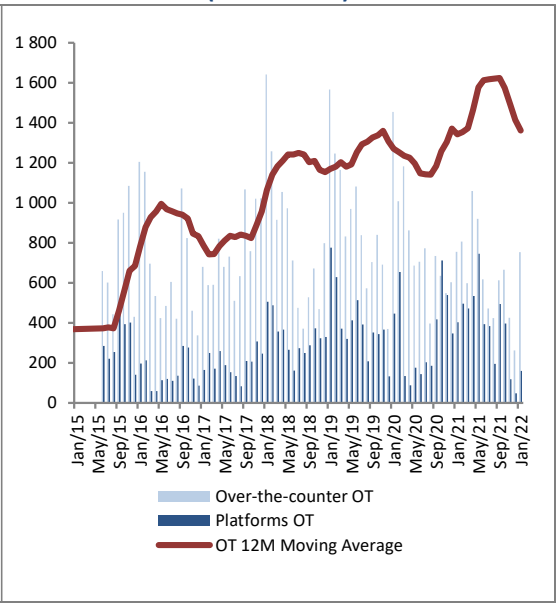
Chart 14 – Spreads vs Germany (10-year) (b.p.)

Source: Bloomberg

Chart 15 –OT trading on the secondary market (EUR million)



Source: IGCP

3. State's Assets and Liabilities

3.1. State Direct Debt and Costs

On 31 December 2021, the stock of State direct debt,[11] valued at the end-of-period exchange rate, stood at EUR 278.5 billion (see Table 20 in Annex 5), which represents a EUR 10.2 billion increase compared to 2020 (3.8%). The annual change essentially stems from the increase in CEDIC balance (3.9 p.p. contribution) and OT (apportionment of 2.3 p.p.), partially offset by the decrease in BT stock (-1.9 p.p.) and the OTRV outstanding amount (-1.3 p.p.).

In 2021, the medium and long-term debt issuance remained an important source of net financing for Portugal. Gross OT issuance, net of premiums and discounts, stood at EUR 19.4 billion, resulting in a positive net issuance of EUR 6.8 billion and in an increase in the relative weight of OTs in debt stock (nominal value) from 55.3% in 2020 to 55.5% at the end of 2021. Adding the balance of OTRVs and bonds issued in foreign currency, converted into euro (with net issuances of EUR -3.5 billion and EUR -0.2 billion respectively), the relative weight of medium and long-term tradable debt issued in euros stood at 57.8% (compared to 59.1% in 2020).

[11] Direct State debt is a concept that differs from the public debt compiled by the Banco de Portugal for the purposes of the Excessive Deficit Procedure (Maastricht debt, presented in Chart 5) in several aspects, among which:: (i) differences in sector delimitation - direct public debt includes the debt issued by the State only, while in the Maastricht debt all entities classified, for statistical purposes, in the general government institutional sector are included; (ii) consolidation effects - the direct public debt reflects only the liabilities of this subsector, while the Maastricht debt is consolidated i.e. excluding general government assets in liabilities issued by the general government itself.

The weight of retail instruments (CA and CT) fell slightly from 11.1% to 10.9%, primarily reflecting the performance of other debt instruments, which increased in absolute value, thus reducing the weight of retail instruments.

As regards short-term debt (in euros), its outstanding amount increased to around EUR 5.6 billion in 2021, mainly explained by CEDIC developments (repayments exceeded issuances by EUR 10.5 billion). This evolution, together with the slight increase in cash collateral received as part of derivative operations to cover interest rate and exchange rate risk (around EUR 0.1 billion), more than offset the decrease in the BT stock (around EUR 5.0 billion). The relative weight of short-term debt instruments increased by only 1.8 p.p., to 8.8% by the end of 2021.

The weight of non-euro denominated debt (excluding EFAP loans) decreased in 2021, from 1.5% to 1.1% of the total, mainly reflecting the early repurchase operation of the USD denominated bond (in the amount of USD 1.4 billion).

In turn, Official loans (including EFAP, SURE and loans under the Recovery and Resilience Mechanism - RRM) increased slightly in the relative weight in debt stock, rising from 19.6% in 2020 to 19.9% at the end of 2021. This development reflects the increase in the SURE loan balance, with the disbursement of the second tranche of the EC loan to Portugal in May 2021, along with the disbursement of the loan component of the RRM pre-financing) received in August 2021.

