INTRODUCTION

In 2016, the financing of the Portuguese Republic was once again focused on the issuance of medium- and long-term debt securities. However, *OT* issuance was EUR 3 billion lower than in the previous year, with a nominal value of approximately EUR 15.3 billion (plus EUR 1.1 billion related to an exchange operation).

In the secondary market, interest rates (10-year maturity) ranged from a low of 2.51% in January to a high of 4.10% in February, standing at 3.75% at the end of the year. OT yields registered a peak of volatility at the beginning of the year, exacerbated by the scarce market liquidity in early February, followed by a downward trend until mid-August, albeit with periods marked by some volatility, particularly in June, reflecting the uncertainty associated with the referendum on the exit of the UK from the EU. From August onwards, after interest rates reached the lowest values in the year, an upward trend was observed, reflecting several events that marked the second half of the year, the most noteworthy being: the uncertainty surrounding a possible negative decision by DBRS; the reduction in the volume of PSPP purchases (see Box 2.2); and the generalised rise in long-term interest rates in advanced economies, which was related to a significant increase in inflation expectations (especially following the victory of Donald Trump in the US presidential elections) and the new cycle of interest rate hikes by the Federal Reserve.

In this context, *IGCP*'s issuance strategy focused mainly on 5- and 10-year benchmark maturities, reducing the average maturity of issuances from a maximum of 12.1 years in 2015 to 8.8 years in 2016. Nonetheless, the residual average maturity of outstanding debt, excluding loans associated with the EFAP, declined only slightly, from 6.7 to 6.6 years.

The reduction in the volume of *OT* issuances was offset by the issuance of new floating rate bonds (*OTRV*) for the first time since 1997, with a nominal value of EUR 3.5 billion (see Box 2.1), and by the issuance of an MTN in Euros in the amount of EUR 1.8 million. *OTRV* were placed directly in the domestic retail market through the network of branches of commercial banks. The use of this new distribution channel made it possible to significantly expand the presence of domestic investors as the demand for traditional retail instruments (CA/CTPM) remained robust, with net issuances of around EUR 3.5 billion, in line with that observed in 2015.

The volume of issuances was used to cover expected funding needs during the year, including the early repayment of part of the IMF loan, in an amount of EUR 4.5 billion. In addition, it was necessary to pre-finance *CGD*'s capitalisation operation (finally occurred only in March 2017), which led to an increase of the deposits of the State Treasury Account, excluding the cash-collateral associated with derivative instruments at the end of the year (from EUR 6.6 billion to EUR 10.2 billion). There was also a significant reduction in net borrowing requirements compared to the State Budget for 2016. However, the average balance of total deposits dropped from EUR 13.9 billion in 2015 to EUR 12.4 billion in 2016 (of which around EUR 2 billion from margin accounts).

The strategy to maintain a relatively high average debt maturity and comfortable cash balances has allowed a significant reduction in the refinancing risk, meeting the objectives defined in the Framework law on government debt, in order to minimise the risk of accessing the market in periods of greater volatility and thus contain the costs from an intertemporal perspective. In any case, this strategy has been accompanied by a sustained downward path of the implicit interest rate on the State direct debt, which reached a new record low of 3.2% in 2016.

Achieving *IGCP*'s mission in 2016 would not have been possible without the strong commitment of all the staff members and without the close cooperation of all the *OEVT*.

Board of Directors, July 2017