INICIATIVA PARA UMA
AUDITORIA CIDADÃ
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Documentation produce to the campaign:

POVERTY WILL NOT PAY THE DEBT, RENEGOTIATION NOW!

Petition, debate and mobilization

Translation by Mariana Avelãs

POBREZA
NÃO PAGA A DÍVIDA
RENEGOCIAÇÃO
JÁ!

The following groups support the current campaign:

ADCL, APRE!, ATTAC, CENA, CIDAC, CIVIS, COOLABORA, ESCOLA DA NOITE, GAF, ICE, IN LOCO, SITRA, SPGL and STEC

Petition, debate and mobilization

The campaign took place through a petition addressed to the Portuguese Parliament, which has collected 6445 electronic subscriptions and signatures. It has been handed over on the 30th January 2014, together with a letter to all MPs, a technical annex arguing for the need of the government to prepare in advance the process of renegotiation and debt restructuring, as well as a document recalling the rights citizens have to participate and have access to information about public issues.

The debate about the problem of the debt has been promoted in parallel, seeking to mobilize the population to support the demanding needs underpinning a debt renegotiation that favors the interest of the country instead of creditors' interest. In 2013, IAC has been involved supporting several workshops and debates throughout Portugal. The knowledge beneath a conscious decision about the causes and consequences of the Portuguese public debt was further extended through the publication of the leaflet "10 frequent questions about debt" (only in Portuguese), responsibility of IAC.

This report gathers the information submitted to the Portuguese Parliament with the petition.

The campaign **"Poverty will not pay the debt, Renegotiation Now!"** has been promoted by IAC – The Portuguese Initiative for a Citizens Audit to the Debt, with the support of multiple civic associations:

ADCL - Associação para o Desenvolvimento das Comunidades Locais
APRe! - Associação de Aposentados, Pensionistas e Reformados
Precários Inflexíveis - Associação de Combate à Precariedade
ATTAC - Associação para a Taxação das Transações Financeiras para a Ajuda aos Cidadãos
CENA - Sindicato dos Músicos, Profissionais do Espetáculo e do Audiovisual
CIDAC - Centro de Intervenção para o Desenvolvimento Amílcar Cabral
Civis - Associação para o Aprofundamento da Democracia
CooLabora
Escola da Noite - Grupo de Teatro de Coimbra
GAF - Grupo Aprender em Festa
ICE - Instituto das Comunidades Educativas
In Loco
SITRA - Sindicato dos Trabalhadores dos Transportes
SPGL - Sindicato dos Professores da Grande Lisboa
STEC - Sindicato dos Trabalhadores do Grupo Caixa Geral de Depósitos

The problem of the debt is still urgent and continues to be crutial for our present and our future!

Petition

Austerity does not solve indebtedness. By the contrary, it is making things worst. In spite of multiple cuts in social benefits, income appropriation and sale of public resources, public debt continues to lack sustainability as interest continues to accrue. Therefore, the renegotiation of public debt urges.

The present and the future of the country has been jeopardized due to this debt, whose service bears ethically and socially unacceptable costs.

The Portuguese Government and its citizens are responsible for setting in place procedures that free up the country and the Portuguese society from the austerity vicious cycle and the burdensome debt service.

The public debt renegotiation, if required by stating a moratorium, is nowadays acknowledged as an urgent deed across society. The Portuguese Government needs to take responsibility and initiate a renegotiation with all creditors, including, European Union, IMF and ECB.

The process of renegotiation must be led by Portugal and acknowledged as an act of democratic sovereignty required to protect national interest. All the segments of the Portuguese society must be mobilized to support this event.

Therefore, the undersigned citizens urge the parliament to:

- Take measures that support the urgent renegotiation of the Portuguese public debt, with all creditors - private and official;
- Promote, under its specific competences, the creation of an entity specifically assigned to prepare and monitor the process of renegotiation;
- Ensure that the composition and functioning of this entity is reliable, accurate, technically qualified and representative of all citizens, while meeting the right of access to information by all citizens.

Letter to Portuguese MPs

Dear Member of Parliament,

Debt restructuring cannot be postponed. As claimed on the petition «Poverty will not Pay the Debt, Renegotiate Now» this letter is attached. It is urgent to start a «public debt restructuring process that comprises all private and official creditors», to stand up for the national interest and bring to a halt the process of economic and social regression currently under way.

We believe you are aware about the Portuguese public debt situation, and the painful implications Portugal has to suffer by giving priority to service the debt at any cost. In reality, the debt is not sustainable, in economic, financial or social terms.

We acknowledge the difficulties and risks attached to a debt restructuring process. And we know that it might be worthless, if it leads, as it was the case in Greece, to a solution against the national interest. We are also conscious that a sovereign led restructuring process will have to face obstacles only overcame if the government is timely prepared and awareness among the people is raised.

In this letter, we spell out our motives and concerns. First of all, the reasons why we think public debt cannot, and should not, be paid at all costs; secondly, the reasons that inspire us to claim that some restructuring models should be avoided, while others are necessary and essential. Thirdly, the reasons underpinning our belief that the obstacles and risks in any restructuring must be foreseen and require technical and political preparation by the Portuguese Government.

The debt cannot and should not be paid at any cost

By December 2013, direct public debt amounted to 204.3 billion euros (124% of the GDP estimated for 2013 at the Government Budget)[1]. Its features — interest rate (about 3.5%, on average), maturities profile (7 years on average) — produce an annual expenditure on interest rates of about 7 billion euros (almost as much as the whole health budget).

Not only did debt increase significantly, it also changed in layout. In December 2014, private external creditors held 64% while domestic creditors held 36%. By December 2012, private

[11] The State Budget refers to the amount of consolidated debt according to Maastricht criteria, instead of State Direct Debt. In line with such criteria, the debt figure estimated for the end of 2013 is 127% GDP.

external creditors held 23.5%, domestic creditors 34.4% while official creditors (ECB, EFSF, EFSM, IMF) held 42.1%. This highlights that the Portuguese bailout did not actually set the country free of the burden of debt. Indeed, it was mainly used for international private creditors to get rid of assets they did not wish to keep. It also lays bare that ever since the bailout was negotiated with the troika, the conditions for debt renegotiation have deteriorated, detrimentally to Portugal. If the debt had been renegotiated by May 2011, those on the other side of the negotiation table would have been several international private creditors. Right now, besides Portuguese banks, there are only a few, but rather powerful, official creditors.

Debt will have to be restructured, but some models must be avoided

Some restructuring models only protect the interests of creditors. That is what happened with the Brady Plan in Latin America and the Greek Private Sector Involvement (PSI). Even though the PSI reduced many countries' indebtedness to private banks, their actual debt increased, because the plan was funded with new loans borrowed from the IMF and the World Bank. These funds were not used to boost the economy and the debt cycle was not broken. Something similar took place in Greece. Although a 53.5% haircut upon the capital in debt kept by the private sector was imposed, it did not solve Greece's problems, because it was too little too late, and the country is already on the verge of more restructuring.

To postpone restructuring or restructuring too late has a price for all parties involved, but mostly for the people in the debtor country. Portugal cannot postpone it any longer. It cannot go on with cuts to public services and social protection in order to provide funds to pay interest rates, nor can it keep on going into debt to cope with refinance needs caused by the current depreciation profile. Portugal needs a restructuring process that protects it from impoverishment and decline.

Debt restructuring always involves either longer maturities, reducing implied interest rates, haircuts on the outstanding capital, or a combination of these features.

Extending maturities may release the pressure to "return to the markets", but it does not release funds to boost the economy in the short and medium term, nor does it curb long term financing needs. Reducing interest rates also do not solve the pressure to "go back to the markets" but it might alleviate funding needs or provide funds to boost the economy. Nevertheless, against the background of negative or near zero growth rates, even if interest rates are significantly reduced, the impact on debt dynamics will be minimal. Only a substantial reduction of the debt outstanding will make it possible to reduce expenditure with interest rates and achieve a significant shift on the debt dynamics, which will be instrumental in warranting it remains sustainable at current growth levels. A 50% cancellation of all debt would reduce it from 204 billion euros to 102 billion euros, which would bring it immediately to levels around 62% GDP, while interest rates would immediately go down to 3.5 billion euros.

Restructuring must not exclude official creditors. Segregation between private and official creditors, protecting the latter, would bring on higher pressure upon private creditors. If there are limits to losses apportioned to private creditors, the official sector's privilege might not only undermine the restructuring success, but also rule out exemption situations to safeguard more vulnerable segments. It is not feasible to inflict a haircut to private creditors only and simultaneously protect small savers, social security and other public resident investors.

In order to restore the debt's financial and social sustainability, any restructuring must engage all creditors, except small savers and resident public investors, and it will have to inflict a serious haircut on capital, of around 50% or 60%. This new debt must have long maturities (at least 40 years) and interest rates compatible with the level of economic growth. Besides, the ECB must give back any income achieved through Portuguese public debt.

There are obstacles and risks inherent to restructuring, that must be foreseen

Portuguese banks hold a considerable share of Portuguese public debt in their balance sheets. That means that the immediate negative effects of public debt restructuring on their economic and financial situation must be taken into consideration, bearing in mind that banks need to keep boosting the economy through credit while safeguarding depositors' rights.

The impact of restructuring on two of the main indicators for the banks' financial health — solvency and liquidity — might turn out to be relevant. However, with regards to solvency, data suggests that the banks' equity would remain positive even if restructuring caused a 50% loss to their portfolio value. Nevertheless, to keep a solvency ratio higher than 10%, Portuguese banks would need additional capital injections of about 12 billion euros in the event of a 50% haircut of the Portuguese public debt portfolio value.

Although it is advisable, it is not strictly mandatory that the banking system operates with such a high safety margin. The need to shore up bank capital does not necessarily imply a bailout with public money. Solvency improvement could be achieved through bank mergers. It must be stated, nevertheless, that even if the State is called upon to play a role in shoring up bank capital, along with a takeover, public savings brought about by the debt restructuring would always offset eventual recapitalisation costs.

As for liquidity, the aforementioned study suggests Portuguese banks have a considerable amount of unused eligible assets to place in liquidity transactions from the ECB, with no risk of collateral shortage up to 41% haircut in their public debt portfolio.

Still, we must not cover up that this analysis does not deny the assumption, which holds true for today, that the ECB policies will remain the same, as well as its role as Portugal's central bank.

