IGCP
Agência de Gestão da Tesouraria
e da Dívida Pública

Government Debt and Cash Management

Annual Report 2023

IGCP
Agência de Gestão da Tesouraria e da Dívida Pública

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Abbreviations

BdP	Banco de Portugal
bp	basis points
BT	Treasury Bills
CA	Savings certificates
CCIRS	Cross Currency Interest Rate Swap
CEDIC	Special Certificates for Short Term Public Debt
CEDIM	Special Certificates for Medium and Long-term Public Debt
CGE	General State Account
CI	Credit institutions
CNY	Chinese Yuan
CSA	Credit Support Annex
CT	Treasury Certificates
CTPC	Treasury Certificates Savings Growth
CTPM	Treasury Certificates Savings Plus
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	Benchmark Financing Strategy
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilisation Mechanism
EPR	Reclassified Public Corporations
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
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 Collection Network
Repos	Repurchase Agreements
RTE	State Treasury Scheme
SES	State-owned Enterprise Sector
SFA	Autonomous Funds and Services
Statistics Portugal	Instituto Nacional de Estatística, I.P.
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

In 2023 the ongoing Russia-Ukraine conflict continued to weigh on global economy, increasing uncertainty and maintaining inflationary pressures.

Against this background, the global economy continued its downward trend from the previous year, with global GDP growth easing from 3.5% in 2022 to 3.2% in 2023, owing to a significant weakening of international trade and investment. Conversely, activity benefited from falling inflation over the course of the year, which supported household income.

Despite the clear downward trend, inflation remained at historically high levels. Against this backdrop, the major reference central banks, in fulfilment of their mandate to guarantee price stability, maintained the tight nature of their monetary policy decisions, with benchmark rate hikes until September (in the case of the ECB, the last to end the rate hike cycle, of the group of three central banks that also includes the US Federal Reserve, in July, and the Bank of England, in August) and reduced reinvestment in portfolio assets.

The Portuguese economy has not escaped the deceleration trend but has shown signs of resilience that have allowed it to stand out and maintain growth above the euro area average.

Thus, the Portuguese GDP grew by 2.3% in real terms in 2023, following a 6.8% growth in 2022 (the highest since 1987). This reflects an easing in all components, especially in private consumption, which dropped significantly from 5.6% in 2022 to 1.6% in 2023, having been affected by high inflation and rising interest rates, but supported by a robust labour market.

In terms of public finances, Portugal recorded a budget surplus of 1.2% of GDP, an improvement of 1.5 p.p. on a deficit of 0.3 % of GDP in 2022.

As at 31 December 2023 the public debt ratio (from a Maastricht perspective) stood at 99.1%, the lowest figure since the sovereign financial crisis in 2009, a decrease of 13.3 p.p. compared to the previous year, of which 9.8 p.p. resulting from nominal GDP growth, 3.4 p.p. from a positive primary balance and 2.3 p.p. relating to deficit-debt adjustments, including the use of cash surplus in relation to the 2023 Funding Programme to reduce the government’s nominal debt.

Unanticipated cash inflows, including a significant increase in CA/CTPC net issuances, the transfer of the CGD employees' pension fund to the CGA (Box 2) and the performance of the Government surplus led to adjustments in the year's funding programme, with substantial reductions in funding through market instruments and the cancellation of the syndicated issue of a new 10-year benchmark OT line initially considered.

The funding strategy outlined for 2023 included two new benchmark issuances and the reopening of different OT lines through auctions with the aim of providing liquidity across the curve, anticipating a gross OT issuance volume of about EUR 19.8billion (exchanges excluded). A net increase of around EUR 4.3 billion was expected in the treasury bill programme.

However, the OT and BT issuance programmes were cut by EUR 10.4 billion and EUR 8.9 billion respectively, driven by a significant increase in CA/CTPC net issues (in the amount of EUR 6.7 billion, compared to the initial estimate of EUR 3.5 billion), significant gains from cash pooling in the Central State Treasury (in the amount of EUR 5.3 billion) and a reduction in net financing needs of the State sub-sector.

To maintain its presence in the market and mitigate the negative effects on the liquidity of tradable securities, the Portuguese Republic carried out three exchange auctions, buying an aggregate nominal value of EUR 2.4 billion of OT to be redeemed between 2024 and April 2027 against the issue of OT with longer maturities.

Cash surpluses also made it possible to carry out debt repurchase transactions (3 OT reverse auctions, 1 US dollar-denominated MTN buyback auction and bilateral transactions) totalling EUR 5.0 billion of securities maturing between February 2024 and April 2027, which correspond, for maturities of up to 18 months, to an alternative use of cash surpluses, and for maturities up to 2027, to the reduction of the debt repayment profile in the year the European Central Bank's balance sheet reduction programme will have its greatest impact on treasury bonds (OT).

A higher concentration of issues with a residual maturity of more than 9 years led to an increase in the average maturity of medium and long-term debt issued in 2023, compared to previous years, to 15.6 years, which, combined with buyback of securities with a maturity of up to 30 months, caused the average maturity of the debt stock to remain at 7.2 years.

The cycle of rising reference interest rates, which have their greatest impact on short-term interest rates, and therefore on variable interest rate government debt (essentially the stock of Savings Certificates), as well as the refinancing of fixed-rate tradable debt (OT), in a context of high medium and long-term market interest rates, led to the cost of government MLP debt issued in 2023 rising again compared to the previous year, to 3.5%. This resulted in a slight increase in the implicit interest rate on the debt, which rose to 2.0 % (compared to 1.7 % in 2022) and thus reversed the downward trend seen since 2015.

Primary Market Participants in 2023

OT – Treasury Bonds

OEVT – Primary dealers	OMP – Other Auction Participants
Banco Santander, S.A.	CaixaBank, S.A.
Bank of America Securities Europa SA	Millennium bcp
Barclays Bank Ireland PLC	
BBVA	
BNP Paribas	
Caixa Banco de Investimento, S.A.	
Citigroup Global Markets Europe AG	
Crédit Agricole CIB	
Deutsche Bank , AG	
Goldman Sachs Bank Europe SE	
HSBC Continental Europe	
Jefferies GmbH	
J.P. Morgan AG	
Morgan Stanley Europe SE	
Nomura Financial Products Europe GmbH	
Novo Banco, S.A.	
Société Générale	

BT – Treasury Bills

EBT – Treasury Bill Specialists
Banco Santander, S.A.
Bank of America Securities Europa SA
Barclays Bank Ireland PLC
BBVA
BNP Paribas
CaixaBank, S.A.
Caixa Geral de Depósitos, S.A..
Citigroup Global Markets Europe AG
Crédit Agricole CIB
Deutsche Bank , AG
Goldman Sachs Bank Europe SE
HSBC Continental Europe
Jefferies GmbH
J.P. Morgan AG
Millennium bcp
Morgan Stanley Europe SE
Nomura Financial Products Europe GmbH
Novo Banco, S.A.
Société Générale

Main Highlights

In 2023 State net borrowing needs will have reached EUR 3.5 billion, broken down into a budget deficit of about EUR 0.2 billion and other needs of EUR 3.3 billion. The decrease of EUR 5.8 billion compared to 2022 resulted from a EUR 5.6 billion decrease in the government budget deficit and a EUR 0.2 billion decrease in net expenditure on the acquisition of financial assets.

BORROWING NEEDA AND SOURCES (EUR million)	
GROSS BORROWING NEEDS	**19.750**
Budget Deficit (State subsector)	189
Net acquisition of State's financial assets	3.266
OT redemptions (excl exchange operations)	13.649
Official loan redemptions (EFAP+SURE)	1.500
Other redemptions of medium- and long-term debt	1.147
FINANCING SOURCES	**19.750**
Use of deposits (excl cash collateral)	638
Official loans issuance (EFAP+SURE+RRP)	694
OT and MTN issuances (excl exchange operations)	9.393
OTRV issuances	0
Other MLT debt issuances	39
TBills net issuance (excl BT held by the FRDP)	-4.563
CA/CT net issuance	10.222
Other movements in the Single Treasury Account	3.327
Deposits balance at year-end (excl. margin accounts and other investments)	**5.674**
Margin accounts balance at year end and other investments	155
Total deposits balance at year end	**5.828**

As usual, the strategy for the year foresaw that the majority of the year's funding would come from OT issuances. However, a rise in the 3-month Euribor led to a significant increase in CA subscriptions. The stock of savings products (CA and CT) increased by EUR 10.2 billion and represented the main source of funding in 2023. In view of these developments, funding through market instruments, namely OT and BT, needed to be cut. In the case of OT, issuances totalled an inflow of EUR 9.4 billion; in terms of BT, net funding was negative at EUR 4.6 billion. Furthermore, Portugal received EU loans for the second, third and fourth tranches of the Recovery and Resilience Plan (RRP), totalling EUR 0.7 billion. The deposit balance at the end of 2022 (around EUR 6.3 billion) was also marginally used to finance needs in 2023 (around EUR 0.6 billion), closing the year with a deposit balance of EUR 5.6 billion (excluding margin accounts and other investments).

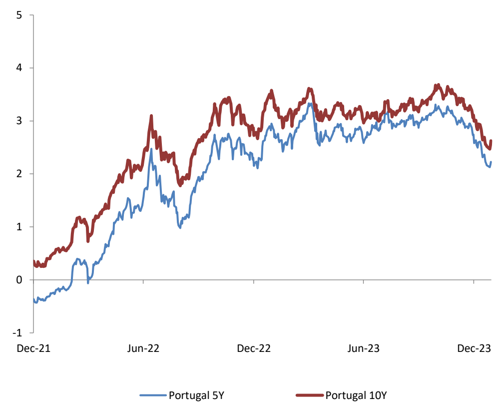
Market financing operations in 2023	Nominal value (EUR million)	Residual maturity (years)	Average allotment rate (%)
OT SYNDICATED ISSUANCES			
OT 3.5% Jun 2038	3,000	15	3.69%
OT AUCTIONS			
OT 1.95% Jun 2029	560	6	3.18%
OT 1.65% Jul 2032	2,171	9	3.30%
OT 0.9% Oct 2035	1,499	12	3.67%
OT EXCHANGES			
OT 0.7% Oct 2027	280	4	3.07%
OT 3.875% Feb 2030	361	7	3.28%
OT 1.65% Jul 2032	781	9	3.12%
OT 1.15% Apr 2042	409	19	3.66%
OT 1% Apr 2052	560	29	3.48%
PRIVATE PLACEMENT			
OT 2.25% Apr 2034	179	11	3.17%
OT 4.1% Apr 2037	84	14	3.38%
OT 3.5% Jun 2038	473	15	3.46%
OT 1.15% Apr 2042	400	19	3.50%
OT 4.1% Feb 2045	1,053	22	3.49%
OT 1% Apr 2052	1,484	29	3.55%
TBills AUCTIONS (gross issuances, excl. FRDP)			
3 months	515	0.25	2.57%
6 months	957	0.5	3.05%
11 months	387	0.92	2.98%
12 months	2,039	1	3.19%

With regard to OT issuances, the amount issued included a private placement a nominal value of EUR 3.7 billion (EUR 3.0 billion in proceeds), fully subscribed by the CGA, carried out in compliance with Decree-Law 14/2023 of 24 February 2023 (Box 2).

In 2023 the ongoing Russia-Ukraine conflict continued to weigh on global economy, protracting the slowdown trend begun in the previous year, increasing uncertainty and inflationary pressures, which kept inflation at historically high levels, despite a clear downturn. Against this backdrop, the main reference central banks, in fulfilment of their mandate to guarantee price stability, have maintained the tight nature of their monetary policy decisions, with benchmark rate hikes until September (in the case of the ECB, the last to end the rate hike cycle, of the group of three central banks that also includes the US Federal Reserve, in July, and the Bank of England in August).

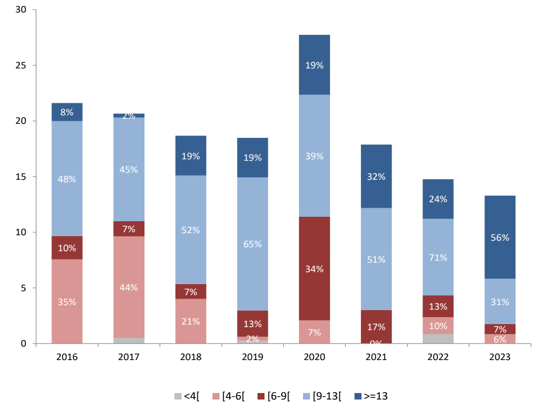
Concurrently, as a result of the rise in reference rates, interest rates on Portuguese debt showed a slight upward trend until the beginning of October, followed by a sharp drop, thus ending the year close to annual lows. This drop was mitigated by Portugal's risk premium narrowing throughout the year, ending the year also close to annual lows (for the 10-year reference period).

OT interest rates in the secondary market (%)

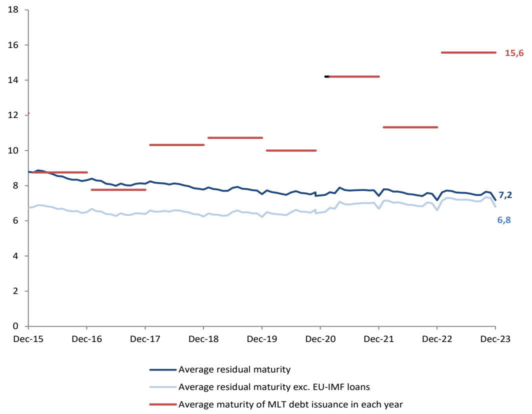


A higher concentration of issuances of securities with a residual maturity of more than 9 years (87% of the total issued, compared to 71% in 2022) and, conversely, a reduction in the short end of the curve (issuances with maturities of less than 6 years accounted for 6% of the total – vs. 16% in 2022) accompanied by the purchase of securities maturing up to April 2027, the average maturity of medium and long-term debt issued in 2023 increased compared to previous years and stood at 15.6 years (compared to 11.3 years on average in 2022). This increase allowed the average maturity of the debt stock to remain stable at 7.2 years.

MLT debt issuances by maturity
(EUR billions)

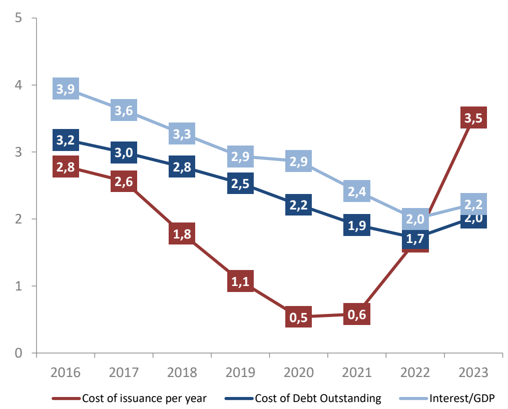


State direct debt maturity (years)



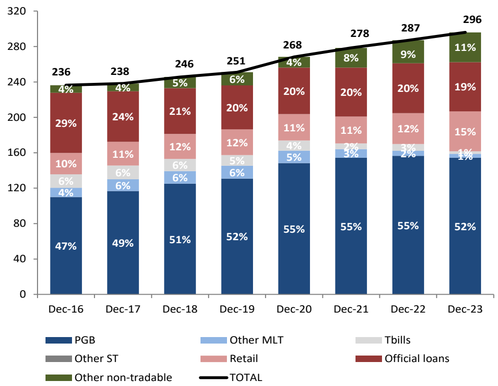
In this context of rising interest rates, the cost of MLP debt issued in 2023 rose again compared to the previous year, to 3.5%. This resulted in a slight increase in the implicit interest rate on the debt, which rose to 2.0%, thus reversing the downward trend seen since 2015.

State direct debt cost (%)



State direct debt increased by EUR 8.9 billion in 2023, reaching EUR 296 billion by the end of the year (a 3.1% increase compared to 2023 vs. +3,1% in 2022 compared to 2021).

