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Order No. 428/2026 of 15 January

Guidelines for the management of the treasury cash balances and the State's direct debt

The following guidelines for the management of the treasury cash balances and for the management of the State's direct debt by the Treasury and Public Debt Management Agency – IGCP, E.P.E., are hereby approved.

1 – Objective

Law No. 7/98 of 3 February (Public Debt Framework Law) establishes the general regime for the issuance and management of the State's direct public debt and determines that recourse to public borrowing must be aligned with the State's financing needs, as defined in the Constitution of the Portuguese Republic, and safeguard the trend balance of the government accounts in the medium term.

In accordance with the same law, public debt management, guided by fundamental principles of rigor and efficiency, pursues the following objectives:

- Minimizing the direct and indirect costs of debt from a long-term perspective;
- Ensuring a balanced distribution of costs across the various annual budgets;
- Preventing excessive concentration of maturities over time;
- Avoiding excessive risk exposure;
- Promoting a balanced and efficient functioning of financial markets.

The Treasury and Public Debt Management Agency – IGCP, E.P.E. (IGCP) has been assigned the mission of “managing, in an integrated manner, the treasury, financing and the State's direct public debt, including, under the applicable law, the debt of entities in the public business sector whose financing is ensured through the State Budget [...] in compliance with the guidelines defined by the government through the member responsible for the area of finance”.

IGCP is also entrusted with the management of the State's treasury cash balances, with the aim of promoting increased efficiency gains, namely through the minimization of the financial costs of public debt and the reduction of outstanding State direct debt, as a result of the reduction of treasury surpluses.

Within the strategy for investing the State's treasury cash balances, IGCP shall be guided by the following objectives:

- Ensuring that sufficient financial resources exist to settle obligations as they fall due;
- Ensuring that recourse to financing occurs only when necessary;
- Allowing for efficient management of financial risks;
- Safeguarding invested capital; and
- Maximizing the return on available treasury resources, in full compliance with the limits and restrictions established in the guiding rules in force.

The guidelines that have governed IGCP's activity and its management of treasury cash balances and the State's direct debt were defined by the government through Order No. 698/2007 of 15 January, issued by the Secretary of State for the Treasury and Finance.

Since 2007, the macroeconomic and financial context has changed significantly, with, for example, structural transformations in the banking system, noteworthy technological advances, the introduction of new risk assessment methods, the establishment of new budgetary rules for the European Union, and a revision of the European Central Bank's monetary policy strategy.

Recognizing that the integrated management of the State's debt portfolio and treasury cash balances must be carried out using the most appropriate financial management techniques, and that management options and guidelines must be clarified in the current context, these Guidelines for the Management of Treasury Cash Balances and the State's Direct Debt (Guidelines) are hereby established.

The Guidelines follow the most recent recommendations issued by the International Monetary Fund (Guidelines for Public Debt Management, last revised in April 2014).

2 – Scope

IGCP is responsible for the issuance of debt instruments and the raising of loans to ensure, in each budgetary year, the availability of financial resources necessary to cover the State's financing needs arising from the execution of the annual budget and debt service. The net amount of financing to be obtained in each budgetary year must comply with the limits approved by the Assembly of the Republic and the government and be aligned with budgetary execution.

It is within IGCP's competence to decide on the modalities and instruments for obtaining such financing and on the issuance timetable throughout the year, in accordance with the limits and rules established in applicable regulations and with the guidelines defined herein.

In addition to financing operations, IGCP is also responsible for carrying out other financial operations on the existing debt portfolio, with a view to achieving objectives such as minimizing cost and/or altering the risk profile of the debt portfolio, as well as managing the State's treasury cash balances.

Management of treasury cash balances should prioritize diversification of investments, while maintaining a level of liquidity that covers the State's treasury needs at all times.

3 – Glossary

Liquid Treasury Investments – includes all amounts of the State's treasury cash balances that are invested in demand deposits or in other financial instruments with a residual maturity of less than one month.

Debt Portfolio – encompasses all outstanding financial transactions on a given date, under IGCP's management within its mandate for managing the State's direct debt, relating to:

- a) Loans, from any source;
- b) Financial derivatives.