The best scenario in which to restructure debt would be a multilateral agreement within the Eurozone. However, in the light of political developments in key countries for European Union policies, such scenario is more than implausible in the near future. At the same time, it is in the near future that the alternatives Portugal is facing will be at stake.

In the absence of negotiations within a multilateral framework, each country, including Portugal, must start the negotiating process under the conditions better suited to their interests. In order to prevent creditors to take the initiative, it is highly unlikely that a moratorium on debt service can be avoided. A moratorium is a statement suspending the payment of interest rates and repayments, which can be announced together with a negotiation offer, aimed at restructuring the debt. The moratorium entails that going to the markets (as well as paying interest rate and repayments) is suspended while negotiating takes place, which means that the remaining expenses will have to be covered by current revenues and Treasury reserves. A moratorium is naturally tricky, and all risks must be prepared in advance.

The highest risk with calling for a moratorium to the debt service is that of an ECB retaliation comprising cutting off funds to Portuguese banks, as the treats to Cyprus, Ireland and Italy. Delivering such retaliation would amount to an unilateral expulsion of a country from the Eurozone, unauthorised by the treaties.

As no country could live without a central bank as a lender of last resort, the only option available, under such circumstances, would be to regain monetary sovereignty. Expulsion or withdrawal from the Eurozone is an extreme scenario, which must be cautiously prepared. If Portugal does not prepare for such contingency, its negotiation position will not be strong enough.

Debt restructuring is an extremely complex process. Thus, we believe that the Portuguese state must equip itself with the resources needed to rise up to the challenge. ICGP, Court of Auditors, Bank of Portugal and CMVM experts must be called upon to prepare the restructuring process, but wider approaches, be it social, legal, or human rights or labour rights related, must also be taken into consideration.

As stated on the petition attached, the parliament could, within the range of its own powers, «promote the setting up of an entity to monitor a public debt audit and prepare and monitor its restructuring process», and «ensure that such entity, either in its membership and functioning, abides to unbiased proceedings, technical rigor and competence and qualified citizen participation, making it possible for every citizen to exercise the right to be informed».

We now request your full attention to the pages attached, where you will find the detailed additional data this petition is based upon.

Yours faithfully,

The first petitioners,

Eugénia Pires, Isabel Castro, José Castro Caldas, Luísa Teotónio Pereira, Manuel Martins Guerreiro

January 30th 2014

INICIATIVA PARA UMA AUDITORIA CIDADÃ À DÍVIDA

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ANNEX I

The Urgent Need to Renegotiate Public Debt and the Challenges it Raises

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RENEGOCIAÇÃO JÁ!

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POVERTY WILL NOT PAY THE DEBT

RENEGOTIATE NOW!

1. BRIEF DESCRIPTION OF CENTRAL GOVERNMENT DIRECT DEBT

By December 31st 2013, central government direct debt amounted to 204.3 billion euros (123.6% of the GDP estimated for 2013 at the Government Budget)[2]. Its features — implicit interest rate (about 3.5%) and maturities profile (7 years on average) — imply an expenditure on interest rates of about 7 billion euros (nearly as much as the whole of the health budget) and a gross funding need of 50 billion euros in 2014, nearly 11 billion euros of which is intended to meet the need to refinance medium and long term debt[3].

Figure 1 - Public Debt Description

	Dec-00	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
EURO debt (%)	97.7	99.4	99.9	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	96.7	95.0	95.5
Fixed rate debt (%)	66.8	69.0	73.4	72.8	82.9	89.6	85.5	86.5	90.0	87.9	89.3	87.3	79.2	76.1
All-in-cost (%)	5.6	5.4	5.1	4.7	4.4	4.2	4.2	4.2	4.2	3.8	3.5	4.1	3.9	3.5
Average residual term (years)	4.7	4.6	4.5	4.3	3.6	4.9	5.8	6.0	6.2	6.1	5.8	6.1	6.9	7.3
Modified duration	2.9	3.0	3.2	2.9	3.0	3.4	2.9	2.7	3.8	3.5	3.8	4.1	4.5	4.3
Government debt (bln €)	65.7	72.5	79.5	83.4	90.7	101.8	108.6	112.8	118.5	132.7	151.8	174.9	194.5	204.3
as % GDP	52%	54%	57%	58%	61%	66%	67%	67%	69%	79%	88%	102%	118%	124%
Interest (bln €)	3.7	3.9	3.9	3.8	3.8	3.9	4.3	4.6	5.2	4.8	4.8	6.9	7.1	7.5
Interest/State revenues	7.8%	7.8%	7.1%	6.6%	6.3%	6.2%	6.9%	7.3%	7.5%	7.1%	6.7%	8.9%	10.5%	10.0%

Source: IGCP, Excessive Deficit Procedure and 8th and 9th Troika reviews

Not only did debt increase significantly (35% in the last three years), it also changed in layout. The public debt portfolio consists mainly of fixed rate instruments (76%) denominated in euros (96%). Treasury Bonds (OT) are predominant and are the main funding instrument whose share on the portfolio has decreased, hitting its lowest, 45%, in December 2013[4]. After the Memorandum of Understanding was signed, this instrument has been replaced by multilateral debt, incurred following the Economic and Financial Adjustment Programme (EFAP), with the official entities that form the troika. Troika's loans' benefit from privileged status as far as priority towards all other creditors is concerned (super senior rights), in absolute infringement of the principle of equal treatment the OTs are bound to (*pari passu*). Savings instruments

[2] The Government Budget refers to the amount of general government consolidated debt according to Maastricht criteria, instead of central government direct debt (the debt portfolio managed by the public debt agency). In line with such criteria, the debt figure estimated for the end of 2013 is 127.8% GDP. Annex I includes a table showing debt figures estimated according to the different criteria.

[3] Data from the 2014 Government Budget Report, corrected after the exchange offer of OT, which took place on 3rd December 2013 — 2.5 billion euros in OTs due in 2014 were bought.

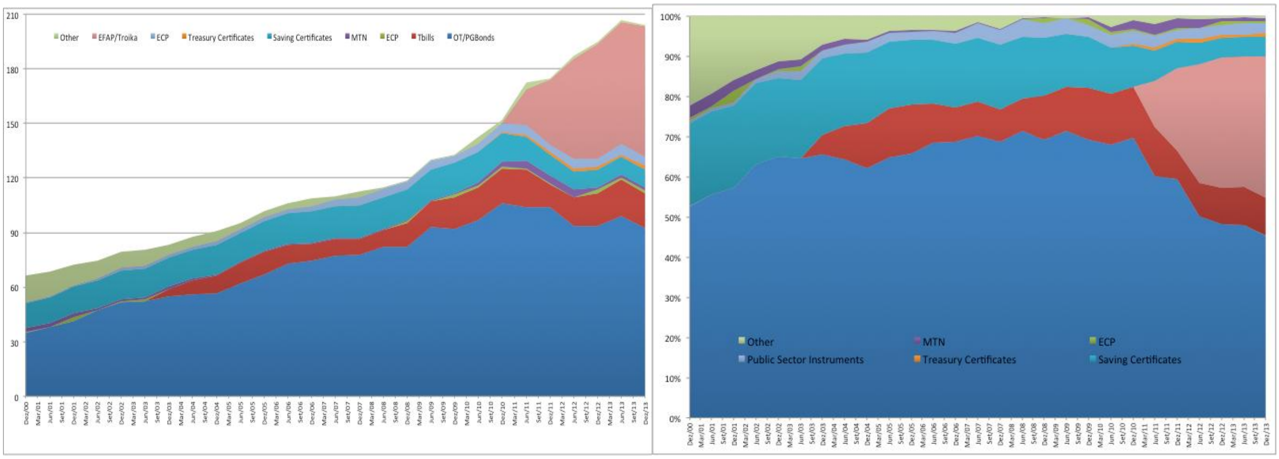
[4] This figure incorporates the 22.8 billion euros held by the ECB under the Securities Market Programme (SMP), corresponding to 11% of the whole public debt.

aimed at small savers are the last to stand out. Savings Certificates and Treasury Certificates represent, altogether, about 6% of the debt portfolio.

Debt has also changed hands. In December 2010, private external creditors held 64%, while domestic creditors (financial institutions and individuals) held 36%. By December 2012, private external creditors held 23.5%, domestic creditors held 34.4%, while official creditors (ECB, EFSF, EFSM, IMF) held 42.1%. This highlights that the Portuguese bailout did not actually set the country free of the burden of debt. Indeed, it was mainly used for international private creditors to get rid of assets they did not wish to keep. Actually, what the Portuguese bailout implied was, besides allocating national banking losses into public ownership, a bailout of the European banks.

These changes in debt layout have serious implications for Portugal. Ever since the bailout was negotiated with the troika, the conditions for debt renegotiation have deteriorated. If the debt had been renegotiated by May 2011, those on the other side of the negotiation table would have been several international private creditors. Right now, besides Portuguese banks, there are only a few, but rather powerful, official creditors.

Figure 2 – Public debt by type of instrument[5]

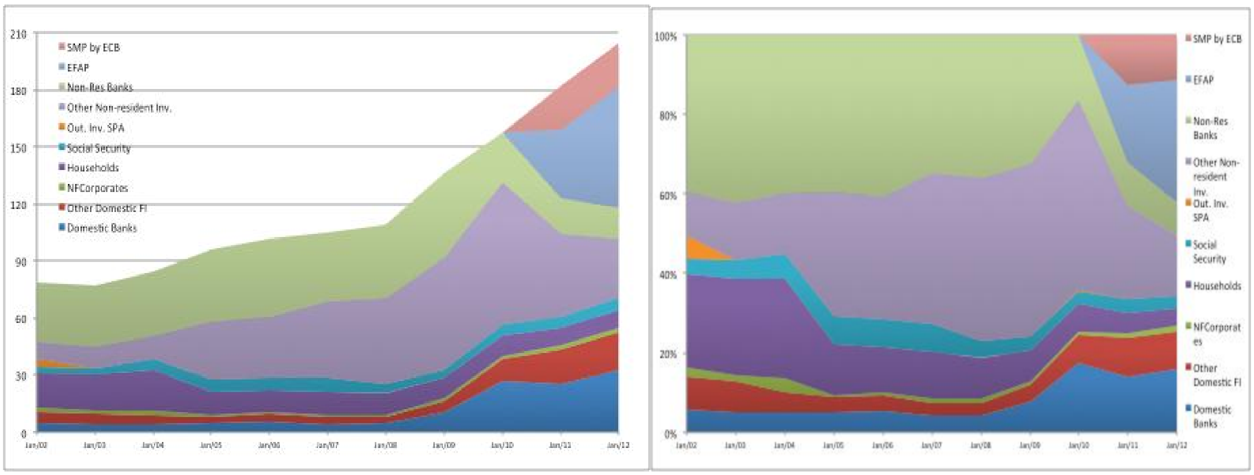


Source: IGCP

Figure 3 – Public debt by type of creditor[6]

[5] Central government direct debt

[6] Central government debt, Maastricht criteria.



