IGCP
Agência de Gestão da Tesouraria
e da Dívida Pública

Government Debt and Cash Management

Annual Report 2020

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Abbreviations

b.p.	basis points
BdP	Banco de Portugal
BT	Treasury Bills
CA	Saving certificates
CCIRS	Cross Currency Interest Rate Swap
CEDIC	Special Certificates of Government Debt
CEDIM	Special Certificates of Medium and Long-term Debt
CGE	State's General Account
CI	Credit institutions
CNY	Chinese Yuan
CSA	Credit Support Annex
CT	Treasury Certificates
CTPC	*Poupança Crescimento* Treasury Certificates
CTPM	*Poupança Mais* Treasury Certificates
CTT	*Correios de Portugal*
DUC	Single Billing Document
EA	Euro area
EBT	Treasury Bill Specialists
ECB	European Central Bank
EDP	Excessive Deficit Procedure
EFAP	Economic and Financial Assistance Programme
EFR	Reference Financing Strategy
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
GFCF	Gross fixed capital formation
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.*
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
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
PEPP	Pandemic Emergency Purchase Programme
POS	Point-of-sale terminal
PSPP	Public Sector Purchase Programme
RCE	State Collections Network
Repos	Repurchase Agreements
RTE	State Treasury Regime
SES	State Enterprise Sector
SFA	Autonomous Funds and Services
STCP	*Sociedade de Transportes Coletivos do Porto S. A.*
SURE	European instrument for temporary Support to mitigate Unemployment Risks in an Emergency
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

2020 was a year marked by a health, economic and social crisis triggered by the pandemic.

On the onset of 2020 the spread of COVID-19 abruptly and deeply changed social behaviour and economic relations on a global scale, triggering a crisis unprecedented in the modern age. One year later, and despite an immediate, concerted political response of also unprecedented proportions, the economic and social losses are still felt. While families and firms have already adjusted to a new reality and the vaccination process brings hope, the outlook remains uncertain, as it is inextricably linked to the still uncertain evolution of the pandemic.

When the crisis broke out, Portugal was in a virtuous cycle of economic growth and imbalance correction.

Thanks to an in-depth structural adjustment, and unlike in previous crises, the domestic economy had not only a better head start, but also greater resilience to tackle the shock, both in the immediate and in a medium-term perspective. The Portuguese economy contracted by 7.6% in 2020, as a result of the virus containment measures, the cautious behaviour of economic agents and the disruption in the mobility of people and in value chain on a global scale. Despite being a historic recession, it was not far off the fall in the euro area (6.6%) and fell short of the most pessimistic forecasts of several institutions. The dynamics in the labour market and external accounts also surprised on the upside (despite the deterioration compared to 2019), proving the effectiveness of the previous structural adjustment.

Containment of the shock benefited from a robust policy response, put into action from the first outbreaks of the virus in Portuguese territory. Since then, the Government has been adjusting its strategy, keeping it anchored on three pillars: (i) fighting the spread of the virus, (ii) supporting job retention and the economy, (iii) strengthening social support. The policy measures are considerable in size, having raised the budget deficit to 5.7% of GDP and the gross debt ratio to 133.6% in 2020. At the same time, the measures are purposefully targeted (at the most vulnerable sectors) and transitory in nature (being directly linked to the pandemic shock), therefore the deficit and the debt are expected to wind down progressively already from 2021 onwards.

The definition and implementation of the 2020 financing strategy were strongly affected by the pandemic shock and should be analysed in this context of exceptional circumstances.

Although the tension in financial markets was limited in time, particularly striking in March and April 2020, the levels of uncertainty remained high, changing the dynamics of supply and demand for debt, and requiring greater efforts in balancing financing needs and sources. The annual issuance programme was significantly revised and reinforced at the beginning of June, in the context of the presentation of the Supplementary State Budget, which materialised a substantial increase in the State's net borrowing requirements.

In the year as a whole, three syndicates, nine *OT* auctions and two *OT* swap offers were held, with issuances in the middle part of the curve taking on greater relative weight. The 2020 financing sources also included the first disbursement of the EU loan to Portugal under the new SURE instrument. Notwithstanding the already mentioned constraints, the Portuguese Republic showed consistency in *OT* auctions and stability in the average maturity of the issuances, whilst continuing a downward trend in the implicit interest rate of the debt.

IGCP, E.P.E.'s Statutory Bodies[1]

Board of Directors

Cristina Maria Nunes da Veiga Casalinho (Chairperson)[2]

António Abel Sancho Pontes Correia (Member)[3]

Maria Rita Gomes Granger (Member)[3]

Advisory Board

Cristina Maria Nunes da Veiga Casalinho (Chairperson)

Alberto Manuel Sarmento Azevedo Soares[4]

Daniel Bessa Fernandes Coelho[5]

Hélder Manuel Sebastião Rosalino[6]

Sérgio Tavares Rebelo[5]

Vasco Manuel da Silva Pereira[4]

Vítor Augusto Brinquete Bento[4]

Single Auditor[7]

Sociedade JM Ribeiro da Cunha & Associados, SROC, Lda

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[1] As at the date the Report is published.

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

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

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

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

[6] Member of the Board of Directors of Banco de Portugal appointed by the bank.

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

Primary Market Participants in 2020[8]

OT – Government bonds

OEVT – Primary Dealers	*OPM* – 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 & Co International Plc	
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 & Co International Plc
Natwest Markets, Plc
Nomura International, Plc
Novo Banco, S.A.
Société Générale

[8] As at 31 October 2020.

Main Highlights

In 2020, the State's net borrowing requirements will have reached EUR 16.8 billion, broken down by a budget deficit of about EUR 12.2 billion and other borrowing requirements of EUR 4.6 billion. The deterioration compared to 2019 derived from an increase in the deficit (+EUR 8.3 billion), reflecting the policies to combat the health, economic and social crisis triggered by COVID-19. The pandemic having caused an unforeseen and significant deterioration in financing requirements, it was necessary to call for a Supplementary State Budget in June and to strengthen the annual financing programme accordingly.

Borrowing requirements and sources in 2020 (EUR million)	
GROSS BORROWING REQUIREMENTS	**24,899**
State Budget deficit	12,242
Net acquisition of State's financial assets	4,585
OT redemptions (excl. swap)	8,019
Official loans repayment (EFAP+SURE)	0
Other MLT debt repayments	53
FINANCING SOURCES	**24,899**
Use of deposits (excl. margin accounts)	-10,226
Official loans issuances (EFAPF+SURE)	3,045
OT and MTN issuances (excl. swap)	27,157
OTRV issuances	0
Other MLT debt issuances	16
BT net issuances (excl. securities held by *FRDP*)	-530
CA/CTPC net issuances	711
Other operations in Government's Central Treasury	4,726
Deposits balance at year-end (excl. margin accounts)	**17,047**
Margin accounts balance at year-end	415
Total deposits balance at year-end	**17,462**

In line with the usual strategy, the year's financing was mostly backed by *OT* issuances in the amount of EUR 27.2 billion (plus EUR 2.7 billion via swap transactions). Furthermore, Portugal received the first tranche of the EU loan under the SURE instrument, created in 2020 to assist Member States in financing employment support measures in the context of the pandemic. As in 2019, there was also a decrease in the *BT* balance in 2020.

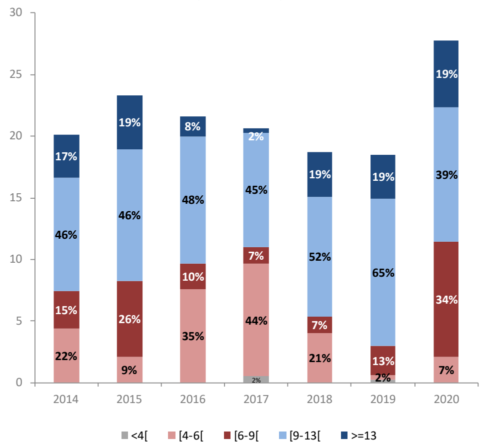
Market financing operations in 2020	Nominal value (EUR million)	Residual Maturity (years)	Average Allotment rate (%)
***OT* SYNDICATED ISSUES**			
OT 0,475% out 2030	4,000	10	0.50%
OT 0,7% out 2027	5,000	7	0.73%
OT 0,9% out 2035	4,000	15	0.93%
OT AUCTIONS			
OT 2,875% out 2025	1,568	5	0.17%
OT 2,875% jul 2026	2,270	6	0.18%
OT 0,7% out 2027	537	7	0.10%
OT 2,125% out 2028	654	8	-0.09%
OT 3,875% fev 2030	1,666	10	0.70%
OT 0,475% out 2030	4,342	10	0.51%
OT 2,25% abr 2034	795	14	0.56%
OT 4,1% abr 2037	346	17	0,47%
OT 4,1% fev 2045	247	25	1.05%
OT SWAPS			
OT 2,125% out 2028	592	8	-0.13%
OT 1,95% jun 2029	1,733	9	0.09%
BT AUCTIONS (gross issues, excl. *FRDP*)			
3 months	1,288	0.25	-0.33%
6 months	3,042	0.50	-0.39%
11 months	3,871	0.92	-0.35%
12 months	5,828	1.00	-0.42%

The spread of COVID-19 drastically affected the global economy and prompted a generalised increase in volatility. On the financial front, the stress was significant but limited in time, benefiting from a swift, robust and concerted policy response on a global scale: from the summer onwards, market conditions gradually resumed pre-pandemic trends. In the secondary market, the 10-year *OT* rate even reached an historic low in December (-0.05%).

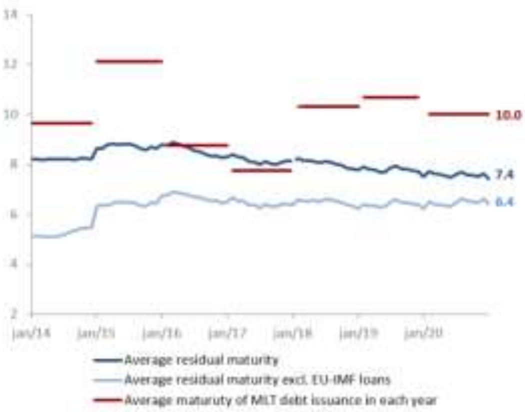
***OT* interest rates in the secondary market (%)**

The impact of COVID-19 on financing needs and, temporarily, on market conditions, affected the definition and execution of the financing programme. Of note is the increase in debt issuances with a maturity of less than 9 years (41% of total medium- and long-term issuance in 2020, vs. 16% in 2019). Nevertheless, the average debt maturity remained globally stable.

Issuances by maturity (EUR billion)

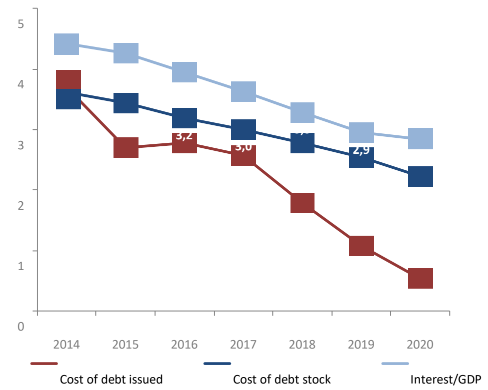


Maturity of State's direct debt (years)



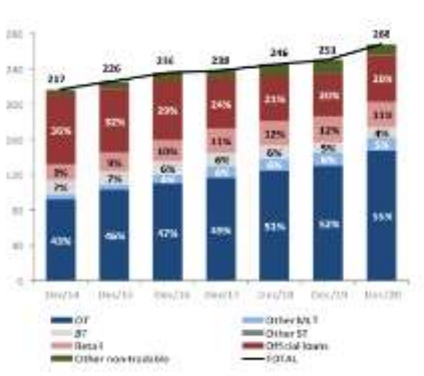
Despite the 2020 exceptional circumstances, the downward trajectory in the cost of financing continued. The implicit interest rate on debt stood at 2.2%, while the marginal cost of funding weighted by amount and maturity fell to 0.5%.

Cost of the State's direct debt (%)



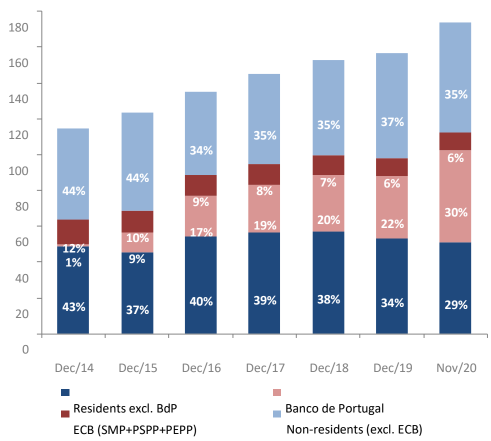
The State's direct debt increased to EUR 268.3 billion by the end of 2020 (+6.9% compared to 2019), reflecting the increased financing needed to combat the pandemic.

State's direct debt by instrument (EUR billion)



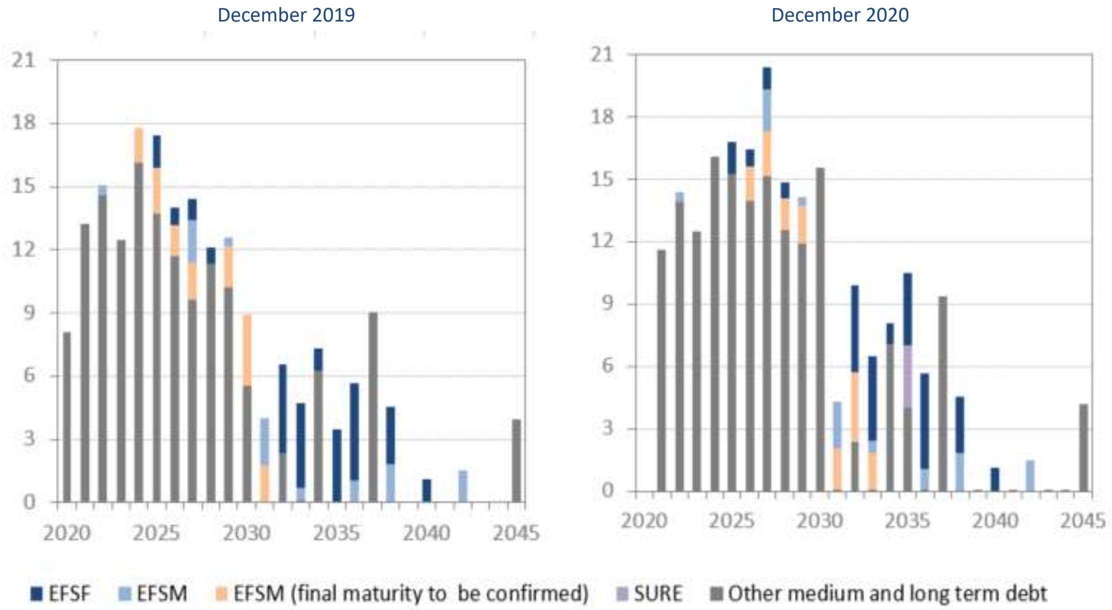
As regards the composition of State's direct debt securities holders, the increased weight of the Eurosystem reflects the reinforcement of the asset purchase programmes to tackle the crisis. The launch of the new programme (PEPP) is particularly noteworthy.

