	3,284	3,072	0	605	0.3%
Treasury Bills (BT - discounted value)	19,261	12.7%	24,787	31,587	0	12,461	7.1%
Fixed-rate Government Bonds (OT)	105,946	69.8%	7,321	9,491	163	103,940	59.4%
Other bonds	51	0.0%	0	0	0	51	0.0%
MTN	1,350	0.9%	1,242	99	1	2,493	1.4%
Retail bonds	13	0.0%	0	0	0	13	0.0%
Non-marketable	22,420	14.8%	50,658	55,720	0	17,358	9.9%
Saving Certificates	15,471	10.2%	371	4,457	0	11,384	6.5%
Subscription value	9,150	6.0%	76	2,645	0	6,582	3.8%
Accrued interest	6,320	4.2%	294	1,812	0	4,803	2.7%
Treasury Certificates	685	0.5%	986	363	0	1,308	0.7%
CEDIC	4,887	3.2%	36,844	37,798	0	3,933	2.2%
CEDIM	0	0.0%	141	0	0	141	0.1%
Others	1,377	0.9%	12,316	13,101	0	592	0.3%
<b>2. Non-euro-denominated debt (excluding external aid)</b>	<b>2,340</b>	<b>1.5%</b>	<b>1,643</b>	<b>1,928</b>	<b>52</b>	<b>2,106</b>	<b>1.2%</b>
Marketable	2,339	1.5%	1,633	1,918	52	2,106	1.2%
ECP (discounted value)	404	0.3%	1,633	1,918	-23	96	0.1%
Other bonds	165	0.1%	0	0	5	170	0.1%
MTN	1,771	1.2%	0	0	69	1,840	1.1%
Non-marketable	0	0.0%	10	10	0	0	0.0%
<b>3. EFAP</b>	<b>0</b>	<b>0.0%</b>	<b>34,221</b>	<b>0</b>	<b>1,641</b>	<b>35,862</b>	<b>20.5%</b>
EFSF / FEEF	0	0.0%	7,012	0	1,101	8,113	4.6%
EFSM / MEEF	0	0.0%	14,063	0	37	14,100	8.1%
IMF / FMI	0	0.0%	13,147	0	502	13,649	7.8%
<b>4. Total debt (1.+2.+3.)</b>	<b>151,775</b>	<b>100.0%</b>	<b>123,172</b>	<b>101,897</b>	<b>1,840</b>	<b>174,891</b>	<b>100.0%</b>
<b>5. Exchange rate effect of hedging with derivatives (net)</b>	<b>-74</b>					<b>-369</b>	
<b>6. Total debt after derivatives (4.+5.)</b>	<b>151,702</b>					<b>174,522</b>	

**Note:** The outstanding amounts are in nominal value, with the exception of instruments issued at discount (which are at present value), converted at the end-of-month exchange rate, while issues and redemptions are net of premiums and discounts. The "Others" column includes exchange rate fluctuations, premiums or discounts of issues and redemptions and changes in the value of perpetuities.

Excluding the effect of exchange rate hedging, the State's direct debt rose by EUR 23,115 million. This was essentially due to the net issuance of debt instruments in an amount of EUR 21.259 million (the difference between net proceeds and redemptions). The increase in the debt outstanding also reflects other items, such as unfavourable foreign exchange rate changes, in the amount of EUR 554 million, and net discounts on issues and redemptions, which totalled EUR 1,303 million.



The EFAP was the main source of funding with issues totalling EUR 35,360 million in nominal terms. The EFSF and EFSM loans were issued with a net discount of EUR 1,139 million. The IMF loan amounted to EUR 13,147 million, with the depreciation of the euro against the SDR (the currency of IMF loans) leading to a EUR 502 million increase in euro-denominated debt.

In the first four months of the year, fixed-rate government bonds (OT) were also issued by IGCP. A new OT series was launched in February through a syndicate (OT 6.4% Feb 2016) and several other OT series were reopened. In total, a nominal amount of EUR 7,483 million was placed, with net discounts in the order of EUR 162 million.

Debt redemptions, at net proceeds and excluding financial derivatives, amounted to EUR 101,897 million, EUR 61,879 million of which concern debt issued in the same year (floating debt). This figure includes buybacks of debt maturing in the same year in an amount of EUR 2,884 million.

In addition to the above-mentioned effect on the outstanding of the IMF loans, the depreciation of the euro against other currencies also led to a worsening of the swaps portfolio, whose value in euros increased by EUR 52 million.

In turn, the swaps portfolio contributed to the reduction of EUR 295 million in the debt outstanding in euros, after exchange rate hedging, the total debt after swaps increased by EUR 22,820 million.

The breakdown of debt by interest rate type shows that the weight of fixed interest rate in total debt decreased, contrary to the trend seen in the last few years. Excluding the derivatives portfolio, the percentage of fixed-rate debt in total debt dropped from 88.4 per cent to 84.3 per cent in 2011. After swaps, the percentage of fixed-rate debt also dropped to 87.4 per cent from 89.3 per cent at the end of 2010.

In the breakdown of debt by currency before swaps, the share of non-euro debt increased significantly (7.5 percentage points) reaching approximately 9.0 per cent of the debt stock. After swaps, the exchange rate exposure also increased although to a lesser extent. The percentage of non-euro denominated debt rose from close to nil at the end of 2010 to 6.0 per cent at the end of 2011.

In the debt structure by instrument before swaps, the weight of EFAP loans reached 20.5 per cent. Short-term debt accounted for a lower percentage of the annual financing. In 2011, the percentage of short-term debt in the total portfolio dropped 7.2 percentage points to 9.8 per cent. BT had the strongest decline, with their weight falling from 12.7 per cent in 2010 to 7.1 per cent in 2011.

