IGCP
Agência de Gestão da Tesouraria e da Dívida Pública

Government Debt and Cash Management

Annual Report 2019

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Abbreviations

b.p.	basis points
BdP	Banco de Portugal
BT	Treasury Bills
CA	Savings certificates
CCIRS	Cross Currency Interest Rate Swap
CEDIC	Special Certificates of Government Debt
CEDIM	Special Certificates of Medium and Long-term Debt
CGE	Government's General Account
CI	Credit institutions
CNY	Chinese Yuan
CSA	Credit Support Annex
OT	Treasury Certificates
CTPC	*Poupança Crescimento* Treasury Certificates
CTPM	*Poupança Mais* Treasury Certificates
CTT	*Correios de Portugal*
DUC	Single Billing Document
EBT	Treasury Bill Specialists
ECB	European Central Bank
EDP	Excessive Deficit Procedure
EFAP	Economic and Financial Assistance Programme
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilisation Mechanism
EPR	State-owned companies within the General Government
EU	European Union
EUR	Euro
GBP	Great British Pound
GDP	Gross Domestic Product
HB	IGCP's Homebanking System
IB	IGCP's Internet Banking System
IGCP	*Agência de Gestão da Tesouraria e da Dívida Pública – IGCP, E.P.E*. (Debt management agency)
IMF	International Monetary Fund
INE	*Instituto Nacional de Estatística* (Statistics Portugal)
IRN	Institute of Registrars and Notaries
IRS	Interest rate swap
IS	Integrated Services
MLT	Medium and Long-Term
MTN	Medium Term Notes
NAFMII	National Association of Financial Market Institutional Investors
OEVT	Primary Dealers
OMP	Other Auction Participants
ONSUTE	Entities not Subject to the Government's Treasury Unit
OT	Treasury Bonds
OTC	Over-the-Counter
OTRV	Floating Rate Treasury Bonds
p.p.	percentage points
PDSF	Public Debt Stabilisation Fund
POS	Point-of-sale terminal
RCE	State's Payment Collection Network
Repos	Repurchase Agreements
RTE	State's Treasury Regime
S&P	Standard & Poor's
SES	State Enterprise Sector
SFA	Autonomous Funds and Services
TLTRO-III	Targeted Longer-Term Refinancing Operations, series III
USA	United States of America
USD	United States Dollar
UTE	State Treasury Unit
YoY gr	Year-on-year growth rate

Introduction

2019 was an important year of consolidation for Portugal.

The performance of the economy allowed to extend the longest expansionary cycle since the creation of the single currency to 25 quarters, in tandem with an ongoing decline in the unemployment rate - a development that is all the more relevant in the context of a slowdown in the world economy and trade. Portugal also posted its first budget surplus in a democratic period (0.2% of GDP), benefiting from this economic buoyancy, as well as from discipline in public finance management. The public debt ratio reached 117.7 % of GDP at the end of 2019, resulting in a cumulative reduction of 15.2 p.p. in 5 years.

The public debt management strategy remained active and guided by predictability, transparency and flexibility. The good results of the Portuguese economy, against a background of financial stability and historically low interest rates, underpinned a significant improvement in the borrowing conditions of the Portuguese Republic throughout 2019 - both in absolute terms and in comparison with its European peers. The implementation of the financing programme was successful, meeting the primary objective of minimising costs in a long-term perspective, avoiding an excessive concentration in time of amortisations and exposure to excessive risks.

As relevant outcomes of the debt management strategy in 2019, are particularly noteworthy Portugal's enshrinement as the first euro area sovereign to issue bonds in Chinese currency (Panda Bonds) and a partial repayment to the EFSF, bringing the outstanding EFAP debt below EUR 50 billion and continuing smoothing Portugal’s redemption profile.

The COVID-19 pandemic has abruptly and deeply changed social and economic relations.

The health crisis caused by the COVID-19 outbreak triggered an economic crisis of unprecedented proportions. In March 2020, the speed of virus spread heightened the levels of uncertainty and risk aversion on a global scale. In Europe, spring was marked by drastic measures to contain the virus, including the closure of economic activities, the reintroduction of border controls and a recommendation to lockdown the population in general. Concurrently, national and European authorities launched liquidity support for households and firms to mitigate the economic and social effects of a significant drop in activity. Even so, it will not be possible to avoid one of the deepest recessions of the modern age.

For government debt management agencies, the most immediate impact of the pandemic was a sharp increase in financing needs, due to the operation of automatic stabilisers in a slump environment and the budgetary impact of policy measures to combat the spread of the virus and support the welfare state. Therefore, most euro area sovereigns revised upwards their financing programmes for 2020, while announcing that further revisions would not be excluded, given the uncertain evolution of the pandemic situation.

These developments have not led to a material deterioration in market conditions, largely due to the prompt intervention of the European institutions. Of note was the strengthening of the Eurosystem's asset purchase programmes, which made it possible to stabilise the sovereign debt market following the first signs of volatility and has kept uncertainty levels contained[1]. At a later stage, both the three safety nets agreed by the Eurogroup[2] and the European Council's decisions on the European recovery fund and the EU budget[3] have increased confidence levels by proving Member States' commitment to the European project.

The resilience built by Portugal in the aftermath of the global financial crisis will be a key asset to tackle the pandemic crisis

Since the Global Financial Crisis, Portugal has focused on the structural transformation of its economy, paving the way for a virtuous cycle of imbalance correction, economic dynamism and wealth creation. The country now facing the pandemic crisis is better prepared than the one that overcame the previous financial crisis: external accounts are globally balanced; financial stability is reinforced by higher solvency of banks and lower indebtedness of households and firms; public finance management is guided by budgetary discipline, which allowed the accumulation of primary surpluses in economic recovery, and by the strengthening of debt sustainability. These results also contributed to the strengthening of the Portugal's credibility at the international level, as reflected in rating improvement, the broadening of the investor base in Portuguese public debt and the consolidation of a regular presence in the market.

Market access continuity is critical in 2020, given the surge in the Portuguese Republic's borrowing requirements in the current context of economic uncertainty. The provisions of the Supplementary Budget point to a volume of net borrowing requirements of EUR 20.3 billion, which leads to an increase of EUR 10.7 billion against the initial forecast. These developments led to a significant revision of the annual financing programme, reported to the market in June, with particular emphasis on expected Government Bonds (OT) issuances, net of swaps, which will reach EUR 29.3 billion, an increase of EUR 12.6 billion compared to the original estimate. Net financing through the issue of Treasury Bills (BT) will increase by EUR 3.2 billion, compared to an initially projected net change of EUR 1.3 billion. Benefiting from the soundness of the Portuguese economy and the credibility of the Republic, as of 30 June 2020, the implementation degree of the medium and long-term financing programme reached 56%.

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[1] Decisions of 12 March 2020 (https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.mp200312~8d3aec3ff2.en.html), of 18 March 2020 (https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200318_1~3949d6f266.en.html) and of 4 June 2020 (https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.mp200604~a307d3429c.en.html).

[2] Agreement on safety nets for workers (SURE . a European temporary support instrument to mitigate risks in an emergency) for struggling firms (Pan-European Guarantee Fund of the European Investment Bank) and for sovereigns (Pandemic Crisis Support of the European Stability Mechanism), communicated by the Eurogroup on 9 April 2020 (https://www.consilium.europa.eu/en/press/press-releases/2020/04/09/remarks-by-mario-centeno-following-the-eurogroup-videoconference-of-9-april-2020/).

[3] Conclusions of the European Council, 17-21 July 2020 (https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf).

IGCP, E.P.E.'s Statutory Bodies [4]

Board of Directors

Cristina Maria Nunes da Veiga Casalinho (Chairwoman)[5]

António Abel Sancho Pontes Correia (Member)[6]

Maria Rita Gomes Granger (Member)[3]

Advisory Board

Cristina Maria Nunes da Veiga Casalinho (Chairwoman)

Alberto Manuel Sarmento Azevedo Soares[7]

Daniel Bessa Fernandes Coelho[8]

Hélder Manuel Sebastião Rosalino[9]

Maria Teodora Osório Pereira Cardoso[5]

Sérgio Tavares Rebelo[5]

Vasco Manuel da Silva Pereira[4]

Vítor Augusto Brinquete Bento[4]

Single Auditor[10]

Sociedade JM Ribeiro da Cunha & Associados, SROC, Lda

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[4] On the Report's publication date.

[5] Appointed Chairwoman of the Board of Directors of IGCP, E.P.E. by Resolution 24/2019 of 1 February.

[6] Appointed Executive Director of IGCP, E.P.E.'s Board of Directors by Resolution 24/2019 of 1 February.

[7] Member of IGCP, E.P.E.'s Advisory Board for having completed at least one mandate as Chairman of the Board of Directors of IGCP, E.P.E. (as provided for in Article 16 of the IGCP, E.P.E.' Byelaws).

[8] Appointed to the Advisory Board by Order of the Secretary of State 7106/2015 of 18 June.

[9] Member of the Board of Directors of Banco de Portugal indicated by the bank.

[10] Appointed by the Assistant Secretary of State and Finance for the 2018-2020 mandate.

Primary Market Participants in 2019[11]

OT – Government bonds

OEVT – Primary Dealers	*OMP* – Other Auction Participants
Banco Santander, S.A.	Millennium bcp
Barclays Bank, Plc	
BBVA	
BNP Paribas	
CaixaBank, S.A.	
Caixa Banco de Investimento, S.A.	
Citigroup Global Markets Limited	
Crédit Agricole CIB	
Deutsche Bank , AG	
Goldman Sachs International Bank	
HSBC France	
Jefferies International Limited	
J.P. Morgan Securities, Plc	
Morgan Stanley Capital International	
Natwest Markets, Plc	
Nomura International, Plc	
Novo Banco, S.A.	
Société Générale	

BT - Treasury Bills

EBT – Treasury Bill Specialists
Banco Santander, S.A.
Barclays Bank, Plc
BBVA
BNP Paribas
CaixaBank, S.A.
Caixa Geral de Depósitos
Citigroup Global Markets Limited
Crédit Agricole CIB
Deutsche Bank , AG
Goldman Sachs International Bank
HSBC France
Jefferies International Limited
J.P. Morgan Securities, Plc
Millennium bcp
Morgan Stanley Capital International
Natwest Markets, Plc
Nomura International, Plc
Novo Banco, S.A.
Société Générale

[11]As at 30 November 2019.

Main Highlights

In 2019, the State's net borrowing requirements reached EUR 9.5 billion, broken down by a budget deficit of about EUR 4 billion and other needs of EUR 5.6 billion. The overall figure was higher than in 2018 due to the latter component, mainly directed at covering *EPR* financing requirements.

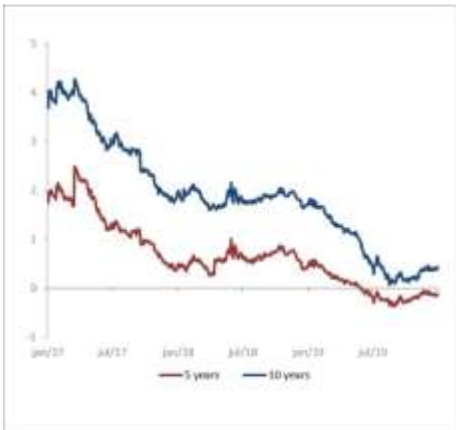
Borrowing requirements and sources in 2019 (EUR million)	
GROSS BORROWING REQUIREMENTS	**19,726**
State Budget deficit	3,969
Net acquisition of State's financial assets	5,559
OT redemptions (excl. swaps)	8,143
EFAP loans repayment	2,000
Other MLT debt repayments	55
FINANCING SOURCES	**19,726**
Use of deposits (excl. margin accounts)	2,508
Issuances associated with EFAP loans	0
OT and MTN issuances (excl. swaps)	15,663
OTRV issuances	0
Other MLT debt issuances	64
BT net issuances (excl. securities held by FRDP)	-1,415
CA/CTPM net issuances	780
Other operations in the Government's Central Treasury (TCE)	2,126
Deposits balance at year end (excl. account margins)	**6,821**
Margin accounts balance at year end	624
Total deposits balance at year end	**7,445**

In line with the recent period, the largest share of financing was guaranteed by *OT* issuances in the amount of EUR 15.4 billion of cash proceeds (to which EUR 5.1 billion of swaps were added). Also noteworthy, due to the symbolism of the operation, was the first issuance of Panda Bonds. The net contribution of *CEDIC/CEDIM* reached a relevant amount for the second year in a row (EUR 2.1 billion).

Market financing operations in 2019	Nominal Value (EUR million)	Residual Maturity (years)	Average Allotment rate (%)
OT SYNDICATED ISSUES			
OT 1,95% jun 2029	4,000	10	1.98%
OT AUCTIONS			
OT 2.875% jul 2026	388	7	0.76%
OT 1.95% jun 2029	6,157	10	0.83%
OT 2.25% apr 2034	2,666	15	1.02%
OT 4.1% apr 2037	432	18	1.90%
OT 4.1% feb 2045	293	26	1.43%
OT SWAPS			
OT 4.95% oct 2023	350	4	-0.31%
OT 2.875% jul 2026	1,063	7	0.38%
OT 4.125% apr 2027	560	8	0.02%
OT 2.125% oct 2028	1,538	9	0.86%
OT 3.875% feb 2030	619	11	1.35%
OT 2.25% apr 2034	172	15	0.76%
OTHER MLT SECURITIES ISSUES			
Panda Bond	259	3	0.62%
BT AUCTIONS (gross issues)			
3 months	1,300	0.25	-0.46%
6 months	2,169	0.50	-0.42%
11 months	4,542	0.92	-0.42%
12 months	5,604	1.00	-0.39%

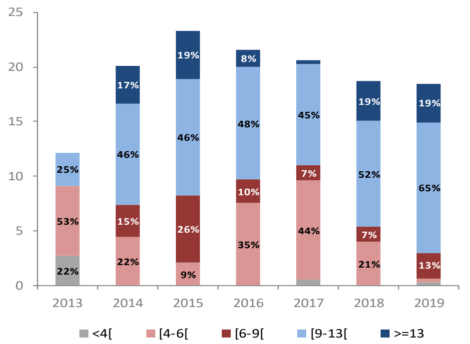
Against a backdrop of financial stability and accommodative monetary policy, the positive performance of the Portuguese economy resulted in a considerable improvement in the Portuguese Republic's borrowing conditions. In the secondary market, the 10-year *OT* rate decreased by 139 b.p. throughout 2019. In the 5-year term, the *OT* rate stood in negative territory since the end of May.