State's direct debt securities holders (EUR billion)



The smoothing of the repayment profile is still a guiding target in Portuguese public debt management, given its contribution to reducing refinancing risk. In 2020, despite the challenges posed to public debt management in the context of the pandemic, the continuous monitoring of repurchase and/or debt exchange opportunities continued. In this plan, although not providing an active behaviour as in 2019, the Portuguese Republic carried out two swap transactions in the year, having repurchased an aggregate nominal value of EUR 2.3 billion of *OT* to be redeemed in 2021-2022, against the issuance of *OT* with a longer maturity.

***MLT debt repayment schedule*[9]**
(EUR billion)



[9]*Excludes retail debt instruments, CEDIC* and *CEDIM*. Includes maturities of EFSM loans to be formally defined.

1. THE ECONOMY AND FINANCIAL MARKETS

1.1. International Macroeconomic Context

In 2020, the COVID-19 pandemic caused an economic shock of global scale, with uneven intensity across countries and sectors. The containment measures of the public health crisis and the precautionary attitude of economic agents led to an unprecedented fall in activity, with world GDP falling back for the first time since 2009 (when it contracted: -0.1%)[10]. In accordance with the IMF's October estimates[11], economic activity fell back 4.4% in real terms in 2020, following a 2.8% increase in 2019. This reflects a sharp downturn in international trade (-10.4% in 2020, against +1.0% in 2019 and +3.9% in 2018) and a contraction in investment[12], relatively more severe in the euro area (-11.2%) than in the USA.

In 2020, the drop in activity was common to advanced economies and emerging economies: in the USA the output fell 3.5% (+2.2% in 2019), in the euro area the GDP fell by 6.6% (+1.3% in 2019) and a similar trend was observed in other economies such as the United Kingdom, India, Russia and Brazil. The exception was China, where economy boosted by 2.3% in 2020 (+6.1% in 2019).

The accommodative nature of monetary policy in the euro area and the USA was reinforced in 2020 to tackle the impact of the pandemic shock. In the USA, the economic shock was less intense than in other advanced economies thanks to: (i) a quick and forceful response of monetary and fiscal policies, with emphasis on measures of direct support to household consumption; (ii) less severe restrictions on mobility; (iii) a contained weight of sectors more exposed to these restrictions; (iv) a relatively solid economy before the onset of the pandemic. In the euro area, the historical shortfall (much higher than in 2009: -4.5%) was mainly due to strong restrictions on mobility and activity in response to the strong incidence of COVID-19 in Europe from February onwards. The activity contraction in 2020 was, however, uneven among the main European peers: GDP fell by 4.9% in Germany, 8.1% in France, 11% in Spain, 8.9% in Italy and 7.6% in Portugal. This disparity is due to the different structures of the economy in each country and the economic containment and support measures taken by the different governments.

In addition to the reinforcement of monetary stimulus, the economic policy response to the pandemic was characterised by the introduction of substantial fiscal stimuli, particularly among advanced economies. At European level, the three safety nets agreed in the Eurogroup[13], the European Council's

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[10] This document considers the statistical information and macroeconomic forecasts available as of 31 March 2021.

[11] As of 31 March 2021, the latest complete database published by the IMF reported to October 2020. In its January update, the IMF slightly improves its forecast for the world economy. The Fund estimates that there will have been a fall in global GDP of 3.5% in 2020, against -4.4% last October. It also revises upwards the growth forecast for 2021, which now stands at 5.5%, three tenths above its previous forecasts. The key factor in this moderately more positive reading is the COVID-19 vaccines, which will operate in a context of strong support from economic and monetary policies. In fact, the risk balance is less unidirectional than on other occasions: the IMF continues to see negative risks, but confines them to the first period of 2021, while over a longer temporary horizon, it mentions the existence of upside risks, precisely because of vaccine implementation.

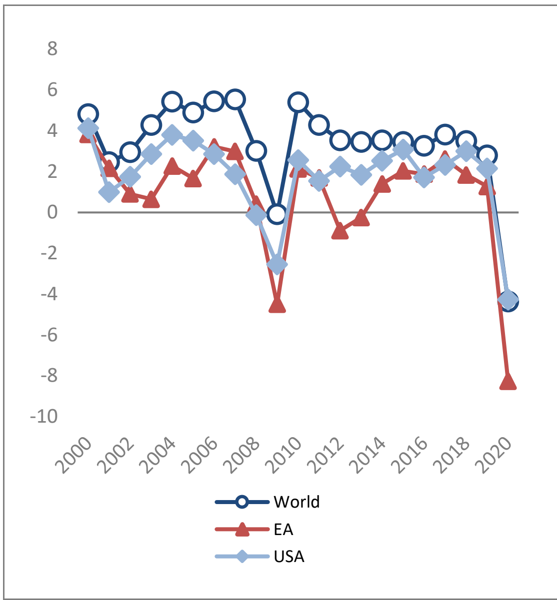
[12] Throughout the document, references to the investment variable correspond to the Gross Fixed Capital Formation (GFCF) component.

[13] Agreement on safety nets for workers (SURE - a European temporary support instrument to mitigate unemployment 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-bymario-centeno-following-the-eurogroup-videoconference-of-9-april-2020/).

decisions on the European Recovery Fund and the EU budget[14] and the flexibility proposed by the main institutions in a set of rules, particularly at budgetary and financial level, should all be highlighted[15]. This set of measures had a direct impact on tackling the crisis and has also boosted confidence levels by showing Member States' commitment to the European project.

Chart 1 – World economic growth

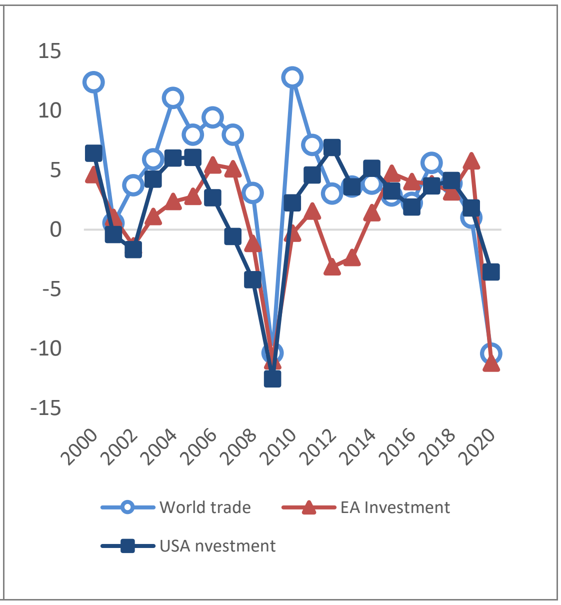
(YoY gr, %)



Source: IMF (October 2020).

Chart 2 – International trade and investment

(YoY gr, %)



Source: IMF (October 2020) and AMECO (November 2020).

Labour market conditions were also affected by the pandemic shock. In the USA, the unemployment rate reached a historic high of 14.7% in April, recovering throughout the year to reach 6.7% of the active population in December 2020, due to a strong acceleration in job creation in the second half of the year. In the euro area, the labour market also showed an unfavourable trend, with the unemployment rate standing at 8.1% in December 2020 - a year-on-year increase of 0.7 p.p., although already recovering against the peak reported in August (8.7%, the highest monthly record since December 2017).

As regards developments in consumer prices, the IMF estimates a fall in inflation in 2020, placing the evolution of the general index at +0.8% in advanced economies (+1.4% in 2019). Two trends are at the root of this behaviour: the sharp contraction in aggregate demand and the disruptions in international distribution chains resulting from measures to restrict activity and mobility between countries.

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

[15]Among the many initiatives in this area, the activation of the Stability and Growth Pact's general derogation clause and the guidelines on banking supervision and regulation issued by the ECB and the European Banking Authority (EBA) are noteworthy.

According to the IMF, inflation in the USA, as measured by the Consumer Price Index (CPI), is estimated at +1.5% (+1.8% in 2019), and in the euro area at +0.4% (+1.2% the previous year).

As regards public finance, the IMF forecasts similar developments in the euro area and the USA. On average, the 19 countries of the single currency will have recorded a substantial deterioration in the budget balance (to a deficit of 10.1% in 2020), more 9.5 p.p. than in 2019), with public debt marking the first increase since 2014 (to 101.1% of GDP, 17.2 p.p. more than the previous year). Also in the USA, the expansionary fiscal policy brought the budget deficit up (to 18.7% of GDP in 2020, 12.4 p.p. more than in 2019), which, in turn, resulted in a new increase in debt stock, to 131.2% of GDP (+22.5 p.p. in annual terms) - a trend that is expected to continue in the coming years.

1.2. The Portuguese economy

The Portuguese economy replicated the strong contraction on a global scale, with the pandemic shock directly affecting two growth drivers: private consumption was significantly affected by social restrictions and a more cautious behaviour of households; exports dropped sharply in light of the slump in global demand and restrictions in the value chain and world trade. In 2020, Portuguese GDP recorded a historic contraction of 7.6% (compared to a growth of 2.5% in 2019). After the sharp fall in activity in the first half of the year and a significant recovery in the third quarter, reflecting the economy's resilience, the last quarter of the year was marked by the outbreak of the pandemic, which was particularly severe in Portugal, and a decisive contribution to a further slowdown in output. Even so, the strength of activity resumption following the first containment and the acceleration of vaccination efforts open up moderately optimistic prospects for 2021.

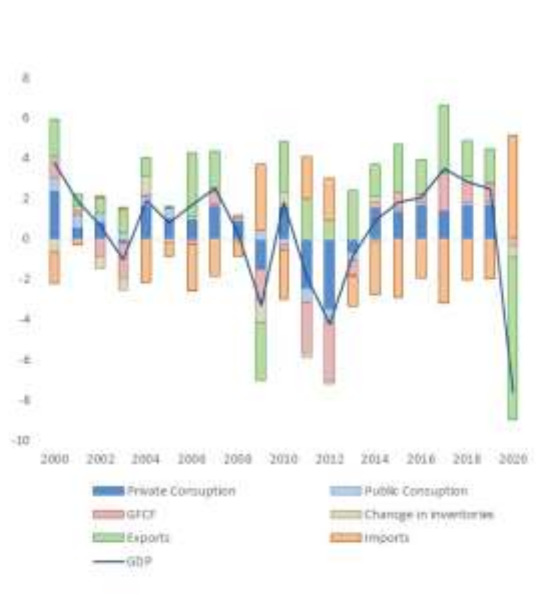
The contributions of domestic and foreign demand were negative in 2020, with the former reaching -4.6 p.p. (+2.8 p.p. in 2019) and the second -2.9 p.p. (-0.3 p.p. in 2019). Except for public consumption, all components recorded negative changes. Thus, private consumption dropped by 5.9%, GFCF decreased -1.9%, exports fell -18.6% and imports -12.0%. In GFCF, it is evident that construction maintained a positive evolution, moving forward 4.7% in 2020 (7.2% in 2019). The sharp fall in exports resulted mostly from the services component, which shrank by 34%, reflecting the impact of COVID-19 on tourism. Exports of goods fell by 11.4%, slightly more than imports of goods, which fell by 10.3%.

In this context, the labour market was surprisingly resilient. According to the INE, in 2020 the unemployment rate stood at 6.8% of the active population, having increased by only 0.3 p.p. compared to 2019. Employment support measures, with particular emphasis on the simplified layoff, and a more robust economic recovery than initially expected in the third quarter of the year will have contributed to mitigate the impact of the pandemic on the labour market. The annual average youth unemployment rate (15-24 years of age) reached 22.6%, increasing 4.3 p.p. from the previous year. The active population decreased by 1.7% between 2019 and 2020, also reflecting the specificity of the pandemic crisis, which promoted a shift - mainly statistical - from unemployment to inactivity, given the restrictions on mobility and the need for family assistance[16].

[16] In statistical terms, those who have not actively sought work in the recent period and/or are not immediately available for work are classified as inactive population, rather than as belonging to the class of unemployed.

Chart 3 – Economic growth, Portugal

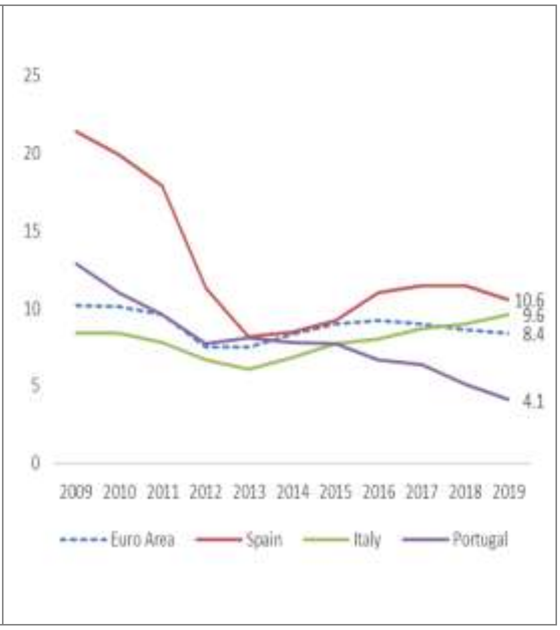
(Contributions of the YoY growth rate of GDP in real terms, p.p.)



Source: INE

Chart 4 – Unemployment rate, Portugal and European context

(%)



Source: Eurostat

In 2020, Portugal reported a budget balance of -5.7% of GDP. The sharp deterioration vis-à-vis 2019, where the budget balance reached a historic surplus of 0.1% of GDP, reflects the exceptional circumstances of the COVID-19 pandemic. The implementation of discretionary economic and social support measures and the free play of automatic stabilisers allowed the impact of the shock on activity to be contained but resulted in a reduction in revenue (5.0%) and an increase in expenditure (7.8%). The performance of revenue is strongly influenced by developments in indirect taxes (a contribution of -3.2 p.p.), as a result of the contraction of economic activity. On the expenditure side, the significant growth of subsidies is worth noting (a contribution of 3.0 p.p.), reflecting the impact of one of the core employment support measures - the simplified layoff. Also of note is a further significant decrease in interest expenditure (-8.6%), allowing the downward trend in the share of this item in GDP to be maintained, notwithstanding the sharp reduction of the denominator in 2020. In this framework, the primary balance recorded a deficit for the first time, settling at -2.8% of GDP in 2020 (a deteriorating 5.9 p.p. compared to the previous year).

The public debt in the *Maastricht* perspective halted the downward trend seen since 2015, settling at 133.6% of GDP at the end of 2020. This figure expresses an annual increase of 16.8 p.p. of GDP.