Source: Eurostat, BIS, ICGP, Bank of Portugal, ECB.

2. THE DEBT IS NOT SUSTAINABLE

Portuguese public debt grew steadily but slowly since Portugal joined the single currency. Due to the current international financial crisis and the Memorandum's recessive policies, the pattern has turned into a fast growing one.

The debt is unsustainable from the financial, economic and social point of view. A deep restructuring is the only realistic and responsible means to recover the Portuguese economy, or even to return to external financial markets.

2.1 Economic and Financial lack of sustainability

Debt sustainability may be defined as "a situation in which a borrower is expected to be able to continue servicing its debts without an unrealistically large future correction to the balance of income and expenditure.[7]".

Because debt stock usually changes rather slowly, debt sustainability is always analysed in the long run, for it depends upon internal macroeconomic conditions, international financial markets fluctuation and the country's political and social background.

2.1.1 Debt dynamics up to 2013

[7] IMF, *Sovereign Debt Restructurings, 1959-2010: Literature Survey, Data and Stylized Facts* (WP/12/293), August 2012

Debt dynamics are the combined outcome of: (a) previously accumulated debt stock; (b) nominal interest rate; (c) nominal GPD growth rate; (d) primary budget balance; (e) stock operations[8].

As shown in Figure 4, up to 2007, the negative impact of interest rates was, in general, compensated by economic growth. Thus, the debt dynamics was mainly shaped by the accumulation of primary deficits. From 2007 on, already against the background of the international financial crisis, growth was no longer sufficient to compensate the impact of interest rates. Furthermore, 2009 and 2010 primary deficits were rather serious.

As for 2011 and 2012, the dynamics is also affected by stock adjustments. The positive stock increase in 2011, was mostly the outcome, according to Eurostat[9], of the combined effect of: (a) reinforcement of cash holdings (a share of the troika's loan attributed for bank capitalisation and not used) [positive stock change]; (b) transfer of pension funds ownership to the state [negative stock change]. As far as 2012 is concerned, according to the same source, a similar change takes place, due mostly to: (a) banking capital contingent convertible bonds subscribed by the state (CoCos); (b) purchase of one bank's bad debt.

In 2013, stock adjustment prevented a higher increase in debt. According to UTAO[10], this was due to the social security financial stabilisation fund purchasing Portuguese government debt securities and public companies replacing bank loans for treasury loans.

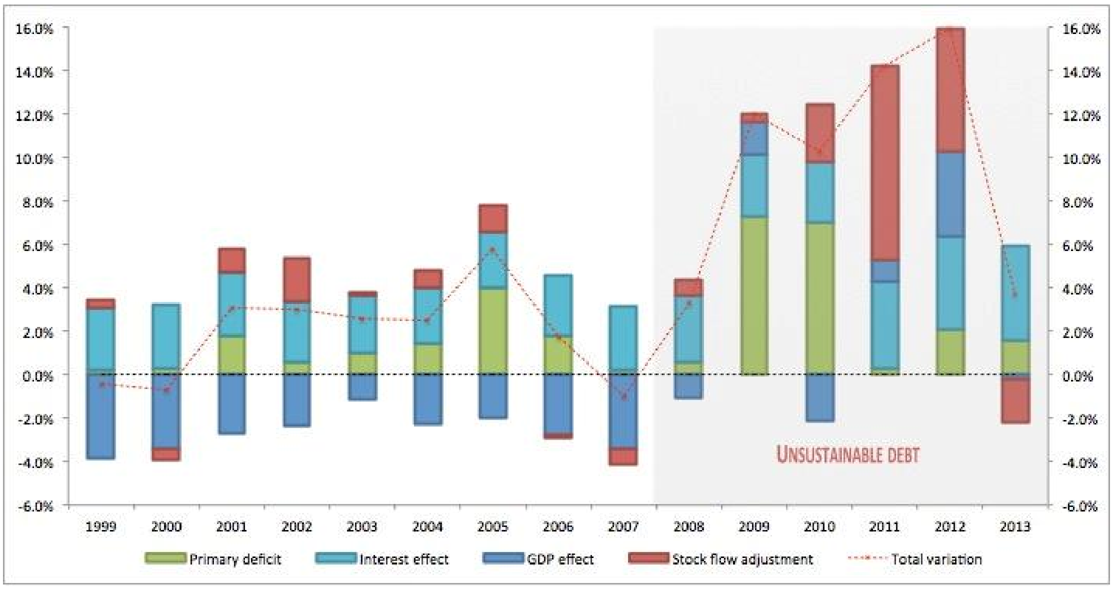
The extension of the state's perimeter is often listed as the cause behind debt stock's increases from 2011 on. Nevertheless, Eurostat only mentions an increase of 0.1% in debt stock caused by such an extension in 2009.

Figure 4 — Change in general government consolidated gross debt (as percentage points of GDP at market prices)

[8] Discretionary transactions that affect the debt value regardless of the state deficit, such as privatisations, bank capitalisations, extension of the State perimeter, or the social security financial stabilisation fund purchasing Portuguese public debt.

[9] Stock-flow adjustment (SFA) for the Member States, the Euro are and the EU27 for the period 2009-2012, as reported in the April 2013 EDP notification.
http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/STOCK_FLOW_20122_APR/EN/STOCK_FLOW_2013_APR-EN.PDF

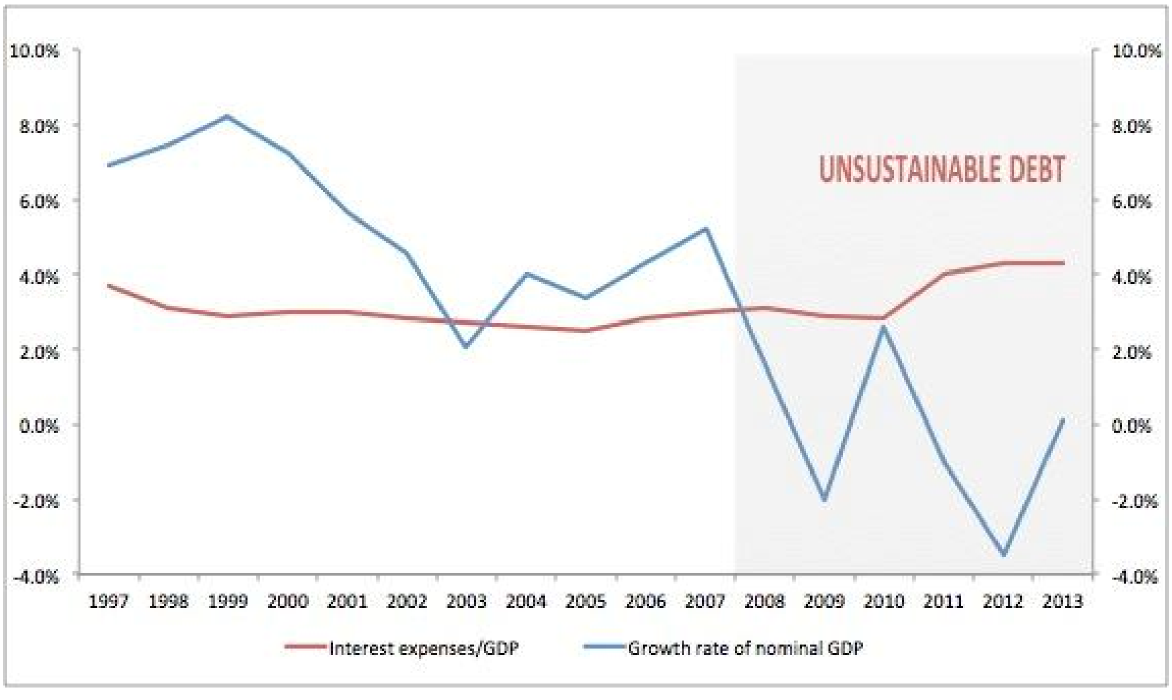
[10] UTAO (2013), Análise à proposta do OE para 2014, Parecer técnico nr. 6/2013, versão preliminar de 22 de outubro, p. 49.



Source: Ameco (log in January 2014), IAC figures

From 2007 on, the debt became unsustainable (see Figure 5). When interest expenditure in GDP percentage outgrows the nominal rate of GDP growth, this means there is not enough economic growth to bear the costs of indebtedness. In this state of affairs, it is unrealistic to assume that the debtor will be able to pay for those interest rates indefinitely. To look for resources to pay those interest rates by means of "fiscal consolidation" tends to bring about recessive effects which will make the problem even worse, for, not only those extraordinary primary surplus needed to stabilise debt are not met, but the nominal rate of GDP growth will be further away from the interest to be paid, as has been the case with Portugal.