Interest rates of OT in the secondary market (%)

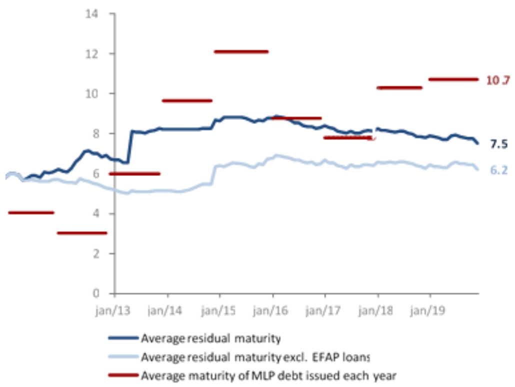


The low interest rate environment continued to sustain the increased demand for longer maturities. The majority of medium- and long-term debt issues were concentrated in the 10-year benchmark maturity (65% of the total) and only a residual amount was placed in maturities of less than 6 years (3%). At the end of the year, the average debt maturity remained around 8 years.

Issuances by maturity (EUR billion)

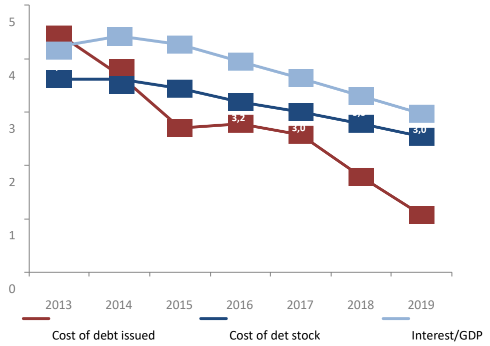


Maturity of State's direct debt (years)



Financing cost indicators reached new historical lows in 2019. The implicit interest rate on debt stood at 2.5%, while the marginal cost of financing weighted by amount and maturity fell to 1.1%.

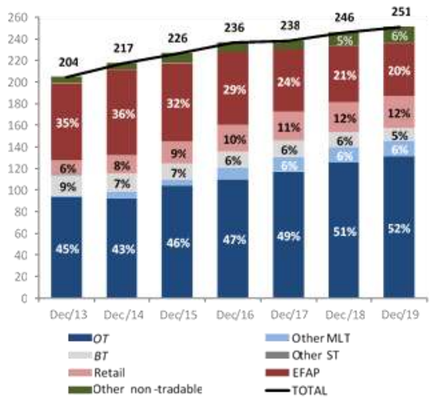
State's direct debt cost (%)



State's direct debt stood at EUR 251 billion at the end of 2019. The annual change of 2.2% represents a deceleration compared to the previous year (3.1% in 2018) and is essentially driven by the same factors: an increase in the *OT, CEDIC* and *CT* balances, partially offset by the decrease in EFAP loans and *BT* stock.

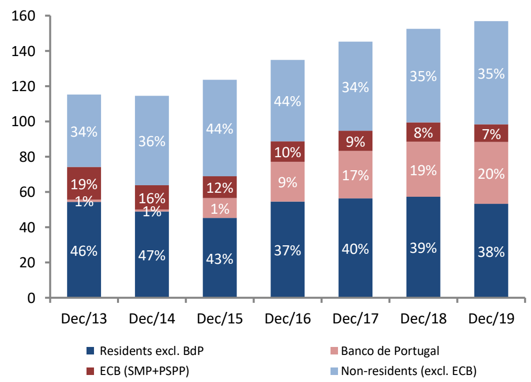
The decline in outstanding EFAP loans to below the EUR 50 billion threshold resulted from a payment of EUR 2 billion to the EFSF, carried out in October 2019.

State's direct debt by instrument (EUR billion)



The composition of State's direct debt holders remained relatively steady, with a slight increase in non-resident investors (excluding the ECB).

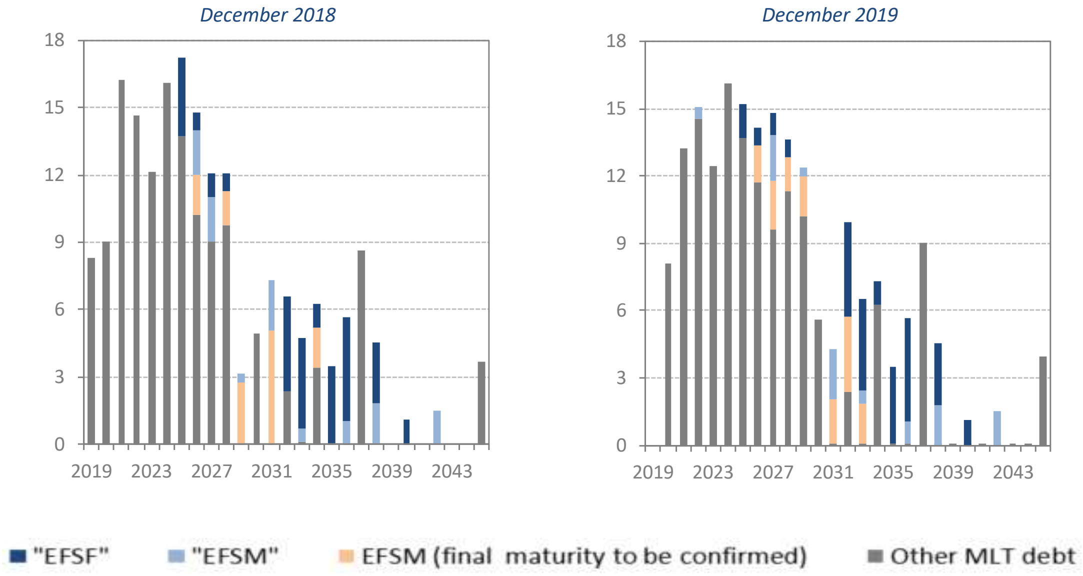
State's direct debt securities holders
(EUR billion)



In addition to the early repayment to the EFSF (EUR 2 billion maturing in 2025), the IGCP executed six swaps throughout the year at regular intervals. All in all, these operations made it possible to extend the maturity of EUR 4.3 billion *OT* maturing between 2020 and 2022 to the 2023-2034 period. All these initiatives follow the strategy of smoothing the Portuguese Republic's redemption profile to reduce refinancing risk.

MLT debt repayment schedule

(Includes maturities of EFSM loans still to be defined)



1. THE ECONOMY AND FINANCIAL MARKETS

1.1. International Macroeconomic Environment

In 2019, global growth slowed for a second year in a row, recording the lowest figure since the 2009 slump[12]. According to the IMF's October estimates[13], global economic activity grew by 3% in real terms in 2019, following a 3.6% increase in 2018. This reflects a further brake in international trade (1.1% in 2019, against 3.6% in 2018 and 5.7% in 2017) and a contained increase in investment[14], which picked up in the euro area (to 4.3%) but stabilised in the USA (0.8%).

The global economy slowed down across advanced and emerging economies in 2019: real GDP growth stood at 2.4% in the USA (2.9% in 2018), 1.2% in the Euro area (1.9% in 2018) and 6.1% in China (6.6% in 2018). This trend also extended to other economies, such as the UK, India, Russia and Brazil.

The accommodative nature of the monetary policy in the euro area and the USA, when the start of normalisation was anticipated, helped to cushion the impact of trade, political and social tensions. In the USA, growth was fuelled by domestic demand, in particular by private consumption, benefiting from consumer confidence and the labour market strength. In the euro area, industrial output remained in negative territory throughout the year, reflecting a slowdown in international trade, but the dynamism of the services sector partially offset this effect.

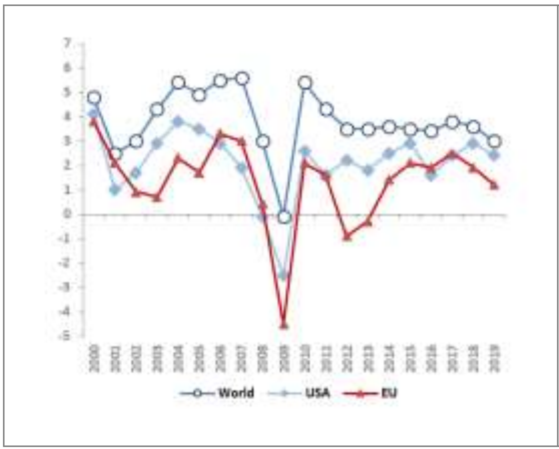
[12] This document considers the statistical information and macroeconomic forecasts available as of 31 March 2020.

[13] As at 31 March 2020, the latest complete database published by the IMF reported to October 2019. In January 2020, the IMF released an update of GDP forecasts for major economies and regions, with particular emphasis on the downgrade of growth in 2019 in the world economy (2.9%) and the United States (2.3%). The IMF has also downgraded the growth expected in 2020 in the world economy and in most advanced economies.

[14]Throughout the document, references to “investment" correspond to the gross fixed capital formation component.

Chart 1 – World economic growth

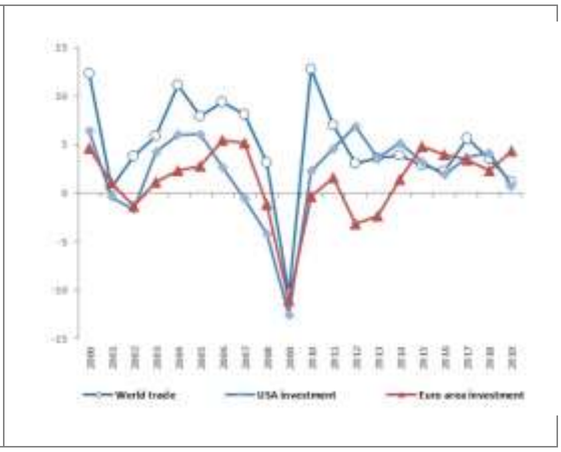
(YoY gr, %)



Source: IMF (October 2019).

Chart 2 – International trade and investment

(YoY gr, %)



Source: IMF (October 2019) and AMECO (November 2019).

Despite the slowdown in growth, labour market conditions remained broadly favourable. In the USA, the unemployment rate fell to 3.5% of the active population in December 2019, still distant from the 4.5% generally regarded as the natural unemployment rate, and job creation continued at a rather positive pace. In the euro area, the labour market also continued to evolve favourably, with the unemployment rate standing at 7.4% in December 2019 - a year-on-year reduction of 0.4 p.p., to the lowest level since 2008.

As regards developments in consumer prices, the IMF estimates a slowdown in inflation in 2019, to 1.5% in advanced economies (2.0% in 2018). At the root of this behaviour will be two trends: an incomplete pass-through to final prices of the recovery in wages and a contained evolution in raw material prices. According to the IMF, inflation in the USA, as measured by the Consumer Price Index, stood at 1.8% (2.4% in 2018), and in the euro area at 1.2% (1.8% the previous year).

With regard to public finances, the IMF admits uneven developments in the euro area and the USA. On average, the nineteen countries of the single currency will have recorded a slight deterioration in the budget balance (to a 0.9% deficit in 2019), although public debt maintains a downward trend (to 83.9% of GDP, 1.5 p.p. less than the previous year). In the USA, fiscal policy shifted to a neutral stance, resulting in the stabilisation of the budget deficit (5.6% of GDP in 2019) though not preventing a further increase in debt stock to 106.2% of GDP.

1.2. The Portuguese economy

The growing openness of the Portuguese economy makes its evolution inextricably linked to the international environment. Against a backdrop of a global slowdown in 2019, the Portuguese GDP grew 2.2% (against 2.6% in 2018). In view of the outturn in last quarter of the year (year-on-year growth rate of 2.2%), the economic expansion cycle extended to 25 consecutive quarters of growth, the longest since Portugal joined the single currency.

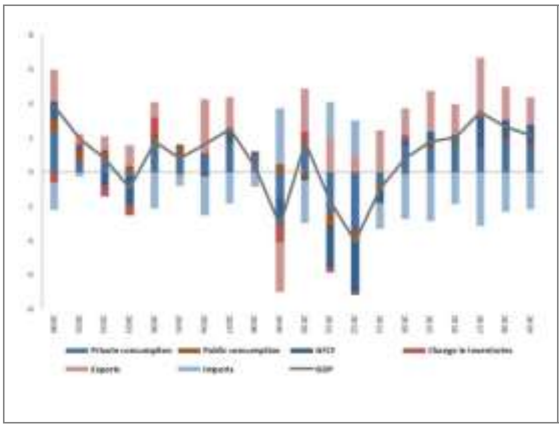
By component, the contribution of domestic demand remained solid in 2019, underpinned by strong investment performance, as private consumption slowed down. In detail, private consumption advanced 2.2% in 2019 (-0.7 p.p. than in 2018), benefiting mainly from the favourable labour market momentum and the increase in disposable income. In turn, Gross Fixed Capital Formation grew by 6.3%, fuelling from 5.8% in the previous year.