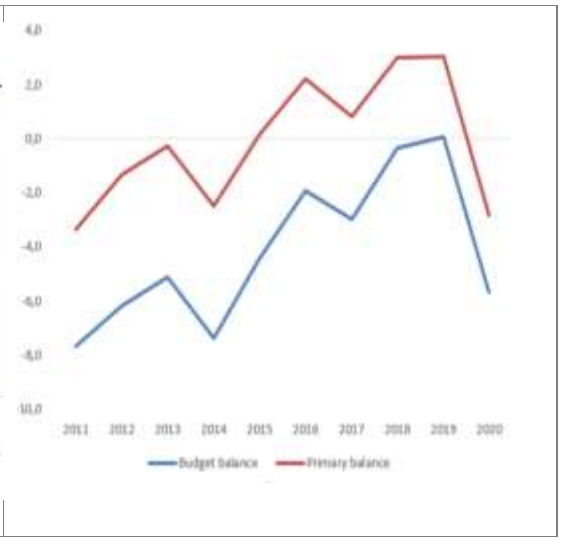
Chart 5 – *Maastricht's* debt, Portugal

(% GDP)

Source: Banco de Portugal, INE.

Chart 6 – Budget balances, Portugal

(% GDP)



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

Source: INE

The recent history in terms of robust economic growth and discipline in public finances - reflected in a cumulative reduction in the debt ratio of 16.1 p.p. of GDP between 2014 and 2019 - has enabled a relatively stable year for the financial rating of the Portuguese Republic, rated investment grade by the main agencies since the end of 2018. Standard & Poor's maintained its rating at BBB (from March 2019), having revised the outlook from positive to stable in April. DBRS maintained its rating and outlook for the Portuguese Republic (BBB (high), stable), in the two annual rating windows. Fitch revised its outlook to stable in April, keeping the rating (BBB) unchanged throughout the year. Moody's opted not to issue its opinion in 2020, with the rating (Baa3) and outlook (positive) assigned in 2018 and 2019, respectively. Therefore, the Portuguese Republic ended 2020 maintaining its financial rating by the main agencies.

1.3. Monetary Policy and Financial Markets

Pandemic has flipped expectations that monetary policy normalisation would take place, with major central banks strongly reinforcing their accommodative trend in 2020. In March, the US Federal Reserve decided to cut the benchmark interest rate by 150 b.p., placing the fed funds rate between 0.0% and 0.25%[17]. At the last meeting of the year, the Federal Reserve decided to maintain the target range, due to improving financial conditions (stock market highs and lower volatility) and the ongoing economic rebound. Also in March 2020, the ECB's Governing Council decided to launch a new public and private sector asset purchase programme, the Pandemic Emergency Purchase Programme (PEPP), with the aim of combating the financial and economic risks triggered by the COVID-19 pandemic. This programme, initially launched with an allocation of EUR 750 billion and duration until the end of 2020, was combined

[17] The overall cut results from two decisions at exceptionally close meetings of the Federal Open Market Committee (-50 b.p. on March 3, followed by -100 b.p. on March 16).

with the increase in the size of the total envelope of the asset purchase programme (APP) by EUR 120 billion throughout 2020 (decided one week earlier). Additionally, the financing facilities for the financial system with improved conditions (TLTRO-III) were recalibrated and the swap lines in US dollars (USD) with other central banks were re-established. Subsequently, in June, the euro area monetary authority decided to reinforce the PEPP by EUR 600 billion (for a total of EUR 1,350 billion) and extend its duration to June 2021. At the last meeting of the year, in December, the Governing Council of the ECB decided to further strengthen the PEPP by EUR 500 billion, for a total of EUR 1,850 billion, extending the duration of the programme to March 2022 and deciding that the reinvestment of principal payments of maturing securities under this programme would continue at least until the end of 2023.

In this context, 3-month US Libor fell sharply (from 1.9% at the beginning of 2020 to 0.24% in July), remaining around this figure until the end of the year. The 3-month Euribor decreased more smoothly, ranging between -0.3% and -0.5% over 2020.

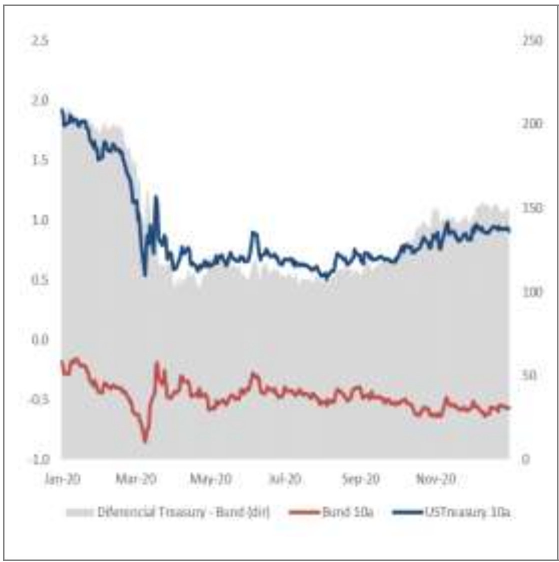
The trend in long-term interest rates was similar in these economies, with the spread between the USA and Germany narrowing over the first half of the year, subsequently stabilising at around 150 b.p., a reference that was maintained until the end of the year. Nevertheless, the rates recorded in the North American market remain distant from the negative rate environment in Europe. In the United States, 10-year bond yields were on a downward trend up to September, showing a slight upward trend in the last quarter of the year, associated with improved long-term growth expectations. In the European Union, the Bund rate also reached minimum values in March, rising around 30 b.p. in the first half of the year and stabilising around -50 b.p. in the second half. Most euro area countries experienced a similar trend in the yields of their securities, with particular emphasis - on an annual basis - on the narrowing of spreads in Portugal, Spain, Italy and Greece vs. Germany.

As far as the foreign exchange market is concerned, the highlight is the euro's trend towards appreciation against the main currencies: compared to the British pound, the euro appreciated slightly over the year, and there was a similar, though more pronounced, behaviour against the US dollar. As regards the renminbi, the rates recorded were more unstable, ranging between 7.5 and 8.2 CNY.

Besides the risks and uncertainties associated with the pandemic, the developments in the financial markets in 2020 were characterised, particularly towards the end of the year, by the imminence of a new phase in the relationship between the United Kingdom and the European Union. In fact, despite the United Kingdom ceased to be a Member State on 31 January 2020, the actual change of circumstances behind the Brexit only took place as from 31 December 2020, when the transition period ended (see Box 1).

Chart 7 – Long-term interest rates

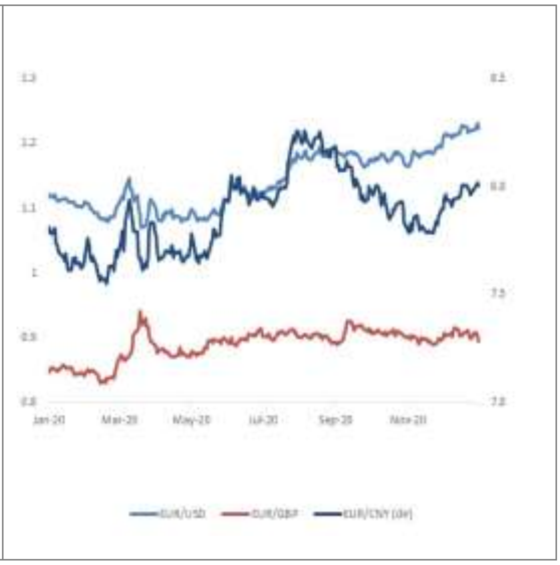
(%, left) (b.p., right)



Source: Bloomberg

Chart 8 – Exchange rates

(Currencies versus the euro)



Source: Bloomberg

Box 1 | Impact of Brexit on Government Debt Management

On 31 January 2020, the United Kingdom officially ceased to be part of the European Union, following the vote to that effect in the 2016 referendum. Until 31 December 2020, there was a transition period that allowed the rules on market access and banking activities by entities based in the United Kingdom to remain in force.

Portugal has 19 banks with primary dealer status (*OEVT* and *EBT*) and eight of these were headquartered in the UK. With the United Kingdom's exit from the EU, these banks - which until the end of 2020 were authorised to operate in Portugal under the EU passport regime - would no longer be able to operate in the European Union. Thus, these banks would have to transfer their primary dealer status to an EU-based entity to maintain their activity in Portugal. The following table summarises this process.

Table 1 – New entity for UK-based banks

UK-based entity	New EU entity	Country new entity	Date of transfer of status
Goldman Sachs International Bank	Goldman Sachs Bank Europe SE	Germany	09/ 11/ 2020
Natwest Markets Plc	Natwest Markets N.V.	Netherlands	25/ 11/ 2020
Barclays Bank PLC	Barclays Bank Ireland PLC	Ireland	27/ 11/ 2020
Nomura International plc	Nomura Financial Products Europe GmbH	Germany	30/ 11/ 2020
Jefferies International Limited	Jefferies GmbH	Germany	01/ 12/ 2020
J.P. Morgan Securities PLC	J.P. Morgan AG	Germany	04/ 12/ 2020
Citigroup Global Markets Limited	Citigroup Global Markets Europe AG	Germany	09/ 12/ 2020
Morgan Stanley & Co. International plc	Morgan Stanley Europe SE	Germany	15/ 12/ 2020

The transfer of the statute had no impact on the regular functioning of auctions or syndicated issues and at no time undermined the activity of these banks with the IGCP.

The United Kingdom's withdrawal from the EU also led to the transfer of legal documentation supporting the contracting of derivative financial instruments to the banking entities that started to provide services in the euro area. This shift, required to ensure business continuity, was achieved through bilateral negotiations/replications of ISDA contracts.

Finally, in order to limit exposure to credit risk, positions in derivative financial instruments with these counterparties were also transferred to EU entities through novation agreements.

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 must ensure the financing required for budget implementation, so as to minimise direct and indirect costs in a long-term perspective and to ensure that they are evenly distributed across the various annual budgets, avoiding excessive time concentration of amortisations and excessive risk exposure.

In 2020, due to the impact of the pandemic triggered by COVID-19, there was a need to adjust the 2020 State Budget (OE 2020) through a Supplementary State Budget (the OS 2020). The Supplementary Budget forecast net borrowing requirements of EUR 20.3 billion, which represented an increase of EUR 10.7 billion over the projection of the 2020 State Budget (which underpinned the initial financing programme). This increase was mainly explained by the budget deficit (more EUR 9 billion), as a result of the measures to combat the health crisis and support the economy triggered by the pandemic, but also by the increase in net acquisition of financial assets by the State (more EUR 1.7 billion).

These developments motivated a significant revision of the annual financing programme, disclosed to the market in June. Worth mentioning are the expected issues of Treasury Bonds (*OT*), net of swaps, revised to around EUR 29.3 billion, which meant an increase of EUR 12.6 billion over the original estimate. Net financing through the issue of Treasury Bills (BT) was also revised, pointing at the time to an increase of EUR 3.2 billion, compared to an initially projected net change of EUR 1.3 billion.

By the end of 2020, net borrowing requirements actually amounted to EUR 16.8 billion[18], which represents an increase of approximately EUR 7.3 billion compared to 2019. Comparing with the OS 2020 forecast, the net borrowing requirements were lower by around EUR 3.4 billion. This decrease is due to a more favourable than expected budget execution in terms of budget deficit (minus EUR 2.6 billion) and the net acquisition of financial assets by the State (minus EUR 0.8 billion).

[18] The figures on budget outturn are of a provisional nature until publication of the State's General Account 2020.

Table 2 – Summary of State's borrowing requirements and sources in 2020

(EUR million)	Financing Prog. OE2020	Financing Prog. OS 2020	Implementation [P]	Implementation vs. Program.
GROSS BORROWING REQUIREMENTS	**17.596**	**28.281**	**24.899**	**-3.382**
Net borrowing requirements	**9.577**	**20.262**	**16.827**	**-3.434**
State budget deficit	5.874	14.846	12.242	-2.604
Net acquisition of State's financial assets (excl. privatisations)	3.703	5.416	4.585	-830
One-off operations	0	0	0	0
MLT debt repayment	**8.019**	**8.019**	**8.072**	**53**
OT redemptions (excl. swaps)	8.019	8.019	8.019	0
Official loans issuances (EFAPF+SURE)	0	0	0	0
Other MLT debt repayments	0	0	53	53
FINANCING RESOURCES	**17.596**	**28.281**	**24.899**	**-3.382**
Use of deposits (excl. margin accounts)	-2.073	-2.687	-10.226	-7.539
Official loans issuances (EFAPF+SURE)	0	0	3.045	3.045
OT and MTN issuances (excl. swap)	16.712	29.333	27.157	-2.176
OTRV issuances	0	1.000	0	-1.000
Other MLT debt issuances	0	0	16	16
BT net issuances (excl. securities held by *FRDP*)	1.323	3.242	-530	-3.772
CA/CTPC net issuances	149	149	711	562
Other operations in Government's Central Tre	1.485	-2.756	4.726	7.482
Deposits balance at year-end (excl. margin accou	**8.894**	**9.509**	**17.047**	**7.538**
Margin accounts balance at year-end	619	978	415	-563
Total deposits balance at year-end	**9.513**	**10.486**	**17.462**	**6.975**

Notes: (a) The figures of 2020 outturn are of a provisional nature until the CGE/2020 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 (budgetary) perspective and the cash perspective (presented above).

Source: IGCP

Due to the pandemic crisis and in line with the Supplementary Budget, the defined financing strategy included the issuance of three new benchmarks (7, 10 and 15 years, see Annexes A2 and A4) and the reopening of different *OT* lines through auction, with the aim of providing liquidity along the curve, anticipating a gross *OT* issuance volume of EUR 29.3 billion. Due to the reduction in net borrowing requirements (perceived as of late summer through the budget execution data) and the materialisation of additional funding sources (EUR 3 billion loan disbursement under the European SURE instrument, see Box 2), the actual volume of gross *OT* issuance (excluding swaps) stood at EUR 27.2 billion. For the same reasons, the volume of net BT issuance was reduced from that programmed in OS 2020 by around EUR 3.8 billion and the scheduled issuance of EUR 1 billion in OTRV was cancelled.

Despite the high volatility felt in the market in 2020, particularly in the first half of the year, the successful execution of the financing programme was based on the regular and predictable issuance of public debt securities throughout the year, with particular emphasis on the euro market, to provide liquidity to *OT* lines, reduce volatility in the proximity of the issuance windows, take advantage of growing investor demand for Portuguese public debt and facilitate the execution of the Eurosystem's asset purchase programmes for Portugal (PSPP and PEPP). Throughout 2020, the ECB's move was reflected in net asset purchases of approximately EUR 1.7 billion per month[19]. For the year as a whole, net purchases of Portuguese public debt amounted to EUR 20.8 billion, which compares with EUR 4.3 billion in 2019 (under the PSPP). The demand for Portuguese public debt also benefited from the promotion with financial intermediaries and international investors: in 2020, the IGCP continued to provide frequent information to the market, end-investors and rating agencies, and maintained regular advice and contact with primary market participants *(OEVT* and *EBT*). Bearing in mind the social restrictions on a global scale in the context of the pandemic, most contacts took place virtually, resulting from a concerted effort by the financial community to adapt to digital media and the inseparable reinforcement of the underlying security parameters.