Figure 5 — Interest expenditure as GDP% vs. growth rate of nominal GDP at market prices



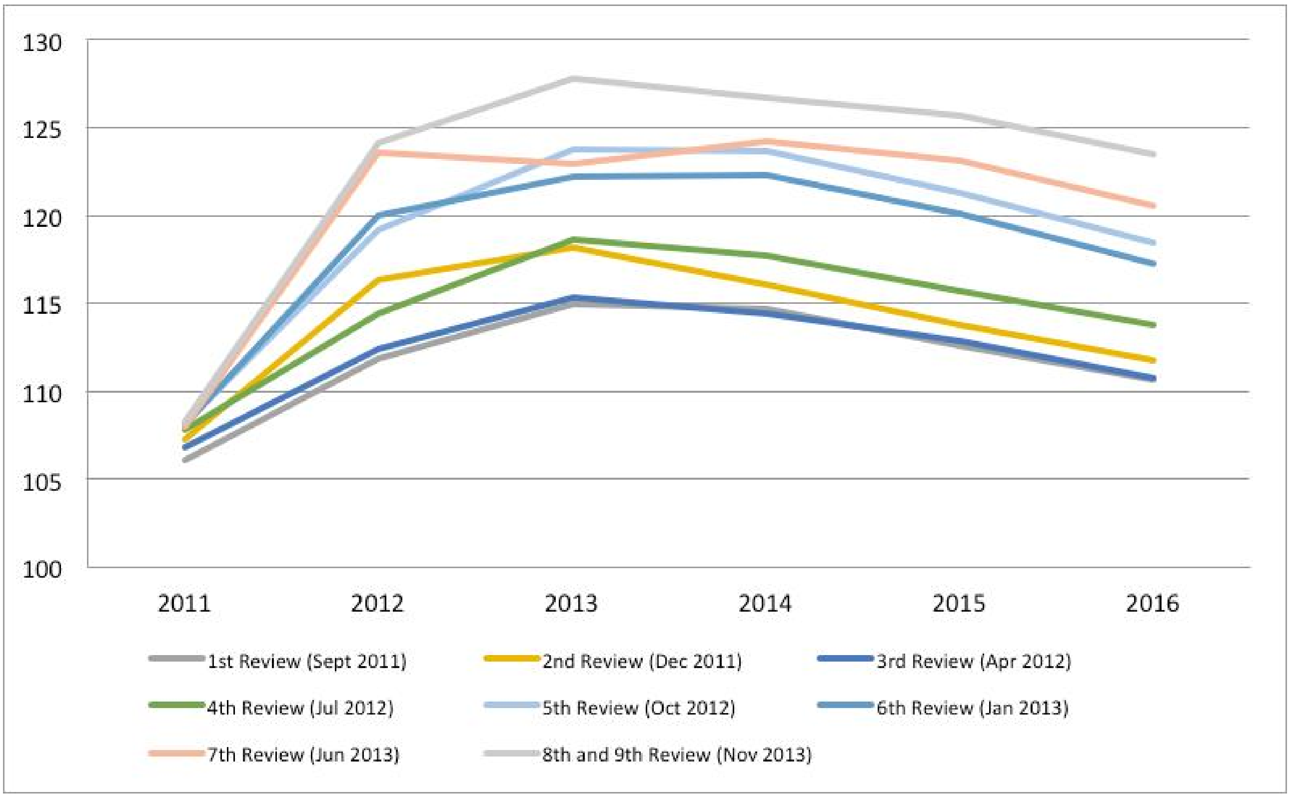
Source: Ameco (January 2014 log), IAC figures

2.1.2 — Future scenarios

Any sustainability analysis depends upon projections into the future regarding interest rates, GDP growth rate and budgetary balances that are exposed to substantial margins of error. To establish if a given debt is sustainable or not will always depend on assumptions that may be more or less realistic. One should bear these considerations in mind when scrutinising the troika's projections for Portugal, stated on the reports written after each evaluation of the programme.

Before we move on to the most recent estimates, it is worth considering the projections present in the different evaluations since the beginning of the programme.

Figure 6 — Portuguese public debt: IMF projections evolution



Source: Memorandum evaluations, IMF

As shown in figure 6, each trimester the troika has revised its projections upwards, always assuming that from 2013 or 2014 onwards there would be a trend break. This systematic error is easy to account for: the troika, and namely the IMF, insists on understating the recessive effect of its own policies. Likewise, it systematically puts forward growth figures unrealistically high and predicts unachievable budgetary targets.

Now that it is clear how unrealistic the troika's previous estimates were, it is worthwhile having a closer look at the parameters adopted on the 8th and 9th evaluation of the adjustment program in order to warrant for the debt's sustainability in the future:

	2013	2014	2015	2016	2017	2018	2019-2025
Nominal interest*	3.5	3.5	3.5	3.7	3.7	3.8	3.8
GDP real growth rate	-1.8	0.8	1.5	1.7	1.8	1.8	1.8
Primary budget balance	-1.6	0.3	1.8	2.4	2.8	3.1	3.1
Inflation rate	1.9	0.9	1.0	1.7	1.8	1.8	1.8

As shown in figure 6, according to IMF projections, public debt should start to go down in 2014. It remains to be seen whether those projections are realistic or not.

According to that data, the average interest rate in 2013 will be 3.5%, and should remain stable in the years to come. However, due to the renegotiation of EFSF and EFSM interest rates, which took place right after the start of the programme, this interest rate is rather lower than the market values.

In the event of Portugal returning to the markets in 2014, it is not foreseeable that, under the current conditions, interest rates should be as low as the IMF estimates. Thus, one should expect that the average interest rates should keep on rising, even if at slow rate, in the next couple of years, as increasingly higher shares of the total debt correspond to new issuances.

As for growth forecasts, the troika has been systematically wrong, because of underestimating austerity's recessive effects. Notwithstanding, it insists on basing its projections on optimistic growth forecasts, the only ones that allow it to warrant for the debt's sustainability in the future. The troika and the Portuguese government hold to a growth forecast of 0.8% already in 2014, despite 2013's higher than expected "ungrowth" (-1.8% against -1%) and a highly recessive budget approved for 2014.

However, the most far-fetched estimates are those referring to the primary budget balance (before interest). It is not only the long range estimates that the IMF has been getting wrong; by the january 2013 evaluation, an almost balanced budget was predicted for that same year (with a primary deficit of only 0.2% GDP). In June, a deficit of 1.1% was put forward, whilst by the time of the 8th and 9th evaluation, some -1.6% is estimated. This series of rectifications are caused by the recessive impact of austerity policies. When the economy is on its knees, revenues do not meet the target, no matter how much you raise taxes. Simultaneously, expenditure, namely related to social benefits, increases, due to higher unemployment.

It must be stated, however, that the troika's sustainability assumptions do not only predict a stabilised primary balance; they also foresee that this balance will achieve a surplus of 0.3% to 2.4% of GDP, between 2014 and 2018. On the other hand, the Budgetary Strategy Document, submitted by the government in April 2013, subjects debt sustainability and its convergence do 60% of GDP, according to the provisions of the budgetary treaty, to primary surpluses of 3.5% of GDP from 2017 on (with a GDP nominal growth of about 3.5% and a nominal interest rate of 4.3%).

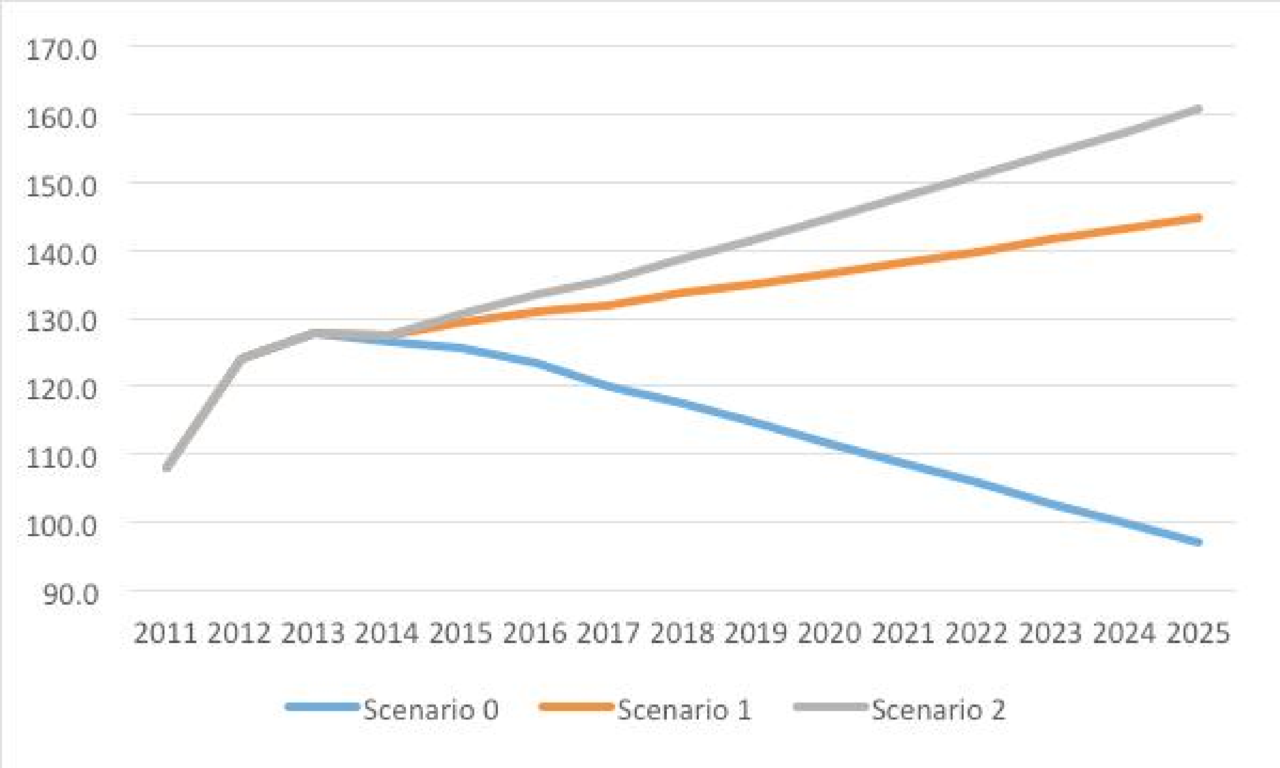
In order to access the robustness of the IMF projections based on the troika's baseline scenario, and using their own calculation formulae[11], we will look at alternative scenarios[12], which we find, nevertheless, still rather optimist, since they take into account a zero primary balance and a GDP positive growth for the next couple of years[13]:

	2014	2015	2016	2017	2018	2019-2025
Nominal interest	4	4	4	4	4	4
GDP real growth rate	0.8	1.0	1.0	1.0	1.0	1.0
Primary budget balance	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate	0.9	1.0	1.7	1.8	1.8	1.8

To have an idea of the impact of interest rates, we took into account the same scenario but with a 5% increase in interest rates from 2015 on. Scenario 0 is the troika's baseline scenario, scenario 1 is that of the table above, scenario 2 uses data from that same table, but puts interest rates in 5% from 2015 on.

Figure 7 — Portuguese Public Debt: IMF Projections and Alternative Scenarios

[11] The template for public debt sustainability was available until not so long ago at http://www.imf.org/external/pubs/ft/dsa/mac.htm Right now, the site says the file will be published soon, which might mean it is being revised. We have used the previous version, which we are willing to share.
[12] In all scenarios, values assumed for 2019 and 2025 are those of 2018.
[13] In our analysis, inflation figures are those of the troika's 8th and 9th review.