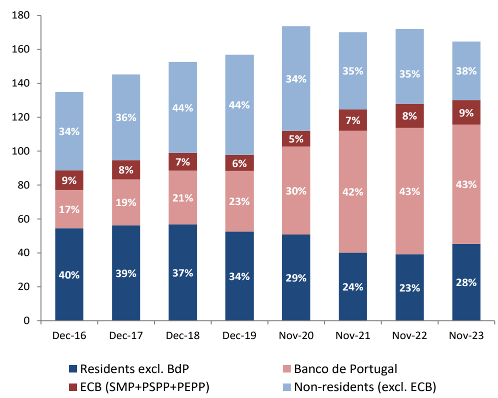
State direct debt by instrument
(EUR billions)



Net asset purchases under the APP and PEPP phased out in 2022 and the Eurosystem stopped reinvesting the full amount of maturing securities as of March 2023. Therefore, the APP portfolio shrank by EUR 15 billion per month on average.

Reinvestments under the APP were discontinued as of July 2023. In the case of the PEPP, despite the end of net purchases in 2022, the amount of maturing securities continued to be reinvested in full (until the end of the first half of 2024). With regard to holders of debt securities issued by the State, the Eurosystem kept its relative weight stable at around 52%.

State direct debt securities holders
(EUR billions)

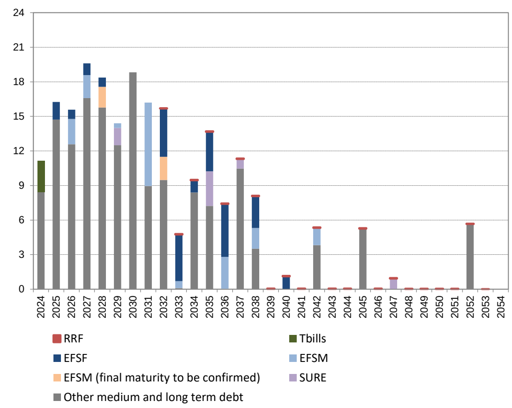


Smoothing out the repayment profile remains a guiding objective in the Portuguese public debt management, given its contribution to mitigating the refinancing risk.

To reduce the Portuguese Republic's short-term refinancing risk and ease the debt repayment profile, repurchase and exchange operations of OT with short maturities for others with longer maturities continued to be carried out in 2023. In this context, the Portuguese Republic held three exchange auctions, repurchasing an aggregate nominal value of EUR 2.4 billion of OT with maturity between February 2024 and April 2027 against the issue of OT with longer maturities. There were also four reverse auctions (of OT and US dollar-denominated MTN) and bilateral repurchase transactions of securities with maturities between October 2023 and April 2027, totalling EUR 5 billion.

MLT debt redemption schedule

(EUR billions)



1. ECONOMY AND FINANCIAL MARKETS

1.1. International Macroeconomic Context

The global economy showed resilience in 2023, against a backdrop of tight monetary policies, despite continuing the downward path it had embarked on the previous year. In fact, in its World Economic Outlook report released in April 2024, the International Monetary Fund (IMF) estimates that global GDP growth will have eased from 3.5% in 2022 to 3.2% in 2023, considerably below the long-term average (from 2000 to 2019) of 3.8%. The significant decline in international trade, from 5.6% in 2022 to only 0.3% in 2023, as well as in investment, contributed to this trend. However, activity benefited from the decline in inflation over the course of the year, which supported household income.

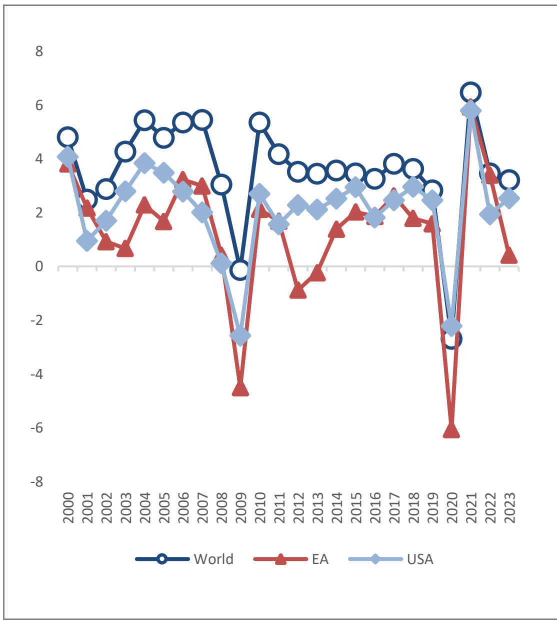
The economic slowdown came from the aggregate of advanced economies, which went from a 2.6% growth in 2022 to 1.6% in 2023. In disaggregated terms, the euro area registered a marked slowdown, from 3.4% in 2022 to 0.4% in 2023, with Germany sliding back into contraction, recording a negative growth of -0.3% in 2023 (compared to a 1.8% growth in 2022), France moderating, from 2.5% to 0.9%, as did Italy, from 4.0% to 0.9%, Spain, from 5.8% to 2.5% and Portugal, from 6.8% to 2.3%. The United Kingdom also showed a considerable slowdown, from 4.3% in 2022 to 0.1% in 2023. The US, in turn, registered a solid growth, accelerating from 1.9% to 2.5%. As regards the emerging bloc, it experienced a slight acceleration from 4.1% in 2022 to 4.3% in 2023, with China and India accelerating from 3.0% to 5.2% and from 7.0% to 7.8% respectively. Brazil, on the other hand, showed a marginal slowdown from 3.0% to 2.9%.

As for inflation, according to the IMF, it dropped sharply from 8.7% in 2022 to 6.9%, thus remaining at high levels. This was mainly driven by the drop in energy prices and, to a lesser extent, food prices. Moreover, the tightening of monetary policy and easing supply bottlenecks also contributed to moderation. Services price inflation, on the other hand, was characterised by greater rigidity, falling only gradually. Specifically, inflation in the US, as measured by the Consumer Price Index (CPI), moderated from 8.0% in 2022 to 4.1% in 2023 and in the euro area from 8.4% to 5.4%, according to the IMF.

Against this backdrop of inflation above major central banks' targets, monetary policy worldwide continued to be restrictive. However, in view of the economic weakening and price indices throughout the year, several central banks announced that their key rates had peaked, in particular the US Federal Reserve (Fed) and the European Central Bank (ECB). It is worth mentioning that some monetary authorities that had started their monetary tightening cycle earlier, such as the Central Bank of Brazil, embarked on an interest rate cutting process throughout 2023. In terms of asset purchase programmes, the Fed continued with the balance sheet reduction it had started in mid-2022, while the ECB began by not fully reinvesting maturing securities from its APP programme between March and June 2023, which was completely discontinued as of July 2023.

Chart1– Global economic growth

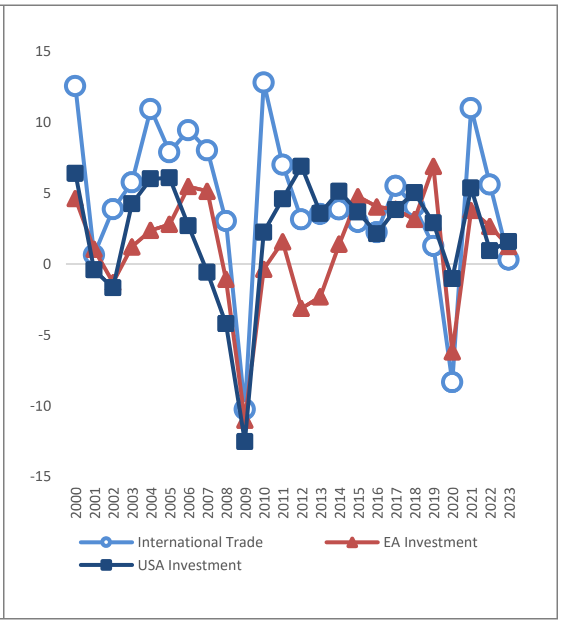
(yoy gr, %)



Source: IMF (April 2024)

Chart 2 – International trade and investment

(yoy gr, %)



Source: IMF (April 2024) and AMECO (November 2023)

The labour market has continued to show signs of strength. In fact, the unemployment rate remained at low levels in most countries, particularly in the US, where it stood at around 3.6%, and in the euro area, where it fell slightly from 6.7% in 2022 to 6.6% in 2023. Nevertheless, several labour market metrics have softened, in particular the drop in job vacancies and the number of firms reporting shortage of workers. Furthermore, wage growth in nominal terms is expected to have peaked in several countries.

With regard to public finances, the IMF projected divergent developments for the US and the euro area. For the US, it estimates a deterioration in its budget deficit, as a percentage of GDP, from -4.1% in 2022 to -8.8% in 2023, together with an increase in public debt from 120% of GDP to 122%. For the euro area, the IMF points to budget deficit improving, in proportion to the GDP, from -3.7% in 2022 to -3.5% in 2023 and its public debt falling from 91% to 89% of GDP.

1.2. The Portuguese Economy

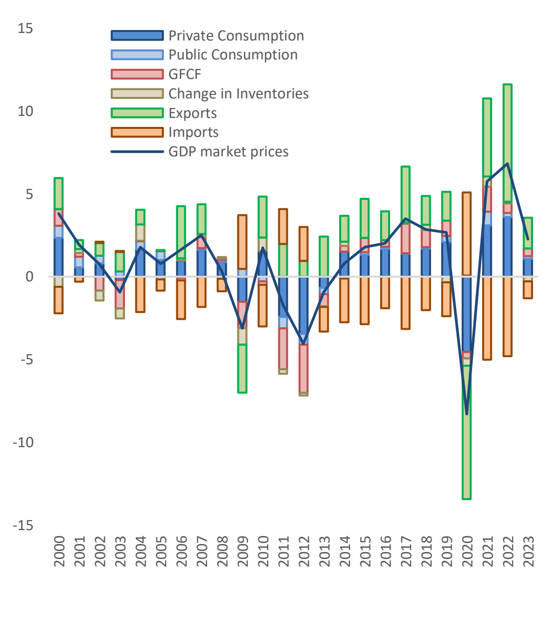
Like other European countries, Portugal has shown a downward trend in 2023, but in the end it has shown a certain resilience that made it possible to stand out and maintain growth above the euro area average. The Portuguese GDP has thus grown by 2.3% in volume during the year (compared to 6.8% in 2022, the highest since 1987, followed by a 5.7% growth in 2021, recovering from the significant drop of -8.3% in 2020, the year the Covid-19 pandemic first struck). These developments stemmed from a positive contribution from both domestic and external demand, although in both components lower than a year earlier as a result of moderation in private consumption, investment, exports and imports. More specifically, net external demand was the main driver of the activity in the first half of the year, with exports growing more than imports. Domestic demand also made a positive contribution, but more moderately, particularly in the first quarter of the year, driven by investment contraction. Private consumption showed solid records, close to 2.0%, but slowing down compared to 2022. In the second half of the year, activity was sustained mainly by domestic demand, with a significant upturn in investment, while private consumption, after a marked slowdown in the third quarter of the year, returned to levels seen in the preceding six months.

For the aggregate of the year 2023, domestic demand showed a positive contribution of 1.4 p.p. (down from 4.4 p.p. in 2022), as well as external demand by 0.9 p.p. (compared to a more pronounced contribution of 2.3 p.p. in 2022). Domestic demand reflected positive changes in all components, although less marked than in 2022. Private consumption showed a sharp deceleration from 5.6% in 2022 to 1.6% in 2023, reflecting the impact of high inflation and rising interest rates, but backed by a resilient labour market. Similarly, investment also slowed significantly, from 3.5% in 2022 to 0.8% in 2023, impacted by tighter financial conditions and uncertain environment. In this context, gross fixed capital formation (GFCF) also slowed down, from 3.0 % in 2022 to 2.4% in 2023, with changes in inventories making a -0.3 p.p. contribution to the annual change in GDP (+0.1 p.p. in 2022). Exports and imports of goods and services also moderated, from 17.4% and 11.1% in 2022 to 4.2% and 2.2% in 2023 respectively. The slowdown in exports resulted essentially from the services component, whose growth fell significantly from 40.8% in 2022 to 10.6% in 2023, mainly reflecting the tourism component, which had grown substantially in 2022, associated with a rebound in post-pandemic COVID-19 activity. The terms of trade gained significantly in 2023, after two negative years, with the deflator for imports of goods and services recording a rate of change of -4.0% (18.8% a year earlier) and that for exports of goods and services of 0.7% (14.5% in 2022). This was partly due to the impact of lower energy prices on the import deflator.

Regarding the labour market, the unemployment rate rose slightly by 0.4 p.p. to 6.5% in 2023, a relatively low value for Portugal. The annual average youth unemployment rate (16-24 year olds) reached 20.3%, an increase of 1.2 p.p. compared to last year. The labour force grew by 2.4% between 2022 and 2023, with the activity rate increasing by 1.2 p.p. to 61.0%. Moreover, the employed population was estimated at 4,979 thousand people, having increased by 2.0% (97.1 thousand) from the previous year, the highest figure since 2011. Accordingly, the employment rate stood at 57.0% (0.9 p.p. higher than in 2022).

Chart 3 — Economic growth, Portugal

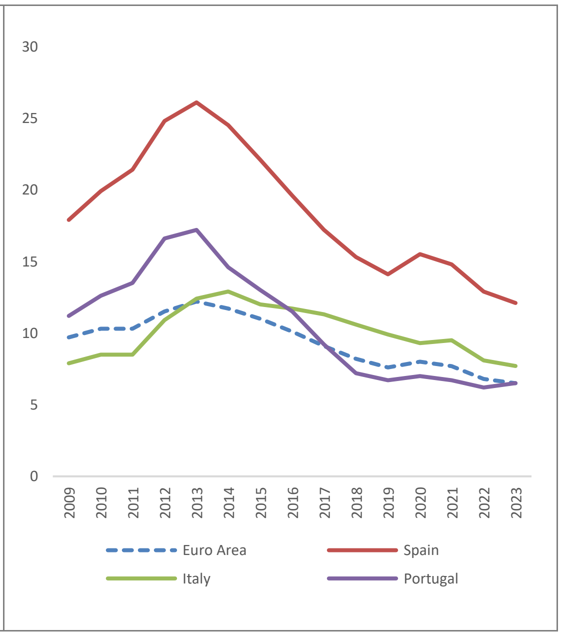
(Contributions to the yoy gr of GDP in real terms, p.p.)



Source: Statistics Portugal

Chart 4 – Unemployment rate, Portugal and European context

(%)



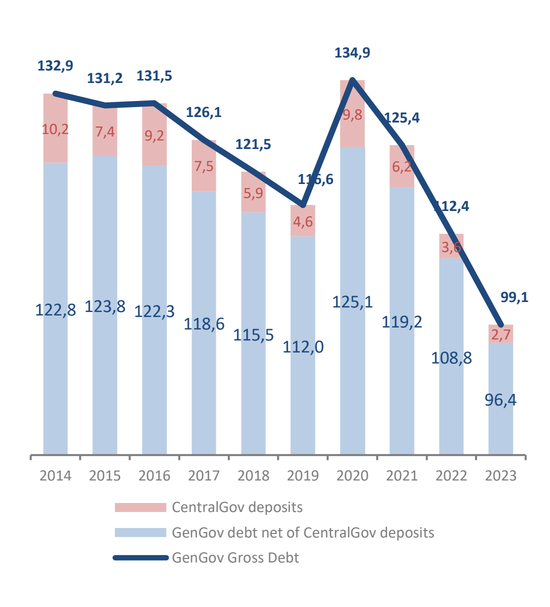
Source: Eurostat

Concerning public finances, Portugal recorded a budget surplus of 1.2% of GDP, an improvement of 1.5 p.p. on the deficit of 0.3 % of GDP in 2022. This resulted from a revenue growth of 9.0%, higher than expenditure growth of 5.2%. In terms of revenue, current revenue grew by 8.1%, driven particularly by taxes on income and on property - +10.7% – social contributions - +10.4% – and capital revenue - +68.9% – as a result of a greater use of European Union funds, particularly under the Recovery and Resilience Plan. The current expenditure rose by 4.6%, with social benefits growing by 3.4%, staff costs by 7.6% and interest by 23.3%, in this case due to the impact of higher market interest rates. Capital expenditure recorded a positive change of 11.1%, with particular emphasis on investment at 17.0%. In this context, the primary balance improved from 1.6% of GDP in 2022 to 3.4% of GDP in 2023.