In 2020, the medium- and long-term financing in the market amounted to approximately EUR 28 billion (nominal value), with EUR 13 billion (47%) issued through *OT* syndicated transactions, EUR 12 billion (45%) through *OT* auctions, EUR 2.3 billion (8%) through *OT* swap operations. As a reference, in 2019 *OT* issues (in nominal value) through syndicated issues, regular auctions and swap auctions amounted to EUR 4 billion (22%), EUR 10 billion (54%) and EUR 4.3 billion (24%), respectively.

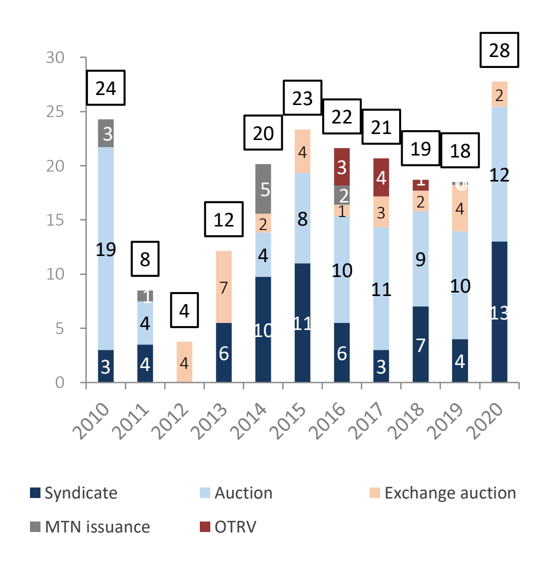
As regards the type of placement, the weight of financing carried out through syndicated operations increased, as opposed to a decrease in regular auctions, as three new securities were opened in 2020 and only one in 2019. However, the amount issued in auctions in 2020 was higher than in 2019. Despite constraints in 2020, the IGCP maintained a regular issuance pattern, aiming at one issuance per month, but with the need to simultaneously use the second auction window, as was the case in April and July. The second auction window was also used in August, traditionally a month with no *OT* issues, although in this case the first window was not used.

As usual, the first half of the year had a higher weight in raising annual financing, corresponding to 62% of the total issued accounting for *OT* swap offers (64% without accounting for exchange offers), due mainly to the launching of two new 10- and 7-year bonds in January and April, respectively, through syndication. The third quarter also makes a significant contribution to the amount issued, corresponding to 30% of the total, due essentially to the launching of a new 15-year bond in July. In the fourth quarter, the amount issued was only EUR 2 billion, including the amount issued through a swap offer in December.

[19] Since the breakdown of data on PEPP net purchases only takes place for a two-month period, it is assumed in this report that purchases of Portuguese government debt securities under the PEPP in December 2020 correspond to 50% of purchases in the period consisting of December 2020 and January 2021.

Chart 9 – Issuance of medium- and long-term debt by type of placement

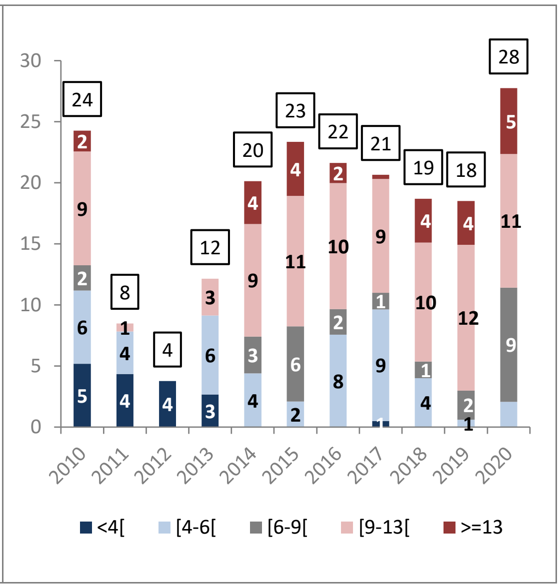
(EUR billion)



Source: IGCP

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

(EUR billion)



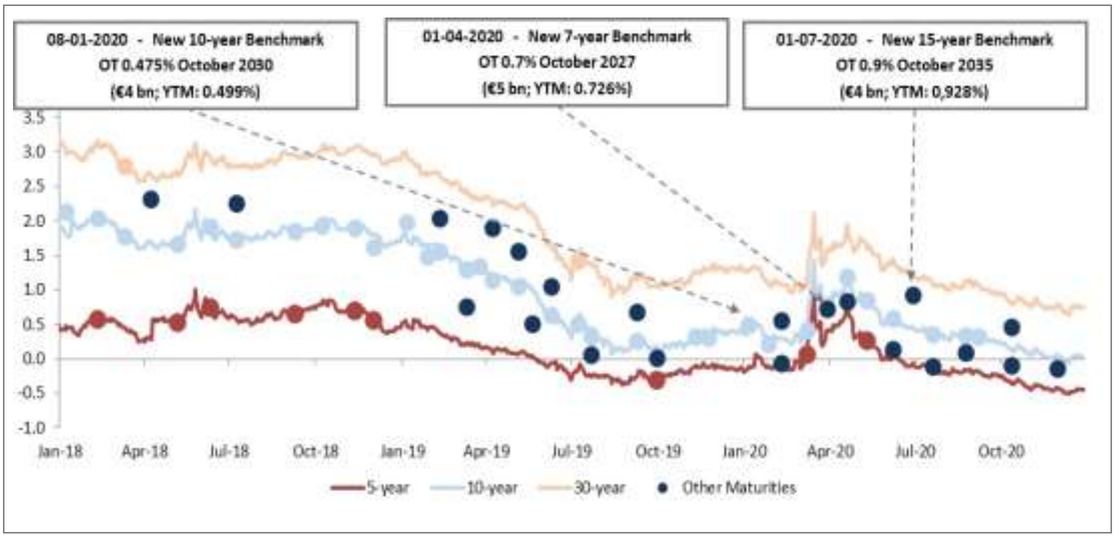
Source: IGCP

The ECB's initiatives, through the PSPP and PEPP asset purchase programmes, had a positive impact on the *OT* and *BT* market by helping to eliminate volatility and improve liquidity levels. After a peak of uncertainty as a result of the deterioration of the health situation in Europe by the end of winter, investors once again became interested in the European debt market, particularly in *OT*. Thus, in 2020 there was an increase in the weight of real money investors, namely insurance companies, pension funds, central banks (excluding the ECB) and other public entities, but also investors from Italy, Spain, Germany, Benelux and Asia were worth noting. These investors were typically interested in the longer end of the curve, thereby creating issuance opportunities in these maturities. The remaining demand was still concentrated on the most liquid maturities: 7 and 10 years, in particular.

In 2020 the increasing demand for 7 years was due to the volatility felt between late March and early June, with this maturity recording positive interest rates during this period. In the second part of the year, with significantly more favourable financial conditions, most investors resumed strategies of extending the maturity of their portfolios, particularly at the end of 2020. Thus, as traditionally, the Portuguese Republic brought the implementation of the financing programme in line with investors' perceived preferences, reconciling cost versus risk optimisation with the recommendations of the Primary Dealers (*OEVTs*). Issuances over 9 years accounted for 59% of the total issued (EUR 16 billion), compared to a share of 84% in 2019. In contrast, in the short term (less than 9 years) only 34% of the total was issued, which compares with 13% of 2019 issuances.

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 in 2020 was 10 years, lower than that recorded in 2019 (10.7 years). With this decrease, the average maturity of debt stock fell slightly to 7.4 years in December 2020 (including official loans).

As regards the *BT* issuance strategy, the issuance policy initiated in 2015 was maintained in 2020, i.e., concentrating issuances in six lines only and opening only one new line every two months, which allows for an increase in the outstanding balance per line. Due to the increase in Treasury liquidity buffers in the last quarter of the year, the October and November auctions were suppressed, leading the *BT* programme to have only five lines carried over to 2021 (similarly to 2019).

BT rates followed a similar path to *OT* rates, with high volatility between March and April and a downward trend until the end of the year. The average annual issuance cost corresponded to -0.38% in 2020, against -0.41% in 2019.

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 execution of debt repurchases aimed at smoothing the portfolio's repayment profile. In 2020, the strategy of smoothing the repayment profile continued, with particular emphasis on years 2021 and 2022, contributing to a reduced refinancing risk. Throughout the year, debt repurchases were carried out through swap auctions, for an amount totalling around EUR 2.3 billion (see Table 16).

2.2. Secondary Market

The year 2020 was marked by the global spread of the SARS-CoV-2 virus, affecting the normal functioning of the world economy, with most macroeconomic indicators showing a downward trend. Volatility increased in all markets, with the prospect of an unprecedented economic crisis. However, unlike previous recessions, the policy response was swift, robust and concerted among the various decision-makers, particularly in advanced economies with greater power to act. As described in section

1.3, the monetary policy stimuli were significant, and were strengthened throughout the year as a result of the assessment of the evolution of the situation.

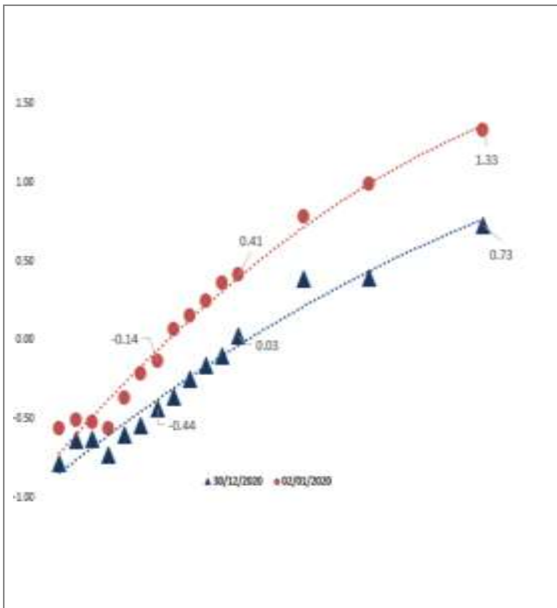
The end of March was the period of greatest volatility, as observed in the behaviour of the VIX (S&P 500 volatility gauge), which at this time reached its highest level since the 2008 financial crisis. In mid-April, the May oil contract (WTI) closed at USD -37 per barrel. European interest rates reflected the volatility felt in the market with rates rising in March and remaining high until early June, when the ECB announced the first reinforcement of the PEPP envelope (from EUR 750 billion to EUR 1,350 billion).

The interest rates on Portuguese debt in the secondary market rose significantly in mid-March, with the 10-year interest rate reaching 1.5%, against 0.27% at the end of January. During March and April - the period of heightened uncertainty - Portuguese interest rates remained high and bid-offer spreads widened abruptly. After this period, interest rates gradually declined until they reached pre-pandemic levels by the end of September, with narrowing bid-offer spreads following this trend. The last quarter was quite favourable for Portuguese interest rates, with a historic low of -0.05% reached in mid-December on the 10-year maturity.

Considering the year as a whole, the interest rate on Portuguese public debt at the 10-year benchmark maturity fell from 0.43% at end-2019 to 0.03% at end-2020, despite the volatility observed. The trend was common to the other points of the curve, but was more pronounced in the long end part, with the slope decreasing.

Chart 12 – Developments in the OT curve

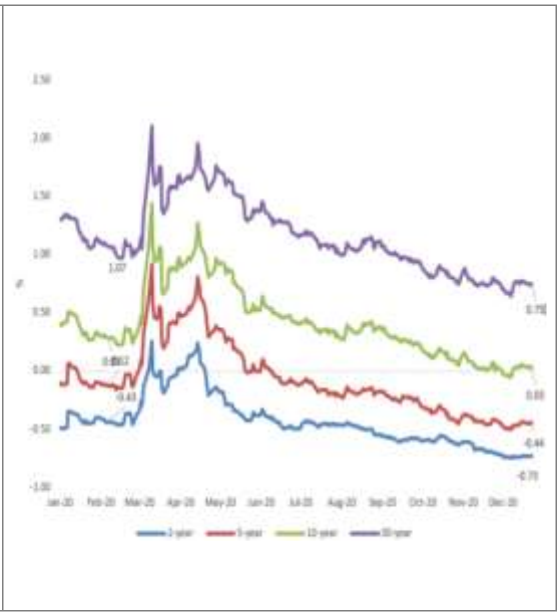
(%)



Source: Bloomberg

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

(%)



Source: Bloomberg

In relative terms, the spread on the cost of Portuguese public debt vis-à-vis Germany reached a two-year high during the period of greater uncertainty, but always remained in line with euro area peers. After this period, the spread behaved in a similar way to interest rates, with a gradual decline that allowed it to return to levels very close to minimums recorded in 2019.

The spread vis-à-vis Germany, at the 10-year benchmark maturity, ended 2020 (+60 b.p.) at a level slightly below that at the end of 2019 (+62 b.p.). The spread against Italy for the same maturity narrowed by 46 b.p. to -52 b.p. at the end of 2020 (i.e., the difference between the two sovereigns narrowed throughout the year, but in December the Portuguese 10-year rate was still considerably lower than the Italian rate). For Spain, the spread remained practically unchanged between the end of 2019 (-3 b.p.) and the end of 2020 (-2 b.p.). - this is a remarkable performance in a year of increased volatility, markedly contrasting the previous crisis development.

In turn, there was a decrease in the average daily traded *OT* volumes between platforms and over-the-counter market, reversing the trend of improved liquidity in the secondary market registered until the beginning of the year. This decrease was mainly due to the crisis triggered by the pandemic. In 2020, average daily volumes reached the level of EUR 1,093 million, which contrasts with EUR 1,307 million in 2019. January, usually the month with the highest volume, had an average daily volume of EUR 1,846 million (compared to EUR 2,341 million in January 2019).

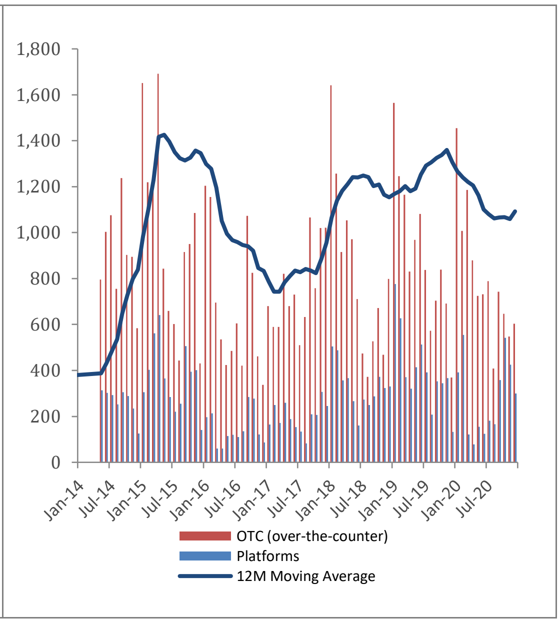
Chart 14 – Spreads vs Germany (10 years)

(b.p.)

