INTRODUCTION

The *Agência de Gestão da Tesouraria e da Dívida Pública – IGCP, E.P.E.* hereby presents its Annual Report on Government Debt and Cash Management in 2014, in compliance with its statutes and in keeping with the policy of transparency and accountability that has always guided its activity.

Three years after the application for economic and financial assistance from the EU and IMF, the year 2014 was marked by the end of the adjustment programme and by the return to an autonomous funding programme based essentially on the international medium- and long-term debt market.

Despite having benefited from issues under the EFAP amounting to approximately EUR 5 billion in the first half of the year, *IGCP* issued on behalf of the Portuguese Republic close to EUR 20 billion of medium- and long-term securities (*OT* and MTN), the highest amount ever. The issuance of debt through these instruments made it possible not only to meet the budgetary needs of the year, but also to anticipate the repayment of debt securities maturing in forthcoming years and maintain a relatively comfortable cash position, softening the government debt repayment profile and significantly reducing the refinancing risk.

IGCP held four syndicated issues in the medium- and long-term debt market:

i. Reopening in January of *OT* 4.75% June 2019, with an amount of EUR 3.25 billion and a yield of 4.66%.
ii. Reopening in February of *OT* 5.65% February 2024, with an amount of EUR 3 billion and a yield of 5.11%.
iii. Issuance of a new 10-year MTN in USD (MTN USD October 2024), with an amount of USD 4.5 billion and a rate of return of 5.23% (equivalent to EUR 3.3 billion and a yield of 3.65% in Euros). This was Portugal's first USD transaction since March 2010 and the largest transaction of a sovereign in USD since 2005.
iv. Issuance of a new 15-year *OT* (*OT* 3.875% February 2030) in September, with an amount of EUR 3.5 billion. This was the first issuance in the 15-year maturity since 2008.

The success of these operations can be measured both by the quality and good distribution of investors – highlighting in particular the greater weight of traditional investors from Europe in the *OT* issuances –, and by the positive performance of the secondary market after the operations had been carried out.

With regard to the access to the international medium- and long-term debt market, the year 2014 was also marked by the issuance of *OT* via auction, which had not occurred since April 2011 when Portugal lost access to the medium- and long-term markets and initiated its adjustment programme. Throughout the year, *IGCP* held four auctions, three of which in the 10-year maturity (*OT* 5.65% February 2024) and one in the 5-year maturity (*OT* 4.8% June 2020), for a total nominal amount of EUR 4.1 billion.

This volume of issuances made it possible to pursue an active policy to soften the redemption profile, both through *OT* exchange offer operations such as the one held in November, which enabled the exchange of more than EUR 1.7 billion of debt maturing in 2015 and 2016 for debt maturing in 2021 and 2023, and through buybacks of government bonds via auction and through bilateral agreement. In 2014, *IGCP* carried out the early redemption of around EUR 4.8 billion of *OT*, of which EUR 3.4 billion relates to *OT* originally maturing after 2014.

Simultaneously, the Republic issued Treasury bills (*BT*) on a regular basis, although it decided to reduce the stock by around EUR 2.8 billion, in line with the strategy of lengthening the average debt maturity.

On the other hand, the volume of net subscriptions of retail products intensified in 2014, reaching a new record high of close to EUR 5 billion, benefiting from declining interest rates on other savings products throughout the year. This amount was evenly divided by the two

instruments available: around EUR 3 billion from subscriptions of *CTPM* (a product launched in October 2013, aimed at investors with lower liquidity constraints) and about EUR 2 billion from net subscriptions of *CA*, which also benefited from the extraordinary premium announced in September 2012.

The issuance of debt through these different instruments has enabled a relatively high and sufficient level of liquidity to cover a significant part of the funding needs foreseen for 2015. The average daily cash balances of the State were approximately EUR 17.4 billion, in line with that recorded in the previous two years. As discussed in *"Box 2.3 – Benefits and Costs of the Cash Position in 2013 and 2014"*, maintaining high cash surpluses may lead to an increase in financial charges. However, this effect cannot be dissociated from the potential cost of delaying the implementation of financing to a time when financial conditions could be worse. On the contrary, a prudent strategy of pre-financing and establishment of liquidity reserves – which have also been adopted by other sovereigns – could contribute to a reduction in interest rates on the secondary market and consequently to improved conditions of access to the market, as has been repeatedly stated by international institutions that supported the adjustment programme, or by rating agencies. In this regard, it is important to highlight that a comfortable liquidity cushion is crucial for the execution of buybacks designed to soften the redemption profile and to reduce the refinancing risk.

Throughout 2014, the four main rating agencies positively revised their outlook for Portugal, improving the negative outlook to stable (in the case of S&P, Moody's and DBRS) and to positive (in the case of Fitch). In addition, Moody's raised their rating of Portuguese debt by two levels (from Ba3 to Ba1).

Following the strategy adopted in previous years, *IGCP* continued to promote a permanent contact with the market through roadshows, reverse-roadshows and participation in international conferences with the aim of keeping investors up to date with developments of the Portuguese economy and financing programme.

IGCP is aware of the important role it plays in promoting the sustained recovery of investor confidence in Portuguese government debt and therefore remains committed to executing a strict and realistic financing programme aimed at minimising the cost of debt from an intertemporal perspective, avoiding the concentration of excessive risks.

Finally, we would like to extend our appreciation to the financial institutions that collaborated with *IGCP* and whose commitment greatly contributed to the successful implementation of the financing programme for 2014. The Board of Directors would also like to express its gratitude to the Secretary of State, to the corporate bodies and above all to its employees, whose dedication and competence have been instrumental in pursuing the difficult task we have at hand. A final word of appreciation and gratitude to Prof. João Moreira Rato, for the work undertaken and the legacy left after two intense years as Chairman of the Board of Directors of *IGCP*, ending in July 2014.

Board of Directors, July 2015.