The public debt (Maastricht criteria) continued its consolidation trend, falling from 112.4% of GDP in 2022 to 99.1% of GDP in 2023, the lowest figure since 2009.

Chart 5 – Maastricht debt, Portugal

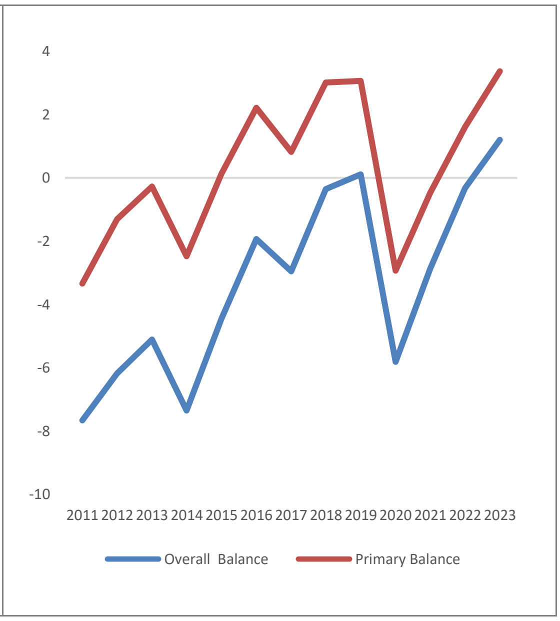
(% GDP)



Source: Banco de Portugal, Statistics Portugal

Chart 6 – Fiscal balances, Portugal

(% GDP)



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

Source: Statistics Portugal

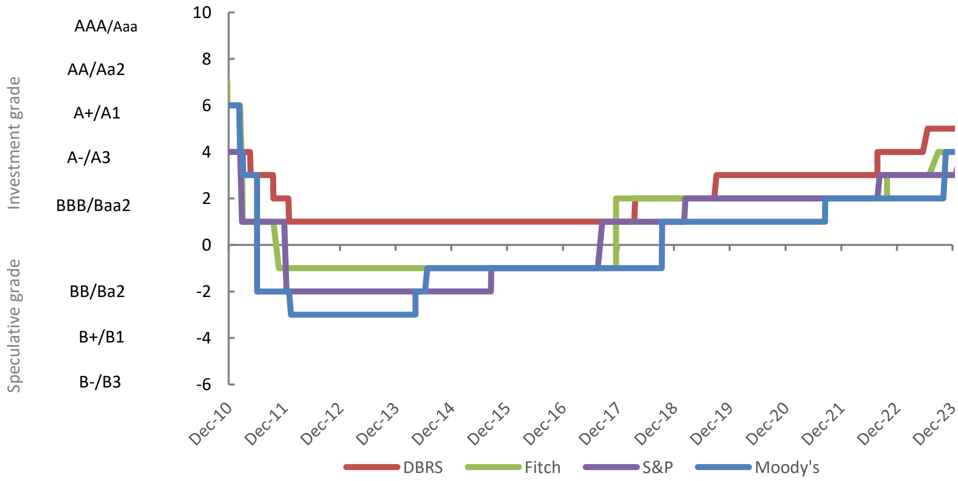
As a result of the recent track record of a sound economic growth and public finance consolidation, the country's credit rating has been upgraded by major credit rating agencies.

Box 1 Recent Developments in Portugal's Credit Rating

The year 2023 was marked by a steady improvement in the credit rating of the Portuguese Republic's debt by major rating agencies. In fact, three of the four major agencies, such as Fitch, Moody's and DBRS, closed 2023 with Portugal rated at investment grade equal to or higher than A-.

This positive trend in the credit risk of the Portugal's public debt was primarily based on four pillars: (i) sustained public finance consolidation, (ii) favourable economic performance, (iii) a reduction in external indebtedness and (iv) the soundness of its banking system. In terms of public finance consolidation, the budget balance improved from -0.3% of GDP in 2022 to 1.2% in 2023, and public debt fell from 112.4% of GDP in 2022 to 99.1% of GDP in 2023. Regarding activity, economic growth was robust: 6.8% in 2022 and 2.3% in 2023, backed by a resilient labour market, with an unemployment rate at 6.1% in 2022 and 6.5% in 2023. As regards external deleveraging, the current account improved from -1.2% of GDP in 2022 to +1.4% of GDP in 2023 and the net external debt fell from 66.7% of GDP to 53.8% of GDP in 2023. Moreover, the robustness of the Portuguese banking system resulted in low levels of the non-performing loans (NPL) ratio, from 3.0% in the fourth quarter of 2022 to 2.7% in the fourth quarter of 2023, and in an improvement in return on equity (ROE), from 8.7% in 2022 to 14.8% in 2023.

Chart 7 – Developments in Portuguese's public debt credit rating



Source: DBRS, Fitch, Moody's, S&P

In this scenario, three of the major rating agencies revised Portugal's credit rating upwards in 2023. In July the DBRS upgraded its credit rating from A- with a stable outlook to an A rating, maintaining its outlook. Then, in September, S&P maintained its rating at BBB+, but favourably revised the outlook from stable to positive. In the same month, Fitch revised its outlook on Portugal, upgrading its rating by one notch to A-, with a stable outlook. In November Moody's raised its sovereign debt rating by two notches, from Baa2 with a positive outlook to A3 with a stable outlook. It is worth highlighting that in 2024, more precisely in March, the S&P agency raised Portugal's rating from BBB+ with a stable outlook to A-, maintaining the outlook, thus placing Portugal in the ‘A’ category, across all major rating agencies for the first time in 13 years.

Furthermore, it is worth noting that the factors that the rating agencies point to for a potential new upward revision were: (i) prospects of a more significant reduction in the public debt ratio as a percentage of GDP, in a context of continued fiscal discipline, (ii) progress on the downward path of external indebtedness, through a considerable decrease in the external debt ratio as a proportion of GDP and an increase in the current account surplus and (iii) an improvement in the economic growth trend, in particular because of a more effective implementation of investment projects and macroeconomic reforms associated with the RRP.

Conversely, the aforementioned factors for a possible downward revision relate to: (i) a deterioration in the outlook for the public debt trajectory arising, for instance, from a decline in political support for a prudent fiscal policy or adverse macroeconomic conditions and (ii) a reversal of the current downward trend in external debt.

It should also be emphasised that, as early as 2024 (March) and as a result of the upgrade of the Portuguese Republic's rating to ‘A’ level by Moody’s, S&P and Fitch, it was announced that the Portuguese public debt will return (in November) to the FTSE Russell WGBI (World Government Bond Index), an index that it had left in February 2012, following the Portuguese Republic's downgrade to a sub-investment grade rating. This is one of the main indices followed by international asset managers with passive strategies, especially Asian investors of this type, thus supporting the strategy of diversifying the investor base in Portuguese public debt.

1.3. Monetary Policy and Financial Markets

Although at a moderating pace, high inflation in 2023 was a key factor in the monetary policy of major central banks, which continued to be characterised by restrictions.

In fact, in the US, the benchmark for inflation, the PCE price index, stood at 5.4% year-on-year at end-2022, well above the central bank's target of 2.0%, and ended 2023 at 2.6%. Against this backdrop, the Fed increased its key policy rate range, commonly known as Fed Funds, from [4.25% - 4.50%] at the end of December 2022 for the end of this monetary tightening cycle of [5.25% - 5.50%] in July 2023. It also continued with its plan to reduce its balance sheet by not reinvesting all maturing securities, totalling USD 60 billion in Treasuries and USD 35 billion in MBS.

Similarly, in the euro area, inflation also ended 2022 at levels well above the monetary authority's target of 2.0%, more specifically at 9.2% year-on-year, moderating in the course of 2023 to 2.9% in December 2023. In this context, the ECB raised the Eurosystem key rates to their highest levels in around 22 years. In fact, the interest rate on the main refinancing operations rose from 2.50% in December 2022 to 4.50% in September 2023, that on the marginal lending facility from 2.75% to 4.75% and that on the deposit facility from 2.00% to 4.00% and remained at these levels until the end of the year. Moreover, the monetary authority adjusted the reinvestment policy of the asset purchase programme, commonly known as the APP, by reducing monthly reinvestments in the portfolio by

EUR 15 billion between March and June and ending them in July. In respect of the pandemic emergency asset purchase programme (PEPP), the ECB announced at its December 2023 meeting that it would continue reinvesting in full the securities coming due in the first half of 2024, but that it intended not to reinvest, on average, EUR 7.5 billion per month in the second half of 2024 and to discontinue its reinvestment policy by the end of 2024. Nevertheless, it maintained its commitment to apply flexibility in reinvesting redemptions coming due in the PEPP portfolio, to countering risks to the monetary policy transmission mechanism related to the pandemic. Furthermore, it went on to mention the possible use of the Transmission Protection Instrument (TPI) to countering unwarranted and disorderly market dynamics that pose a serious threat to the transmission of monetary policy across all euro area countries.

In this environment, the 3-month US Libor showed an upward trend in the first half of 2023, rising from 4.8% in December 2022 to 5.5% in June 2023, and then stabilising at around 5.6% in the second half of the year. Meanwhile, the 3-month Euribor was on an upward trend until mid-September 2023, when the ECB last raised its key rates, from 2.1 % at the end of 2022 to 4.0 % in September 2023, to remain around that value for the rest of the year.

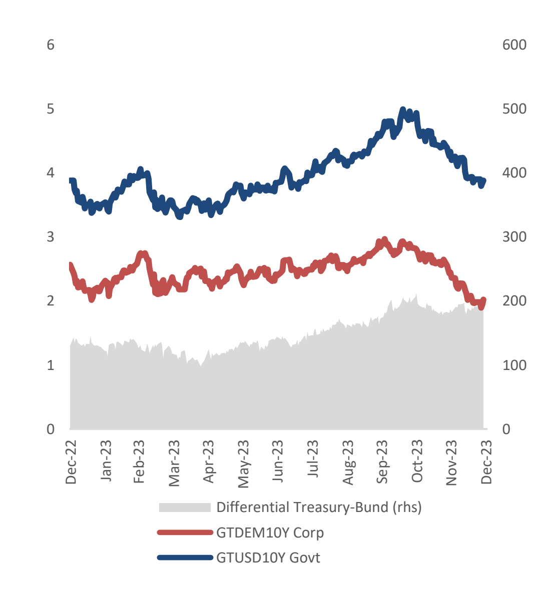
As regards long-term interest rates, the behaviour of 10-year bond yields in both the US and Germany was not linear throughout 2023. In fact, both the US and Germany started the year in decline, but in mid-January they embarked on an upward trend until the beginning of March, as a result of the Fed’s and ECB's monetary policy tightening. However, the turmoil in the US banking sector, which ended up in the Silicon Valley Bank’s bankruptcy and, in Europe, in UBS’s takeover of Credit Suisse, led to a fall in interest rates, in this case due to market risk aversion and flight-to-safety triggered by these events. Subsequently, the mitigation of risks to financial stability and inflation considerably above the central banks' target led to a new upward trend in interest rates in both blocs, although more pronounced in the US between mid-May and the end of October. Interest rates then took a downward turn due to of market participants' expectations that key rates had reached the peak of this monetary tightening cycle and that both the Fed and the ECB would cut interest rates throughout 2024. Notably, the yield on 10-year US bonds, after closing 2022 at 3.88%, reached its peak in mid-October at 4.99% and closed 2023 at the value at which it had started, i.e. at 3.88%. Germany's 10-year yield, on the other hand, after closing 2022 at 2.57%, peaked at the beginning of October at 2.97% and ended 2023 at 2.02%. Therefore, the 10-year rate spread between the US and Germany increased from 131 basis points at the end of December 2022 to 186 basis points in December 2023. It should be emphasised that the 10-year yields of most euro area countries showed a similar trend. In terms of spreads vis-à-vis Germany, those of Italy, Spain and Portugal narrowed over the year, falling from 213, 108 and 101 basis points respectively, in December 2022, to 167, 96 and 61 basis points respectively, in December 2023. The France-Germany differential remained practically unchanged at around 54 basis points. It is worth mentioning that this convergence in Portugal's spread has also occurred compared to the cluster of countries commonly referred to as semi-core – Belgium, Austria and France – where spread fell from around 44 basis points at the end of 2022 to 13 basis points in December 2023.

In terms of the foreign exchange market, the euro appreciated by around 3.0% year-on-year against the dollar. The single currency was supported by the restrictive nature of the ECB's monetary policy, especially in the first half of the year, reaching its year's maximum in July. Nevertheless, the fragility of the euro area’s activity affected its performance, especially in the third quarter of the year, when it recorded losses, before picking up in the fourth quarter of 2023. The euro depreciated against the pound sterling by around 2.0%. Concerning the renminbi, the euro appreciated strongly by around

6.5%, owing to divergent monetary policies between the two regions, as the ECB raised key rates while the central bank of China pursued a policy of monetary easing to boost the economy.

Chart 8 – Long-term interest rates

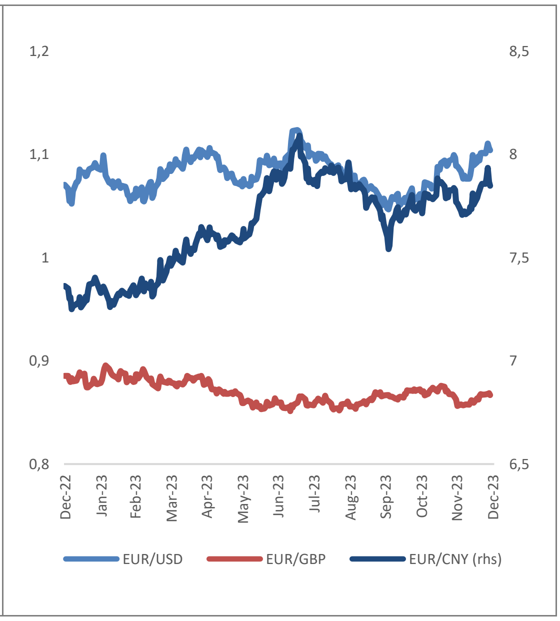
(%, left-hand scale) (bp, right-hand scale)



Source: Bloomberg

Chart 9 – Exchange rates

(currencies versus the euro)



Source: Bloomberg

2. State Financing

2.1. Financing Strategy

Public debt and financing management is subject to the principles set out in the Debt Framework Law (Law No. 7/98 of 3 February 1998) and it must ensure the financing required by budget execution, to minimise direct and indirect costs in a long-term perspective and to ensure their even distribution across annual budgets, avoiding an excessive concentration of redemptions over time and exposure to excessive risks.

In 2023 the State’s net borrowing needs amounted to about EUR 3.5 billion, accounting for a EUR 5.8 billion decrease, compared to 2022. This change is mostly explained by the government budget deficit, which decreased by around EUR 5.6 billion.

Compared to the initial forecast, gross borrowing needs were lower by around EUR 4.1 billion, explained by the following changes: (i) a decrease in net borrowing needs (around EUR 8.9 billion lower), due to better budget execution, resulting in a lower budget deficit than initially estimated (by around EUR 5.7 billion) and a decrease in “Net acquisition of State’s financial assets” by around EUR 3.2 billion, (ii) an increase in the amount of OT redemptions compared to the amount initially forecast (explained by two OT reverse auctions maturing after 2023, of approximately EUR 2.0 billion), (iii) the net effect of exchange operations (amounting to approximately EUR 0.5 billion), (iv) bilateral buybacks of OT maturing after 2023 (of approximately EUR 1.1 billion) and (v) the repayment of other MLP debt (amounting to EUR 1.1 billion, mostly MTN buyback) higher than projected. Total deposits at year-end totalled EUR 5.7 billion (excluding margin accounts) in line with the Funding Programme revised in March 2023.