Source: Bloomberg

Chart 15 –*OT* trading in the secondary market

(EUR million)



Source: IGCP

Flow concentration in the secondary market is still significant, as the five largest *OEVTs* held a 48% market share in 2020. This fact represents a reversal in the downward trend seen in previous years, with a slight increase compared to 2019 (46%). However, the 2020 figure remained well below that of 2012 (where concentration reached 73%) and remained below pre-crisis sovereign debt levels (around 50%).

As regards *BT* transactions in the secondary market, average daily transactions have also decreased from EUR 353 million in 2019 to EUR 276 million in 2020. Looking at transactions on platforms, the average daily volume decreased EUR 216 million in 2019 to EUR 166 million in 2020.

3. Government Assets and Liabilities

3.1. State's Direct Debt and Costs

As at 31 December 2020, the balance of direct state debt[20], valued at the end-of-period exchange rate, stood at EUR 268.3 billion (see Table 21), which represents an increase of EUR 17.3 billion compared to 2019 (6.9%). The annual change is essentially due to the increase in the *OT* balance (contribution of 6.9 p.p.) and the loan under the European SURE instrument (1.2 p.p.) (see Box 2), partially offset by the decrease in the *CEDIC* balance (-1.1 p.p.).

In 2020, and similarly to what has been observed since 2015, the Republic's main source of net borrowing was the issuance of medium and long-term debt. Gross *OT* issuances, valued at cash value, stood at EUR 29.9 billion, translating into a positive net issuance of EUR 19.4 billion and resulting in an increase in the relative weight of *OT* in debt stock (nominal value) from 52.1% in 2019 to 55.3% at the end of 2020. Incorporating the balance of *OTRVs* and MTNs in euros into the analysis, the relative weight of medium- and long-term marketable debt issued in euros stood at 59.1% (which compares with 56.2% in 2019).

Retail instruments (*CA* and *CT*) fell slightly, from 11.6% to 11.1%, essentially reflecting the behaviour of other debt instruments, which increased in absolute value, thus reducing the weight of retail instruments.

As regard short-term debt (in euro) it dropped around EUR 3.4 billion in 2020, mainly explained by developments in *CEDICs* (with repayments exceeding the issues by EUR 2.7 billion). Similarly, there was a reduction in *BT* stock (of approximately EUR 0.5 billion) and in the margin accounts received under derivative transactions to hedge interest rate and currency risk (approximately EUR 0.2 billion). The relative weight of short-term debt instruments dropped by only 1.9 p.p. to 7.0% by the end of 2020.

The weight of non-euro denominated debt (excluding official loans) decreased slightly in 2020 (from 1.7% to 1.5% of the total).

In turn, EFAP loans recorded a further decrease in their relative weight in debt stock, from 19.8% in 2019 to 18.5% at the end of 2020. The evolution was driven by the increase in other debt instruments, which lowered EFAP's weight. Nevertheless, with the first loan disbursement under the SURE instrument in 2020 (EUR 3 billion), the overall weight of official loans in debt stock remained roughly unchanged at 19.6% (-0.2 p.p. compared to 2019, where the aggregate was only including EFAP loans).

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[20]The State's direct debt is a concept that differs from the public debt compiled by Banco de Portugal for the purposes of the Excessive Deficit Procedure (*Maastricht debt*, presented in Chart 5) in several aspects, among which we highlight: (i) differences in sector delimitation - the State's direct debt includes only the debt issued by the State, where the Maastricht debt includes all entities classified, for statistical purposes, in the general government institutional sector; (ii) consolidation effects - the State's direct debt reflects only the liabilities of this sub-sector, whereas the Maastricht debt is consolidated, i.e., general government assets are excluded in liabilities issued by the general governments themselves.

The favourable exchange rate effect of derivatives hedging (net) was lower in 2020, totalling EUR 0.3 billion (versus EUR 0.6 billion in 2019). After derivatives hedging, the balance of State's direct debt stood at EUR 268.0 billion, thus recording a EUR 17.6 billion increase compared to 2019.

Current debt costs

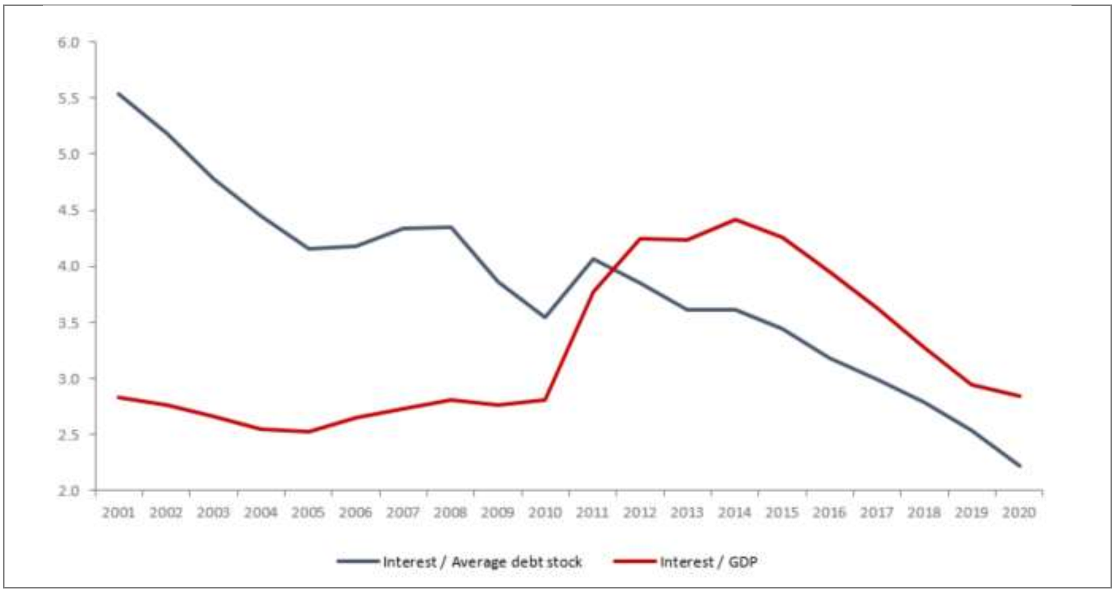
In 2020, the State's current direct debt burden on a public accounts basis amounted to EUR 6.9 billion (net), a decrease of EUR 243 million from the previous year (see Table 22).

Treasury bonds (*OT*) continued to be the instrument with the largest representation in total debt interest, amounting to EUR 4,716 million in 2020. This figure shows a decrease of EUR 142 million from the previous year, mainly due to the repayment of the *OT* 4.75% jun 2019, but also to the effect of the decrease in the outstanding balance of *OT* 3.85% apr 2021 (as a result of repurchase operations carried out). Interest on official loans (including EFAP and SURE) decreased by EUR 68 million year-on-year, reflecting, in particular, the reduction in the interest rate associated with the EFSF loan. Interest on *CA* and *CT* was down by around EUR 65 million, owing to the decrease in the *CTPM* component, which in turn essentially derives from the lower premium associated with GDP growth. *BT* interest continued to perform well, albeit to a lesser extent than in previous years, with the instrument continuing to benefit from negative issue interest rates.

In 2020, interest paid on the State's direct debt on a national account's basis stood at EUR 5.8 billion, recording a significant fall for the fifth consecutive year. The annual decrease, which amounted to EUR 535 million, reflected the favourable and particularly significant evolution of the price effect (reduction in the implicit interest rate), which more than offset the increase in the outstanding debt (see Table 24). In fact, the implicit interest rate continues a consistent downward trend, reaching a new historic low of 2.2% in 2020. The weight of interest in GDP also evolved favourably, from 2.9% in 2019 to 2.8% in 2020.

Chart 16 – Interest evolution in State's direct debt (National accounts basis)

(%)



Source: IGCP

Box 2 | Official Loans under the SURE instrument

SURE is the name of the European instrument for temporary support to mitigate the risks of unemployment in an emergency situation (SURE is the acronym for *Support to mitigate Unemployment Risks in an Emergency*). It is a key element of the EU's strategy to mitigate socio-economic repercussions of the pandemic crisis, acting as a second line of defence in combating the risk of unemployment and loss of income.

Specifically, SURE is an instrument whereby the European Union provides loans to Member States to fund national measures to support the maintenance of employment agreements and other occupational health-related expenditure as part of the response to the COVID-19 crisis. The funds lent to Member States are raised on the market by the European Commission (on behalf of the European Union) for the purpose of this specific instrument, which benefits from a system of voluntary guarantees from Member States. This allows SURE loans to be granted on favourable terms, directly contributing to cover the costs of national programmes aimed at preserving jobs. The SURE programme is capped at EUR 100 billion Europe-wide, with EUR 90.6 billion[21] approved for 18 countries. In 2020, the European Union issued debt bonds worth EUR 39.5 billion under this programme.

Portugal is one of SURE's beneficiaries and may receive a maximum overall financing of EUR 5.9 billion. The first tranche of the loan to the Portuguese Republic was disbursed in December 2020, for an amount of EUR 3 billion, with a maturity of 15 years. This amount was previously raised by the European Commission in the third debt issuance on the market under SURE, corresponding to a 15-year single-tranche issuance (as detailed in Table 3). The issuance had a demand of more than EUR 114 billion and the amount issued was EUR 8.5 billion. The spread was fixed at Mid Swap (MS) minus 5 basis points (b.p.) and a re-offer yield of -0.102%.

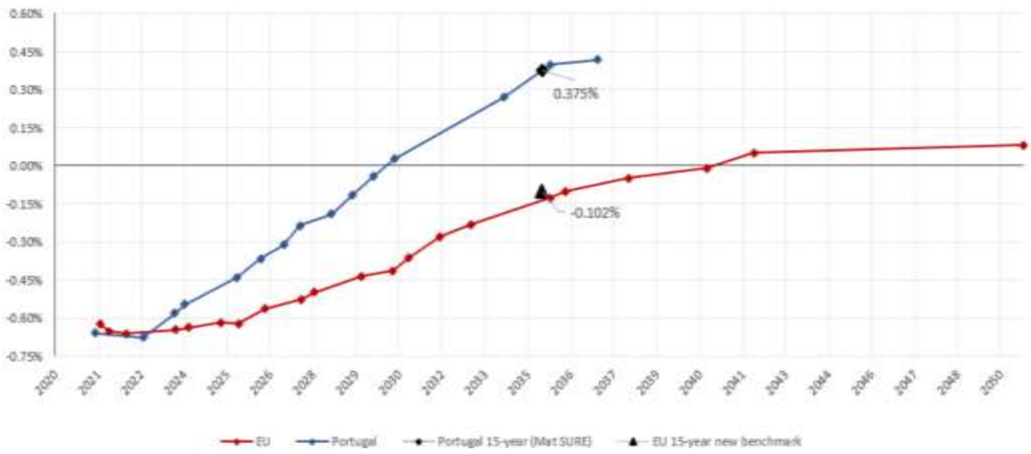
Table 3 – Details of the EU JUL 2035 issue

Transaction details	
Issuer	European Union
Maturity	04/ 07/ 2035
Term	15 years
Amount issued (EUR billion)	[8.5]
Demand (EUR billion)	[114]
Coupon	[0]
Spread	MS-5 b.p.
Re-offer Yield	-0,102%
Re-offer Price	101.50%
New Issue Premium	14 b.p.
Initial indication	MS-2 b.p.
Spread for Germany	26.9 b.p.

[21] Information at the reference date of this report (31 March 2021).

The base cost of the loan (estimated by the re-offer yield of the transaction) was -0.102%, plus transaction and operating costs. Should Portugal decide to issue a bond with the same maturity on the same day, the estimated re-offer yield would be 0.375%, which represents a spread of +48 b.p. against the EU issuance. Assuming, simplify, that this spread between the Portuguese and the EU yield curves is indicative of the cost difference between the financing that Portugal would execute on the market and the EUR 3 billion disbursement it obtained through this loan, savings in the range of EUR 14 to 15 million per year can be estimated (or between EUR 204 and 219 million over the lifetime of the loan).

Chart 17 – Yield curve (PT and EU)



3.2. State's Treasury

State Treasury Cash Holdings

The breakdown of State's cash holdings for the 2019-2020 period is shown in Table 4.

Table 4 – Cash accounts

(EUR million)	Dec/19	Dec/20
Accounts with the BdP	6,695	17,162
Financial investments with CI	750	300
Currency accounts	8	1
Other bank accounts	1	1
RCE accounts (Banks, CTT, SIBS, IRN and *Caixas do Tesouro*)	269	439
External accounts with CI	20	8
Cheques in course of collection	1	1
TOTAL	**7,744**	**17,912**

Source: IGCP

The table above shows that by the end of 2020, State's cash holdings had increased by about EUR 10 billion over the previous year, 96% of which were deposited in accounts with the Banco de Portugal (BdP).

At the end of 2020, the cash position of the State was equivalent to EUR 17.0 billion, compared to a value of EUR 6.8 billion at the end of the previous year[22]. The position, in December 2020, exceeded forecasts, as the budget execution proved more favourable than initial estimates (in particular as from the summer, with the economic activity rebound) and the effort to centralise the State treasury continued to make progress. Therefore, and as described in section 2.1, financing carried out in the last quarter of 2020 was also reduced compared to the programme established. In any case, due to the *OT* maturity in April 2021 (compared to more recent years where maturity occurred in June), the pre-financing of this repayment would imply that, if all else equal, the State's cash surplus at the end of 2020 would be higher than in previous years. Moreover, net borrowing requirements in 2021 remain challenging in the context of the COVID-19 pandemic, and medium- and long-term debt maturities in 2021 are also higher than in 2019 and 2020. In effect, the cash position of the government should be assessed against the projected borrowing requirements for the next 12 months (measured in gross terms, i.e., considering the underlying needs of the Budget and also the repayment of the debt that falls due in that period).

State Treasury Unit

The State Treasury Regime (*RTE*), established by Decree-Law no. 191/99 of 5 June and reinforced annually by the State Budget Law, has defined the principle of the State Treasury Unit (*UTE*), whereby all movements in public funds must be centralised in bank accounts at the IGCP. The *UTE* is thus a key instrument to optimise the State's cash management and financing.

The distribution of funds of public entities and services centralised in the State's cash management system is shown in Table 2, with reference to the universe of public services and entities using internet banking, the app works as the privileged IT support for adequate compliance with the *UTE*.