Box 2 | Financing through RRM

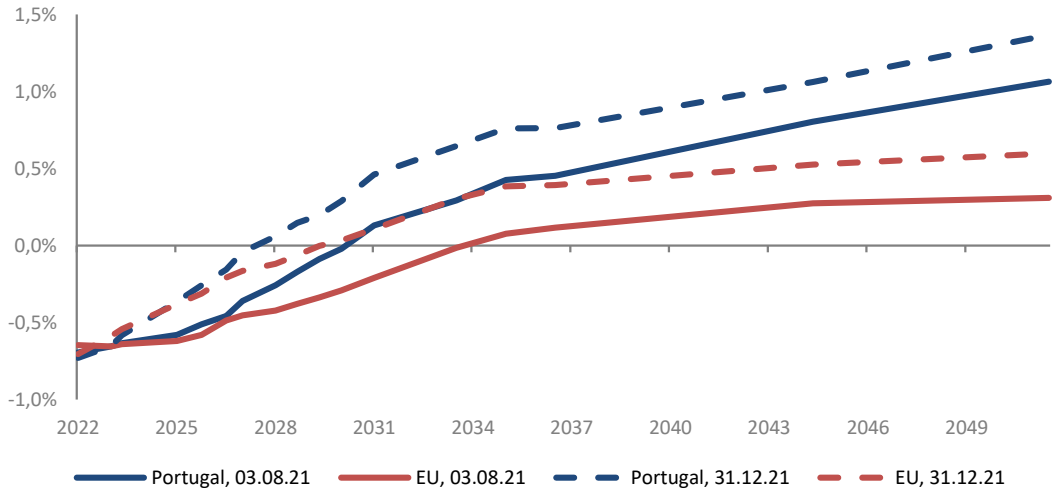
The European Commission created the temporary recovery instrument Next Generation EU (NGEU) as a response to the COVID-19 crisis, amounting to EUR 750 billion, aiming to support economic recovery through financial contributions and loans to Member States.

The Portuguese Recovery and Resilience Plan (RRP), developed under the Recovery and Resilience Mechanism (RRM) and approved by the European Union on 13 July 2021, contains an investment plan based on 3 structuring dimensions: resilience, climate transition and digital transition. The funding granted by the European Union to Portugal in the period 2021-26 under the RRM amounts to EUR 16.6 billion: EUR 13.9 billion in the form of financial contributions and EUR 2.7 billion in the form of loans.

Following the approval of the RRP, the Portuguese Republic received an amount of EUR 2.2 billion on 3 August 2022, equivalent to 13% of the funds to which it is entitled in the form of pre-financing: EUR 1.8 billion in the form of a grant and EUR 350.9 million in the form of a loan.

The loan was granted for a 30-year period, with a 10-year grace period and an average life of 20 years. The interest rate of this loan is not fixed and is linked to the European Union's cost of financing. As an illustration, the yield curves for Portugal and the EU are presented below, showing that there is a financial advantage in using RRP financing compared with OT financing, especially for longer maturities.

Chart 16 – Portuguese and European yield curves



The favourable foreign exchange effect of derivative hedging (net) was higher in 2021, totalling EUR 0.5 billion (compared to EUR 0.3 billion in 2020). After derivatives hedging, the balance of direct government debt stood at EUR 278.0 billion, thus recording a EUR 10.0 billion increase compared to 2020.

Box 3 | The new *Certificados do Tesouro Poupança Valor* (CTPV)

In September 2021, a new public debt instrument was launched, the *Certificado do Tesouro Poupança Valor* (CTPV), aimed at promoting medium-term household savings. The launch of this new product aimed at curtailing the existing misalignment between the remuneration offered by *Certificados do Tesouro Poupança Crescimento* (CTPC) and alternative market financing for similar maturities.

This new savings product maintained the final 7-year maturity and also the application of a premium indexed to real GDP growth. However, this premium is now 20% of the average real GDP growth and applies to all the years from the third year, that is, one year later than for CTPCs. These changes made it possible to cut the rates in shorter maturities, while still maintaining a final remuneration that is competitive and less misaligned with the OT funding cost, which in September 2021 was negative for the reference maturities of up to 7 years (relevant in this comparison).

