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### 3. FINANCING, CASH AND ACTIVE DEBT MANAGEMENT OPERATIONS

#### 3.1. OPERATIONS WITHIN THE FRAMEWORK OF THE REPO FACILITY

In order to promote liquidity and increase the efficiency of the Portuguese government debt market, IGCP provides market makers with a repo window of last resort for OT and BT quoted in this market.

Within the framework of this facility, the number of operations carried out and their nominal value dropped significantly as a result of greater liquidity in the secondary market in comparison to the previous year and the issuance of new securities. In total, there were 15 operations – 12 involving BT and 3 involving OT – compared to 65 operations in 2012 (39 involving BT and 26 involving OT). In terms of nominal value, EUR 236.5 million were traded (versus EUR 1,314.5 million in 2012). In terms of collateral, EUR 140 million of OT were traded in comparison to EUR 400 million in the previous year. In the case of BT, the nominal value traded amounted to EUR 96.5 million versus EUR 914.5 million in 2012.

#### 3.2. ACTIVE DEBT MANAGEMENT OPERATIONS

In order to enhance the performance of the debt portfolio, the management of market risk is carried out using derivative instruments, primarily plain-vanilla interest rate swaps (IRS). With regard to IRS (approximately 80% of the operations carried out, both in terms of the number of operations and in nominal value), 41 unwindings were negotiated in 2013.

These operations were based on a view of the evolution of the interest rate curve, which perceived rates had reached very low levels and had reduced margin for further declines, especially in the longer term. It was therefore decided to pay a fixed rate for longer maturities. Simultaneously, in terms of directional risk, from a consolidated point of view, the derivatives' portfolio of SOE within General Government (*EPR*) had a symmetrical exposure to that of the Republic. In other words, in terms of exposure of government debt service to parallel movements of the yield curve, after cancellation of the *EPR*'s and the Republic's positions, the consolidated portfolio was subject to residual exposure.

The option for the early cancellation of operations, due to the contracting of new (symmetrical) operations, is part of IGCP's management policy, making it possible to simultaneously minimise the use of lines with counterparties and to reduce the operational risk by minimising the number of transactions in the portfolio.

On 31 December, 42 IRS were outstanding, which in liquid terms implied a small reduction of the duration of the Republic's debt portfolio.

These transactions were kept on the grounds that, although the portfolio was positioned for a possible rise in interest rates, the probability of this happening was not high enough to reinforce this position.

In order to hedge the currency exposure from the IMF loan, 9 CCIRS (cross currency swaps) operations were carried out in a nominal value of EUR 1,935 million and 4 exchange forwards were carried out in a nominal value of EUR 229 million.

Additionally, 4 Fx Swap transactions were carried out a nominal value of around EUR 100 million to cover short-term issues, including those under the ECP programme.

In total, the nominal amount of contracts negotiated with derivative instruments reached EUR 11,932 million.

**Table 11 – Transactions with financial derivatives**

Instrument	New contracts		Early redemption		Total	
	No. Trans.	EUR million	No. Trans.	EUR million	No. Trans.	EUR million
<b>FX FORWARDS</b>	4	229	0	0	4	229
<b>FX SWAPS</b>	4	102	0	0	4	102
<b>IRS</b>	0	0	41	9,666	41	9,666
<b>CCIRS</b>	9	1,935	0	0	9	1,935

Source: IGCP

At the end of 2013, the nominal value of outstanding contracts in the derivatives' portfolio was EUR 17 billion, equivalent to 8 per cent of the total outstanding of the State's direct debt.

**Table 12 – Financial derivatives portfolio – IRS, Basis, Swaptions, FX Forwards and FX Swaps at 31-12-2013**

(EUR million)	VN Total	0-2Y	2-5Y	5-10Y	10-15Y	+Y15
<b>IRS</b>						
Pay leg Fix	5,750	5000	250	400	100	0
Pay leg Float	2,865	300	2,091	474	0	0
Receive leg Float	30	0	0	30	0	0
<b>BASIS Swap</b>						
Pay leg Fix	0	0	0	0	0	0
Pay leg Float	500	500	0	0	0	0
<b>SWAPTION</b>						
Pay leg Fix	500	0	0	0	0	500
Pay leg Float	0	0	0	0	0	0
<b>FX FORWARD</b>						
Pay leg Fix	116	116	0	0	0	0
Pay leg Float	0	0	0	0	0	0
<b>FX SWAP</b>						
Pay leg Fix	7	7	0	0	0	0
Pay leg Float	0	0	0	0	0	0
<b>Total</b>	<b>9,768</b>	<b>5,924</b>	<b>2,341</b>	<b>904</b>	<b>100</b>	<b>500</b>

Source: IGCP

**Table 13 – Financial derivatives portfolio of the Republic – CCIRS at 31-12-2013**

(EUR million)	VN Total	0-2Y	2-5Y	5-10Y+
<b>CIRS</b>				
<b>EURO</b>	<b>7,273</b>	<b>1,402</b>	<b>2,751</b>	<b>3,120</b>
Pay leg Fix	171	1	170	0
Pay leg Float	7,102	1,401	2,581	3,120
<b>USD</b>	<b>-4,269</b>	<b>-1,102</b>	<b>-1,423</b>	<b>-1,744</b>
Pay leg Fix	-906	-906	0	0
Pay leg Float	-3,363	-196	-1,423	-1,744
<b>Other currencies</b>	<b>-2,928</b>	<b>-281</b>	<b>-1,311</b>	<b>-1,336</b>
Pay leg Fix	-273	0	-170	-103
Pay leg Float	-2,655	-281	-1,140	-1,234
<b>Total CIRS</b>	<b>76</b>	<b>19</b>	<b>17</b>	<b>40</b>

Source: IGCP

### **3.3. CASH MANAGEMENT OPERATIONS**

In 2013, cash surpluses remained significantly high. Throughout the year, the average daily cash balance of cash deposits amounted to around EUR 16.6 billion, identical to that in the previous year. This amount includes funds related to bank recapitalisation.

Persistent cash surpluses, excluding those held with the Bank of Portugal, were invested in short-term deposits, with an average term of one month. On average, the amount held with the Bank of Portugal was around 60% of the outstanding cash balance.