On the other hand, external demand recorded a negative evolution, as a result of a slowdown in exports (3.7% vs. 4.5% in 2018) greater than in imports (5.2% vs. 5.7%). At the end of the year, however, the marked acceleration in exports of goods indicated a trend reversal and supported a positive contribution of external demand to GDP over the last quarter of 2019 (1.2 p.p.).

Simultaneously, the labour market continued its positive behaviour. According to the *INE*, the unemployment rate stood at 6.5% of the active population in a year-on-year basis, having decreased by 0.5 p.p. compared to 2018. The average annual youth unemployment rate (15-24 years) reached 18.3%, down by 2 p.p. compared to 2018. These developments benefited from a 0.4% annual growth in the active population.

Chart 3 – Economic growth, Portugal

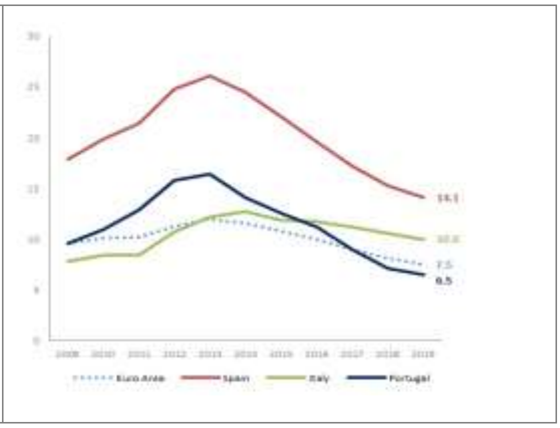
(Contributions of the YoY growth rate of GDP in real terms, p.p.)



Source: INE

Chart 4 – Unemployment rate, Portugal and European context

(%)



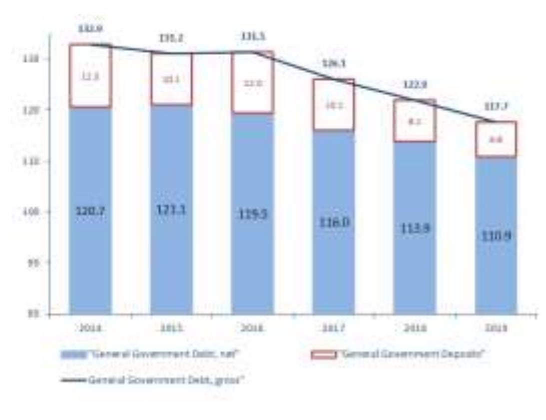
Source: Eurostat

In 2019, Portugal recorded its first budget surplus in a democratic period (0.2% of GDP, in national accounts). Developments compared to 2018, where the budget balance stood at -0.4% of GDP, resulted from higher growth in current revenue than in current expenditure (3.9% and 2.7%, respectively). The performance of revenue benefited from improving economic activity and labour market. On the revenue side, the growth in social benefits and staff costs was partially offset by a significant decrease in interest (-7.5%). In this framework, the primary balance further increased, settling at 3.2% of GDP in 2019 (+0.3 p.p. against the previous year).

Public debt according to Maastricht's perspective, maintained its downward trend, standing at 117.7% of GDP by the end of 2019. This figure reflects a GDP annual contraction of 4.3 p.p. and, of note, a cumulative reduction of 15.2 p.p. from the peak in 2014 (132.9% of GDP). The dynamics of public debt continued to be based on the positive evolution of the so-called "snowball effect" (through robust nominal growth and the drop in the implicit interest rate) and on the improvement of the primary budgetary balance.

Chart 5 – General Government debt in accordance with Maastricht's perspective, Portugal

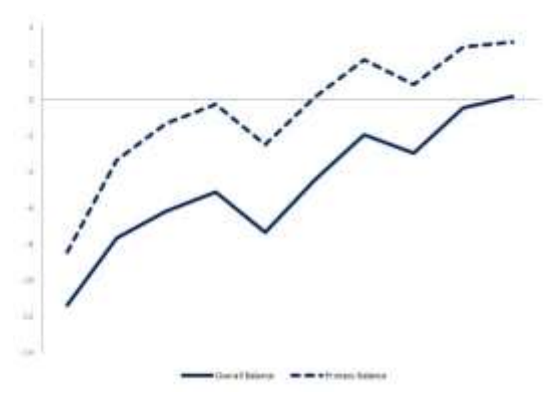
(% GDP)



Source: Banco de Portugal, INE

Chart 6 – Budget balances, Portugal

(% GDP)



Note: 2014, 2015 and 2017 are impacted by significant one-offs, associated with support to the banking sector.

Source: INE

The maintenance of sustained economic growth and the improved public finances have led to a particularly favourable year for the financial rating of the Portuguese Republic, rated investment grade by the main agencies since the end of 2018. Standard&Poor's upgraded its rating by one notch (BBB- to BBB) in March 2019 and assigned a positive outlook in the second window of the year, in September. DBRS first upgraded the outlook in April, raising its rating by one notch (BBB to BBB (high)) in October, with stable outlook. Fitch upgraded the outlook to positive in May, maintaining the rating (BBB) and outlook in November. Moody's only issued a statement in August, giving a positive outlook on the rating assigned in 2018 (Baa3). The Portuguese Republic has thus ended 2019 with three positive outlooks out of a total of four, flagging an overall favourable assessment by the rating agencies about the Portuguese economy and prospects.

1.3. Monetary Policy and Financial Markets

The major central banks pursued an accommodative trend in 2019, against expectations of the start of a monetary policy normalisation. In July, the US Federal Reserve announced its first benchmark interest rate cut since 2008 (25 b.p.). This was followed by two more cuts in September and October meetings (also of 25 b.p.), placing the fed funds rate between 1.5% and 1.75%. At the last meeting of the year, the Federal Reserve decided to maintain its target range, in line with the positive evolution of the economy (with a moderate growth rate and a robust labour market). Also in July, the Governing Council of the ECB changed its stance, flagging the imminence of a new stimulus package in response to a persistent contained inflation, muted economic growth and prolonged global uncertainty. This intention was confirmed at the September meeting, with a stimulus programme covering most of the tools at the ECB's disposal: (i) a reduction in the interest rate on the deposit facility to -0.50%, together with the introduction of a tiered system whereby only part of the liquidity pays that rate; (ii) restart of net asset purchases at a monthly pace of EUR 20 billion as from November (iii) removal of the timing for a first rate increase and for the end of net asset purchases; (iv) modifications to the modalities of the new series of quarterly TLTRO-III, starting in September.

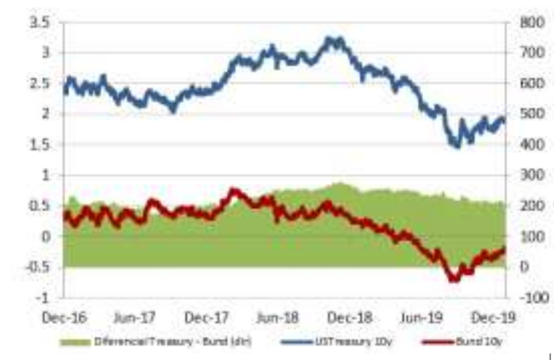
In this context, the 3-month USLibor fell sharply from 2.8% at the beginning of 2019 to 1.9% in October, remaining around this figure until the end of the year. The 3-month Euribor decreased more smoothly, ranging between -0.3% and -0.4% over 2019.

The trend in long-term interest rates was similar in those economies albeit with a gap of around 200 b.p. between the USA and Germany, with rates in the USA market remaining distant from the negative rate environment in Europe. In the United States, 10-year bond yields were on a downward trend until September, showing an upward trend in the last quarter of the year, associated with improved long-term growth expectations. In the European Union, the *Bund* also reached minimum levels by the end of August, rising by around 50 b.p. in the last four months. Most euro area countries experienced a similar trend in their securities, with a significant reduction of spreads in Portugal, Spain, Italy and Greece against Germany, from a YoY perspective.

As regards the foreign exchange market, the highlight is the depreciation trend of the euro against the pound sterling as of August 2019, following the election of the new British Prime Minister, Boris Johnson, reversing the slight depreciation of the pound sterling recorded since the beginning of the year. In respect of the renminbi, rates were more unstable but remained between CNY 7.5 and 7.9. In comparison with the dollar, the euro stabilised throughout the year, registering values between 1.08 and 1.15 USD.

Chart 7 – Long-term interest rates

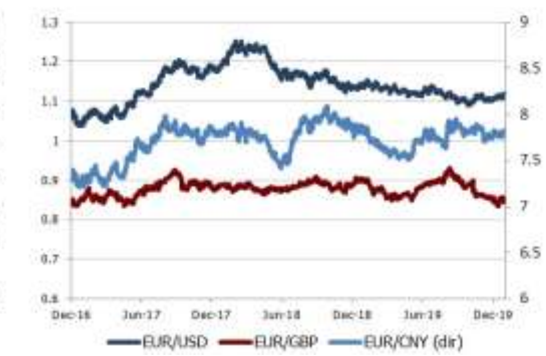
(%, left) (b.p., right)



Source: Bloomberg

Chart 8 – Exchange rates

(Currencies versus the euro)



Source: Bloomberg

2. State Financing

2.1. Financing Strategy

Public debt and financing management is subject to the principles set out in the Debt Framework Law (Law No. 7/98, of 3 February) and should provide the financing required for budget implementation, to minimise direct and indirect costs in a long-term perspective and to ensure their even distribution across the various annual budgets, avoiding excessive time concentration of depreciation and an exposure to excessive risks.

In 2019, the State's net borrowing requirements amounted to EUR 9.5 billion, an increase of approximately EUR 2 billion compared to 2018. This increase is mainly explained by the amount used in net acquisition of the State's financial assets (excluding privatisations) which increased by EUR 1.5 billion.

Compared to the initial forecast, net borrowing requirements were approximately EUR 890 million higher. However, this increase was accommodated by an increase in funding sources compared to a forecast of more than EUR 2.8 billion. This surplus resulted from more favourable execution of net *CA/CT* issuances (EUR 1.8 billion), higher than expected use of deposits (EUR 2.3 billion) and significant gains from the centralisation of funds in the Central State Treasury, including through *CEDIC* and *CEDIM* issues (EUR 2.4 billion higher than expected). Increased financing in 2019 and contained net borrowing made it possible to repay EUR 2 billion of debt to the European Financial Stability Facility (EFSF) (see Box 2).

Table 1 – Summary of State's borrowing requirements and sources in 2019

(EUR million)	Fin. Prog.	Execution (P)	Difference
GROSS BORROWING REQUIREMENTS	**16,871**	**19,726**	**2,855**
Net borrowing needs	**8,638**	**9,528**	**890**
State Budget deficit	3,638	3,969	331
Net acquisition of State's financial assets (except privatisations)	5,000	5,559	559
One-off transactions	0	0	0
MLT debt repayments	**8,233**	**10,198**	**1,965**
OT redemption (excl. swaps)	8,143	8,143	0
EFAP loans repayments	0	2,000	2,000
Outher MLT debt repayments	90	55	-35
FINANCING SOURCES	**16,871**	**19,726**	**2,855**
Use of deposits (excl. margin accounts)	128	2,508	2,380
Issuances associated with EFP loans	0	0	0
OT and *MTN* issuances (excl. swaps)	16,429	15,663	-766
OTRV issuances	1,000	0	-1,000
Other MLT debt issuances	0	64	64
BT net issuances (excl. securities held by *FRDP*)	650	-1,415	-2,065
CA/CTPM net issuances	-1,000	780	1,780
Other movements in the Government's Central Treasury (excl. margin accounts)	-336	2,126	2,462
Deposits balance at year-end (excl. margin accounts)	**9,195**	**6,821**	**-2,374**
Margin accounts balance at year-end	442	624	182
Total deposits at year-end	**9,637**	**7,445**	**-2,192**

Notes: (a) The figures on the 2019 outturn are of a provisional nature until the CGE/2019 is published. (b) Annex 1 provides a more detailed breakdown of the State's borrowing requirements and sources, as well as a comparison between the public accounting (budget) perspective and the cash perspective (presented here).

Source: IGCP

The strategy for 2019 entailed a new 10-year benchmark issue and the reopening of different *OT* lines by auction, with the aim of providing liquidity along the curve, anticipating a gross *OT* issuance of EUR 16.4 billion. Due to the increase in other financing sources - for the reasons mentioned above - the actual gross issuances stood at EUR 15.7 billion. For the same reason, the volume of *BT*'s gross issuances dropped from the initially programmed figure by about EUR 2 billion. With the implementation of the financing programme, the scheduled issuance of EUR 1 billion *OTRV* was also cancelled.

The successful implementation of the financing programme relies on the regular and predictable issuance of government bonds throughout the year, with a focus on the euro market, to provide liquidity to *OT* lines, reduce volatility in the proximity of the issue windows and take advantage of growing investor demand for Portuguese public debt. It also benefits from the promotion of Portuguese public debt with financial intermediaries and international investors: in 2019, the IGCP continued to keep the market informed on a regular basis, namely in numerous meetings with end-investors and rating agencies and maintained regular advice and contact with primary market participants (*OEVT* and *EBT*).

The interaction with investors throughout 2019 reflected the confidence in Portuguese debt, particularly in view of the favourable and consistent behaviour of macroeconomic and fiscal data. Increased credibility led to increased demand for Portuguese public debt, reinforced by S&P agency upgrade to BBB level.