The funding strategy outlined for 2023 included the issuance of two new benchmarks and the reopening of different OT lines via auction, aimed to provide liquidity across the curve, anticipating gross OT issuances of around EUR 19.8 billion (exchanges excluded). In the treasury bill programme, a net increase of around EUR 4.3 billion was expected. However, due to the significant increase in CA/CT net issuances (EUR 6.7 billion compared to the initial estimate of EUR 3.5 billion), significant gains from cash pooling in the Central State Treasury (in the amount of EUR 5.3 billion), a higher than initially estimated increase in the amount of funding from official loans (in the amount of around EUR 350 million) and the use of deposits, the following was reduced: (i) the BT programme by around EUR 8.9 billion, by cancelling the May, June, August, September, October and November auctions and reducing the amount planned for March and July auctions and (ii) the OT programme by approximately EUR 10.4 billion, the launch of a new 10-year benchmark line no longer taking place.

The official loan under the RRP contributed with EUR 0.7 billion to the State's funding sources in 2023.

Table 1 – Summary of State's borrowing needs and sources in 2023

(EUR millions)	Fin Prog OE 2023	Execution (P)	Difference
GROSS BORROWING NEEDS	**23.887**	**19.750**	**-4.137**
Net borrowing needs	**12.361**	**3.455**	**-8.906**
Budget deficit (State subsector)	5.926	189	-5.737
Net acquisition of State's financial assets	6.435	3.266	-3.169
One-off operations	0	0	0
Redepmtion of MLT debt	**11.526**	**16.296**	**4.770**
OT redemptions (reimbursed amount; excl exchange operations)	10.026	13.649	3.623
Official loans redemptions (PAEF+SURE+PRR)	1.500	1.500	0
Other medium- and long-term debt redemptions	0	1.147	1.147
FINANCING SOURCES	**23.887**	**19.750**	**-4.137**
Use of deposits (excl cash-collateral)	-2.039	638	2.677
Funding under official loans (PAEF+SURE+PRR)	348	694	346
OT issuance (disbursed amount; excl exchange operations)	19.770	9.393	-10.377
OTRV issuance	0	0	0
Other medium- and long-term debt issuances	0	39	39
Net issuances of Tbills (excl Tbills held by FRDP)	4.327	-4.563	-8.890
Net issuances of CA/CTPC	3.500	10.222	6.722
Other moverments in the Single Treasury Account (excl cash-collateral)	-2.019	3.327	5.346
Deposits at year-end (excl cash-collateral)	**7.970**	**5.674**	**-2.297**
Cash-collateral at year-end	700	155	-545
Deposits at year-end	**8.670**	**5.828**	**-2.842**

Note: Annex 1 provides a more detailed breakdown of State's borrowing needs and sources, as well as a comparison between public accounting's (budgetary) perspective and the treasury's perspective (presented above).

[1] Total balance of deposits as at 31 December 2022 was EUR 6,980 million.

Source: IGCP

Typically, the successful implementation of the funding programme is based on a 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 issuance windows and take advantage of growing investor demand for Portuguese public debt. However, the funding programme was conditioned by developments in CA subscriptions during the first half of the year and by a reduction in net borrowing needs. The reduction in the OT programme was offset by exchange auctions in May, June and October and reverse auctions (March, November and December) to maintain a presence in the OT market and increase market liquidity. Repurchase auctions were also held (March, November and December) to offset the increase in CA subscriptions and bilateral debt purchases at the end of 2023 by using large cash surpluses.

The implementation of the funding programme also benefited from the promotion of Portuguese public debt across financial intermediaries and international investors: in 2023 the IGCP continued to make information available to the market on a regular basis, including numerous meetings with end investors and rating agencies, and maintained regular advice and contact with specialist market operators (Primary Dealers and Treasury Bill Specialists).

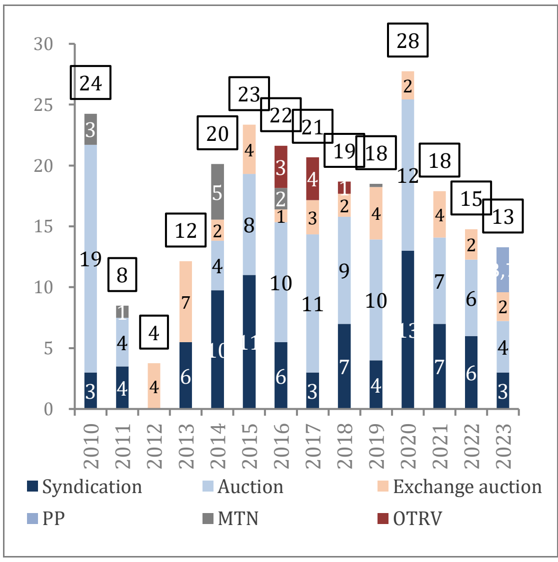
Investor engagement throughout 2023 showed that trust was maintained in Portuguese debt, particularly given the favourable and consistent performance of macroeconomic and budgetary data. An increased credibility was recognised in an upgrade to level A by DBRS, to level A- by Fitch and to level A3 by Moody's.

In 2023 gross medium and long-term financing on the market amounted approximately to EUR 13.3 billion (nominal value), with EUR 3.7 billion (28%) issued by private placement for the CGA (Box 2), EUR 3.0 billion (22 %) through OT syndicated operations, EUR 4.2 billion (32 %) through OT auctions and EUR 2.4 billion (18 %) through OT exchange operations. As a reference, the overall volume of OT issuances, in 2022, totalled EUR 14.8 billion (in nominal value) carried out via syndicated transactions, regular auctions and exchange auctions in the amount of EUR 6.0 billion (41%), EUR 6.3 billion (42%) and EUR 2.5 billion (17%) respectively.

As a result of a large number of CA subscriptions, the private issuance for the CGA (Caixa Geral de Aposentações) (Box 2) and a better budget implementation than forecast in the State Budget, a 10-year benchmark syndicated issue and the May, June, October and November auctions were cancelled and replaced by exchange auctions in May, June and October, in order to maintain a regular pattern of market presence, targeting one auction per month.

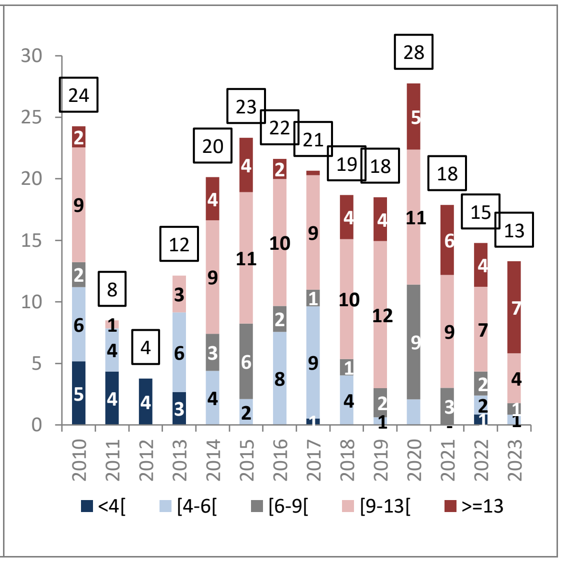
As usual, the first half of the year accounted for a larger share of annual funding raised, corresponding to 80% of the overall amount issued, including OT exchange offers (or 82%, excluding exchange offers), mainly due to the launch of a new 15-year bond, in January, via a bank syndicate and a private placement for the CGA. In the third quarter, the amount issued totalled EUR 2 billion. In the fourth quarter, the amount issued totalled EUR 1 billion. Only one exchange offer was made in October.

Chart 10 – Medium and long-term debt issuances by type of placement
(EUR billions)



Source: IGCP

Chart 11 – Medium and long-term debt issuances by maturity
(EUR billions)

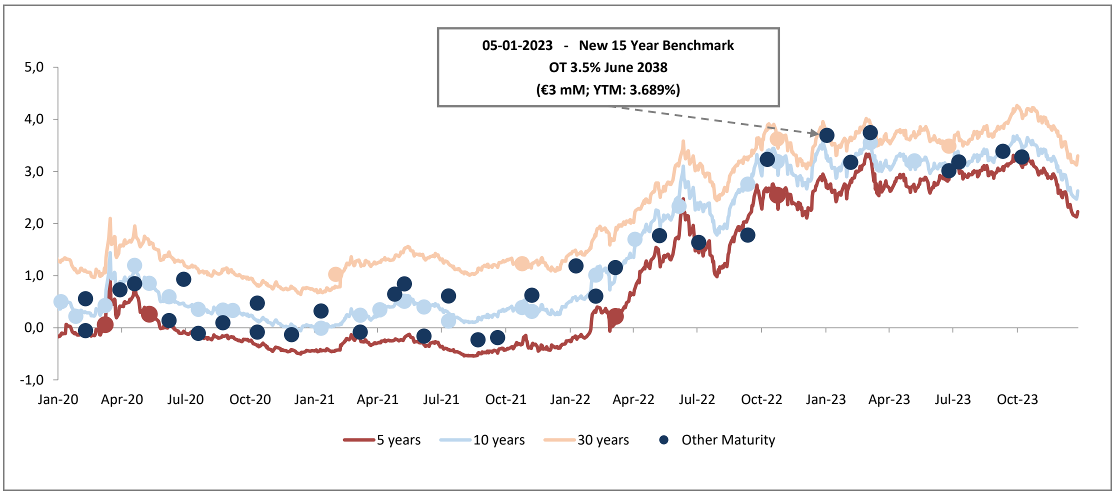


Source: IGCP

In 2023 real money investors continued to be interested in Portuguese Republic's syndicated issuances, in particular insurance companies, pension funds, central banks (the ECB and the Banco de Portugal excluded), other public entities and fund managers, having increased in number compared to 2022. Geographically, the triad formed by France, Italy and Spain and the United Kingdom stand out.

Issuances with a residual maturity of more than 9 years represented 87% of the total issued, compared to a 71% share in 2022. Conversely, at the short end of the curve (less than 6 years) 6% of the total was issued (16% in 2022).

Chart 12 – 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 2023 was 15.6 years, higher than in 2022 (11.3 years). Consequently, the average maturity of debt stock rose slightly to 7.7 years in October 2023 (including official loans).

The active debt management strategy also has benefited from maintaining prudent liquidity buffers, which not only reduces the refinancing risk in periods of greater market volatility, but also makes it possible to manage the debt repayment profile by swapping maturities. In 2023 the repayment profile smoothing strategy proceeded, with a focus on the years 2024, 2025, 2026 and 2027, contributing to a lower refinancing risk in a context of a change in the ECB's net asset purchase policy. Throughout the year, debt was repurchased via reverse auctions and bilateral buybacks, as well as OT exchange auctions where deemed appropriate, given market conditions and demand.

Box 2 | Private placement issuance of OT to Caixa Geral de Aposentações (CGA)

In compliance with the provisions of Decree-Law No 14.2023 of 24 February 2023, a private OT issuance was held and fully subscribed by the CGA.

The above-mentioned law determined the transfer to the Caixa Geral de Aposentações (CGA) of the liabilities covered by the Caixa Geral de Depósitos' Staff Pension Fund set out in Article 1 of the law and the termination of that Fund.

The same law also determined that the amount transferred by the Caixa Geral de Depósitos, SA to the Caixa Geral de Aposentações, as compensation for the aforementioned transaction, was to be invested in the subscription by the CGA of a portfolio of Treasury Bonds (OT) of existing lines, with maturities corresponding to estimated liabilities transferred.

In fulfilment of this legal requirement, the IGCP held a private placement issuance of the following OT lines, for a total nominal amount of EUR 3.7 billion:

Table 2 – OT lines issued in the private placement subscribed by the CGA

Security	Maturity	Coupon	Nominal amount issued (€)	Average reoffer yield
OT 2.25% April 2034	18.04.2034	2.25%	178,610,023	3.17%
OT 4.10% April 2037	15.04.2037	4.10%	83,892,665	3.38%
OT 3.50% June 2038	18.06.2038	3.50%	473,397,732	3.46%
OT 1.15% April 2042	11.04.2042	1.15%	399,649,838	3.50%
OT 4.10% February 2045	15.02.2045	4.10%	1,052,348,887	3.49%
OT 1.00% April 2052	12.04.2052	1.00%	1,484,379,981	3.55%
Total			**3,672,279,126**	

Source: IGCP

Box 3 | Exchange and buyback operations and redemption profile smoothing

Redemption profile smoothing remains a guiding objective in the Portuguese public debt management, given its contribution to reducing refinancing risk.

Benefiting in 2023 from the sharp reduction in net borrowing needs (as a result of positive developments in budget implementation), the significant increase in net subscriptions to retail products (CA/CTPC), and significant gains from cash pooling in the Central State Treasury, it was possible, in tandem with the reduction in the funding programme in market instruments (OT and BT), to carry out buybacks and exchanges of bonds with short maturities for others with longer maturities, aiming to reduce the Portuguese Republic's short-term refinancing risk in a context of a change in the ECB's net asset purchase policy and smoothing out the debt redemption profile.

In this context, the Portuguese Republic held:

i) three exchange auctions, repurchasing an aggregate nominal value of EUR 2.4 billion of OT maturing between 2024 and April 2027, against the issuance of OT with longer maturities;

ii) three reverse auctions of OT maturing between 2023 and April 2027, anticipating redemptions totalling EUR 2.6 billion;

iii) a reverse auction of the MTN denominated in USD, maturing in October 2024, totalling around EUR 50 million; and,

iv) bilateral buybacks of securities with maturities in the same range of years totalling EUR 2.3 billion.

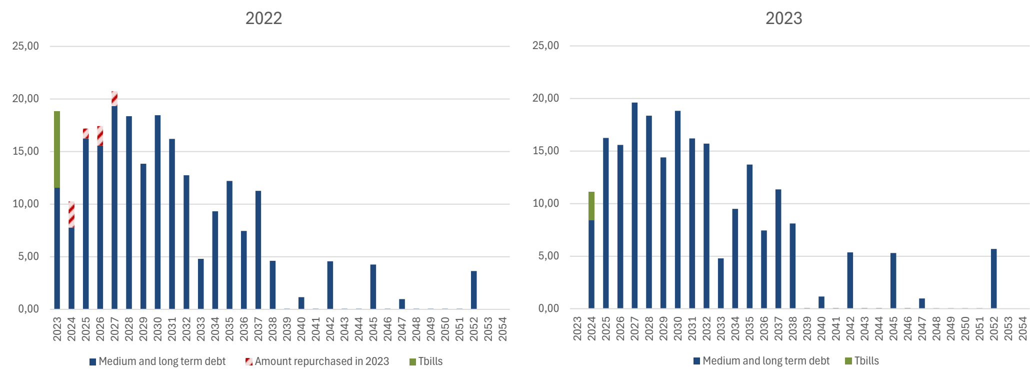
Table 3 – Amount of securities repurchased in 2023

(EUR millions)	Reverse auctions	Exchange auctions	Bilateral buybacks	Total
2023	-662			**-662**
2024	-1,389	-603	-503	**-2,496**
2025	-198	-486	-255	**-939**
2026	-249	-164	-1,436	**-1,849**
2027	-150	-1,138	-125	**-1,413**
Total repurchased	**-2,648**	**-2,391**	**-2,319**	**-7,359**

Source: IGCP

These transactions made it possible to reduce large redemptions, particularly on OT maturing in February 2024, but also in the subsequent years up to April 2027.

