

ANNUAL REPORT

2023



BANCO DE
PORTUGAL
EUROSYSTEM

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2023



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EUROSYSTEM

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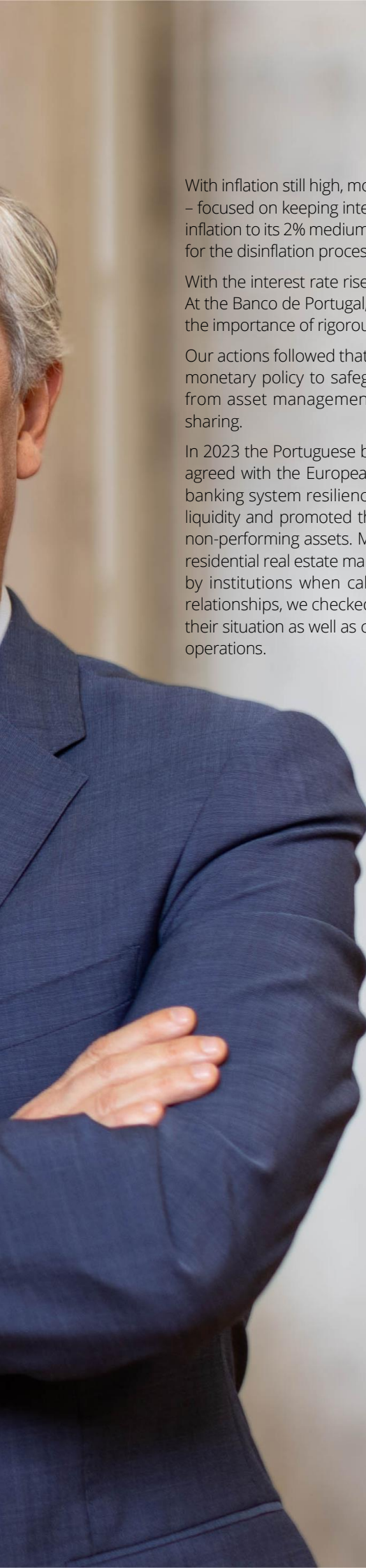
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Message by the Governor

In 2023 the growth path of the Portuguese economy decelerated, affected by less buoyant external demand resulting from geopolitical instability and weak global growth. The cumulative effects of inflation and tighter monetary policy, which fed through to the financing conditions of economic agents, also contributed to this, with consequences for demand.

Nevertheless, the Portuguese economy showed resilience, as a result of the existing institutional framework, a strong labour market and the boost to investment from European funds, making it possible to continue the process of convergence towards the European economy that started in 2016 and was only interrupted during the pandemic years.





With inflation still high, monetary policy decisions in 2023 – on the basis of a data-dependent approach – focused on keeping interest rates at levels that are sufficiently restrictive to ensure a timely return of inflation to its 2% medium-term target. From what we know today, monetary policy has proved effective for the disinflation process.

With the interest rate rise, we have entered a temporary phase of negative results in the Eurosystem. At the Banco de Portugal, accumulated provisions covered negative operating income, demonstrating the importance of rigorous and prudent management.

Our actions followed that same rigour and prudence over the course of the year: from implementing monetary policy to safeguarding financial stability; from payment systems oversight to resolution; from asset management to regulation; and from upholding legality to knowledge creation and sharing.

In 2023 the Portuguese banking system ceased to have institutions under restructuring programmes agreed with the European institutions. Within this macroeconomic environment and in a context of banking system resilience, we aimed at ensuring that supervised institutions preserve capital and liquidity and promoted the strengthening of credit risk management practices and the reduction of non-performing assets. Macroprudential policy introduced a 4% capital buffer for systemic risk in the residential real estate market and we adjusted the increase in the benchmark to be taken into account by institutions when calculating the debt-to-income ratio of new borrowers. In bank customer relationships, we checked whether each customer was being provided with solutions appropriate to their situation as well as compliance with the right to opt for the various types of interest rate in credit operations.

Also in our analyses and studies, we paid particular attention to the effects of this environment on households, firms and the banking sector, always with a view to providing accurate and high-quality information, promoting good policy design.

As we know we can contribute to a society that is more confident in its economic life and that of the country, we stepped up our activities to promote citizens' economic, statistical and financial literacy over the course of the year.

We followed the structural trend of digital transformation as a bank and a supervisor, making cybersecurity risk management a priority.

We carried out an exercise on compliance with supervisory expectations on climate and environmental risks and we published the first *Annual Report on the Banking Sector's Exposure to Climate Risk*. Internally, we approved the Banco de Portugal's decarbonisation programme with measures to reach climate neutrality by 2050.

I would also like to highlight the mid-term review of the Banco de Portugal's Strategic Plan for 2021–25, considering the changing environment since its approval. In this context, the Bank's organisational structure was adjusted to ensure that strategic priorities are better aligned.

In our daily lives we work hard to be a bank that is closer to citizens, firms and civil society institutions. A bank closer to education and research. A bank that engages in dialogue with supervised entities and other supervisors.

We work for the people.

Mário Centeno

Mário José Gomes de Freitas Centeno



WHAT IS MONEY?

Money is an abstract value or an object which serves as a means of exchange, measure and a store of value for a group, community or society. It reflects a system of equivalence between goods and services. If money is to be able to fulfill its functions, it must be easy to carry, divisible, and durable.

Mission and values of the Banco de Portugal

Mission

The Banco de Portugal is the central bank of the Portuguese Republic. It is part of the European System of Central Banks and the Eurosystem, the Single Supervisory Mechanism and the Single Resolution Mechanism.

The Banco de Portugal's mission is to:

- maintain price stability;
- safeguard the stability of the financial system.

Values

The Banco de Portugal's values are:

- **Integrity** – The Banco de Portugal's staff place society and the public interest at the centre of their action and uphold high ethical standards;
- **Competence, effectiveness and efficiency** – The Banco de Portugal employs highly qualified staff in its business areas. Its governance model, internal organisation and processes use best practices as their benchmark;
- **Independence** – The Banco de Portugal is independent in functional, institutional, personal and financial terms, which is a prerequisite for compliance with its mission. Independence requires a clear mandate, the impossibility of seeking or taking instructions from third parties and the protection of the status of members of decision-making bodies;
- **Transparency and accountability** – In compliance with its tasks in the context of the Eurosystem, the Banco de Portugal is accountable to the Portuguese Parliament, the government and Portuguese society;
- **Team spirit** – The Banco de Portugal's staff act in accordance with the principles of mutual assistance and knowledge sharing;
- **Social and environmental responsibility** – The Banco de Portugal acts in a socially and environmentally responsible manner, operating as a social actor and advocate of corporate ethics, diversity and inclusion, and sustainability.

The conduct of the Banco de Portugal's staff is in accordance with high ethical standards enshrined in the *Regulation of the Ethics Committee and of the General Duties of Conduct of the Employees of Banco de Portugal*.



Rui
Pinto

Hélder
Rosalino

Luís Máximo
dos Santos

Mário
Centeno

Clara
Raposo

Helena
Adegas

Francisca Guedes
de Oliveira

Statutory bodies

Board of Directors

Governor

Mário José Gomes de Freitas Centeno

Vice-Governors

Luís Augusto Máximo dos Santos

Clara Patrícia Costa Raposo

Directors

Hélder Manuel Sebastião Rosalino

Helena Maria de Almeida Martins Adegas

Rui Miguel Correia Pinto

Francisca Rodrigues Sarmiento Guedes de Oliveira

Board of Auditors*

Chair

Óscar Manuel Machado de Figueiredo**

Members

Maria Albertina Barreiro Rodrigues**

Alexandre Jaime Boa-Nova e Moreira dos Santos**

Advisory Board

Governor

Mário José Gomes de Freitas Centeno

Vice-Governors

Luís Augusto Máximo dos Santos

Clara Patrícia Costa Raposo

Former Governors

Carlos da Silva Costa

Vítor Manuel Ribeiro Constâncio

António José Fernandes de Sousa

Chair of the Board of Auditors of the Banco de Portugal

Óscar Manuel Machado de Figueiredo**

Chair of the Portuguese Banking Association

Vítor Augusto Brinquete Bento

Chair of the Portuguese Treasury and Debt Management Agency – IGCP, E.P.E.

Juan Miguel Martín Iglesias

Representatives from the Autonomous Regions

Duarte Nuno D'Ávila Martins de Freitas (Autonomous Region of the Azores)

Rogério de Andrade Gouveia (Autonomous Region of Madeira)

Ethics Committee***

Chair

Emílio Rui da Veiga Peixoto Vilar ****

Members

Rui Manuel Leão Martinho ****

Adelaide Marques Cavaleiro ****

* Nuno Gonçalves Gracias Fernandes (Chair) and Margarida Paula Calado Neca Vieira de Abreu (Member) served as members of the Board of Auditors up to 31 August and 31 October 2023 respectively.

** By Decision No 11174/2023 of 27 October 2023 of the Secretary of State for Finance, published in the Official Gazette No 212, Series 2, of 2 November 2023, the term of office of Óscar Manuel Machado de Figueiredo as member of the Board of Auditors was renewed and he was appointed Chair of this Board with effect from 1 November 2023, and Maria Albertina Barreiro Rodrigues and Alexandre Jaime Boa-Nova e Moreira dos Santos were appointed members of this Board with effect from 1 November 2023.

*** Vítor Manuel da Silva Rodrigues Pessoa served as Chair up to 31 March 2023.

**** Members appointed on 21 March 2023, with effect from 1 April 2023.

Heads of Department, Regional Delegations and District Agencies

Heads of Department

General Secretariat (SEC)

José Gabriel Cortez Rodrigues Queiró

Compliance Office (GdC)

Sofia Corte Real Lencart e Silva Pimentel

Data Protection Office (GPD)

Maria Fernanda dos Santos Maças

Strategy and Organisation Directorate (SECEO)

Dinora Maria Costa Fernandes Alvim Barroso

Office of the Governor (GAB)

Álvaro António da Costa Novo

Audit Department (DAU)

José António Cordeiro Gomes

Legal Enforcement Department (DAS)

João António Severino Raposo

Communication and Museum Department (DCM)

Isabel Maria Dias Carvalho Costa Marques Gameiro*****

Accounting Department (DCC)

José Pedro Pinheiro Silva Ferreira

Issue and Treasury Department (DET)

Pedro Jorge Oliveira de Sousa Marques

Financial Stability Department (DES)

Ana Cristina de Sousa Leal

Statistics Department (DDE)

Homero Alexandre Martins Gonçalves*****

Economics and Research Department (DEE)

Nuno Jorge Teixeira Marques Afonso Alves

Human Resources Department (DRH)

Pedro Miguel de Araújo Raposo

Risk Management Department (DGR)

Gabriel Filipe Mateus Andrade

Markets Department (DMR)

José Pedro Seixas Braga*****

International Relations Department (DRI)

Sílvia Maria Dias Luz

Resolution Department (DRE)

João Filipe Soares da Silva Freitas

Administration Services Department (DSA)

Paulo Jorge Pena Cardoso José

Legal Services Department (DJU)

Gonalo Andr  Castilho dos Santos

Payment Systems Department (DPG)

Maria Tereza da Costa Cavaco Guerreiro Val rio

Information Systems and Technology Department (DSI)

Carlos Manuel Pedrosa Moura

Banking Conduct Supervision Department (DSC)

Ana Isabel Ortega Ven ncio*****

Banking Prudential Supervision Department (DSP)

Lu s Fernando Rosa da Costa Ferreira

Porto Branch

Ana Ol via de Moraes Pinto Pereira

Regional Delegations

Regional Delegation of the Azores

Paulo Ruben Alvernaz Rodrigues

Regional Delegation of Madeira

B rbara Jos  Calada Sousa Castro

District Agencies

Braga

Ana Alexandra de Sousa Azevedo Mour o

Castelo Branco

Jo o Ramos Rente

Coimbra

Rui Ant nio da Silva Santa Rajado

 vora

Catarina Sofia Amaral Silva Guerra

Faro

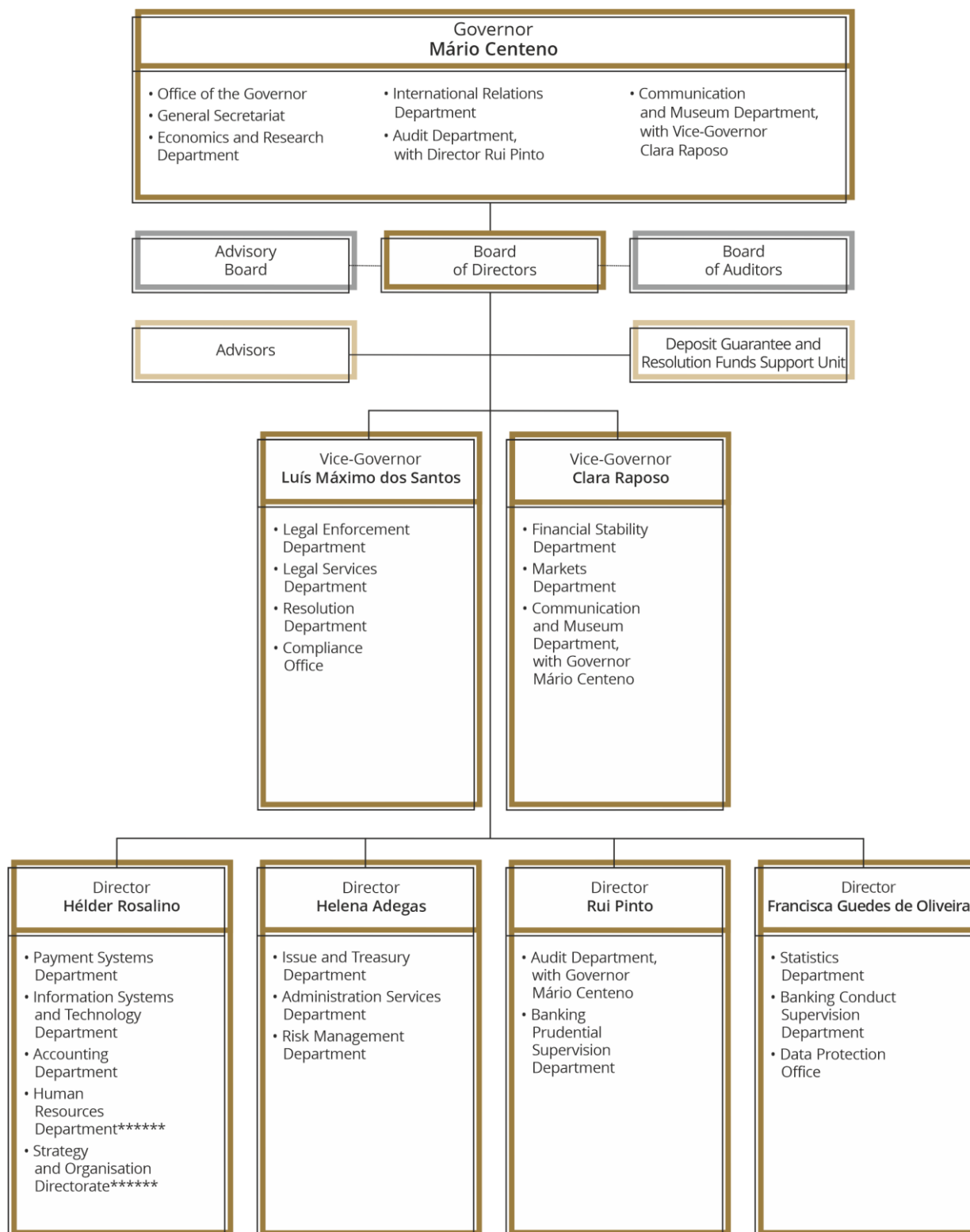
Eur co Balbino Duarte

Viseu

Gentil Pedrinho Amado

***** Heads of Department appointed over the course of the year.

Figure 1 • Organisational chart of the Banco de Portugal



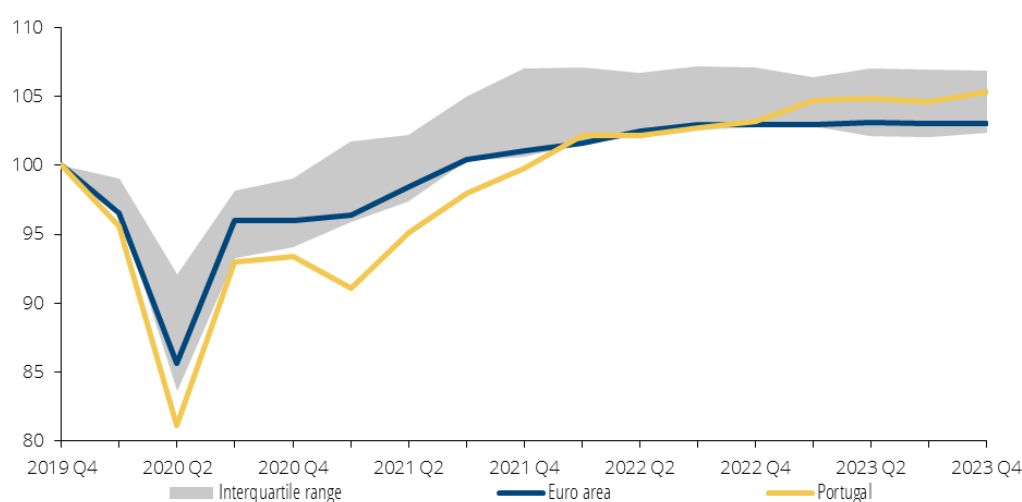
***** In 2023 the creation of the People and Organisational Strategy Department was approved, following the merger of the Human Resources Department and the Strategy and Organisation Directorate, with effect from 1 January 2024.

I The Portuguese economy in 2023

1 Economic and financial developments

In 2023 the Portuguese economy grew again above the euro area average (2.3% and 0.5%, respectively). Activity was constrained by the slowdown in external demand and tighter monetary and financial conditions. Nevertheless, robust growth and an improvement in the Portuguese external position were observed amid dynamism in the labour market. Employment hit historical highs (5 million jobs), benefiting from a positive net migration flow since 2017. By the end of 2023 the Portuguese economy had already grown by 5.4% compared with the pre pandemic period, while average recovery in the euro area was 3% (Chart I.1.1).

Chart I.1.1 • GDP in Portugal and in the euro area | Index 2019 Q4 = 100



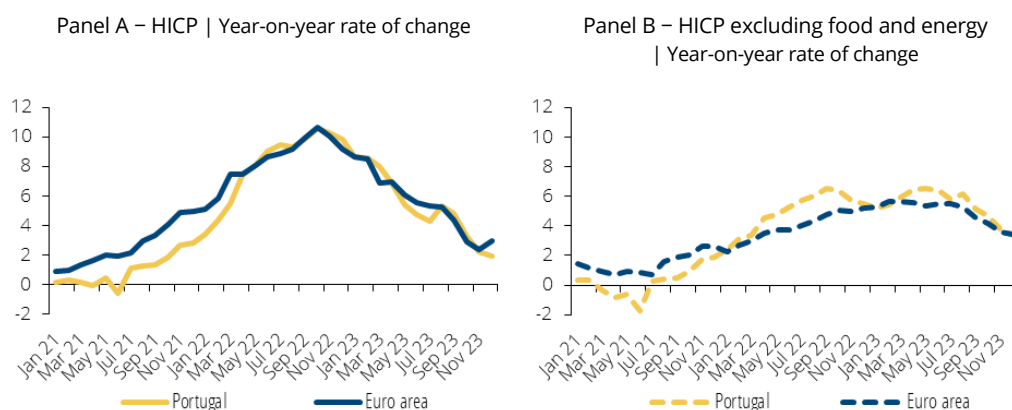
Source: Eurostat. | Note: GDP at 2015 constant prices.

The annual inflation rate stood at 5.3% in 2023, after reaching 8.1% the year before. The deceleration observed in prices became more marked from the fourth quarter of 2022 onwards, with the year on year rate of change in the Harmonised Index of Consumer Prices (HICP) reaching 1.9% in December 2023. This compares with an annual average rate of 5.4% and a year on year rate of change of 2.9% in December in the euro area (Chart I.1.2 – Panel A). The decline in inflation initially reflected the partial reversal of the strong increase in energy and food prices observed in 2021 and 2022. In the second half of 2023, energy prices were more volatile, but inflation remained on its downward path (Highlight 2.1 – Inflation decline). Excluding food and energy, inflation peaked in May 2023, rising from 5.0% in 2022 to 5.4% in 2023 in annual average terms. However, the year on year rate of change fell to 3.3% in December (Chart I.1.2 – Panel B). The tightening of monetary policy contributed to this decline, with monetary policy transmission permeating to credit developments, the anchoring of inflation expectations and the induced deceleration in activity.

At international level, the year was marked by heightened geopolitical tensions, weak international trade, a gradual decline in inflation and the fading effects of the recovery from the pandemic crisis. Russia's military invasion of Ukraine continued during 2023 and the armed conflict in the Middle East broke out in October. These outbreaks of geopolitical tension have led to disruptions in supply chains and trade routes. Relations between the main trading blocs have been

marked by greater protectionism and support to domestic industries as a means of increasing the security of supply. However, this weakened global trade. The observed slowdown reflected the fading-out of the post-pandemic recovery of the previous two years, the shift in overall demand from goods to services, as well as the deceleration of transactions in intermediate goods, associated with the sluggish dynamics of the industrial sector. The energy, food and commodity sectors have been hit the most by geopolitical tensions, driving the sharp rise in inflation in 2022. Since the end of that year and throughout 2023, inflation declined, mainly due to lower energy and food prices, particularly in the first half of the year. The decline in inflation was reinforced by monetary policy action, which maintained a restrictive stance in most countries.

Chart I.1.2 • Inflation in Portugal and in the euro area | In percentage



Source: Eurostat.

The rise in interest rates did not prevent growth in overall economic activity, in a scenario where labour markets remained buoyant. The global economy grew by 3.1% in 2023, only slightly below the average observed in the years prior to the pandemic crisis and 0.3 p.p. less than in the previous year. Emerging market economies, particularly China, and the United States grew more robustly than in 2022. The deceleration was more pronounced in the euro area than globally, amid a sharp slowdown in international goods trade and in foreign demand for its exports. In turn, labour market dynamism, with sustained employment growth and a recovery in real wages, supported disposable income and private consumption, despite the partial reversal of the fiscal measures supporting households.

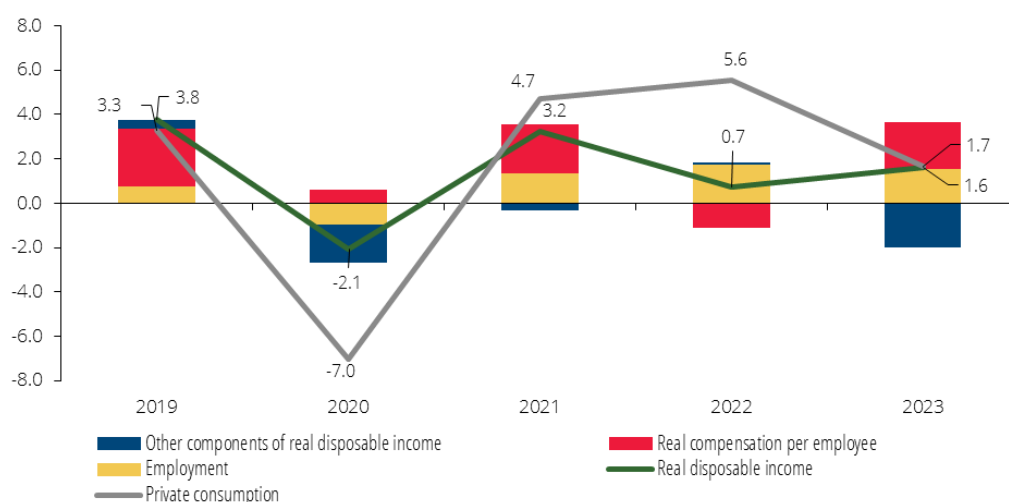
In Portugal, interest rates on new loans granted by banks maintained the upward trend that began in 2022 but showed signs of stabilisation at the end of 2023. In December 2023 the interest rate on new loans to non-financial corporations stood at 5.8%, 1.2 p.p. up from the same period a year earlier. In loans to households for house purchase and consumer credit, interest rates reached 4.1% and 9.1% respectively, reflecting increases of around 1 p.p. in both cases compared with the same period of 2022. In this context, total lending to non-financial corporations grew moderately in 2023, with bank loans declining. Total credit to households decelerated markedly over 2023, ending the year with an annual rate of change of -0.4%. This decrease was mainly due to the housing segment, with an annual rate of change of -1.6% in December. The increase in key interest rates passed through rapidly in this segment, due to the prevalence of variable rates in the stock of credit. However, early amortisations as well as the renegotiation of existing contracts reduced debt servicing and helped to contain overdue loans. In December 2023, the ratio of overdue loans for house purchase stood at 0.2%, a record low of the series that began in January 1998.

In 2023, banks' interest rates on time deposits increased further. In December 2023, interest rates on new time deposits reached 3.5% and 3.1% for non-financial corporations and households,

respectively, 2.5 and 2.8 p.p. up from December of the previous year. The spread between the interest rates on households' loans and deposits led to the early repayment of loans for house purchase, which is likely to have contributed to the reduction observed in household deposits with resident banks. Until May 2023 this reduction continued to reflect households' demand for alternative risk-free applications, which offered higher remuneration, such as savings certificates. In the second half of the year, with the relative remuneration of deposits rising, net transactions in deposits turned positive again. The annual rate of change in household deposits increased from -2.9% in June to -1.4% at the end of the year. The composition of households' investments changed while the saving rate and private consumption moderately increased.

Private consumption grew by 1.7%, after increasing by 5.6% a year earlier. This growth took place against a background where disposable income increased by 1.6% in real terms and by 6.8% in nominal terms (Chart I.1.3). This was partly due to record levels of employment and an 8.3% wage growth, above the inflation rate of 5.3%. This gain in real wages exceeded the 2.2% reduction observed in the previous year, while employment developments were largely supported by a strong net immigration flow (Highlight 2.2 – Labour market dynamism). The household saving rate, one of the sources of investment financing, remained stable at 6.3% of disposable income, 0.9 p.p. below the saving rate recorded in 2019.

Chart I.1.3 • Private consumption and household disposable income – decomposition |
Annual rate of change in percentage and contributions in percentage points



Source: Statistics Portugal (Banco de Portugal calculations). | Notes: Disposable income and its components were deflated using consumption deflator, in accordance with the national accounts methodology. The evolution of the private consumption deflator may differ from that of the Consumer Price Index due to conceptual reasons. The contribution of wages per worker includes the cross-effect between employment and wages per worker.

Gross fixed capital formation (GFCF) grew by 2.5%, decelerating by 0.5 p.p. from 2022. The most dynamic segment was public investment, with nominal growth of 12.5%, after a 4.9% decrease in the previous year (Table I.1.1). This recovery was partly linked to the use of funds from the Recovery and Resilience Programme, though their impact was smaller than expected. Residential GFCF contracted by 1.1%, in line with rising financing costs. This tightening and the slowdown in global demand weighed on non-residential GFCF, which grew by 1.7%, 2.7 p.p. down from the previous year. By asset type, the recovery of investment in transport equipment and the contribution of machinery and equipment was notable, while the construction sector stagnated in 2023.

Table I.1.1 • Gross fixed capital formation by institutional sector and type of asset | Annual rate of change in percentage and contributions in percentage points

	Weights in 2019, %	2019	2020	2021	2022	2023
Total GFCF (annual rate of change)	100.0	5.4	-2.2	8.1	3.0	2.5
Contributions:						
By institutional sector						
Residencial GFCF	17.9	0.4	-1.2	2.2	0.5	-0.2
Private sector non-residencial GFCF	72.1	5.0	-2.7	4.1	3.1	1.2
Public GFCF	10.1	0.1	1.7	1.7	-0.6	1.5
By type of asset						
Transport equipment	8.8	0.2	-2.4	0.5	0.7	1.3
Other machinery and equipments	22.2	0.4	-1.3	3.4	1.3	1.1
Construction	51.9	3.6	0.5	3.7	0.6	-0.2
Other assets	17.2	1.1	1.1	0.5	0.3	0.3

Source: Statistics Portugal (Banco de Portugal calculations).

Exports grew by 4.2%, 13.2 p.p. down from the previous year, with goods and services behaving quite differently. These developments took place against a background where external demand for Portuguese goods and services declined by 0.5%, after growing by 7.9% in 2022. Exports of goods contracted by 0.2%, while exports of services grew by 11.4%, reflecting buoyant tourism and other services, with growth rates of 13.9% and 9.5% respectively (Table I.1.2). Exporters of goods and services recorded a gain in market share in real terms of 4.7%, after a gain of 8.8% in 2022. These developments confirmed the take-up of comparative advantages in international markets by Portuguese firms and contributed to the positive performance of external accounts (Highlight 2.3 – The improvement in external accounts).

Table I.1.2 • International trade of goods and services | Annual rate of change in percentage and contributions in percentage points

	Weights in 2019, %	2019	2020	2021	2022	2023
Total exports (annual rate of change)	100.0	4.1	-18.6	12.3	17.4	4.2
Contributions:						
Goods	62.3	2.1	-4.9	7.1	3.5	-0.1
Services	37.7	2.0	-13.7	5.2	13.9	4.3
Tourism	18.7	1.0	-10.5	2.3	9.4	2.3
Services excluding tourism	19.0	1.0	-3.2	2.9	4.6	2.0
Total imports (annual rate of change)	100.0	4.9	-11.8	12.2	11.1	2.2
Contributions:						
Goods	81.3	3.4	-7.5	9.6	7.8	1.2
Services	18.7	1.6	-4.3	2.6	3.3	1.0
Tourism	4.3	0.4	-2.0	0.7	1.2	0.3
Services excluding tourism	14.4	1.2	-2.3	1.9	2.0	0.8

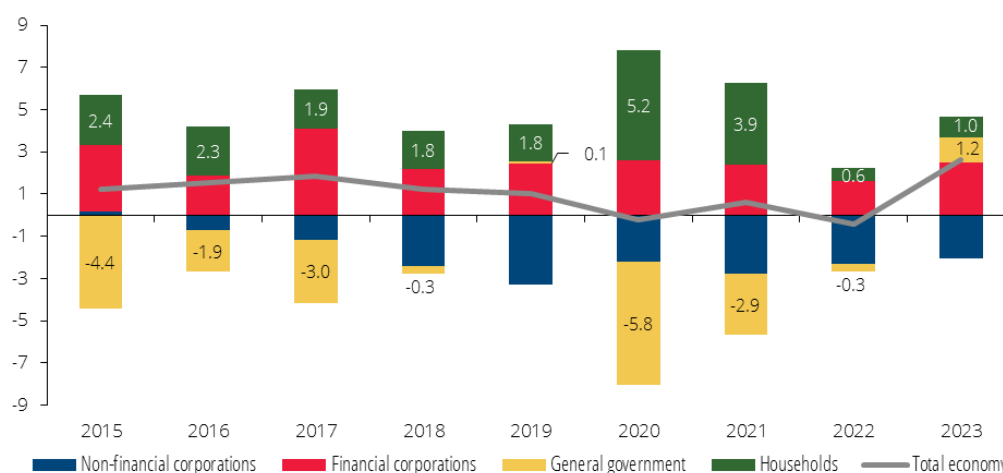
Source: Statistics Portugal (Banco de Portugal calculations).

Goods and services imports grew by 2.2%, i.e., 8.9 p.p. down from the previous year. This deceleration was observed in both goods and services and was in line with developments in global demand weighted by import content.

The import deflator decreased, mainly as a result of the decline in energy prices in international markets, following the strong rise observed in previous years. Thus, given the slight growth in the export deflator, the terms of trade posted a gain of 4.8% in 2023, in contrast to the loss of 3.6% in the previous year, which contributed to the highly positive performance of external accounts.

In 2023, the Portuguese economy showed a net lending of 2.6% of GDP, which was high in historical terms (Highlight 2.3 – The improvement in external accounts). This improvement in comparison with the previous year's net borrowing reflected an increase in domestic savings above that of investment. By institutional sector, the contribution of general government's net lending stood out (Chart I.1.4).

Chart I.1.4 • Net lending/net borrowing by institutional sector | Percentage of GDP

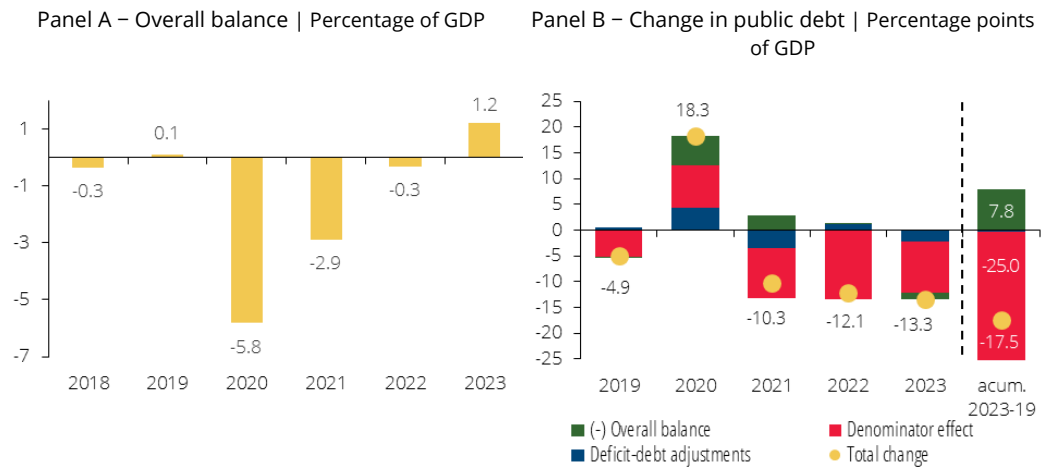


Source: Statistics Portugal.

The general government accounts recorded a surplus of 1.2% of GDP. The budget balance improved by 1.5 p.p. (2.0 p.p. excluding temporary measures), as a result of the lower impact of policy measures, especially those related to the pandemic, and the positive contribution of the economic cycle (Chart I.1.5 – Panel A). As in 2022, several measures were in place to mitigate the effects of rising prices and directly support household income, the total impact of which was smaller than in the previous year. Total government revenue grew by 9.0%, although it declined as a percentage of GDP. This was also the case for tax revenue, affected by the tax cuts, especially the application of zero VAT to a basket of essential goods and the changes to the personal income tax introduced by the State Budget for 2023. Total government expenditure grew by 5.2% and primary current expenditure by 3.7%. Social benefits in cash increased by 3.4%, which would have been higher had half a month of pensions not been paid early in 2022. Staff costs grew by 7.6%, reflecting various measures to increase salaries and a 0.6% increase in the number of civil servants. Intermediate consumption grew by 5.0%, decelerating from the previous year, partly due to the end of pandemic-related expenditure. In addition, interest expenditure rose by 23.3% and public investment by 16.8% in nominal terms, the latter partly explained by the increase in EU funds (PT2020 and RRP).

The public debt ratio decreased by 13.3 p.p. to 99.1% at the end of 2023. Nominal GDP growth, the fiscal surplus and negative deficit-debt adjustments, associated with the decrease in general government deposits contributed to this very significant reduction (Chart I.1.5 – Panel B). The improved fiscal position and the corresponding lower credit risk implied upward revisions of Portugal's sovereign debt ratings by markets and rating agencies.