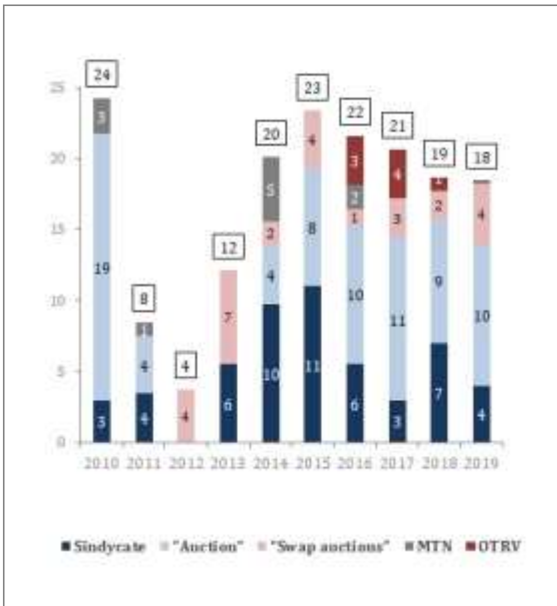
In 2019, medium- and long-term financing in domestic currency on the market amounted to approximately EUR 18 billion (nominal value), with EUR 4 billion (22%) issued through *OT* syndicated transactions, EUR 10 billion (54%) through *OT* auctions, EUR 4.3 billion (24%) through *OT* swaps. There was also a CNY 2 billion (approximately EUR 260 million) Panda Bonds issuance (see Box 1). As a reference, in 2018, *OT* issuances through syndicated issues and auctions amounted to EUR 7 billion and EUR 8.8 billion respectively, and *OTRV* issuances totalled EUR 1 billion (in nominal value).

As usual, the first quarter had a higher weight than to the others (41% of the total issued), mainly due to the opening of a new 10-year bond in the amount of EUR 4 billion. Compared to 2018, there was a decrease in the relative weight of the second quarter (28% vs. 31% of the total issued in 2019 and 2018, respectively), due to the opening of the *OT* 2034 in the amount of EUR 3 billion, in April 2018. In the remaining quarters of 2019, the amount issued was relatively steady (approximately EUR 2.4 billion), for a total of EUR 4.8 billion.

As regards the type of placement, the weight of financing carried out through syndicated transactions dropped, as opposed to an increase in the weight of regular auctions, as two new securities were opened in 2018 and only one in 2019, but also a greater weight of swap auctions. In fact, a new approach to swaps was introduced in 2019 with the aim of smoothing the redemption profile. Regular operations were carried out throughout the year, totalling six swaps involving nine *OT* lines, compared to only one swap with two lines in 2018. Aligned with the strategy adopted in recent years, the IGCP maintained a regular and predictable pattern of issuances in 2019, materialised in a monthly auction (except in months with less activity such as August and December) that may be replaced by a syndicated operation, in the event of favourable market conditions, in particular where the introduction of a new line is justified - as was the case in January with the 10-year issuance.

Chart 9 – Medium- and long-term debt issues by type of placement

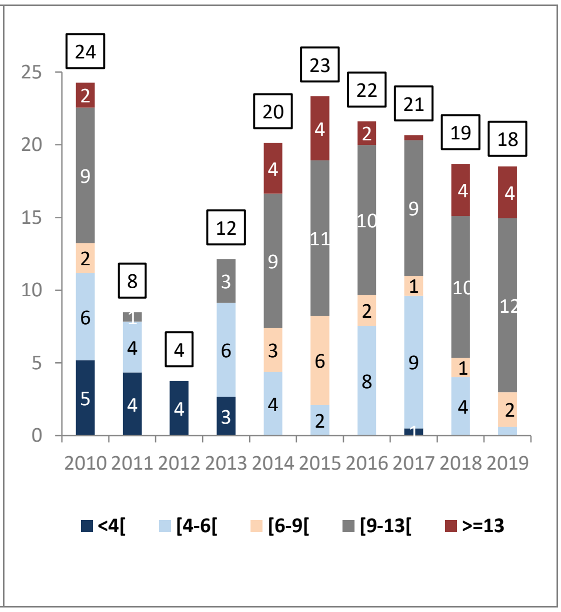
(EUR billion)



Source: IGCP

Chart 10 – Medium- and long-term debt issues by maturity

(EUR billion)



Source: IGCP

The upward trend in the Portuguese Republic's rating, as well as the normalisation of market conditions, had a positive impact on the number and, above all, the quality of investors interested in *OT*, with an increased number of investors classified as more conventional, namely insurance companies, pension funds and asset managers, but also investors from the United Kingdom, France, Italy and Benelux. The appetite of these more traditional investors is for the long end of the curve and greater stability in holding investment positions. Demand continued to be driven by the most liquid maturities: 10 years, in particular, despite the increased interest in 15 years, this year.

The increased demand for 15 years, to the detriment of the typical 5 years, results from negative interest rates in the short end of the curve, with the majority of investors extending maturity throughout 2019. Thus, the Portuguese Republic chose to gear the implementation of the financing programme towards investors' perceived preferences, following *OEVTs'* recommendations. Issuances with maturities above 9 years accounted for 84% of the total issued (EUR 16 billion), compared with a 71% share in 2018. In contrast, in the short term (less than 6 years) only 3% of the total was issued, which compares with 21% of 2018 issuances. The Chinese currency issuance (Panda Bonds) with a 3-year maturity (typical maturity in this issue format) was one of the operations in this part of the curve, aiming to diversify the investor base and enter one of the largest bond markets in the world (see Box 1), where demand is focused on 3-year maturities or less.

Concurrently, and despite ECB's pause in net asset purchases between January and October 2019, the Portuguese public debt still benefited from the Eurosystem programme, through capital key reinvestment and rebalancing dynamics. However, ECB's net purchases of Portuguese public debt fell slightly, with an average monthly net amount of EUR 362 million in 2019 (EUR 481 million in 2018). For the year as a whole, net purchases of Portuguese public debt amounted to EUR 4.3 billion, compared to EUR 5.8 billion in 2018.

Chart 11 – Changes in interest rates in the secondary market and main medium- and long-term debt placements in the primary market

%

Source: IGCP

The average maturity of medium- and long-term debt issued during 2019 stood at 10.7 years, 0.4 years higher than in 2018. Despite this increase, the average maturity of the debt stock fell slightly to 7.5 years (including official loans).

The active debt management strategy also benefited from the maintenance of relatively high liquidity buffers, which not only reduces the refinancing risk in higher market volatility periods, but also enables the implementation of debt repurchases aimed at smoothing the portfolio's repayment profile. In 2019, the strategy to smooth out the repayment profile pursued, with a focus on 2021, thus contributing to reduce the refinancing risk. Throughout the year, debt repurchases were carried out through bilateral transactions and swap auctions, totalling around EUR 6.3 billion, of which around EUR 4.3 billion *OT* in swap auctions (see Table 15, Annex 2), and EUR 2 billion in early repayment of EFSF loan (see Box 2).

Box 1 | First *issuance of Panda Bonds*

On 30 May 2019, the Portuguese Republic issued Chinese yuan renminbi-denominated bonds (Panda bonds) for the first time.

The purpose of this transaction was to diversify the base of investors and gain notoriety for Portugal becoming one of the first European issuers (in particular, the first in the euro area) to enter the third largest bond market in the world, which may be an advantage in the future when these same investors internationalise to other markets.

The announcement to the market was made on 21 May after Chinese authorities' approval of a debt issuance programme in onshore Renminbi (CNY) up to a maximum of CNY 5 billion (the "Programme"), under which the Portuguese Republic was granted permission to issue debt securities in CNY (the "Securities"), and to carry out the first Bonds issue under the Programme for an aggregate maximum amount of CNY 2 billion (the "Bonds (Series 1)").

The maturity chosen for the new bond was 3 years (June 2022) and the nominal amount of CNY 2 billion (equivalent to EUR 259 million as at the date of the operation).

Table 2 – Issue summary

Panda Bonds	
Demand	CNY 6,330 million
Allocation	CNY 2,070 million
Bid-to-Cover	3.06
Cut-off rate	4.09%
Minimum rate received	3.90%
Maximum rate received	4.50%

Source: IGCP

The Panda Bonds (series 1) PORTUG 4.09% June 2022 issuance took the form of an IPO and was carried out through a central book building system – a trading platform provided by the National Association of Financial Market Institutional Investors (NAFMII).

On 28 May the indicative price guidance of between 3.9% and 4.5% was disclosed to the market and confirmed the following day.

The book building and pricing of the transaction took place on 30 May. The order books opened at 9:00 a.m. and closed at 6:00 p.m. (Beijing time) as scheduled.

At 2.30 p.m., the order book showed over CNY 4.3 billion orders, flagging a strong demand, and the market announced that the coupon was at 4.35%. At 4 p.m., with an order book of over CNY 4.6 billion orders, the price was revised to 4.3%. In view of the huge interest expressed, reflected in an order book of over CNY 6.6 billion, by 5.30 p.m. it was decided to announce again to the market that the price was at 4.20%. Even before order books closing, with orders over CNY 6.3 billion, another announcement was made to the market at 5.45 p.m. that the coupon was at 4.09%.

After the four announcements to the market (and three price revisions), the order book was closed at 6 p.m. CST, with the coupon set at 4.09%, which allowed the Portuguese Republic to issue at a level close to the lower limit of the target range, reflecting the high demand recorded. In fact, total orders exceeded CNY 6.3 billion (demand exceeding 3.165 times supply), coming from 6 banks, which shows the strong support given by the market to this transaction.

The exchange and interest rate risk of this transaction was fully hedged by means of a cross-currency swap, costs in euro being fixed at 3-month Euribor + 91.35 b.p. (equivalent to a fixed rate of 0.62% in euro).

2.2. Secondary Market

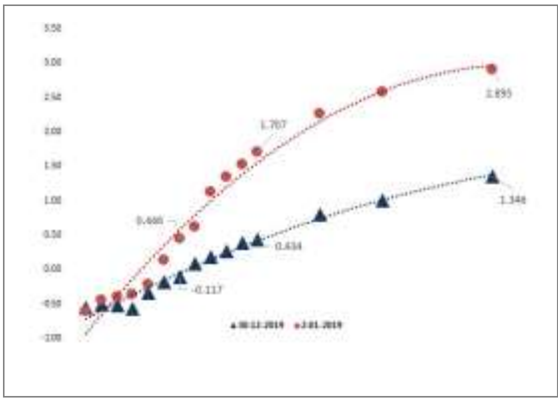
Portuguese debt's interest rates in the secondary market developed quite favourably throughout 2019. At the beginning of the year, *OT* interest rates continued their downward trend since 2017, benefiting from the release of benign macroeconomic and fiscal data for 2018. As mentioned in section 1.2 above, these results also supported a positive evolution of the Portuguese Republic's rating, further improving its borrowing conditions.

Overall, the onset of 2019 was characterised by expectations of interest rate hikes in the United States and the euro area. However, uncertainty regarding global economic growth, through mixed signals, and trade tensions between the United States and China led to a change of course by central banks. As detailed in section 1.3, the US Federal Reserve lowered interest rates three times in 2019 and the ECB reduced them once, also resuming net purchases under the asset purchase programme. These decisions will have been at the origin of the significant fall in interest rates at global level, and particularly in the euro area. By mid-August, interest rates in Europe reached historic lows at the 10-year maturity, with German bonds trading at -0.72% and Portuguese bonds at 0.06%. High levels of uncertainty over Brexit have also weighted throughout 2019, with successive rejections of an EU exit deal by the British parliament. After three extensions of the negotiation process with the EU and new elections to the British parliament, the exit date agreed for 31 January 2020, with a transition period until the end of the year, would actually be confirmed.

In relative terms, the Portuguese public debt narrowed its spread on euro area peers throughout the year and moved into a negative spread against Spain from October onwards. The interest rate on Portuguese public debt at the 10-year benchmark maturity fell from 1.82% at the end of 2018 to 0.43% in December 2019. The trend was common to the other parts of the curve, but more accentuated in the long end part, with a reduction in the curve slope.

