Introduction

The year 2021 continued to be marked by the effects of the health, economic and social crisis caused by the pandemic.

After an unprecedented economic contraction in 2020, caused by a sudden and profound change in social behaviour and economic relations on a global scale as a result of the pandemic, 2021 already saw a remarkable rebound. The successful vaccination process, together with the adoption of containment measures adjusted to the different epidemiological moments, contributed to the return of some normality to economic activity.

In the aftermath of the pandemic, which interrupted the economic growth trend and the correction of imbalances, in 2021 the Portuguese economy embarked on a recovery and resumption process.

The profound structural adjustment experienced by the Portuguese economy in the past few years has proved to be instrumental to increase its robustness and capacity to tackle adverse shocks. Against this background, not only the 8.4% contraction of the Portuguese economy in 2020, caused by the pandemic and the containment measures adopted, has fell short of most of the widely more negative initial estimates, but also the 2021 recovery has exceeded most projections.

Hence, the Portuguese economy grew by 4.9% of GDP in 2021, maintained its favourable dynamics in the labour market, with an unemployment rate close to pre-pandemic levels, and improved its net borrowing capacity vis-à-vis the rest of the world, despite the deterioration in the goods account, benefiting from a slight improvement in the services account surplus and the increase in transfers from the European Union.

Without prejudice to the prompt and decisive political response, public finances benefited from the economic rebound and the lower financial effort required to tackle pandemic's containment measures, and, in 2021, the budget deficit stood at 2.8% of GDP, dropping 3 p.p. compared to 5.8% in 2020. Due to favourable budget results, it was possible, already in 2021, to put the government debt ratio (Maastricht perspective) back on a downward path. Thus, after reaching 135.2% of GDP by the end of 2020, this ratio fell by 7.8 p.p. to 127.4% of GDP in 2021.

The ECB's stance underpinned favourable market access conditions, which made it easier for a flexible implementation of the financing strategy for 2021.

The initial funding strategy for 2021 entailed funding sources of EUR 25.6 billion that included the use of deposits of EUR 6.7 billion and the issuance of EUR 15 billion of OTs, through the issuance of two new benchmarks (10 and 30 years) and the reopening of different OT lines through auctions. However, as a result of significant gains from cash pooling in State Central Treasury, a higher than initially estimated increase in the amount of funding from Official loans and the increase in net CA/CTPC issues, the BT programme could be cut by about EUR 4.8 billion and the OT programme by EUR 0.4 billion.

Taking advantage of broadly favourable market access conditions, and to maintain an active presence in the market despite the removal of some auctions, it was possible to conduct 4 exchange auctions, plus bilateral operations, which resulted in the repurchase of an aggregate nominal value of EUR 4.2 billion of OT to be redeemed in 2022, 2023 and 2024 against the issue of longer maturity OTs. Throughout the year there were also two public operations to repurchase bonds issued in 2014 in USD, for an overall amount of USD 1.4 billion.

Against this background, it was possible to increase the issued maturity with a marginal additional cost in issuances carried out in 2021 compared to 2020, as well as to increase the stock average maturity, maintaining a downward trend in the cost of funding, with the implicit interest rate of the debt set at 1.9%.