CTPCs are issued with a 7-year maturity and a guaranteed fixed rate on the subscription date. The gross remuneration rates set for subscriptions made on or after 13 October 2021, and guaranteed until their amortisation, are as follows:

Years	1	2	3	4	5	6	7
CTPV base interest rates	0.70	0.70	0.80	0.90	1.00	1.30	1.60

rom the third year, a premium corresponding to 20% of the average GDP real growth, if positive, will be added to this rate. Similarly to CTPC, but contrarily to CAs, CTPVs earn interest annually, with no capitalisation of interest, and may only be redeemed one year after their subscription date. On the redemption date, the total amount of capital invested is guaranteed.

Current debt costs

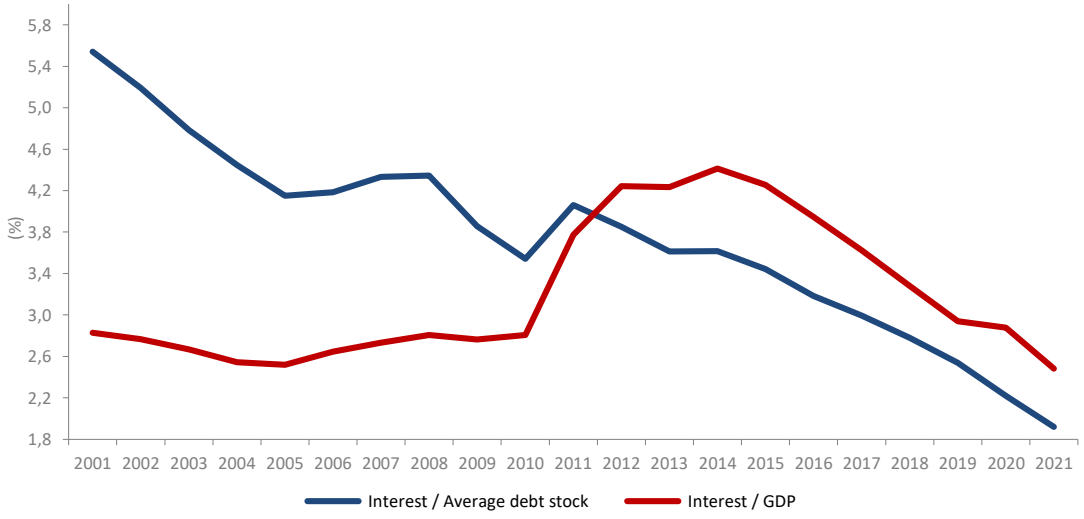
In 2021, the government's current direct debt burden on a public accounting basis was EUR 6.4 billion (net), a reduction of EUR 547 million from the previous year (see Table 21 in Annex 6).

Treasury bonds continued to be the instrument with the greatest representation in total debt interest, amounting to EUR 4,642 million in 2021. This amount represents a EUR 74 million decrease from the previous year, mainly due to the maturity of the OT 4.8% June 2020. Interest from Official loans fell by EUR 318 million compared to the previous year, reflecting the reimbursement, in July, of EUR 286.7 million by the EFSF to the Portugal relating to interest associated with the repayment of the prepaid margin. Interest from CA and CT fell by approximately EUR 139 million, as a result of a decrease in interest associated to CTPM, due to the impact of the lower premium related to GDP growth and reduction in the outstanding stock of this product. Interest from BT pursued a favourable evolution, with the instrument continuing to benefit from negative issuing interest rates, with interest received standing at EUR 51 million.

In 2021, interest paid on the State direct debt on a National Accounts basis stood at EUR 5.2 billion, with a significant drop for the sixth year in a row. The annual decrease, which amounted

to EUR 511 million, reflected the favourable and particularly significant development in price effect (decrease in implicit interest rate), which more than offsets the increase in the outstanding debt (see Table 23 in Annex 6). In fact, the implicit interest rate continues a consistent downward trend, reaching a new historic low of 1.9% in 2021. The weight of interest on GDP also registered a favourable evolution, decreasing from 2.9% in 2020 to 2.5% in 2021.

Chart 17 – Evolution of interest on State direct debt (National accounts basis) (%)



3.2. State's Treasury

State Treasury Cash Holdings

The breakdown of the State's cash holdings for the 2020-2021 biennium is shown in Table 3.