Chart 12 –*OT* curve developments

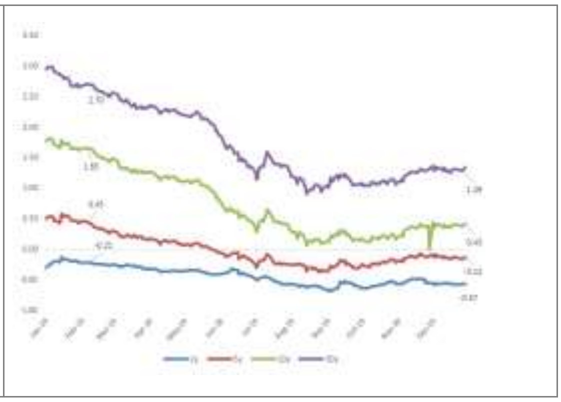
(%)



Source: Bloomberg

Chart 13 – 2, 5, 10 and 30-year *OT* rates

(%)

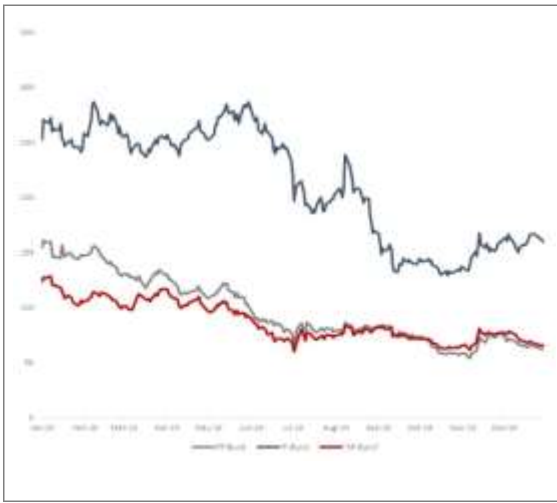


Source: Bloomberg

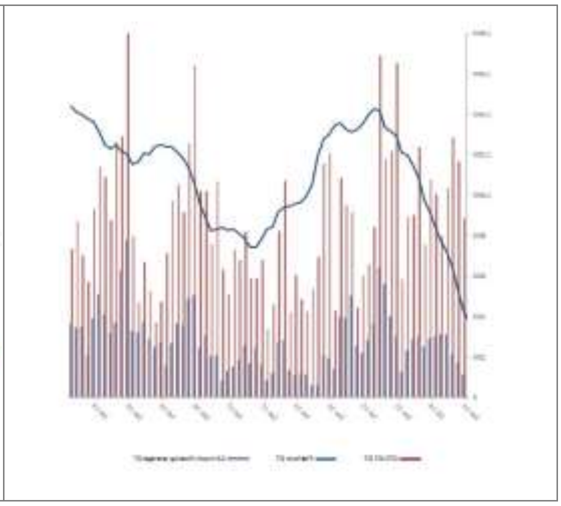
The spread versus Germany over the 10-year baseline period ended in 2019 at around 62 b.p., significantly below the end-2018 level (148 b.p.), which expresses well Portugal's risk premium compression against the euro area benchmark. As regards the spread vis-à-vis Italy at the 10-year maturity, the *OT* interest rate narrowed slightly (5 b.p.), holding steady at -98 b.p. by the end of 2019 (i.e., the Portuguese 10-year rate was set at a lower level than the Italian rate for the same maturity). In respect of Spain, the shrinking was of around 33 b.p., with the spread standing at -3 b.p. at the end of the year (turning negative since October, as mentioned above).

As regards secondary market liquidity, the upward trend in average daily *OT* traded volumes between platforms and over-the-counter markets, already seen in 2017 (EUR 956 million) and in 2018 (EUR 1,153 million), intensified in 2019. This increase was mainly evident in the first part of the year, driven by strong investor interest in the new 10-year *OT.* In 2019, average daily volumes thus reached the highest level since 2014 (EUR 1,386 million). January, typically the month with the highest volume, showed an average daily volume of EUR 2,747 million, a monthly high since 2014.

Chart 14 – Spreads vs Germany (10 years)	**Chart 15 – *OT* trading in the secondary market**
(b.p.)	(EUR million)



Source: Bloomberg



Source: IGCP

The flow concentration on the secondary market is still significant, given that the five largest *OEVT*s held a 46% market share in 2019. However, a downward trend persists: this figure is much lower than in 2012 (when concentration reached 73%) and is already below pre-crisis levels (around 50%).

As regards *BT* transactions on the secondary market, average daily transactions also increased from EUR 353 million in 2018 to EUR 398 million in 2019. Looking at transactions on platforms, the average daily volume increased from EUR 191 million in 2018 to EUR 216 million in 2019.

BT issuance rates maintained the downward trajectory of 2018 due to the ECB's cut in its key policy rate and the resumption of its asset purchase programme (with a maturity over one year). The average annual issuance cost corresponded to -0.41% in 2019, against -0.34% in 2018.

As regards the *BT* issuance strategy, the issuance policy initiated in 2015 was maintained in 2019, i.e., issuances were concentrated on six lines only and opened only one new line every two months, which allows for an increase in the outstanding balance per line. Due to the high cash surplus observed, in the last quarter of the year, the November auction was cancelled and led the *BT* programme to include only five lines, at the beginning of 2020.

3. State's Assets and Liabilities

3.1. State's Direct Debt and Costs

On 31 December 2019, the balance of State's direct debt[15] valued at the end-of-period exchange rate stood at EUR 251 billion (see Table 21 in Annex 5), which represents a EUR 5.5 billion increase compared to 2018 (2.2%). The annual variation is essentially the result of the increase in the *OT* balance (2.4 p.p. contribution) and in *CEDICs* (0.9 p.p.), partially offset by the decrease in EFAP loans (-0.8 p.p.) and the *BT* balance (-0.7 p.p.).

In 2019, and as observed since 2015, the Portuguese Republic's main source of net financing was the medium- and long-term debt issue. Gross *OT* issuances, valued at their proceeds value, stood at EUR 20.5 billion, resulting in a positive net issuance of EUR 7.7 billion and an increase in the relative weight of *OT* in the debt stock (nominal value) from 50.9% in 2018 to 52.1% at the end of 2019. Including in the analysis the balance of *OTRV* and MTN in euro, the relative weight of medium- and long-term tradable debt issued in euro stood at 56.2% (which compares with 55.1% in 2018).

The weight of retail instruments (*CA* and *CT*) increased slightly, from 11.5% to 11.6%, essentially reflecting the positive performance of CTPC, the subscriptions of which remaining at high levels in 2019.

As regards short-term debt (in euro), an increase of around EUR 0.7 billion was observed in 2019, mainly explained by *CEDIC* evolution (with net issuances amounting to EUR 2.1 billion). This evolution, together with the increase in margin accounts received under derivative transactions to hedge interest rate and currency risk (approximately EUR 0.2 billion), more than offset the decrease in the *BT* stock (of approximately EUR 1.7 billion). In this respect, the relative weight of short-term debt instruments increased by only 0.1 p.p. to 8.9% at the end of 2019.

The weight of non-euro denominated debt (excluding foreign aid) remained fairly stable in 2019 (around 1.6%).

In turn, EFAP loans recorded a further decrease in their relative share in debt stock from 21.0% in 2018 to 19.8% at the end of 2019. This evolution reflects the early repayment of EUR 2 billion of the EFSF loan, which brought the total outstanding amount associated with the EFAP down to EUR 49.6 billion.

The favourable exchange rate effect of derivative hedging (net) remained almost unchanged from the previous year, totalling EUR 0.6 million. After derivatives hedging, the balance of State's direct debt stood at EUR 250.4 billion, thus recording a EUR 5.4 billion increase compared to 2018.

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[15] The State's direct debt is a concept that differs from the public debt compiled by the Banco de Portugal for the purposes of the Excessive Deficit Procedure (Maastricht debt, presented in Chart 5) in several aspects, among which the following stand out: (i) sector boundary differences – the State's direct debt includes only debt issued by the State, while Maastricht debt includes all entities classified, for statistical purposes, in the general government institutional sector; (ii) consolidation purposes - the State's direct debt reflects only the liabilities of this subsector, while the Maastricht debt is consolidated, i.e. excluding general government assets in liabilities issued by the general governments themselves.

Current debt costs

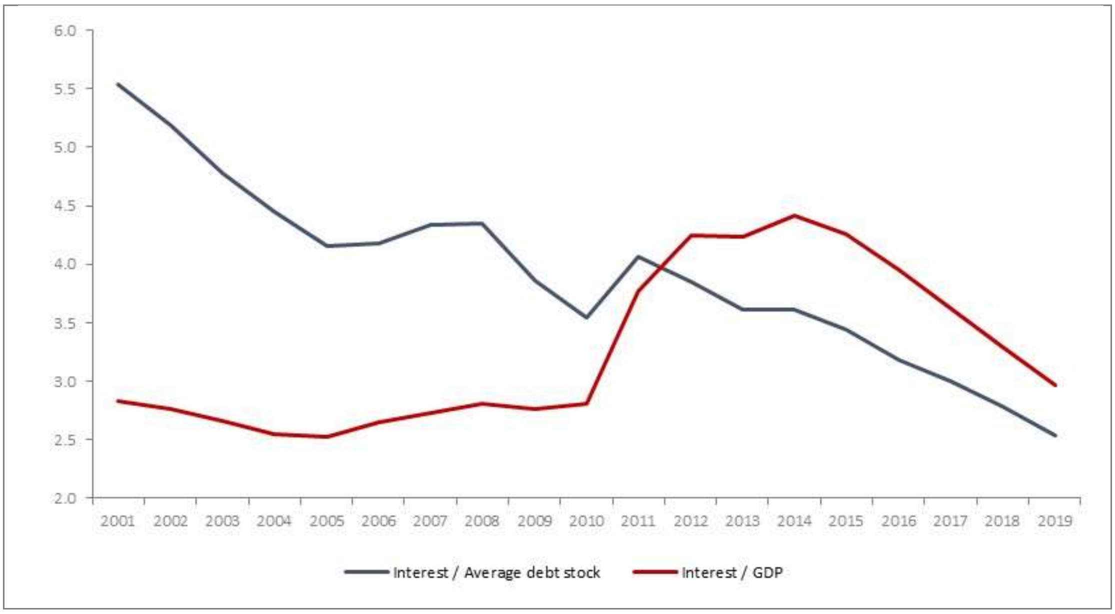
In 2019, the current State's direct debt burden from a public accounting perspective amounted to EUR 7.2 billion (net), a slight EUR 22 million increase on the previous year (see Table 21 in Annex 6).

The *OT* continued to be the instrument with the largest share in total debt interest: EUR 4,858 million, a rise of EUR 15 million on the previous year, explained by the increase in the balance of this instrument. Interest from Other Instruments increased by EUR 111 million, compared to 2018, to EUR 457 million in 2019 mainly as a result of lower interest received from swaps. Accordingly, there was an increase of around EUR 48 million in interest from *CA* and *CT*, reflecting, in particular, a significant volume of subscriptions for *CTPM* and *CTPC* which acquired the right to the retention premium. Conversely, there was a substantial reduction in interest on EFAP loans (EUR 120 million) resulting from the early full repayment of the outstanding amount of the IMF loan at the end of 2018. It should be noted that *BT* interest continued its favourable evolution, reflecting the fact that this instrument has benefited from negative issuance interest rates over the past three years.

In 2019, interest paid on the State's direct debt (National accounts basis) stood at EUR 6.3 billion, recording a significant reduction for the fourth consecutive year. The annual decrease, which amounted to EUR 417 million, reflected the favourable evolution of the price effect (decrease in the implicit interest rate), which more than offset the increase in the outstanding debt (see Table 23 in Annex 6). Still, the most relevant contribution stems from the consistent decline in the implicit interest rate, which settled at a new historical low of 2.5% in 2019. Interest as a share of GDP also evolved favourably, from 3.3% in 2018 to 3.0% in 2019.

Chart 16 – Interest evolution of State's direct debt (National Accounts basis)

(%)



Source: IGCP

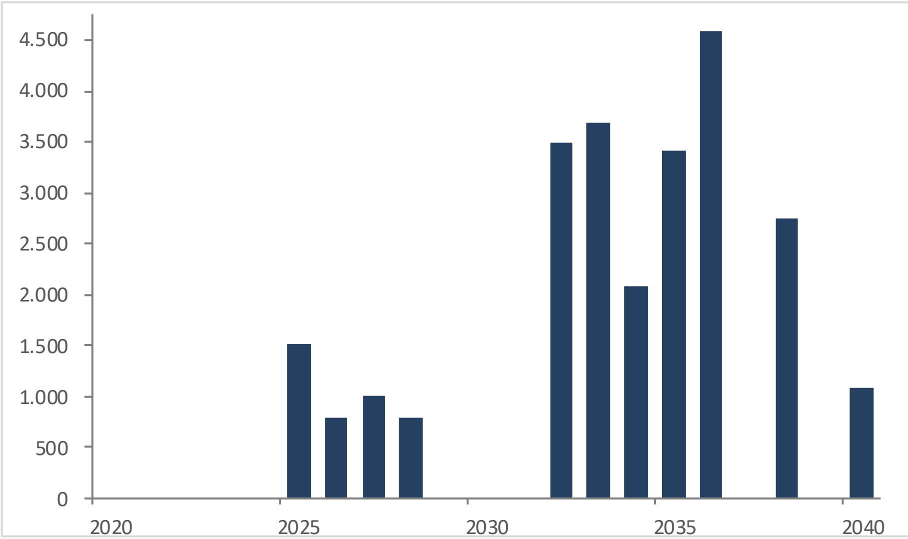
Box 2 | Early repayment of EFSF loans

On 17 October 2019 the Portuguese Republic repaid in advance EUR 2 billion of the loan obtained from the European Financial Stability Facility (EFSF) under the Economic and Financial Assistance Programme (EFAP). This payment was made after the loan obtained from the International Monetary Fund had been fully repaid between March 2015 and December 2018.

The repayment to the EFSF corresponds to the overall value of a tranche maturing in August 2025 and the partial value of a tranche maturing in December 2025. After this repayment, the outstanding capital with the EFSF dropped to EUR 25.3 billion, with a repayment profile depicted in the figure below.

Chart 17 – EFSF loan repayment profile (as at 31 December 2019)

(EUR million)



Source: IGCP.