As shown in figure 7, you only have to shift the troika's assumptions a tiny bit, to more reasonable levels as far as the socioeconomic Portuguese context is concerned, to revert all debt sustainability scenarios.
The debt is unsustainable and there is only one solution: to renegotiate it deeply and widely, releasing the economy from the pressure of austerity so that it can engage in a development path which will allow it to ameliorate public finances and reduce the debt ratio.

2.2 Social unsustainability

The austerity turn Portugal embarked upon in March 2010, in the name of "fiscal consolidation" and reversing the path of public debt growth, has brought to a halt the fragile recovery the country went through from the second quarter of 2009 on, and has unleashed a deep recession, which started on the last quarter of 2010 and lasted for 10 trimesters in a row.

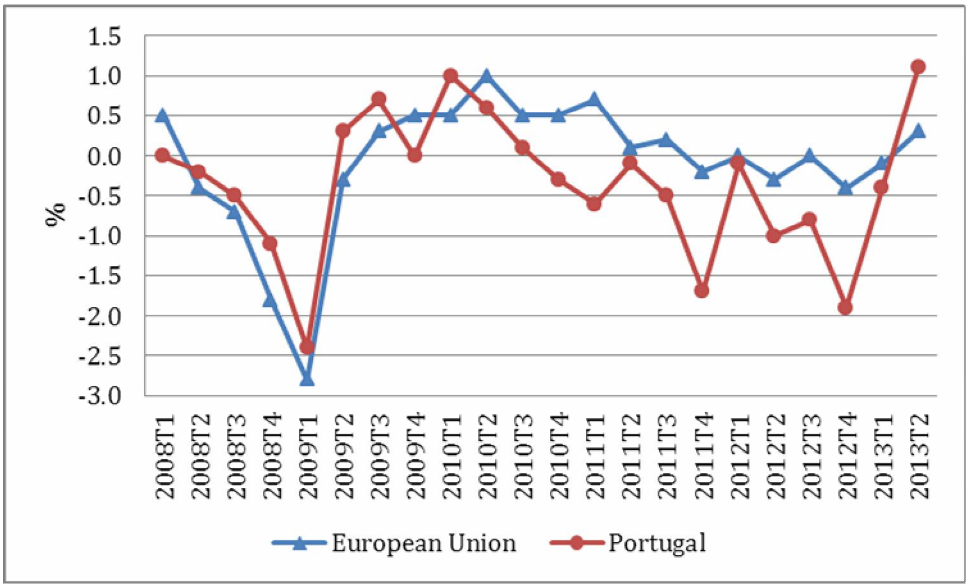
From 2010's second quarter on, the GDP shrank, and kept on doing so until 2013 second trimester — more than in the whole of the EU, accelerating the Portuguese economy's deviant pathway in relation to the European Union average (see figure 8).

One of this long recession's features, with rather serious consequences for the future, has been an investment slump (GFCF). From the first quarter of 2008, when the primary stage of the recession was felt, until 2013 first quarter, GFCF (ignoring the variation in stocks) fell about 40% in nominal terms.

The effect of this prolonged recession have been rather harsh: business devastation, huge increase in unemployment, mostly suffered by the youngest share of the workforce; growing lack of protection for the unemployed and other more vulnerable sections of society, namely children and the elderly; more people expelled from the country on a daily basis through emigration; widening of inequality, namely of income; higher levels of poverty and social outcasting; disposal of strategic areas and goods for the country.

Between the second quarter of 2010 and the first quarter of 2013, around 500 thousand jobs were destroyed, while the total unemployment figures rose 60% and the youth unemployment (15-24 years old) rose by 107%.

Figure 8 — Real GDP — Quarterly Rates of Change



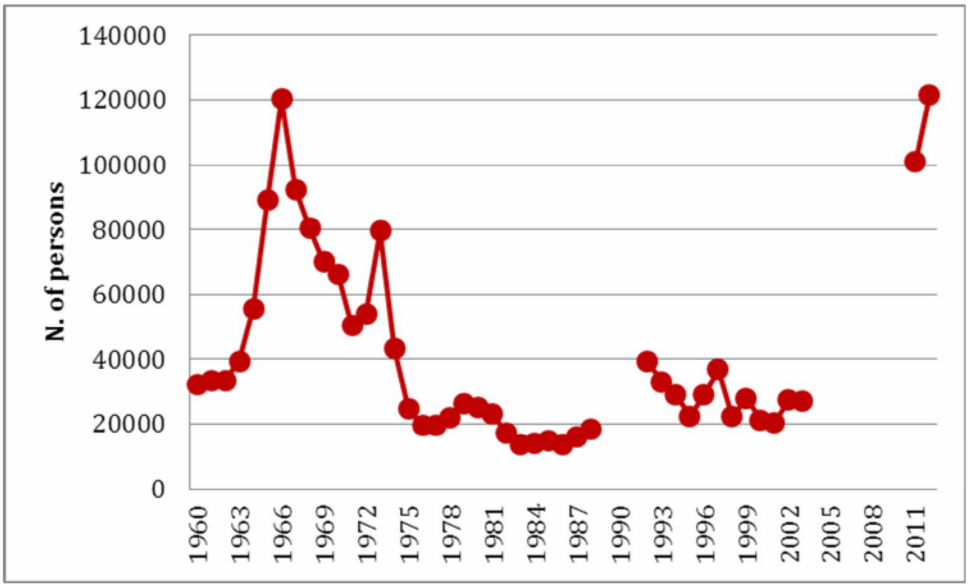
Source: Eurostat

Unemployment figures are not more devastating solely because, according to INE, over 100 thousand people have emigrated in 2011 only, permanently or temporarily (48% aged from 20 to 40). In 2012, they were more than 120 thousand (57% aged between 20 and 40). You have to go back almost 50 years, to the emigration peak in the 60s, to find similar figures (see figure 9).

Because of continuing changes in qualifying conditions for unemployment benefits and the rise in figures for long-term unemployment, the coverage rate for these social benefits has fallen from around 60%, in March 2010, to 40% in March 2013[14]. A growing lack of social protection also means there are less people receiving child allowance (3% less between March 2010 and October 2013) and Income Support allowance (37% less between March 2010 and October 2013).[15]

[14] Source: Social Security Statistics
[15] Source: Social Security Statistics

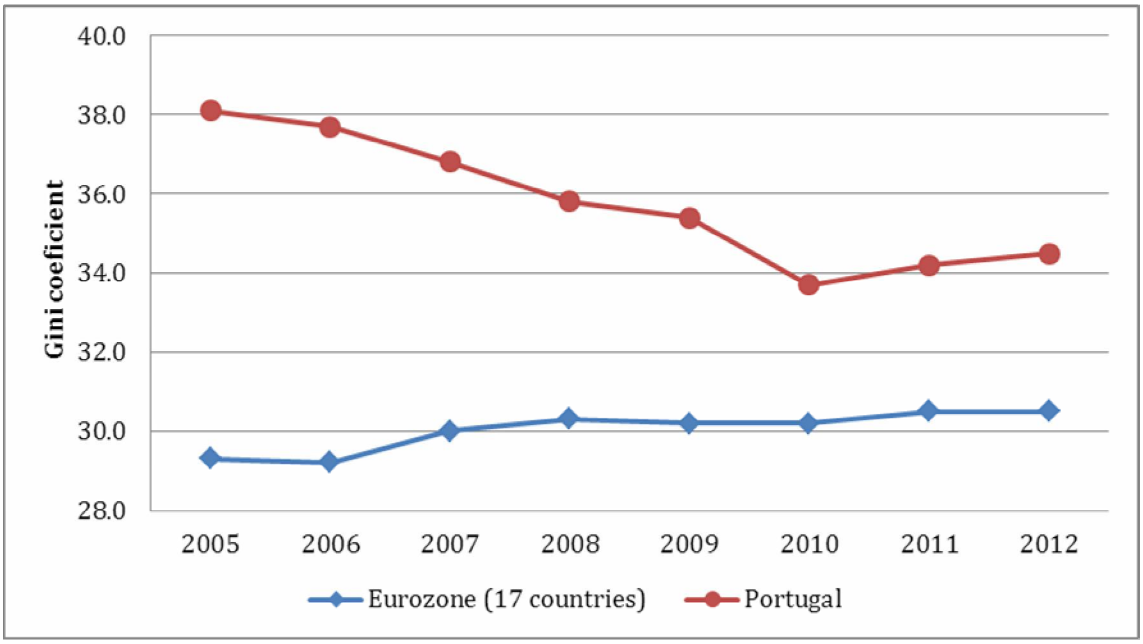
Figure 9 — Emigration (Temporary and Permanent)



Source: INE, Pordata

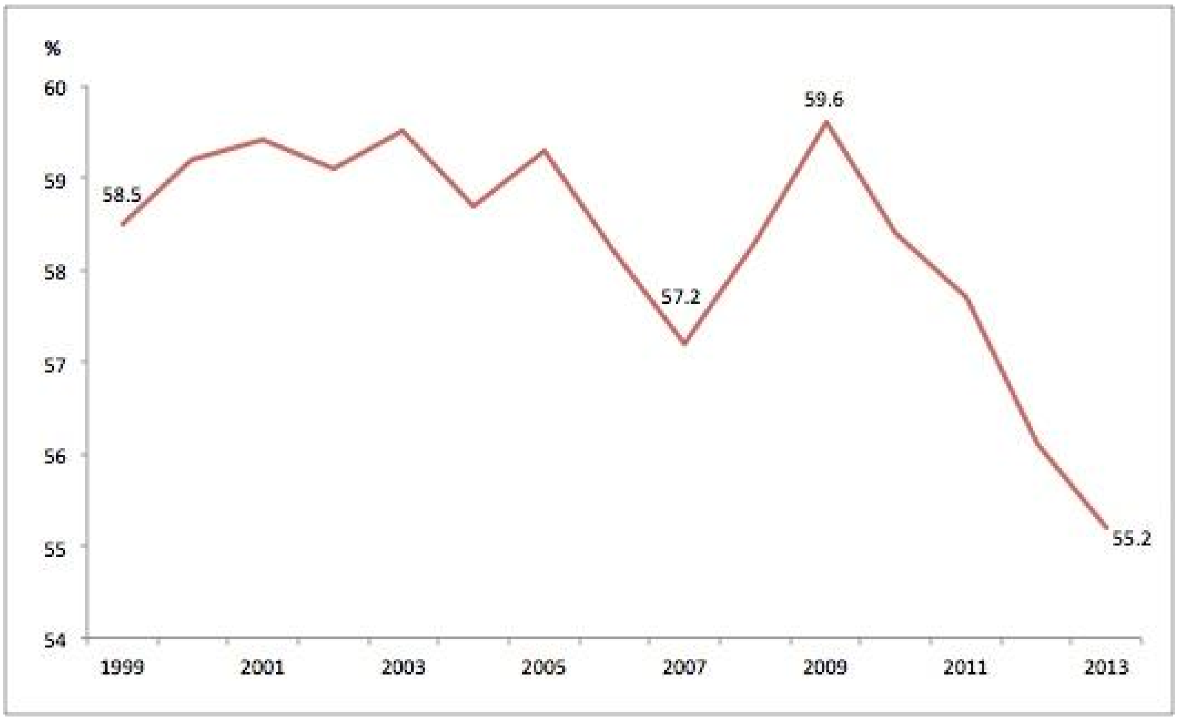
Income inequality, as measured by the Gini Coefficient, which had regressed between 2005 and 2010, has widened in the first two years of austerity (see figure 10), while the wages share on national income has gone down about 5%, between 2005 and 2012 (see figure 11).