Table 3 – Cash accounts

EUR million	Dec-20	Dec-21
Accounts with BdP	17,162	9,306
Financial invesments with CI	300	0
Foreign currency accounts	1	3
Other bank accounts	1	1
RCE accounts (Banks, CTT, SIBS, IRN and Caixas do Tesouro)	439	476
External accounts with CI	8	3
Cheques in course of collection	1	1
TOTAL	**17,912**	**9,790**

Source: IGCP

The table above illustrates that the cash position of the State at the end of 2021 showed a decrease of about EUR 8 billion compared to the previous year, as a result of a 46% decrease in amounts deposited at the Banco de Portugal (BdP).

By the end of 2021, the State's cash position was EUR 9.3 billion (or EUR 8.8 billion excluding cash collateral), compared to EUR 17.5 billion (or EUR 17.0 billion excluding cash collateral) at the end of the previous year.[12] The extraordinarily high cash position in December 2020 exceeded projections, as the budget execution proved more favourable than initially estimated (especially from summer, with the economic activity recovery) and the effort to pool the State's cash continued progressing, as well as reflecting the need to carry out the pre-financing of the OT to be amortised in April 2021 (in contrast to more recent years when the maturity occurred in June or October). Thus, the reduction during 2021 resulted mainly from the use of the balance to finance 2021 needs, allowing a financing decrease in 2021, while reflecting lower estimated net financing needs for 2022 than in previous years, which was particularly demanding in terms of the impact of measures to tackle the effects of the pandemic crisis.

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), according to which any activity in public funds must be centralised in bank accounts at the IGCP. The UTE is thus a key instrument to optimise State's liquidity management and financing.

The distribution of funds of public entities and services centralised in the State's cash management system is shown in table 4, taking as a reference the universe of customers using *Internet Banking* (IB), the application that acts as the privileged IT support for proper compliance with the UTE.

Table 4 – Cash Holdings of Public Services and Entities

Type of Customer	Disponibilidades (EUR milhões)							
	Demand deposits		CEDIC		CEDIM		TOTAL	
	2020	2021	2020	2021	2020	2021	2020	2021
ONSUTE	6,298	4,406	2,995	6,362	0	0	9,293	10,768
SEE	2,149	1,301	887	2,195	25	21	3,061	3,518
SFA	6,548	3,779	3,163	8,914	909	559	10,620	13,252
SI	1,784	2,067	0	52	0	0	1,784	2,119
TOTAL	**16,779**	**11,553**	**7,046**	**17,524**	**934**	**580**	**24,759**	**29,657**

Source: IGCP

Considering the cash holdings of public services and entities in State Treasury, there was an increase of EUR 4,898 million between 2020 and 2021.

This variation essentially results from the increase in the amounts invested in CEDIC, which rose to about EUR 10.5 million compared to the previous year.

Concurrently, the amounts held in current accounts decreased by about EUR 5.2 million, which shows that they were transferred to CEDIC subscriptions.

[12]The treasury position is understood as the balance of deposits with the BdP and CIs, excluding cash collateral (see Table 11).

Initiatives to Promote the State Treasury Unit

During 2021, several initiatives were carried out to promote the UTE (State Treasury Unit), which greatly contributed to reaching the level of pooled cash holdings in the State Treasury indicated in Table 4 of this report.

The promotion of the UTE across public services and entities was carried out through dissemination and awareness-raising initiatives with public services and entities, the signing-up of service agreements, opinions issued on the UTE, as well as through the implementation of the new online banking services platform, the Internet Banking.

In the course of these initiatives, the IGCP has always sought to advise public services and entities on the use of tools that best fit their reality, within the range of banking services made available by the State Treasury.

In 2021, major steps were taken with the AMA (*Agência para a Modernização Administrativa, I.P.*) for the latter to work together with the IGCP as a technical facilitator for public services and entities in generating Single Billing Document (DUC) references and in the exchange of issue and collection files inherent to the use of the State Collections Network (RCE).

This partnership between the IGCP and AMA, which will enable the payment collection service for payments to the State to be made available on the new Public Administration Payment Platform, aims at:

a) Boosting the integration of low-technology entities into the RCE;
b) Improving management information for entities managing DUCs.