[22]The treasury position is understood as the balance of deposits with the BdP and CIs, excluding margin accounts (see Table 12).

Table 5 – Cash Holdings of Public Services and Entities

Type of Customer	Cash holdings (EUR million)							
	Demand Deposits		*CEDIC*		*CEDIM*		TOTAL	
	2019	2020	2019	2020	2019	2020	2019	2020
ONSUTE	2,829	6,298	4,477	2,995	0	0	7,306	9,293
SEE	1,098	2,149	1,099	887	45	25	2,241	3,061
SFA	4,599	6,548	4,145	3,163	909	909	9,653	10,620
SI	1,236	1,784	0	0	0	0	1,236	1,784
TOTAL	**9,762**	**16,779**	**9,720**	**7,046**	**953**	**934**	**20,436**	**24,759**

Note: *ONSUTE* - Entities not subject to the Government's Treasury Unit; SES - State Enterprise Sector; SFA - Autonomous Services and Funds; IS - Integrated Services.
Source: IGCP

In view of the value of public services and entities' cash holdings at the State treasury, there was an increase of EUR 4,323 million between 2019 and 2020. This variation is essentially the result of an increase of about 72% in cash at hand.

In financial investments, the subscriptions in CEDIC in 2020 will once again show values similar to those achieved in 2018, to the extent that they underwent a decrease of 28% from 2019 to 2020. In turn, the subscriptions in *CEDIM* decreased slightly in 2020 (2%).

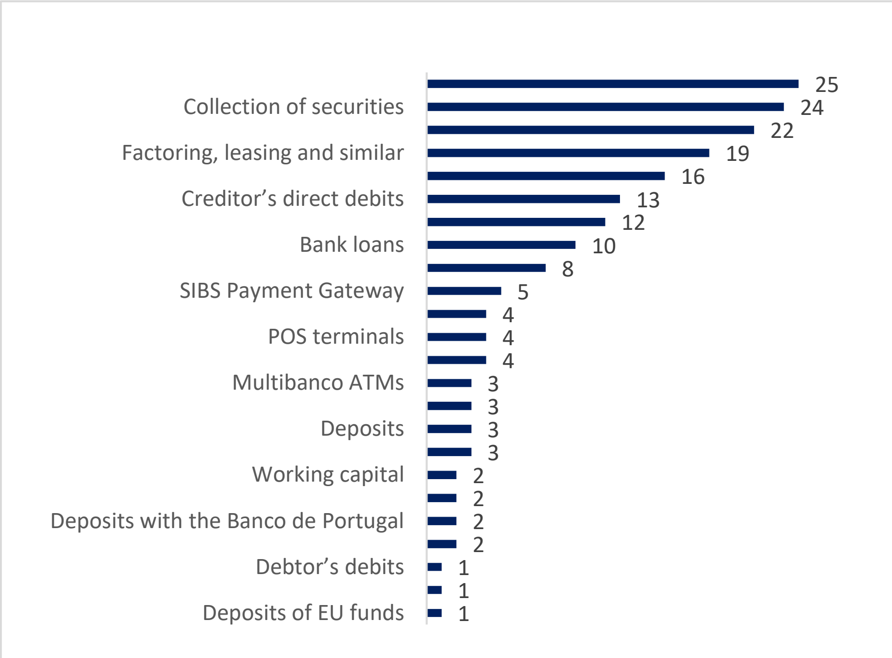
Exemption from Compliance with the State Treasury Unit

Pursuant to Article 160 (5) of Law No. 2/2020 of 31 March, public services and entities may be exempt from complying with the State Treasury Unit (*UTE*). Cumulatively, in accordance with Article 115 (5) of DL No. 84/2019, of 28 July, the IGCP may, in duly substantiated exceptional situations, authorise the exemption from compliance with this principle, for a maximum period of two years.

For the period 2020-2021, 102 applications for exemption from compliance with the *UTE* were submitted to the IGCP, 59% of which were formulated by entities of the state enterprise sector. It should also be noted that, of the applications submitted for consideration, 26% concerned services of the Ministry of Health, 17% of the Ministry for the Environment and Climate Action and 16% of the Ministry of Finance.

Chart 18 explains the reasons given by services and public entities, to support applications for exemptions. The three most frequently reasons given are: Custody of Securities, Collection of Securities and Bank Guarantees.

Chart 18 – Reasons for requesting exemption from the *UTE*

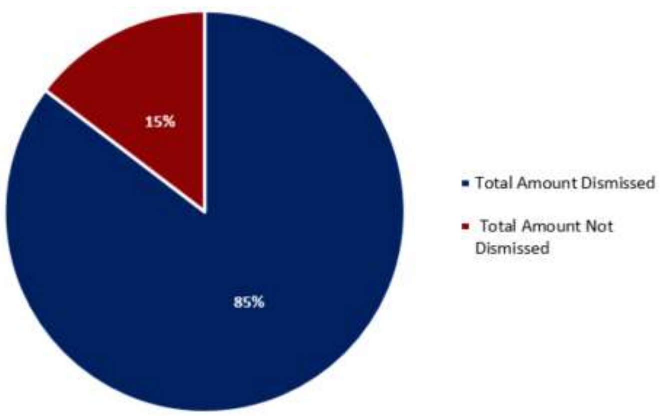


Source: IGCP.

In view of the amounts shown in the applications for exemption and according to the interpretation that could be made of them, it is estimated that around EUR 459 million were exempted from the *UTE*. Of this amount, 71% corresponds to deposits with the BdP of funds managed by this latter and 17% to banking services that the IGCP cannot provide, as it has no legal framework for doing so, such as bank loans and guarantees and leasing, factoring and similar operations.

Considering the above and the fact that the IGCP has no means of validating the information provided by public services and entities, it is estimated that around EUR 79 million were not given a favourable opinion on the application for exemption.

Chart 19 – Amount exempted vs. Amount not exempted from the *UTE*



Source: IGCP

4. Portfolio and Risk Limits Management

4.1. Management of the State's derivatives portfolio

The main goal of derivatives transactions carried out in 2020 was to ensure the portfolio's currency hedging, corresponding mainly to roll-over of existing exchange rate positions.

The derivatives portfolio achieved a net result of EUR -274.1 million over the year, which is mainly explained by the appreciation of the euro against the dollar (9.0% YoY) and the fall in euro swap rates. In fact, the result obtained was mainly due to the result of cross-currency interest rate swaps (EUR -106.7 million) and FX swaps/forwards (EUR -36.9 million) used to hedge bonds issued in the past in foreign currency (in USD and CNY). In turn, the negative result of interest rate derivatives is mainly related to the decrease in long-term rates over the year.

With the publication of Decree-Law no. 151/2019, of 11 October, amended by Decree-Law no. 175/2019, of 27 December, the intermunicipalisation of Sociedade de Transportes Coletivos do Porto S. A. (STCP) was established through the transfer of all shares representing its share capital from the State to the municipalities of Gondomar, Maia, Matosinhos, Porto, Valongo and Vila Nova de Gaia. According to the provisions of Article 7 (1) (d) of that Decree-Law, the State assumed the responsibilities that may be determined as a result of the conclusion of financial derivatives agreements by STCP until 31 December 2019. At the end of 2020, only one derivative signed by the company remained outstanding, maturing in June 2022 and with a market value of EUR -41.6 million.

Table 6 – Change in the portfolio of derivative financial instruments

(EUR million)	Market value		Cash-flow over the period(*)	Net income
	31 December 2020	31 December 2019		
	(1)	(2)	(3)	(4)=(1)-(2)+(3)
Interest rate	**-430.5**	**-298.4**	**1.7**	**-130.5**
IRS	-3.0	1.8	1.7	-3.1
Swaptions	-427.6	-300.2	0.0	-127.4
Exchange rate	**393.4**	**618.4**	**81.4**	**-143.6**
CCIRS	425.3	611.0	79.0	-106.7
Swaps / forwards	-31.8	7.4	2.4	-36.9
Total	**-37.1**	**320.0**	**83.1**	**-274.1**
STPC derivative	**-41.6**	**-64.9**	**-23.8**	**-0.5**

(*) Positive cash flows correspond to receipts in the derivatives while negative cash flows correspond to payments made.
Source: IGCP

4.2. *EPR*'s Derivatives Portfolio

As part of its duties in managing the State's direct debt, the IGCP is responsible for monitoring 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 not allowed to seek financing in the market, no new hedging derivative financial instruments have been taken out. Throughout 2020, the only changes to the derivatives portfolio are justified by the fact that one of the *Metropolitano de Lisboa's* derivatives reached maturity.

In this context, there were 12 derivative instruments in the *EPR* portfolios at the end of 2020, with a market value to EUR -486.0 million and a contractual value of EUR 563.9 million.

Table 7 – EPR's financial derivatives portfolio

(EUR million)	Number of derivatives	Contractual amount	Market value 31 December 2020	Market value 31 December 2019	Cash-flow over the period(*)	Net income
		(1)	(2)	(3)	(4)	(5) = (2) – (3) + (4)
Metropolitano de Lisboa	8	387.5	-272.4	-343.8	-158.8	-87.3
Metro do Porto	4	176.4	-213.7	-303.8	-95.0	-4.8
Total	**12**	**563.9**	**-486.0**	**-647.6**	**-253.7**	**-92.1**

(*) Positive cash flows correspond to receipts in the derivatives while negative cash flows correspond to payments made.

Source: Valuation made by the IGCP, except for the value of a *Metropolitano de Lisboa* derivative where the counterparty's valuation is used.

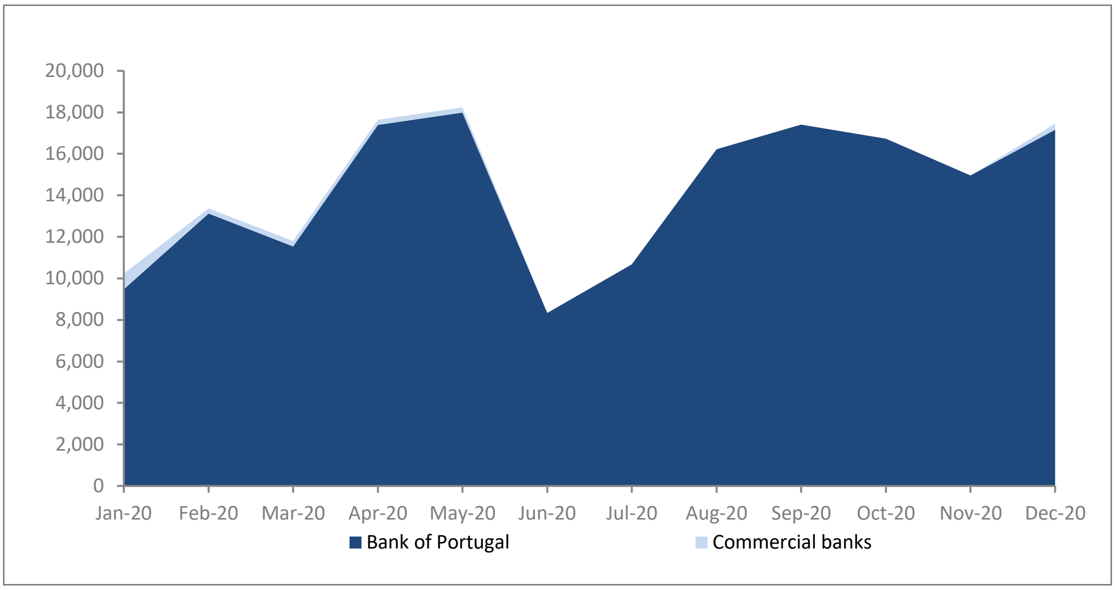
The net result of this portfolio was EUR -92.1 million during the year, which is mainly explained by the drop in euro swap rates. However, the market value increased by EUR 161.6 million, which reflects the net profit and the value of cash-flows paid in the year (about EUR 253.7 million).

4.3. Cash Management

During 2020, the objective to ensure maximum liquidity in the State's cash and cash equivalents was maintained, therefore, from the universe of instruments available for cash management, preference continued to be given to investments with the Banco de Portugal.

Chart 20 – Developments in Government's Central Treasury

(EUR million)



Source: IGCP

The cost of maintaining the Treasury position calculated on the basis of the average cost of *BT* and *OT* (or *BT* only) renewed the minimums. In fact, despite the increase in the average balance of deposits compared to the previous year, justified by the reasons mentioned above as regards pre-financing and the necessary prudence in 2020 through the increased uncertainty and volatility in the context of the pandemic, the Portuguese Republic also benefited from more favourable financing conditions compared to 2019.

On the other hand, by calculating the cost of maintaining the Treasury position based on the implicit rate of total debt stock, there was a slight increase between 2019 and 2020, as the reduction in the cost of total debt was not as marked as that recorded in annual financing.

Table 8 – Estimated cost of cash position

(EUR million)

	Implicit rate total stock (1)			Average cost (*BT+OT*) (2)			Average cost (*BT*) (3)		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
Average deposits balance	13,441	11,606	14,009	13,441	11,606	14,009	13,441	11,606	14,009
Debt financing/Financing cost (%)	2.80%	2.50%	2.20%	0.90%	0.60%	0.30%	-0.30%	-0.40%	-0.40%
Average cost of Treasury cash balance financing	374	295	311	121	65	38	-44	-48	-56
Interest received from Treasury investments	1	-2	8	1	-2	8	1	-2	8
Net cost of Treasury cash balance	**374**	**293**	**319**	**122**	**63**	**46**	**-43**	**-49**	**-49**
As a % of the average deposits balance	2.80%	2.50%	2.30%	0.90%	0.50%	0.30%	-0.30%	-0.40%	-0.30%
As a % of the average balance of State's direct debt	0.20%	0.10%	0.10%	0.10%	0.00%	0.00%	0.00%	0.00%	0.00%
As a % of GDP	0.20%	0.10%	0.20%	0.10%	0.00%	0.00%	0.00%	0.00%	0.00%

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

Source: IGCP

4.4. Cost Indicators

On 31 December 2020, the market value of the State's total direct debt[23] was EUR 311,878 million, reflecting a premium of 15.1% over its nominal value. The average coupon of the portfolio decreased slightly to 2.4% in 2020, while the average yield decreased to 0.4%. The average debt repayment term was reduced to 7.4 years.

Table 9 – Cost indicators at year-end

	2018	2019	2020
Outstanding (EUR million)	244,916	250,309	267,955
Average coupon	2.9%	2.7%	2.4%
Average yield	1.6%	0.7%	0.4%
Average redemption period (years)	7.8	7.5	7.4
Market value (EUR million)	271,630	289,688	311,878
Premium (incl. Accrued interest)	9.4%	14.3%	15.1%

Notes: The average coupon is calculated by annualising the accrued interest 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 a maturity equal to the average redemption 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

4.5. Risk Indicators

The Guidelines for the Government Debt Management (Guidelines) pinpoint the risk indicators considered the most relevant for the State debt portfolio and set limits on the exposure that the portfolio can take on. The Guidelines set maximum limits to the interest rate risk (refixing profile and modified duration), refinancing risk, exchange rate risk and credit risk of the adjusted portfolio.