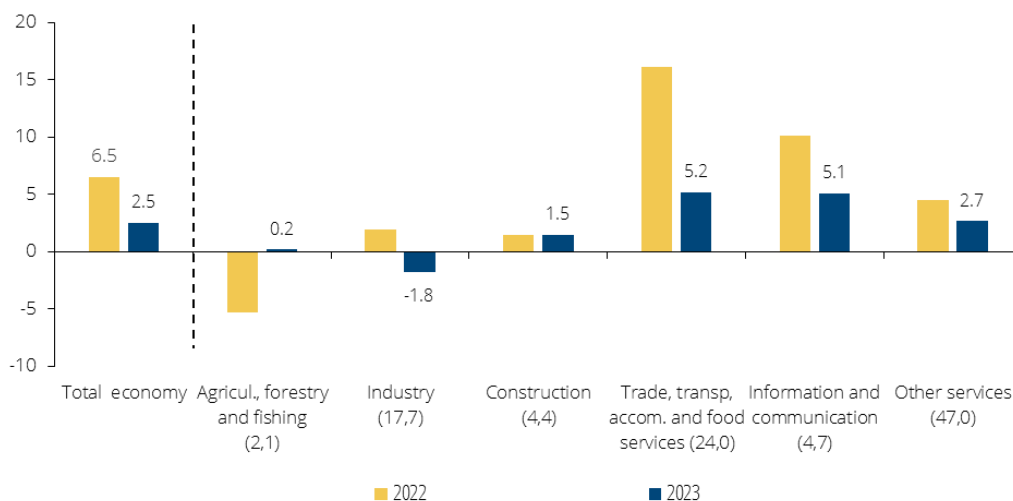
Chart I.1.5 • Main fiscal indicators



Sources: Statistics Portugal and Banco de Portugal.

Activity continued to benefit from the dynamism of the services sector. Following the post-pandemic recovery, tourism grew substantially again, resulting in 5.2% growth in gross value added (GVA) in trade, transportation, accommodation and food services (Chart I.1.6). GVA in communication and information activities, a sector also heavily involved in international trade, continued to expand, growing by 5.1%, after posting 10.1% and 7.1% in the previous two years. Industrial activity decreased by 1.8%, with differentiated intra-annual developments. After declining in the second and third quarters, industry GVA recovered at the end of the year, in line with the profile of external demand for Portuguese goods. GVA in the construction sector grew by 1.5%, a rate similar to that recorded in the previous year, benefiting from the contribution of public investment at the end of the year. GVA grew by 2.5% in the total economy, compared with 6.5% in 2022. These developments are in line with the dynamics observed in the labour market.

Chart I.1.6 • GVA – total and by branch of activity | Annual rate of change, in percentage



Source: Statistics Portugal (Banco de Portugal calculations). | Notes: The values in parentheses correspond to the weight of the respective branch in the total GVA in 2022.

Employment continued to grow in the context of a strong immigration flow. In 2023, full-time employment recorded with Social Security grew by 4.6% on average, with a contribution of 4.0 p.p. from foreign workers. Net immigration has helped to mitigate hiring difficulties in some sectors of activity and to sustain the increase in employment, against a background of a shrinking working-age population born in Portugal. The high participation rate, the growth and composition of employment, the increase in hours worked, the low unemployment rate and wage developments signal favourable cyclical and structural developments in the labour market (Highlight 2.2 – Labour market dynamism).

The Portuguese economy maintained macroeconomic balances, which are essential to sustainable growth in the medium term, with a focus on improving public accounts and their impact on the reduction of external debt. The general government surplus reflected a prudent fiscal policy stance, which should continue. This surplus, coupled with the effect of inflation on nominal GDP developments, contributed to a significant decline in the public debt ratio. The benefits of these developments to the country's external credibility and its ability to accommodate future adverse shocks are highly relevant. The general government's net lending along with households' increased net lending and firms' lower net borrowing are notable developments in a context of tight monetary and financial conditions. Thus, the Portuguese economy's net lending strongly contrasts with the reality of past decades. These developments contributed to an improvement in the external position. The continuation of these processes will contribute to, and be reinforced by GDP growth, for which good structural conditions are in place. The improvement of workers' skills, accompanied by increases in productive investment favoured by lower indebtedness, should foster higher productivity. Only in this scenario will it be possible to adequately remunerate workers' skills and increase firms' equity, accelerating the convergence of the well-being of the Portuguese population with the European Union (EU) average.

2 Highlights of the year

2.1 Inflation decline

Inflation in Portugal, as measured by the rate of change in the harmonised index of consumer prices (HICP), declined from 8.1% in 2022 to 5.3% in 2023. In the euro area, the annual inflation rate decreased by 3.0 p.p. to 5.4% in 2023 (Table I.2.1). Between mid 2021 and October 2022, average prices accelerated, with year on year inflation peaking at 10.6% in Portugal and the euro area. Subsequently, average prices decelerated in a sustained manner, even stabilising in the euro area and declining slightly in Portugal in the last months of 2023 (Chart I.2.1).

The deceleration in prices over 2023 was broadly based across the main aggregates, with a lag in services. The start of the decline in inflation was related to dissipating pressures on prices of commodities and intermediate goods (Chart I.2.2), directly reflected in consumer prices for energy, whose year on year rate of change decreased from a peak of 31.9% in June 2022 to a low of -18.8% in June 2023 and stood at -10.3% at the end of the year. Food prices' year on year growth also declined in the course of 2023, from a peak of 19.0% in February to 1.9% in December, as lower external pressures passed through the supply chain. In Portugal, these developments also benefited from the temporary VAT exemption on a basket of food products, in place between April 2023 and early 2024.¹ Non-energy industrial goods prices, more affected by developments in energy prices

¹ The following sections of the Portuguese Classification of Economic Activities (CAE- Rev.3): A – Agriculture, hunting and forestry; O – Public administration and defence; Compulsory social security; P – Education; Q – Human health and social work activities; T – Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use; and U – Activities of international organisations and other extraterritorial institutions are not represented in the chart as total employment in these sectors and their performance may be underrepresented in the Social Security microdata.

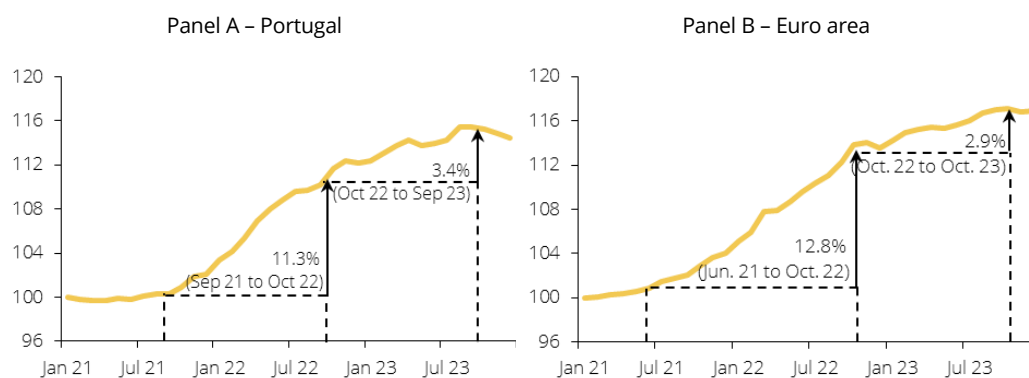
than services, also decelerated over the course of the year, with the year on year rate of change decreasing from a peak of 6.7% in December 2022 to 0.8% at the end of 2023, while services prices remained more persistent (Chart I.2.3 – Panel A). Services price growth increased in annual average terms, in line with the greater relative economic momentum of this sector – particularly tourism – and the acceleration in wages, which tend to weigh more heavily in the cost structure of these activities. In year on year terms, services prices accelerated in the first half of the year, from 4.8% at the end of 2022 to a peak of 8.0% in August, followed by a deceleration to 4.9% in December, mainly in the more volatile tourism-related components.

Table I.2.1 • HICP and main aggregates in Portugal | Rate of change, in percentage

	Weights in 2023	Annual rate of change			Year-on-year rate of change							
		2021	2022	2023	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4
Total	100.0	0.9	8.1	5.3	4.4	8.2	9.5	10.2	8.4	5.7	4.8	2.4
Goods	57.7	1.7	10.2	4.1	5.4	10.1	11.7	13.4	10.3	3.9	2.5	0.2
Food	24.0	0.8	11.4	9.2	4.7	10.4	13.4	17.1	18.1	10.3	6.5	3.0
Unprocessed	7.0	1.1	13.5	9.4	4.6	12.5	16.5	20.0	20.7	9.5	6.0	2.8
Processed	17.0	0.6	10.6	9.1	4.7	9.6	12.2	16.0	17.1	10.6	6.7	3.1
Industrial	33.6	2.4	9.3	0.4	6.0	9.9	10.4	10.7	4.7	-0.7	-0.4	-1.8
Non-energy	25.6	0.8	4.8	3.4	3.0	4.2	5.6	6.4	5.6	4.3	2.4	1.4
Energy	8.1	7.5	23.8	-8.9	15.9	28.9	25.9	24.3	1.4	-15.8	-8.5	-11.4
Services	42.3	0.0	5.0	6.5	2.9	5.3	6.4	5.5	5.4	7.6	7.4	5.4
<i>Memo items</i>												
Total excluding energy	91.9	0.4	6.7	6.5	3.4	6.4	8.1	9.0	8.9	7.6	6.1	3.7
Total excluding food and energy	67.9	0.2	5.0	5.4	3.0	4.9	6.1	5.9	5.5	6.5	5.7	3.9
Total excluding food, energy and volatile tourism-related items	62.4	1.1	3.8	4.1	2.7	3.4	4.1	4.8	4.9	4.5	3.9	3.2
<i>Euro area</i>												
Total	100.0	2.6	8.4	5.4	6.1	8.0	9.3	10.0	8.0	6.2	5.0	2.7
Total excluding food and energy	69.8	1.5	3.9	4.9	2.7	3.7	4.4	5.1	5.5	5.5	5.1	3.7

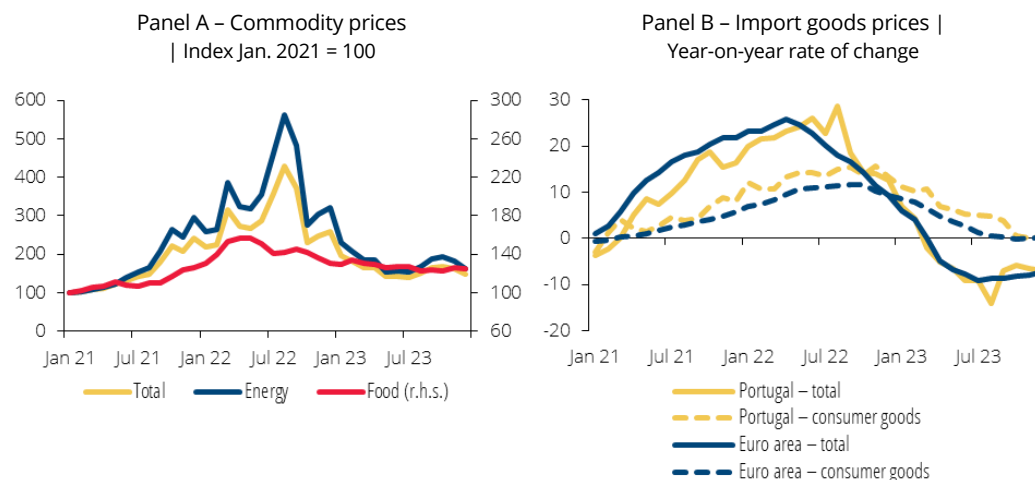
Sources: Eurostat and Statistics Portugal. | Note: Volatile tourism-related items correspond to package holiday services and accommodation and domestic and international flights.

Chart I.2.1 • HICP | Index Jan 2021 = 100



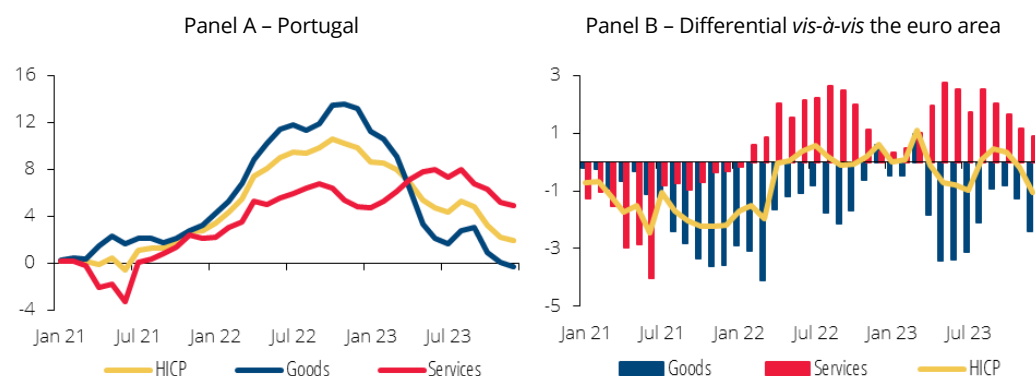
Sources: ECB (Banco de Portugal calculations). | Note: Seasonally adjusted indices.

Chart I.2.2 • Commodity and import goods prices



Inflation in Portugal was lower than in the euro area for much of the year, reflecting a sharper decrease in the goods component. Conversely, services prices showed a higher rate of change in Portugal, especially in tourism-related items (Chart I.2.3 – Panel B).

Chart I.2.3 • HICP – Goods and services | Year-on-year rate of change, as a percentage, and differential in percentage points

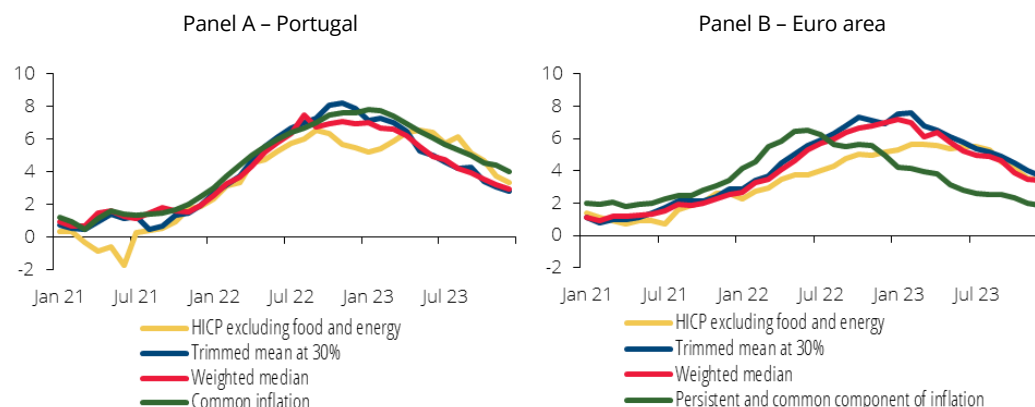


Measures of underlying inflation declined over the course of 2023. Inflation excluding food and energy began to decline only in the second half of the year, but other measures of underlying inflation have decreased consistently since the end of 2022 in Portugal, as well as generally in the euro area, supporting the convergence path towards the ECB's 2% target (Chart I.2.4).

The dispersion of year on year rates of change in HICP items prices at the end of 2023 remained above that prevailing before the onset of the inflationary surge. Since the peak observed in October 2022, there has been an increase in the share of items with a lower year on year rate of change and a decrease in the share of components with a higher year-on-year rate of change. However, compared with the distribution observed in mid 2021, there was still a higher dispersion at the end of 2023, with a higher prevalence of items with strong price growth. These

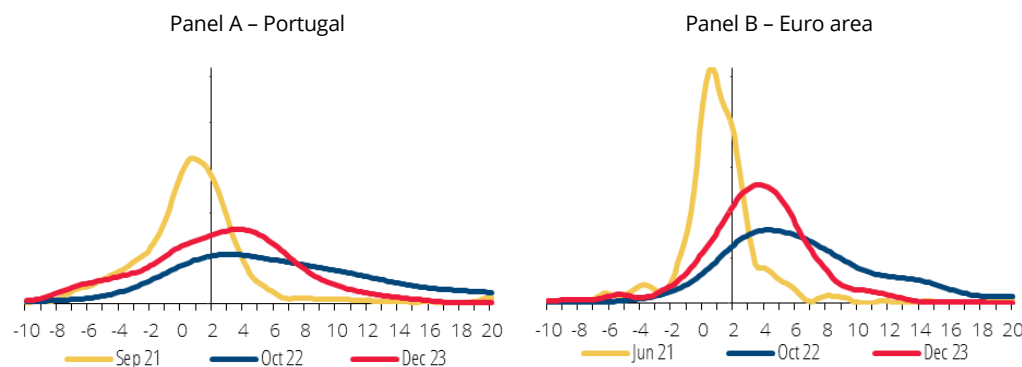
developments were also observed in the euro area as a whole, where the dispersion across items tends to be lower than in each country taken separately (Chart I.2.5).

Chart I.2.4 • HICP – Underlying inflation measures | Year-on-year rate of change, as a percentage



Sources: Banco de Portugal, Eurostat and Statistics Portugal (Banco de Portugal calculations). | Notes: Common inflation is calculated using a generalised dynamic factor model estimated with the disaggregated HICP series in Portugal. For each individual inflation rate, a common component is estimated (i.e., the component that is affected by shocks common to all items). For more details, see Quelhas, João and Sara Serra (2023), "The inflation process in Portugal: the role of price spillovers", *Banco de Portugal Economic Studies* Vol. 9 No. 2, Banco de Portugal. The persistent and common component of inflation is calculated in a similar way using the disaggregated HICP series of 12 euro area countries. For each individual inflation rate, a common low-frequency component is estimated (i.e., the component that is affected by shocks common to all items and that captures cycles longer than two years). For the remaining measures, see Box 6 "Underlying inflation measures" of the May 2022 *Economic Bulletin*.

Chart I.2.5 • Distribution of the year-on-year rate of change of HICP items | Percentage



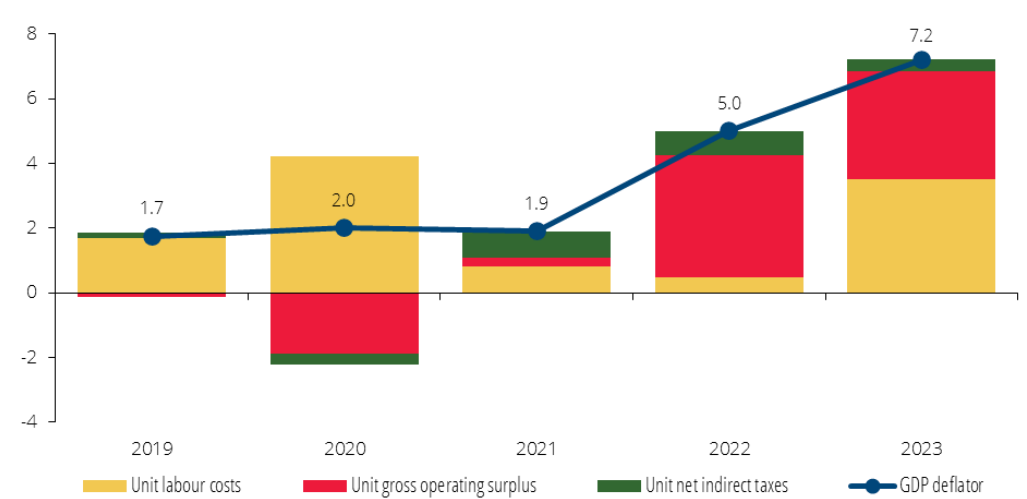
Sources: Eurostat and Statistics Portugal (Banco de Portugal calculations).

The GDP deflator accelerated in 2023 in annual average terms, increasing at a higher rate than consumer prices. On the expenditure side, the higher persistence of the GDP deflator relative to private consumption reflected a recovery in the terms of trade associated with diminishing external pressures. From an income perspective, the increase in the GDP deflator reflected a larger contribution from labour costs and a relative stabilisation of the contribution from gross operating surplus (Chart I.2.6). Higher nominal wage growth reflects a gradual and predictable recovery in real wages, which has also been supported by labour market dynamics (Highlight 2.2 – Labour market dynamics)

The monetary policy tightening also played an important role in consolidating the disinflationary process. The tightening of monetary and financial conditions (Section II.2 – Monetary policy and asset

management) contributed to maintaining well-anchored inflation expectations and to the deceleration of economic activity, leaving firms less room to increase prices.

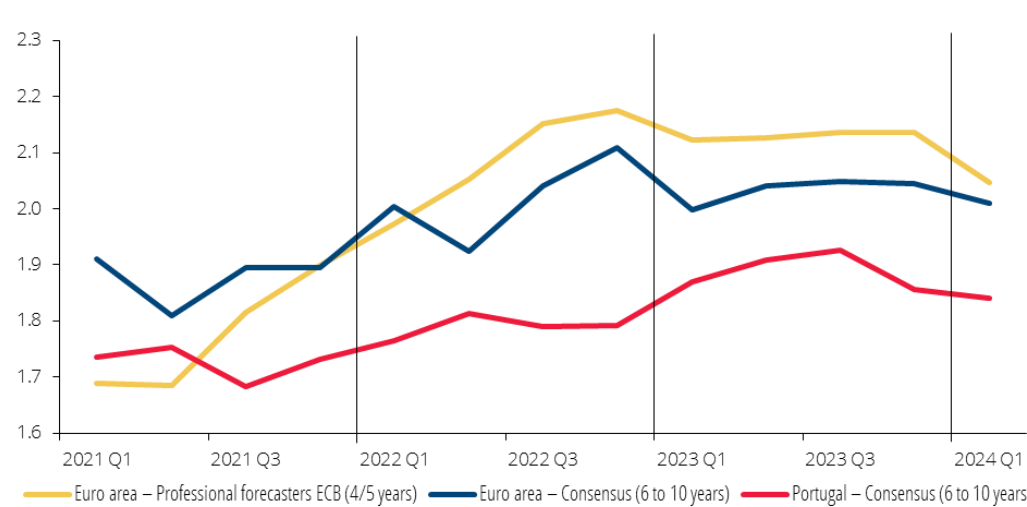
Chart I.2.6 • Decomposition of the change in the GDP deflator using the income approach | Annual rate of change, as a percentage, and contributions in percentage points



Sources: Statistics Portugal (Banco de Portugal calculations).

Longer-term inflation expectations declined to close to the ECB's 2% target, helping to avoid a cycle of successive increases between prices and wages. Most indicators suggest that monetary policy was successful in maintaining expectations anchored during the inflationary surge. In the euro area, longer-term expectations of professional forecasters increased slightly between 2021 and 2022, reaching a peak of 2.2%, but declined in 2023 and stood close to 2% at the beginning of 2024. In Portugal, these expectations also increased in 2022 and part of 2023, but always remained below 2% and decreased at the end of the year (Chart I.2.7). Measures of inflation compensation extracted from financial instruments and consumers' expectations rose substantially in 2022, but also returned to levels close to 2% at the end of 2023.

Chart I.2.7 • Longer-term inflation expectations of professional forecasters | Annual rate of change, as a percentage



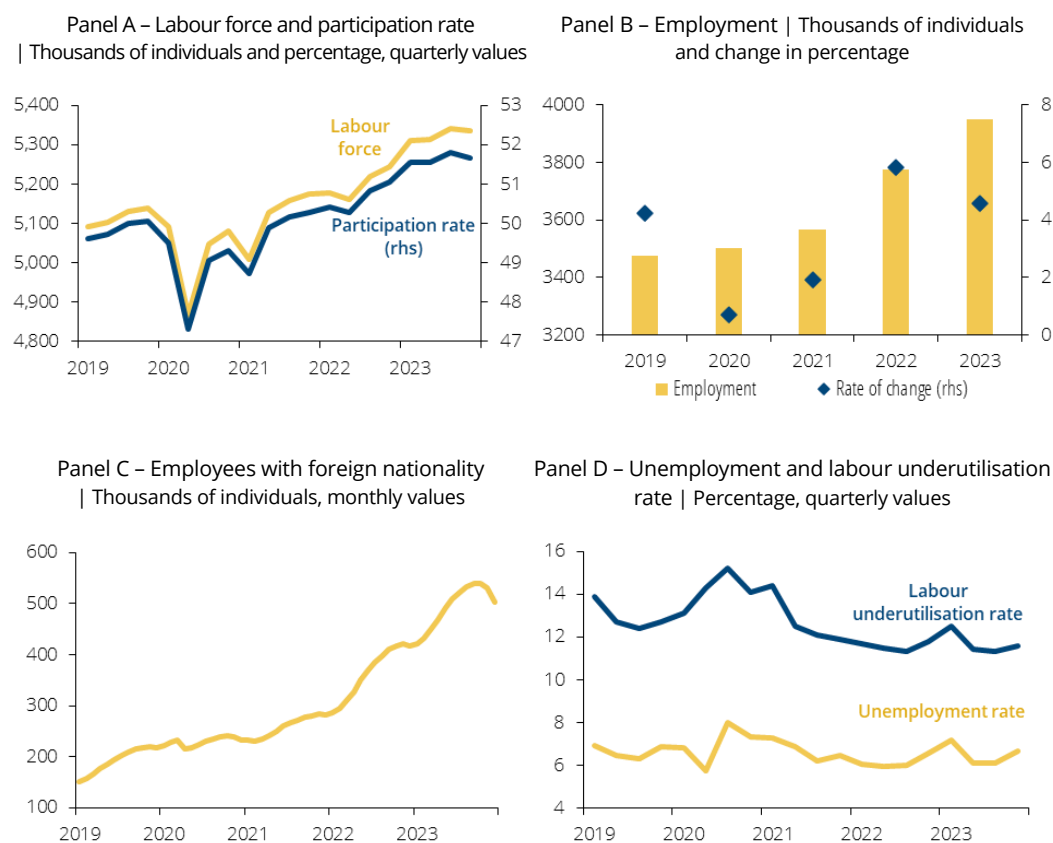
Sources: ECB and Consensus Economics. | Notes: Professional forecasters ECB – Average 4- or 5-year inflation forecast in the Survey of Professional Forecasters conducted quarterly by the ECB. Consensus – Average inflation forecast over 6 to 10 years in the survey conducted quarterly by Consensus Economics.

2.2 Labour market dynamism

The labour market situation remained favourable in 2023. The labour force continued the upward trend observed since mid 2020, growing by 2.4% in 2023, after 1.6% in the previous year (Chart I.2.8 – Panel A). The participation rate for the total population increased by 1 p.p. from 2022, to a peak of 51.6%. Employment recorded in the Social Security grew by 4.6% on average in 2023, standing 13.6% higher than in 2019 (Chart I.2.8 – Panel B). The high net immigration flow contributed to this development. The average monthly number of full-time employees with foreign nationality residing in Portugal amounted to 495.2 thousand in 2023, up from 365.6 thousand in 2022 (Chart I.2.8 – Panel C).

The unemployment rate stood at 6.5% in 2023, 0.4 p.p. up from 2022 (Chart I.2.8 – Panel D). The unemployment rate in Portugal has been characterised by significant stability in recent years, standing between 6% and 7% – the lowest in the last two decades. The youth unemployment rate (aged 16 to 25 years) was 20.2% (19.1% in 2022), while the share of long-term unemployment (12 months or more) in total unemployment stood at 42.0%, down 7.4 p.p. from 2022. The labour underutilisation rate stood at 11.7% on average in 2023, the same as in the previous year with discouraged workers declining by 5.7% to a low of 115 thousand individuals.

Chart I.2.8 • Main labour market aggregates



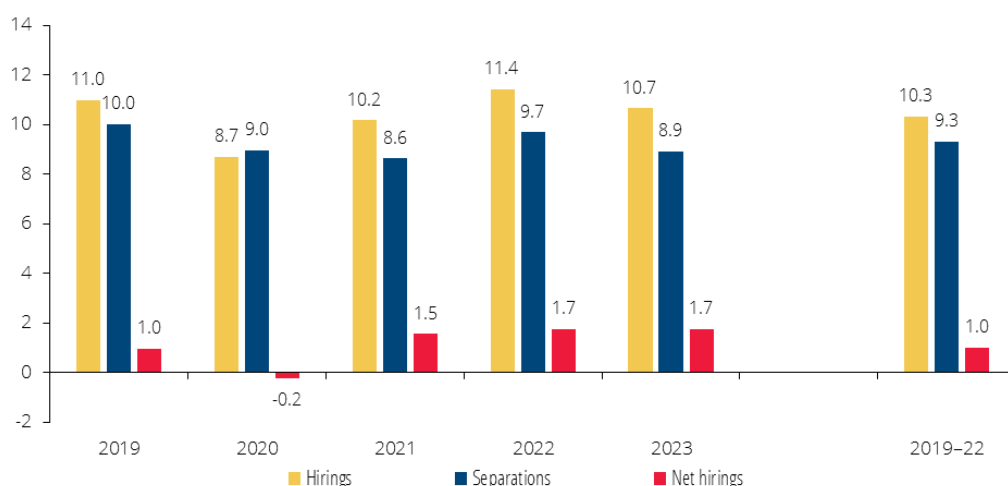
Sources: panels A and D: Labour Force Survey (Banco de Portugal calculations); panels B and C: microdata of Social Security (Banco de Portugal calculations). | Notes: in panel B were considered the employees with, at least, the equivalent of a day of remuneration in the firm each month and aged 16 or over. In panel C were considered employees with, at least, the equivalent of a day of remuneration in the firm, in working age (16-74 years old) and resident in Portugal each month.

Hiring and separation rates remained high. The Social Security microdata for employees indicate that the average quarterly net hiring rate was 1.7% in 2023, the same as in 2022. This corresponds to an average quarterly hiring rate of 10.7% and a separation rate of 8.9% (Chart I.2.9). This means that on average in each quarter of 2023, around one in nine jobs was the result of a new employee-firm contractual relationship and approximately one in eleven employees ceased their employment contracts. In 2023, on quarterly average terms, almost 455 thousand employment contracts were initiated and around 382 thousand were ceased, corresponding to a decrease of 0.2% in hirings and 1.5% in separations compared with 2022.

Hiring and separation rates remained higher for younger workers. For workers aged up to 35 years, the quarterly average hiring and separation rates were 17.3% and 13.4% of the average employment for this age group, respectively. For older workers, these figures were 6.8% and 6.4%, respectively.

The contribution of foreign workers to hirings and separations increased amid a context of accelerating net migration flow. Foreign workers contributed to the quarterly average hiring and separation rates by 4.3 p.p. and 3.0 p.p. in 2023, compared with 3.8 p.p. and 2.6 p.p. in 2022. The contributions from Portuguese workers to the quarterly average hiring and separation rates in 2023 were 6.4 p.p. and 5.9 p.p., respectively.

Chart I.2.9 • Worker flows | Average quarterly rates, as a percentage of average employment in the end months of the quarter



Source: microdata of Social Security (Banco de Portugal calculations). | Notes: considers employees and excludes employee-firm pairs for which there is no information of base remuneration. All calculations were made at the firm level. Hirings (separations) were calculated by summing the number of employees in the firm at time t ($t-1$), but not at $t-1$ (t). The start (end) date of the contractual relationship was used to define the month of hiring (separation). Net hiring corresponds to the difference in employment levels between two periods (end-months of the quarter).

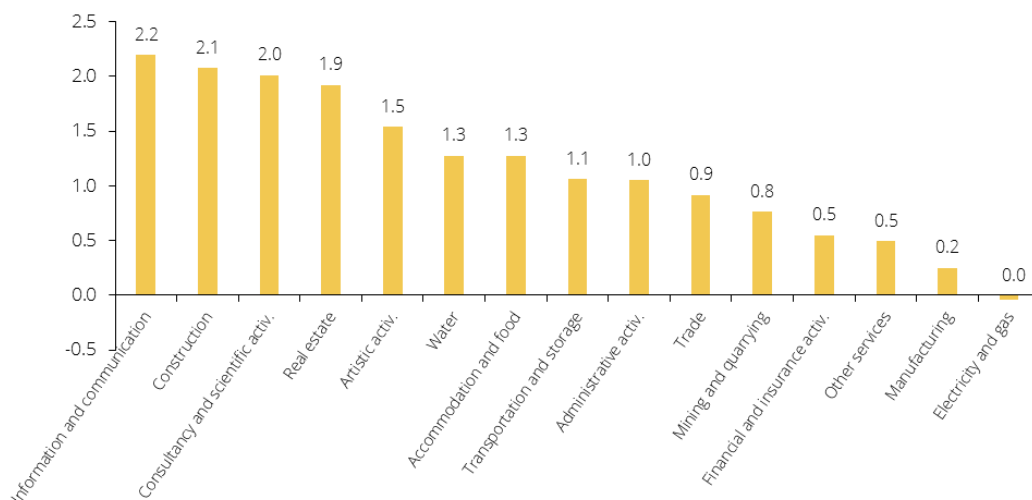
Sectors associated with information and communication activities, construction, consultancy, scientific and technical activities, and real estate recorded the highest quarterly net job creation rates from 2019 to 2023 (Chart I.2.10).² In 2023, this momentum was stronger in the accommodation and food services, construction, consultancy, scientific and technical activities, and real estate sectors.

² The following sections of the Portuguese Classification of Economic Activities (CAE- Rev.3): A – Agriculture, hunting and forestry; O – Public administration and defence; Compulsory social security; P – Education; Q – Human health and social work activities; T – Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use; and U – Activities of international organisations and other extraterritorial institutions are not represented in the chart as total employment in these sectors and their performance may be underrepresented in the Social Security microdata.

The net job creation rate was higher for firms in sectors with higher-than-average wages.

This rate was 2.1% of the average employment of this group in 2023, 0.3 p.p. higher than that of firms in sectors paying the average wage or lower.³ Between 2019 and 2022, the difference in the quarterly net job creation rates for firms in sectors with higher-than-average wages was 0.5 p.p.

Chart I.2.10 • Net job creation by activity sector from 2019 to 2023 | Average quarterly rates, as a percentage of the sector's average employment in the end-months of the quarter



Source: microdata of Social Security (Banco de Portugal calculations). | Notes: considers employees and excludes employee-firm pairs for which there is no information of base remuneration. All calculations were made at firm level. Net job creation by sector corresponds to the difference in the employment level in each sector between two periods (end-months of the quarter).

The number of workers accumulating jobs further increased in 2023. Around 66.9 thousand employees worked two or more jobs, monthly, with at least seven days of remuneration at the firm. This represents an increase of 15.4% from the 2019 monthly average and 1.8% compared with 2022 (Chart I.2.11). In terms of age, 35.3% were aged up to 35 years and 43.1% between 36 and 50 years. The phenomenon of job accumulation may have many causes. On the workers side, there may be a need to compensate for the negative impact of rising inflation and interest rates on household budgets and a search for more flexible forms of employment. Firms may be changing the nature of the jobs created, in a context where some sectors report an increasing share of firms experiencing hiring difficulties.

This labour market momentum is also reflected in the existence of a wage premium associated with job changing. Wage gains and the frequency of changing jobs are typically associated with increases in productivity. Full-time employees who had a different job in 2023 recorded an average growth in regular wages of 14.1%, compared with 7.9% for employees who stayed at the same firm (Chart I.2.12).⁴ This wage premium has remained stable in recent years.

