Source: IGCP

The average maturity of medium and long-term debt issued in 2021 stood at 14.2 years, higher than in 2020 (10.0 years). This increase led to a slight rise in the average maturity of debt stock to 7.7 years in December 2021 (including Official loans).

The active debt management strategy also benefited from the maintenance of relatively high liquidity buffers, which not only drops the refinancing risk in periods of greater market volatility, but also enables the execution of debt repurchases aimed at smoothing the portfolio's repayment profile. In 2021, the strategy of smoothing the repayment profile continued, focusing on subsequent years 2022, 2023 2024, contributing to a lower refinancing risk. Throughout the year, debt repurchases were carried out through OT exchange auctions, repurchase auctions for the security in dollars (PORTUG 5.125% Oct/2024), and bilateral operations were executed when deemed appropriate in view of market conditions and demand, for an overall amount of around EUR 4.1 billion OTs (nominal value) and around USD 1.4 billion (nominal value).

Box 1 Public repurchase operations of bonds issued in USD

In 2021, two repurchase operations of USD bonds issued by the Portuguese Republic in 2014 ("PORTUG 5.125% Oct/2024") were carried out, with a nominal amount of USD 4.5 billion, to mitigate the refinancing risk and to allow an efficient cash surpluses investment.

The repurchase of PORTUG 5.125% Oct/2024 increases the average lifetime of the debt portfolio and has an impact on the decrease in redemptions in 2024. Between 2023 and 2025 the repayment profile is particularly demanding, especially between October 2023 and October 2024, when OT 4.95 Oct/2023, OT 5.65 Feb/2024 and PORTUG 5.125% Oct/2024, will be redeemed.

The repurchase was carried out through a competitive reverse auction, in a process similar to that for OT repurchases. This option allowed for the price dynamics to be competitive and save commissions costs that would be applicable in the event of a syndicated transaction.

The fact that the PORTUG 5.125% Oct/2024 is not eligible for ECB asset purchase programmes, in conjunction with its lower liquidity, has contributed to a spread differential between these securities and OT of similar maturity. This spread confers a financial advantage to the repurchase of the OT 5.125% Oct/2024, as opposed to the repurchase of OT of an equivalent maturity.

The operations were announced to the market on 12 July and 19 October and were executed on the following day through an auction using the single price method. These repurchases enabled the IGCP to anticipate the repayment of around USD 1.4 billion, initially programmed for 2024 (bond maturity year).

The bonds were repurchased at 0.74% and 0.87% interest rates respectively, which resulted in rates in euro of -0.37% and -0.39% after the use of financial instruments taken out by the IGCP

to hedge market risk. These rates compare to a market funding cost of the Portuguese Republic at around -0.57%, obtained from linear interpolation of the Treasury Bond yield curve.

Table 2 – Repurchase auctions PORTUG 5.125% Oct/2024

Date of operation	Nominal amount (million USD)	Total demand (million USD)	Repurchase yield	Yield converted into euro	OT interpolated rate
13 July 2021	1,124.0	1,580.0	0.74%	-0.37%	-0.57%
20 October 2021	268.0	425.0	0.87%	-0.39%	-0.57%
Total	**1,392.0**	**2,005.0**			

2.2. Secondary Market

In the secondary sovereign market, interest rates on Portuguese debt fluctuated throughout the year, showing higher levels in the second[10] and fourth quarters (in particular in 10- and 30-year maturities), periods during which the curve slope was also steeper. The risk premium remained flat throughout the year (in the 10-year benchmark maturity), having narrowed slightly in benchmarks for shorter maturities. Bid-offer spreads improved after the pandemic crisis and remained historically low until the beginning of the fourth quarter, after which bid-offer spreads widened and liquidity conditions deteriorated slightly. The interest rate on Portuguese government debt at 10-year benchmark maturity rose from 0.03% at the end of 2020 to 0.46% at the end of 2021, a reference above the annual average but in line with pre-pandemic levels, despite the volatility. The trend was common to the remaining points of the curve, but steeper in the long-end, with an increase in the slope over the same period a year earlier.

In relative terms, the spread cost of the Portuguese public debt against the German cost has always remained in line with EU comparable, very close to the lowest levels in 2019. In the 10-year benchmark maturity, it ended 2021 (+64 basis points) at a level in line with that at the end of 2020 (+62 basis points). The spread over Italy for the same maturity widened by around 20 basis points to -71 basis points by the end of 2021 (i.e. the difference between the two sovereigns widened throughout the year, with the Portuguese curve at a level considerably lower than the Italian). In respect of Spain, the spread widened slightly between the end of 2020 (-2 basis points) and the end of 2021 (-10 basis points).

As regards secondary market liquidity, there was a slight deterioration in the second half of the year, with a decrease in average daily OT trading volumes between platforms and over-the-counter market and an increase in bid-offer spreads over the last two months of the year. This decrease was mainly caused by heightened uncertainty about the maintenance of an accommodative monetary policy by the ECB in 2022. In 2021, average daily volumes reached EUR 1,024 million, which contrasts with EUR 1,136 million posted in 2020.

10 It was also in this period that the 10-year interest rate reached its highest level of the year (+0.61% in May).