CaR – Cost at Risk

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

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

Considering the forecast of financing requirements underlying the 2021 State Budget, the portfolio's position at the end of 2020, a central financing scenario for 2021 and a set of simulated scenarios[24] for the dynamics of the interest rate curve (*BT* and *OT*):

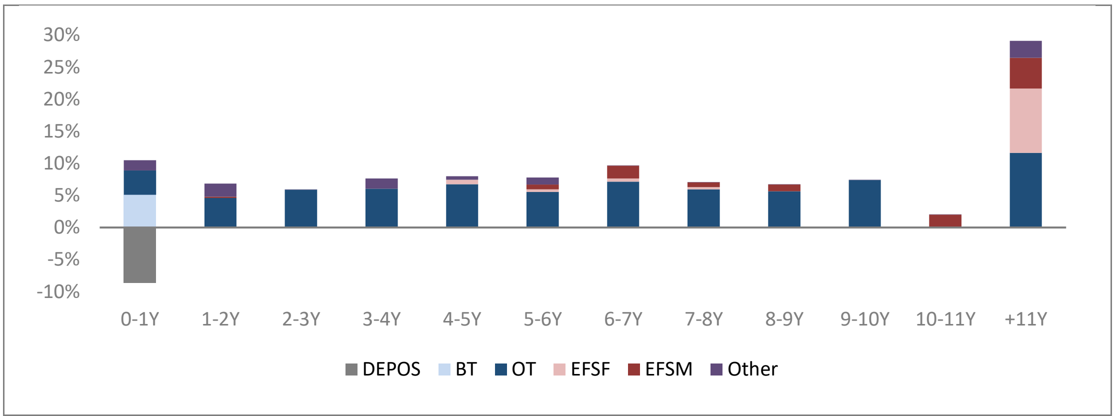
- The expected portfolio costs for 2021 (calculated on a National Accounts basis) are EUR 5,553 million;
- There is only a 5% probability that this value may exceed EUR 5,774 million (absolute CaR), due to interest rate variations;
- The relative CaR, for the same level of significance, is EUR 221 million. Compared to GDP, the probability that, due to interest rate changes, the budget deficit to GDP ratio will deteriorate by more than 0.11 p.p. in 2021 is less than 5%.

Refinancing risk

Besides the market variables (e.g., negotiability, liquidity, maintenance of a benchmark curve for the Portuguese Republic), the management of the public debt portfolio takes into account the control of the refinancing profile to avoid excessive concentration of redemptions that may increase the portfolio financing cost.

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 2020, the adjusted debt portfolio[25] showed the refinancing profile shown in the following figure, fully complying with these thresholds.

Chart 21 –Portfolio refinancing profile at end-2020



Source: IGCP

[24]To simulate the scenarios for the interest rate term structure, a VAR (Vector Autoregressive) model with 3 factors obtained through Principal Component Analysis was used.

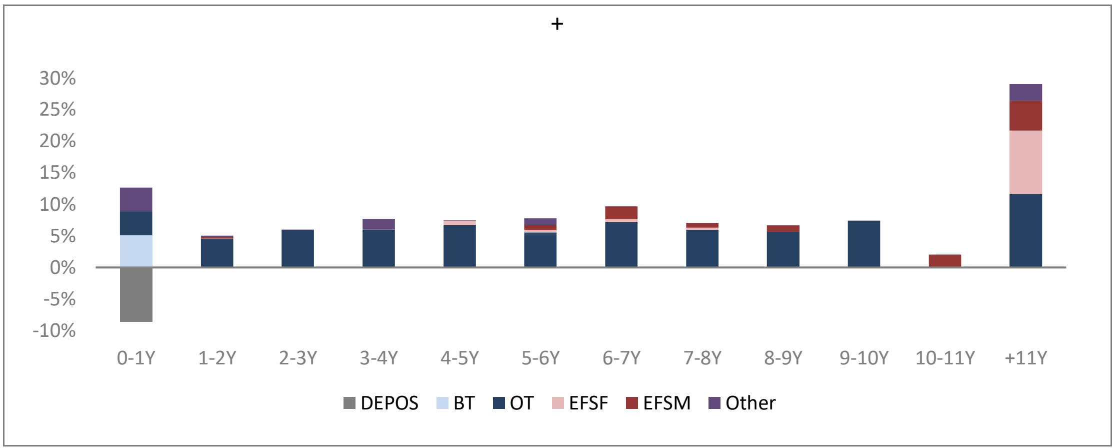
[25]The adjusted debt portfolio refers to all the instruments that comprise the direct State debt portfolio, including financial derivatives, but excluding retail debt and *CEDIC* and *CEDIM* instruments.

Interest rate risk

The modified duration[26] of the total debt portfolio and the adjusted debt portfolio stood at 5.71 and 6.30, respectively, at the end of 2020. In 2020, the duration of the adjusted portfolio was always higher than the established minimum threshold of 4.0.

At the end of 2020, the portfolio had the refixing profile (i.e., percentage of the nominal value of the portfolio adjusted to be refixed or matured, by maturity) shown in the figure below.

Chart 22 – Refixing profile at end-2020



Source: IGCP

Exchange rate risk

At the end of 2020, primary currency exposure (i.e., excluding hedging operations) was 1.86% 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 with outstanding balance on that date (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 credit risk taken by the Portuguese Republic results from operations with derivatives, repos and money market investments. The Guidelines in force, approved by the Secretary of State in 2013, establish the diversification of risk and the limits of exposure assigned to each counterparty according to its credit quality.

The credit risk of each counterparty (i.e., of all its derivatives agreements with the Portuguese Republic) is calculated using a methodology that includes two components: its current market value, which represents the replacement value of the transaction, plus an add-on, designed to estimate the potential

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

variation of that 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 2020, the credit risk exposure of the derivatives portfolio remained below the overall limit set at 3% of the adjusted portfolio. At the end of the year, the exposure corresponded to 0.08% of the value of the adjusted portfolio, that is, that limit was filled at 2.60%.

Table 10 – Risk indicators at year-end

	2018	2019	2020
Primary Foreign Exchange Exposure (% adjusted portfolio)	2.04%	2.12%	1.86%
Net Foreign Exchange Exposure (% adjusted portfolio)	0.00%	0.00%	0.00%
Total Portfolio Duration (years)	5.07	5.42	5.71
Adjusted Portfolio Duration (years)	5.69	6.07	6.30

Source: IGCP

Annexes

A1. Borrowing Requirements and Sources in 2020

Table 11 – State's borrowing requirements and sources on a public account basis

(EUR million)	2019	2020(P)
1. NET BORROWING REQUIREMENTS	**9,499**	**16,827**
Budget Deficit	3,940	12,242
Net acquisiton of financial assets (except privatisations)	5,559	4,585
FRDP reimbursement	0	0
Transfer of cash balances of *ADSE* [1]	0	0
2. REDEMPTIONS AND CANCELLATIONS (Funded Debt)	**40,449**	**36,841**
Saving Certificates + Treasury Certificates	3,876	3,987
Short-term euro-denominated ebt	21,697	22,327
Medium- and long-term euro-denominated debt	14,815	10,530
Non-euro denominated debt	86	0
Swap capital flows (net)	-25	-3
3. GROSS BORROWING REQUIREMENTS (1. + 2.)	**49,948**	**53,668**
4. SOURCES OF FINANCING	**50,087**	**55,117**
Balance of funding from previous budgets	723	108
Debt issuance of the year's budget	47,811	55,009
Debt issuance in complementary period	1,553	0
5. BALANCE OF FUNDING FOR FORTHCOMING BUDGETS (4. - 3.)	**108**	**1,449**
memo . Statistical discrepancies	-31	0
memo **. DEBT ISSUANCE IN THE CIVIL YEAR (Funded Debt)**	**47,811**	**56,562**
Relative to the budget of the previous year (Complementary Period)	0	1,553
Relative to the year's budget	47,811	55,009

Note: The figures for the 2020 execution are provisional until the CGE/2020 is published.
Source: Ministry of Finance, IGCP.

Table 12 – State's borrowing requirements and sources on a cash account basis

Needs and Sources 2019 e 2020 (EUR million)	2019	2020(P)
GROSS BORROWING REQUIREMENTS	**19,783**	**24,899**
Budget Deficit	3,940	12,242
Net acquisition of State financial assets (except privatisations)	5,559	4,585
One-off operatoions	0	0
OT redemptions (excl exchange operations)	8,143	8,019
IMF redemptons	2,000	0
Other redemptions of medium- and long-term debt	141	53
SOURCES OF FINANCING	**19,783**	**24,899**
Use of deposits (excl cash-collateral)	2,508	-10,226
EFAP issuance	0	3,045
OT issuance (excl exchange operations)	15,663	27,157
Floating Rate Treasury Bonds (*OTRV*) issuance	0	0
Other issuance of medium- and long-term debt	64	16
BT net issuance (excl *BT* held by the FRDP)	-1,415	-530
CA/CTPM net issuance	780	711
Other movements in the Single Treasury Account (excl cash-collateral)	2,183	4,726
Outstanding amount of deposits (excl cash-collateral)	**6,850**	**17,047**
cash.collateral outstanding at year-end	624	415
Total outstanding amount of deposits at year-end	**7,474**	**17,462**

Note: The figures for the 2020 execution are provisional until the CGE/2020 is published.
Source: Ministry of Finance, IGCP.

A2. Financing Composition in 2020

Table 13 – Financing composition

(EUR million)	Issuance	Redemption	Net
EURO DEBT	**56,562**	**36,844**	**19,718**
CA - Saving Certificates	816	616	199
CT - Treasury certificates	3,884	3,371	513
CEDIC	7,046	9,720	-2,674
CEDIM	13	33	-20
BT - Treasury Bills	11,453	11,983	-530
OT - fixed rate government bonds	29,875	10,444	19,431
Floating rate Treasury Bonds (OTRV)	0	0	0
EFSF	0	0	0
EFSM	0	0	0
SURE	3,045	0	3,045
Other short-term debt	415	624	-209
Other medium- and long-term debt	16	53	-37
NON-EURO DEBT	**0**	**0**	**0**
IMF	0	0	0
Other Debt	0	0	0
SWAPS (NET)	**0**	**-3**	**3**
TOTAL	**56,562**	**36,841**	**19,721**

Note: The figures for the 2020 execution are provisional until the CGE/2020 is published.
Source: Ministry of Finance, IGCP.

Table 14 – *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.)
08-Jan-2020	OT 0.475% OCT 2030	4,000	0.499%	73	33
01-Apr-2020	OT 0.7% OCT 2027	5,000	0.726%	130	86
01-Jul-2020	OT 0.9% OCT 2035	4,000	0.928%	111	88

[1] Bund.

Source: IGCP.

Table 15 – *OT* issues through auctions

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.)
12-Feb-2020	OT 2.25% APR 2034	663	132	0.56%	37.8
12-Feb-2020	OT 2.875% JUL 2026	564	112	-0.06%	17.2
11-Mar-2020	OT 2.875 OCT 2025	681	0	0.06%	45.5
11-Mar-2020	OT 0.475 OCT 2030	500	6	0.43%	63.7
22-Apr-2020	OT 3.875 FEB 2030	598	113	1.19%	123.5
22-Apr-2020	OT 2.875% JUL 2026	418	78	0.84%	102.0
13-May-2020	OT 0.475 OCT 2030	742	129	0.85%	97.5
13-May-2020	OT 2.875 OCT 2025	750	137	0.26%	54.5
10-Jun-2020	OT 2.875% JUL 2026	585	0	0.14%	38.5
10-Jun-2020	OT 0.475 OCT 2030	920	105	0.60%	66.4
22 Jul 2020	OT 2.875% JUL 2026	430	82	-0.11%	24.8
22-Jul-2020	OT 0.475 OCT 2030	820	157	0.35%	55.4
26-Aug-2020	OT 0.7 OCT 2027	450	87	0.10%	38.0
26-Aug-2020	OT 4.1 FEB 2030	800	155	0.34%	51.8
09-Sep-2020	OT 0.475 OCT 2030	964	0	0.33%	54.0
09-Sep-2020	OT 4.10% FEB 2045	247	0	1.05%	98.0
14-Oct-2020	OT 2.125 OCT 2028	654	0	-0.09%	29.0
14-Oct-2020	OT 4.10% APR 2037	346	0	0.47%	54.8

Source: IGCP.

Table 16 – *OT* swap offers

Date of the operation	OT	Position	Exchange offer YTM	Nominal value (EUR million)
29-Jan-2020	OT 1.95 JUN 2029	Issuance	0.22%	949
02-Dec-2020	OT 2.125% OCT 2028	Issuance	-0.13%	592
02-Dec-2020	OT 1.95 JUN 2029	Issuance	-0.07%	784
				2,325
29-Jan-2020	OT 3.85% APR 2021	Purchase	-0.58%	949
02-Dec-2020	OT 3.85% APR 2021	Purchase	-0.68%	692
02-Dec-2020	OT 2.20% OCT 2022	Purchase	-0.69%	684
				2,325

Source: IGCP.

Table 17 – 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.)
15-Jan-2020	BT 17 JUL 2020	500	0	-0.49%	-15.5
15-Jan-2020	BT 15 JAN 2021	1,250	203	-0.48%	-23.0
19-Feb-2020	BT 15 MAR 2020	300	0	-0.50%	-9.4
19-Feb-2020	BT 15 JAN 2021	950	0	-0.48%	-18.6
18-Mar-2020	BT 18 SEP 2020	595	25	-0.09%	26.9
18-Mar-2020	BT 19 MAR 2021	405	17	-0.10%	15.2
15-Apr-2020	BT 17 JUL 2020	410	28	-0.01%	23.9
15-Apr-2020	BT 19 MAR 2021	840	73	0.04%	15.9
20-May-2020	BT 20 NOV 2020	750	153	-0.41%	-27.4
20-May-2020	BT 21 MAY 2021	1,000	241	-0.35%	-29.3
1- Jun-2020	BT 18 SEP 2020	250	0	-0.48%	-9.0
17-Jun-2020	BT 21 MAY 2021	1,000	58	-0.44%	-29.8
15-Jul-2020	BT 15 JAN 2021	500	19	-0.47%	-13.5
15-Jul-2020	BT 16 JUL 2021	1,250	103	-0.45%	-17.9
19-Aug-2020	BT 20 NOV 2020	300	0	-0.50%	-1.2
19-Aug-2020	BT 16 JUL 2021	950	0	-0.47%	-9.2
16-Sep-2020	BT 19 MAR 2021	500	0	-0.52%	-5.8
16-Sep-2020	BT 17 SEP 2021	1,250	109	-0.50%	-7.8

Note: Excluding issues to the FRDP

Source: IGCP.

