INTRODUCTION

The year 2015 was the first since 2010 in which the financing of the Republic was executed based on a programme completely independent of any official financing. On behalf of the Portuguese Republic, *IGCP* issued a nominal value of approximately EUR 19 billion *OT* (plus almost 4 billion under a debt exchange operation), a record medium- and long-term debt issuance, around EUR 6 billion more than foreseen in the initial financing programme.

This volume of issuances allowed not only to cover the expected budgetary needs during the year, but also to anticipate the repayment of debt maturing in the coming years. Of particular relevance was the early repayment of approximately EUR 8.4 billion of the IMF loan, which made it possible to simultaneously increase the average maturity of the debt portfolio and reduce the future burden of government debt (see box 2.1). The measures taken to smooth the future repayments profile also included the amortisation of close to EUR 7 billion *OT* (of which EUR 5 billion through the exchange operation mentioned above).

The regular programme of *BT* issuance permitted a relatively stable stock throughout the year, although the gradual downward trend observed in the previous year remained, stemming from greater focus in the medium- and long-term debt market. At the end of the year, the *BT* outstanding stood at around EUR 15 billion, a reduction of approximately EUR 1.2 billion compared to the end of 2014.

On the other hand, the volume of the net issuance of retail products was once again high (about EUR 3.6 billion), although the subscription rate dropped as from February, following the downward revision of the remuneration of these instruments, decided in line with the sharp decline in market interest rates in recent years (see box 2.2).

The financing programme was again designed to ensure relatively high levels of deposits, despite the gradual normalisation process, in line with the improved rating and market access conditions. The State Treasury Account presented average daily balances of approximately EUR 13.9 billion during the year (of which more than EUR 2 billion arising from cash-collateral associated with derivative instruments), which shows a reduction of more than EUR 3.0 billion year on year. At the end of the year, the balance of deposits excluding cash-collateral stood at around EUR 6.6 billion (EUR 5.8 billion less than at the end of 2014), thus covering a significant portion of the financing needs for the following year, making it possible to maintain an appropriate degree of flexibility for the timely implementation of the financing program.

The year 2015, however, brought new challenges to debt managers, in particular in the euro area. Despite the highly favourable initial impact on demand and on interest rates at the beginning of the year, the implementation of the new Public Sector Purchase Programme (PSPP) by the ECB posed major challenges to participants in the sovereign debt market. These became evident shortly after the start of its implementation, in the second quarter of the year, when there was a sudden increase in interest rates and volatility, which led to an unexpected closure of the primary market for most euro area sovereigns for nearly two months.

In addition, the changes to the regulatory framework of the European financial system in progress as a result of the phased entry into force of the rules of Basel III or the Banking Union, or the discussions on the Markets in Financial Instruments Directive (MiFID II), with entry into force planned for 2018, hinder the task of providing liquidity usually committed to Primary Dealers (*OEVT*). These changes have therefore apparently had an impact on the liquidity of the sovereign debt market, expanding the periods of market volatility.

In this context, the permanent contact with investors, Primary Dealers and rating agencies became once again crucial, not only to maintain the market up to date in relation to developments in the Portuguese economy and the evolution of the financing programme, but also to allow *IGCP* to have a better perception of the impact that the above changes may have on the sovereign debt market.

IGCP is aware of the important role it plays in promoting a sustained process of recovery of investor confidence in the Portuguese government debt and therefore remains committed to implement a rigorous and realistic funding programme, in order to minimise the refinancing risk, while sustaining a low debt cost from an intertemporal perspective.

For the successful fulfilment of our mission in 2015 the support of financial institutions that collaborate more directly with *IGCP* and the rigor and professionalism of our employees were instrumental. Their dedication and expertise were decisive in pursuing the difficult mission we have been assigned. We wish to extend a warm word of thanks for the work done.

Board of Directors, April 2016.