Chart 13 – Medium and long-term debt redemption schedule at the end of 2022 and 2023 (EUR billions)



Source: IGCP

2.2. Secondary Market

On the secondary sovereign debt market, interest rates on Portuguese debt trended slightly upwards until the beginning of October, followed by a sharp drop, to end the year close to annual lows. The risk premium narrowed throughout the year, also closing close to annual lows (in the 10-year reference period). In 2023 liquidity conditions worsened compared to 2022, which had already been the case since 2021. Despite some volatility, bid-offer spreads in 2023 remained close to levels seen at the end of 2022. The interest rate on Portuguese 10-year benchmark public debt fell from 3.44% at the beginning of 2022 to 2.63% at the end of the year, reflecting expectations of a rate cut by the ECB in 2024. The trend was common to the other points on the curve, but steeper in the 10-year, with a year-on-year decrease in the curve's slope.

In relative terms, the cost spread between Portuguese public debt and Germany's continued to fall throughout the year, as in Spain, but with a steeper decline. Italy experienced the same downward trend, but with greater volatility than Portugal and Spain. In the 10-year reference period, Portugal closed 2023 (+61 basis points) at a lower level than at the beginning of 2023 (+100 basis points). The spread vis-à-vis Italy for the same maturity narrowed by around 4 basis points to -107 basis points at the end of 2023 (i.e. the difference between the two sovereigns narrowed over the course of the year, albeit with the Portuguese curve at a considerably lower absolute interest rate level than the Italian one). As for Spain, the spread widened substantially between the end of 2022 (-7 basis points) and the end of 2023 (-36 basis points).

With regard to secondary market liquidity, levels were much lower than in 2022, with a significant decrease in the average daily volumes of OT traded on the platforms and on the over-the-counter market, compared to 2022, with high bid-offer spreads throughout the year. This reduction in liquidity was essentially due to uncertainty surrounding inflation developments in 2023 and the ECB's corresponding action. The reduction in the OT programme (in contrast to the increase in CA) and consequently fewer OT issues, also decreased the amount of transactions. In 2023 average daily volumes totalled EUR 407 million, contrasting with the EUR 597 million in 2022, already a low figure compared to recent years.

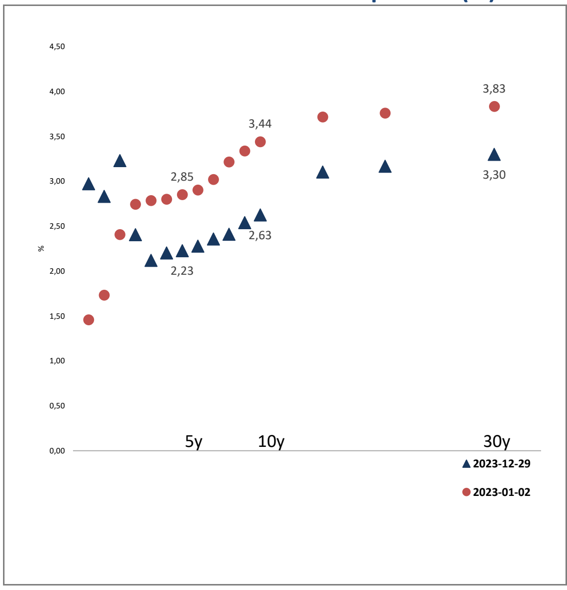
The secondary market flow maintained a significant concentration, as the five largest primary bank dealers (OEVTs) held a 50% market share in 2023. This remains at a similar level to 2022 (51%) and represents an increase on 2021 (47%). Considering a longer time horizon, the 2022 figure remains well below the 2012 level (when concentration reached 73%).

In terms of BT secondary market, average daily transactions dropped from EUR 218 million in 2022 to EUR 118 million in 2023. By analysing transactions on platforms, the trend was also downwards, with the average daily volume falling from EUR 134 million in 2022 to EUR 82 million in 2023.

BT issuances rates were on an upward trend throughout the year. The average annual BT issuance cost was 2.94% in 2023, higher than 2022 and 2021 figures (0.06% and -0.55% respectively).

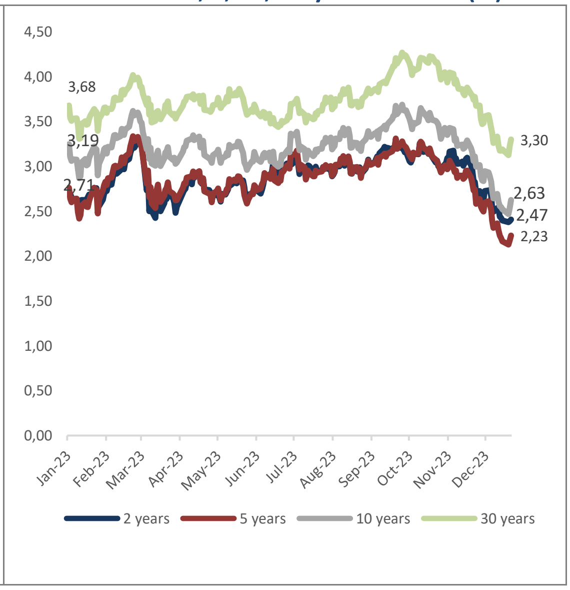
As a result of a significant increase in net CA subscriptions throughout 2023, the BT issuance strategy had to be adjusted: only three lines were opened (January, March and July) compared to the usual six in recent years.

Chart 14 – OT curve developments (%)



Source: Bloomberg

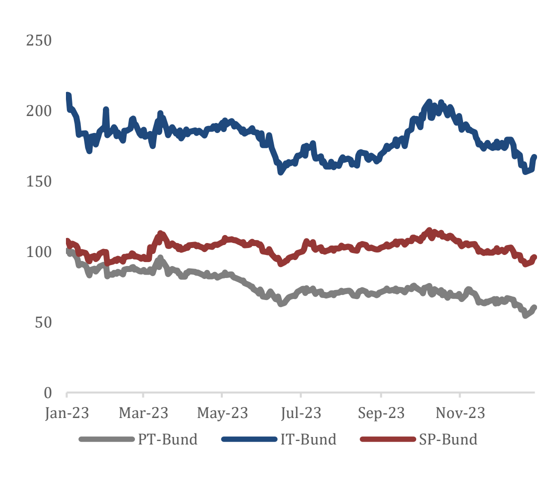
Chart 15 – 2, 5, 10, 30-year OT rates (%)



Source: Bloomberg

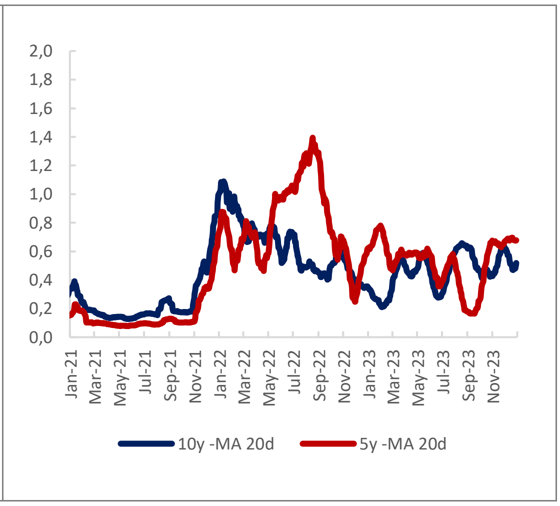
Chart 16 – Spreads vs. Germany (10 years)

(bp)



Source: Bloomberg

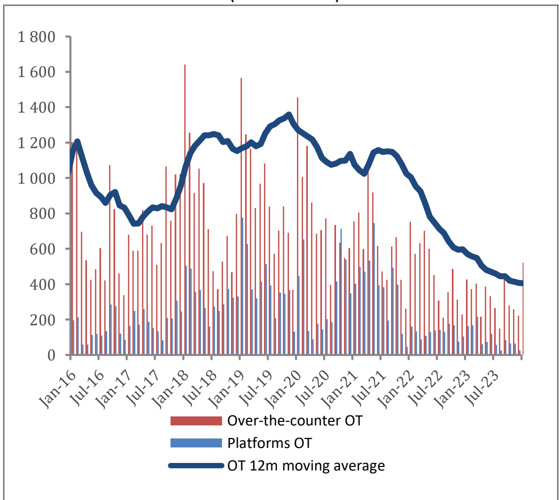
Chart 17 – Bid-offer spread



Source: IGCP

Chart 18 – OT trading on the secondary market

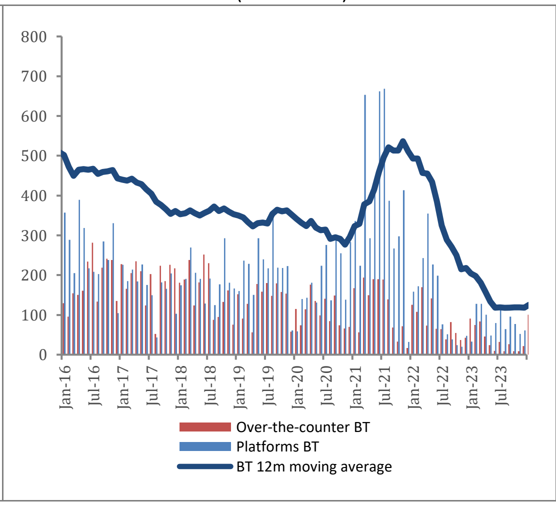
(EUR million)



Source: Bloomberg

Chart 19 – BT trading on the secondary market

(EUR million)



Source: IGCP

3. State Assets and Liabilities

3.1. State Direct Debt and Costs

On 31 December 2023 the stock of State direct debt valued at the end-of-period exchange rate, stood at EUR 296.0 billion (Table 22, Annex 5), which represents a EUR 8.9 billion increase compared to 2022 (3.1%). The annual change is mainly due to the increase in Savings Certificates by EUR 14.4 billion (a contribution of 5.0 p.p.) and in CEDICs by EUR 8.4 billion (a contribution of 2.9 p.p.), partially offset by the decrease in OT stock of EUR 2.1 billion (a contribution of -0.7 p.p.), a decrease in BT stock of EUR 4.8 billion (-1.7 p.p.), a decrease in Treasury Certificates of EUR 4.2 billion (a contribution of -1.5 p.p.), a reduction in the EFSM loan by EUR 1.5 billion (-0.5 p.p.) and a decrease of EUR 1.2 billion in MTN, of which EUR 0.8 billion in euro-denominated MTN and EUR 0.5 billion in MTN denominated in USD.

In 2023 the percentage of retail instruments (CA and CT) rose significantly from 12.1% to 15.2%, reflecting an acceleration in net CA subscriptions, with higher levels, particularly in the first half of 2023, in line with what had already been happening since the second quarter of 2022. However, as of the second half of 2023, the E Series of Savings Certificates was closed to new subscriptions and the new F Series was launched, with changes in remuneration conditions, in particular the elimination of the 1% spread over the 3-month Euribor rate and a reduction in the remuneration rate cap (before loyalty rewards) from 3.5% to 2.5%. Hence, net CA subscriptions fell considerably during the year, mitigating the deviation from the 2023 Funding Programme. On the other hand, there was an extraordinary volume of CT redemptions – EUR 4.3 billion – whose rate of return is now out of step with market interest rates. Net issuances of these instruments (CA/CT) totalled EUR 10.2 billion for 2023 as a whole, corresponding to gross subscriptions of retail products of EUR 16.6 billion and repayments and redemptions of EUR 6.4 million.

The issuance of medium and long-term debt remained an important source of net financing for the Portuguese Republic. Gross OT issuances, at cash value, totalled EUR 11.3 billion, resulting in a negative net issuance of EUR 4.3 billion, with the relative weight of OT in debt stock (nominal value) standing at 52.2% in 2023 (compared to 54.5% at the end of 2022). Including the stock of OTRVs, MTNs and Other Bonds in euro in the analysis, the relative weight of medium and long-term tradable debt issued in euro stood at 52.8% (compared to 55.5% in 2022).

In terms of short-term debt (in euro), the outstanding balance increased by around EUR 3.0 billion in 2023, mainly explained by developments in CEDICs, which recorded a net increase of EUR 8.4 billion. These developments were offset by a decrease in BT and Cash Collateral under interest rate and foreign exchange hedging derivatives, which registered a net reduction of EUR 4.8 billion and EUR 0.7 billion respectively. Therefore, the relative weight of short-term debt instruments increased by 0.7 p.p. to 10.9% at the end of 2023.

The share of non-euro denominated debt (excluding official loans) fell slightly in 2023, from 1.0% to 0.8% of the overall, mainly reflecting redemptions, through buybacks, of the US dollar-denominated MTN (in the amount of USD 0.4 billion).

Official loans (including EFAP, SURE and RRP loans) decreased slightly in their relative weight in debt stock, from 19.6% in 2022 to 18.8% by the end of 2023. This decrease essentially reflects the reduction in EFSM's outstanding balance, with the payment of a tranche that reached maturity this year, totalling EUR 1.5 billion, which more than offset the increase in the balance of the RRP loan, with the disbursement of the second tranche in February (EUR 109 million) and the third and fourth tranches in December (EUR 585 million).

The favourable exchange rate effect of derivatives hedging (net) decreased significantly in 2023, from EUR 627 million in 2022 to EUR 9 million in 2023, as existing derivatives were replaced by new transactions, which as of 31 December 2023 had a lower market value than the market value of the derivatives outstanding at the end of 2022. After derivatives hedging, the outstanding amount of State direct debt totalled EUR 296 billion, an increase of EUR 9.6 billion compared with 2022.

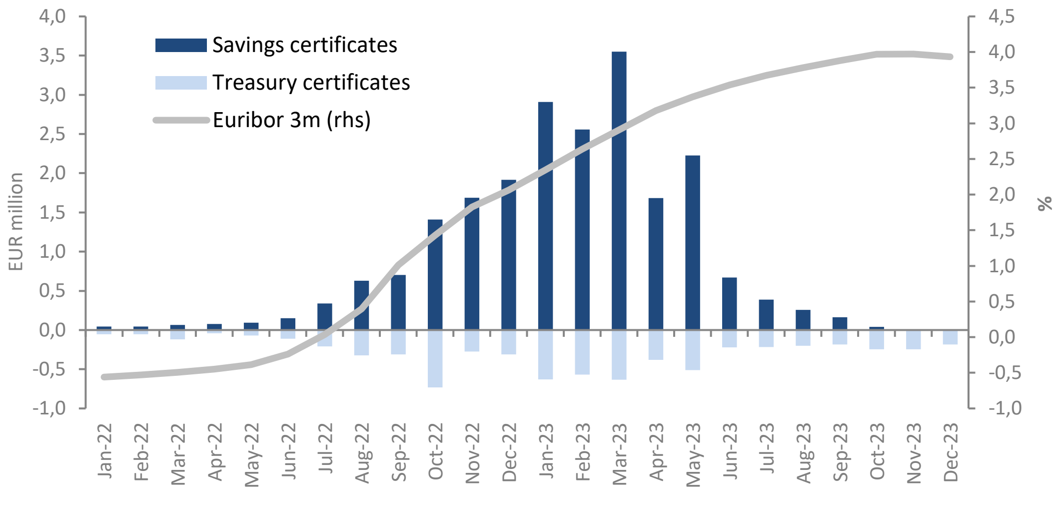
Box 4 | Launch of a New Series of Savings Certificates (F Series)

The rapid and sharp rise in money market interest rates, which kicked off in 2022 with the reversal of the monetary policy cycle by the European Central Bank, caused a misalignment between the remuneration of "E Series" savings certificates and the remuneration of TCs and the other funding sources of the Portuguese Republic.

This misalignment resulted in a significant increase in savings certificates subscriptions as of the 4th quarter of 2022, only marginally offset by the higher volume of TC redemptions, leading to a downward revision of the 2022 and 2023 market funding programmes.