Table 18 – *CEDIC/CEDIM*

	2019				2020			
	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								
Issues	13,315	259	0.08%	0.49	9,253	260	0.08%	0.50
Early repayments	276	15	0.06%	0.20	902	19	0.09%	0.52
Year-end balance	*9,720*				*7,046*			
CEDIM								
Issues	0	1	0.27%	10.21	13	2	0.01%	2.35
Early repayments	3	1	1.08%	0.51	-	-	-	-
Year-end balance	*953*				*934*			

[1] Rate weighted by the maturity of the investments

Source: IGCP.

A3. Performance Evaluation of Participants in the Portuguese Government Debt Market

In view of the process to access international financial markets returning to normal, it is important to maintain an analysis of the primary dealers (*OEVT*) performance, as a distribution channel for the primary market and 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 2020, of special note is the performance of the following *OT* and *BT* market participants, respectively:

Table 19 – Best-performing Primary Dealers (*OEVT*) in 2020

1	Nomura
2	Crédit Agricole
3	JP Morgan
4	Deutsche Bank
5	Morgan Stanley

Source: IGCP.

Table 20 – Best-performing Treasury Bill Specialists (*EBT*) in 2020

1	Millennium bcp
2	BBVA
3	Goldman Sachs
4	JP Morgan
5	Caixa Geral de Depósitos

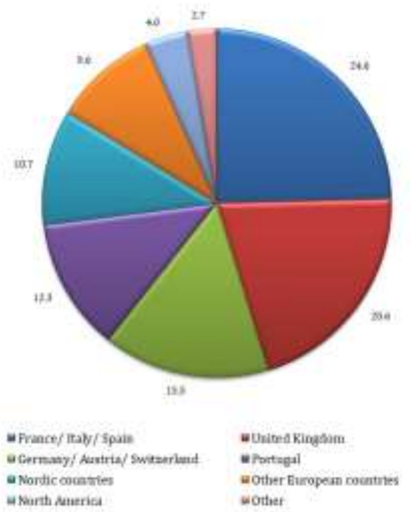
Source: IGCP.

A4. Distribution of *OT* Syndicated Issues

In January 2020, the Portuguese Republic placed EUR 4 billion *OT* through a 10-year syndicated transaction. In this transaction, about 88% of the final amount was placed with non-resident investors, particularly from France, Italy and Spain (25%) but also with the relevant presence of investors from the United Kingdom (with about 21% of distribution), and from Germany, Austria and Switzerland (16% of the allocation). Also of note is the strong participation of real money investors, in particular investment funds, insurance companies and pension funds, which usually offer greater price stability on the secondary market.

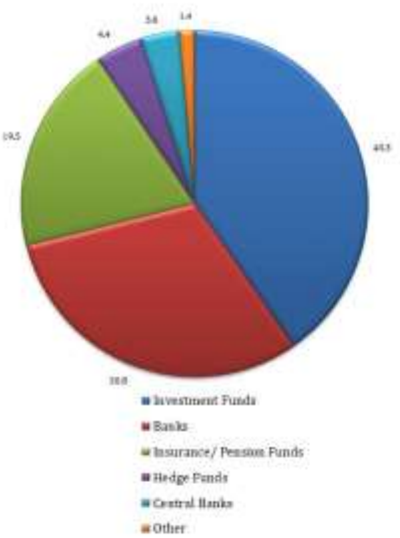
Chart 23 – *OT* syndicated issue as at January 2020: New 10-year *Benchmark*

By investor geography



Source: IGCP.

By investor profile

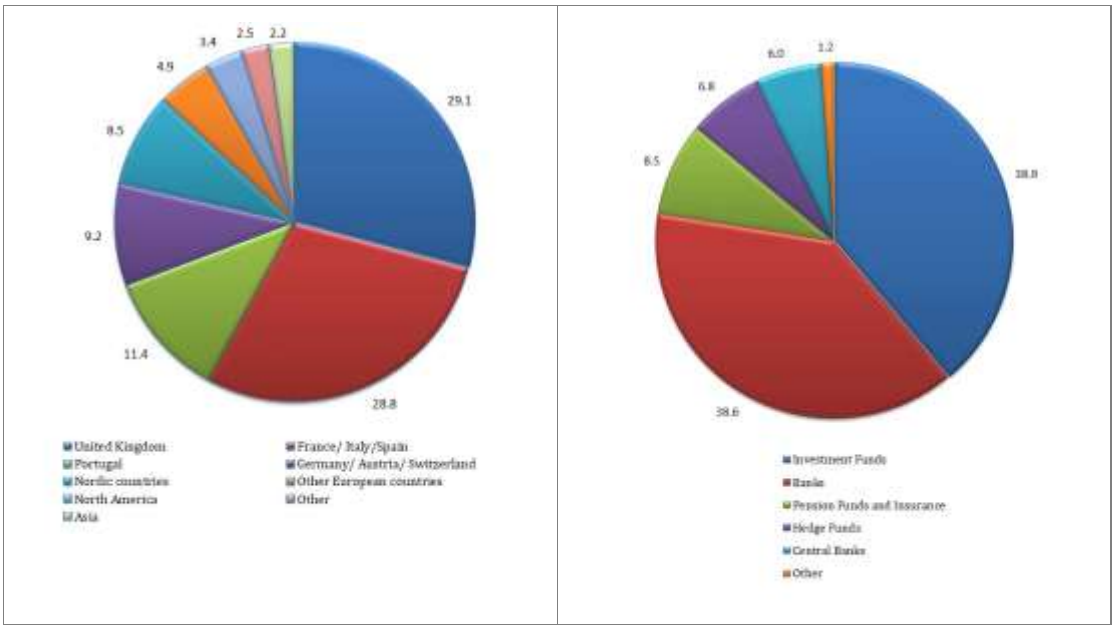


Source: IGCP.

In April 2020, the Portuguese Republic placed EUR 5 billion *OT* through a 7-year syndicated transaction. In this transaction, about 89% of the final amount was placed with non-resident investors, with particular emphasis on investors from the United Kingdom (with about 29% of the distribution), France, Italy and Spain (29%), and Germany, Austria and Switzerland (with 9% of the allocation). Investment funds and banks were the main participants in this transaction with approximately 39% each.

Chart 24 – *OT* syndicated issue as at April 2020: New 7-year *Benchmark*

By investor geography | By investor profile

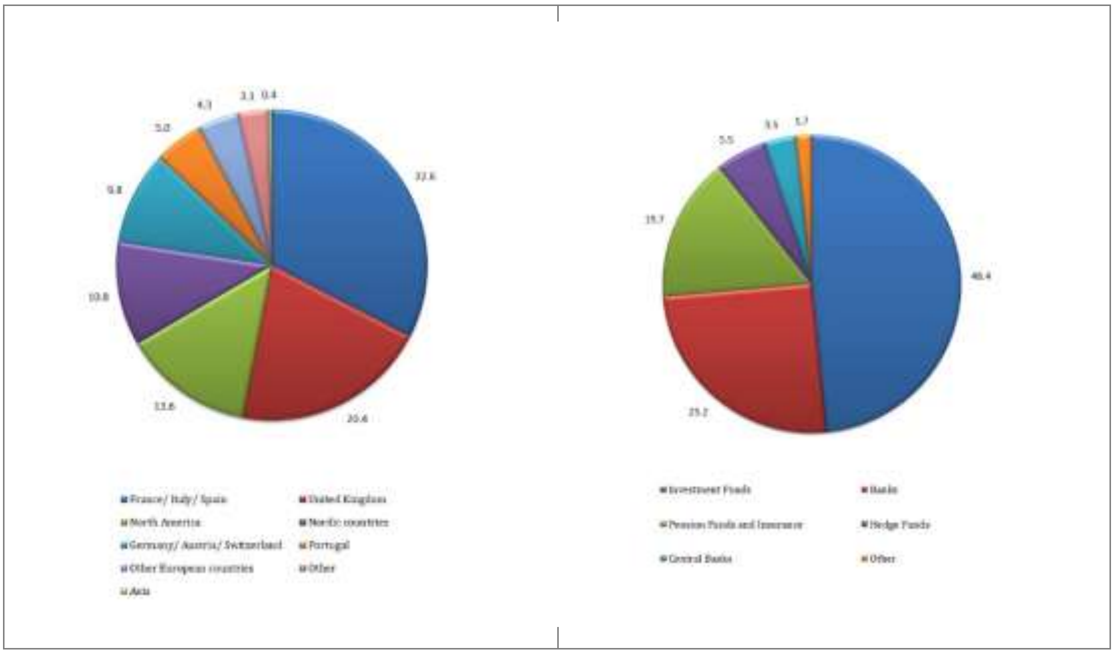


Source: IGCP. Source: IGCP.

In July 2020, the Portuguese Republic placed EUR 4 billion *OT* through a 15-year syndicated transaction. In this operation 95% of the final amount was placed with non-resident investors, namely investors from France, Italy and Spain (33%), United Kingdom (with about 20% of the distribution) and North America (14% of the allocation). The strong participation of investment funds should also be highlighted, with about 48% of the allocation, followed by banks with 25%.

Chart 25 – *OT* syndicated issue as at July 2020: New 15-year *Benchmark*

By investor geography | By investor profile



Source: IGCP. Source: IGCP.

A5. Table of Movements in State's Direct Debt

Table 21 – State's direct debt (Public accounts basis)

(EUR million)

	Balance as at		January – December 2020			Balance as at	
	31/Dec/19	Structure	Issues	Redemptions	Other	31/Dec/20 0	Structure
1. Euro-denominated debt (excl. official loans)	**197.123**	**78,5%**	**59.866**	**43.194**	**-2.024**	**211.771**	**78,9%**
Tradable	153.097	61,0%	44.644	25.743	-2.024	169.974	63,3%
BT (discounted value)	11.983	4,8%	14.769	15.298	0	11.453	4,3%
OT	130.887	52,1%	29.875	10.444	-2.024	148.294	55,3%
OTRV	7.950	3,2%	0	0	0	7.950	3,0%
Other bonds	0	0,0%	0	0	0	0	0,0%
MTN	2.270	0,9%	0	0	0	2.270	0,8%
Retail bonds	7	0,0%	0	0	0	7	0,0%
Non-tradable	44.026	17,5%	15.223	17.451	0	41.797	15,6%
Savings Certificates	12.020	4,8%	816	616	0	12.220	4,6%
Acquisition value	7.759	3,1%	668	479	0	7.949	3,0%
Capitalised interest	4.261	1,7%	148	138	0	4.271	1,6%
Treasury Certificates	17.049	6,8%	3.884	3.371	0	17.562	6,5%
CEDIC	9.720	3,9%	9.253	11.927	0	7.046	2,6%
CEDIM	953	0,4%	13	33	0	934	0,3%
Margin accounts	624	0,2%	1.201	1.410	0	415	0,2%
Other	3.659	1,5%	56	93	0	3.621	1,3%
2. Non-euro denominated debt (excl. official loans)	**4.261**	**1,7%**	**0**	**0**	**-345**	**3.916**	**1,5%**
Tradable	4.261	1,7%	0	0	-345	3.916	1,5%
Other bonds	0	0,0%	0	0	0	0	0,0%
MTN	4.261	1,7%	0	0	-345	3.916	1,5%
Non-tradable	0	0,0%	0	0	0	0	0,0%
3. Official loans	**49.628**	**19,8%**	**3.045**	**0**	**-45**	**52.628**	**19,6%**
SURE loans (EU)	0	0,0%	3.045	0	-45	3.000	1,1%
PAEF	49.628	19,8%	0	0	0	49.628	18,5%
EFAP	25.328	10,1%	0	0	0	25.328	9,4%
EFSM	24.300	9,7%	0	0	0	24.300	9,1%
IMF	0	0,0%	0	0	0	0	0,0%
4. Total debt (1.+ 2.+3.)	**251.012**	**100,0%**	**62.911**	**43.194**	**-2.414**	**268.316**	**100,0%**
5. Exchange rate effect of derivatives hedging (net)	-629	0,0%	0	0	0	-288	0,0
6. Total debt post derivatives hedging (4.+ 5.)	**250.384**	**0,0%**	**0**	**0**	**0**	**268.028**	**0,0**

A6. State's Direct Debt Costs

Table 22 – Current expenditure on State's direct debt (Public accounts basis)

(EUR million)

	2013	2014	2015	2016	2017	2018	2019	2020
Government debt interest	**6,924**	**7,017**	**7,038**	**7,282**	**7,034**	**7,063**	**7,108**	**6,837**
Treasury bills	505	381	99	9	2	-35	-45	-49
Government bonds	4,198	3,964	4,087	4,544	4,599	4,842	4,858	4,716
EFAP loans	1,704	2,009	2,119	1,846	1,567	1,178	1,058	990
Savings and Treasury certificates	328	379	562	791	669	731	780	715
Others	189	284	171	92	197	347	457	464
Other charges (*)	**87**	**81**	**67**	**101**	**93**	**82**	**61**	**80**
EFAP loans (**)	56	19	2	16	11	28	15	14
Others	31	63	65	85	82	54	47	65
Total charges paid	**7,010**	**7,098**	**7,105**	**7,383**	**7,127**	**7,145**	**7,169**	**6,917**
Interest received from deposits and loans granted	-169	-126	-13	-4	-4	1	-2	8
Net interest and other charges	**6,841**	**6,972**	**7,092**	**7,379**	**7,123**	**7,146**	**7,168**	**6,925**

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 EUR 64 million of charges with EFAP loans was reclassified as interest from a national accounts' perspective 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 as interest in National Accounts.

Source: IGCP.

Table 23 – Interest on State's direct debt (National accounts basis)

(EUR million)

	2013	2014	2015	2016	2017	2018	2019	2020
Government debt interest								
Treasury bills	444	214	35	5	-14	-46	-47	-49
Government bonds	4,316	4,362	4,361	4,315	4,384	4,220	3,930	3,616
EFAP loans	1,881	2,262	2,215	1,942	1,574	1,245	1,115	1,063
Savings and Treasury certificates	400	517	687	734	708	792	754	593
Others	175	281	352	365	454	516	549	543
Total charges paid	**7,218**	**7,636**	**7,650**	**7,362**	**7,107**	**6,726**	**6,301**	**5,766**
Interest received from deposits and loans g	-167	-125	-13	-3	-4	1	-1	8
Net interest and other charges	**7,050**	**7,511**	**7,637**	**7,359**	**7,103**	**6,727**	**6,300**	**5,774**

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

(EUR million)

Year	Average debt stock*	Interest** (national accounts)	Implicit interest rate	Annual change in interest	Contributions to interest change		
					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%	-289	314	-579	-24
2017	237,273	7,107	3.0%	-255	189	-433	-11
2018	241,911	6,726	2.8%	-380	139	-509	-10
2019	248,285	6,301	2.5%	-425	177	-587	-15
2020	259,664	5,766	2.2%	-535	289	-787	-36

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 granted.

(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.