INTRODUCTION

The year 2017 was marked by very favourable developments in the economic and budgetary situation in Portugal. Economic activity grew by 2.7% in real terms, the highest growth rate since 2000, and the budget deficit stood at 0.9% of GDP (excluding the CGD capitalisation operation), allowing a reduction of the public debt by more than 4p.p. of GDP to 125.7%, the lowest figure since 2011.

This convergence of factors had a decisive impact on a change in the external assessment of the country's economic and financial situation, resulting in a reduction in risk perception by investors. In June, the European Council decided to close the Excessive Deficit Procedure, opened for Portugal in 2009, showing confidence in the process of fiscal consolidation carried out in previous years. At the end of the year, rating agencies also improved their outlook, with S&P and Fitch improving the credit rating to investment grade (in the second case, increasing the rating by two notches) and Moody's changing its outlook from stable to positive (see Box 2.3).

In this context, market access conditions improved positively throughout the year, especially since April, with the interest rate on 10-year Portuguese government bonds declining from a peak of 4.25% in March to less than 2% at the end of the year. This behaviour was fully explained by the reduction in the risk premium, as interest rates on German government bonds increased slightly (20b.p.) over the year.

Financing of the Portuguese Republic was once more focused on the issuance of medium- and long-term debt securities, with *OT* issues in an amount of approximately EUR 15.1 billion, net of premiums and discounts (plus EUR 3 billion related to two exchange operations), in line with that observed in the previous year. The issuance strategy once again focused mainly on 5- and 10-year benchmark maturities, with the average maturity of issuances standing at around 7.8 years, slightly lower than in 2016 (8.8 years). Nevertheless, the average residual maturity of outstanding debt, excluding loans associated with EFAP, declined only slightly, from 6.5 to 6.4 years.

At the same time, funding relied on the major contribution of the domestic retail market yet again, with Floating Rate Treasury Bonds (*OTRV*) issuances set at a nominal value of EUR 3.5 billion, in line with the previous year, and net issuances of *CA/CT* standing at around EUR 2.8 billion. In this context, a new savings instrument was created – the *Poupança Crescimento* Treasury Certificates (*CTPC*), with a final maturity of seven years (two years more than the previous *CTPM – Poupança Mais* Treasury Certificates) indexed to the average real GDP growth rate in every year, as from the second year (see Box 2.2).

The volume of issues was used to cover expected funding needs during the year, but also allowed for the early repayment of a substantial part of the IMF loan, in an amount of EUR 10 billion (see Box 2.1). These redemptions made it possible to substantially reduce the amount of the loan that paid a higher premium (4%) to a marginal value at the end of 2017 (which was actually eliminated, with the early repayment made in January 2018), contributing decisively to the continuation of the downward trend of the implicit interest rate of the State direct debt, which reached a new historical low of 3.0% in 2017 (see Box 2.4).

IGCP continued to favour the maintenance of relatively high cash balances (the Treasury deposits excluding the margin accounts associated with derivative instruments declined only slightly from EUR 10.2 billion at the end of 2016 to EUR 9.8 billion at the end of 2017), which in addition to maintaining a relatively high average maturity again contributed to a reduced refinancing risk.

In this way, *IGCP* sought to ensure the financing of the State in order to minimise the concentration of excessive risks and the cost of debt in an intertemporal perspective. The fulfilment of this mission was only possible with the sense of duty of its employees and with the close collaboration of the financial institutions that interact directly with *IGCP*.

Board of Directors, June 2018