In fact, net subscriptions to savings products reached an all-time high of EUR 10.6 billion in the first half of 2023, especially the “E Series” savings certificates, with an initial remuneration of 3-month Euribor plus a 1% spread (capped at 3.5%), to which loyalty rewards were added.

Chart 20 – Net subscriptions of Savings and Treasury Certificates



Source: IGCP and Bloomberg

On 2 June, Ministerial Order No 149-A/2023 was published in the Official Gazette, creating a new series of savings certificates, called the "F Series", with a maturity of 15 years (5 years longer than the previous series). The creation of this new series, tailored to the market context at the time, sought to correct the misalignment between the remuneration of the “E series” and the State's alternative funding sources, as well as to ensure a balance between the objectives set for public debt management and the encouragement of long-term household savings.

The remuneration of the "F Series” savings certificates was revised to 3-month Euribor, with a minimum of 0.0% and a maximum of 2.5%, and an increasing and more attractive loyalty reward structure was introduced: from the second year onwards, savers benefit from a premium of 0.25 p.p., increasing to 1.75 p.p. in the last 2 years.

Moreover, the minimum investment amount was reduced to EUR 100 (compared to a minimum of EUR 1,000 in the previous series), allowing for subscriptions in multiples of EUR 10, and limiting the value of subscriptions to EUR 50,000 (a combined limit of EUR 250,000 was set for savings certificates in E and F series).

Finally, with the publication of Ministerial Order No 149-A/2023, the subscription of Savings Certificates became possible in financial or payment institutions registered with the Banco de Portugal as may be indicated for this purpose by the IGCP. As at 14 March 2024 the Banco de Investimento Global (BiG) started selling State's savings products, joining the CTT, Espaços Cidadão and AforroNet.

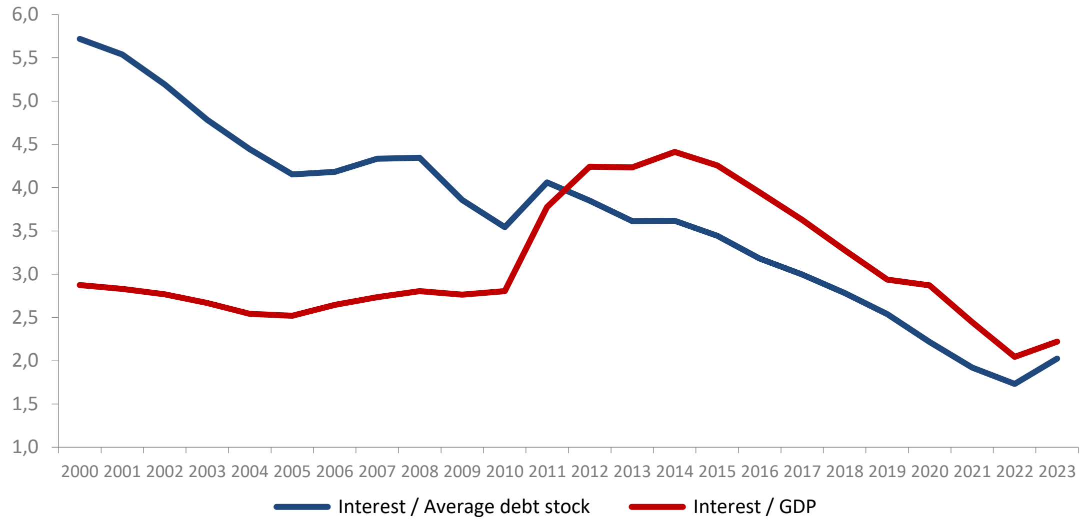
Current debt costs

In 2023 current State direct debt burden, from a public accounting perspective, amounted to EUR 6.7 billion (net), an increase of EUR 575 million compared with the previous year (Table 23, Annex 6). It is worth noting that this increase was partially offset by a EUR 296 million increase in interest received from financial investments, compared to 2022.

OT (treasury bonds) continued to be the instrument with the largest share in total debt interest, totalling EUR 4,195 million in 2023. This represents a decrease of EUR 187 million compared with the previous year, mainly due to the maturity of OT 2.2% October 2022 and the effect of buybacks and exchange operations carried out in 2022, which had an impact on the reduction of the outstanding amount of OT lines with higher coupons. Interest on other debt instruments rose by EUR 118 million, largely explained by the increase in interest on CEDICs, whose outstanding stock rose, as did the rates of return on this instrument. Interest on official loans fell by EUR 18 million, compared with the previous year, mainly reflecting the effect of the EFSM loan repayment and partial extension in April 2022, which, besides reducing the outstanding stock, also resulted in a decline in the interest rate associated with the loan. Interest on CA and CT increased by around EUR 572 million, reflecting the increase in interest associated with CA, resulting from an increase in the outstanding stock, in a context of high interest rates that led to an increased subscription to these products, to the detriment of others of a similar risk, and also reflecting the increase in interest associated with CTPC, resulting from the impact of the premium associated with GDP growth during 2023. Interest paid on BT stood at EUR 45 million, turning positive (compared to EUR -40 million a year earlier) essentially as a result of unfavourable market conditions, in particular issuances at positive interest rates, as opposed to what had happened over recent years.

In 2023 interest paid on State direct debt, on a National Accounts basis, stood at EUR 5.9 billion, having increased and thus breaking the downward trend of recent years. As with the public accounts, interest received from financial investments is worth highlighting. It totalled EUR 310 million in 2023, an increase of EUR 296 million compared to 2022, resulting in total interest, in net terms, of EUR 5.6 billion. The annual increase in interest paid, which amounted to EUR 1,048 million, reflected the unfavourable and particularly significant development in price effect (increase in the implicit interest rate), which more than offset the increase in outstanding debt (Table 24 in Annex 6). In fact, developments in the implicit interest rate have thus broken the downward trend, reaching 2.0% in 2023 (compared to 1.7% in 2022), approaching the level of 2.2% observed in 2020. In this context, the ratio of interest on GDP increased and has therefore developed unfavourably, increasing from 2.0% in 2022, to 2.2% in 2023.

Chart 21 – Developments in interest on State direct debt (National accounts basis) (%)



3.2. State Treasury

State's cash and cash equivalents

State's cash and cash equivalents for the 2022-23 period are broken down in Table 3.

Table 4 – Cash Accounts

EUR millions	dez/22	dez/23
Accounts in BoP	6.980	5.674
Financial Applications	0	0
Financial Applications (National Debt Securities)	0	155
Foreign Exchange Accounts	4	7
Other Bank accounts	0	0
RCE Accounts (Banks, CTT, SIBS, IRN e National Treasury)	256	568
External Deposits	2	2
Checks	1	1
TOTAL	**7.243**	**6.407**

Source: IGCP

The table above shows that State's cash position at the end of 2023 were down by about EUR 836 billion, compared with the previous year, with a 19% decrease in amounts deposited with the Banco de Portugal.

At the end of 2023 the State's cash position, including the Banco de Portugal's accounts and other financial investments, totalled EUR 5.8 billion (or EUR 5.7 billion excluding cash collateral and other investments), compared to EUR 7.0 billion at the end of the previous year (or EUR 6.3 billion excluding cash collateral). The decrease in the cash position during 2023 resulted mainly from the use made of the balance to anticipate the redemption of OT maturing in February 2024. The maintenance of a lower cash surplus reflected an optimisation of the average cash balance, while at the same time ensuring the maintenance of a prudential level meeting general market conditions and the Portuguese State's funding conditions and the reduction financial costs associated with its maintenance.

State Treasury Unit

The State Treasury Scheme (RTE), established by Decree-Law No 191/99 of 5 June 1999, and reinforced by the State Budget Law on an annual basis, has established the principle of the State Treasury Unit (UTE), according to which any activity in public funds must be centralised in bank accounts with the IGCP. The UTE is thus a key instrument for the optimisation of the State's liquidity management and funding.

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

Table 5 – Cash holdings of Public Services and Entities

Type of Client	Funds (EUR millions)							
	Current Account		CEDIC		CEDIM		TOTAL	
	2022	2023	2022	2023	2022	2023	2022	2022
ONSUTE	5.093	1.421	6.917	10.225	0	0	12.011	11.646
SEE	1.312	1.113	2.352	2.129	21	1	3.685	3.242
SFA	3.883	1.817	9.906	15.325	765	702	14.554	17.845
SI	897	1.714	1.650	1.550	0	0	2.547	3.264
TOTAL	**11.185**	**6.065**	**20.826**	**29.229**	**786**	**703**	**32.797**	**35.996**

Source: IGCP

The cash holdings of public services and entities in the State treasury increased by EUR 3.199 billion between 2022 and 2023, reflecting an improvement in cash pooling in the State Treasury.

This change resulted in an increase in the amounts invested in CEDIC by around EUR 8,403 million compared with the previous year, following compliance with Article 90 of Decree-Law No 10/2023 of 8 February 2023 (DLEO), and Order of the Minister of Finance No 12553/2023 of 7 December 2023.

Concurrently, the amount held in current accounts fell by around EUR 5.120 million, revealing a shift towards the subscription of CEDICs.

It is worth noting that the number of public entities and services with IGCP bank accounts grew exponentially in 2023 (110%). This growth was due to the fulfilment of Article 91(13) of the DLEO and resulted in the opening of bank accounts for non-tertiary education schools in the State Treasury. Therefore, integrated services became the most relevant group of customers in the State treasury, accounting for around 66 per cent of corporate customers.

Initiatives to Promote the State Treasury Unit

Throughout 2023 several initiatives were carried out to promote the UTE (State Treasury Unit), which greatly contributed to achieve the level of cash holdings centralised in State treasury, as shown in Table 5 of this report.

The UTE was disseminated to public services and entities at meetings, through the conclusion of protocols for the provision of services, opinions issued on the UTE and persistently through contacts made by account managers.

In carrying out these initiatives, the IGCP has always endeavoured to advise public services and entities to use the tools that best suit their reality, within the range of banking services made available by the State Treasury.

In 2023 numerous meetings were held with public services and entities.

From the meetings that took place, particularly noteworthy are those that led to the integration into the State Collection Network (RCE) of five new Revenue Management Entities (EAR) that will use the AMA's Public Administration Payment Platform (PPAP) to generate the Single Billing Document reference and exchange files with the IGCP.

The amount centralised in the State treasury through the Single Billing Document in the year under review was around EUR 92 billion, as a result of the collection of around 35 million documents.

In 2023 the IGCP, in partnership with the AMA, set the requirements for the new platform that will support the implementation of the real-time Single Billing Document (DUC-TR). The main EAR (Revenue Management Entities), in particular the AT (Tax and Customs Authority), also contributed to the definition of these requirements. This new platform will lead to a redesign of the RCE’s (State Collection Network) functioning, as revenue settlement and collection will now take place in real time, and it is expected that the burden of collecting these documents will be reduced.

The actions undertaken by the IGCP to promote UTE also resulted in the conclusion of 30 agreements for the provision of banking services: 50% relating to the provision of POS (at the end of 2023, the IGCP had provided around 5,580 devices, allowing public funds of around EUR 411 million to flow into the State treasury), 33% relating to protocols for the deposit of collateral in favour of third parties (a substitute service for bank guarantees) and 17%, corresponding to tripartite protocols signed between the IGCP/AMA/Customer, for signing-up to the DUC.

In compliance with Article 91(13) of the DLEO, bank accounts of around 800 primary and secondary schools were opened in the State treasury in 2023, which will allow the centralisation of funds for these services in the IGCP, starting in 2024.

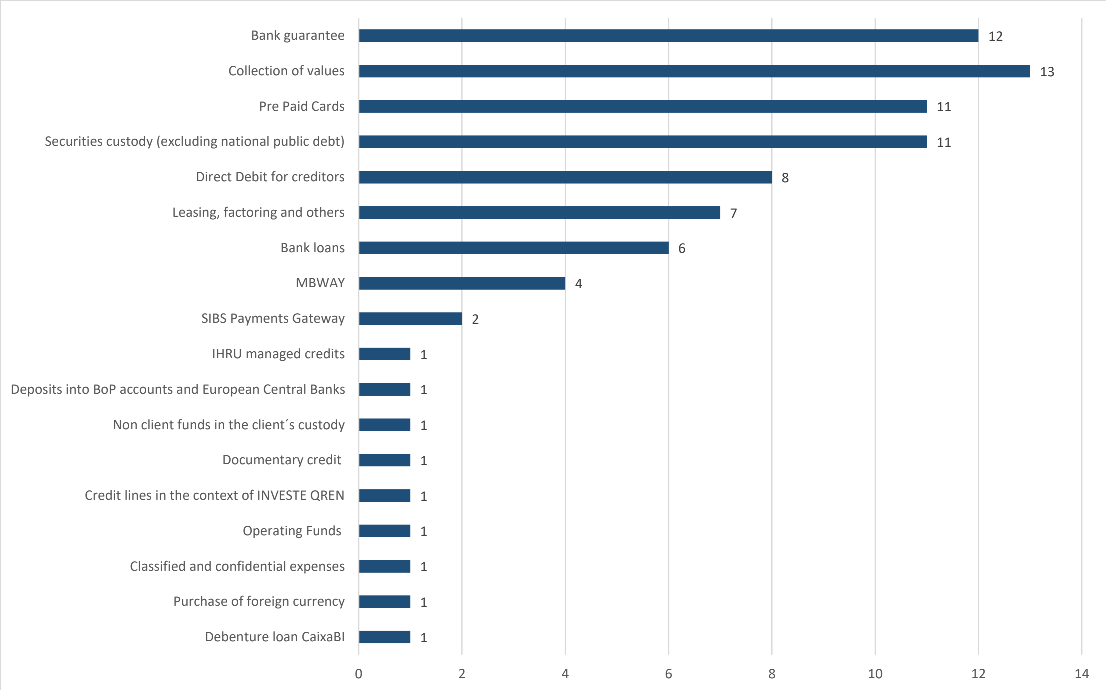
Under the terms of Article 105(5) of Law No 24-D/2022 of 30 December 2022, public services and entities may be exempted from complying with the UTE. Cumulatively, in accordance with Article 102(5) of the DLEO, the IGCP may, in duly substantiated exceptional situations, authorise the exemption from compliance with this principle for a maximum period of two years.

In 2023 the IGCP issued 53 opinions on requests for exemption from compliance with the UTE from public services and entities, 19% of which were made by entities of the Ministry of Health and 13% of the Ministry of Infrastructure. Exemptions were generally requested by the SFA (Autonomous Funds and Services) (46%) and bodies that are part of the SEE (State-owned Enterprise Sector) (43%).

Chart 21 illustrates the reasons given by public services and entities to justify requests for exemption.

The four most common reasons given for requests for exemption from UTE are: bank guarantees, a service that the IGCP does not provide as it has no legal framework for this purpose (they can sometimes be replaced by security deposits), cash collection, prepaid cards and custody of securities (excluding national public debt), which account for more than 50% of the reasons given for exemption.

Chart 22 – Reasons for requesting exemption from the UTE



Source: IGCP

With regard to contacts made by account managers, particularly noteworthy is that public services and entities, in a satisfaction survey carried out in 2023, rated their level of satisfaction with the performance of their managers at 90%.

4. Portfolio and Risk Limits Management

4.1. State's Derivatives Portfolio Management

The main objectives of derivatives transactions carried out in 2023 were to hedge the portfolio's interest rate risk and the exchange rate hedging of debt issues in USD. Transactions carried out involved setting up positions in 10-year fixed-rate paying swaps, as part of the strategy of hedging the cost of OT issuances held under the funding plan, and replacing existing positions in interest rate and exchange rate swaps with exchange rate swaps.

The State's derivatives portfolio made a net profit of EUR -81.4 million in 2023, a year marked by the implementation of tight monetary policies that resulted in sharp short-term rates hikes. However, the fourth quarter saw a steep downward trend in yields in the Eurozone and US economies, with the Federal Reserve and the ECB expressing different intentions with regard to the possibility of reversing the monetary policy cycle: the ECB continued to reject the possibility of cutting short-term interest rates while the Federal Reserve admitted discussing interest rates cuts.