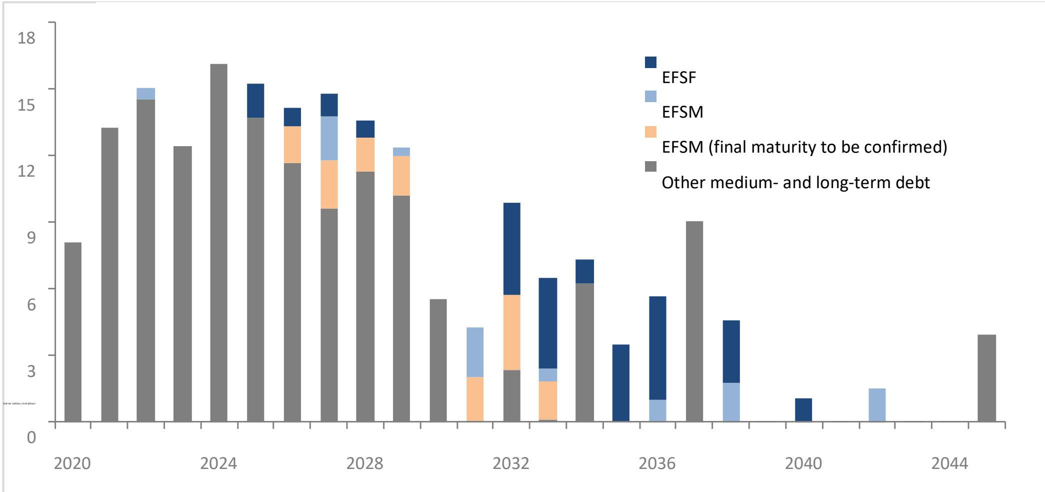
This early repayment was driven by the sustained reduction in interest rates on Treasury Bonds (*OT*) and the opportunity to curtail the refinancing risk in 2025, which corresponded to the peak medium- and long-term debt repayments. As the Portuguese Republic's financing cost compares favourably with the specific conditions of the EFSF loan, the early repayment gave rise to interest savings for the Portuguese State close to EUR 120 million.

According to a clause in EFAP loan agreements, upon early repayment to one of the creditor institutions with outstanding credit, the other creditor institutions are entitled to receive a pro-rata payment. When repayments were made to the IMF, the two European creditors waived their right to this clause. In anticipation of the October 2019 payment, the authorities requested the European Commission, as the entity in charge of the European Financial Stabilisation Mechanism (EFSM), to be authorised to make only the EUR 2 billion payment to the EFSF. Recognising the benefits of the payment for the sustainability of the Portuguese public debt, the European Commission waived its use of the clause underlying this transaction, and the following was agreed: there would be a first payment of EUR 500 million to the EFSM in 2022; the maturity of EFSM tranches becoming due in 2021 (amounting to EUR 6.75 billion) would be actually extended, also contributing to cut the refinancing risk in the coming years; the transaction would have no additional costs for the EU budget.

The changes to the EFAP loans repayment schedule, together with the bond swap transactions carried out throughout the year by the IGCP, helped smoothing the medium- and long-term debt repayment profile - a trend that has marked the debt management strategy recently.

Chart 18 – MLT debt repayment profile (as at 31 December 2019)

(EUR billion)



Source: IGCP

3.2. Government Treasury

Government Treasury's cash holdings

The Government Treasury's cash holdings for the 2018-2019 period are broken down in Table 3.

Table 3 – Cash accounts

EUR million	dec/18	dec/19 (P)
Accounts with BdP	9,226	6,695
Financial investments with credit institutions	500	750
Foreign exchange accounts	6	8
Other bank accounts	0	1
RCE accounts (Banks, CTT, SIBS, IRN and caixas do Tesouro)	1	2
Deposits abroad with credit institutions	22	20
Cheques in course of collection	1	1
TOTAL	**9,756**	**7,477**

Source: IGCP.

From the analysis of the table above, it appears that 86% of Government's cash holdings were deposited into accounts with the Banco de Portugal (BdP) at the end of 2019.

Compared to the end of 2018, there was a decrease in the overall cash balance at the BdP and credit institutions. This evolution, however, should not only be measured in absolute terms, but also in comparison with the volume of borrowing requirements expected for the following year. Excluding the margin accounts associated with derivative instruments, the overall balance stood at EUR 6.8 billion at the end of 2019, corresponding to 39% of the gross borrowing requirements expected for 2020 in the context of the Draft State Budget. In turn, the highest balance at the end of 2018 (EUR 9.3 billion, excluding the aforesaid margin accounts) represents 49% of 2019's gross borrowing requirements. The evolution of the State's cash availabilities should also be considered in light of the gradual improvement recorded in the financial rating of the Portuguese Republic, which since October 2018 has been classified as investment grade by the main global rating agencies.

State's Treasury Unit

The State's Treasury Regime (*RTE*), established by Decree-Law no. 191/99 of 5 June and reinforced every year by the State Budget Law, has set forth the principle of State Treasury Unit (*UTE*), according to which all movements in public funds should be centralised in bank accounts at the IGCP. The *UTE* is thus a key instrument for optimising the State's cash management and financing.

The distribution of funds of public entities and services centralised in the Government Treasury is shown in the table below, taking as a reference the universe of customers using *HomeBanking*, the app that works as the privileged IT support for proper compliance with the *UTE*.

Table 4 – Customer deposits

Type of Client	Deposits (EUR million)							
	Demand Deposits		*CEDIC*		*CEDIM*		TOTAL	
	2018	2019	2018	2019	2018	2019	2018	2019
ONSUTE	2,255	2,829	4,227	4,477	0	0	6,481	7,306
SEE	1,433	1,098	707	1,099	493	45	2,632	2,241
SFA	4,950	4,599	2,662	4,145	464	909	8,075	9,653
SI	1,513	1,236	0	0	0	0	1,513	1,236
TOTAL	**10,150**	**9,762**	**7,595**	**9,720**	**956**	**953**	**18,702**	**20,436**

Source: IGCP

The amount of Customer deposits with the Government's Treasury show an increase of EUR 1,734 million between 2018 and 2019. This variation results mostly from the *CEDIC* component which rose about 28% in the year under review. In turn, the demand deposits component showed a decrease of about 4% against the previous year.

4. Portfolio and Risk Limits Management

4.1. Management of the State's Derivatives Portfolio

The main purpose of the derivative transactions carried out in 2019 was to ensure the foreign exchange hedging of the portfolio, with particular emphasis on the taking out of a cross-currency swap to hedge the bonds issued in China (see Box 1).

The derivatives portfolio posted a net profit of EUR 154.2 million over the year, which is mainly explained by the depreciation of the euro against the dollar (-2.2% year-on-year). The main contributions came from cross-currency interest rate swaps (EUR 272.5 million) and FX swaps/forwards (EUR 28.2 million) used to hedge bonds issued in dollars. In turn, the negative result of interest rate derivatives is mainly related to the decrease in long-term rates during the year.

Table 5 – Change in the financial derivatives portfolio

(EUR million)	Market value		Cash-flow over the period	Net income
	31 December 2018	31 December 2019		
Interest rate	**-158.1**	**-298.4**	**-6.2**	**-146.5**
IRS	[0.0]	1.8	[-6.2]	[-4.5]
Swaptions	[-158.1]	[-300.2]	[0.0]	[-142.1]
Exchange rate	**[427.4]**	**[618.4]**	**[109.8]**	**[300.8]**
CCIRS	[402.7]	[611.0]	[64.2]	[272.5]
Swaps / forwards	[24.8]	[7.4]	[45.6]	[28.2]
Other	**[-0.6]**	**[0.0]**	**[-0.6]**	**[0.0]**
CARRIS	[-0.6]	[0.0]	[-0.6]	[0.0]
Total	**[268.7]**	**[320.0]**	**[102.9]**	**[154.2]**

Source: IGCP

4.2. *EPR's* Derivatives Portfolio

In the context of the State's direct public debt management, it is the responsibility of the IGCP to monitor the derivatives portfolio of public enterprises that are financed through the State Budget (*EPR* – State-owned companies within General Government).

Considering that *EPR*s are cut off from borrowing in the market, no new hedging derivative financial instruments have been taken out. Throughout 2019, the only changes to the derivatives portfolio are justified by the fact that five of the *Metropolitano de Lisboa*'s derivatives have reached maturity.

In this context, there were 13 derivative instruments in the *EPR* portfolios at the end of 2019, with a market value close to EUR -645.0 million and a contractual value of EUR 624.2 million.

Table 6 – *EPR's* derivatives portfolio

(EUR million)	Number of derivatives	Contractual amount	Market value		Cash-flow over the period	Net income
			31 December 2018	31 December 2019		
Metropolitano de Lisboa	[9]	[439.6]	[-402.7]	[-341.0]	[-146.1]	[-84.4]
Metro do Porto	[4]	[184.6]	[-380.6]	[-304.1]	[-87.5]	[-11.0]
Total	**[13]**	**[624.2]**	**[-783.3]**	**[-645.0]**	**[-233.6]**	**[-95.4]**

Source: The valuation of the counterparties is presented where available; otherwise IGCP's valuation is given.

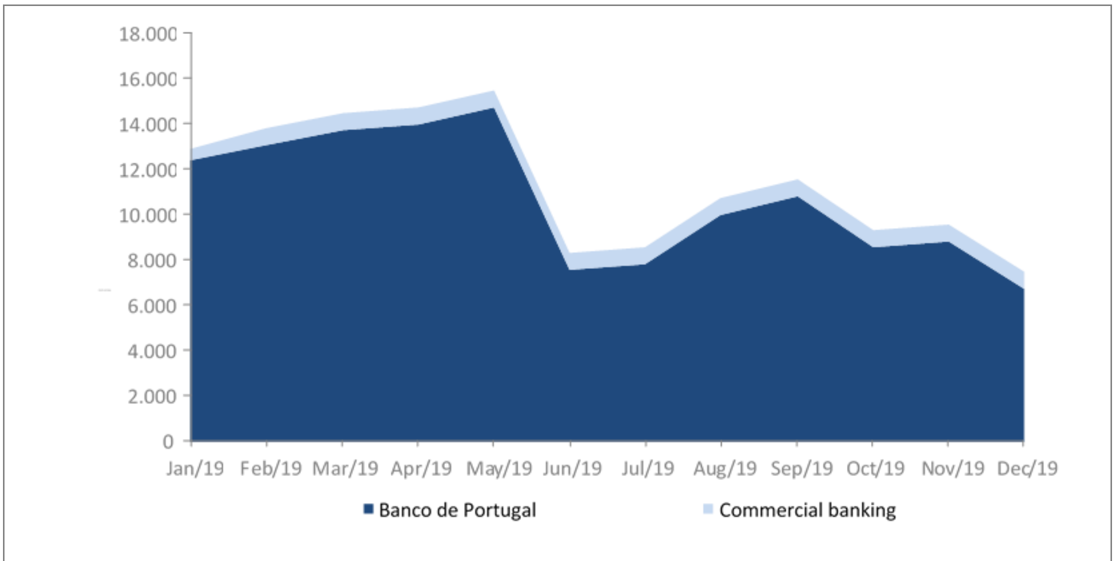
This portfolio had a negative net result of EUR 95.4 million during the year, mainly due to the fall in Euro swap rates. However, the market value increased by some EUR 138.3 million, corresponding to the sum of net profit and cash-flows paid out in the year (about EUR 233.6 million).

4.3. Cash Management

During 2019, the main objective of cash management was to ensure maximum liquidity in the State's cash balances. In this sense, of all the instruments theoretically available for cash management, taking into account the profitability-risk binomial, preference continued to be given to investments with Banco de Portugal.

Chart 19 – Developments in deposit balances of the Government's Central Treasury (*TCE*)

(EUR million)



Source: IGCP

In 2019, the absolute cost of holding the position renewed the minimums, benefiting simultaneously from the reduction in the cost of debt financing (regardless of the calculation methodology considered) and the gradual reduction in the average cash balance over time.

Table 7 – Cost estimate of cash position

(EUR million)

	Implicit rate *stock* total (1)			Average cost (*BT+OT*) (2)			Average cost (*BT*) (3)		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
Average deposits balance	14,439	13,441	11,606	14,439	13,441	11,606	14,439	13,441	11,606
Debt financing cost (%)	3.0%	2.8%	2.5%	1.4%	0.9%	0.6%	-0.2%	-0.3%	-0.4%
Average cost of Treasury cash balance financing	433	373	295	204	121	65	-33	-44	-48
Interest received from Treasury investments	-4	1	-2	-4	1	-2	-4	1	-2
Net cost of Treasury cash balance	**429**	**373**	**293**	**200**	**122**	**63**	**-37**	**-43**	**-49**
As a % of the average deposits balance	3.0%	2.8%	2.5%	1.4%	0.9%	0.5%	-0.3%	-0.3%	-0.4%
As a % of average balance of State's direct debt	0.2%	0.2%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%
As a % of GDP	0.2%	0.2%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%

Notes: (1) Implicit interest rate computed as the ratio between interests paid on State's direct debt paid on a National Accounts basis and the average stock of direct state debt in a given year. (2) Cost of *BT* and *OT* funding corresponds to the average interest rate of *BT* and *OT* new funding (funded issues) during the year. (3) *BT* funding cost corresponds to the average interest rate of *BT* new financing (funded issues) during the year.

Source: IGCP

4.4. Cost indicators

On 31 December 2019, the market value of the State's direct debt[16] was EUR 289,688 million, reflecting a premium of 14.3% over its nominal value. The average coupon of the portfolio decreased slightly to 2.7% in 2019, whilst the average yield increased to 0.7%. The average debt repayment term dropped to 7.5 years.

Table 8 – Cost indicators at year-end

(EUR million)	[2017]	[2018]	[2019]
Outstanding	[237515]	[244916]	[250309]
Average coupon	3.0%	2.9%	2.7%
Average yield	1.4%	1.6%	0.7%
Average redemption period (years)	[8.1]	[7.8]	[7.5]
Market value	[269,555]	[271,630]	[289,688]
Premium (incl. Accrued interest)	12.0%	9.4%	14.3%

Notes: The average coupon is calculated by annualising the interest accrued between the last two working days of the year divided by the outstanding for the last working day. The premium indicator is obtained by deducting the unit at market value without accrued interest divided by the outstanding balance. The average yield corresponds to considering an *OT* with maturity equal to the average repayment period, which pays the average coupon annually and has a price equal to the market value, without accrued interest divided by the outstanding.