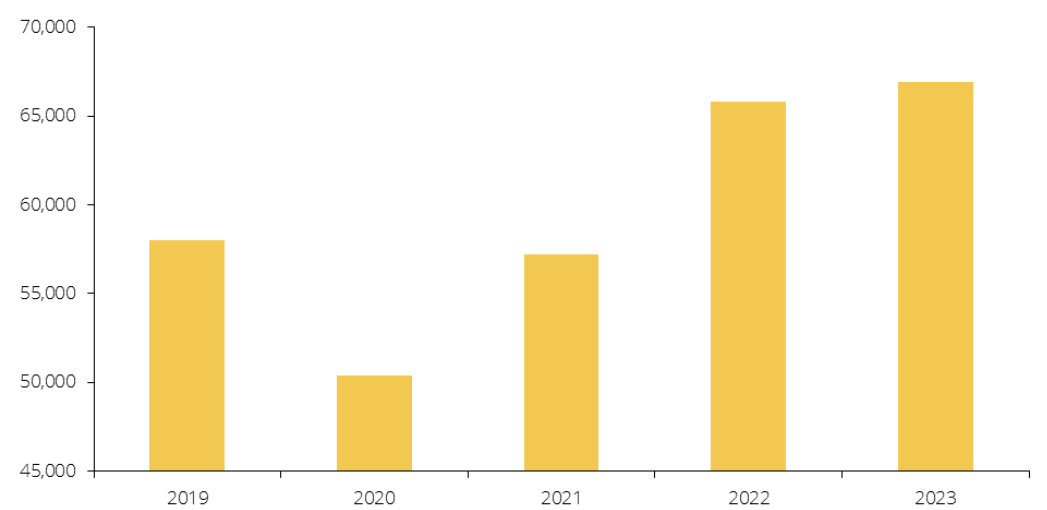
Gross regular wages per employee increased by 8.5% on average in 2023, 3.4 p.p. above the change in the private consumption deflator. The recovery of real wages followed the loss of purchasing power in the previous year. In 2022, the change in the private consumption deflator

³ The sectors paying wages above the average wage are in the following sections of the CAE Rev.3: B – Mining and quarrying; D – Electricity, gas, steam, cold and hot water and cold air; H – Transportation and storage; J – Information and communication activities; K – Financial and insurance activities; M – Consultancy, scientific and technical activities; and R – Arts, entertainment, sports and recreational activities.

⁴ On average in 2023, around 7.7% of employees changed firms each month compared with the same month of 2022. This figure has remained stable in recent years, averaging 7.4% between 2019 and 2022.

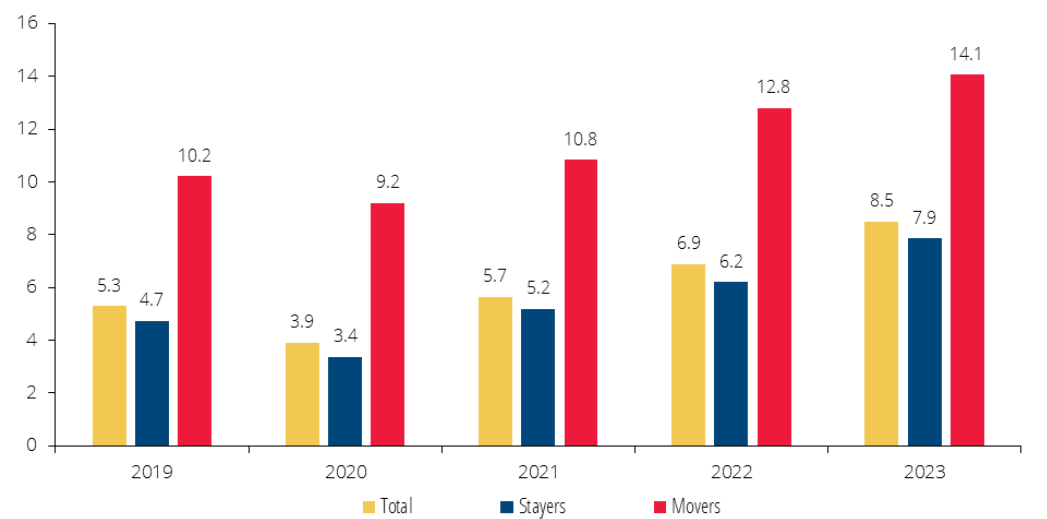
was 7.4%, while the average year on year change in wages had been 6.9% (Chart I.2.12). This recovery is consistent with the gains that have been observed in real wage over the past decade.

Chart I.2.11 • Number of employees with two or more jobs each month



Source: microdata of Social Security (Banco de Portugal calculations). | Note: employees with, at least, the equivalent of seven days of remuneration in each firm each month were considered.

Chart I.2.12 • Year-on-year rates of change in nominal gross regular wages per employee | Total and for employees who change or remain in the same firm, in percentage

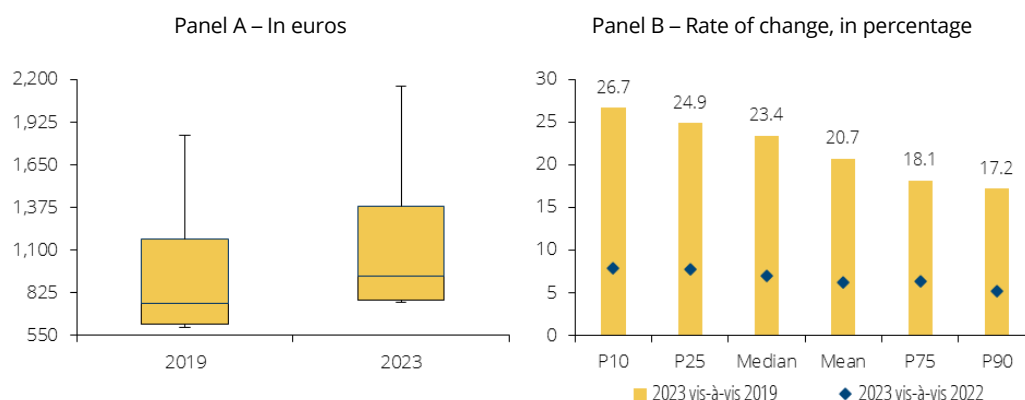


Source: microdata of Social Security (Banco de Portugal calculations). | Notes: employees with the equivalent of a full month remuneration were considered (30 days of work reported in the sum of the number of hours worked in the firm each month). Regular remuneration includes base remuneration, meal allowance, regular monthly allowances and bonuses and other monthly payments. Employees who change firms are employed in a different firm in month *t* compared to month *t-12*. The annual rates of change were obtained through the average of the monthly year-on-year rates of change.

The bottom percentiles of the distribution of gross regular wages of full-time employees showed the highest growth. In 2023, the 10th percentile increased by 26.7% compared with

2019, the same as the national minimum wage (Chart I.2.13).⁵ In the percentiles corresponding to wages just above the minimum wage, growth was lower, standing at 24.9% in the first quartile. The median of the nominal regular wages of full-time employees was €930 per month, in gross terms, in 2023, 23.4% higher than in 2019.

Chart I.2.13 • Distribution of gross nominal regular monthly wages



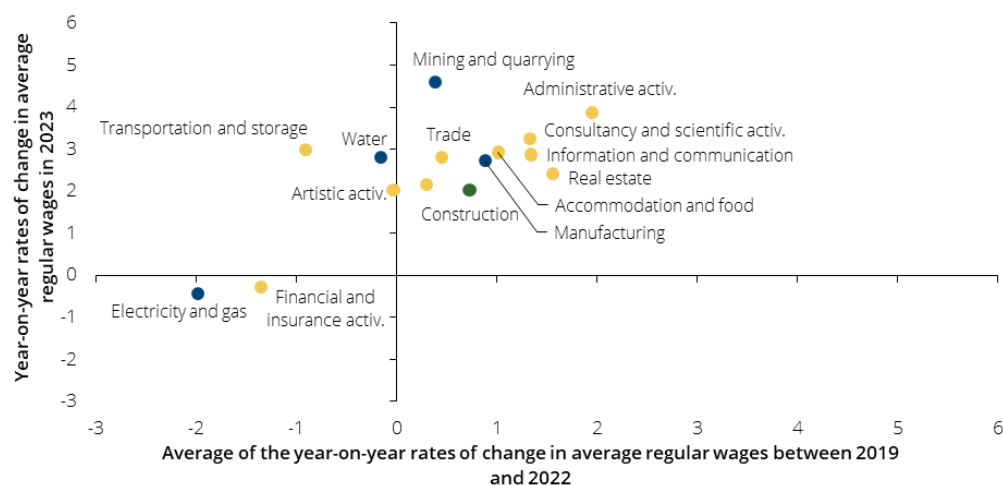
Source: microdata of Social Security (Banco de Portugal calculations). | Notes: employees with the equivalent of a full month remuneration were considered (30 days of work reported in the sum of the number of hours worked in the firm each month). Regular remuneration includes base remuneration, meal allowance, regular monthly allowances and bonuses and other monthly payments. The lower and upper extremes represented in the diagrams in panel A represent, respectively, the average of the 10th percentile and the 90th percentile of the distribution of gross nominal regular monthly wages for the respective years.

In real terms, regular wages showed strong momentum in most sectors of activity. Sectors associated with industry, transportation, administrative activities and consultancy and scientific activities recorded year on year rates of change in average regular wages above 3.0% in real terms in 2023 (Chart I.2.14). The transportation, water and arts sectors recovered from the real losses recorded on average in the 2019-22 period, growing by 3.0%, 2.8% and 2.0% in 2023, respectively. The sectors of financial activities and electricity and gas, where average wages are highest, continued to record losses (-0.3% and -0.4% in 2023 respectively). Strong labour demand contributed to wage dynamics in 2023 against a background of expanding labour supply due to the strong net flow of immigration.

Sectoral analysis suggests a positive relationship between regular wage growth and average employment growth in 2023 compared with 2019. The sectors associated with information and communication activities, consultancy, scientific and technical activities, real estate and construction recorded the highest average employment growth in 2023 compared with 2019 (41.6%, 33.6%, 30.2% and 25.8% respectively). These are also among the sectors with the highest growth rates in average regular nominal wages (24.0%, 24.2%, 22.6% and 19.6%, respectively) (Chart I.2.15). Information and communication activities and consultancy, scientific and technical activities are among those with the highest growth in GVA and exports, with gains in market shares in this period. In the case of construction, growth in employment and remuneration was strongly supported by the supply of foreign workers, in a context of strong hiring difficulties.

⁵ The national minimum monthly wage was €760 in 2023 and €600 in 2019.

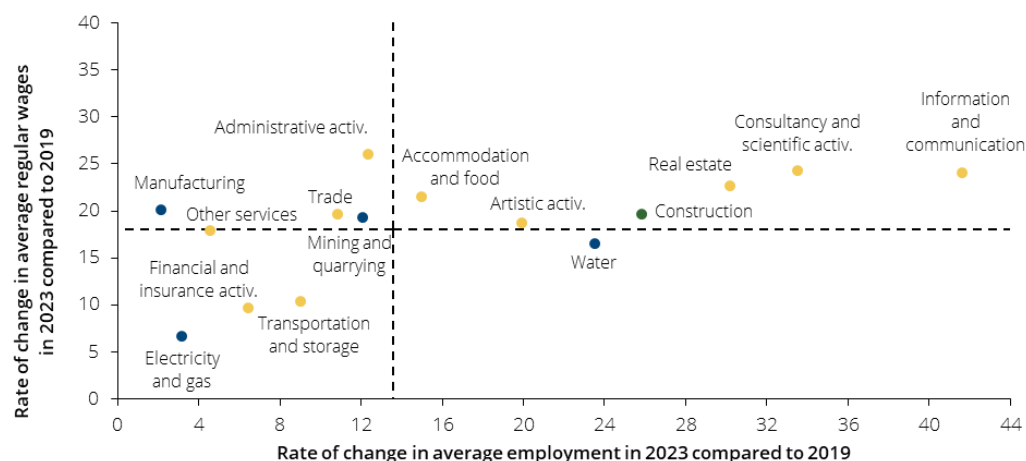
Chart I.2.14 • Rates of change in average regular wages, at 2016 prices, by activity sector | Percentage



Source: microdata of Social Security and Statistics Portugal (Banco de Portugal calculations). | Notes: employees with, at least, the equivalent of a day of remuneration at the firm were considered. The quarterly private consumption deflator was used. The different colors group the sectors into industry, construction and services.

The labour market in this period was dominated by firms' labour demand. The confluence of increases in employment and wages is compatible with a market in which firms have driven this development. Thus, the response of labour supply, both in number and quality (higher skilled), led to the highest number of jobs ever recorded in Portugal, with contained wage pressures. Positive net migration flows and the increase in education underpin this all-around positive development of the Portuguese economy.

Chart I.2.15 • Rate of change in average regular nominal wages and average employment in 2023 compared to 2019 by activity sector | Percentage



Source: microdata of Social Security (Banco de Portugal calculations). | Notes: employees with, at least, the equivalent of a day of remuneration at the firm were considered. The dashed lines represent the rates of change in average regular nominal wages and average employment (employees) in 2023 compared to 2019 for the total economy: 18.1% and 13.6%, respectively. The different colors group the sectors into industry, construction and services.

Growth in the Portuguese economy has benefited from the buoyancy in the labour market in terms of job flows and wages. This positive performance, also observed in the euro area, represents progress in the functioning of markets and institutions and should contribute to increasing the welfare of citizens.

2.3 The improvement in external accounts

In 2023 the current and capital account showed a surplus of 2.7% of GDP, after a deficit of 0.2% of GDP in the previous year (Table I.2.2). Since the sovereign debt crisis, the current and capital account have recorded a surplus of 1.4% of GDP, on average, in contrast to the average deficit of 7.8% of GDP in 1999-2011 (Chart I.2.16). Cyclically adjusted current account estimates point to this improvement being mostly structural.⁶ This development was due to a reduction in the non-energy goods account deficit, from 8.0% of GDP on average over the period 1999-2011 to 3.7% over the period 2012-23. In addition, the increase in the tourism and other services account balances also contributed to the improvement.

Table I.2.2 • Balance of payments | Percentage of GDP

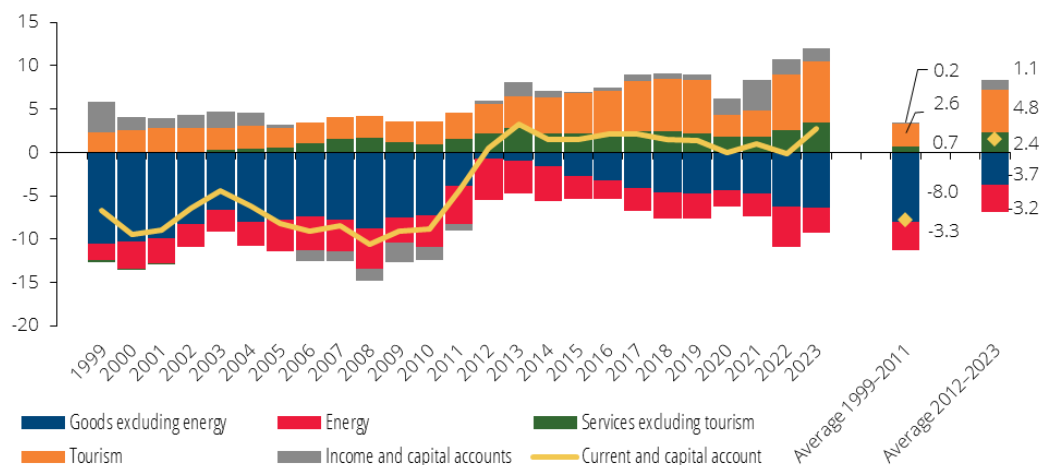
	2019	2020	2021	2022	2023
Current and capital account	1.3	-0.1	1.0	-0.2	2.7
Current account	0.4	-1.0	-0.8	-1.1	1.4
Goods and services account	0.8	-1.9	-2.6	-1.9	1.2
Goods	-7.6	-6.2	-7.4	-10.9	-9.3
Services	8.4	4.3	4.9	9.0	10.6
Primary income account	-2.4	-1.4	-0.8	-1.4	-1.8
Secondary income account	2.0	2.3	2.6	2.2	2.0
Capital account	0.9	1.0	1.7	0.9	1.4
Financial account	1.5	0.1	1.2	-0.1	3.0
Errors and omissions	0.2	0.1	0.2	0.1	0.3

Sources: Banco de Portugal and Statistics Portugal. | Note: The difference between the current and capital account and the financial account is explained by the errors and omissions.

The goods and services account balance returned to surplus in 2023. The balance in this account stood at 1.2% of GDP, 3.2 p.p. up from the previous year. The change in the goods and services account balance reflected a positive terms of trade effect, associated with the reduction in international oil prices (Chart I.2.17), which also influenced consumer price developments in Portugal and in the euro area (Highlight 2.1 – Inflation decline). In 2023, the terms of trade gain was 4.8%, reflecting the relative stabilisation of export prices and the fall in import prices. This gain contrasts with the cumulative 4.6% loss in the previous two years. The increase in the goods and services account balance also benefited from a positive volume effect, stemming from a real growth of services exports above that of the corresponding imports.

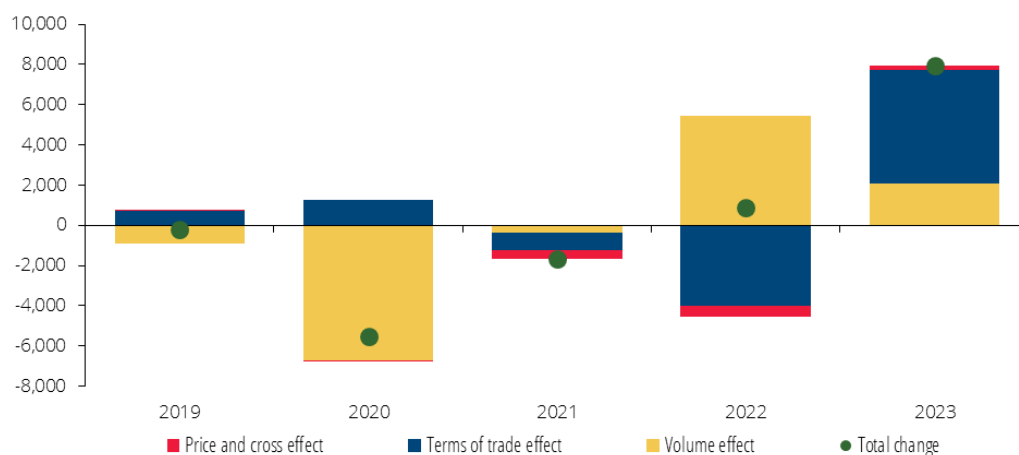
⁶ For more details on the cyclical adjustment of the current account, see Amador, J. and Silva, J. F. (2019) "Cyclically-adjusted current account balances in Portugal", *Banco de Portugal Economic Studies*, Vol. V, No 1.

Chart I.2.16 • Current and capital account and components | Percentage of GDP



Sources: Banco de Portugal and Statistics Portugal.

Chart I.2.17 • Breakdown of the change in goods and services account balance | Million of euros



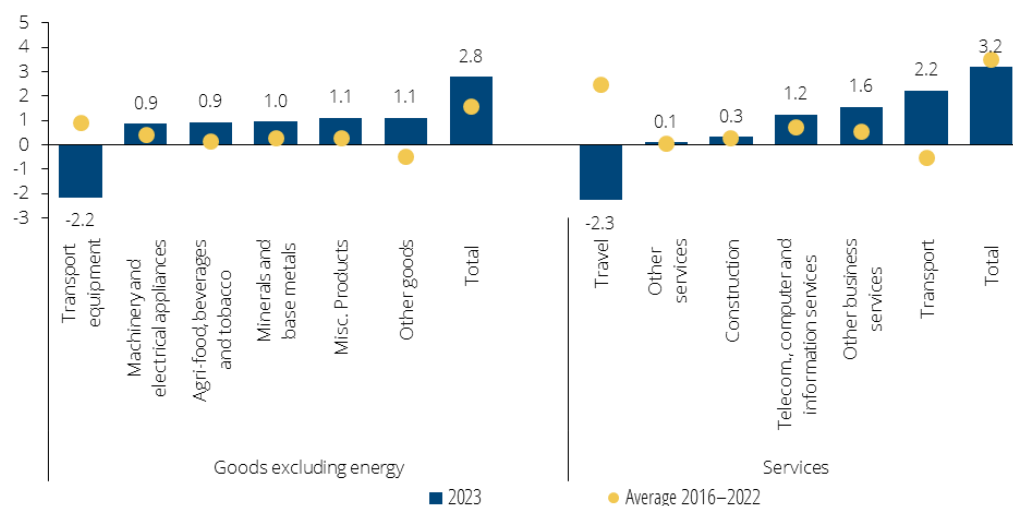
Source: Banco de Portugal. | Note: The change in the overall balance of goods and services account can be decomposed into four effects: (i) volume effect – effect of the change in quantities imported and exported $[X_{t-1} \times vx_t] - [M_{t-1} \times vm_t]$; (ii) price effect – effect of the average price growth of external trade $[X_{t-1} \times p_t] - [M_{t-1} \times p_t]$; (iii) terms of trade effect – effect of the relative change in exports and imports prices. $[X_{t-1} \times (px_t - p_t)] - [M_{t-1} \times (pmt - p_t)]$; (iv) crossed effect – effect of the interaction between the change in quantities and in prices of exports and imports, $[X_{t-1} \times vx_t \times px_t] - [M_{t-1} \times vm_t \times pmt]$. The following notation applies: X_{t-1} and M_{t-1} are the exports and imports in year $t - 1$ at current prices; vx_t and vm_t are the change rates in volume of exports and imports in t ; p_{xt} and p_{mt} are the change rates of exports and imports prices in t ; pt is the average change rate of the prices of external trade in year t $((p_{xt} + p_{mt})/2)$.

Export growth took place against a background of sluggish external demand and translated into market share gains in international markets. The 4.7% market share gain in exports of goods and services, in real terms, has extended the favourable performance of the exports sector over the last 15 years.⁷ The analysis of trade in non-energy goods with the EU in nominal terms in 2023 shows market share gains in most sectors, except for transport equipment (Chart I.2.18). In services, the figures also point to a positive performance of transport, communication, computer

⁷ For more details on the constant market share analysis of exports of goods and services to the EU, see the boxes entitled “Recent developments in the market share of Portuguese exports”, in the June 2018 issue of the *Economic Bulletin*, and “Performance of Portuguese exports of goods and services”, in the December 2023 issue of the *Economic Bulletin*.

and information services and other business services. In travel, results point to a market share loss in 2023 after accumulating significant gains in recent years.

Chart I.2.18 • Market share effect in nominal exports to EU – contributions | Percentage points



Sources: Banco de Portugal, Eurostat and Statistics Portugal (Banco de Portugal calculations). | Note: market share effect that measures the impact of the change in market share in each market (country/product), calculated as the difference between the growth rate of Portuguese exports and the growth rate of imports in each individual market, weighted by the share of each individual market in the total Portuguese exports to EU. For the goods components, were considered the imports of 26 EU partners, broken down by product (11 groups of product, defined from the Combined Nomenclature classification), resulting in 286 individual markets crossing country and product. For services, were considered the imports of 26 EU partners, broken down by service (9 types of services according to the 6^a edition of IMF balance of payments manual), resulting in 234 individual markets crossing country and type of service. For more details on the methodology see Amador, J. e Cabral, S. (2008), "The Portuguese export performance in perspective: a constant market share analysis", *Economic Bulletin*, Banco de Portugal, Autumn 2008.

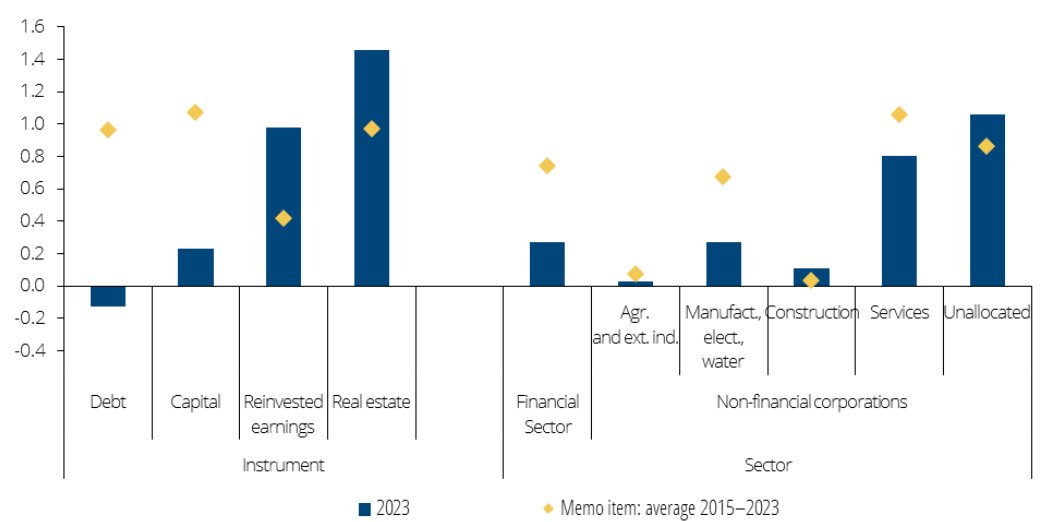
The joint income and capital accounts balance declined by 0.2 p.p., as the deficit in property income widened and the surplus from transfers with the EU stabilised. The property income deficit went from 2.4% of GDP in 2022 to 2.6% of GDP in 2023, with interest paid increasing more than interest received. These developments reflect the impact of interest rate hikes, which were partly offset by a reduction in the external debt stock. Total inflows of EU funds, net of payments, stabilised as a percentage of GDP, reducing the component recorded in the primary and secondary income accounts (by 0.3 p.p. of GDP), while funds classified in the capital account, including those allocated to the Recovery and Resilience Programme, increased by 0.3 p.p. In turn, the balance of labour income was of 0.4% of GDP. This surplus increased by 0.1 p.p. of GDP in 2023, continuing the upward path that began after the pandemic, with the wage bill received from abroad growing at rates above that paid to non-residents. The balance of migrants' remittances was 1.3% of GDP, a 0.1 p.p. reduction, with a 7.4% rate of change in immigrants' remittances, higher than the 2.4% growth in emigrants' remittances. Brazil was the main destination for remittances, 49.3% of the total, while the US and the United Kingdom generated the main contributions to the growth of remittances received from abroad, 1.3 p.p. and 1.2 p.p. respectively.

The current and capital account surplus resulted in a net outflow of funds amounting to 3% of GDP. This outflow, recorded as a surplus in the financial account, mainly corresponded to amortisation of government debt securities held by non-residents and of TARGET liabilities. This resulted in a reduction in net external debt of the general government and the Central Bank of 7.1 p.p. and 4.2 p.p. of GDP respectively, contributing to the 12.9 p.p. decrease in net external debt. Regarding non-financial corporations, the main external financial transactions involved direct investment

operations, with the sector capturing the equivalent of 2.3% of GDP in foreign investment and investing 1.3% of GDP abroad.⁸

In 2023, net foreign direct investment in the Portuguese economy amounted to 2.5% of GDP, after 3.3% in 2022. The decrease compared with the previous year reflected a lower inflow of capital and debt, while real estate investment by non-residents increased to 1.5% of GDP. By sector, foreign direct investment was mostly directed towards services, amounting to 0.8% of GDP (Chart I.2.19). Traditionally, Portugal is a receiving economy for foreign direct investment. Net inflows of these types of funds averaged 3.4% of GDP between 2015 and 2023 (Chart I.2.20). This financing took place through acquisition or capital increases in firms, but also through indebtedness with group companies, specifically through securities issuance and trade credits (Chart I.2.19). Real estate investment was also important in these inflows, amounting on average to 1.0% of GDP over the period 2015–23. In this period, services were also the main recipient of foreign direct investment, but investment in industry and in the financial sector was also noteworthy.

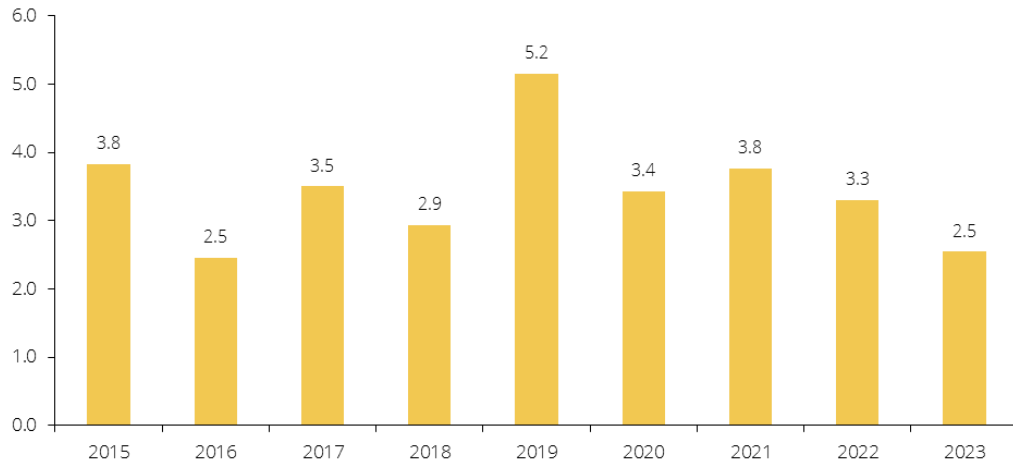
Chart I.2.19 • Breakdown of Inward Direct Investment flows (directional principle) – 2023 | Percentage of GDP



Sources: Banco de Portugal and Statistics Portugal. | Notes: According to the directional principle, data is presented according to the direction of the investment, always prevailing the relationship of the participating company (direct investor) in the investee (direct investment enterprise). In sector breakdown, the real estate investment is included under the item "unallocated".

⁸ In this highlight, the figures for direct investment follow the directional principle: data are presented according to the investment direction and the relationship between the shareholder/investor and the owned firm/recipient always prevails.

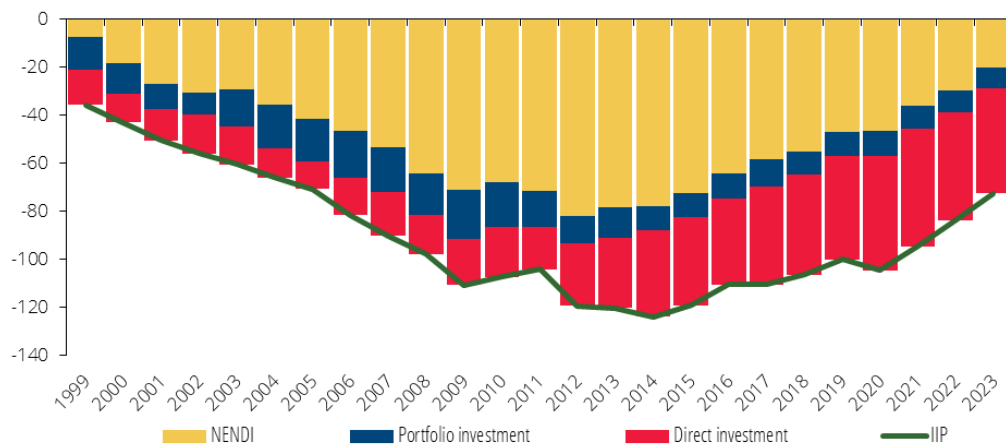
Chart I.2.20 • Inward Direct Investment flows (directional principle) | Percentage of GDP



Sources: Banco de Portugal and Statistics Portugal. | Note: According to the directional principle, data is presented according to the direction of the investment, always prevailing the relationship of the participating company (direct investor) in the investee (direct investment enterprise).

The economy's net lending contributed to an improvement in the external position. The international investment position (IIP) became less negative by 11.1 p.p. Of GDP, standing at 72.5% of GDP by the end of 2023. This reflected the effect of the economy's nominal growth, estimated at 7.3 p.p., and, to a lesser extent, the external surplus and price changes, with contributions of 3.0 and 1.9 p.p. respectively. Despite progress, the IIP is still below the value considered prudent in the macroeconomic imbalance procedure of the European semester (-35% of GDP). Excluding investments in non-defaultable instruments from the external position results in the NENDI (NIIP excluding non-defaultable instruments), a measure also used by the European Commission when assessing macroeconomic imbalances. The NENDI stood at 20.2% of GDP at the end of 2023, after recording -29.6% of GDP in 2022. The difference between these two measures comes from the net direct investment position, where the stock held by non-residents largely exceeds Portugal's direct investment position abroad, with values of 68.0% and 24.3% of GDP, respectively, at the end of 2023 (Chart I.2.21).

Chart I.2.21 • From IIP to NENDI | Percentage of GDP



Sources: Banco de Portugal and Statistics Portugal. | Notes: IIP – International Investment Position, NENDI – Net International Investment Position excluding non-defaultable instruments. The portfolio investment component corresponds to shares and other participations except mutual funds shares. This measure is used by the European Commission in the context of the Macroeconomic imbalances procedure.

The continued reduction in external indebtedness and attracting foreign direct investment towards the higher value-added sectors will contribute to an economy that is more resilient to adverse shocks and more productive, thereby benefiting potential output growth.

II Banco de Portugal activity in 2023

- 1 Strategic plan
- 2 Monetary policy and asset management
- 3 Payment systems and means of payment
- 4 Regulation
- 5 Macroprudential policy and supervision
- 6 Resolution
- 7 Enforcement function and upholding the
legality of the Bank's decisions
- 8 Knowledge creation and sharing
- 9 Governance and social and environmental
responsibility

1 Strategic plan

In 2023 the Banco de Portugal carried out a mid-term review of its Strategic Plan for 2021–25. This was justified because of the changing environment since it was approved, particularly the implications of inflation and a tight monetary policy.

In the Banco de Portugal's assessment, these developments increased the relevance of the strategic guidelines (SG) initially set out in the plan. The exercise also simplified priorities. By virtue of its importance, strengthening proximity and trust among citizens remained a cross-cutting concern.

The Banco de Portugal's priorities until 2025 are as follows:

SG 1 | Banking system robustness

- To contribute to a discussion on the Eurosystem's monetary policy.
- To engage in designing and implementing the central bank digital currency.
- To develop methodologies to assess new risks with an impact on financial stability.
- To monitor the implications of climate change and energy transition.
- To participate in regulatory developments in the financial system and ensure that the regulatory, supervisory and resolution frameworks are aligned with internationally defined standards, in particular within the Financial Sector Assessment Program (FSAP).
- To strengthen the resolution function's operational capacity in the context of crisis management.

SG 2 | Protection of the banking market

- To promote the financial resilience of supervised institutions, compliance with resolvability conditions and to prevent household default.
- To monitor institutions' business models, focusing on digital transformation, operational resilience and environmental risk management.
- To strengthen the effectiveness of the mechanisms for the preventive supervision of money laundering and terrorist financing, including regarding entities operating with virtual assets.
- To assess and bolster the quality of reporting by institutions.
- To promote the general public's accessibility to the various payment solutions available.
- To streamline a medium/long-term digital financial literacy strategy for Portugal.
- To enforce the scope of supervised entities and the effectiveness of the principle of exclusiveness.