In this context, the decrease in long-term interest rates had a negative impact on interest rate derivatives (EUR - 43.6 million). In turn, exchange rate derivatives showed a negative net result (EUR - 37.8 million) due to the appreciation of the euro against the dollar, due to the divergence in central banks' stance.

Table 6 – Change in the financial derivatives portfolio

(EUR millions)	Market value	
	30 December 2022	*29 December 2023*
Interest rate	**17.0**	**-40.9**
Exchange rate	**630.9**	**-18.8**
Total	**647.9**	**-59.7**

Source: IGCP

4.2. EPR's Derivatives Portfolio

As part of its duties in state direct public debt management, the IGCP is responsible for monitoring the derivatives portfolio of public sector enterprises that are financed through the State Budget (EPR – Reclassified Public Corporations).

Considering that the EPRs are prevented from obtaining financing on the market, no new derivative financial instruments have been taken out to hedge risk. In May 2023 the IGCP terminated early the 2 financial derivatives held by Metro do Porto, thus crystallising the positive market value of these instruments.

As at 31 December 2023, four derivative instruments remained outstanding in EPR portfolios, in particular in the Metropolitano de Lisboa portfolio, at a market value of EUR -5.2 million and a contractual value of EUR 260 million.

Table 7 – EPR derivatives portfolio

(EUR millions)	No. of derivatives at the end of the year	Market value	
		30 December 2022	*29 December 2023*
Metropolitano de Lisboa	4	-15.6	-5.2
Metro do Porto	0	2.9	0.0
Total	**4**	**-12.7**	**-5.2**

(*) Positive cash flows correspond to derivative receivables while negative cash flows correspond to payments made.

Source: Valuation carried out by the IGCP, except for the value of Metropolitano de Lisboa's derivative, which uses the counterparty's valuation.

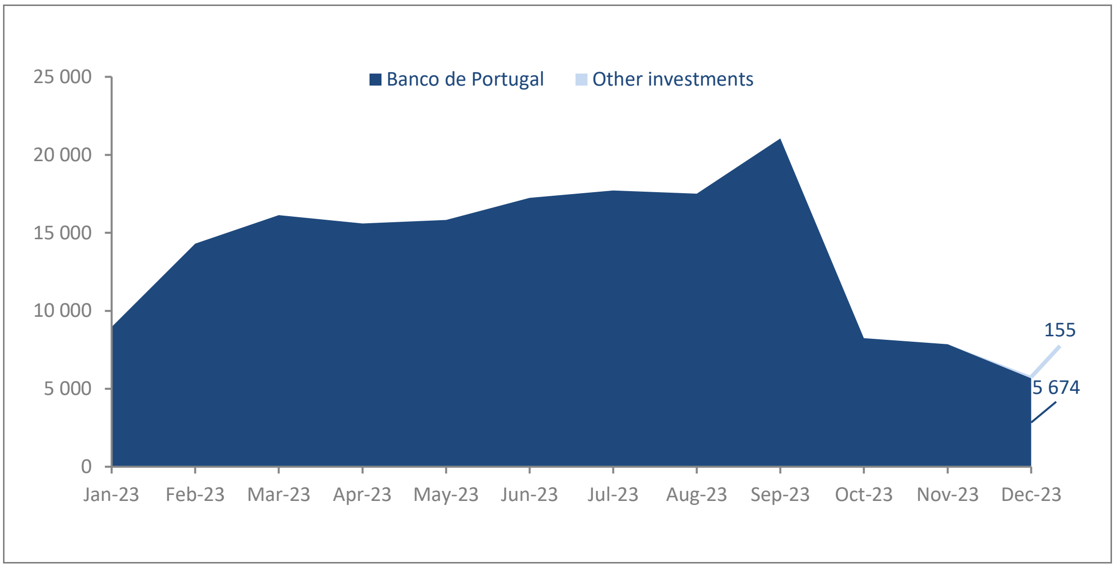
4.3. Cash Management

During 2023 deposits with the Banco de Portugal continued to be prioritised, thus guaranteeing liquidity in the State's liquid assets. With a view to greater diversification and profitability of liquidity surplus, the IGCP started using other cash management instruments and began drawing up legal documentation with counterparties to support the taking out of other investments.

By the end of 2023, the State' cash position amounted to EUR 5.8 billion, compared to EUR 7.0 billion at the end of 2022. Of this amount, EUR 5.7 billion was deposited with the Banco de Portugal.

Chart 23 – Developments in deposits balance of the Central State Treasury

(EUR millions)



Source: IGCP

Reflecting the increase in market interest rates during 2023, the cost of financing to maintain the Treasury cash balance, calculated on the basis of the average cost of BT and OT (or just BT), increased significantly, exceeding 3% in both cases. Nevertheless, the rise in interest rates also had an impact on the return on the IGCP deposits, which, despite the reduction in the average balance of deposits during the year, totalled EUR 309 million (with an implicit rate of return of 2.3%).

The widening of the spread between deposit and lending interest rates decreased the average balance of cash surpluses which, combined with the increase in the Portuguese Republic's rating and the contractualization of cash financing lines, allows for prudent cash management.

In this context, despite the significant increase in the cost of financing the cash balance, the increase in net cost was relatively limited and was around 1% (1.2% considering the average cost of financing OT and BT or 0.9% considering only the cost of financing BT).

Table 8 – Estimated cash position costs

(EUR millions)

	2021	2022	2023	2021	2022	2023	2021	2022	2023
Average deposits balance	13.850	14.676	13.724	13.850	14.676	13.724	13.850	14.676	13.724
Financing cost/Financing (%)	1,9%	1,7%	2,0%	0,2%	1,2%	3,4%	-0,5%	1,7%	2,0%
Average cost of funfing of the Treasury cash balance	266	254	278	26	182	470	-76	254	278
Interest received from Treasury deposits	14	-13	-309	14	-13	-309	14	-13	-309
Net cost of Treasury cash balance	**280**	**241**	**-31**	**39**	**169**	**161**	**-62**	**241**	**-31**
As % of average deposits balance	2,0%	1,4%	-0,2%	0,3%	1,2%	1,2%	-0,4%	1,4%	-0,2%
As % of average State's direct debt stock	0,1%	0,1%	0,0%	0,0%	0,1%	0,1%	0,0%	0,1%	0,0%
As % of GDP	0,1%	0,1%	0,0%	0,0%	0,1%	0,1%	0,0%	0,1%	0,0%

Notes: (1) The implicit interest rate is computed as the ratio between interest paid on State direct debt paid on an accrual basis and the average debt stock in a given year. (2) The funding cost of BT and OT corresponds to the average interest rate of new financing of BT (funded issues) and OT during the year. (3) Funding cost of BT corresponds to the average interest rate of new financing of BT (funded issues) over the year.

Source: IGCP

4.4. Cost Indicators

As at 31 December 2023 the market value of the State direct debt portfolio[1] was EUR 289,591 million, reflecting a discount of 3.4% over its nominal value. The average coupon of the portfolio increased to 2.4%, in 2023, while the average yield decreased to 2.9%. The average debt redemption period remained at 7.2 years.

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

Table 9 – Cost[2] indicators at year-end (EUR millions)

	2021	2022	2023
Outstanding	277,976	286,411	296,037
Average coupon	2.0%	1.9%	2.4%
Average yield	0.5%	3.0%	2.9%
Average redemption period (years)	7.4	7.2	7.2
Market value	310,492	269,835	289,591
Premium (incl. accrued interest)	10.7%	-6.7%	-3.4%

Source: IGCP

4.5. Risk Indicators

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

CaR – *Cost at Risk*

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

Based on the forecast of borrowing needs underlying the 2024 State Budget, the portfolio's position as at the end of 2023, a central scenario for 2024 financing and a set of simulated scenarios[3] for the dynamics of the interest rate curve (BT and OT):

– The expected cost of the portfolio for 2024 (calculated on a National Accounts basis) is EUR 6,801 million;

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[2] The average coupon is calculated by annualising the interest accrued between the last two business days of the year divided by the outstanding for the last business day. The premium indicator results from subtracting the unit from the market value without accrued interest divided by the outstanding. The average yield corresponds to considering a Treasury Bond with a maturity equal to the average redemption period, which pays the average coupon each year and has a price equal to the market value without accrued interest divided by the outstanding.

[3] To stimulate the scenarios for the interest rate term structure, a VaR (Vector Autoregressive) model with 3 factors obtained by Principal Component Analysis was used.

– The likelihood of this value exceeding EUR 6,941 million (absolute CaR) due to changes in interest rates is only 5%.

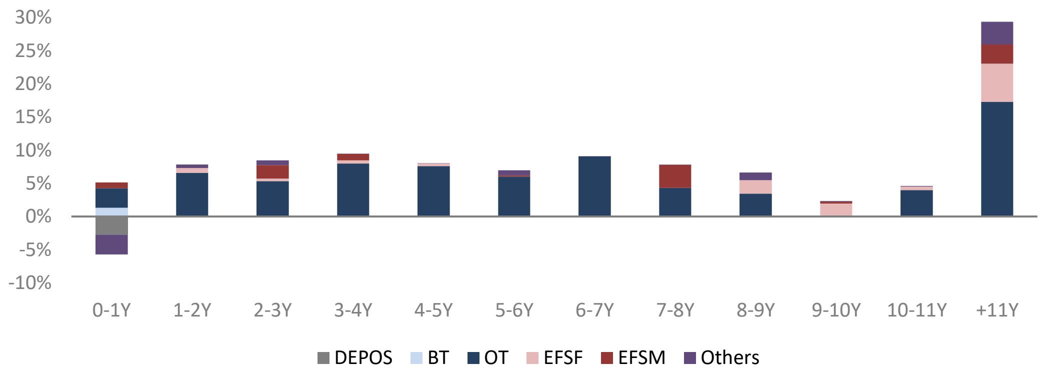
– The relative CaR, for the same level of significance, is EUR 140 million. Compared to GDP, the likelihood that, due to changes in interest rates, the budget deficit to GDP ratio will worsen by more than 0.05 p.p. in 2024 is less than 5%.

Refinancing risk

In addition to market variables (e.g. negotiability, liquidity, maintenance of a benchmark curve for the Portuguese Republic), the debt portfolio management considers the control of the refinancing profile, to avoid an excessive concentration of redemptions that could increase the portfolio financing cost in the future.

The absolute limits set on the percentage of the portfolio maturing within 12, 24 and 36 months are 25%, 40% and 50% respectively. At the end of 2023 the adjusted portfolio showed the following refinancing profile, in full compliance with these limits.

Chart 24 – Portfolio refinancing profile at end-2023



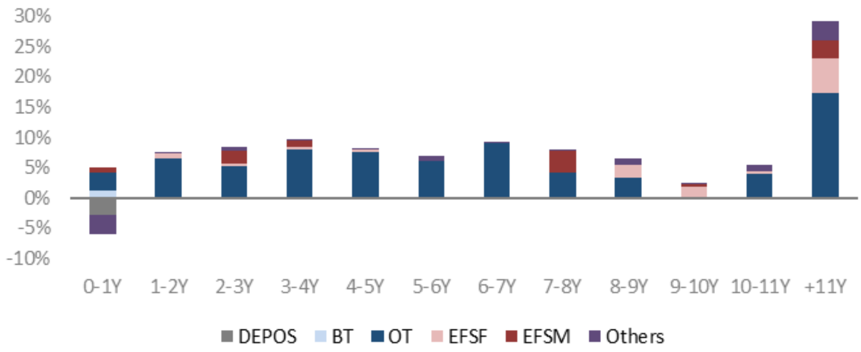
Source: IGCP

Interest rate risk

The modified duration of the total and adjusted debt portfolio stood at 4.46 and 5.88 respectively, at the end of 2023. Throughout 2023, the duration of the adjusted portfolio was always higher than the established lower limit of 4.0.

At the end of 2023 the portfolio had a refixing profile (i.e. percentage of the nominal value of the adjusted portfolio to be refixed or falling due, by maturity), as shown in the figure below.

Chart 25 – Refixing profile at end-2023



Source: IGCP

Exchange rate risk

At the end of 2023 primary foreign exchange exposure (i.e. excluding hedging transactions) accounted for 1.16% of the total adjusted debt portfolio, far below the 20% ceiling set by the Guidelines. This exposure is the result of bonds issued in foreign currency (USD).

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

Credit risk

The Portuguese Republic's assumption of credit risk results from the contracting of derivative instrument transactions, repos and money market investments. The Guidelines in force, approved by the Secretary of State in 2013, establish risk diversification and the allocation of exposure limits to each counterparty, depending on its credit quality.

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

Throughout 2023, the credit risk exposure of the derivatives portfolio remained below the overall limit set at 3% of the adjusted portfolio. By the end of the year, the exposure corresponded to 0.05% of the adjusted portfolio value, i.e., this limit was taken by 1.65%.

Table 10 – Risk indicators at year-end (EUR millions)

	2021	2022	2023
Primary Foreign Exchange Exposure (% adjusted portfolio)	1.36%	1.27%	1.16%
Net Foreign Exchange Exposure (% adjusted portfolio)	0.00%	0.00%	0.00%
Total Portfolio Duration (years)	5.65	4.50	4.46
Adjusted Portfolio Duration (years)	6.43	5.39	5.88

Source: IGCP

Annexes

A1. Borrowing needs and sources in 2023

Table 11 – State borrowing needs and sources on a public accounts basis

(EUR millions)	2022	2023(P)
1. NET BORROWING NEEDS	**9,251**	**3,455**
Budget deficit	5,781	189
Net acquisition of financial assets (except privatisations)	3,469	3266
FRDP reimbursement	0	0
Transfer of cash balance of ADSE	0	0
2. REDEMPTIONS AND CANCELLATIONS (Funded Debt)	**47,763**	**53,332**
Savings Certificates + Treasury Certificates	5,566	6,350
Short-term euro-denominated debt	24,530	29,222
Medium and long-term euro-denominated debt	17,409	17,950
Non-euro denominated debt	279	381
Swap capital flows (net)	-22	-571
3. GROSS BORROWING NEEDS (1. + 2.)	**57,014**	**56,787**
4. SOURCES OF FINANCING	57,775	57,517
Balance of funding from previous budgets	198	522
Debt issuance of the year's budget	53,777	56,995
Debt issuance in supplementary period	3,800	0
5. BALANCE OF FINANCING FOR FORTHCOMING YEARS (4. - 3.)	**522**	**1,009**
memo Statistical discrepancy	-240	279
memo DEBT ISSUANCES IN CIVIL YEAR (Funded Debt)	**55,352**	**60,795**
Relative to the previous year's budget (Supplementary Period)	1,575	3,800
Relative to the year’s budget	53,777	56,995

Note: The 2023 implementation figures are provisional until the 2023 General State Account is released.
Source: Ministry of Finance, IGCP.

Table 12 – State borrowing needs and sources on a cash management basis

Borrowing needs and sources 2022 and 2023 (EUR millions)	2022	2023(P)
GROSS BORROWING NEEDS	**24,662**	**19,750**
Budget deficit	5,781	189
Net acquisition of State financial assets (except privatisations)	3,469	3,266
One-off operations	0	0
OT redemptions (includes exchange transactions)	10,729	13,649
Official loans repayments (EFAP+SURE+RRP)	500	1,500
Other redemptions of medium and long-term debt	4,182	1,147
SOURCES OF FINANCING	**24,662**	**19,750**
Use of deposits (excl. cash collateral)	2,453	638
Official loans issuance (EFAP+SURE+RRP)	1,420	694
OT and MTN issuances	11,994	9,393
Floating Rate Treasury Bonds (OTRV) issuances	0	0
Other medium and long-term debt issuances	170	39
BT net issuances (excl. BT held by the FRDP)	1,260	-4,563
CA/CT net issuances	4,551	10,222
Other transactions in the Single Treasury Account (excl. cash collateral)	2,814	3,327
Deposits at year-end (excl. cash collateral and other investments)	**6,312**	**5,674**
Cash collateral at year-end and other investments	668	155
Total deposits at year-end	**6,980**	**5,828**

Note: 2023 implementation figures are provisional until the 2023 General State Account is released.
Source: Ministry of Finance, IGCP.