Source: IGCP

Marked-to-market cost

A provisional benchmark model was maintained in 2019, whereby the active interest rate management operations taken out by the IGCP are part of a separate portfolio for which the mark-to-market assessment is the performance measure of the IGCP's active management.

[16] State's direct debt (compatible with the definition reported in the IGCP's Monthly Bulletin and with the portfolio considered for the purpose of risk indicators reported to the ESDM - Economic and Financial Committee's Sub-Committee on EU Sovereign Debt Markets on a quarterly basis) does not include treasury investments and includes cash received in the margin accounts associated with financial derivatives and securities issued for delivery as collateral.

In 2019, the marked-to-market cost of the Adjusted Debt Portfolio[17] was 8.11%. A cost of 8.16% was calculated for the benchmark portfolio over the same period, resulting in a favourable cost differential of 5 basis points.

Given that no new active management transactions were taken out and that the redrafting of the Benchmark Portfolio is in progress, this IGCP performance measure is of little significance.

4.5. Risk Indicators

The Guidelines for Government Debt Management (Guidelines) outline the risk indicators deemed most relevant for the State's debt portfolio and set limits to its exposure. The Guidelines set maximum limits for the interest rate risk (refixing profile and modified duration), the refinancing profile, foreign exchange rate risk and credit risk of the adjusted portfolio.

CaR – Cost at Risk

The CaR estimate of the debt portfolio measures the effect of changes in risk-free interest rates on the value of charges associated with the debt portfolio, assessed from a cash-flow perspective over the relevant future time horizon. Absolute CaR represents the maximum amount that the cash-flow cost can reach with 95% probability during the following year; relative CaR reflects the maximum deviation of this cost compared to its expected value.

Based on the borrowing requirements forecast in the initial draft of the State Budget for 2020, the portfolio position at end-2019, equal financing spreads and the set of simulated scenarios[18] for the dynamics of the risk-free interest rate curve (swap), the expected value of the portfolio charges for 2020 (calculated on a National Accounts basis) is EUR 6,342 million and there is a probability of only 5 per cent that that value will exceed EUR 6,609 million (absolute CaR), due to the effect of changes in risk-free interest rates[19].

The relative CaR, for the same significance level, is EUR 267 million. Compared to GDP, the probability that in 2020, through the change in risk-free interest rates, the ratio of the budget deficit to GDP will deteriorate by more than 0.13 p.p. is below 5%.

Refinancing risk

In addition to market variables (e.g., negotiability, liquidity, maintenance of a benchmark curve for the Portuguese Republic), the management of the debt portfolio takes into account the control of the refinancing profile, so as to avoid an excessive concentration of repayments that may lead to higher financing costs in the future.

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[17]The Adjusted Debt Portfolio refers to all the instruments that make up the State's direct debt, including financial derivatives, with the exception of retail and *CEDIC/CEDIM* debt.

[18] For the simulation of the interest rate scenarios, the Cox, Ingersoll and Ross (1985) 2-factor model was applied.

[19]Given that this document considers the information available as of 31 March 2020, the CaR calculation does not incorporate the new estimates for borrowing requirements and interest on public debt, calculated under the 2020 Supplementary Budget. The aforesaid figures report to the scenario developed in December 2019, at the time the 2020 Draft State Budget Law was submitted to the Parliament.

The absolute thresholds set on the percentage of the portfolio due to mature within 12, 24 and 36 months are 25%, 40% and 50%, respectively. At the end of 2019, the adjusted portfolio had the following refinancing profile, fully complying with these thresholds.

Chart 20 – Portfolio refinancing profile at end-2019

Source: IGCP

Interest rate risk

Modified duration of the total and adjusted debt portfolio stood at 5.42 and 6.07, respectively, at the end of 2019[20]. During 2019, the duration of the adjusted portfolio was always higher than the established minimum threshold of 4.0.

At the end of 2019, the portfolio showed the refixing profile (i.e., percentage of the nominal value of the adjusted portfolio to be refixed or matured, by maturity) shown in the figure below.

Chart 21 – Refixing profile at end-2019

Source: IGCP

[20] Modified duration measures the elasticity of the portfolio's market value to changes in market rates.

Exchange rate risk

At the end of 2019, primary currency exposure (i.e., hedging transactions excluded) was 2.12% of the total adjusted debt portfolio, far below the 20% threshold set by the Guidelines. This exposure is the result of Bonds issued in foreign currency (USD and CNY).

At the end of the year, the net exchange rate exposure was 0% (i.e., after hedging swaps and forwards).

Credit risk

The assumption of credit risk by the Portuguese Republic results from transactions involving derivatives, repos and money market investments. The Guidelines in force, approved by the Secretary of State in 2013, establish risk diversification and exposure limits allocated to each counterparty according to its credit quality.

The credit risk of each counterparty (i.e., of all its derivative contracts with the Portuguese Republic) is calculated using a methodology that comprises two components: its current market value, which represents the replacement value of the transaction, and a potential exposure intended to estimate the potential variation of this value in the future. The market value of the collateral received or delivered under the CSA should be deducted from the amount resulting from the sum of these two components.

Throughout 2019, the credit risk exposure of the derivatives portfolio remained below the overall threshold set at 3% of the adjusted portfolio. At the end of the year, the exposure corresponded to 0.12% of the value of the adjusted portfolio, that is, such threshold was at 4.09%.

Table 9 – Risk indicators at year-end

(EUR million)	[2017]	[2018]	[2019]
Primary Foreign Exchange Exposure (% adjusted portfolio)	3.85%	2.04%	2.12%
Net Foreign Exchange Exposure (% adjusted portfolio)	0.07%	0.00%	0.00%
Total Portfolio Duration (years)	[5.46]	[5.07]	[5.42]
Adjusted Portfolio Duration (years)	[5.98]	[5.69]	[6.07]

Source: IGCP

Annexes

A1. Borrowing requirements and sources in 2019

Table 10 – State's borrowing requirements and sources on a public accounts' basis

(EUR million)	2018	2019(P)
1. NET BORROWING REQUIREMENTS	**7,339**	**9,528**
Budget deficit	3,666	3,969
Net acquisition of financial assets (except privatisations)	3,673	5,559
Allocation for *FRDP*	0	0
Transfer of *ADSE* cash balance	0	0
2. WRITE-DOWN AND WRITE-OFFS (funded debt)	**37,320**	**40,449**
Saving Certificates (CA) + Treasury Certificates (CT)	1,697	3,876
Short term euro-denominated debt	20,690	21,697
MLT euro-denominated debt	9,824	14,815
Non-euro denominated debt	5,515	86
Swap capital flows (net)	-406	-25
3. GROSS BORROWING REQUIREMENTS (1. + 2.)	**44,659**	**49,977**
4. FINANCING SOURCES	**45,429**	**49,978**
Financing balance from previous Budgets	564	723
Debt issuance in the year's Budget	44,865	47,811
Debt issuance in Supplementary Period	0	1,444
5. FINANCING BALANCE FOR SUBSEQUENT YEARS (4. - 3.)	**723**	**0**
memo Statistical discrepancies	-47	0
p.m. CALENDAR YEAR DEBT ISSUES (Funded debt)	**44,865**	**47,811**
Related to last year's budget (Supplementary Period)	0	0
Related to the budget for the year	44,865	47,811

Note: The figures for the 2019 outturn are provisional until the CGE/2019 is published.
Source: Ministry of Finance, IGCP.

Table 11 – State's borrowing requirements and sources on a cash management basis

(EUR million)	2018	2019(P)
GROSS BORROWING REQUIREMENTS	**20,604**	**19,726**
State Budget deficit	3,666	3,969
Net acquisition of financial assets (except privatisations)	3,673	5,559
One-off transactions	0	0
OT redemptions (excl. swaps)	7,561	8,143
EFAP loans repayment	5,515	2,000
Other MLT debt repayments	189	55
FINANCING SOURCES	**20,604**	**19,726**
Use of deposits (excl. margin accounts)	489	2,508
Issuance of EFAP loans	12	0
OT and MTN issues (excl. swaps)	16,431	15,663
OTRV issuances	1.000	0
Other MLT debt issues	125	64
BT net issuances (excl. securities held by *FRDP)*	-1,788	-1,415
CA/CTPM net issuances	1,315	780
Other movements in Government's Central Treasury (excl. margin accounts)	3,021	2,126
Deposits balance at year-end (excl. margin accounts)	**9,330**	**6,821**
Margin accounts balance at year-end	397	624
Total deposits balance at year-end	**9,726**	**7,445**

Note: The figures for the 2019 outturn are provisional until the CGE/2019 is published.
Source: Ministry of Finance, IGCP.

A2. Financing composition in 2019

Table 12 – Financing composition

(EUR million)	Issue	Write-downs	Net
EURO DENOMINATED DEBT	**47,552**	**40,388**	**7,164**
CA - Saving Certificates	809	660	149
CT - Treasury Certificates	3,848	3,216	631
CEDIC - ST Special Government Debt Certificates	9,720	7,595	2,125
CEDIM - MLT Special Government Debt Certificates	0	3	-3
BT - Treasury Bills	11,983	13,660	-1,677
OT - fixed rate	20,505	12,757	7,748
OTRV - Floating Rate Treausry Bonds	0	0	0
EFSF	0	2,000	-2,000
EFSM	0	0	0
Other short term debt	624	442	182
Other long term debt	64	55	9
NON-EURO DENOMINATED DEBT	**259**	**86**	**173**
IMF	0	0	0
Other debt	259	86	173
NET SWAP CAPITAL FLOWS	**0**	**-25**	**25**
TOTAL	**47,811**	**40,449**	**7,362**

Note: The figures for the 2019 outturn are provisional until the CGE/2019 is published.
Source: Ministry of Finance, IGCP.

Table 13 – *OT* issues through syndication

Date of the syndicate	Issuance	Nominal value (EUR million)	Issue rate	Spread vs benchmark[1] (b.p.)	Mid swap spread (b.p.)
09-Jan-2019	OT 1.95% JUN 2029	[4,000]	1.98%	[170.3]	[112]

[1] Bund.

Source: IGCP

Table 14 – OT issues through auction

Date of the auction	OT	Competitive auction Nominal value (EUR million)	Non-competitive auction Nominal value (EUR million)	Cut-off/allocation rate	Mid swap spread (b.p.)
13-Feb-2019	OT 2.25% APR 2034	[295]	[0]	2.05%	[102.1]
13-Feb-2019	OT 1.95% JUN 2029	[705]	[0]	1.57%	[87.7]
13-Mar-2019	OT 1.95% JUN 2029	[862]	[0]	1.30%	[69.5]
13-Mar-2019	OT 2.875% JUL 2026	[388]	[0]	0.76%	[44.1]
10-Apr-2019	OT 1.95% JUN 2029	[600]	[0]	1.14%	[62.1]
10-Apr-2019	OT 4.10% APR 2037	[400]	[32]	1.90%	[101.5]
08-May-2019	OT 1.95% JUN 2029	[800]	[0]	1.06%	[58.1]
08-May-2019	OT 2.25% APR 2034	[450]	[0]	1.56%	[75.1]
12-Jun-2019	OT 1.95% JUN 2029	[625]	[82]	0.64%	[36.9]
12-Jun-2019	OT 2.25% APR 2034	[625]	[71]	1.05%	[46.7]
10-Jul-2019	OT 1.95% JUN 2029	[753]	[62]	0.51%	[32.9]
10-Jul-2019	OT 4.10% FEB 2045	[270]	[23]	1.43%	[73.3]
11-Sep-2019	OT 2.25% APR 2034	[400]	[75]	0.68%	[54.3]
11-Sep-2019	OT 1.95% JUN 2029	[600]	[98]	0.26%	[39.9]
09-Oct-2019	OT 2.25% APR 2034	[750]	[0]	0.49%	[41.6]
13-Nov-2019	OT 1.95% JUN 2029	[970]	[0]	0.33%	[25.6]

Source: IGCP

Table 15 – *OT* swap offers

Date of the operation	OT	Position	Exchange offer YTM	Nominal value (EUR million)
31-Jan-2019	OT 2.125% OCT 2028	Issue	1.49%	[702]
27-Mar-2019	OT 3.875% FEB 2030	Issue	1.35%	[619]
22-May-2019	OT 2.875% JUL 2026	Issue	0.51%	[742]
24-July-2019	OT 2.875% JUL 2026	Issue	0.07%	[321]
24-July-2019	OT 2.125% OCT 2028	Issue	0.33%	[476]
02-Oct-2019	OT 4.95% OCT 2023	Issue	-0.31%	[350]
02-Oct-2019	OT 4.125% APR 2027	Issue	0.02%	[560]
27-Nov-2019	OT 2.125% OCT 2028	Issue	0.32%	[360]
27-Nov-2019	OT 2.25% APR 2034	Issue	0.76%	[172]
				[4,302]
31-Jan-2019	OT 4.80% JUN 2020	Purchase	-0.24%	[702]
27-Mar-2019	OT 3.85% APR 2021	Purchase	-0.28%	[619]
22-May-2019	OT 3.85% APR 2021	Purchase	-0.37%	[742]
24-Jul-2019	OT 4.80% JUN 2020	Purchase	-0.46%	[256]
24-Jul-2019	OT 3.85% APR 2021	Purchase	-0.53%	[541]
02-Oct-2019	OT 3.85% APR 2021	Purchase	-0.60%	[560]
02-Oct-2019	OT 2.20% OCT 2022	Purchase	-0.43%	[350]
27-Nov-2019	OT 3.85% APR 2021	Purchase	-0.49%	[532]
				[4,302]