SG 3 | Recovery and resilience of the economy

- To help increase knowledge of public policy issues and foster dialogue with relevant sectors.
- To invest in data compilation to support analyses and studies and deepen cooperation with other entities.

SG 4 | Confidence and influence on society

- To foster economic literacy by explaining the bank's activities and tasks, creating confidence and understanding of its mission.
- To regularly interact with firms and society as a whole, bringing the Bank closer to the community.
- To enhance social responsibility and sustainability in terms of environmental, social and corporate governance parameters (ESG).

SG 5 | Governance and management

- To invest in staff management and development, matching skills and competences, and encourage projects in the field of data science.
- To deepen a culture of accountability for results.
- To consolidate draft integrated information management.
- To reinforce the Bank's technological capacity and innovation.
- To advance the project to concentrate the Bank's services dispersed across Lisbon in a new building.
- To strengthen the Bank's budgetary management considering developments in the profit and loss account.

For a Bank closer to the portuguese people

Main developments in 2023

A Bank that is closer...

1

...to citizens

- Live press conferences and publication of accessible summaries
Economic Bulletin
and Financial Stability Report
- New podcast series
"90 seconds of financial stability"
- Economic literacy campaigns
"#that simple" and "today is the day of"
- Financial education campaign
"#TopTip"
- Digital Financial Literacy Strategy for Portugal

40
PODCASTS

46
VIDEOS

7
DECODERS



over
41 million

PARTICIPANTS
in financial training
and training on
banknotes and coins

over
88 million

VISITORS
to the Money Museum



over
236 million

CUSTOMER SERVICES
INTERACTIONS
at branches and delegations
across the country

2

...to firms
and other civil
society institutions

- 2nd National Strategy for Retail Payments of the Payment Systems Forum
- Dialogue on the digital euro through the Market Advisory Group
- Workshop on the *Financial Stability Report* with firms



3
GOVERNOR'S
MEETINGS WITH
THE COMMUNITY
in Castelo Branco,
Faro and Lisbon

4
ECONOMIC FORUMS
with representatives
of academia, corporate
and financial sectors
and public and private
entities

3

...to education and research

- **StatFlix.** An e-learning programme on statistics available at 18 higher education institutions
- **Macroprudential policy course** for students of 11 higher education institutions
- **Economic and statistical literacy competitions** 357 teams of primary and secondary school students
- **650 activities for schools in the Money Museum**
- **Protocol with the Faculty of Law of Universidade do Porto and first *Jornadas Jurídicas***
- **183 primary and secondary school students** supported by the volunteering programme
- **€69,000 awarded in scholarships**
- **Presentations of the *Economic Bulletin* to university students in economics and finance**
- **"Connect to data" conference** with over 3,000 participants



7

OPEN CLASSES OF THE GOVERNOR at secondary schools in Castelo Branco, Faro, Lisbon, Mirandela, Ponta Delgada, Portimão and Vila Real

7

CONFERENCES

7

COURSES

48

SCIENTIFIC SEMINARS on economic and financial stability topics

147

EXTERNAL RESEARCHERS supported by BPLIM

A Bank that fosters dialogue...

4

...with supervised entities

- **Meetings on macroprudential policy measures**
- **Workshops on *Financial Stability Reports***
- **Seminar on prudential reporting obligations**
- **Meeting on prudential supervision priorities and developments**
- **Information sharing through the Banking Industry Forum on Cybersecurity and Operational Resilience**
- **Fintech meeting on virtual assets**



SETTING UP OF THE FORUM ON THE PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING

MEETINGS TO PREPARE FOR THE IMPLEMENTATION OF MEASURES TO MITIGATE THE IMPACT OF THE INTEREST RATE RISE

5

...with the other Portuguese supervisory authorities

- **Protocol with the Portuguese Securities Market Commission on the prevention of money laundering and terrorist financing**
- **4th survey on the financial literacy of the population**
- **Promotion of the National Plan for Financial Education**



PERMANENT DIALOGUE THROUGH THE NATIONAL COUNCIL OF FINANCIAL SUPERVISORS

2 Monetary policy and asset management

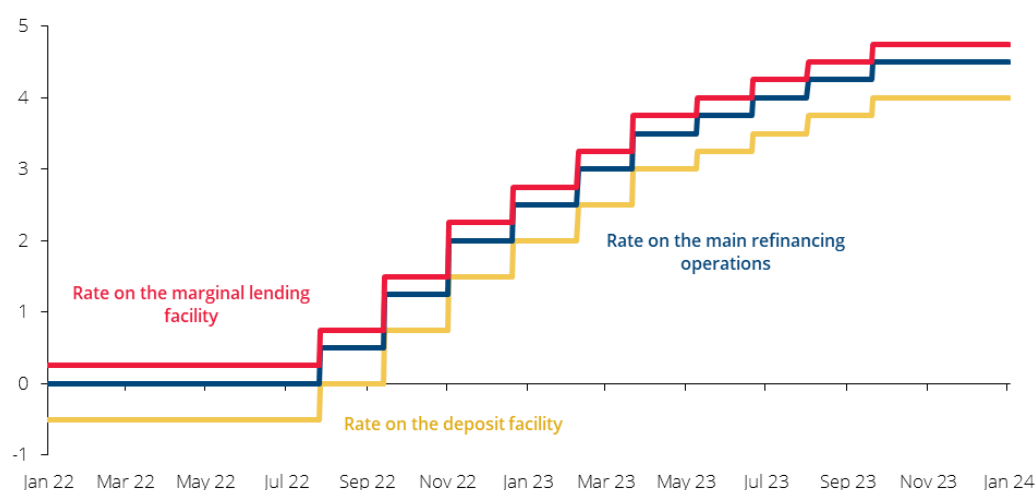
The Banco de Portugal contributes to defining and implementing the Eurosystem's monetary policy with the primary objective of maintaining price stability in the euro area. This is done through the Governor's participation in the Governing Council of the European Central Bank (ECB) – a collegiate body responsible for the monetary policy of the euro area –, the work in the technical committees that assist the Council and the implementation of approved measures.

..... The Governing Council raised interest rates further.

Between January and September 2023, the Governing Council raised the key ECB interest rates six times, by a cumulative 200 basis points (Chart II.2.1), to ensure that inflation returned to its 2% medium-term target. In the first nine months of the year, inflation declined, but available projections suggested that it would remain above the medium-term target for a protracted period. Core inflation (inflation excluding food and energy), with more volatile prices, also remained high. Interest rate hikes spilled over into tighter monetary and financing conditions in the euro area.

In September, interest rates on the deposit facility, the main refinancing operations and the marginal lending facility stood at 4.00%, 4.50% and 4.75% respectively. At subsequent meetings, the Governing Council left these rates unchanged as it considered that, if maintained for a sufficiently long period, they would dampen demand and make a substantial contribution to the timely return of inflation to its medium-term target. In December, inflation was projected to approach its target in 2025. The Governing Council continued to ensure that policy rates remained sufficiently tight for as long as needed and that its decisions would be made on the basis of a data-dependent approach.

Chart II.2.1 • Developments in key ECB interest rates | Per cent



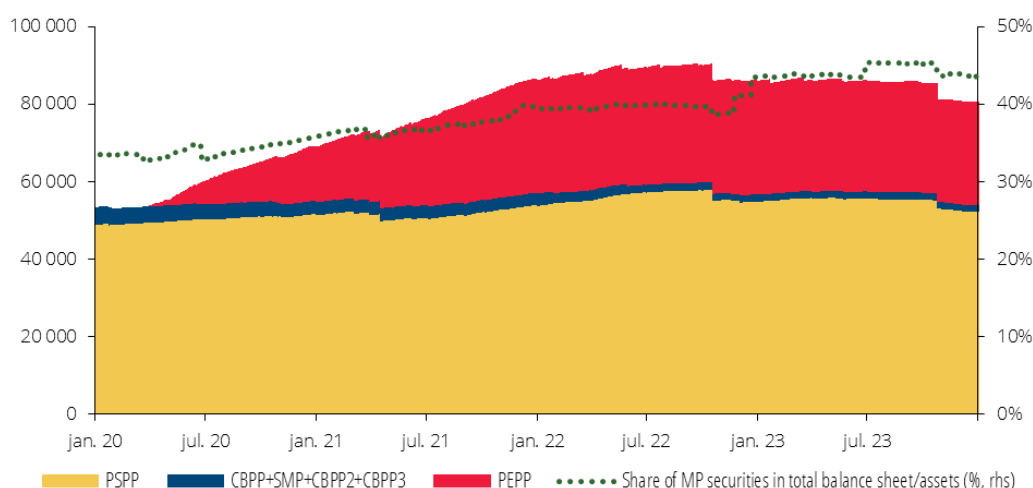
Source: ECB.

The asset purchase programme (APP) portfolio decreased on average by €15 billion per month between the beginning of March and the end of June. From February onwards, reinvestments were allocated proportionally to the share of redemptions across each constituent programme of the APP and, under the public sector purchase programme (PSPP), to the share of redemptions of each jurisdiction. Reinvestments in corporate bond holdings were tilted towards issuers with a better climate performance. As of July, the Council discontinued reinvestments under the APP.

The Governing Council announced that the amount of maturing securities purchased under the pandemic emergency purchase programme (PEPP) would be reinvested, in full, during the first half of 2024 and that the PEPP portfolio would be reduced on average by €7.5 billion per month in the second half of the year. By the end of 2024, reinvestments under the PEPP will be discontinued.

At the end of the year, the securities held on the Bank's balance sheet purchased under the APP and the PEPP stood at €53.9 billion and €26.6 billion respectively, totalling 43.4% of the balance sheet (Chart II.2.2). The share of Portuguese debt held by the Eurosystem was 2.3% of the total under the public sector purchase programme (PSPP), which is part of the APP, and 2.2% under the PEPP, in line with the Banco de Portugal's share in the ECB's capital (2.3%).

Chart II.2.2 • Developments in the outstanding amount of asset purchase programmes in Portugal (2020–23) | EUR millions



Source: Banco de Portugal. | Notes: PEPP – pandemic emergency purchase programme; CBPP – covered bond purchase programme; SMP – securities markets programme; CBPP2 – second covered bond purchase programme; CBPP3 – third covered bond purchase programme; PSPP – public sector purchase programme; MP – monetary policy. The PSPP and the CBPP3 are part of the asset purchase programme (APP). One-off decreases, such as those observed in October 2022 and October 2023, are because maturities occurring in a given month are reinvested smoothly throughout that year.

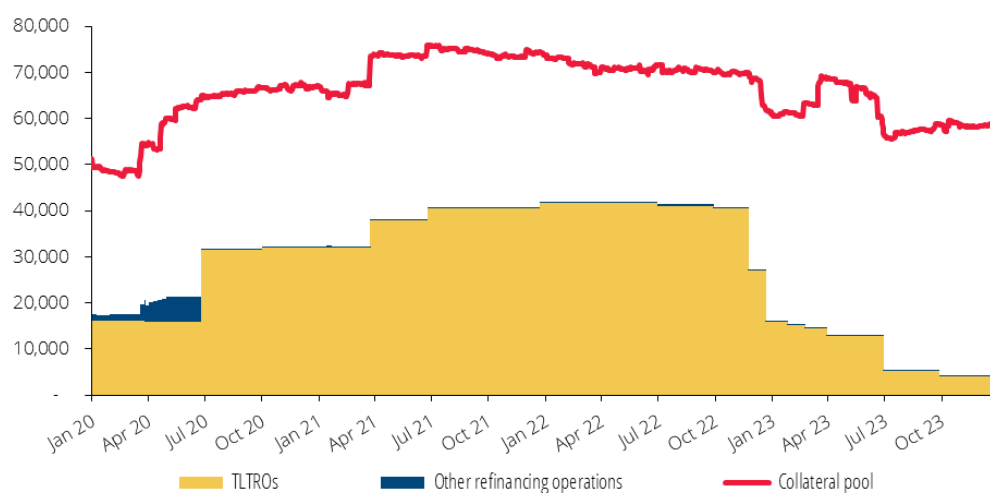
The minimum reserve system was also changed. In July, the Governing Council decided to set the remuneration of minimum reserves at 0%, with effect from September (after being remunerated at the deposit facility rate). This decision is aimed at maintaining control over the monetary policy stance and ensuring the full pass-through of interest rate decisions to money markets.

In Portugal, at the end of 2023, recourse to targeted longer-term refinancing operations (TLTROs) totalled €2.9 billion (99.4% of total refinancing operations), €12.9 billion less than in the previous year, as a result of early repayments and maturing of amounts borrowed (Chart II.2.3).

The total value of assets used as collateral for monetary policy operations by Portuguese counterparties stood at €58.0 billion at the end of the year. Recourse to the deposit facility remained high, driven by an environment of excess liquidity and positive interest rates, reaching €41.0 billion at the end of the year (Table II.2.1). In June 2023, two collateral easing measures introduced during the pandemic crisis

to facilitate access to Eurosystem credit operations were discontinued: the reduction in haircuts applied to the assets provided as collateral for monetary policy operations and the acceptance of non-listed commercial paper as collateral. The phasing-out of these measures led to a marginal reduction, by €2.0 billion, in the outstanding amount of Portuguese counterparties' collateral pool.

Chart II.2.3 • Developments in the outstanding amount of refinancing operations and the value of the collateral pool in Portugal (2020–23) | EUR millions



Source: Banco de Portugal. | Note: TLTROs – targeted longer-term refinancing operations.

Table II.2.1 • Monetary policy implementation in Portugal, main indicators (2020–23)

	2020	2021	2022	2023	Δ 2023–2022
Number of Eurosystem open market operations	256	160	158	175	11%
Number of open market operations resident counterparties participated in	55	13	13	18	38%
Number of standing facility operations involving resident counterparties	5	5	1,720	6,856	299%
Number of eligible (resident) counterparties	34	32	35	36	3%
Number of (resident) counterparties participating in open market operations and standing facilities	18	14	28	29	4%
Outstanding amount of liquidity-providing operations (EUR millions/year-end)	32,164	41,837	16,022	2,955	-82%
Outstanding amount of liquidity-absorbing operations (EUR millions/year-end)	4	4	42,973	41,055	-4%
Outstanding amount of collateral pools (resident counter-parties, EUR millions/year-end)	66,986	73,665	61,069	57,978	-5%
Outstanding amount of monetary policy portfolios (EUR millions/year-end)	69,050	86,171	85,992	80,508	-6%

Source: Banco de Portugal. | Note: The outstanding amount of liquidity-providing operations includes foreign exchange transactions.

Monetary policy instruments – refinancing operations and asset purchases – involve financial risks that are managed and controlled by the Eurosystem and the Banco de Portugal. In 2023, the Banco de Portugal controlled the risks involved in implementing monetary policy by applying eligibility criteria for counterparties, issuers and assets, and by imposing haircuts and limits on the use of collateral, which continued to be valued according to the common Eurosystem methodology.

The Banco de Portugal may bear the financial risks associated with asset purchase programmes or they may be shared by the Eurosystem based on the capital key distribution across NCBs: the Banco de Portugal bears the risk of Portuguese public debt securities held on its balance sheet, while the risk of purchasing private debt securities (particularly, corporate bonds) is shared by the Eurosystem.

In Eurosystem credit operations, risk derives from counterparties and, indirectly, from the credit quality of the assets pledged as collateral. In asset purchase programmes, risk derives from direct exposure to assets and their issuers. There is also a refinancing risk arising from the implementation of the medium/long-term asset purchase programmes financed by remunerated short-term liabilities.

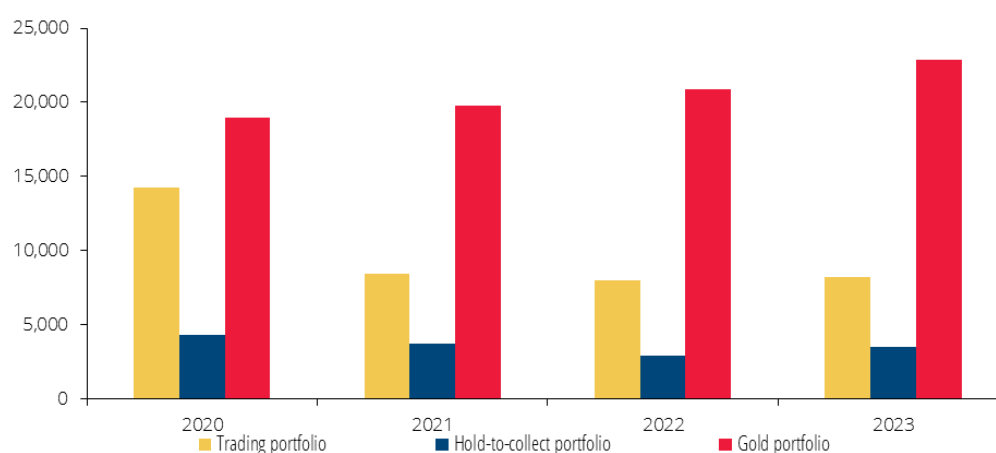
In order to protect against climate-related financial risks, in 2023, the Eurosystem started to decarbonise the corporate sector's securities portfolios in its balance sheet. It carried out preparatory work aiming at limiting the concentration of debt instruments issued by highly polluting entities in the collateral pool, as well to introducing requirements for disclosures on carbon emissions by non-financial issuers. Climate risk has also been incorporated into regular risk control reviews.

The Eurosystem followed up on the reflection, which started in late 2022, on the operational framework used to influence short-term interest rates.

As at 31 December, the Banco de Portugal's own investment assets amounted to €34.5 billion.

The Banco de Portugal manages a set of own investment assets denominated in euro, foreign currency and gold. As at 31 December 2023, the market value of these assets amounted to €34,547 million, an increase of 8.6% compared to the end of 2022, and was allocated among the trading, hold-to-collect and gold portfolios (Chart II.2.4).

Chart II.2.4 • Own investment asset portfolios (2020–23) | EUR millions



Source: Banco de Portugal. | Note: The total value of own investment asset portfolios does not correspond to that disclosed in Part III of this report, due to different valuation criteria.

Assets in the trading portfolio increased by 2.8% compared to 2022, owing to results obtained throughout the year, particularly for euro-denominated assets. As at 31 December, euro-denominated assets accounted for 77.1% of the total value of this portfolio.

The hold-to-collect portfolio – consisting of euro-denominated assets held to maturity – increased by 19.8% compared to 2022, thanks to favourable market conditions, which helped strengthen investment in this portfolio.

Direct investment in ESG sustainable bonds, notably in the hold-to-collect portfolio, has also been strengthened. The Bank continued to participate in the green bond funds managed by the Bank for International Settlements. In line with its public commitment by the Eurosystem, the Banco de Portugal

released its [first report on climate-related financial disclosures on its own financial assets](#), with reference to 2022. The stock of gold held by the Bank remained unchanged (382.6 tonnes) but increased in value by 9.3%.

In managing own investment assets, risks are borne exclusively by the Banco de Portugal and managed in accordance with a limit and restriction structure laid down in the investment guidelines approved by the Board of Directors.

In addition to its own assets, the Banco de Portugal manages two ECB reserve portfolios with Lietuvos bankas, denominated in US dollars (USD) and Chinese renminbi (CNY). As at 31 December 2023, these two portfolios amounted to USD 1,106 million (€1,001 million) and CNY 4,559 million (€581 million).

3 Payment systems and means of payment

The Banco de Portugal promotes the smooth operation of payment systems, which are essential for the stability of the Portuguese financial system and economy and to implement monetary policy. It also issues euro banknotes, puts coins into circulation, checks the authenticity and fitness of the cash it receives and collaborates with the Portuguese criminal police in combating counterfeiting.

In 2023, the Bank continued to monitor compliance with the rules established by the revised Payment Services Directive. It monitored the implementation of strong customer authentication and the functioning of the communication interfaces enabling the provision of account information services and payment initiation services. It assessed the separation between payment card schemes and payment processing entities and monitored the application of the IBAN non-discrimination rule, according to which anyone should be able to carry out credit transfers and direct debits from or to any payment accounts with an IBAN from a Single Euro Payments Area Member State. The Bank analysed major operational or security incidents and the payment service providers' reports on these incidents. It also assessed requests for exclusion from the application of the Legal Framework for Payment Services and Electronic Money by entities issuing payment instruments with a limited scope.

The new National Strategy for Retail Payments was launched, to be implemented by 2025.

Under the guidance of the Payment Systems Forum – an advisory body to the Banco de Portugal, which brings together the main national stakeholders in payment demand and supply – the results of the “National Strategy for Retail Payments | 2022 Horizon” were assessed and a new strategy was published, which will remain in effect until the end of 2025. The goal of the “[National Strategy for Retail Payments 2025](#)” is to contribute to providing secure, efficient and innovative payment solutions in the Portuguese market, fostering development and competition in the sector.

Among other lines of action, there are plans to strengthen communication on the available means of payment, new forms of payment and security measures, and to put technical and regulatory conditions in place to facilitate payments, in particular electronic and instant payments. Against this background, a solution will be made available to initiate transfers via a mobile phone number or legal person identification number. A functionality for confirmation of payee for credit transfers and of payer for direct debits and concerted action to prevent fraud and scams are also to be developed. The possibility of making it compulsory for firms to accept an electronic payment solution in addition

to cash, as well as a possible extension of electronic solutions for payments to the state, will be considered. Measures to reduce the environmental impact of payments will also be examined.

The Payment Systems Forum, under its revised composition and mandate, will carry out the “National Strategy for Retail Payments 2025”.

..... The digital euro project advanced to its preparation phase.

The Banco de Portugal continued to participate in the Eurosystem’s work on the digital euro. In October, the investigation phase of the project ended, during which priority use cases, the technical and functional design of a digital euro and its distribution model were identified. Over the course of the year, the ECB published two progress reports, the study on the preferences of payment service users, the results of the prototyping exercise and the conclusions of a market research on engaging service providers needed to make the digital euro available.

The Governing Council has not yet decided whether to advance with the creation of a digital euro, but in October it approved the transition to the preparation phase of the project. The first stage of this new phase, scheduled to last 24 months, aims to finalise the digital euro scheme rulebook, selecting the service providers that will be involved in implementing the necessary infrastructure, and developing additional testing and experimentation activities related to the design of the digital euro, its environmental footprint, user experience and financial inclusion.

The Banco de Portugal presented status reports to the market through the Portuguese Digital Euro Market Advisory Group. Although this group was set up to accompany the investigation phase of the project, the Bank decided to also keep it in place during the preparation phase. A digital euro section was created on the Bank’s website, providing detailed information on the objectives and phases of the project.

The Bank continued to monitor innovation in the payments market. It shared the outcome of the public consultation on its strategic approach to innovation facilitators and held a meeting with innovators – the fifth Fintech Meeting – to explain its powers in registering and supervising entities operating with virtual assets and the potential impact of the future European Regulation on markets in crypto-assets. It also hosted the conference “A new payments (r)evolution driven by regulation and data”, in which, alongside representatives from the ECB, the European Commission and payment market institutions and associations, it reflected on topics relevant to the future of payments, such as the digital euro, new legislative initiatives and the use of payment data for decision-making.

..... Payment systems operated smoothly.

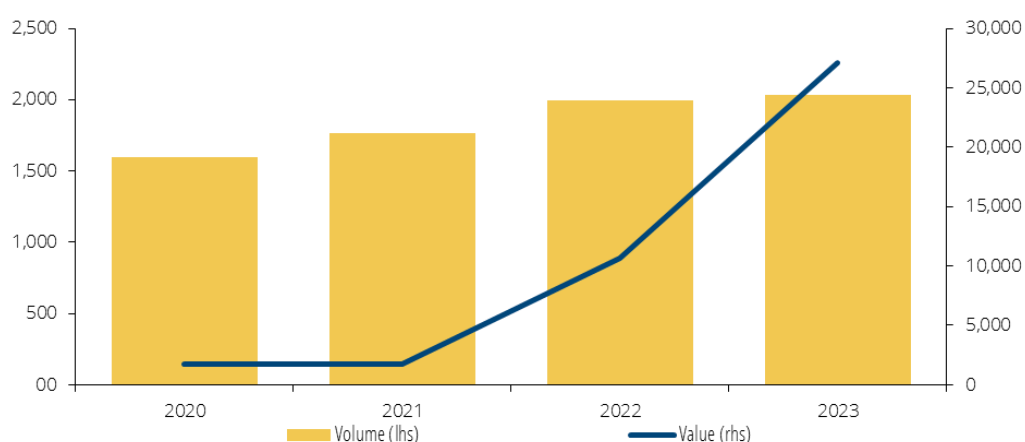
The Bank monitors the operation of financial market infrastructures, assessing them as regards the management of cyber, liquidity, credit and operational risks. It also operates market infrastructures ensuring the transfer of financial resources within the economy: SICOI – the Interbank Clearing System, which settles retail payments in Portugal, and TARGET, the platform developed by the Eurosystem for the real-time settlement of payments in euro.

In 2023, the Banco de Portugal assessed national market infrastructures (SICOI, OMIClear and Euronext Securities Porto) against cyber resilience standards in force in the euro area and conducted the Eurosystem’s regular survey on cyber resilience. As a representative of the Eurosystem, it assessed Euronext Securities Porto against the European Regulation on securities settlement and central securities depositories. It also completed its assessment of OMIClear’s recovery plan, under the European Regulation on recovery and resolution of central counterparties.

The year was marked by the launch of the Eurosystem's new payment settlement services – TARGET Services. The previous system, TARGET2, was discontinued and two new services went live: Real-Time Gross Settlement (RTGS), for the settlement of large-value real-time payments, and Central Liquidity Management (CLM), for the settlement of operations with central banks. TARGET has integrated TARGET2-Securities (T2S), which settles securities transactions, and TARGET Instant Payment Settlement (TIPS), where instant credit transfers are processed in central bank money. After five years of the Eurosystem jointly working with European credit institutions, the transition went smoothly.

The Portuguese component of the real-time gross settlement system (TARGET2-PT until 17 March and CLM and RTGS from 20 March onwards) processed around two million transactions, totalling €27,076 billion (Chart II.3.1). Compared to 2022, the number of transactions processed grew by 2.2%, and the amount settled increased by 154.6%.

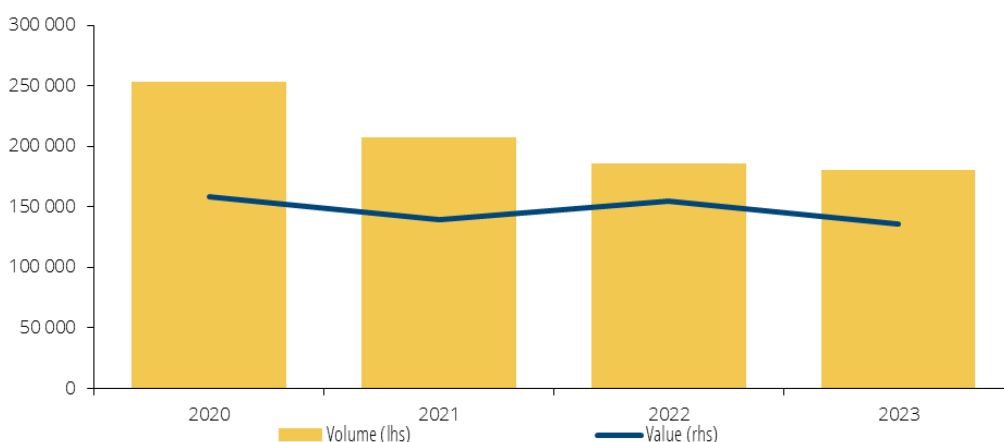
Chart II.3.1 • Overall transactions settled in TARGET2-PT, CLM and RTGS (2020–23) | Volume in thousands and value in EUR billions



Source: Banco de Portugal.

In T2S, 180.5 thousand securities transactions were settled by the Portuguese community, totalling €136.2 billion, a decline of 2.9% in volume and 12.1% in value from 2022 (Chart II.3.2). Settlements related to shares, bonds and Portuguese Treasury bills accounted for 91.6% of settled values.

Chart II.3.2 • Securities settled by the Portuguese community (2020–23) | Volume in units and value in EUR millions



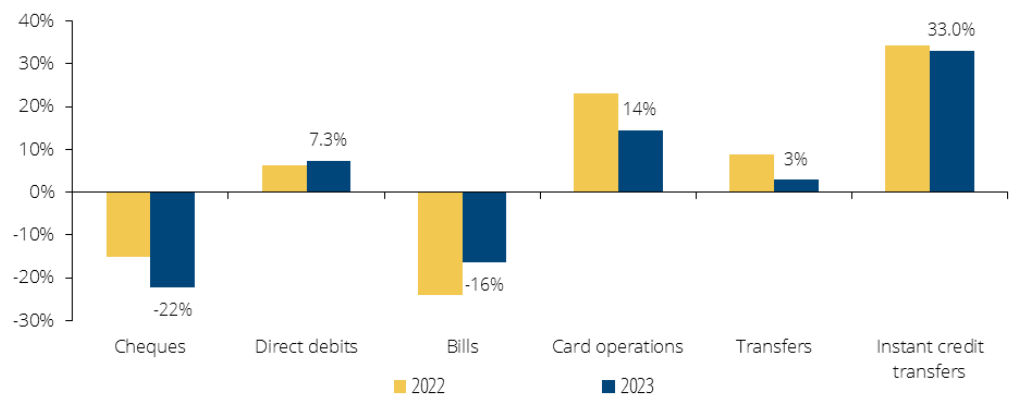
Source: Banco de Portugal.

Through TIPS, Portuguese payment service providers sent and received 25.1 million transactions, totalling €11.2 billion. Spain was the destination which the Portuguese community sent more instant credit transfers through TIPS to (271.1 thousand). Excluding RT1, a pan-European instant payment system, France was the country from which the Portuguese banking community received the highest number of instant credit transfers (620.7 thousand).

Among payment instruments, instant credit transfers grew the most.

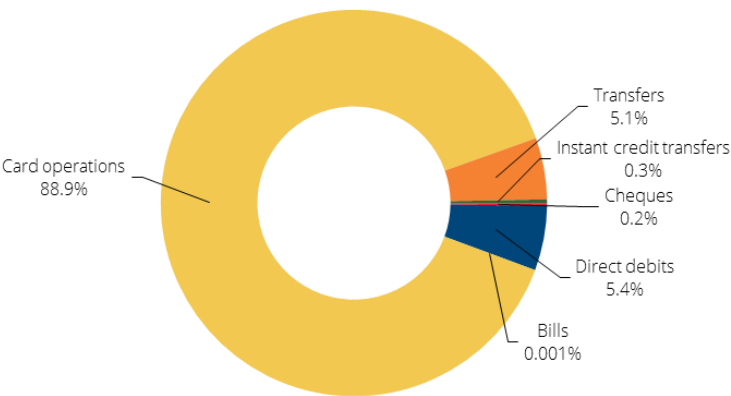
In terms of retail payments, SICOI – where cheque, bill of exchange, direct debit, credit transfer, bank card and instant credit transfer transactions are cleared – processed 4.2 billion transactions in 2023, to the overall amount of €740 billion. The volume and value of transactions processed increased by 13.3% and 12.9% respectively, on the back of a buoyant economy but also of higher inflation. Growth was broadly-based across electronic payment instruments. In contrast, the use of cheques and bills of exchange continued to drop, by 22% and 16% respectively. The use of instant credit transfers grew the most, by 33% in volume and 38% in value, although these transactions remain residual overall (Charts II.3.3 and II.3.4).

Chart II.3.3 • Developments in the volume of transactions processed in SICOI by payment instrument (2022–23) | Year-on-year growth rate



Source: Banco de Portugal.

Chart II.3.4 • Share by payment instrument in the number of transactions processed in SICOI (2023) | Per cent



Source: Banco de Portugal.

In order to prevent the unlawful use of cheques, the Banco de Portugal discloses a List of Cheque Defaulters across the banking system. As at 31 December 2023, the list included 7,539 entities (27% firms and 73% private individuals), 9% more than in 2022. Over the course of the year, 4,550 names were included in the list, while 3,927 were removed.

The Bank now collects payment data on a transaction-by-transaction basis.

The Banco de Portugal implemented a new payment data reporting system, a first within the Eurosystem, which makes it possible to collect data by individual transaction. In 2023, it started receiving information on cheques, credit transfers and direct debits, which will be used to produce statistics, draw up economic analyses and monitor the functioning of payment systems and the economy.

Work has also started on the fifth study on the social costs of retail payment instruments in Portugal.

Rules have been put in place to encourage the direct exchange of banknotes between credit institutions and cash-in-transit companies, making recirculation more efficient.

New rules for deposits and cash withdrawals in euro have been put in place at the Banco de Portugal. These rules have strengthened the direct exchange between credit institutions and cash-in-transit companies, making the life cycle of banknotes more efficient. As a result, the number of banknotes deposited and withdrawn from the Banco de Portugal during the year decreased markedly. In 2023, the Bank issued 390 million banknotes and 439 million banknotes returned to it from credit institutions and the public, respectively 30% and 21% less than in the previous year.

After an interruption during the pandemic years (2020 and 2021), the downward trend in net banknote issuance resumed in Portugal (net banknote issuance is the difference between banknote outflows and inflows at the central bank). This aggregate decreased by 13% from 2022, driven by the greater inflow of banknotes through tourism.

As regards coins, net issuance in Portugal increased by 4% in volume compared to 2022. To meet the demand for 1 and 2-cent coins – which has remained high – the Banco de Portugal secured an agreement with the Belgian Treasury at the beginning of the year. Under this agreement, Bank received 30 million 1 and 2-cent coins in exchange for 50-cent coins to the same amount. A new agreement was also reached with Národná banka Slovenska, under which the Banco de Portugal received 86 million 1 and 2-cent coins, in exchange for €1 coins to the same amount. The minting of new 1 and 2-cent coins was thus prevented, whose production cost is higher than their face value, thereby generating economic benefits for the Portuguese State. They also resulted in a lower destruction rate of fit euro coins, for which there was no expectation to be put into circulation, a decrease in the volume of coins to be minted and, consequently, lower consumption of resources (energy, transport and, above all, raw materials).

The Bank checked the authenticity and fitness of the banknotes it received. Of these, 92.7 million banknotes were considered unfit, which corresponded to 20.8% of neutralised banknotes. It also manually assessed 28,768 euro banknotes that were badly damaged or mutilated, returning a total of €1.4 million to those that had submitted them.

The number of counterfeit euro banknotes and coins remained low. In Portugal, 3,197 counterfeit euro coins were detected, mainly €2, and 16,723 counterfeit banknotes. Counterfeiters mostly targeted

the €20 and €100 banknotes. As a result of the cooperation protocol established in 2022 with the Banco de Cabo Verde, the Banco de Portugal examined, for the first time, counterfeit euro banknotes seized in another country.

The Bank trained 11,601 professional cash handlers, mainly from credit institutions and cash-in-transit companies.

A new [study on the cash access network](#) in Portugal was also published. It concluded that at the end of 2022 coverage by the ATM and bank branch networks was still nearly full, comparing favourably with that of other euro area countries: 99% of the population lived less than 5 km from a point of access.