Figure 10 — Disposable Income Distribution (Gini Coefficient)



Source: Eurostat

Figure 11 — Adjusted wage share on National Income



Source: Ameco

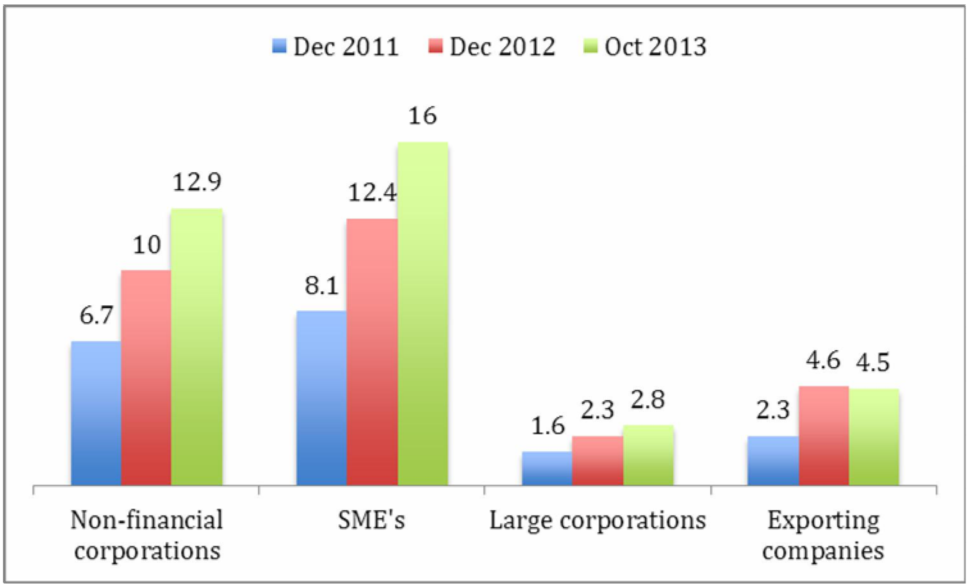
The slight signs of growth in 2013 second half-year will most certainly succumb to the effect of new cuts on civil servants' and pensioners' available income.

Because of its severity and duration, the recession, deepened by austerity, is damaging the economy and the society in a long lasting way. Long-term unemployment is devastating for one's personal capacities, and tends to render active citizens inactive. Emigration deprives society of its most dynamic, and, possibly, better qualified people. The downturn in investment turns equipment and infrastructure obsolete. A prolonged recession jeopardises the conditions for a future recovery and might send the Portuguese economy in a spiral of divergence and decline.

Besides, families' impoverishment and widespread business bankruptcy has a strong impact on the financial system, and thus, probably, also on public debt.

Indeed, Bank of Portugal data indicate that, throughout the period of the implementation of the memorandum, overdue loan levels have become worse, not only for companies, but also for households.
With regard to corporates, dynamics have been just almost explosive. Overdue credit ratio has reached 10% in December 2012 and 12.9% in October 2013, with 30.7% of borrowers unable to comply with their debt payments in a timely manner. As everywhere else, austerity measures in this area have not hit everyone equally: the situation is worst (and most worrying) for SMEs, where figures reaching 16%, and for the exporting companies for which overdue credit indicators have doubled in the last two years (see figure 12).

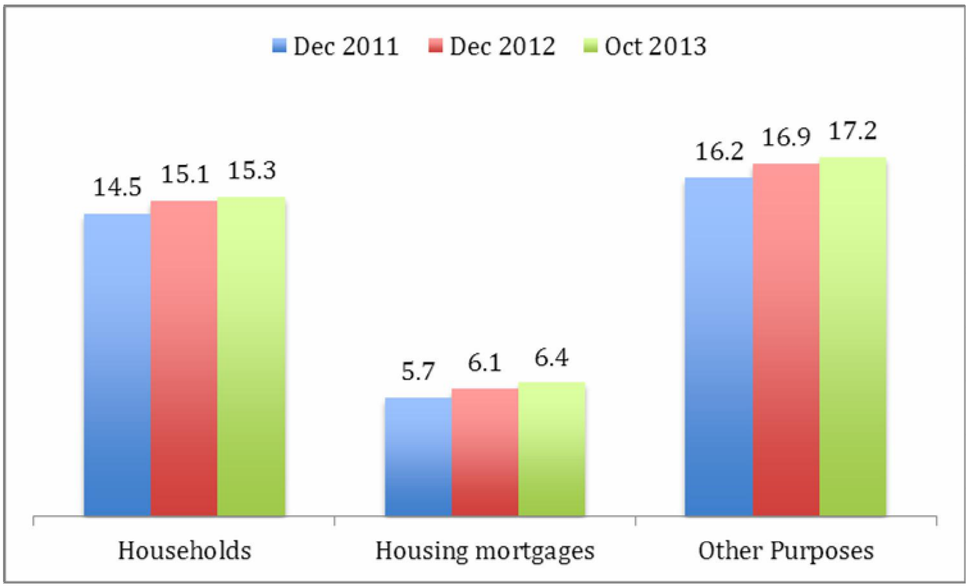
Figure 12 —Overdue Credit Ratio - Corporates (%)



Source: Bank of Portugal

Loans to individuals are also underperforming. More than 15% of households with credits have overdue payments for more than 30 days. This figure is considerably mitigated by the will to repay home mortgages and the historically low interest rates (see figure 13). This figure is, nonetheless, on the increase, and such trend is not likely to reverse, bearing in mind the rise in unemployment and lower wages austerity brings about. Above all, it is a dramatic figure if we look at the consequences on one's family and personal life.

Figure 13 —Overdue Credit Ratio – Private individuals (%)



Source: Bank of Portugal

In order to have a better understanding of the social impact of austerity, it is worth reading the Directorate-General for Justice Policy data on insolvency proceedings. Comparing half-year figures, since 2010 the share of individuals who went into insolvency rose from 34.2% to 66.2%. Rejecting alternative approaches to austerity is jeopardising the survival of businesses and leading to higher unemployment. These facts, together with lower wages, are forcing an increasingly higher number of households to give up their homes to banks and resort to court to look for a last and abashed shelter in judicial insolvency.

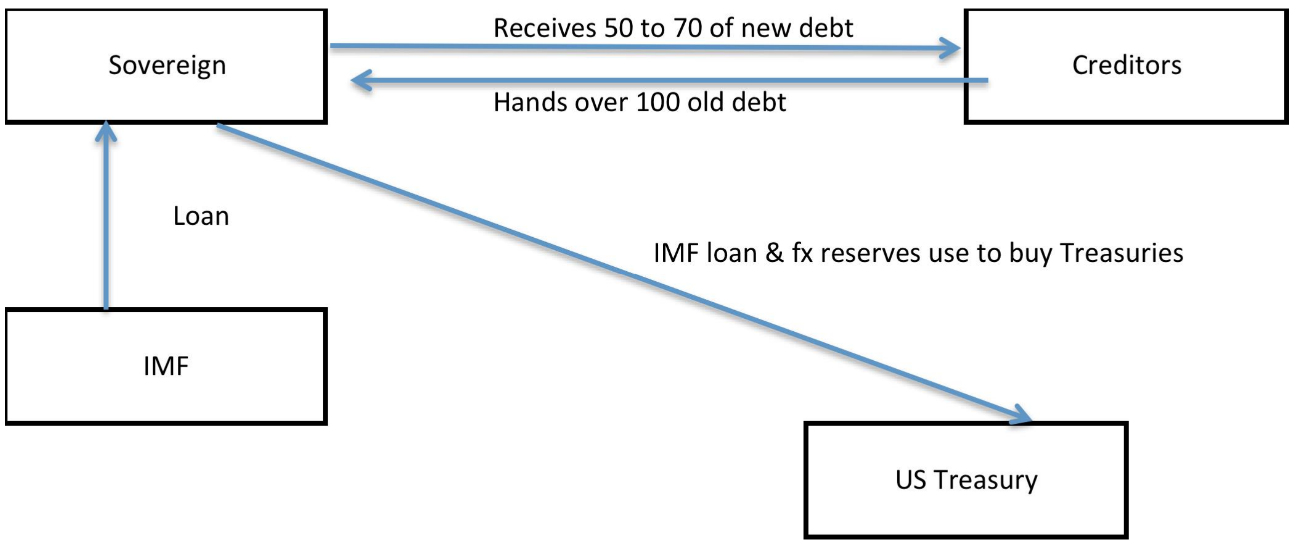
3. NOT ALL FORMS OF DEBT RESTRUCTURING ARE GOOD FOR PORTUGAL

In the recent past, some debts have been restructured, but that has brought little or no comfort whatsoever to the people, because of either happening too late or not including enough debt cancellation in order to restore growth and upgrade the economy's credit risk. Some only safeguard the creditors' interest, mostly banks, like the Brady Plan or the Greek Private Sector Involvement (PSI) program.

Let's start with the Brady Plan. In the 1980s, Latin America was flooded with loans arranged with big international banks, and had no means to pay them. There were IMF bailouts one after the other, but the spiral of debt remained unbroken. American banks' solvency was, therefore, at risk. In 1989, the USA drafted a restructuring plan aimed at solving the problem for good. The program allowed to swap "bad" bank loans, which were a burden on the banks' balance sheets, for "safe" marketable debt, with guaranteed capital and interest rates for the first years. The banks were penalised with capital haircuts (between 30% and 50%) or interest rates substantially below market value.