The weight of medium- and long-term OT in the total portfolio fell appreciably (10.4 percentage points) to 59.4 per cent, while the relative importance of Saving Certificates also dropped from 10.2 to a mere 6.5 per cent. Conversely, Treasury Certificates and other medium- and long-term debt saw their weight increase only marginally to 0.7 and 3.0 per cent, respectively, from 0.5 and 2.6 per cent at the end of 2010.

Following the downward trend of the last four years, the outstanding of Saving Certificates dropped by EUR 4,086 million in 2011. This fall was a result of negative net subscriptions (the difference between new subscriptions and redemptions, including accrued interest), which amounted to EUR 4,381 million. Once again, this led to an increase in the average term of Saving Certificates subscribed more

than 5 years ago. The increase in the stock of Treasury Certificates (EUR 623 million) was not enough to offset the decline in the outstanding of Saving Certificates. As a result, retail debt instruments had a negative contribution of EUR 3,464 million to the debt outstanding.

**Table 17 – Stock of Saving Certificates**  
(unit: EUR million)

Year	Stock changes	Net subscriptions	Accrued interest
1997	686	24	662
1998	139	-420	558
1999	486	37	449
2000	1,177	626	551
2001	1,071	403	668
2002	793	215	578
2003	318	-182	500
2004	49	-411	460
2005	343	-130	473
2006	1,003	446	557
2007	801	128	673
2008	-852	-1,534	682
2009	-327	-784	457
2010	-1,400	-1,716	316
2011	-4,086	-4,381	294

## CURRENT DEBT COSTS

On a public account basis, the current costs of the direct State's debt with interest amounted to EUR 5,733 million in 2011, while other costs totalled EUR 263 million, EUR 236 million of which are associated with EFAP<sup>6</sup>.

**Table 18 – Current costs of the direct State's debt**  
(unit: EUR million)

	2004	2005	2006	2007	2008	2009	2010	2011
PUBLIC ACCOUNT BASIS								
Interest	3,722	3,937	4,366	4,704	4,855	4,973	4,943	5,773
of which: EFAP	0	0	0	0	0	0	0	113
Other costs (*)	18	30	31	24	30	32	26	263
of which: EFAP	0	0	0	0	0	0	0	236
<b>Total costs</b>	<b>3,740</b>	<b>3,967</b>	<b>4,397</b>	<b>4,728</b>	<b>4,885</b>	<b>5,005</b>	<b>4,970</b>	<b>6,036</b>
NATIONAL ACCOUNT BASIS (**)								
<b>Interest (under the EDP)</b>	<b>3,826</b>	<b>4,054</b>	<b>4,365</b>	<b>4,691</b>	<b>4,867</b>	<b>4,778</b>	<b>4,948</b>	<b>6,405</b>

(\*) Other costs include costs associated to the placement of debt in the market (issuance, distribution, redemption and custody of securities), as well as IGCP's management fee and other expenses related to the rating of the Republic's credit risk.

(\*\*) Unlike Public Accounts, in which flows are recorded on a cash basis, in National Accounts flows are registered on an accrual basis.

On a National Account basis, interest amounted to EUR 6,405 million in 2011, having risen by EUR 1,457 million in comparison to the previous year, as a result of the price effect and the increase in the debt stock.

<sup>6</sup> Note that in the item Intermediate Consumption under National Accounts, the amount concerning Other Charges associated with EFAP loans was only EUR 171 million. This was due to the fact that part of it (EUR 64 million) was reclassified as interest and therefore accrued over the term of the loan.

**Table 19 – Interest changes**  
(unit: EUR million)

Year	Average debt stock	Interest (national accounting)	Implicit interest rate	Interest change	Contributions to interest changes		
					Stock effect	Price effect	Cross effect
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
2000	64,566	3,635	5.6%				
2001	69,313	3,771	5.4%	136	267	-122	-9
2002	75,962	3,875	5.1%	104	362	-235	-23
2003	81,426	3,797	4.7%	-79	279	-333	-24
2004	87,058	3,826	4.4%	30	263	-218	-15
2005	96,249	4,054	4.2%	228	404	-159	-17
2006	105,158	4,365	4.2%	311	375	-59	-5
2007	110,681	4,691	4.2%	326	229	92	5
2008	115,633	4,867	4.2%	176	210	-32	-1
2009	125,605	4,778	3.8%	-88	420	-468	-40
2010	142,261	4,948	3.5%	170	634	-410	-54
2011	163,333	6,405	3.9%	1,457	733	631	93

**Notes:**

(2) =  $S_t$  - average stock at the end of t and t-1

(4) =  $i_t = (3)_t / (2)_t$

(5) =  $\Delta(S_t \cdot i_t) = i_{t-1} \cdot \Delta S_t + S_{t-1} \cdot \Delta i_t + \Delta S_t \cdot \Delta i_t$

(6) =  $i_{t-1} \cdot \Delta S_t$

(7) =  $S_{t-1} \cdot \Delta i_t$

(8) =  $\Delta S_t \cdot \Delta i_t$

Accordingly, the implicit interest rate (calculated as the ratio between the year's interest, on a public account basis, and the average debt stock) rose from 3.5 to 3.9 per cent at the end of 2011, while the interest-to-GDP ratio increased by 0.8 percentage points, from 2.9 to 3.6 per cent in 2011.

**Graph 18 – Changes in the interest of the direct State's debt**  
(National Accounts Basis)