4 Regulation

The Banco de Portugal participates in preparing draft legislation, in collaboration with Parliament and the Government, and issues administrative regulations in subjects related to its tasks. This requires coordination with other European authorities, especially in the context of the European System of Financial Supervision, and with national authorities, particularly within the National Council of Financial Supervisors.

In 2023 the Banco de Portugal continued to collaborate with the Ministry of Finance in negotiating the 'Banking Package 2021' (which includes the new Capital Requirements Directive and Regulation – CRD VI and CRR III) and the new anti-money laundering and countering the financing of terrorism (AML/CFT) package. Directives and Regulations negotiated by the Ministry of Finance with the Bank's support entered into force: the Consumer Credit Directive, the Distance Marketing of Financial Services Directive, the Regulation on Markets in Crypto-Assets (MiCA) and the Digital Operational Resilience Act (DORA).

In support of the Ministry of Finance, the Bank also participated in the negotiation of new legislative initiatives by the European Commission, focusing on the review of the European crisis management and deposit insurance (CMDI) framework, legislation on the protection of retail investors, the new Payment Services Directive and Regulation (PSD3/PSR), the Regulation on a framework for Financial Data Access (FIDA) and the Regulations on a digital euro and the legal tender of euro banknotes and coins. It also participated in the negotiation of the proposals, already adopted in 2023, for a Regulation on instant payments and a review of the European Market Infrastructure Regulation (EMIR).

The Bank took part in the work of the European Banking Authority (EBA) by participating in the preparation of regulatory tools on: (i) own funds requirements for market risk, (ii) securitisation operations, (iii) management of interest rate risk in the banking book, (iv) planning and operationalisation of resolution actions, (v) deposit guarantee, (vi) assessment of adequate knowledge and experience of the management or administrative organ of credit servicers, (vii) complaints handling by credit servicers and (viii) national registers/lists of credit servicers.

In addition, it participated in preparing several public consultations, reports and other documents within the EBA, including on: (i) environmental risk management and supervision, (ii) greenwashing, (iii) impact study on the Basel III reforms, (iv) monitoring prudential frameworks on own funds and liquidity, (v) implementing the MiCA and DORA regulations, (vi) Joint European Supervisory Authorities' criteria on the independence of national supervisory authorities, (vii) defining retail risk indicators and (viii) various matters related to AML/CFT.

It also participated in the EBA's peer review on the supervision of the treatment of mortgage borrowers in arrears.

At national level, the Banco de Portugal continued to support the Ministry of Finance on the revision of the preliminary draft of the *Código da Atividade Bancária* (legal framework governing banking

activity and supervision), as well as the revision of preliminary draft legislation to transpose the Credit Servicers and Credit Purchasers Directive and to approve the new Central Credit Register framework.

It issued – including through the National Council of Financial Supervisors – several opinions on legislative initiatives by the Government and Parliament, namely on the measure for the temporary setting of instalments on home loan agreements (Decree-Law No 91/2023 of 11 October 2023); preparatory work for transferring the State's shares in SOFID to the Banco Português de Fomento; the transposition of directives relating to the establishment of a disqualifications and removals database and to cross-border conversions, mergers and divisions and the implementation of several European Union regulations on financial system services and infrastructures relating to: (i) the Pan-European Personal Pension Product (PEPP), (ii) crowdfunding, (iii) Central Counterparties Recovery and Resolution (CCPRR), (iv) simple, transparent and standardised (STS) securitisation, (v) cross-border payments, (vi) daisy chains and (vii) benchmarks.

New reporting rules were put in place on remuneration and the gender pay gap, and high earners.

Regarding administrative regulations, the Bank worked on preparing and revising regulations it issued concerning: (i) payment and electronic money institutions; (ii) payment instruments covered by the limited network exclusion; (iii) operation of payment systems (SICOI and TARGET); (iv) the AML/CFT duties of entities operating with virtual assets; (v) regular contributions to the Deposit Guarantee Fund and the Resolution Fund; (vi) criteria to measure the impact of increases in the benchmark rate applicable to variable or mixed rate credit agreements on consumers' creditworthiness; (vii) information on the implementation of the schemes for the temporary setting of instalments and temporary interest relief on loans for the purchase of permanent residential property; (viii) the obligation to provide information on basic bank accounts; (ix) recovery plans, (x) reporting of legal acts by notaries, lawyers and *solicitadores*; (xi) recording of information and reporting on outsourcing arrangements to the Banco de Portugal and (xii) supervisory reporting on concentration risk, remuneration and the gender pay gap, and high earners.

5 Macropprudential policy and supervision

The Banco de Portugal regularly assesses risks to financial stability and takes measures to strengthen the sector's resilience. The Bank also has supervisory powers over institutions. These tasks are exercised jointly or in close cooperation with other European and national authorities.

The Portuguese banking system strengthened its resilience.

In 2023 the Banco de Portugal identified and assessed risks to financial stability, benefiting from further developments in its analytical tools and contacts with external entities: academia, banking sector entities, real estate market operators and other financial sector supervisors. In the analyses performed, particular attention was paid to the effects of the interest rate rise on the banking sector and its main counterparts – firms and households. The main results of these analyses were published in the *Financial Stability Reports*.

The profitability of the Portuguese banking sector grew, reflecting an increase in net interest income. These results are explained by the fact that the interest rate rise is reflected quickly in loans – mostly loans with variable rates or short repricing periods – while the adjustment of the remuneration of deposits takes place more slowly, leading to this positive, but temporary, impact on net interest income.

Overall, the sector strengthened its resilience, notably in terms of capital and liquidity (Table II.5.1).

Table II.5.1 • Portuguese banking system indicators (2020–23)

	Unit	2020	2021	2022	2023
Total assets (gross)/GDP (nominal)	%	205.4	205.9	182.6	166.4
Profitability					
Return on assets (ROA) ^(a)	%	0.05	0.46	0.69	1.28
Operating result ^(b)	%	0.89	0.88	1.07	2.14
Net interest income ^(c)	%	1.5	1.4	1.7	2.8
Return on equity (ROE) ^(d)	%	0.5	5.4	8.7	14.8
Cost-to-income ^(e)	%	57.8	53.4	50.6	36.9
Credit risk cost ^(f)		1.01	0.33	0.29	0.45
Net profit for the year	EUR, millions	194	1,997	3,142	5,599
Liquidity					
Central bank funding ^(g)	%	7.8	9.4	3.6	0.8
Loan-to-deposit (LtD) ratio ^(h)	%	84.7	81.1	78.2	78.0
Liquidity coverage ratio (LCR) ⁽ⁱ⁾	%	245.9	260.0	229.3	254.5
Asset quality					
NPL ratio ^(j)	%	4.9	3.7	3.0	2.7
Households, house purchase ^(j)	%	2.0	1.6	1.1	1.3
Households, consumption and other purposes ^(j)	%	8.5	7.5	6.9	6.2
Non-financial corporations ^(j)	%	9.7	8.1	6.5	5.0
NPL ratio (net of impairments) ^(k)	%	2.2	1.7	1.3	1.2
Households, house purchase ^(k)	%	1.4	1.0	0.7	0.8
Households, consumption and other purposes ^(k)	%	2.9	2.6	2.5	2.5
Non-financial corporations ^(k)	%	4.2	3.8	2.8	2.0
NPL impairment coverage ratio ^(l)	%	55.0	52.5	55.5	55.5
Households, house purchase ^(l)	%	30.6	32.7	40.4	37.7
Households, consumption and other purposes ^(l)	%	66.2	64.9	64.1	60.3
Non-financial corporations ^(l)	%	56.4	53.2	56.0	60.9
Total non-performing loans	EUR, millions	14,413	12,146	9,858	8,550
Total non-performing loans net of impairments	EUR, millions	6,493	5,773	4,391	3,809
Stage 2 loan ratio – Total	%	11.2	11.6	10.3	10.7
Stage 2 loan ratio – Non-financial private sector	%	12.0	12.4	11.1	11.5
Stage 2 loan ratio – Households	%	7.8	8.5	8.2	10.4
Stage 2 loan ratio – Non-financial corporations	%	18.6	18.7	16.0	13.5
Solvency					
Capital ratio ^(m)	%	18.0	18.0	18.2	19.6
Common Equity Tier 1 (CET 1) ratio ⁽ⁿ⁾	%	15.3	15.5	15.4	17.1
Leverage ratio ^(o)	%	7.7	7.0	6.7	7.3

Source: Banco de Portugal. | Notes: (a) Profit and loss for the year as a percentage of average assets. (b) Net interest income and net fees and commissions less operational costs; as a percentage of average assets. (c) Difference between interest income and expenses on financial assets and liabilities; as a percentage of average assets. (d) Profit and loss for the year as a percentage of average equity. (e) Ratio of operational costs to total operating income. (f) Flow of credit impairments, as a percentage of total average gross credit to customers. (g) Central bank funding as a percentage of total assets. This corresponds almost entirely to Eurosystem funding. (h) Ratio of loans to customer deposits. (i) Ratio of available liquid assets to net cash outflows calculated in a 30-day stress scenario. (j) Ratio of the gross value of non-performing loans to the total gross value of loans. (k) Ratio of the value of non-performing loans net of impairments to the total gross value of loans. (l) Ratio of impairments recorded for non-performing loans to their gross value. (m) Ratio of total own funds to risk-weighted assets. (n) Ratio of Common Equity Tier 1 capital to risk-weighted assets. (o) Ratio of Tier 1 capital to total exposure (including total assets, derivatives and off-balance sheet positions, and possibly excluding exposures to central banks upon authorisation of the supervisory authority).

Limits on new credit agreements for house purchase and consumer credit dampened the impact of the interest rate rise.

The Banco de Portugal continued to monitor the implementation of the limits on new credit agreements for house purchase and consumer credit established in the macroprudential recommendation issued in 2018. Against the background of an increase in key interest rates by the ECB and in order to prevent an excessively restrictive approach to assessing the creditworthiness of consumers, the value of the interest rate increase to be taken into account by institutions when calculating the debt-to-income ratio of new borrowers was changed. The increase in the benchmark used to calculate the ratio of the total amount of monthly instalments of a borrower's total debt to their monthly income less taxes and compulsory social security contributions (debt service-to-income ratio, DSTI) was set at 0.5 percentage points (p.p.) for new business with a maturity of up to and including 5 years, 1 p.p. for agreements with a maturity of 5 to 10 years and 1.5 p.p. for agreements with a maturity of over 10 years. This change entered into force in October 2023.

As a complement to the macroprudential recommendation and to increase the resilience of institutions to potential systemic risk materialising in the residential real estate market in Portugal, the Banco de Portugal introduced a 4% sectoral systemic risk buffer, which will enter into force on 1 October 2024. In a risk materialisation scenario, this buffer could be released to safeguard lending to the economy. The sectoral systemic risk buffer will be applicable to institutions using the internal ratings-based (IRB) approach and target the risk-weighted exposure amount of households' portfolio secured by residential real estate located in Portugal. The institutions using the IRB approach account for a substantial share of the domestic housing credit market, and the risk weights they apply are lower than those of banks adopting the standardised approach. This measure will be reviewed at least every two years.

The list of institutions classified as "other systemically important institutions", to which a capital buffer is applied according to their relevance, comprised, in descending order of systemic importance, Banco Comercial Português, Caixa Geral de Depósitos, LSF Nani Investments and Novo Banco, Banco Santander Totta, Banco BPI, Caixa Central de Crédito Agrícola Mútuo and Caixa Económica Montepio Geral.

The countercyclical buffer rate applicable to credit institutions with credit exposures to the domestic non-financial private sector remained at 0%. The list of third countries the Portuguese banking system is exposed to for the purposes of recognising and setting the countercyclical capital buffer still consisted of Mozambique and Macao at the end of the year.

Portuguese credit institutions were exempt from a measure imposed in May by the Swedish macroprudential authority, due to the non-materiality of the exposures of the Portuguese credit institutions to which this measure would apply.

The Bank started preparatory work for the Financial Sector Assessment Program (FSAP). The FSAP is an in-depth assessment of the resilience of the country's financial sector, carried out by the International Monetary Fund, and is planned to take place between 2025 and 2026. This process stems from the inclusion of the Portuguese financial system in the list of financial systems considered to be systemically important and subject to mandatory regular FSAP assessment every five years. The IMF assessment includes stress testing, assessments of the quality of the sector's supervision and regulation, and the review of crisis management and anti-money laundering and countering the financing of terrorism frameworks and may incorporate emerging topics for the financial sector such as digitalisation and climate risk.

Prudential supervision focused on three priority areas: financial resilience, internal governance and business model.

The Banco de Portugal contributed to the work of the ECB's Supervisory Board, which plans and carries out the supervisory tasks of the Single Supervisory Mechanism (SSM). Within the SSM, the Bank was part of the joint teams responsible for the regular supervision of the three Portuguese banking groups classified as "significant" (Banco Comercial Português, Caixa Geral de Depósitos and Novo Banco), as well as significant institutions established in Portugal whose parent company is located in the European Union (including, but not limited to, Banco Santander Totta and Banco BPI). As part of the ECB's cross-border missions, it led and took part in several inspections of institutions whose head office is in another SSM country and led inspections and investigations of credit risk internal models carried out by the ECB of Portuguese significant institutions.

As for the institutions directly supervised by the Banco de Portugal, prudential supervision focused on three priority areas: (i) financial resilience, (ii) internal governance and (iii) and business model.

In terms of financial resilience, the Banco de Portugal aimed at ensuring that supervised institutions preserve capital and liquidity. The Bank promoted the strengthening of credit risk management practices and the reduction of non-performing assets: it carried out exercises to confirm adequate classification of forborne loans, reviewed the impairment calculation process of several institutions and established guidelines on the prudential treatment of restructured loans. In addition, it provided institutions with supervisory expectations on internal policies and procedures for the assessment, holding and disposal of property acquired in repayment of own credit. The potential negative impacts of increased market risk and, in particular, interest rate risk in the banking book (IRRBB) of the institutions' risk profile were also assessed. To this end, in addition to the regular monitoring of IRRBB already carried out, the Bank analysed the potential impacts on capital and liquidity of a possible materialisation of losses on securities portfolios at amortised cost.

Regarding internal governance, the Bank assessed whether candidates for the management and supervisory bodies of supervised institutions complied with the applicable legal requirements and continued its practice of communicating supervisory expectations on the renewal of mandates in advance. This exercise resulted in 418 registrations of members of corporate bodies, 525 less than in 2022, reflecting fewer renewals (Table II.5.2). In addition, 164 recommendations were issued to mitigate conflicts of interest and enhance the candidates' qualifications.

Table II.5.2 • Registration acts (2020–23)

	dec 20	dec 21	dec 22	dec 23	Δ 2023–2022
Registered members of corporate bodies:					
– Management bodies	251	180	413	184	-229
– Supervisory bodies	154	134	322	145	-177
– Board of the general meeting	92	69	208	89	-119
	497	383	943	418	-525
Registration acts regarding qualifying holdings	480	225	275	197	-78
Statutory amendments	112	113	126	139	13
	592	338	401	336	-65

Source: Banco de Portugal.

At the same time, the Bank analysed the evolution of gender diversity in the institutions' corporate bodies and established a strategy to promote gender balance. Where applicable, institutions were

asked to justify the disparity in their bodies' composition relative to their peers and to present an action plan. Supervisory expectations were also established on the benchmark to be reached by institutions in this regard.

The Bank also examined how members of institutions' management and supervisory bodies are strengthening their competences to address emerging challenges, particularly climate and environmental risks. Following this analysis, supervisory expectations were issued and action plans were requested for exceptional cases.

The Bank conducted 146 authorisation proceedings on the establishment of new institutions, the acquisition of qualifying holdings, mergers and statutory amendments. To streamline these proceedings, it proactively communicated with applicants, conveying its main prudential concerns and expectations in advance. In liaison with other supervisory authorities, it identified material risks incompatible with an authorisation to acquire qualifying holdings in Portuguese institutions. It received 1,264 passport notifications (i.e. relating to entities authorised in other European Union/European Economic Area countries intending to pursue their activity in Portugal) and sent 1,002 passport notifications (from entities authorised in Portugal and intending to pursue their activity in other countries), including on members of corporate bodies, the establishment of branches, statutory amendments, networks (agents) and branches, holdings, voluntary winding-up proceedings, mergers and divisions. As at 31 December 2023, 1,039 institutions were registered with the Banco de Portugal (Table II.5.3).

Table II.5.3 • Total registered institutions by type (2020–23)

	dec 20	dec 21	dec 22	dec 23	Δ 2023–2022
Registered institutions:					
– Credit institutions	164	162	157	159	2
– Financial companies	40	38	25	25	0
– Payment institutions	30	33	35	35	0
– Electronic money institutions	5	5	5	5	0
– Holding companies	14	14	9	9	0
Branches of subsidiaries of EU-based credit institutions	2	2	2	4	2
Branches of EU-based financial companies	0	0	0	0	0
Registered representative offices of credit institutions and financial companies based abroad	22	21	21	21	0
	277	275	254	258	4
Credit institutions based in EEA States, providing services	424	434	483	510	27
Payment institutions based in EEA States, providing services	225	262	288	305	17
Electronic money institutions based in EEA States, providing services	146	174	202	215	13
EU-based account information service providers, providing services		3	7	9	2
	795	873	980	1,039	59

Source: Banco de Portugal. | Note: EEA – European Economic Area.

To encourage the adoption of incrementally more viable and sustainable business models, the Bank assessed the funding and capital plans and the strategic plans of supervised institutions. It also carried out an exercise that confirmed the banking system's resilience to a situation similar to that experienced in March with the fall of Silicon Valley Bank in the United States and the collapse of Credit Suisse in Switzerland, bearing in mind the differences in the business model and balance sheet of Portuguese banks.

As regards the structural trend of digital transformation, in addition to the recommendations addressed to institutions on the prudential treatment of phishing incidents with customers (Chapter II.4), the Bank issued measures to strengthen cybersecurity risk management and set up a cybersecurity information-sharing centre at the Banking Industry Forum on Cybersecurity and Operational Resilience.

Given the increasing challenges in energy transition, a new self-assessment exercise was carried out on compliance with supervisory expectations on climate and environmental risks, involving all institutions under the Bank's direct supervision. In compliance with the Climate Framework Law, the first *Annual Report on the Banking Sector's Exposure to Climate Risk* was prepared.

As part of the annual Supervisory Review and Evaluation Process (SREP), the Bank carried out a risk profile assessment of nine credit institutions taking into account their business model and the quality of internal governance arrangements. In addition, capital stress tests were conducted to assess the resilience of these institutions in the face of adverse macroeconomic scenarios. This exercise identified situations requiring measures by the institutions. Where applicable, capital requirements were adjusted to the risk taken.

The Bank continued its dialogue with the banking sector and external auditors. The Bank organised a workshop on prudential reporting obligations and a meeting with less significant institutions on supervisory priorities for 2023, the main changes to the SREP methodology and stress testing. In May, the Bank welcomed Andrea Enria, Chair of the ECB's Supervisory Board, who, in addition to holding working sessions with the prudential supervisory team, met the CEOs of significant and less significant credit institutions and the Portuguese Banking Association.

As a result of banking conduct supervisory measures, institutions returned €8.3 million to bank customers.

The Banco de Portugal assessed compliance by supervised institutions with the extraordinary measures to mitigate the impact of the increase in interest rates on credit agreements for the purchase of permanent residence. Inspections were carried out to verify the identification of signs of deterioration in customers' financial capacity, the provision of solutions appropriate to the customer's situation, the absence of a fee-charging practice, the interest rate rise and the reliability of the information reported to the Banco de Portugal (Decree-Laws No 80-A/2022 and 227/2012). The Bank also assessed the disclosure of special conditions for penalty-free redemption of retirement, education and retirement/education savings plans for the repayment of instalments or early repayment of credit (Law No 19/2022). Inspections were also carried out to assess compliance with the information requirements for temporary interest rate relief and the guarantee of the right to opt for a variable, fixed or mixed interest rate in credit operations (Decree-Law No 20-B/2023).

It assessed whether the information provided on institutions' websites on the consequences of renegotiating credit under the Pre-Arrears Action Plan (PRAP) was correct.

The Bank continued to monitor financial and technological innovation in retail banking markets, assessing the compliance of new products and new business models, and monitored credit offered through digital channels, ensuring adherence to the best practice it has established in this field.

It assessed compliance with the obligations to disclose basic bank accounts (BBAs), adherence to the fees and charges cap for these services and inclusion in the BBA of all the services and operations set out in the applicable rules. It also assessed compliance of the information provided to bank customers in the statement of fees, as well as adherence to the applicable harmonised terminology.

It oversaw 16,338 advertising materials for banking products and services disclosed by 56 institutions and required the correction of 345 advertising materials (2.2% of the total) of 32 institutions.

It received 26,980 complaints from bank customers against the conduct of financial institutions, 23.9% more than in 2022. This increase is largely explained by complaints on home loans, namely on the renegotiation of loan agreements, the PRAP, the implementation of borrower support measures laid down in Decree-Laws No 80-A/2022 and 20-B/2023 and on early repayments. The Banco de Portugal found insufficiencies and irregularities in 3.6% of closed complaints.

Owing to banking conduct supervision of financial institutions, the Bank issued 5,805 specific orders to 112 institutions and initiated 99 administrative offence proceedings against 41 institutions. As a result of the supervisory measures taken, institutions repaid €8.3 million to bank customers for unduly charged fees and interest.

The Bank decided on 620 applications for authorisation to pursue the activity of credit intermediary. At the end of the year, 5,822 credit intermediaries were registered with the Banco de Portugal, 24 of which were authorised in other European Union Member States. To assess compliance with the applicable obligations, the Bank carried out inspections in branches open to the public of 204 entities, oversaw the websites of 20 credit intermediaries operating exclusively through remote means of communication, verified the compliance of 73 advertising materials and analysed 84 complaints from bank customers on this activity. In view of the insufficiencies detected, it issued 1,882 specific orders and initiated 236 administrative offence proceedings.

The Bank started a new phase of inspections on so-called 'golden visas'.

In the field of the preventive supervision of money laundering and terrorist financing (ML/TF), the Banco de Portugal analysed annual reports from 30 supervised entities, resulting in 90 supervisory measures. The follow-up of 334 supervisory measures issued, involving 24 entities, was assessed.

The Bank concluded 12 inspections that began in 2022 to check compliance of the procedures put in place to address the ML/TF risks associated with granting Residence Permits for Investment Activity (commonly known as a 'golden visa') and carried out eight new inspections in this respect. It also conducted three inspections to scrutinise the procedures implemented by supervised entities in riskier situations. As a result, it issued 161 supervisory measures to improve the control procedures and mechanisms of supervised entities.

Solely for preventive ML/TF supervision purposes, the Bank registered three new entities intending to operate with virtual assets and checked compliance with 40 supervisory measures issued in the context of initial registration applications and changes to the registration of this type of activity.

To formalise and strengthen cooperation procedures in this area, the Banco de Portugal established a protocol with the Portuguese Securities Market Commission. The Bank also set up the Forum on the Prevention of Money Laundering and Terrorist Financing, a space for regular dialogue between the Bank, supervised entities and associations representing the sector, to discuss and analyse regulatory and operational issues.

The Bank analysed 81 suitability reassessment proceedings.

The Banco de Portugal analysed information relating to 81 situations that were potentially relevant for a reassessment of the suitability of members of the management and supervisory bodies of supervised institutions, analysed 30 proceedings to withdraw authorisation granted to supervised entities and one proceeding to suspend the exercise of voting rights by qualified participants of

a supervised entity. The Bank participated in closing five winding-up proceedings and monitored another 12 winding-up proceedings under the responsibility of State commissioners, judicial liquidators or liquidation committees appointed for the purpose.

6 Resolution

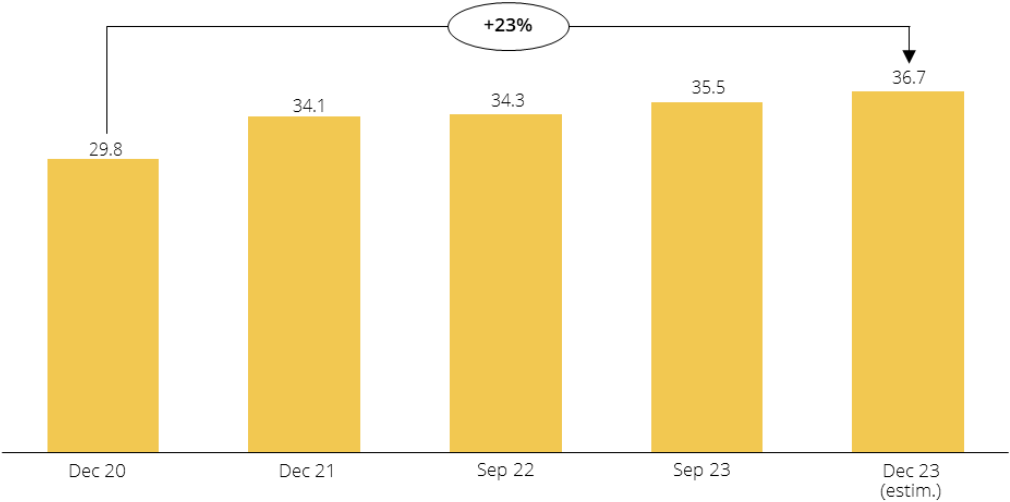
In its capacity as national resolution authority under the Single Resolution Mechanism (SRM), the Banco de Portugal seeks to ensure that conditions are met for failing credit institutions or banking groups to be resolved without disrupting the stability of the financial system.

In 2023, the transitional periods for institutions to build their loss-absorbing capacity and for the initial capitalisation of the Single Resolution Fund ended.

The European Union has entered a new stage in terms of resolution. The transitional periods for compliance with requirements for own funds and eligible liabilities (the so-called “MREL requirements”) and for meeting the main institution-specific resolvability targets ended at the end of 2023.

The Banco de Portugal’s action under the SRM has ensured that all credit institutions operating in Portugal have a resolution plan which includes a strategy to deal with a hypothetical insolvency and a corresponding MREL requirement. As a result of this work, the loss-absorbing capacity of the Portuguese banking sector has been strengthened substantially (Chart II.6.1). Progress in this area is important not only to face a hypothetical resolution: even in normal times, compliance with MREL requirements makes the banking sector more credible and improves its access to financial markets.

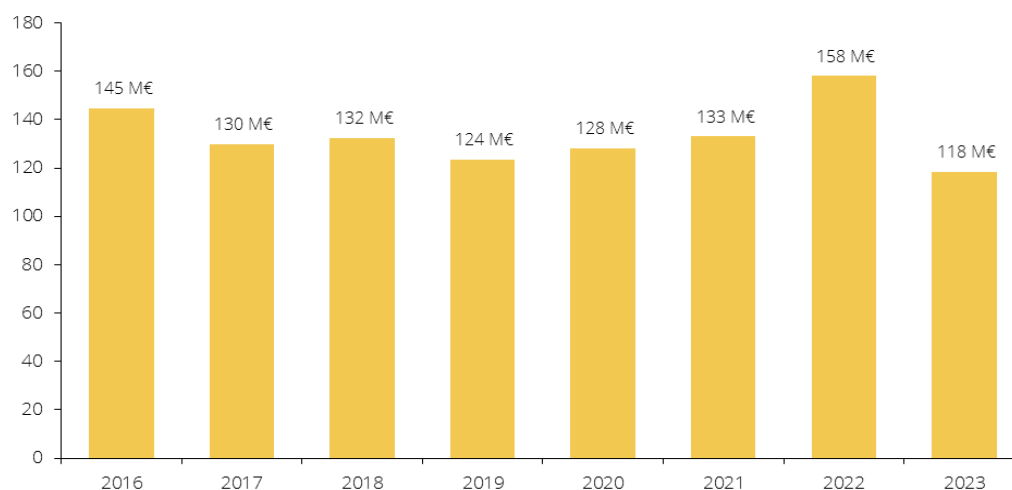
Chart II.6.1 • MREL build-up in the Portuguese banking sector^(a) (2020–23) | EUR billions



Source: Banco de Portugal. | Note: (a) Groups and institutions whose resolution plan sets out the application of resolution action.

In 2023, the period of initial capitalisation and progressive mutualisation of the Single Resolution Fund (SRF) – the resolution financing arrangement in the Banking Union – also came to an end, and its target funding level is expected to have been reached. Between 2016 and 2023, the Bank monitored the procedures for the calculation of and collected and transferred the contributions due by Portuguese institutions participating in the SRF (Chart II.6.2).

Chart II.6.2 • Contributions paid by the Portuguese banking sector to the Single Resolution Fund | EUR millions



Source: Banco de Portugal.

Building-up loss-absorbing capacity, further developing resolution plans and completing the initial capitalisation of the SRF and its full mutualisation contribute to a banking sector which is currently better able to face adverse shocks.

In 2023, the Banco de Portugal also worked towards increasing its readiness to manage crisis situations and apply resolution measures, in particular the bail-in: it developed handbooks and participated in simulation exercises under the SRM.

It also continued its work related to the resolution measures applied to BES and BANIF in previous years. The Bank continued to support the Fundo de Resolução in monitoring the agreements related to the sale of Novo Banco, particularly the contingent capital agreement concluded in October 2017, under which, for the first time, no payment was requested by Novo Banco. It should be noted that the restructuring period of Novo Banco ended in 2023, an important milestone towards strengthening the Portuguese banking sector.

The Banco de Portugal also continued to support the Fundo de Resolução in monitoring Oitante's activity, the performance of which resulted in the distribution of profits and reserves to the Resolution Fund to the amount of around €64 million in 2023.

It also provided the technical and administrative services required for the smooth operation of the Fundo de Garantia de Depósitos and the Fundo de Resolução. In this context, the Bank set the parameters for calculating the contributions due by member institutions of both Funds and carried out the procedures for calculating and collecting those contributions. A test was also conducted on a hypothetical activation of the Fundo de Garantia de Depósitos, including a request for information which for the first time was sent without prior notice to all member credit institutions. This exercise made it possible to assess the quality of the information held by those institutions on deposit

accounts and their depositors and of their ability to promptly produce the full list of the depositors' claims.

7 Enforcement function and upholding the legality of the Bank's decisions

The Banco de Portugal imposes sanctions where supervised entities do not comply with the standards or specific orders they are required to.

A total of 696 administrative offence proceedings have been concluded.

The Banco de Portugal initiated 620 administrative offence proceedings and concluded 696. The high number of concluded proceedings made it possible to reach the end of the year with fewer pending proceedings, of which only 3% had been initiated before 2022 (Tables II.7.1 and II.7.2). The concluded proceedings led to the imposition of fines to the amount of €8 million, of which enforcement of €200 thousand was suspended.

Table II.7.1 • Administrative offence proceedings (2020–2023)

Proceedings	2020	2021	2022	2023	Δ 2023-2022
Carried forward from the previous year	247	303	507 ^(a)	457	-50
Initiated	204	313	660	620	-40
Concluded	148	116	710	696	-14
Pending at the end of the year	303	500 ^(a)	457	381	-76

Source: Banco de Portugal. | Note: (a) The difference between the number of proceedings pending at the end of the year and the number of proceedings carried forward to the following year arises from the legal framework applicable to the decisions delivered in summary proceedings, whose final status depends on a formal non-rejection by the defendants in the relevant decisions.

The Bank initiated 31 administrative sanctioning proceedings for non-authorised financial activity.

Regarding the prevention and repression of non-authorised financial activity, the Banco de Portugal initiated 328 new inquiries and concluded 302. The inquiries led to the initiation of 31 administrative sanctioning proceedings against entities not authorised to conduct financial activity subject to the Banco de Portugal supervision and 29 communications to the Prosecutor General of the Portuguese Republic for evidence of 44 criminal offences. Public warnings were issued against 51 entities and 23 websites/social media profiles were taken down/reported for violation of banking laws. Furthermore, the Bank cooperated in investigations with the judiciary and police authorities.

Since the end of 2022, legislation applicable to administrative offence proceedings for which the Banco de Portugal has competence has provided that, in certain circumstances, it is possible to decide not to initiate administrative offence proceedings in the event of minor irregularities, a legal power which the Banco de Portugal used in the different dimensions of its supervisory activity where the respective conditions have been met.

Table II.7.2 • Administrative offence proceedings initiated and concluded, by topic (2023)

Nature of the offence	Proceedings initiated	Proceedings concluded
Prudential	98	170
Banking conduct ^(a)	339	427
Obligations for the prevention of money laundering and terrorist financing	33	24
Cash recycling	90	31
Non-authorised financial activity	31	16
Other	29	28
Total	620	696

Source: Banco de Portugal. | Note: (a) Including proceedings originating from the Banking Conduct Supervision Department, but also proceedings from other sources, whose offences include non-compliance with banking conduct rules.

The Banco de Portugal intervened in trial hearings at the Portuguese Competition, Regulation and Supervision Court, where judicially appealed decisions of administrative offence proceedings are judged. The intervention of the Banco de Portugal extended to courts of appeal, including the Constitutional Court. These courts issued judicial decisions largely confirming the position held by the Banco de Portugal in administrative offence proceedings.

With regard to the legality of the Banco de Portugal's decisions, litigation against the Bank, the Resolution Fund and the Deposit Guarantee Fund remained high. In addition to litigation emerging from supervisory decisions, there is still a high number of judicial proceedings resulting from the application of resolution measures to BES and BANIF in previous years, as well as specific litigation relating to the sale of Novo Banco affecting the Banco de Portugal and the Resolution Fund, extending to foreign jurisdictions and the Court of Justice of the European Union, as well as arbitration proceedings.

In the proceedings in which the Banco de Portugal, the Deposit Guarantee Fund and/or the Resolution Fund are the defendants, rulings were delivered in favour of the defendants. Several judicial proceedings were also finalised. Particularly noteworthy by their relevance is the judgment of 9 March 2023 delivered by the Supreme Administrative Court, with the force of *res judicata*, issuing a decision confirming the legality of the Banco de Portugal's action in applying the resolution measure to BES in August 2014, further confirming that the legal framework applicable to bank resolution was constitutional.

8 Knowledge creation and sharing

The Banco de Portugal produces and disseminates studies and statistics, with the purpose of making informed decisions, advising the government on the design of public policies and promoting knowledge of the Portuguese economy. The Bank also organises initiatives that promote citizens' economic and financial literacy. In addition, it shares knowledge with the central banks of emerging and developing countries, with the primary goal of safeguarding global monetary and financial stability.

The Bank started publishing public finance projections and reinforced its policy analyses.

In 2023, several contributions were published on the research topics identified as priorities in the Banco de Portugal's research agenda for 2022–25, including ongoing transformations with an impact on the economy, such as demographic changes, climate change and digitalisation. Given the economic and financial environment, special attention was paid to topics related to inflation, rising interest rates and their impacts on the banking sector, firms and households. The Banco de Portugal is one of the central banks responsible for coordinating the new research network of the European System of Central Banks on monetary policy transmission in a changing world, which involves, besides the ECB and national central banks of the European Union, universities and central banks from around the world.

The Bank published two analyses from its Governor, where Mr Centeno shares his vision on the challenges faced and the path to be followed in terms of policies. The first analysis, published in September, covers the economic challenges of Portugal and the euro area, and the second, published in December, discusses the consequences of European labour market developments on the evolution of inflation.