This transaction appealed to the banks because, besides being collateralised with American Treasury Bonds, it provided them with a security they could get rid of by trading it on the secondary market. However, for the indebted states the transaction ended in resounding failure. Despite being able to reduce their indebtedness to private banks, their debt increased. Debt given as collateral had to be deposited on an escrow account managed by the American Treasury, and had to be funded by loans borrowed from the IMF and the World Bank, plus currency sale. New debt was not used to boost the economy and the debt vicious cycle was not broken (see figure 14).

Figure 14 — Brady Plan



In February 2012, something similar was tried in Greece. However, this time, the guarantee was debt issued by the EFSF, created by the EU (see figure 15).

PSI was led by the Institute of International Finance (IIF) in direct negotiations with the Eurogroup. The IIF has made sure that, for each 100 in old debt given, the creditors would get 31.5 in new debt[16] with a warrant[17] indexed to real GDP growth and 15% debt from de EFSF due in 1 and 2 years (PSI Payment Notes). Accumulated Interest until 31st December 2012 was swapped by a coupon zero due in six months (PSI Accrued Interest Notes).

Although a 53.5% haircut on the capital held by the private sector was imposed, and the participation rate was of 96%, the transaction did not solve Greece's problems, and the country is already on the verge of more restructuring. This failure is easy to explain.

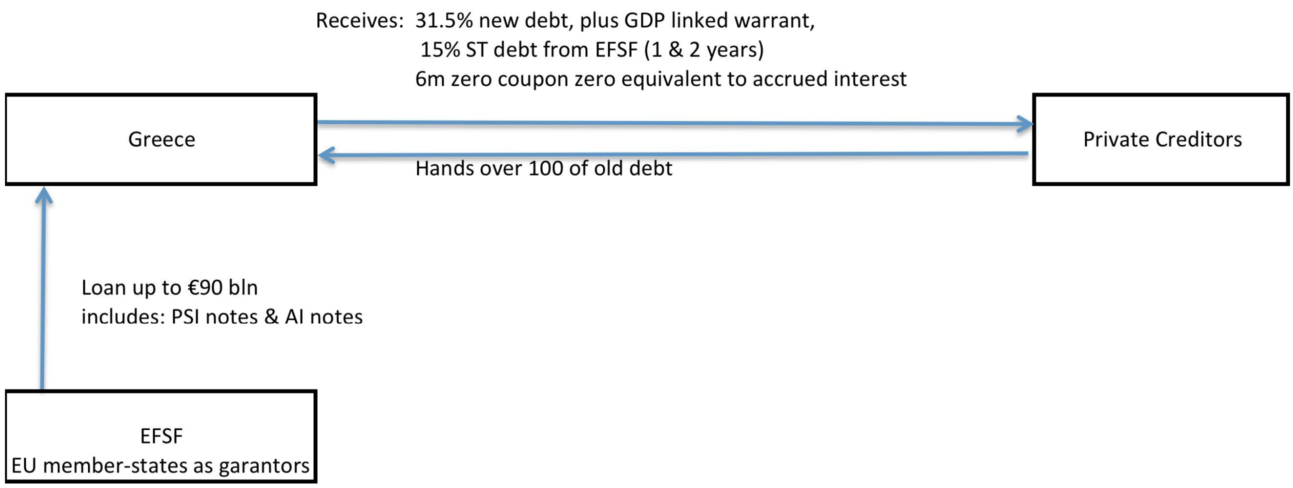
To begin with, debt relief only applied to debt held by private individuals, worth 206 billon euros. Restructuring accepted by official European creditors only brought about the retroactive reduction of interest rates to a margin of 1.5% on its financing costs, while the conditions of the package contracted with IMF remained unchanged. The debt portfolio bought on the secondary market by the ECB and the national central banks under the Securities Market Programme, representing 56.5 billion euros, was also excluded from the transaction, even though it was accepted to give Greece back some of the Eurosystem income until 2020. This being so, the contractual principle of *pari passu*, which lays down equality between all creditors, was broken. In a nutshell, the success of the whole transaction was compromised by the privilege status granted to official creditors.

Secondly, debt law and jurisdiction changed: Greek jurisdiction was replaced by the British one, which implies a significant loss of sovereignty for Greece, which seriously compromised the country's future. In case it opts out of the Eurozone, it will no longer have the option to convert this debt into new drachmas and carry out another restructuring process, led by itself as a sovereign state.

Finally, the transaction, which was aimed at solving the problem of the debt's financial lack of sustainability had, actually, the opposite effect. The cancellation of 105 billion euros was attached to a new 130 billion euros bailout, 93 billion (72%) of which were allocated to bailout the financial sector — 58 billion euros to recapitalise national banks and 35 billion euros for the PSI notes and the Accrued Interest Notes.

Figure 15 — Private Sector's Involvement (PSI) in Greece

[16] A set of 20 bonds whose maturity is spread between 2023 and 2042, with 2% coupons for the first three years, 3% on the following five, 3.65% in 2012 and 4.3% from 2022 onwards.
[17] Extra revenue aimed at attracting investors. It is attached to economic performance from 2015 on: payments are due whenever the economy grows, above a reference value, but never 1% above nominal value.



In conclusion, to postpone restructuring or restructure too late has a price to pay for all parties involved, but mostly for the people in the debtor country. Still, because there is a high political cost at stake, timely strategic restructuring is rather rare. Moreover, insufficient restructuring is often followed by subsequent restructuring. The pressure to minimize losses for creditors causes multiple bailouts, at a much higher cost.

4. THE REQUIRED RESTRUCTURING

As it is widely known, there were a couple of Portuguese public debt restructuring initiatives of late, such as the OT exchange offer which took place recently as well as the reduction of interest rates or the maturity extensions for loans borrowed with the EEFM and EEFF. These were, however, isolated initiatives, with the aim to anticipate a "return to the markets", temporary solutions deprived of a strategic approach.

We shall now look at the implications attached to different kinds of debt restructuring, as well as the challenges raised. The starting point is the fact that Portugal cannot go on with cuts to public services and social protection in order to provide funds to pay interest rates, nor can it keep on going into debt to cope with refinance needs caused by the current depreciation profile. This being so, any restructuring initiative must aim at reducing the debt service.

Debt restructuring always involves either extending maturities, reducing implied interest rates, haircuts on the outstanding capital, or a combination of these features.

Extending maturities may release the pressure to "return to the markets", but it does not curb long term financing needs, nor does it release funds to boost the economy. Plus, there is also a good chance it will not make the debt more sustainable, if it brings along higher interest rates.

Reducing interest rates also do not solve the pressure to "go back to the markets", but it might alleviate funding needs or provide funds to boost the economy. Nevertheless, against the background of negative or near zero growth rates, even if interest rates are significantly reduced, the impact on debt sustainability will be minimal. For instance, having as reference the IMF base scenario, a 50% reduction in interest rates, from 3.5% to 1.75%, is not enough to render the debt sustainable. If, alternatively, we banish interest rates altogether, it will take 36 years to reduce public debt as percentage of GDP into a half.

Only a substantial haircut upon the outstanding principal will make it possible to reduce expenditure with interest rates and achieve a significant shift on the debt dynamics, which will be instrumental in warranting it remains sustainable at current growth levels. Based on direct debt figures on December 31st 2013, a 50% cancellation of all debt would reduce it from 204.3 billion euros to 102 billion euros, which would bring it immediately to levels around 62% GDP, while interest rates would immediately go down to 3.5 billion euros.

It must be clear that any of the three options above will carry losses for creditors. For instance, an estimate based on the yield curve on January 16th 2013 shows that writing-off interest rates would amount to a 25% haircut. On the other hand, extending maturities to 40 years would mean a 74% haircut for creditors. Lower interest rates and extended maturities, especially if combined, might be positive for debtors. Nonetheless, cancelling outstanding capital is the best option as far as protecting its interests goes, for it may bring expenditure with interest rates in GDP percentage closer to the GDP nominal growth rate foreseeable for the near future.

Obviously, creditors will try to avoid substantial losses such as those they would suffer with a haircut of about 50%/60%, and will tend to make obtaining credit more difficult after restructuring. Notwithstanding, bearing in mind previous experiences, this penalty period is short —about two to three years after defaulting, be it for strategic reasons or simply unavoidable. This negative side is usually compensated by the revenue potential that comes with the securities valuation on secondary markets due to positive expectations on the economic performance. That is why, instead of isolated and useless to the debtor restructuring, an efficient one should be carried out.

There is a tendency to exclude official creditors from restructuring processes that include outstanding capital cancellation. The only exceptions concern multilateral debt from extremely poor and highly in debt developing countries (HIPC). This refusal is usually also what explains the failure of many restructuring processes. Segregation between private and official creditors, protecting the latter, brings on higher pressure to private creditors, who bear more losses. If we assume, for instance, that debt will only be sustainable after a 50% cancellation (amounting to 102 billion euros), excluding the official sector, who owns, at this moment, 46% of all debt, would require imposing an haircut of 93% for the non-official sector, instead of 50%.

If there are limits to losses apportioned to private creditors, the official sector's privilege might not only undermine the restructuring success, but also rule out exemption situations to safeguard more vulnerable segments or weight in issues of equity and social justice. For instance, it is not possible to enforce an haircut of 102 billion euros (50% of all debt) and simultaneously protect small savers (who hold 12.2 billion euros in CA and CT), social security (who holds 8.3 billion euros[18]) and the remaining public resident investors (who hold CEDIC and CEDIM amounting to 5 billion euros), if one holds to the exclusion of the official supranational creditors. The institutional private sector only holds 84 billion euros — an insufficient amount in relation to the 50% aim. On the other hand, protecting small savers, social security and other public investors only implies an increase in 7% on the haircut to be inflected on both institutional and official private sectors; on other words, private creditors would have to endure an haircut of only 57% instead of 50%.