For the purpose of calculating the limits established in these Guidelines and cost and risk metrics, foreign currency debt is converted into euros at current exchange rates, and Special Short-Term Public Debt Certificates (CEDIC), Special Medium- and Long-Term Public Debt Certificates (CEDIM), or other similar instruments exclusively intended for public sector entities are not considered.

Debt Cost – all costs associated with the debt service (interests, fees, issuance premiums/discounts, etc.). The debt cost over a given period may be calculated based on costs actually paid, according to public accounting rules, or on an accrual basis.

Primary Foreign Exchange Exposure – interest and capital from financing instruments and treasury investment instruments that may be affected by exchange rate fluctuations, converted into euros at current exchange rates.

Net Foreign Exchange Exposure – corresponds to Primary Foreign Exchange Exposure after adding expected foreign currency cash flows associated with payments or receipts from financial derivatives.

Gross Financing Needs – the State's gross financing needs are the sum of Net Financing Needs and amortizations of the Debt Portfolio.

Net Financing Needs – include the budget deficit, net acquisition of financial assets, and privatization proceeds.

Repurchase Agreements – also known as repo agreements (repo or reverse repo), transactions involving the sale of one or more debt securities on a given date and at a given price, with the simultaneous agreement to repurchase those same securities on a future date at a predetermined price.

Residual Average Maturity of the Debt Portfolio – weighted average of the remaining time to maturity of the instruments in the Debt Portfolio.

Foreign Exchange Risk – refers to the risk of changes in the Debt Cost and/or the return on treasury investments resulting from exchange rate fluctuations.

Credit Risk – refers to the risk that the State may incur in a cost in the event of a deterioration in credit rating or default of a counterparty, due to its inability to fully or partially meet financial obligations. Transactions involving credit risk include financial derivatives, uncollateralized treasury investments, and repurchase agreements (both repo and reverse repo agreements).

Credit risk is measured by the State's exposure to each counterparty, assessed by the expected loss incurred in the event of total default on current or potential exposure, with a given confidence level over a relevant future time horizon.

As a credit risk metric, Value-at-Risk (VaR) measures the maximum potential loss over a given time horizon with a specified confidence level (e.g. 95%).

Liquidity Risk – refers, in the context of State debt and treasury management, to the risk of a rapid decline in liquid assets due to financial obligations arising from unanticipated cash flows and/or difficulties in obtaining funding over a short period.

Refinancing Risk – refers to the risk that the State may have to refinance maturing debt at abnormally high costs or, in extreme cases, may be unable to refinance it, due to excessive concentration of maturities and/or insufficient demand for debt.

Refinancing risk metrics include, at least:

- a) Average maturity – weighted average time to maturity of debt and treasury instruments;
- b) Amortization profile – distribution of amortization payments over time.

Interest Rate Risk – refers to the risk that fluctuations in market interest rates impact the Debt Cost and the return on treasury investments. This impact arises from new financing instruments or treasury investments and, in the case of floating-rate instruments, from interest rate refixing periods.

Interest rate risk metrics include, at least:

- a) Average refixing period - weighted average of the time to the next interest rate refixing, in the case of floating-rate instruments, and to the time to maturity, in the case of fixed-rate loans;
- b) Refixing profile - given by the distribution of instruments with interest rate refixings or that reach maturity over the years;
- c) Modified duration - measures the sensitivity of the market value of instruments to changes in market interest rates;
- d) Cost-at-Risk (CaR) - measures the sensitivity of cashflows, over a relevant future time horizon, to fluctuations in interest rates with a specified confidence level.

4 – Management constraints

At all times, IGCP must comply with the following limits:

4.1 – Instruments and transactions

4.1.1 – Funding

For funding purposes, IGCP may use short-, medium-, and long-term instruments, at fixed or floating rates, with or without coupons, issued in domestic or international markets. IGCP may use tradable or non-tradable instruments and repurchase agreements.

The financing policy to be applied each year shall follow the guidelines set out in the annual financing program approved by the government.

Financing operations carried out each year shall comply with the applicable legal provisions, namely those established in the Public Debt Framework Law, the State Budget laws, and the relevant resolutions of the Council of Ministers.

For instruments with an indexed interest rate, only indexation linked to interest rates, inflation, or GDP growth is permitted (i.e., for example, indexation linked to stock markets or commodities is not allowed).