In the *Economic Bulletin*, the Bank published analyses on wage distribution, demographic changes, housing developments and the reduction in firms' debt levels. This publication now includes public finance projections in the June and December issues, and, in all issues, projections for the Portuguese economy over a three-year horizon. A "Policy Insights" section, dedicated to analysing economic policies, was also created. This new section discussed the public-private wage differential, the outlook for old-age pensions and the redistributive effects of personal income tax.

In the *Financial Stability Report*, the Bank published analyses on the banking system's exposure to physical climate risks, the predominance of housing loans with a variable interest rate, the interest rate risk in the banking book, the transmission of ECB interest rates to interest rates on Portuguese household deposits, the impact of State-guaranteed loans on banks' risk of default and on credit to the economy, and the importance of capital buffers when granting credit to firms.

Twelve studies were disclosed in the *Banco de Portugal Economic Studies*, each including a non-technical summary. These studies covered topics such as the estimation methods of the natural interest rate in the euro area, monetary policy as a response to the inflationary surge and the performance of Portuguese firms that received European funds or adopted new digital technologies.

A study on stablecoins and a piece about the new quarterly database on the sectoral activity in Portugal and the euro area were published in the *Occasional Papers* series, which focuses on topics of general interest and methodologies used by the Bank. Twenty-two articles were published in the *Working Papers* series with a view to being peer-reviewed and published in international scientific journals. These articles covered, among other topics, the benefits of education in the labour market, programmes to attract talent for remote work in global cities, the optimal level of taxation of highly qualified immigrants, the cyclical and trend implications of the pandemic shock and the impact of macroprudential policy measures. Twenty-five articles were published by the Bank's authors or accepted for peer-reviewed publication in economics and finance academic journals. A note on financial stability was also published, concerning the implementation of Basel III reforms in the banking legislation of the European Union.

In *Cadernos Jurídicos* (Legal Papers), the Bank published opinions, comments on case-law and articles on the legal challenges of a digital euro, the use of technology to comply with the Law (regtech) and for supervisory purposes (suptech), security in payment systems and the banking relationship, among others.

The Bank has continued its work in the context of the National Adaptation Roadmap 2100, in partnership with the Portuguese Environment Agency, the University of Lisbon and other institutions. This work should be completed by the second quarter of 2024 and will culminate in the setting up of guidelines on territorial and sectoral adaptation to climate change.

The Banco de Portugal's Microdata Research Laboratory (BPLIM) continued to support academic research, providing microdata on the Portuguese economy. A total of 28 projects were initiated and 30 were completed. Topics covered in these projects included the impact of tourism on local economic activity, intangible capital of Portuguese firms and the gains obtained from mergers of small and medium-sized enterprises. By the end of the year, 136 projects involving 188 researchers were ongoing in this laboratory. Of these researchers, 147 were external to the Bank, with affiliation in 14 Portuguese universities, 32 foreign universities and 14 non-university research institutions.

A very important part of the Bank's scientific production is the result of the constant effort to maintain at the forefront of knowledge the staff dedicated to research activities, as well as other members of the scientific community. In 2023, the Bank organised 48 seminars and seven open advanced courses taught by world-renowned specialists.

It also organised the 11th Conference on Monetary Economics and the Conference on Financial Stability, dedicated to the importance of coordination in matters of economic policy. Jointly with Nova SBE, it organised a session entitled Financial Intermediation and Monetary Policy, in New York, in the context of the annual meeting of the Central Bank Research Association. It hosted the Workshop on Structural Reforms, which brought together specialists of four national central banks of the euro area, and the 2nd Conference "Portuguese Around the World – Central Banking Edition", which was attended by Portuguese academics and decision-makers from European and US central banks. It promoted the 7th BPLIM Workshop, on the automation of the scientific research process and, in the context of a protocol signed with the University of Surrey/CIMS for research on macroprudential policy, the Bank held the New Approaches to Financial Stability and Macroprudential Policy workshop in Lisbon.

For the first time, the Bank held the *Jornadas Jurídicas do Banco de Portugal*, in collaboration with the School of Economics and Management of the University of Porto, and a conference on the path and limits of the Bank's enforcement function. In collaboration with the Portuguese administrative Law association (Associação de Direito Administrativo – ADA), the Bank organised a colloquium dedicated to the execution of administrative contracts.

The Bank's Historical Archive held the fifth edition of the *Tardes de Arquivo* ("Archive Afternoons") conference, dedicated to multimedia archives, and the Bank's Library organised the third edition of the *Workshop de Bibliotecas* ("Library Workshop"), focused on the role of libraries in society.

The Bank launched initiatives to share its mission and its research and analysis works with a wider audience.

As with the practice already established for the *Economic Bulletin*, "accessible summaries" were developed for the *Financial Stability Report*, with the aim of making the main messages of this publication more understandable to non-expert audiences. The press conferences for the *Economic Bulletin*, the *Financial Stability Report* and the *Annual Report* are now broadcasted live on the Bank's digital channels, so that they can be followed by all those interested.

To foster economic literacy, two campaigns were launched on social media: the *#simplesassim* ("that simple") campaign – to explain how monetary policy has been used to make the inflation rate return to the 2% target – and the *Hoje é dia de* ("today is the day of") campaign – to promote the Bank's statistics, celebrating commemorative days, such as Women's International Day, Portugal Day and

Migrants Day. The Bank also created the podcast series called *90 segundos de estabilidade financeira* ("90 seconds of financial stability"), which disseminates the Bank's mission to promote financial stability and its importance to the economy and citizens.

StatFlix, the Banco de Portugal's e-learning course on the main statistics of the Portuguese economy, was made available to six further higher education institutions becoming available to students of 18 Portuguese institutions. Also organised was a course dealing with macroprudential policy and the assessment of risks to financial stability that was attended by more than 100 students from 11 Portuguese universities.

To raise awareness of the analyses published on the economy and the financial system, the Bank organised four meetings with representatives of academia, corporate and financial sectors and public and private entities, integrated in the "Economic Forum" series, and two sessions to present the *Economic Bulletin* to economics and finance students at Portuguese universities. On the occasion of World Statistics Day, the Banco de Portugal held the *Liga-te aos dados* ("connect to data") conference, aimed at secondary school and university students and attended in person and remotely by over three thousand participants.

The Governor lectured in classes open to the school community, dealing with the Bank's mission and monetary policy conduct, at secondary schools in Castelo Branco, Faro, Lisbon, Mirandela, Ponta Delgada, Portimão and Vila Real. He also carried out Q and A events on economic themes in Castelo Branco, Faro and Lisbon with firms, workers, universities and other civil society institutions.

In partnership with the ECB and the other Eurosystem central banks, the Bank organised the twelfth edition of the Generation Euro Students' Award to raise young people's awareness of the importance of price stability and monetary policy. A total of 212 teams from 88 Portuguese secondary schools participated in this competition. Together with Statistics Portugal and Eurostat, it organised the 6th European Statistics Competition, in which 145 teams from 36 Portuguese lower- and upper-secondary schools participated.

The Bank released more than 285 thousand statistical series about the Portuguese and euro area economies on BPstat, including new information on credit.

The Bank released new statistics on housing loans, containing information about interest rates, loan amounts, renegotiations, monthly instalments and repayments. A sociodemographic characterisation of those who entered into credit in Portugal in 2021 and 2022 was also published for the first time.

The Bank reported statistical information to international bodies involved in the production of statistics and public policymaking – the ECB, Eurostat, the International Monetary Fund, the Organisation for Economic Co-operation and Development and the Bank for International Settlements. The main statistical results were communicated in 107 statistical press releases, disclosed on BPstat and promoted on social media. BPstat received 975 thousand visits (860 thousand in 2022).

The Bank provided enterprises with the Enterprise and Sector Tables, so managers can compare the performance of their enterprises to those of the same sector of activity and of other sectors and size classes. These tables were viewed 15.3 thousand times by 12.1 thousand enterprises. Publicly accessible Sector Tables were also published, including around 150 economic and financial indicators on enterprises in Portugal, organised by sector of economic activity and size class, as well as indicators for other European countries by sector of activity. Visits to these tables grew by 64%, totalling 277 thousand accesses.

Continuing the effort to reduce costs borne by society with statistical reporting, an instruction was issued that reduces the amount of information to be communicated by financial institutions for the purpose of compiling the statistics assessing the Portuguese banking system exposure to the rest of the world (known as “international banking statistics”).

The Digital Financial Literacy Strategy for Portugal, developed in partnership with the European Commission and the OECD, was presented

With the support of the European Commission and the OECD, the Banco de Portugal developed the [Digital Financial Literacy Strategy for Portugal](#), aimed at promoting digital financial inclusion and the safe and proper use of digital channels when accessing banking products and services. This strategy was presented in May, at a conference held in the Money Museum. Before adopting this strategy, the Bank carried out a diagnosis of digital financial literacy in Portugal, the results of which were published in April.

Giving continuity to the #TopTip financial education campaign, the Bank published five videos and a brochure, covering themes such as financial fraud, opening bank accounts remotely and entering into credit online. It also promoted public awareness campaigns on the importance of using digital financial services safely, for Safer Internet Day and European Cybersecurity Month. On the *Todos Contam* e-learning platform, the Bank created an area on digital finance, with classes explaining the main types of financial fraud and respective preventive measures.

The Bank carried out 918 financial training initiatives throughout the country, with more than 32 thousand participants, and 436 sessions on euro coins and banknotes, attended by more than nine thousand participants. With the support of the Portuguese directorate-general for the consumer (Direção-Geral do Consumidor), the Bank organised financial training sessions for the entities that make up the banking customer support network (Rede de Apoio ao Cliente Bancário) on the basic bank account and on default prevention and management in credit agreements for the acquisition or construction of permanent own housing, and for consumption.

The 4th survey on the financial literacy of the Portuguese population was carried out jointly with the Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários – CMVM) and the Insurance and Pension Funds Supervisory Authority (Autoridade de Supervisão de Seguros e Fundos de Pensões). This survey was part of the exercise for the international comparison of financial literacy levels coordinated by the European Commission and the OECD International Network on Financial Education (OECD/INFE), the results of which were published in December. The Banco de Portugal, along with the other financial supervisors and the Ministry of Education, also participated in the drafting of the financial competence framework for children and young people of the European Union published by the European Commission and the OECD/INFE in September.

The Bank continued to take part in the work of the National Plan for Financial Education, an initiative of the National Council of Financial Supervisors. In this context, three teacher training courses were carried out, as well as a new edition of the *Todos Contam* competition, aimed at promoting financial education projects in schools. The Bank and the Ministry of Education began preparing a guide for kindergarten. Training sessions were also carried out with the Northern Regional Coordination and Development Committee (Comissão de Coordenação e Desenvolvimento Regional do Norte – CCDR-N), the Portuguese Institute for Employment and Vocational Training (Instituto de Emprego e Formação Profissional – IEFP), the social services of the public administration (Serviços Sociais da Administração Pública – SSAP), the Portuguese Association for Victim Support (Associação Portuguesa de Apoio à Vítima – APAV) and Regional Secretariat for Social Inclusion and Citizenship (Secretaria Regional de

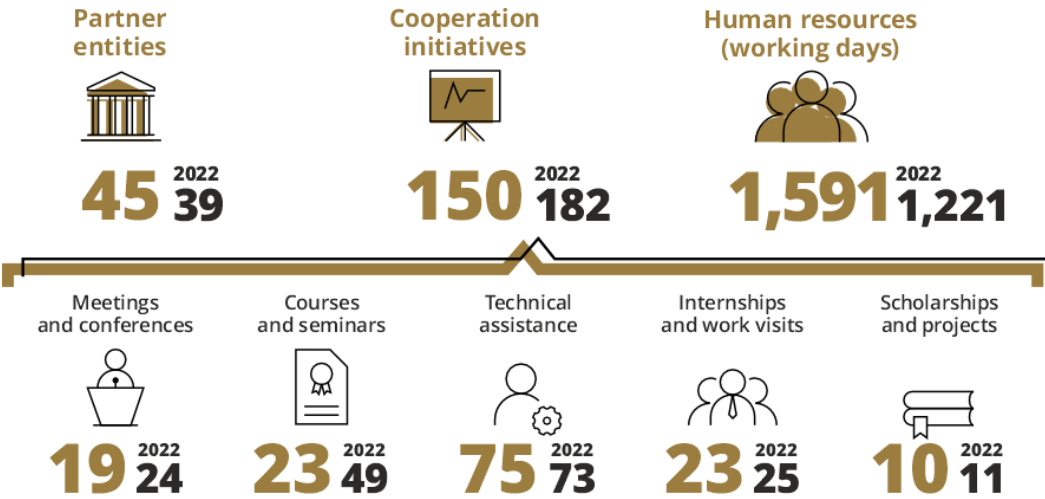
Inclusão Social e Cidadania – SRIC) of the Autonomous Region of Madeira. The three supervisors coordinated the commemoration of Global Money Week in Portugal, involving around 25 thousand children and 1900 adults, and of Financial Literacy Week, whose activities reached more than 144 thousand people.

The Bank carried out 150 cooperation initiatives with entities from emerging and developing countries.

Technical cooperation initiatives with entities from emerging and developing countries were reinforced. Although the number of initiatives has diminished, the number of partner entities (Figure II.8.1) and days dedicated to this activity have grown. Themes associated with the central banking core business areas motivated 40% of initiatives, particularly supervision, financial stability and statistics.

The central banks of Portuguese-speaking countries continued to be the main cooperation partners of the Banco de Portugal, with 112 initiatives carried out. Among them, the 33rd Lisbon Meeting between the Central Banks of Portuguese-speaking Countries, which brought together delegations at the highest level in Lisbon to discuss the role of innovation in payments and economic growth.

Figure II.8.1 • Cooperation initiatives in 2023 and comparison with the previous year



Source: Banco de Portugal.

Cooperation with non-Portuguese-speaking countries was further consolidated, notably with partners from neighbouring EU countries (17 initiatives), Latin America and the Caribbean (8), Africa (8), and Asia and the Pacific (5).

In the ESCB cooperation programmes financed by the EU, the Bank provided technical assistance to North Macedonia’s central bank and participated in the preparatory works for a pilot project of technical cooperation with ten central banks from African countries (Angola, Egypt, Ghana, Kenya, Morocco, Mozambique, Namibia, South Africa, Tanzania and Tunisia) and two regional central banks (the Banque des États de l’Afrique Centrale and the Central Bank of West African States), to be launched in 2024. The collaboration with the Ukrainian central bank also continued, on topics of structural organisation and strategic development.

The Bank also integrated International Monetary Fund (IMF) technical assistance missions to Cabo Verde, Eswatini, Guinea-Bissau, Kosovo, Sri Lanka and Zimbabwe, in areas such as risk management, monetary policy, payment systems, supervision and statistics.

Under the scope of multilateral cooperation, Portugal's commitment to take part in global efforts to support the most vulnerable countries was confirmed in April through the signing of the Banco de Portugal's investment agreement on the deposit and investment account of the Poverty Reduction and Growth Trust (PRGT) – the IMF's main structure for financial support to low-income countries. In December, the IMF Board of Governors – of which the Governor of the Banco de Portugal is a member – approved the agreement on the 16th General Review of Quotas. This makes it possible for the IMF, a core institution in the international monetary system, to maintain its lending capacity.

9 Governance and social and environmental responsibility

The Banco de Portugal follows an approach to environmental, social and governance (ESG) sustainability based on three major objectives: (i) to integrate climate risks into its mission of safeguarding financial stability, maintaining price stability and advising the government; (ii) to strengthen ESG sustainability in its internal management; and (iii) to promote ESG awareness among employees and external stakeholders. The previous chapters introduced the main initiatives within the Bank's various areas of operation aimed at integrating climate risk into its missions. This chapter deals with the Bank's governance, social responsibility and environmental performance as an organisation.

The Bank's organisational structure was adjusted to promote a better alignment between strategic priorities and human resources and technological transformation policies.

In 2023 the Government appointed new members of Banco de Portugal's Board of Auditors, a body that monitors the Bank's functioning and compliance with the applicable legislation and regulations and issues an opinion on its budget, its balance sheet and its annual accounts. At the proposal of the Governor and the Chair of the Board of Auditors, new members were also appointed to the Ethics Committee, the body responsible for preparing and ensuring compliance with the Code of Conduct for the Members of the Board of Directors of the Banco de Portugal and assisting the Compliance Office in updating and implementing the code of conduct for employees.

The establishment of the People and Organisational Strategy Department was approved, from the merger of the Human Resources Management and Development Department with the Strategy and Organisation Directorate. The merger of these two business areas aims to align the employee valuation strategy with the organisation's priorities. The Payment Systems Department was equipped with a business unit dedicated to payments analysis.

The establishment of a new structure to assist the Board of Director's decision-making was also approved: the Commission for Innovation, Technology and Information (CITI), tasked with identifying priority areas and objectives for innovation and technological development and monitoring key initiatives in this area.

Security and business continuity management policies were revised in the light of experience gained during the pandemic and to better react to new threats. An integrated vision of physical and cybersecurity security was adopted, the position of 'chief information security officer' was created as the person responsible for cybersecurity and the responsibilities of the various participants in these policies were clarified.

A total of 31 internal audits were carried out, 23 of which were exclusively domestic and eight under the internal audit function of the European System of Central Banks (ESCB), the Eurosystem and the Single Supervisory Mechanism (SSM). The audits covered most of the Bank's business areas, focusing mainly on supervisory and legal enforcement tasks, cash issuance and information systems (Table II.9.1).

Table II.9.1 • Audits (2023)

Breakdown by function	Domestic	ESCB, Eurosystem and SSM
Monetary policy and other operational duties		2
Supervision and legal enforcement	3	2
Payment systems and processes		1
Cash issuance	6	
Statistics		1
Resolution and deposit guarantee	2	
Information systems/information and communication technologies	6	1
Procurement and logistics (including contract management)	2	
Risk and compliance		1
Governance, internal functioning and management quality	3	
Reserve management and financial assets	1	
Total	23	8

Source: Banco de Portugal.

The main risks associated with the Banco de Portugal's activities were identified and mitigating measures established as part of the Strategic Plan's priority initiatives. The risk tolerance levels set by the Board of Directors were monitored via key risk indicators and preventive action was taken on the most relevant of these.

Financial risk management followed methodologies in line with those used by the Eurosystem and adhered to criteria and limits by type of counterparty, country, operation and instrument. The figures obtained were compared with the financial buffers in the balance sheet (provisions, reserves and income) in order to monitor the degree to which risks are covered and to compare them with the financial risk management strategic budget approved by the Board of Directors.

In addition, regular exercises helped identify, assess and mitigate operational risks. A total of 106 operational risk incidents were recorded and mitigating measures were identified to improve business processes.

The Banco de Portugal was again recognised as one of the best central banks in risk management.

In four out of five categories assessed, the Banco de Portugal continued to rank among the top five central banks of the 68 considered in the annual independent assessment of the International Operational Risk Working Group (IORWG).

The Bank has strengthened its internal policy to prevent and combat harassment and discrimination in the workplace, with the inclusion of new rules in the [Regulation of Conduct](#). The compulsory training on ethics and conduct was given to 1,560 employees, and the Compliance Office responded to 217 requests for an opinion. To encourage reflection on the strategic importance of ethics in public institutions, a conference took place with the participation of heads of the Bank of England and the European Court of Auditors.

In compliance with the general framework to protect whistleblowers and the general anti-corruption framework, an internal reporting channel was created, also accessible through the institutional website to natural persons engaged in the Bank's activities. Responsibility for compliance with this legal framework has been delegated to the Compliance Office.

The [data protection policy](#), published on the website, was also revised to explain to data subjects, in a clear and detailed manner, how the Bank handles the information it collects. The Data Protection Officer replied to 94 information requests and opinions on compliance with personal data protection rules in the Bank's activity and assessed the need to submit nine regulatory projects prepared by the Bank involving the processing of personal data to the Portuguese Data Protection Authority (Comissão Nacional de Proteção de Dados – CNPD), for prior consultation. The Bank also developed a new training and professional awareness plan on the protection of personal data, under which 410 employees were trained. A colloquium covering the first five years of the General Data Protection Regulation was held with the National Council of Financial Supervisors.

In its interaction with the Portuguese Parliament, the Bank issued opinions on draft legislation relating to the protection of the financial services consumer and the response to inquiries and requests for information (Table II.9.2). The Governor participated in a hearing on the financial system.

Table II.9.2 • Interactions with Parliament (2023)

Process	No of interactions
Hearings	1
Requests for opinions	2
Inquiries	1
Requests for information and documentation	1
Other interaction	1
Total	6

Source: Banco de Portugal.

The Secretary-General of the Banco de Portugal, as the person responsible for access to administrative information, within the framework of the Law for Access to Administrative Documents (*Lei de Acesso aos Documentos Administrativos* – LADA), responded to eight requests from legal persons and private individuals.

Over the year, 141 staff members have been recruited and 110 have left the Bank.

On 31 December 2023, the Banco de Portugal had 1,752 staff members, 1.8% more than at the end of 2022 (Table II.9.3). Over the year, 141 staff members were recruited and 110 left the Bank, of whom 44 due to retirement and 66 due to termination of their employment contract. Moreover, 116 trainees were recruited.

Table II.9.3 • Staff developments (2020–2023)

	2020	2021	2022	2023	Δ 2023–2022
Total staff	1,777	1,741	1,721	1,752	1.8%
Active ^(a)	1,700	1,672	1,642	1,663	1.3%
Supervisory tasks ^(b)	495	487	527	490	-7.0%
Unpaid leave/secondment	77	69	79	89	12.7%

Source: Banco de Portugal. | Notes: (a) Excluding staff members on unpaid leave and secondment in the public interest. (b) Staff members allocated to prudential supervision, banking conduct supervision, financial stability, legal enforcement and resolution.

The proportion of female staff in the total staff further increased from 52.1% to 52.4%. There was a slight decrease in the average age to 41 years (42 for men and 40 for women). Most staff members were between 26 to 45 years old. (Table II.9.4)

Table II.9.4 • Staff developments: gender, movements and age groups (2020–2023)

		2020	2021	2022	2023
Gender	Men	881	854	825	834
	Women	896	887	896	918
Movements	Recruitments	102	56	108	141
	Retirements	80	48	67	44
	Termination of employment contracts	23	44	61	66
Age group	<=25	104	79	63	80
	[26;35]	552	521	506	506
	[36;45]	542	583	615	623
	[46;55]	283	286	305	321
	[56;65]	272	246	210	201
	>=66	24	26	22	21

Source: Banco de Portugal.

The breakdown by function has not changed significantly. The number of men in senior management positions continued to be higher, in contrast to that observed in middle management positions (Table II.9.5). Of total staff, 28% were working in supervisory tasks.

Table II.9.5 • Staff: breakdown by function (2023)

	Men	Women	Total	%
Senior management	41	18	59	3%
Middle management	147	173	320	18%
Professional staff	533	664	1,197	68%
Management and technical-administrative staff	76	11	87	5%
Unpaid leave/Secondment	37	52	89	5%
Total	834	918	1,752	100%

Source: Banco de Portugal.

As part of the Banco de Portugal's internship programme, an Open Day was held for universities, in which 147 students from 18 schools of higher education participated.

The creation of personal development plans for all staff members has been promoted.

Enhancing its strategic approach to valuing human resources, the Bank promoted the creation of personal development plans for all staff members and, through its Academy, provided over 64 thousand hours of technical and behavioural training, covering almost all of its staff members (Table II.9.6).

The advanced data science and analytical training offer has been consolidated with the provision of new courses on artificial intelligence. The Bank's employees attended more than 14 thousand hours of training in these fields.

Through the programme to finance specialist courses, the Bank granted financial support to employees to attend higher and specialised courses, amounting to a total of €99,534.62.

As part of the integrated programme for the development of employees, 130 staff members were given specialised advice. A short-term interdepartmental visit programme was also set up to improve the internal knowledge of the Bank's various functions and enhance collaboration between teams.

Table II.9.6 • Training: participants and hours (2020–2023)

	2020	2021	2022	2023	Δ 2023-2022
Participants	1,697	1,624	1,658	1,715	3.4%
Hours	49,182	67,472	59,223	64,721	9.3%
Attendance rate*	95.5%	93.3%	96.3%	97.9%	1.6%
Staff members	1,777	1,741	1,721	1,752	1.8%

Source: Banco de Portugal. | * The participation rate corresponds to the share of the Banco de Portugal's staff members who participated in at least one training session. It includes retired persons and staff members whose employment contracts have been terminated.

The Bank's AI platform was distinguished in Portugal Digital Awards.

The Banco de Portugal won an award in Portugal Digital Awards 2023 for the best digital transformation project in the general government sector. The award was granted by the jury in recognition of the Bank's ability to transform the Bank's AI platform, ALYA, which has brought efficiency gains to various activities and eased the workload of teams in repetitive tasks with lower added value.

For example, ALYA has been used for monitoring loan agreement templates, responding to requests for information from bank customers, supervising information disclosed by banks and, in the context of asset management, assessing market sentiment. In 2023 it was also used to analyse complaints submitted by bank customers.

As a continuation of the integrated information management programme, the internal business data repository contains information on government statistics, monetary policy benchmark rates and asset management, credit and portfolio indicators, and securities issues.

Transparent communication on the Bank's activity and performance was maintained.

The Bank released 105 issues of its publications (Table II.9.7) and 272 press releases and published 85 speeches by senior officials. It released 40 podcasts, 46 videos and seven decoders on its website and social media pages (Table II.9.8).

The Bank held seven press conferences to present its most important publications, replied to 345 media information requests and organised four workshops for journalists. It sent a weekly newsletter to journalists addressing the main topics on the Bank's agenda.

Communication campaigns mainly focused on promoting economic and financial literacy (Chapter II.8). For the first time, the Bank broadcast its events live on social media, reaching ten times more audience than via the institutional website.

The content published on the Bank's website and the Bank Customer Website and a large part of the Bank's publications were also made available in English, totalling more than six thousand translated pages. Close cooperation with the European Central Bank was maintained in the Portuguese translation of its statutory publications.

The Bank provided face-to-face assistance to over 236,000 citizens across its various sites, both on the mainland and in the autonomous regions. The overall satisfaction indicator for the assistance provided stood at 3.88 on a scale of "1 – not satisfied" to "4 – very satisfied". To improve the customer assistance points and cash handling at the Regional Delegation in Funchal, improvements to the building were initiated. At the Evora Agency, construction works have been carried out to allow access to the premises for persons with reduced mobility.

The Bank received 70,189 telephone calls and 20,001 messages sent by email or using the forms available on its website and the Bank Customer Website. These contacts were mainly made by citizens aiming at clarifying issues on the Bank's databases, complaints against financial institutions and rules applicable to the marketing of banking products and services.

The Bank also received 26 complaints in its Livro de Reclamações (complaints book), one more than in 2022. The matters most targeted by the complainants were the services provided by the Bank and any disagreement on the internal procedures. Three written commendations were also received regarding customer service.

Demand for the Bank's services remained high (Table II.9.9), most notably the Central Credit Register, whose consultations increased by 19%.

The Money Museum welcomed a record number of visitors – more than 88 thousand. A total of 650 activities for schools and three temporary exhibitions were hosted: "Plastic Money: the extraordinary history of bank cards"; "Let us common citizens take the word and the initiative" (held in partnership with the José Saramago Foundation to mark the 75th anniversary of the Universal Declaration of Human Rights) and "From Fragment to Form" (exhibition of archaeology with ceramic fragments recovered at the Banco de Portugal's headquarters in the excavations of 2010–11). To raise awareness of the Bank's functions to a wider audience, the first initiative "in the field" was held, with the opening of the exhibition "The Value of Trust in Money" at the Porto Branch.

Table II.9.7 • Regular publications (2023)

Publication	Objective	Frequency	Language ^(a)
<i>Annual Report</i>	Analysis of the Portuguese economy, description of the activities carried out by the Banco de Portugal and release of the Report and Financial Statements	Annual	PT and EN
<i>Annual Report on Cooperation</i>	The Banco de Portugal's cooperation work	Annual	PT and EN
<i>Statistical Activity Report</i>	The activities carried out by the Banco de Portugal as the national statistical authority	Annual	PT
<i>Report on Cash Issuance</i>	The Banco de Portugal's cash issuance activities and its main indicators	Annual	PT Note: English version of the executive summary only.
<i>Report on Monetary Policy Implementation</i>	Description of the implementation of the monetary policy of the Eurosystem in Portugal	Annual	PT
<i>Banking Conduct Supervision Report</i>	Information on the regulation and audit of retail banking markets and on the Banco de Portugal's financial literacy initiatives	Annual	PT and EN
<i>Report on Payment Systems</i>	The most relevant facts on the operation of payment systems	Annual	PT Note: English version of the executive summary only.
<i>Macroprudential Recommendation on new credit agreements for consumers – progress report</i>	An assessment of the implementation of the macroprudential recommendation	Annual	PT and EN
<i>Bulletin on Banknotes and Coins</i>	Cash-related topics	Annual	PT
<i>Economic Developments in Portuguese-speaking African Countries and Timor-Leste</i>	Analysis of the economic environment in Portuguese-speaking African countries and Timor-Leste and their economic and financial relations with Portugal	Annual	PT and EN
<i>Developments in bank customers' complaints</i>	Developments in complaints from bank customers regarding the conduct of financial institutions in retail banking markets over the first half of each year	Annual	PT
<i>Structured Deposits Market</i>	Developments in the market for structured deposits	Annual	PT
<i>Statistical Activity Plan</i>	The Bank's statistical objectives and priorities	Annual	PT
<i>Credit Markets Monitoring Report</i>	Developments in markets for home and mortgage loans and consumer credit	Annual	PT and EN
<i>Developments in Basic Bank Accounts</i>	A description of developments in basic bank accounts	Biannual	PT
<i>Financial Stability Report</i>	An assessment of the main risks and vulnerabilities to the stability of the Portuguese financial system	Biannual	PT and EN
<i>Economic Bulletin</i>	An analysis of the Portuguese economy and release of macroeconomic projections	Quarterly	PT and EN
<i>Bank Lending Survey</i>	Release of the results for Portugal taken from the Eurosystem's survey	Quarterly	PT and EN
<i>Banco de Portugal Economic Studies</i>	A publication containing research studies prepared by the Banco de Portugal's economists	Quarterly	PT and EN
<i>Portuguese Banking System</i>	Developments in the main benchmarks of the Portuguese banking system	Quarterly	PT and EN
<i>Official Bulletin</i>	Collection of all legal acts produced by the Bank in its regulatory capacity	Monthly	PT

Source: Banco de Portugal. | Note: (a) PT – Portuguese; EN – English.

Table II.9.8 • Communication: main indicators (2020–2023)

Channels	Indicators	2020	2021	2022	2023
Website	Press releases	312	283	255	272
	Public speeches	44	75	76	85
	Decoders	18	6	7	7
	Podcasts	5	33	40	40
	Users	3,304,010	3,513,203	4,270,084	4,064,519
	Viewed webpages	20,727,262	21,669,166	22,982,447	23,097,699
Bank Customer Website	News	132	111	110	104
	Users	614,687	833,389	1,218,925	1,091,609
	Viewed webpages	1,988,571	2,182,158	2,416,977	2,255,880
Instagram	Posts	105	139	126	103
	Impressions	2,844,980	1,900,273	1,644,065	1,959,007
LinkedIn	Posts	710	784	874	811
	Impressions	2,876,284	2,728,992	2,978,068	3,561,213
Twitter/X	Tweets	1,312	1,338	1,401	1,345
	Impressions	2,887,000	1,650,000	1,299,661	1,464,438
YouTube	Videos released	42	35	24	46
	Views	156,706	150,600	113,288	125,198

Source: Banco de Portugal.

Table II.9.9 • Services to the public: main indicators (2020–2023)

Services	Indicators	2020	2021	2022	2023
Analysis of bank customers' complaints	Complaints received against financial institutions	19,660	19,322	21,778	26,980
	Complaints received against credit intermediaries	74	83	80	84
Consultations of account reports	Reports issued	388,959	439,072	548,430	604,053
Consultations of account reports	Reports issued	2,731,119	3,173,030	4,019,085	4,775,564
Consultation of information on the prohibition of the use of cheques	Consultations of the List of Cheque Defaulters	8,484	7,084	7,882	9,569
Dissemination of information on lost documents	Requests disseminated	269	559	622	630
Visitors at information desks	Visits	149,876	133,289	203,544	236,422
Historical Archive/Library	Consultations of archived documents	312	296	366	539
	Library consultations (on-site and online)	2,276	4,126	6,452	6,383
Money Museum	Activities	271	300	911	1,033
	Visitors	25,446	25,000	71,013	88,729

Source: Banco de Portugal.

The Bank's volunteering programme was recognised with the "Join4Change" prestigious quality seal.

The Banco de Portugal's volunteering programme was certified with the "Join4Change" prestigious quality seal awarded by the Confederação Portuguesa do Voluntariado (Portuguese confederation of volunteering work) in recognition of good practices in this area.

Social responsibility projects mobilised 472 volunteers (Table II.9.10), 263 more than the previous year.

Table II.9.10 • Social responsibility and volunteering work: main indicators (2023)

Permanent volunteers	472
Students receiving support	183
Schools receiving support	43
Number of meals donated	6,220
Computers and IT equipment donations	370
Private social solidarity institutions supported in internal management matters	15

Source: Banco de Portugal.

Under the EPIS social scholarship programme, the Bank awarded three scholarships for higher education to female students supported by its volunteering programme, to a total amount of €7,650.

Financial support was provided to 22 initiatives from external entities, most in the fields of education and knowledge sharing, to an overall amount of €90,000 (Table II.9.11).

As part of its cooperation activity (Chapter II.8), the Bank financed two scholarship programmes, to a total of €62,000: one to help finance the higher education of staff members of the central banks of Portuguese-speaking African countries and Timor-Leste and another to fund higher education for students from Portuguese-speaking African countries, awarded through Fundação Cidade de Lisboa.

Table II.9.11 • Initiatives supported by the Banco de Portugal (2023)

2023 IIA Portugal Annual Conference Institute for Internal Audit
Autumn School Meta-analysis FEUC
International conference “Collective bargaining in the 21st century” ICS-UL
Congress of the Portuguese Finance Network (PFN) 2023 Universidade da Madeira
Historical and Biographic Dictionary of the Lisbon Academy of Sciences
<i>Economia Viva</i> 2023 Students Association of the NOVA School of Business and Economics (NEC)
EIBA 2023 ISEG
European Conclave Europa Nova
Iberometrics ISEG
ICEBRS – Internacional Conference on Economics and Business Roads to Sustainability CeBER – FEUC
ISEG Summer School 2023 ISEG
JOCLAD 2023 – 30 th Data Classification and Analysis Days
LESE 2024 Economics of Education Knowledge Center of NOVA SBE
Lisbon meetings in Game theory and applications ISEG
Lisbon Migration Economics Workshop ISEG
Scientific & support partnership for CIRSF
Prize to the top two students at the post-graduate course on statistical systems NOVA IMS
ISEG AES Programme – Solidarity Gala 2023 Alumni Economic – ISEG
CEPR Public Economics Symposium ISEG
23rd ANDAR Days
XXVI Congresso SPE 2023 Universidade do Minho
XXXVI ASEPELT International Congress Universidade de Évora

Source: Banco de Portugal.

..... The Bank approved a decarbonisation programme to reach climate neutrality by 2050.