Figure 16 — Implications of each restructuring format

Type of debt restructuring	Impact upon return to the markets		Impact upon interest expenditure		Impact upon debt sustainability	
	Borrower	Lenders	Borrower	Lenders	Borrower	Lenders
1. Extending maturities	Reduces borrowing requirements	Marginal penalty	Null or increases annual interest, increases overall amount of interest	Positive	Negative	n.a.
2. Reducing interest rates	Null	ST marginal penalty	Positive as reduces interest expenditure	Negative, due to income loss	Slow progression, requeres compression above 50% & depends impact GDP growth and	
3. Capital haircut	Reduces borrowing requirements	ST penalty (2/3 years, renegociation period)	Positive as reduces interest expenditure	Negative, due to income loss	Positive, the biggest the haircut	Negative, results in loss of income, smaller the longest the maturity
4. Segregation between private and official creditors	Negative, because requires major contribution by private sector		Sets limits to haircut, which can jeopardy the whole restructuring, obliges to a higher haircut, wider in 43 p.p. to the no segregation haircut		Sets limits to haircut, which can jeopardy the whole restructuring, obliges to a higher haircut, wider in 43 p.p. to the no segregation haircut	
5. Protecting small savers & public investors	Marginal impact given the lender profile and their reduced weight in the debt portfolio		Negative but marginal, also an equality driver		Negative but marginal, also an equality driver	

All in all, in order to restore the debt's financial and social sustainability, any restructuring must engage all creditors, except small savers, social security and other public investors, and it will have to inflict a serious haircut on capital, of around 50% or 60%. New debt must have long maturities (at least 40 years) and interest rates compatible with the level of economic growth. Besides, the ECB and other national central banks on the Eurozone must give back any income achieved through Portuguese public debt.

[18] Based on Eurostat data: social security portfolio on 31st December 2012, plus two billion euros assumed by the government on the set of measures agreed with the troika.

5. THE CHALLENGES OF RESTRUCTURING

5.1 How to deal with the problem of impairment losses for Portuguese banks[19]

Banks have strong incentives to hold Portuguese debt in their balance sheets. Most notably, they hold considerable amounts of public debt for liquidity purposes, to pressure down market prices and also for the more favourable treatment given to these assets by prudential rules. Banks must be able to keep fuelling economic growth through credit. Furthermore, the need to safeguard depositors recommends an objective assessment of negative immediate economic and financial impacts of a debt restructuring on Portuguese banks.

This is not an easy analysis. The abundance of data, difficulty in isolating the effects of restructuring on bank balance sheets, and the silence citizen movements' questions are usually met with do not allow us to draw peremptory conclusions. However, ahead of a more competent and fine analyses, it is already possible to gauge the impact of a debt restructuring on Portuguese banks.

According to the latest financial statements from the seven biggest banks operating in Portugal (representing about 88% of the system's deposits), they hold 32.6 billion euros in Portuguese public debt (book value). Although this is a large sum, it does not represent a substantial share of the banking system assets (about 493 billion euros in June 2012, according to the Portuguese Banking Association). Notwithstanding the impact of restructuring might be instrumental for the two main indicators for the banks' financial health: solvency and liquidity.

With regard to solvency, figures suggest that the equity of the banks studied would remain positive (i.e. liabilities would be lower than assets), even if restructuring caused losses to their portfolio of up to 66%. Even with a 75% reduction, four out of the seven banks at stake would remain technically solvent.
Bank of Portugal requires a solvency ratio higher than 10% for risk-weighted assets. To meet such high requirements, Portuguese banks would need additional capital injections of about 12 billion euro in the event of a 50% haircut to the portfolio value.

Thus, concerning the impact on the Portuguese banks solvency, several issues must be addressed:

1. Though it is advisable, it is not strictly necessary that the banking system operates with a safety margin as high as 10%. Alternatively, banks could be allowed to operate with lower ratios, increasingly higher as the beneficial effects of restructuring took hold.

[19] Source: Annual report from Montepio Geral, Crédito Agrícola, BCP, Santander, CGD, BPI and BES.

2. Banks have remained active while in negative equity before. Just to mention a few instances close in time: post-nationalisation BPN and post-PSI Greek banks.
3. The need to shore up bank capital does not necessarily imply a bailout with public money. Solvency improvement could be achieved through bank mergers as in Greece. It must be stated, nevertheless, that, no matter how wide debt restructuring is, public savings always offset eventual recapitalisation costs: a 66% haircut to the value of public debt bank portfolio would result in savings of more than 21.5 billion euros and an eventual recapitalisation cost of 17.2 billion euros.
4. Even keeping current capital requirements, the option of asking private shareholders for the necessary amount should be kept on board. A 50% haircut to the debt portfolio (16.3 billion euros) scenario will mean a capital depletion of about 12 billion euros. As mentioned above, should capital increase be fully funded by public money, the scenario implies saving above 4.2 billion euros. Furthermore, the Portuguese State will then be a shareholder capable of imposing the channelling of that new capital into public funding (for instance, purchasing Treasury Bonds) as it has apparently done when bailing out Banif (another Portuguese bank bailed out in 2013).

As for liquidity, Portuguese banks are in a much stronger position because of the measures taken by the ECB. According to the same sources, Portuguese banks[20] hold about 37 billion euros in unused eligible assets to place in liquidity transactions from the ECB. Therefore, there is no risk of collateral shortage up to a 41% haircut in their public debt portfolio.

Even with a 75% haircut, only one of these banks would need to strengthen its collateral, estimated at 1.7 billion euros. That shortage could be addressed via alternative liquidity sources — interbank ones, for instance.

Still, we must not cover up that this analysis maintains the currently valid assumption that the ECB policies will remain in place, as well as its role as Portugal's central bank.

As mentioned above, it is not easy to assess the financial system's sensitivity to public debt restructuring. There are other data, other sources and other perspectives on this issue that must not be forgotten. Notwithstanding, on the whole, and despite the need for further analysis, we have enough data to believe that the benefits of restructuring surpass, also for Portuguese banks, the eventual costs related to the shock such a momentous decision will inevitably bring about.

[20] We leave out Santander Totta, for it had no data available for Portugal. Nonetheless, it is a global dimension group, not really quite sensitive to any Portuguese debt restructuring.

5.2 How to start the restructuring process

The best scenario in which to restructure debt would be, as has already been put forward by Greek political forces, a multilateral agreement within the Eurozone.

However, in the light of political developments in key countries for European Union policies, such scenario is implausible in the near future. At the same time, it is in the near future that the alternatives Portugal is faced with will be at stake.

In the absence of negotiations within a multilateral framework, each country, including Portugal, must start the negotiating process under the conditions better suited to their interests. In order to prevent creditors taking the initiative, it is highly unlikely that a moratorium on debt service can be avoided. A moratorium is a statement suspending the payment of interest rates and repayments, which can be announced together with a negotiation offer, aimed at restructuring the debt. The moratorium entails that going to the markets (as well as paying interest rate and repayments) are suspended while negotiating takes place, which means that the remaining expenses will have to be covered by current revenues and Treasure reserves. A moratorium is naturally tricky, and all risks must be prepared in advance.

5.3 The need to anticipate contingencies

The highest risk with calling for a moratorium to the debt service is that of an ECB retaliation comprising cutting off funds to Portuguese banks, like it threatened to do to Cyprus, Ireland and Italy. Delivering such retaliation would amount to an unilateral expulsion of a country from the Eurozone, which, according to the treaties, is not possible.

As no country could live without a central bank as a lender of last resort, the only option available, under such circumstances, would be to regain monetary sovereignty.

Expulsion or withdrawal from the Eurozone is an extreme scenario, which must, nevertheless, be prepared and cautiously prepared. If Portugal does not prepare for such contingency, its negotiation position will not be strong enough.

6. CONCLUSION

We utterly reject the inevitability that has ruled over us — the inevitability of sacrificing everything in the name of the debt service. To keep on servicing the debt at all costs will simply leave behind debt that will never be paid and a battered country.

We defend debt restructuring totally aware that the conditions are much harsher today than if it had happened in May 2011. Now Portugal has more debt and its main creditors are official ones —European Union funds, ECB and IMF —, with whom concessions are always harder to achieve.

Even so, it is pivotal for our collective future that it is the Portuguese State, and not those supranational creditors, who will take the initiative to restructure debt. It is the only means to deliver a dignifying outcome, which will enable economic recovery and keep the door open for the country to develop.

We are totally aware of the technical and political complexity, risks and challenges of debt restructuring. That is precisely why we find it unacceptable that the Portuguese Government does not prepare to face it, foreseeing and safeguarding all possible contingencies attached to the process. The responsibility to tackle such decision lies with the parliament.

Annex I — Public Debts

According to the Bank of Portugal, direct public debt, compiled by the Public Debt Office (IGCP Agência de Gestão da Tesouraria e da Dívida Pública), differs from Maastricht debt mainly due to:

1. Differences in sector delimitation: the State's direct debt only includes debt issued by the State, whereas Maastricht debt comprises all bodies classified, for statistic purposes, in general government;
2. Consolidation purposes: direct State debt only reflects liabilities from this sub-sector, whereas Maastricht debt is consolidated, meaning that general government assets, which are liabilities of general government, are excluded;
3. Accrued interest of savings certificates: direct State debt includes the accrued interest of savings certificates, which is excluded from Maastricht debt.

Public debts		2012		2013		Source
		unconsolidated	consolidated	unconsolidated	consolidated	
Direct State Debt	1	194,519		204,252		IGCP, Dec 2013
GDP %		*117.8%*		*123.6%*		
General Government	2	241,405	208,466	251,688	214,385	B Portugal K.2, Oct 2013
GDP %		*146.2%*	*126.3%*	*152.3%*	*129.7%*	
Debt Central Government	3	228,163	204,224	238,597	211,698	B Portugal K.2, Oct 2013
GDP %		*138.2%*	*123.7%*	*144.4%*	*128.1%*	
Local and Regional Adm.	4	13,237	13,237	13,089	13,089	B Portugal K.2, Oct 2013
GDP %		*8.0%*	*8.0%*	*7.9%*	*7.9%*	
Debt Social Security	5	4	4	1	1	B Portugal K.2, Oct 2013
GDP %		*0.0%*	*0.0%*	*0.0%*	*0.0%*	
Subsectors consolidation	6		9,000		10,404	B Portugal K.2, Oct 2013
Commercial credit	7	3,592		3,265		B Portugal K.2, Oct 2013
Public corporate under General government delimitation	8	25,374		27,215		B Portugal K.2, Oct 2013
Dívida Maastricht	9		204,844		210,711	B Portugal K.2, Oct 2013
GDP %			**124.1%**		127.5%	
Estimativa em % PIB					**127.8%**	
Debt Maastricht, net of cash holdings	10		188,258		195,536	B Portugal K.2, Oct 2013
GDP %			114.0%		118.4%	
by memory: nominal GDP			165,107		165,272	B Portugal & State Budget 2014