4.1.2 – Treasury investments

For the purposes of investing the treasury cash balances, IGCP may:

- Deposit funds in Banco de Portugal (Portuguese National Central Bank);
- Take demand or term deposits;
- Enter into reverse repurchase agreements;
- Buy and sell debt securities issued by Euro Area sovereigns, the United States, Japan, the United Kingdom, Switzerland, and supranational issuers;
- Buy and sell debt securities of public sector entities recognized as public debt under Maastricht criteria.

Investments made in the context of treasury liquidity management shall not have, at the date of their inception, a residual maturity exceeding 12 months.

4.1.3 – Financial derivatives

IGCP may use swaps, forwards, futures and options for hedging interest rate and foreign exchange risks stemming from the Debt Portfolio and the treasury investments.

The use of derivatives with the objective of getting funding is not allowed. These instruments must always be used to hedge public debt or treasury investments.

The usage of financial derivatives by IGCP must be supported by the Agency's specific internal rules, which must include continuous monitoring of the associated risks, in particular market and credit risks.

4.2 – Foreign exchange risk

Primary Foreign Exchange Exposure of the Debt Portfolio must not exceed 15% and Net Foreign Exchange Exposure must not exceed 5%.

For the purposes of investing treasury cash balances, IGCP shall not assume foreign exchange risk. Transactions denominated in U.S. dollars (USD), Japanese yen (JPY), Pounds sterling (GBP), and Swiss francs (CHF) are allowed, provided that the associated foreign exchange risk is fully hedged through financial derivatives.

4.3 – Credit risk

IGCP may enter into transactions involving credit risk with financial institutions, sovereign issuers from Eurozone countries, and supranational issuers that cumulatively meet the following conditions:

- Have a long-term credit rating assigned by at least two of the following international rating agencies: Fitch, Moody's, and Standard & Poor's (S&P);
- The assigned ratings are not below investment grade ⁽¹⁾.

Financial institutions that do not meet the above requirements may also be eligible counterparties if they provide adequate financial guarantees. In such cases, the guarantors must meet the requirements set out above.

Transactions involving credit risk may only be entered into under credit risk mitigation agreements, namely ISDA Master Agreements and Credit Support Annexes (CSA) for derivatives transactions, and Global Master Repurchase Agreements (GMRA) for repurchase transactions.

Central clearing counterparties (CCPs) established in the Eurozone and supervised by the European Securities and Markets Authority (ESMA) are also considered eligible counterparties for transactions involving credit risk.

When entering into transactions that involve credit risk, IGCP shall comply with the individual credit risk limits approved by the government.

4.4 – Liquidity risk

IGCP shall comply with the following limits:

- Liquid Treasury Investments must cover at least 100% of the estimated Gross Financing Needs for the following 30 days;
- Treasury cash balances must cover at least 8.5% of the estimated Gross Financing Needs for the following 12 months.

4.5 – Refinancing risk

The nominal value of the financing instruments in the Debt Portfolio reaching maturity:

- Within the next 12 months must not exceed 15% of the total nominal value of the Debt Portfolio;
- Within the next 5 years must not exceed 45% of the total nominal value of the Debt Portfolio.

Additionally, the Residual Average Maturity of the Debt Portfolio must not be below 7 years.

4.6 – Interest rate risk

The nominal value of the floating-rate Debt Portfolio, net of positions in financial derivatives, must not exceed 25% of the total nominal value of the portfolio.

4.7 – Operational constraints

The contracting of new financial instruments shall be underpinned and conducted in accordance with IGCP internal rules and regulations, which define negotiation and settlement procedures, as well as methodologies for assessing the costs and risks of these instruments, ensuring their proper processing and management.

5 – Reporting

IGCP ensures continuous monitoring and informs the government of any actual or anticipated breaches, presenting preventive or corrective action plans when applicable.

At the end of each quarter, IGCP shall prepare and submit to the government a management report that includes, at a minimum:

- i) the cumulative execution of funding during the year;
- ii) compliance with the established limits; and
- iii) the risk and cost profile of the debt and of treasury cash investments.

6 – Entry into force

These guidelines enter into force on the date of publication, revoking all previously approved guidelines.

⁽¹⁾ *Minimum investment-grade ratings: Baa3 (Moody's) and BBB- (Fitch and S&P).*

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