Complying with the Climate Framework Law, the Bank approved a decarbonisation programme, which will be disclosed in 2024. The programme identifies measures that will allow the Bank to reach carbon

neutrality in its internal operations related to buildings, vehicle fleet and electricity purchased. As intermediate targets, vis-a-vis 2018, the programme proposes to reduce greenhouse gas emissions by at least 60% by 2030, 80% by 2040 and 90% by 2050.

The Bank carried out a new carbon footprint measurement exercise linked to the use of its 19 buildings and staff commuting. The results showed that the footprint decreased by 69% between 2018 and 2022 to a total of 3,526.15 tonnes of carbon dioxide. This sharp decrease reflects, in addition to effects still related to the pandemic crisis, the option for energy consumption from renewable sources in almost all buildings, which has been the case since 2021, and the remote working policy adopted in 2022.

The implementation of the measures provided for in the Lisbon Green Capital 2020 Commitment continued, including the widespread adoption of LED lighting and the placement of movement detectors to save electricity. Thanks to these and other measures, in 2023 energy consumption in the Bank's two largest office buildings – the Portugal Building and the Castilho Building – decreased by 11% and 6% respectively compared to the previous year.

In the Carregado Complex, the construction of a photovoltaic power plant (UPAC) began, which is planned to be completed in 2024; it will reduce energy consumption from the grid by almost 20%.

A study on business mobility was also completed. In this context, the Bank decided to purchase only hybrid or electrical vehicles for its fleet.

The Bank monitored indicators on the sustainability of its operations, including the consumption of plastic and paper, water, energy, greenhouse gas (GHC) emissions and waste generated (Table II.9.12). Indirect carbon emissions (scope 2) increased slightly in 2023, mainly due to the improvements to the building of the Regional Delegation of Madeira, which implied higher electricity consumption.

The Bank sent 98% of waste generated by its operations for recycling and recovery, thereby helping to reuse materials.

Table II.9.12 • Consumption of materials, energy, water, GHG emissions and waste generated (2020–2023)^(a)

	2020	2021	2022	2023*
Materials consumption (tonnes)	20.36	15.23	14.18	10.97
Energy consumption within the organisation (gigajoule)	78,453	81,189	80,228	74,347
Fuel	9,060	8,366	8,286	7,980
Electricity ^(a)	69,393	72,823	71,942	66,367
Electricity consumption from 100% renewable sources	98%	99%	99%	99%
Water consumption (m3)	39,910	41,406	47,736	539 ^(c)
Greenhouse gas (GHG) emissions (CO2 tonnes)				121
Direct Scope 1	1,023	983	860	n. a.
Indirect Scope 2 ^(b)	157	119	106	341
Indirect Scope 3	1,712	1,203	2,560	4.7
Waste generated (tonnes) ^(c)	296	223	270	3.46
Hazardous waste	2.74	3.66	5.80	1.28
Recovery – not intended for final disposal	2.44	1.54	2.87	336.37
Disposal – intended for final disposal	0.30	2.12	2.93	332.43
Non-hazardous waste	293.49	219.80	264.40	3.94
Recovery – not intended for final disposal	290.77	218.37	264.38	539 ^(a)
Disposal – intended for final disposal	2.72	1.43	0.02	121

Source: Banco de Portugal. | Notes: (a) Fluorinated greenhouse gases have not been considered. (b) In 2020, a new contract with an electricity supplier was concluded for all of the Bank's buildings, excluding the regional delegations, for the provision of 100% renewable electricity. This explains the reduction of Scope 2 emissions. (c) Total value according to the integrated waste registration charts. Does not include waste managed by service providers and those delivered to municipal management. * Data for 2023 are provisional and may still be revised.

III Report and Financial Statements

- 1 Management Report
- 2 Financial Statements and Notes
- 3 External Auditors' Report
- 4 Report and Opinion of the Board of Auditors

1 Management Report

Presentation

The Board of Directors of the Banco de Portugal presents the Management Report and, in compliance with Article 54 of its Statute, the financial statements for the year 2023, which have been prepared according to the Chart of Accounts of the Banco de Portugal (*Plano de Contas do Banco de Portugal – PCBP*).

The annual accounts of the Banco de Portugal are subject to an external audit, pursuant to the provisions laid down in Article 46 of its Statute and, in accordance with the provisions of Article 43 of the same statute, the Board of Auditors prepared a report and issued an opinion on the financial statements.

The Management Report, which accompanies the Banco de Portugal's annual accounts, presents the operations performed throughout the year and their impact on the financial statements.

The first part of the Report sets out the most important developments in the balance sheet, and the second part highlights the main components of the Profit and loss account.

The economic context in 2023, in particular the maintenance of an inflation rate above the long-term objective of 2%, led to continued tightening of monetary policy in the Eurosystem, which had already started in the previous year. The ECB continued to raise its key policy rates until the end of the third quarter of 2023, with an increase of 200 basis points in 2023 (2022: 250 basis points).

This situation led to the materialisation of balance sheet structure risk. Securities held under monetary policy programmes showed lower fixed yields than short-term liabilities remunerated at key rates, generating negative net interest income.

In addition, a significant volume of targeted longer-term refinancing operations (TLTRO III) matured and measures to reduce excess liquidity in the Eurosystem were implemented, with an impact on the reduction of the central banks' balance sheet volume.

At the end of 2023 the Banco de Portugal's balance sheet totalled €185 billion, down by around €13 billion from the previous year, mainly driven by the aforementioned decrease in excess liquidity in the Eurosystem, visible in lending to credit institutions and in the size of the Asset Purchase Programme (APP).

In 2023 income before provisions and taxes was negative by -€1,054 million as a result of the aforementioned reductions in the interest margin and a worst net result of pooling of monetary income.

With the balance sheet structure risk materialising, the Bank decided to use the General risk provision to fully cover income before provisions and taxes, thus making it nil in 2023.

1.1 Balance Sheet



€184,848 million

Total balance sheet

Table III.1.1 shows developments in year-end positions of the Banco de Portugal's main balance sheet items for the 2019-23 period, from a management perspective. Charts III.1.1 and III.1.2 illustrate developments in the main balance sheet items and Chart III.1.3 shows the changes in the main balance sheet items compared to 2022.

Table III.1.1 • Main balance sheet items 2018-2022 (management's perspective) | € millions

	2019	2020	2021	2022	2023	Δ 2023/2022
Total balance sheet	159,785	192,439	219,196	197,900	184,848	(13,052)
Claims and liabilities related to monetary policy operations						
Claims related to monetary policy operations	70,804	101,214	128,008	102,014	83,463	(18,550)
Lending to credit institutions	17,325	32,164	41,837	16,022	2,955	(13,067)
Securities held for monetary policy purposes	53,479	69,050	86,171	85,992	80,508	(5,484)
Liabilities to credit institutions related to monetary policy operations	(19,213)	(31,613)	(58,525)	(46,429)	(44,113)	2,316
Gold and foreign reserves and euro assets						
Gold	16,654	18,989	19,796	20,986	22,978	1,993
Trading portfolio	14,118	13,712	8,404	7,988	8,181	193
Medium-term investment portfolio	4,744	4,071	3,572	3,180	3,615	435
Other claims	1,765	1,859	2,221	2,687	3,821	1,134
Banknotes in circulation	27,962	30,892	33,258	33,854	33,476	(378)
Intra-Eurosystem claims and liabilities						
Intra-Eurosystem claims	(49,194)	(51,530)	(53,751)	(56,124)	(59,378)	(3,254)
Intra-Eurosystem liabilities	76,976	80,195	79,280	68,567	55,427	(13,140)
Liabilities for collateralised applications (net)	5,049	8,300	9,440	8,867	15,562	6,695
Liabilities to other entities denominated in euro	7,418	18,111	11,433	10,357	6,989	(3,369)
Other liabilities	868	336	740	544	494	(50)
Other liabilities	865	336	740	544	493	(51)
Provisions	2	-	-	-	1	1
Own funds						
Revaluation accounts	13,786	16,047	17,004	18,171	20,074	1,903
General risk provision	3,677	3,677	3,677	3,912	2,858	(1,054)
Capital and reserves	2,022	2,173	2,280	2,382	2,441	59
Retained earnings	(453)	(505)	(395)	(402)	(437)	(35)
Profit for the year	759	535	508	297	0	(297)

Chart III.1.1 • Developments in the balance sheet – total and main assets | € millions

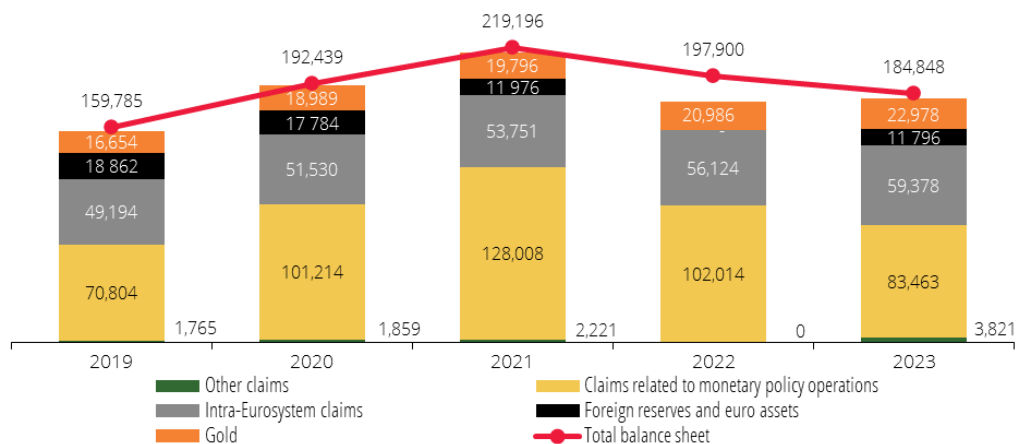


Chart III.1.2 • Developments in the balance sheet – main liabilities and own funds | € millions

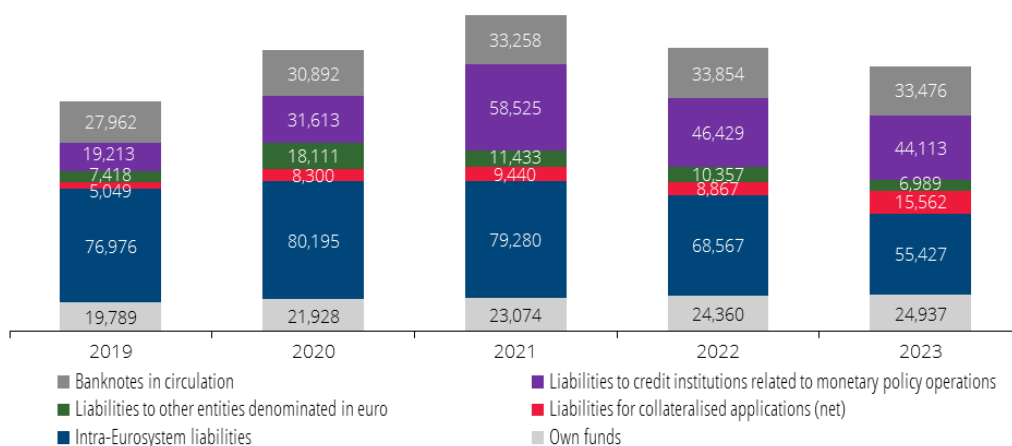
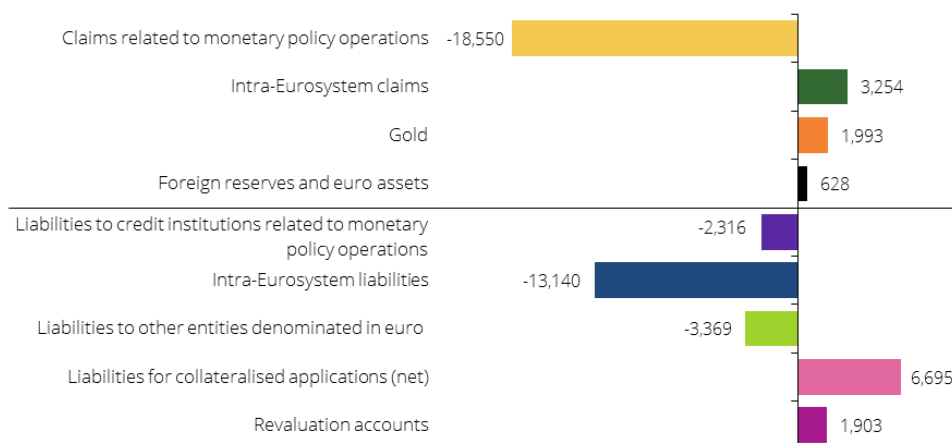


Chart III.1.3 • Main balance sheet items' variation from 2021 | € millions



1.1.1 Claims and liabilities related to monetary policy operations

In 2023 the ECB continued to increase restrictive measures to reduce inflation, mainly through its key interest rates. Interest rates had accumulated rises of 200 basis points up to September 2023, subsequently remaining stable (Chart III.1.4).

Chart III.1.4 • Developments in official interest rates in 2022 | Percentage

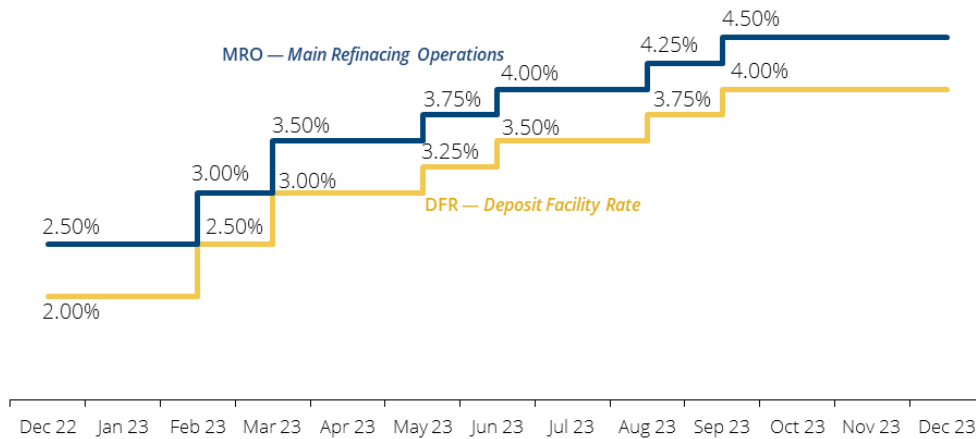
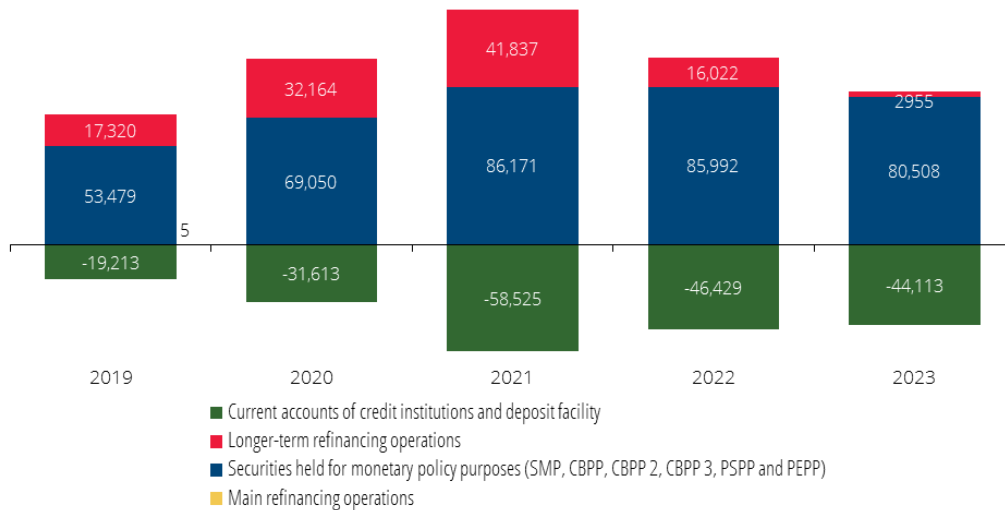


Chart III.1.5 • Aggregates of monetary policy operations | € millions



The ECB and the central banks continued the reduction of their balance sheets, which had begun at the end of 2022. Monetary policy assets showed a net decrease of €18,550 million in 2023, mainly reflecting reductions of €12,860 million in the maturing of targeted longer-term financing operations and of €5,484 million in the portfolio of securities held for monetary policy purposes in the APP portfolio, due to a decision not to reinvest the amount of securities as of July (Chart III.1.5).



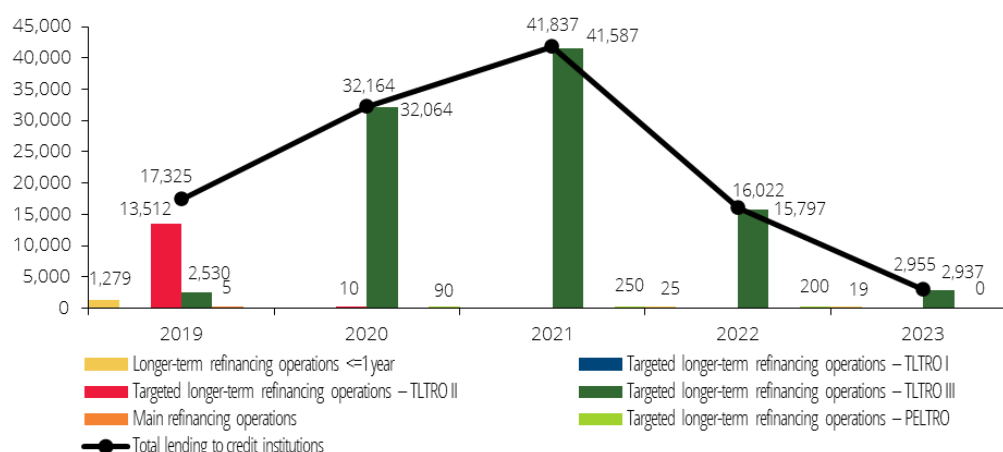
-€13,067 million

Changes in lending to credit institutions

In 2023 TLTRO III were cut by €12,860 million, either due to early repayment or because they reached maturity.

In January 2023, the last pandemic emergency longer term operations (PELTRO) totalling €200 million matured.

Chart III.1.6 • Liquidity-providing operations | € millions



-€5,484 million

Changes in non-standard monetary policy programmes

At the end of 2023 securities held for monetary policy purposes totalled €80,508 million (Chart III.1.5 and Chart III.1.7), i.e. 44% of the Banco de Portugal's total assets. Compared to the same period a year before, the volume of the item decreased by -€5,484 million (in 2022: -€179 million), in line with the ECB's decision announced on 15 December 2022 to discontinue APP reinvestments as of July.

Chart III.1.7 • Securities held for monetary policy purposes | € millions

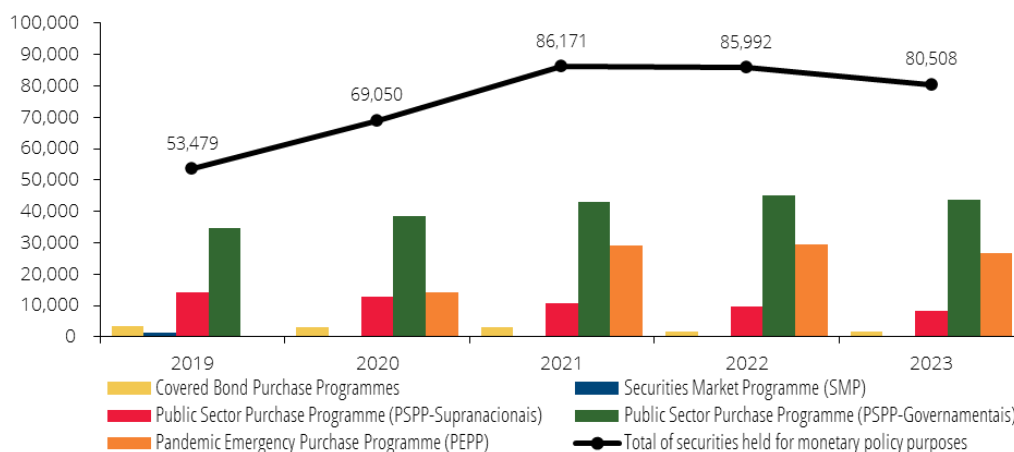
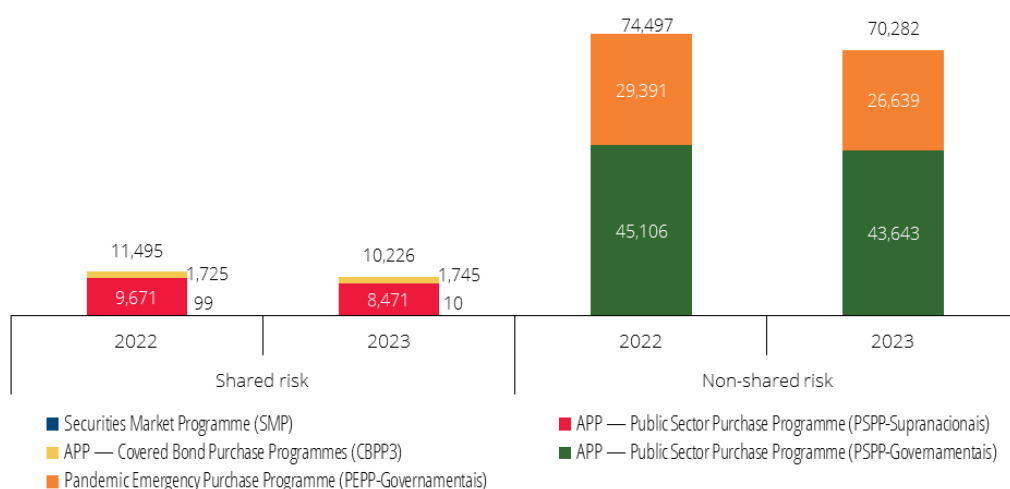


Chart III.1.8 • Banco de Portugal participation in non-conventional programs monetary policy | € millions



As regards the Banco de Portugal's participation in the APP, the overall net amount of the public sector purchase programme (PSPP) decreased by €2,663 million in 2023.

The pandemic emergency purchase programme (PEPP) decreased by €2,752 million from 2022, which was linked to the ECB Governing Council's decision in December 2021 to discontinue net purchases as of March 2022, while maintaining reinvestment in securities that would mature until 2024.

All programmes involving securities held for monetary policy purposes are accounted for at amortised cost less potential impairment losses, with potential gains or losses not reflecting their value in the balance sheet. Gains or losses are recognised only if securities are sold early.

Despite the fact that Portuguese public debt securities showed a significant amount of latent losses of €6,253 million as at the end of the year, these were significantly reduced by €4,030 million compared to the previous year (€10,283 million) chiefly as a result of an upgrade in the Portuguese Republic's rating and expected developments in key policy rates.

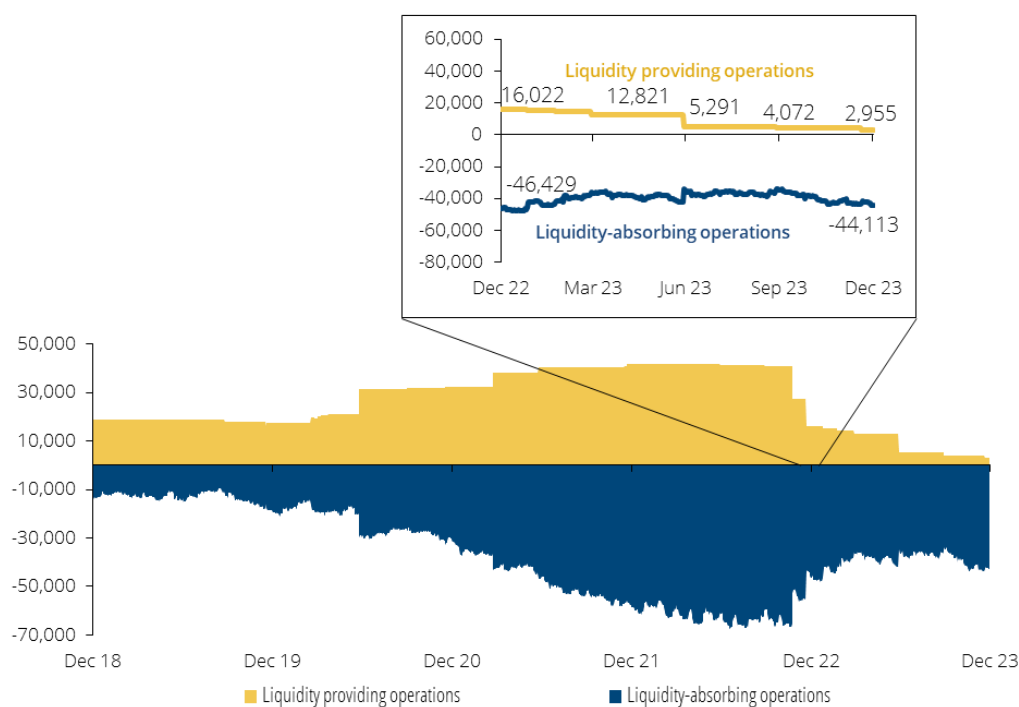


-€2,316 million

Changes in deposits and deposit facilities of credit institutions

Despite the €18,550 million decline in liquidity-providing operations and the volume of monetary policy securities in 2023, the volume of the Bank's liabilities to credit institutions (deposits of credit institutions and deposit facilities) fell by only €2,316 million.

Chart III.1.9 • Daily balances in liquidity-providing and liquidity-absorbing operations | € millions



1.1.2 Gold and foreign reserves and euro assets

Gold



€22,978 million

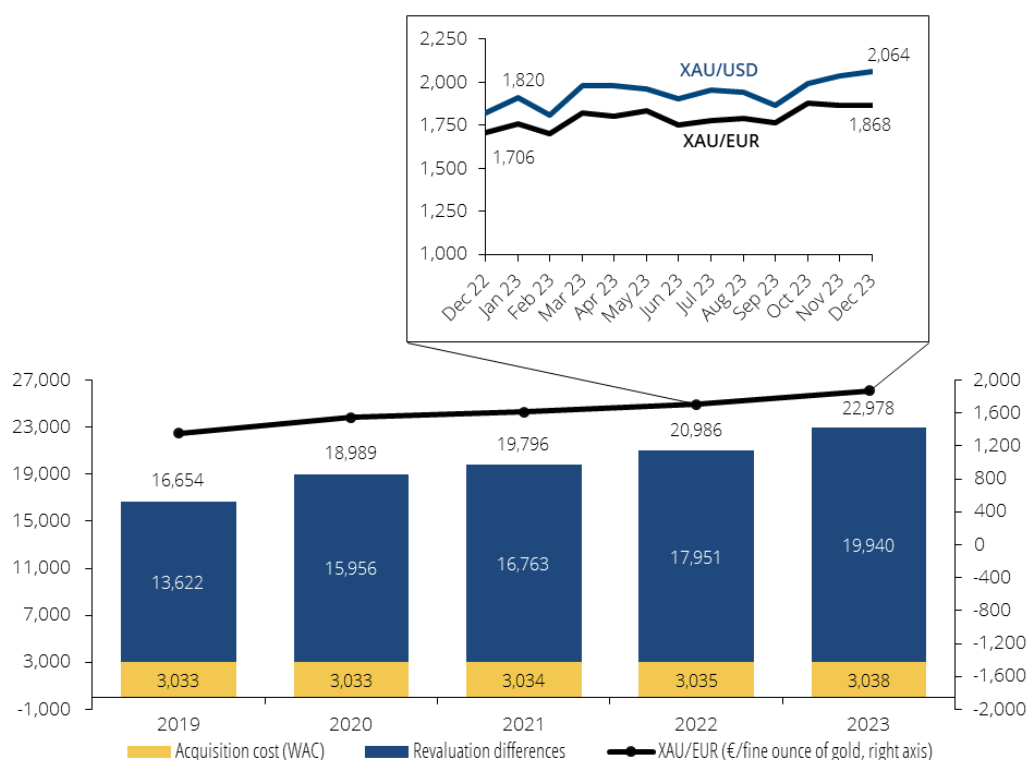
Gold reserve

The Banco de Portugal's gold reserve totalled €22,978 million by the end of 2023, reflecting a €1,993 million rise from 2022, owing to an increase in the gold price per ounce in euro. This price increase was due to the appreciation of the gold price in US dollars (+13.4%) partly countered by the depreciation of the US dollar against the euro (-3.6%).

This reserve remained unchanged at 382.6 tonnes. The value increase in euro was offset by a change of an equivalent amount in the balance sheet item Gold revaluation differences, totalling €19,940 million at the end of 2023 (Chart III.1.10) (point 1.1.6).

In 2023 the Banco de Portugal continued to invest in gold, which consisted mainly of gold swaps for foreign currency and euro, recorded in the accounts as collateralised loans.

Chart III.1.10 • Gold reserve and quote price | € millions



Foreign reserves and euro assets

Foreign reserves and euro assets amounted to €11,796 million at the end of 2023, i.e. declining by €782 million (-6.2%) from the previous year.

- Trading portfolios (denominated in euro and foreign currency)



€8,181 million

Total trading portfolios in euro and foreign currency

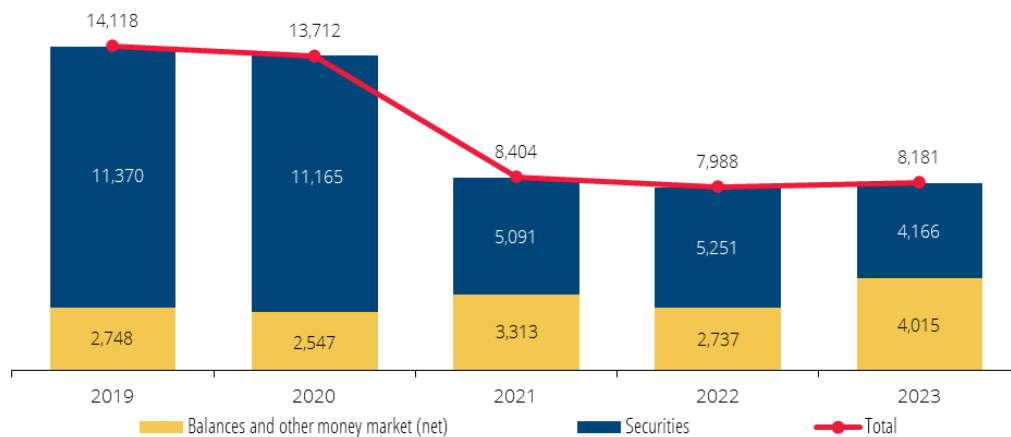
In 2023 the trading portfolio consisted of investments in euro (€3,316 million) and assets denominated in foreign currency (€4,865 million) predominantly denominated in US dollars, valued at market prices.

Although net foreign reserves and euro assets denominated in foreign currency amounted to €4,865 million, the corresponding foreign currency position was only €1,854 million. The difference of €3,008 million relates to euro swaps for foreign currency with no exchange rate risk. Without these operations, the euro trading portfolio would be worth €6,324 million.

In terms of composition by instrument, investing in securities proceeded as in previous years, representing 51% of the total of this portfolio as at the end of 2023.

In 2023 the trading book included a portion of bonds meeting Environmental, Social and Governance (ESG) criteria, amounting to €293 million (€270 million in 2022).

Chart III.1.11 • Trading portfolio (euro and foreign currency) | € millions



- Medium/long-term investment portfolio



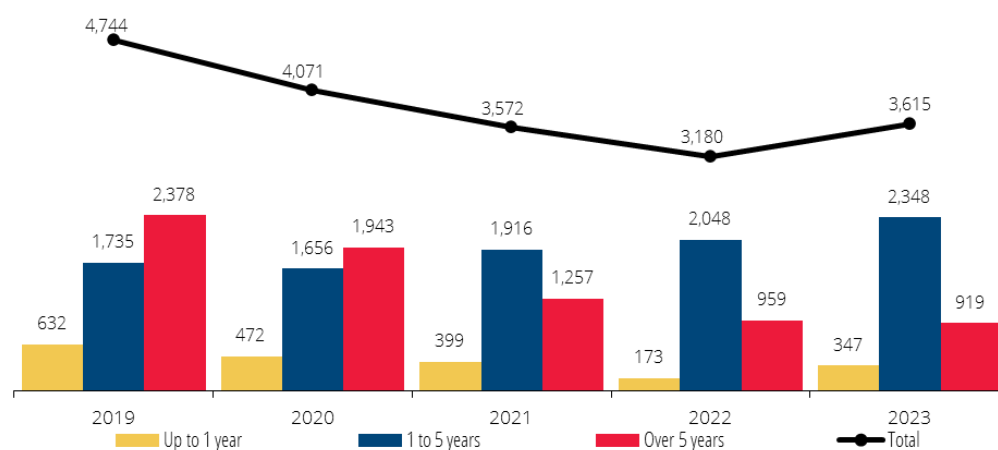
€3,615 million

Medium/long-term investment portfolio, composed of securities denominated in euro

At the end of 2023 the medium/long-term investment portfolio totalled €3,615 million, accounted for at amortised cost less any impairment losses, representing a 14% increase from 2022. With regard to developments in maturing securities in the portfolio (Chart III.1.12), maturities of between one and five years were predominant, due to the decision not to invest in the years of negative interest rates for the European market.

As at 31 December 2023 this portfolio's investment in bonds meeting ESG criteria was €450 million (2022: €150 million).

Chart III.1.12 • Medium/Long-term investment portfolio by maturity | € millions



1.1.3 Banknotes in circulation



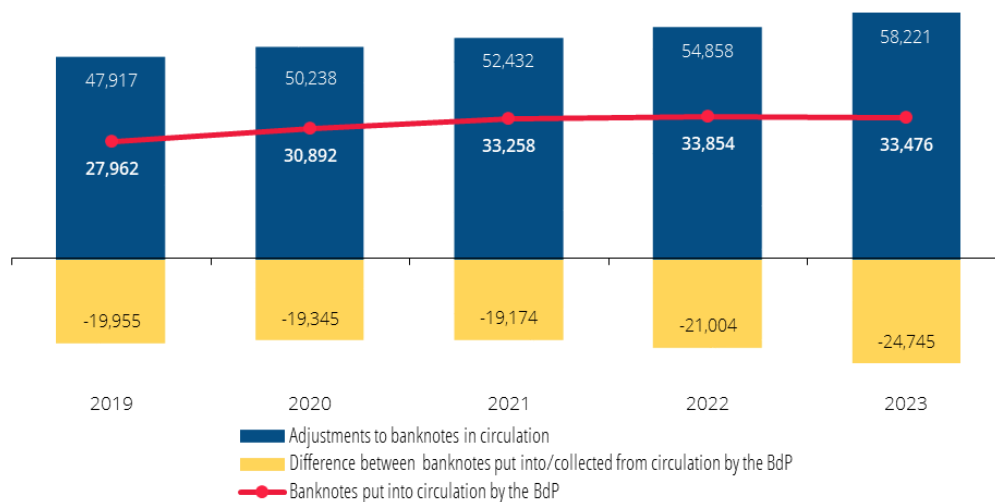
€33,476 million

Total banknotes in circulation

The Banknotes in circulation item, on the liabilities side of the balance sheet, showed the Banco de Portugal's share in Eurosystem's banknotes in circulation (Chart III.1.13). This item fell by €378 million (-1.1%) compared to 2022, reflecting a slight decrease in circulation within the Eurosystem, following several years of significant growth.