A2. Financing composition in 2023

Table 13 – Financing composition

(EUR million)	Issuance	Redemption	Net
EURO DEBT	**60.795**	**53.522**	**7.273**
CA - Saving Certificates	16.489	2.055	14.434
CT - Treasury certificates	83	4.295	-4.212
CEDIC	29.228	20.826	8.402
CEDIM	0	83	-83
BT - Treasury Bills	2.968	7.727	-4.759
OT - fixed rate government bonds	11.293	15.567	-4.274
Floating rate Treasury Bonds (OTRV)	0	0	0
EFSF	0	0	0
EFSM	0	1.500	-1.500
SURE	0	0	0
RRF	694	0	694
Other short-term debt	2	668	-667
Other medium- and long-term debt	39	800	-761
NON-EURO DEBT	**0**	**381**	**-381**
IMF	0	0	0
Other Debt	0	381	-381
SWAPS (NET)	**0**	**-571**	**571**
TOTAL	**60.795**	**53.332**	**7.463**

Note: 2023 implementation figures are provisional until the 2023 General State Account is released.
Source: Ministry of Finance, IGCP.

Table 14 – OT issuance via syndication

Date	Issue	Nominal value (EUR million)	Reoffer yield	*Spread vs benchmark*[1] (bp)	*Mid swap spread*(bp)
05 January 2023	OT 3.5% June 2038	3,000	3.689%	125	75

[1] Bund.

Source: IGCP

Table 15 – OT issuance via auction

Date	Security	Competitive auction nominal value (EUR million)	Non-Competitive auction nominal value (EUR million)	Cut-off rate/allocated yield	*Mid swap spread*(bp)
08 February 2023	OT 1.65% July 2032	1,000	176	3.17%	27.3
08 March 2023	OT 1.65% July 2032	397	46	3.55%	29.0
08 March 2023	OT 0.9% October 2035	518	85	3.74%	51.7
12 July 2023	OT 1.95% June 2029	467	93	3.18%	-17.0
12 July 2023	OT 0.9% October 2035	282	56	3.59%	37.4
13 September 2023	OT 1.65% July 2032	485	66	3.38%	15.9
13 September 2023	OT 0.9% October 2035	522	36	3.63%	40.0

Source: IGCP

Table 16 – OT exchange offers

Date	Security	Side	*Exchange offer YTM*	Nominal value (EUR million)
10 May 2023	OT 1.65% July 2032	Issue	3.20%	466
10 May 2023	OT 1.15% April 2042	Issue	3.66%	409
28 June 2023	OT 1.65% July 2032	Issue	3.01%	315
28 June 2023	OT 1% April 2052	Issue	3.48%	560
10 October 2023	OT 0.7% October 2027	Issue	3.07%	280
10 October 2023	OT 3.875% February 2030	Issue	3.28%	361
				2.391
10 May 2023	OT 5.65% February 2024	Purchase	3.08%	353
10 May 2023	OT 4.125% April 2027	Purchase	2.69%	522
28 June 2023	OT 2.875% October 2025	Purchase	2.93%	191
28 June 2023	OT 2.875% July 2026	Purchase	2.89%	164
28 June 2023	OT 4.125% April 2027	Purchase	2.86%	520
10 October 2023	OT 2.875% October 2025	Purchase	3.15%	295
10 October 2023	OT 4.125% April 2027	Purchase	3.19%	96
10 October 2023	OT 5.65% February 2030	Purchase	3.73%	250
				2,391

Source: IGCP

Table 17 – BT auctions

Date	Security	Competitive auction nominal value (EUR million)	Non-Competitive auction nominal value (EUR million)	Cut-off rate/allocated yield	*Spread vs Euribor* (bp)
18 January 2023	BT 21 July 2023	750	90	2.42%	-41.8
18 January 2023	BT 19 January 2024	500	94	2.73%	-58.3
15 February 2023	BT 19 May 2023	450	65	2.57%	-12.5
15 February 2023	BT 19 January 2024	300	87	2.98%	-50.8
15 March 2023	BT 22 September 2023	423	149	2.89%	-25.3
15 March 2023	BT 17 March 2024	300	102	2.98%	-68.1
19 July 2023	BT 19 January 2024	350	35	3.28%	-64.7
19 July 2023	BT 19 July 2024	900	143	3.53%	-58.6

Note: Issuances in favour of the PDSF (Public Debt Settlement Fund) are excluded.

Source: IGCP

Table 18 – OT reverse auctions

Date	Security	Repurchase rate	Nominal value (EUR million)	Residual maturity (years)
01 March 2023	OT 5.65% February 2024	3.20%	792	1.3
01 March 2023	OT 4.95% October 2023	3.19%	322	2.0
29 March 2023	OT 5.65% February 2024	2.82%	500	1.7
29 March 2023	OT 4.95% October 2023	2.98%	340	1.6
30 November 2023	OT 4.125% April 2027	2.71%	170	1.0
30 November 2023	OT 2.875% July 2026	2.61%	249	1.1
30 November 2023	OT 2.875% October 2025	2.76%	198	1.2
30 November 2023	OT 5.65% February 2024	3.58%	50	3.8
			2,621	

Source: IGCP

Table 19 – MTN USD repurchase auctions

Date	Security	Repurchase rate	Nominal value (USD million)	Residual maturity (years)
07 December 2023	MTN USD 5.125% October2024	5.18%	51	0.9
			51	

Source: IGCP

Table 20 – CEDIC/CEDIM

	2022				2023			
	Nominal value (EUR million)	Number of transactions	Average rate[1] (%)	Average redemption period (years)	Nominal value (EUR million)	Number of transactions	Average rate[1] (%)	Average redemption period (years)
CEDIC								
Issues	28,128	465	0.28%	0.28	49,280	1,540	2.39%	0.20
Early repayments	696	36	0.08%	0.39	2,891	98	1.42%	0.31
Year-end balance	*20,826*				*29,228*			
CEDIM								
Issues	248	12	2.01%	3.99	0	1	2.98%	8.05
Early repayments	16	2	1.99%	1.16	2	6	3.04%	0.69
Year-end balance	*786*				*703*			

[1] Rate weighted by investment maturity

Source: IGCP

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

In the Portuguese public debt market, OEVTs and EBTs play a strategic role as a distribution channel, providing reference prices and liquidity on the secondary market, and advising the Portuguese Republic on the establishment and implementation of its funding strategy. They also play a key role in promoting Portuguese public debt to end-investors. At the end of 2023 the OEVT group was composed of 17 banks and the EBT group of 19 banks.

In 2023 the performance of the following OT and BT market participants is particularly noteworthy:

Table 21 – Best-performing OEVT in 2023

1	BNP Paribas
2	Banco Santander
3	JP Morgan
4	Crédit Agricole
5	Citigroup

Source: IGCP

Table 22 – Best-performing EBT in 2023

1	Millennium bcp
2	BNP Paribas
3	HSBC
4	Crédit Agricole
5	Bank of America

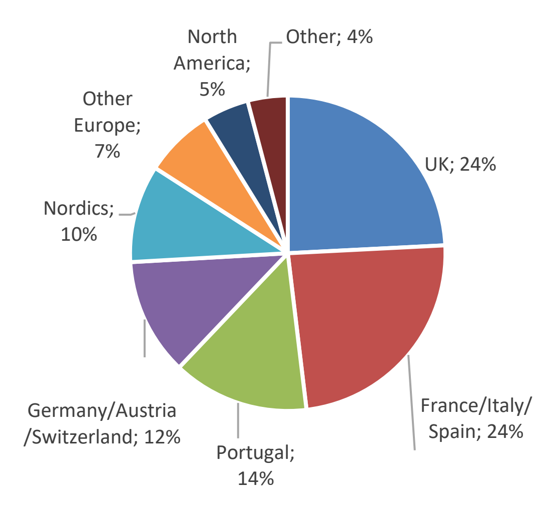
Source: IGCP

A4. Distribution of OT syndicated issuances

In January 2023 the Portuguese Republic placed EUR 3 billion OT through a 15-year syndicated transaction. In this transaction, about 86% of the final amount was placed with non-resident investors, with particular emphasis on investors from the United Kingdom (about 24% of the distribution), but also the relevant presence of investors from France, Italy and Spain (24%), and Germany, Austria and Switzerland (12%). Also of note is the strong participation of real money investors, in particular fund managers, insurance undertakings and pension funds, which usually offer greater price stability on the secondary market.

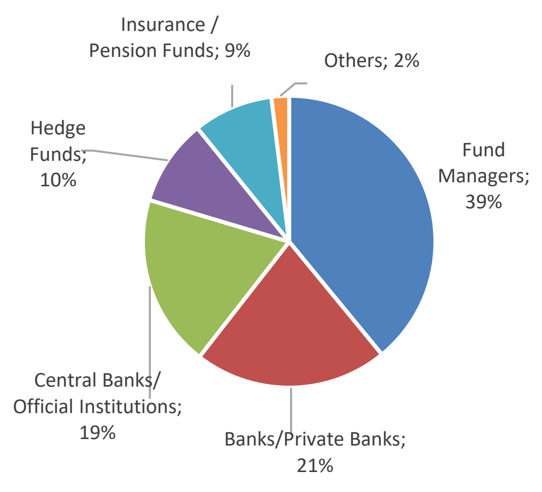
Chart 26 – OT syndicated issuance in January 2023: New 15-year Benchmark

By investor geography



Source: IGCP

By investor profile



Source: IGCP

A5. Table of State direct debt turnover

Table 23 – State direct debt (Public accounts basis)

	Outstanding on 31/dez/22	Structure	January - December 2022 Issues	Redemptions	Others	Outstanding on 31/dez/23	Structure
1. Euro-denominated debt (excluding official loans)	**227.824**	**79,4%**	**82.538**	**74.458**	**2.144**	**238.048**	**80,4%**
Tradable	166.992	58,2%	16.315	26.114	2.143	159.337	53,8%
ECP (discounted value)	0	0,0%	0	0	0	0	0,0%
BT (discounted value)	7.727	2,7%	5.022	9.781	0	2.968	1,0%
Fixed rate Treasury Bonds (OT)	156.492	54,5%	11.293	15.567	2.128	154.345	52,2%
Floating rate note (FRN)	1.000	0,3%	0	0	0	1.000	0,3%
Other bonds	0	0,0%	0	0	0	0	0,0%
MTN	1.766	0,6%	0	766	16	1.016	0,3%
Retail-Bonds	7	0,0%	0	0	0	7	0,0%
Non-tradable	60.832	21,2%	66.223	48.344	0	78.711	26,6%
Saving Certificates	19.626	6,8%	16.489	2.056	0	34.059	11,5%
Subscription value	15.323	5,3%	15.745	1.849	0	29.218	9,9%
Accrued interest	4.303	1,5%	744	206	0	4.841	1,6%
Treasury Certificates	15.243	5,3%	83	4.295	0	11.032	3,7%
CEDIC	20.826	7,3%	48.953	40.551	0	29.228	9,9%
CEDIM	786	0,3%	0	83	0	703	0,2%
Cash-collateral	668	0,2%	578	1.247	0	0	0,0%
Ohers	**3.683**	**1,3%**	**118**	**113**	**0**	**3.689**	**1,2%**
2. Non-Euro-denominated debt (excluding official loans)	2.873	1,0%	0	381	-95	2.397	0,8%
Tradable	2.873	1,0%	0	381	-95	2.397	0,8%
ECP (discounted value)	0	0,0%	0	0	0	0	0,0%
Other bonds	0	0,0%	0	0	0	0	0,0%
MTN	2.873	1,0%	0	381	-95	2.397	0,8%
Non-tradable	0	0,0%	0	0	0	0	0,0%
3. Official loans	**56.322**	**19,6%**	**694**	**1.500**	**0**	**55.516**	**18,8%**
SURE	6.234	2,2%	0	0	0	6.234	2,1%
RRF	960	0,3%	694	0	0	1.654	0,6%
EFAP	49.128	17,1%	0	1.500	0	47.628	16,1%
EFSF	25.328	8,8%	0	0	0	25.328	8,6%
EFSM	23.800	8,3%	0	1.500	0	22.300	7,5%
IMF	0	0,0%	0	0	0	0	0,0%
4. Total Debt (1.+ 2.+3.)	**287.019**	**100,0%**	**83.232**	**76.339**	**2.048**	**295.961**	**100,0%**
5. Exchange rate effect of hedging with derivatives (net)	-627					-9	
6. Total debt after derivatives (4.+ 5.)	**286.392**					**295.952**	

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

Source: IGCP

A6. Cost of State Direct Debt

Table 24 – Interest costs and other charges on State direct debt (Public accounts basis)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Government debt interest	**7.038**	**7.282**	**7.034**	**7.063**	**7.108**	**6.837**	**6.287**	**6.041**	**6.611**
Treasury bills	99	9	2	-35	-45	-49	-51	-40	45
Government bonds	4.087	4.544	4.599	4.842	4.858	4.716	4.642	4.382	4.195
EFAP loans	2.119	1.846	1.567	1.178	1.058	990	673	627	608
Savings and Treasury certificates	562	791	669	731	780	715	576	739	1.311
Others	171	92	197	347	457	464	447	334	452
Other charges (*)	**67**	**101**	**93**	**82**	**61**	**80**	**77**	**65**	**70**
EFAP loans	2	16	11	28	15	14	28	9	5
Others	65	85	82	54	47	65	49	56	65
Total charges paid	**7.105**	**7.383**	**7.127**	**7.145**	**7.169**	**6.917**	**6.364**	**6.106**	**6.681**
Interest received from deposits and loans granted	-13	-4	-4	1	-2	8	14	-13	-309
Net interest and other charges	**7.092**	**7.379**	**7.123**	**7.146**	**7.168**	**6.925**	**6.378**	**6.094**	**6.372**

Notes: (*) Other charges include costs associated with the placement of debt on the market (securities issuance, distribution, redemption and custody), as well as IGCP's management fee and other expenses related to the rating of the Portuguese Republic's credit risk.

Source: IGCP

Table 25 – Interest on State direct debt (National accounts basis)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Government debt interest									
Treasury bills	35	5	-14	-46	-47	-49	-49	-23	109
Government bonds	4.361	4.315	4.384	4.220	3.930	3.616	3.327	3.223	3.206
EFAP loans	2.215	1.942	1.574	1.245	1.115	1.063	862	589	641
Savings and Treasury certificates	687	734	707	790	750	582	623	717	1.388
Others	352	365	454	516	549	543	486	390	557
Total charges paid	**7.650**	**7.362**	**7.106**	**6.725**	**6.297**	**5.755**	**5.248**	**4.895**	**5.901**
Interest received from deposits and loans granted	-13	-3	-4	1	-1	8	13	-14	-310
Net interest and other charges	**7.637**	**7.358**	**7.103**	**6.726**	**6.296**	**5.763**	**5.261**	**4.882**	**5.591**

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 26 – Annual change in interest on State direct debt (National accounts basis)

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	7.106	3,0%	-255	189	-434	-11
2018	241.911	6.724	2,8%	-382	139	-511	-10
2019	248.285	6.293	2,5%	-431	177	-593	-16
2020	259.664	5.744	2,2%	-549	288	-801	-37
2021	273.403	5.224	1,9%	-520	304	-783	-41
2022	282.754	4.854	1,7%	-370	179	-530	-18
2023	291.490	5.901	2,0%	1.048	150	871	27

Notes:

* The calculation of the average debt stock takes into account 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