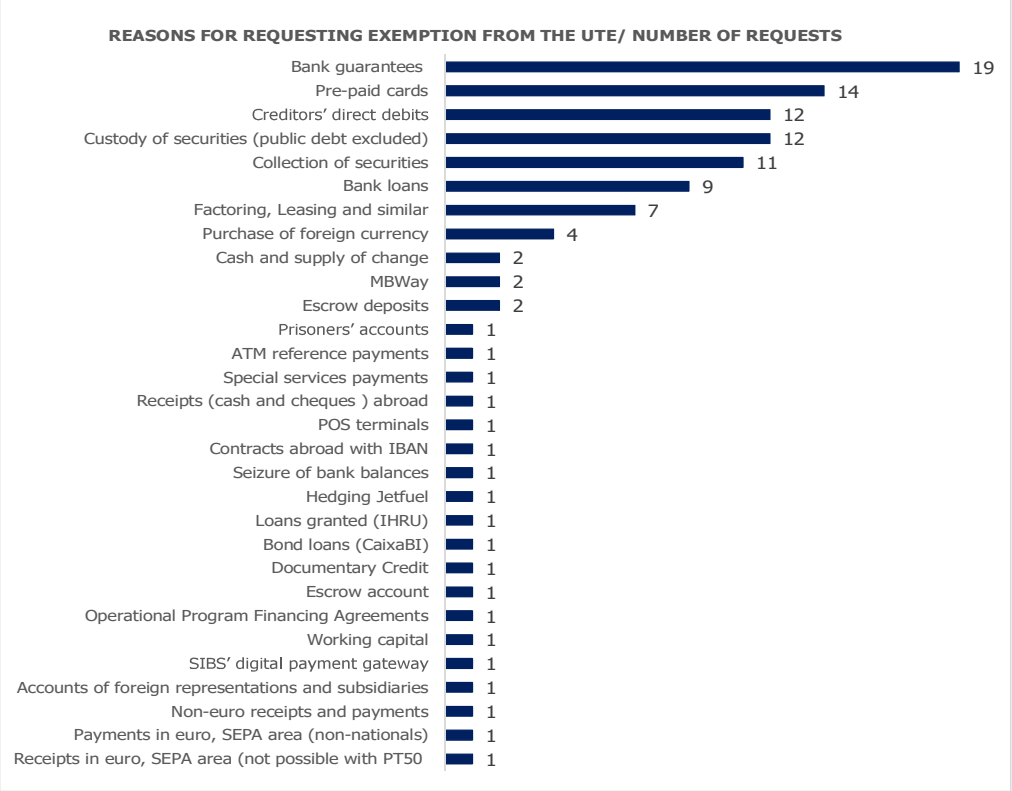
The initiatives undertaken by the IGCP to promote the UTE also resulted in the conclusion of around 30 agreements for the provision of banking services, 76% of which related to the provision of POS terminals (at the end of 2021, the IGCP had made around 5,400 equipment available, which enabled the inflow of public funds to the State's cash account of around EUR 277 million), and the remaining 24% split between agreements for the deposit of collateral and validation of the IBAN/NIF pair.

Under the terms of Article 172(5) of Law No 75-B/2020 of 31 December, public services and entities may be exempt from complying with the UTE. Cumulatively, under Article 115 (5) of Decree-Law No 84/2019 of 28 July, the IGCP may, in duly grounded exceptional situations, authorise the exemption of compliance with this principle, for a maximum period of two years. In 2021, the IGCP issued 54 opinions on requests for exemption from UTE compliance requested by public services and entities, 57% of which were submitted by SES entities.

Chart 18 illustrates the reasons given by services and public entities to justify requests for exemption.

The four most common reasons given for requests for exemption from the UTE are: bank guarantees, prepaid cards, the credit side of direct debits and custody of securities (excluding public debt), which represent 50% of the reasons for exemption.

Chart 18 – Reasons for requesting exemption from the UTE



Source: IGCP

During 2021, the implementation of *Internet Banking* (IB) was completed, the new online platform for the provision of banking services, replacing the *Homebanking* (HB).

This new platform integrates the best practices in terms of security, usability and efficiency, approaching similar applications provided by commercial banking.

In 2021, the satisfaction of services and public entities was measured, namely at the level of banking services provided through IB, which, under the satisfaction survey conducted in the reporting year, rose from 73% in 2017 to 93% in 2021.

4. Portfolio and Risk Limits Management

4.1. Management of State's Derivatives Portfolio

The main purpose of derivative operations executed in 2021 was to ensure the foreign exchange hedging of the portfolio. Transactions were mainly related to the unwinding of existing exchange rate positions, following repurchase transactions of USD bonds in July and October.