Source: IGCP

Table 16 – *BT* auctions

Date of the Auction	BT	Competitive auction nominal value (EUR million)	Non-competitive auction nominal value (EUR million)	Cut-off/allocation rate	Spread vs Euribor (b.p.)
16-Jan-2019	BT 19 JUL 2019	500	0	-0.40%	-16.6
16-Jan-2019	BT 17 JAN 2020	1,250	0	-0.36%	-24.3
20-Feb-2019	BT 17 MAY 2019	150	0	-0.39%	-7.7
20-Feb-2019	BT 17 JAN 2020	850	48	-0.36%	-23.5
20-Mar-2019	BT 20 SEP 2019	400	0	-0.39%	-16.5
20-Mar-2019	BT 20 MAR 2020	1,100	238	-0.37%	-25.7
17-Apr-2019	BT 19 JUL 2019	300	0	-0.42%	-10.7
17-Apr-2019	BT 20 MAR 2020	950	0	-0.37%	-24.1
15-May-2019	BT 22 NOV 2019	500	19	-0.40%	-16.8
15-May-2019	BT 15 MAY 2020	1,000	16	-0.37%	-24.5
19-Jun-2019	BT 20 SEP 2019	250	0	-0.43%	-9.0
19-Jun-2019	BT 15 MAY 2020	1,000	35	-0.40%	-17.2
17-Jul-2019	BT 17 JAN 2020	500	0	-0.45%	-9.8
17-Jul-2019	BT 17 JUL 2020	1,000	0	-0.43%	-13.3
21-Aug-2019	BT 22 NOV 2019	250	0	-0.56%	-14.0
21-Aug-2019	BT 17 JUL 2020	750	9	-0.56%	-15.4
18-Sep-2019	BT 20 MAR 2020	250	0	-0.46%	-9.5
18-Sep-2019	BT 18 SEP 2020	1,000	0	-0.44%	-13.4
16-Oct-2019	BT 17 JAN 2020	350	0	-0.48%	-6.7
16-Oct-2019	BT 18 SEP2020	900	0	-0.45%	-14.4

Note: Excluding issues to the *FRDP*

Source: IGCP

Table 17 – *CEDIC/CEDIM*

	[2018]				[2019]			
	Nominal value (EUR million)	Number of operations	Average rate[1] (%)	Average redemption period (years)	Nominal value (EUR million)	Number of operations	Average rate[1] (%)	Average redemption period (years)
CEDIC								
Issuances	[27,100]	[320]	0.01%	[0.20]	[13,315]	[259]	0.02%	[0.49]
Early repayments	[307]	[10]	0.01%	[0.15]	[276]	[15]	0.01%	[0.20]
Year-end balance	*[7,595]*				*[9,720]*			
CEDIM								
Issuances	[287]	[14]	1.04%	[8.59]	[0]	[1]	0.27%	[10.21]
Early repayments	[0]	[0]	0.00%	[0.00]	[3]	[1]	1.08%	[0.51]
Year-end balance	*[956]*				*[953]*			

[1] Rate weighted by investment maturity

Source: IGCP

A3. Performance evaluation of participants in the Portuguese government debt market

In view of the normalisation process for access to international financial markets, it is important to maintain an analysis of the performance of primary dealers (*OEVT*), as a distribution channel for the primary market and as suppliers of benchmark prices and liquidity in the secondary market, as they are a key part of its normalisation, namely as regards volatility levels.

In 2019, of note is the performance of the following *OT* and *BT* market participants, respectively:

Table 18 – Best-performing Primary Dealers in 2019

[1]	Novo Banco, S.A.
[2]	JP Morgan
[3]	HSBC France
[4]	Goldman Sachs
[5]	Citigroup

Source: IGCP

Table 19 – Best-performing Treasury Bill Specialists in 2019

[1]	BBVA
[2]	Deutsche Bank AG
[3]	Goldman Sachs
[4]	Millennium bcp
[5]	Novo Banco, S.A.

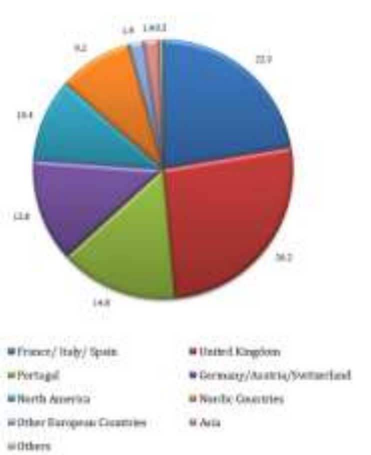
Source: IGCP

A4. Distribution of *OT* syndicated issues

In January 2019, the Portuguese Republic placed EUR 4 billion *OT* through a 10-year syndicated transaction. In this transaction, about 85% of the final amount was placed with non-resident investors, with particular emphasis on investors from the United Kingdom (with about 26% of the distribution), but also the relevant presence of investors from France, Italy and Spain (22%), and Germany, Austria and Switzerland (13%). Also of note is the strong participation of real money investors, in particular Asset Managers, Insurance Companies and Pension Funds, which usually offer greater price stability on the secondary market.

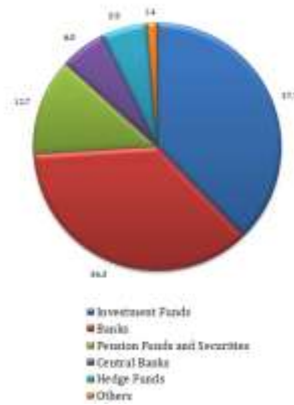
Chart 22 – *OT* syndicated issue as at January 2019: New 10-year *Benchmark*

By investor geography



Source: IGCP

By investor profile



Source: IGCP

A5. Table of State's direct debt movements

Table 20 – State's direct debt (Public accounts basis)

(EUR milllion)

	Balance as at		January - December 2019			Balance as at	
	31-Dec-18	Structure	Issues	Redemptions	Other	31-Dec-19	Structure
1. Euro-denominated debt (excl. EFAP)	**189,914**	**77.3%**	**53,793**	**44,629**	**-1,955**	**197,123**	**78.5%**
Tradable	148,982	60.7%	34,861	28,790	-1,955	153,097	61.0%
BT (discounted value)	13,660	5.6%	14,356	16,033	0	11,983	4.8%
OT	125,095	50.9%	20,505	12,757	-1,955	130,887	52.1%
OTRV	7,950	3.2%	0	0	0	7,950	3.2%
Other bonds	0	0.0%	0	0	0	0	0.0%
MTN	2,270	0.9%	0	0	0	2,270	0.9%
Retail bonds	7	0.0%	0	0	0	7	0.0%
Non tradable	40,932	16.7%	18,933	15,839	0	44,026	17.5%
Saving Certificates	11,872	4.8%	809	660	0	12,020	4.8%
Acquisition value	7,614	3.1%	661	516	0	7,759	3.1%
Capitalised interest	4,257	1.7%	147	143	0	4,261	1.7%
Treasury Certificates	16,418	6.7%	3,848	3,216	0	17,049	6.8%
CEDIC	7,595	3.1%	13,318	11,193	0	9,720	3.9%
CEDIM	956	0.4%	0	3	0	953	0.4%
Margin accounts	397	0.2%	801	574	0	624	0.2%
Other	3,695	1.5%	157	193	0	3,659	1.5%
2. Non-euro denominated debt (excl. EFAP)	**4,017**	**1.6%**	**259**	**86**	**72**	**4,261**	**1.7%**
Tradable	4,017	1.6%	259	86	72	4,261	1.7%
Other bonds	0	0.0%	0	0	0	0	0.0%
MTN	4,017	1.6%	259	86	72	4,261	1.7%
Non tradable	0	0.0%	0	0	0	0	0.0%
3. EFAP	**51,628**	**21.0%**	**0**	**2,000**	**0**	**49,628**	**19.8%**
EFSF	27,328	11.1%	0	2,000	0	25,328	10.1%
EFSM	24,300	9.9%	0	0	0	24,300	9.7%
IMF	0	0.0%	0	0	0	0	0.0%
4. Total debt (1.+ 2.+3.)	**245,558**	**100.0%**	**54,052**	**46,715**	**-1,884**	**251,012**	**100.0%**
5. Exchange rate effect of derivatives hedging (net)	-572	0.0%	0	0	0	-629	0.0%
6. Total debt post derivatives hedging (4.+ 5.)	**244,987**	**0.0%**	**0**	**0**	**0**	**250,384**	**0.0%**

Note: Outstanding amounts are at nominal value (except for instruments issued at a discount, which are at a discount), valued at the end-of-period exchange rate, while issues and redemptions are at cost value. The Other column includes changes in exchange rate, capital gains or losses on issues and redemptions and change in value of perpetuities and consolidated annuities.

Source: IGCP

A6. State's direct debt cost

Table 21 – Cost of interest on State's direct debt (Public accounts basis)

(EUR million)

	2012	2013	2014	2015	2016	2017	2018	2019
Government debt interest	**7,020**	**6,924**	**7,017**	**7,038**	**7,282**	**7,034**	**7,063**	**7,108**
Treasury bills (BT)	572	505	381	99	9	2	-35	-45
Treasury bonds (OT)	4,656	4,198	3,964	4,087	4,544	4,599	4,842	4,858
EFAP loans	1,080	1,704	2,009	2,119	1,846	1,567	1,178	1,058
Savings and Treasury Certificates	303	328	379	562	791	669	731	780
Other	409	189	284	171	92	197	347	457
Other charges (*)	**115**	**87**	**81**	**67**	**101**	**93**	**82**	**61**
EFAP loans (**)	91	56	19	2	16	11	28	15
Other	24	31	63	65	85	82	54	47
Total charges paid	**7,135**	**7,010**	**7,098**	**7,105**	**7,383**	**7,127**	**7,145**	**7,169**
Interest received from financial investments	-285	-169	-126	-13	-4	-4	1	-2
Net interest and other charges	**6,850**	**6,841**	**6,972**	**7,092**	**7,379**	**7,123**	**7,146**	**7,168**

Notes: (*) Other charges include costs associated with the placement of debt in the market (issuance, distribution, redemption and custody of securities), as well as IGCP's management fee and other expenses related to the rating of the Portuguese Republic's credit risk. (**) In 2011 a portion of the EUR 64 million of charges with EFAP loans was reclassified as interest (National Accounts basis) and accrued over the lifetime of the loan. The 2012 figures include the guaranteed commission fee of EFSF bills, totalling EUR 1.2 million, which was reclassified in National Accounts as interest.

Source: IGCP

Table 22 – Interest on State's direct debt (National accounts basis)

(EUR million)

	2012	2013	2014	2015	2016	2017	2018	2019
Government debt interest								
Treasury bills (BT)	621	444	214	35	5	-14	-46	-47
Treasury bonds (OT)	4,368	4,316	4,362	4,361	4,315	4,384	4,220	3,930
EFAP loans	1,552	1,881	2,262	2,215	1,942	1,574	1,245	1,115
Savings and Treasury Certificates	365	400	517	687	734	709	794	764
Other	235	175	281	352	365	454	516	549
Total interest paid	**7,141**	**7,218**	**7,636**	**7,650**	**7,362**	**7,108**	**6,729**	**6,311**
Interest received from financial investments	-284	-167	-125	-13	-3	-4	1	-1
Net interest and other charges	**6,856**	**7,050**	**7,511**	**7,637**	**7,359**	**7,104**	**6,729**	**6,310**

Notes: (1) Unlike Public Accounting, which adopts a cash basis, the National Accounts' perspective considers interest on an accrual basis. (2) The specificity of the methodology for calculating interest on Treasury Certificates in National Accounts may result in minor retroactive revisions to the series.

Source: IGCP

Table 23 – Change in interest on State's direct debt (National accounts basis)

(EUR million)

Year	*Average* debt stock*	Interest paid** (National accounts)	Implicit interest rate	Change in interest	Contributions to change in interest		
					Stock effect	Price effect	Cross effect
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
2000	64,566	3,692	5.7%	0	0	0	0
2001	69,313	3,840	5.5%	147	271	-116	-9
2002	75,962	3,943	5.2%	103	368	-242	-23
2003	81,426	3,895	4.8%	-48	284	-309	-22
2004	87,058	3,871	4.4%	-24	269	-275	-19
2005	96,249	3,995	4.2%	124	409	-257	-27
2006	105,158	4,400	4.2%	404	370	31	3
2007	110,681	4,797	4.3%	397	231	158	8
2008	115,633	5,024	4.3%	227	215	12	1
2009	125,605	4,846	3.9%	-178	433	-562	-49
2010	142,261	5,038	3.5%	192	643	-398	-53
2011	163,657	6,646	4.1%	1,608	758	739	111
2012	185,431	7,141	3.9%	494	884	-344	-46
2013	199,837	7,218	3.6%	77	555	-443	-34
2014	211,201	7.636	3.6%	419	410	8	0
2015	222,207	7,650	3.4%	14	398	-365	-19
2016	231,323	7,362	3.2%	-288	314	-578	-24
2017	237,273	7.108	3.0%	-254	189	-432	-11
2018	241,911	6,729	2.8%	-379	139	-508	-10
2019	248,285	6,311	2,5%	-417	177	-579	-15

Notes:

* The calculation of the average debt stock takes into account the total debt including margin accounts.

** Excludes interest received on deposits and other loans.

(2) = S_t - average stock at the end of t and t-1

(4) = $i_t = (3)_t / (2)_t$

(5) = $\Delta(S_t.i_t) = i_{t-1}.\Delta S_t + S_{t-1}.\Delta i_t + \Delta S_t.\Delta i_t$

(6) = $i_{t-1}.\Delta S_t$

(7) = $S_{t-1}.\Delta i_t$

(8) = $\Delta S_t.\Delta i_t$

Source: IGCP