Adjustments to banknotes in circulation reflect the difference between Portugal's share and the positive difference between banknotes withdrawn from circulation and banknotes put into circulation by the Banco de Portugal. As at 31 December 2023 this item stood at €58,221 million, which represented a €3,363 million increase (+6%) compared to the same period of the previous year.

Chart III.1.13 • Banknotes in circulation | € millions



1.1.4 Intra-Eurosystem claims and liabilities

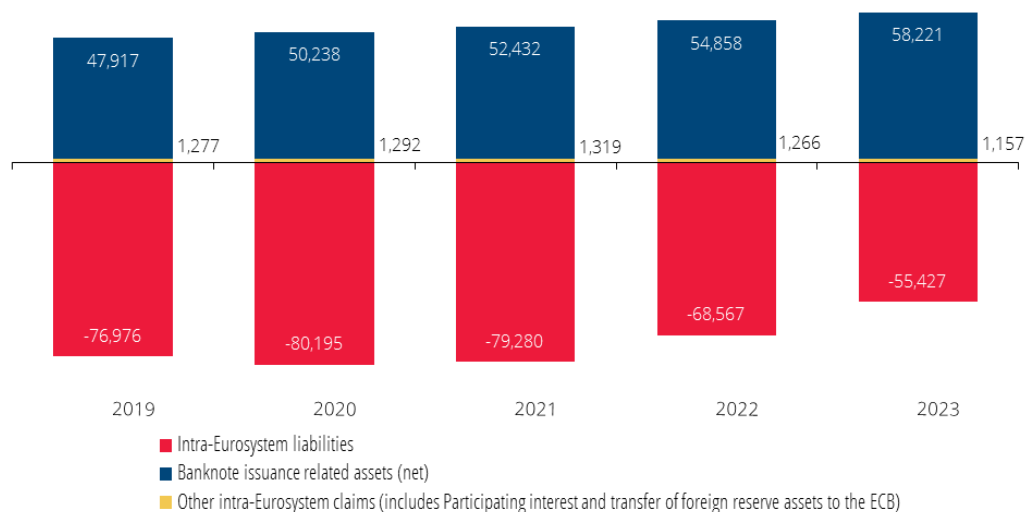


€55,427 million

Intra-Eurosystem liabilities

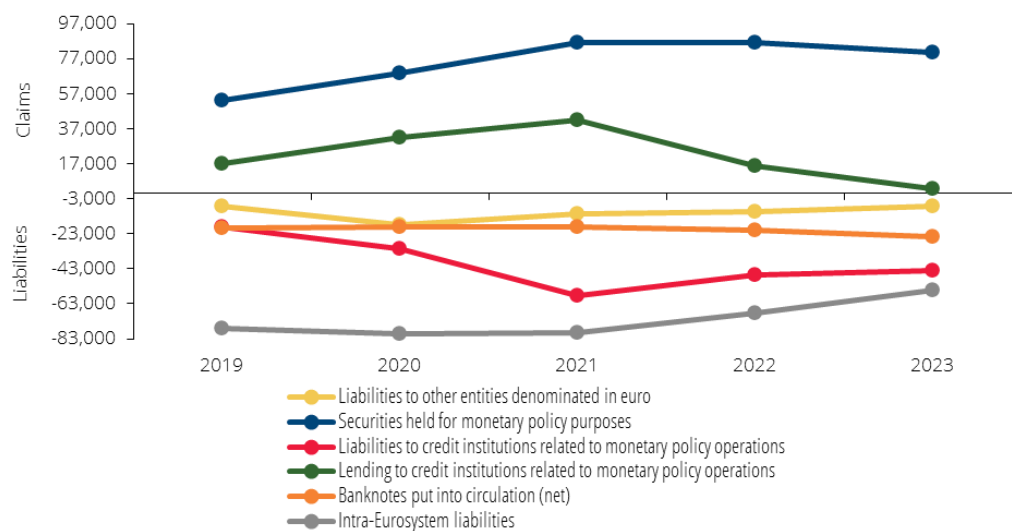
Intra-Eurosystem claims (Chart III.1.14) included the remunerated position relating to adjustments to banknotes in circulation (€58,221 million) mentioned in point 1.1.3.

Chart III.1.14 • Intra-Eurosystem claims and liabilities | € millions



As at 31 December 2023 Intra-Eurosystem liabilities totalled €55,427 million, representing a decrease of €13,140 million from 2022 (Charts III.1.14 and III.1.15) and mainly encompassed liabilities arising from the TARGET account. This decrease results from changes in various items, as shown in the chart below:

Chart III.1.15 • Intra-Eurosystem liabilities and main offsetting balance sheet items | € millions



1.1.5 Liabilities to other entities denominated in euro



€5,674 million

Balance of the current accounts of the Portuguese Treasury and Debt Management Agency with the Banco de Portugal

The item Liabilities to other entities denominated in euro was mainly composed of general government current accounts with the Banco de Portugal (€5,674 million) managed by the Portuguese Treasury and Debt Management Agency (Agência de Gestão da Tesouraria e da Dívida Pública – IGCP).

1.1.6 Own funds



€1,903 million

Increase in positive revaluation accounts

The Banco de Portugal's own funds (which include Revaluation accounts, General risk provision, Capital and reserves, Retained earnings and Net profit for the year) increased by €577 million in 2023 (to €24,937 million), largely owing to the offsetting effect between the increase in positive revaluation accounts (Chart III.1.16) and the use of the General risk provision.

The increase in positive revaluation accounts (by €1,903 million, to €20,074 million) was mainly due to a rise in potential capital gains on Gold (+€1,990 million).

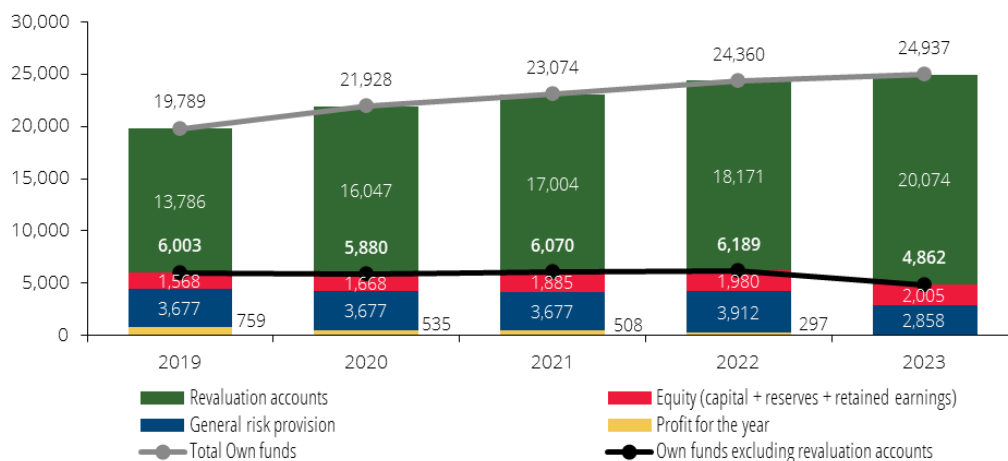
Movements in the General risk provision are reviewed on an annual basis and take into account, among other factors, the risk assessment carried out for the period under review, in accordance with a methodology common to the Eurosystem, and the projection of these risks over a medium-term horizon. This projection considers maintaining the financial autonomy levels suited to the Bank's mission, enabling it at any time to cover potential losses, including those resulting from risk sharing with the Eurosystem.

As already mentioned, 2023 was marked by quite high materialisation of balance sheet structure risk, especially with regard to the cost of financing the securities of monetary policy programmes, compared to their yields. Against this background, the General risk provision was drawn down by €1,054 million in 2023, totalling €2,858 million in December.

This provision is equivalent to a reserve as it is permanent in nature, being intended to cover any balance sheet risks in the medium and long term, as mentioned.

In addition to Revaluation accounts and the General risk provision, also worth mentioning was (i) the impact of the distribution of €238 million in Dividends to the State from the 2022 Net profit and (ii) the recognition in Retained earnings of net actuarial and financial gains of 2023, relating to the Pension Fund – Defined-Benefit Plan (totalling €36 million).

Chart III.1.16 • Own funds | € millions



1.2 Profit and loss account



-€1,054 million

Income before provisions and taxes

The main components of the Profit and loss account from 2019 to 2023 are shown in Table III.1.2.

Table III.1.2 • Main Profit and loss account items 2019-2023 | € millions

	2019	2020	2021	2022	2023	Δ 2023/2022
Interest margin	998	802	677	582	(666)	(1,248)
Realised gains/losses arising from financial operations	50	49	75	159	6	(153)
Unrealised losses on financial assets and positions	(5)	(70)	(8)	(79)	(3)	76
Income from equity shares and participating interests	72	56	18	4	3	(1)
Net result of pooling of monetary income	119	143	175	109	(184)	(293)
Total administrative expenses	205	196	195	196	197	2
Staff costs	139	132	130	131	125	(6)
Supplies and services from third parties	47	45	46	47	54	6
Other administrative expenses	1	1	2	2	2	0
Depreciation and amortisation for the year	18	18	18	16	17	1
Banknote production costs	7	10	12	7	11	4
Other net profit/loss	85	4	11	95	(2)	(97)
Income before provisions and taxes	1,106	777	742	668	(1,054)	(1,722)
Transfer from/to risk provisions	–	–	–	(235)	1,054	1,289
Income before taxes	1,106	777	742	433	0	(433)
Income tax	(347)	(242)	(234)	(136)	0	136
Profit for the year	759	535	508	297	0	(297)

As a result of the use of the General risk provision to cover negative income before provisions and taxes of -€1,054 million, there was no income before provisions and taxes in 2023.

Income before provisions and taxes stood at -€1,054 million, largely reflected in the materialisation of balance sheet structure risk, expressed in the interest margin (-€666 million) and in the net result of pooling of monetary income (-€184 million).

With regard to the interest margin, there were negative contributions from a substantial increase in interest payable on (i) liabilities to credit institutions, the general government and the Eurosystem; and (ii) collateralised operations carried out to rebuild the financing structure, thus reducing interest expenses arising from intra-Eurosystem liabilities.

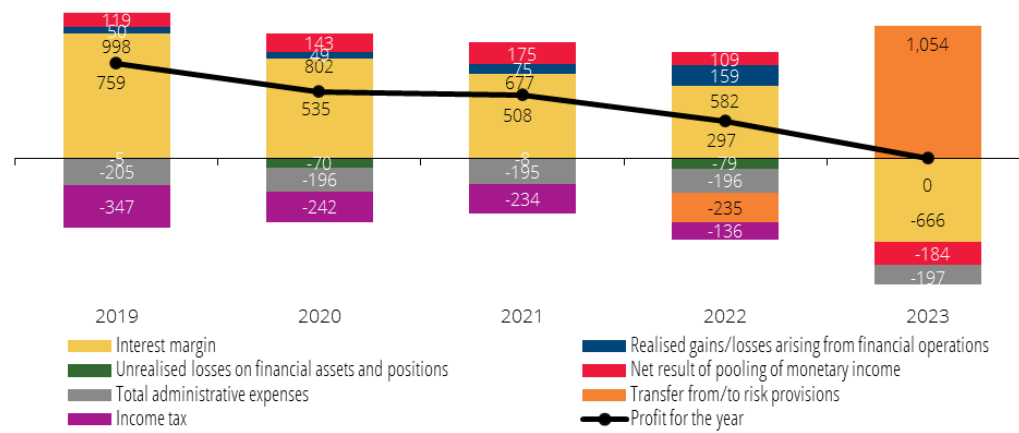
These negative impacts were partly offset by the increase in interest receivable relating to (i) Foreign reserves and euro assets, as a result of the increase in rates of return; (ii) TLTRO III; (iii) Eurosystem's claims.

The net result of pooling of monetary income was negative, largely as a result of the Bank's contributions related to interest payable on current accounts of credit institutions and deposit facilities being lower than the Bank's share of total interest payable by the Eurosystem, in accordance with the ECB's capital key.

Administrative expenses rose by 0.8%, in pursuit of efficiency and cost containment objectives, against a background of a rise in reference rates and in the inflation rate, with an impact on the Bank's operating expenses.

Income tax was -€0.1 million as a result of autonomous taxation, partly offset by the effect of deferred taxes.

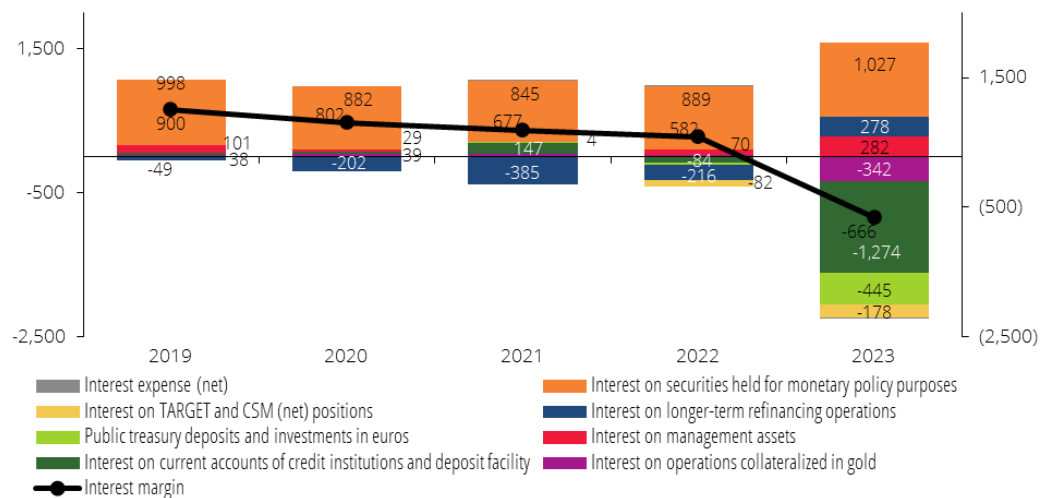
Chart III.1.17 • Developments in the main profit/loss items | € millions



1.2.1 Interest margin

In 2023 the Interest margin continued to be the main component of the Banco de Portugal's income statement, amounting to -€666 million. This amount accounted for a €1,248 million decline from 2022.

Chart III.1.18 • Interest margin | € millions





-€1,274 million

Component of the interest margin relating to current accounts of credit institutions and deposit facilities

The reduction in the interest margin in 2023 was driven by a significant increase in interest payable on liabilities to credit institutions, stemming from the aforementioned sharp rise in key interest rates. The amount of -€1,274 million in 2023 compares to -€84 million in 2022, when the rate of return on these liabilities was still negative in the first few months.



-€445 million

Component of the interest margin relating to general government current accounts

Interest from general government current accounts totalled -€445 million in 2023 compared to -€32 million in 2022.



€138 million

Change in interest income from securities held for monetary policy purposes

Interest income from the portfolio of securities held for monetary policy purposes continued to make the most relevant contribution to the interest margin, with a total of €1,027 million in 2023. Interest on this component increased from 2022 (€138 million) due to the increase in average rates of return, which more than offset the reduction in the volume of these securities.



€278 million

Component of the interest margin associated with TLTRO III

Interest receivable from these operations totalled €278 million in 2023, compared to an amount payable of -€216 million in the same period a year earlier in the previous context of negative interest rates.

1.2.2 Net result of financial operations and unrealised losses

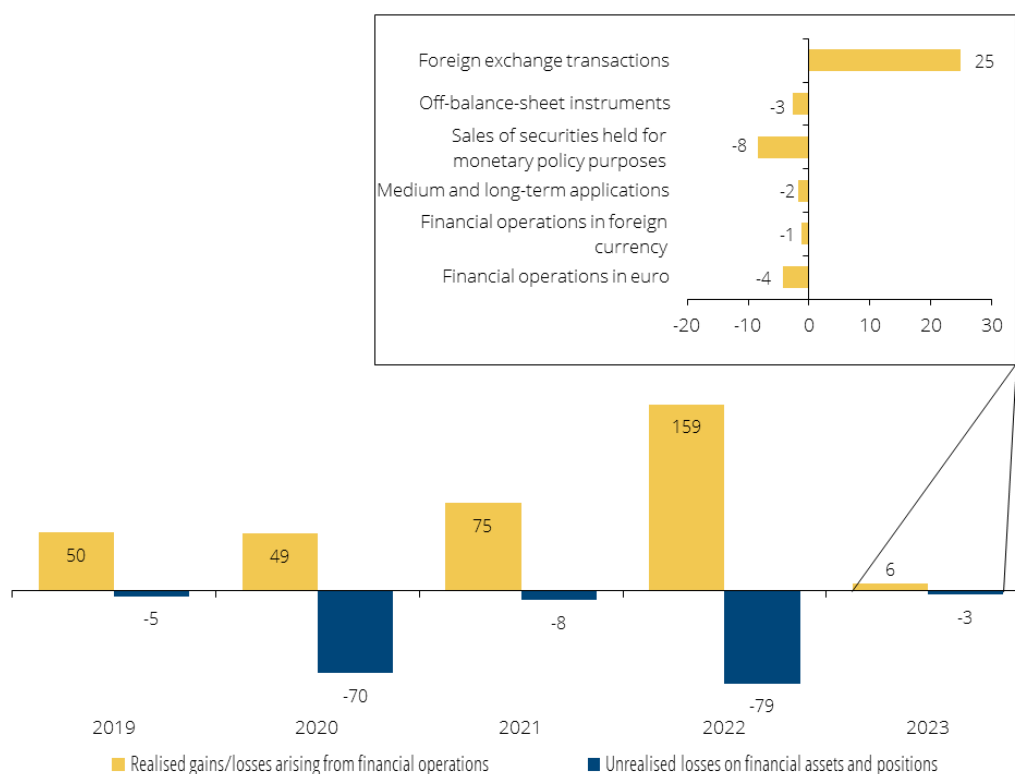


€6 million

Realised gains/losses arising from financial operations

Realised gains/losses arising from financial operations showed a positive value of €6 million at the end of 2023 (Chart III.1.19), i.e. a €153 million decrease from the same period in 2022. These realised gains/losses are essentially associated with financial operations with assets in the Bank's trading portfolio.

Chart III.1.19 • Net result of financial operations and unrealised losses | € millions



€3 million

Unrealised losses on financial assets and positions

As regards Unrealised losses on financial assets and positions, the overall amount recognised in 2023 was €3 million, down by €76 million from the previous year. This decrease was driven by developments in interest rates and is mostly visible in potential losses in securities denominated in euro (in 2022: €71 million; in 2023: less than €500,000). In accordance with the Eurosystem's harmonised accounting rules, unrealised losses are recognised as expenses as at 31 December, while unrealised gains are taken to the balance sheet under the items of Revaluation accounts.

1.2.3 Net result of pooling of monetary income



-€184 million

Net result of pooling of monetary income within the Eurosystem, for the year 2023

In 2023 the item Net result of pooling of monetary income mainly included (i) the result of the Eurosystem's monetary income pooling method for the year (-€182.8 million) and (ii) the impact of a Eurosystem-specific provision (-€1.0 million).

In 2023 the overall monetary income of the Eurosystem stood at €40,760 million, up by €33,631 million compared to 2022 (€7,129 million).

In 2023 the Banco de Portugal showed an amount payable as a result of the monetary income sharing calculation method, mainly owing to the increase in the component of interest payable on current accounts of credit institutions and deposit facilities, in a context where the weight of its contributions in total Eurosystem contributions (0.98%) was lower than the corresponding capital key (2.3217%).

1.2.4 Income from equity shares and participating interests

This item only recognised dividends received by the Banco de Portugal in 2023 relating to its participating interests in the Bank for International Settlements (BIS), concerning 2022 profit distribution.

1.2.5 Total administrative expenses

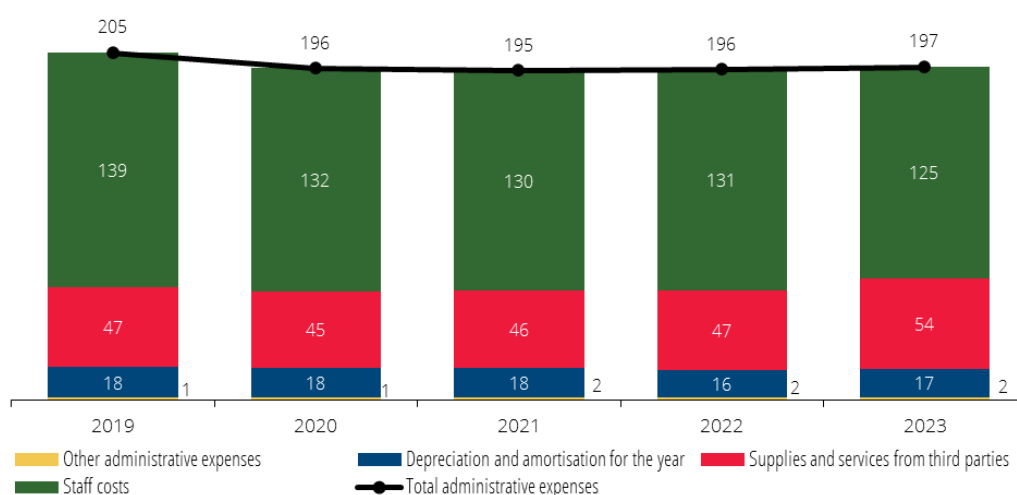


€197 million

Administrative expenses

In 2023 Total administrative expenses amounted to €197 million (Chart III.1.20), up by 0.8% on 2022. This subdued change was a result of the offsetting effect of the decrease in Staff costs with compulsory and voluntary social charges, mainly due to the impact of the increase in the discount rate on Pension Fund liabilities. This made it possible to offset the impact of the rise in the inflation rate on the Bank's operating costs, reflected in the growth of the supplies and services from third parties component.

Chart III.1.20 • Administrative expenses | € millions





-€6 million

Decrease in staff costs

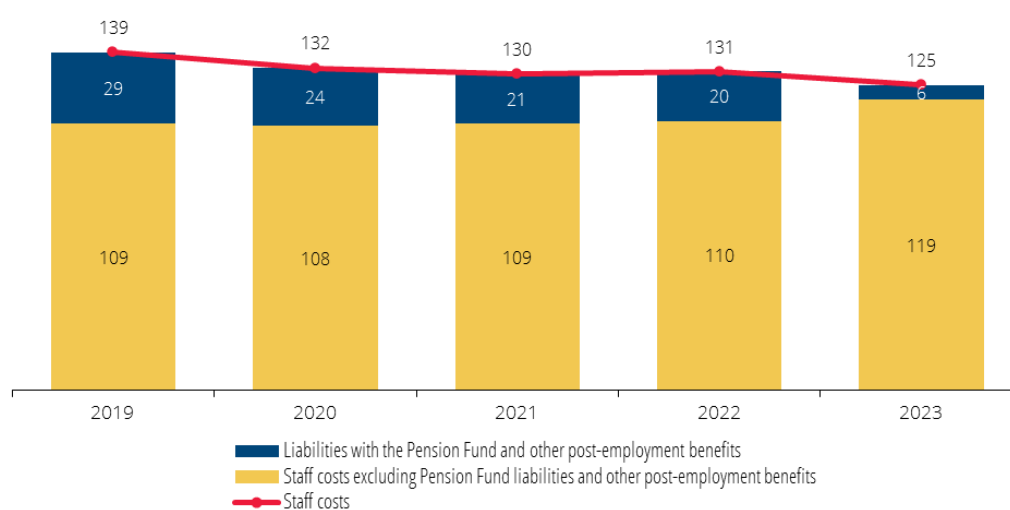
Staff costs in 2023 fell by €6 million compared to 2022, as a result of the offsetting effect of the increase in the remuneration component and the decrease in compulsory and voluntary social charges.

The remuneration component increased by €9 million, as a result of the impact of salary updates and the impact of the recognition of costs of professional internship, which are now accounted for under Staff costs (no longer recorded under Supplies and services by third parties) with retroactive effects as of 1 January 2023. This change was prompted by the implementation of Law 13/2023 of 3 April 2023, under which professional internships are equivalent to employment for social security purposes.

Compulsory and voluntary social charges decreased by €13 million from 2022, as a result of the decrease in charges with the Pension Fund – Defined-Benefit Plan due to the impact of the increase in the discount rate and the decrease in the number of early retirements.

As at 31 December 2023 the number of Bank employees was 1663 (31 December 2022: 1,642 employees).

Chart III.1.21 • Staff costs | € millions



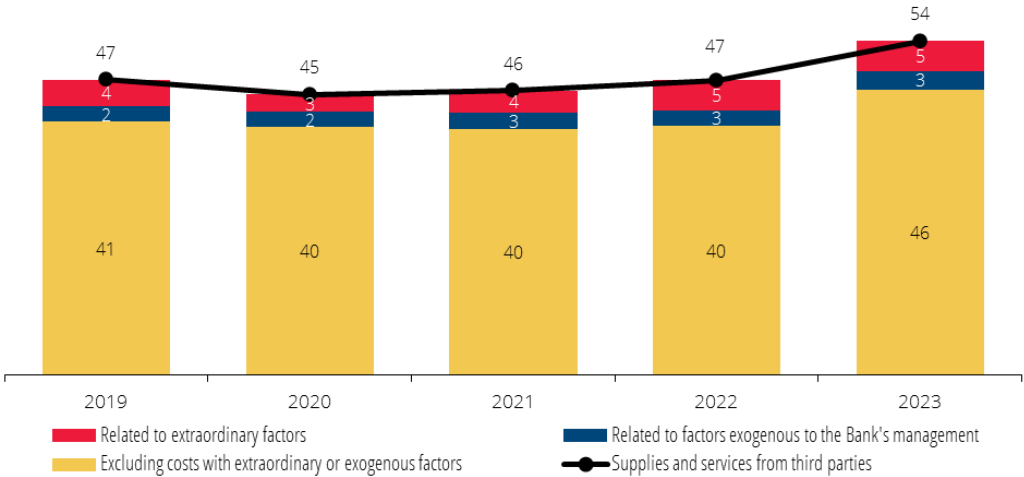
€54 million

Supplies and services from third parties

Supplies and services from third parties amounted to €54 million at the end of 2023 (27% of total administrative expenses), increasing by €7 million (Chart III.1.22). This reflected the increase in inflation and reference rates in the current economic environment, mainly translating into expenses associated with (i) electricity; (ii) general security and cleaning services, as a result of pay rises; (iii) IS/IT expenses, their increase reflecting the market prices of information technologies,

essentially related to licensing and specialised IT work; (iv) business travel, due to the increase in list prices; and (v) services and specialised consultancy.

Chart III.1.22 • Supplies and services from third parties | € millions



Lisbon, 27 February 2024

BOARD OF DIRECTORS

Governor

Mário Centeno

Vice-Governors

Luís Máximo dos Santos

Clara Raposo

Directors

Hélder Rosalino | Helena Adegas | Rui Pinto | Francisca Guedes de Oliveira

Profit and loss

Net loss for 2023 totalling €109,678.37, arising from the recognition of the estimate for Income tax, will be transferred to Retained earnings, pursuant to Decision of the Minister of State and Finance No 7/2024/MEF-XXIV of 29 April 2024.

2 Financial statements and notes

Financial statements

Table III.2.1 • Balance sheet of the Banco de Portugal | € thousands

Assets	Notes	31/12/2023			31/12/2022
		Gross assets	Depreciation, amortisation and impairment	Net assets	Net assets
1 Gold and gold receivables	2	22,978,137		22,978,137	20,985,509
2 Claims on non-euro area residents denominated in foreign currency		8,965,646		8,965,646	9,367,880
2.1 Receivables from the IMF	3	4,161,678		4,161,678	4,069,996
2.2 Balances with banks and security investments, external loans and other external assets	4	4,803,968		4,803,968	5,297,884
3 Claims on euro area residents denominated in foreign currency	4	60,945		60,945	108,209
4 Claims on non-euro area residents denominated in euro	5	625,504		625,504	599,583
4.1 Balances with banks, security investments and loans		625,504		625,504	599,583
4.2 Claims arising from the credit facility under the Exchange Rate Mechanism II (ERM II)		–		–	–
5 Lending to euro area credit institutions related to monetary policy operations denominated in euro	6	2,955,330		2,955,330	16,021,880
5.1 Main refinancing operations		–		–	–
5.2 Longer-term refinancing operations		2,955,330		2,955,330	16,021,880
5.3 Fine-tuning reverse operations		–		–	–
5.4 Structural reverse operations		–		–	–
5.5 Marginal lending facility		–		–	–
5.6 Credits related to margin calls		–		–	–
6 Other claims on euro area credit institutions denominated in euro	5	833,621		833,621	226,849
7 Securities of euro area residents denominated in euro		82,834,849		82,834,849	89,188,832
7.1 Securities held for monetary policy purposes	7	80,508,158		80,508,158	85,992,003
7.2 Other securities	5	2,326,691		2,326,691	3,196,829
9 Intra-Eurosystem claims	8	59,377,866		59,377,866	56,123,893
9.1 Participating interest in the ECB		206,054		206,054	206,054
9.2 Claims equivalent to the transfer of foreign reserves to the ECB		944,252		944,252	944,252
9.3 Net claims arising from balances of TARGET accounts		–		–	–
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem		58,220,728		58,220,728	54,857,596
9.5 Other intra-Eurosystem claims		6,833		6,833	115,990
10 Items in the course of settlement		302		302	–
11 Other assets		6,556,824	341,328	6,215,496	5,277,567
11.1 Coins of the euro area		61,731		61,731	42,190
11.2 Tangible fixed assets and intangible assets	9	484,099	340,654	143,444	144,654
11.3 Other financial assets	10	3,678,150		3,678,150	3,239,996
11.4 Off-balance-sheet instruments revaluation differences		6		6	18
11.5 Accruals and income collected in advance	11	1,868,428		1,868,428	1,369,237
11.6 Sundry	12	464,411	674	463,737	481,472
Total depreciation and amortisation	9		340,654		
Total impairment	19		674		
12 Losses for the period				110	–
Total assets		185,189,024	341,328	184,847,806	197,900,202

Liabilities, revaluation accounts, general risk provision and equity	Notes	31/12/2023	31/12/2022
1 Banknotes in circulation	13	33,475,969	33,853,731
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	14	44,112,766	46,429,256
2.1 Current accounts of credit institutions for compliance with minimum reserve requirements		3,057,405	3,456,241
2.2 Deposit facility		41,055,361	42,973,015
2.3 Fixed-term deposits		–	–
2.4 Fine-tuning reverse operations		–	–
2.5 Deposits related to margin calls		–	–
3 Other liabilities to euro area credit institutions denominated in euro	15	9,531,233	3,050,838
5 Liabilities to other euro area residents denominated in euro	15	6,784,129	10,236,369
5.1 General government		5,673,683	6,979,967
5.2 Other liabilities		1,110,445	3,256,401
6 Liabilities to non-euro area residents denominated in euro	16	6,704,597	5,968,821
7 Liabilities to euro area residents denominated in foreign currency	4	–	108,058
8 Liabilities to non-euro area residents denominated in foreign currency	4	–	1,301,770
8.1 Deposits, balances and other liabilities		–	1,301,770
8.2 Liabilities arising from the credit facility under ERM II		–	–
9 Counterpart of special drawing rights allocated by the IMF	3	3,380,850	3,480,965
10 Intra-Eurosystem liabilities	8	55,427,227	68,566,825
10.1 Liabilities related to the issuance of ECB debt certificates		–	–
10.2 Net liabilities arising from balances of TARGET accounts		55,244,237	68,566,825
10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem		–	–
10.4 Other net liabilities within the Eurosystem		182,990	–
11 Other liabilities		493,392	543,995
11.1 Off-balance-sheet instruments revaluation differences		–	–
11.2 Accruals and income collected in advance	17	445,065	496,857
11.3 Sundry	18	48,327	47,138
12 Provisions	19	996	–
13 Revaluation accounts	20	20,074,362	18,171,023
14 General risk provision	19	2,857,706	3,911,622
15 Equity	21	2,004,580	1,979,642
15.1 Capital		1,000	1,000
15.2 Reserves and retained earnings		2,003,580	1,978,642
16 Profit for the period		–	297,289
Total liabilities, revaluation accounts, general risk provision and equity		184,847,806	197,900,202

Head of the accounting department
José Pedro Silva Ferreira

Note: Totals/sub-totals included in the tables and charts may not equal the sum of the figures presented due to rounding, since this section presents figures in € thousands.

Table III.2.2 • Profit and loss account | € thousands

	Items	Notes	31/12/2023	31/12/2022
1	Interest income		3,975,516	1,482,081
2	Interest expense		4,641,755	900,099
3	Net interest income	22	(666,238)	581,982
4	Realised gains/losses arising from financial assets and positions	23	6303	159,432
5	Unrealised losses on financial assets and positions	24	3315	79,379
6	Transfer from/to risk provisions	19	1,053,916	(235,000)
7	Net result of financial operations, unrealised losses and risk provisions		1,056,904	(154,947)
8	Fees and commissions income		2913	5076
9	Fees and commissions expense		15,184	9785
10	Net income from fees and commissions		(12,270)	(4708)
11	Income from equity shares and participating interests	25	2978	3961
12	Net result of pooling of monetary income	26	(183,986)	109,158
13	Other income	27	12,456	104,469
14	Total net income		209,843	639,914
15	Staff costs	28	125,124	130,666
16	Supplies and services from third parties	29	53,577	47,278
17	Other administrative expenses		1843	1599
18	Depreciation and amortisation for the year	9	16,597	15,995
19	Total administrative expenses		197,141	195,538
20	Banknote production costs		10,875	6608
21	Other expenses	27	1951	4345
22	Losses for impairment of assets (losses/reversals)	19	(125)	(11)
23	Transfer to the reserve relating to capital gains on gold sales		–	–
24	Total costs and losses (net)		209,843	206,481
25	Profit/loss before taxes		0	433,433
26	Income tax		110	136,145
26.1	Income tax – current	30	179	133,615
26.2	Income tax – deferred	30	(70)	2530
27	Net profit for the year		(110)	297,289

Head of the accounting department
José Pedro Silva Ferreira

Note: Totals/sub-totals included in the tables and charts may not equal the sum of the figures presented due to rounding, since this section presents figures in € thousands.

Table III.2.3 • Statement of changes in equity | € thousands

Description	Notes	Paid-up capital	Legal reserves	Other reserves	Retained earnings	Net profit for the year	Total equity
Position as at 31 December 2021 (7)		1,000	671,566	1,607,768	(394,855)	508,081	2,393,559
2021 profit distribution							
Dividends distribution to shareholders	21					(406,465)	(406,465)
Other operations	21		50,808	50,808		(101,616)	–
Sub-total of 2021 profit distribution (8)		–	50,808	50,808	–	(508,081)	(406,465)
Changes in 2022							
Actuarial gains/losses from group life insurance	32						–
Actuarial gains/losses of the Pension Fund	32				(16,935)		(16,935)
Income tax – current	30				–		–
Adjustments on account of deferred taxes	30				9,484		9,484
Sub-total of changes in 2022 (9)		–	–	–	(7,451)	–	(7,451)
Net profit for the year (10)						297,289	297,289
Comprehensive income for the year (11) = (9) + (10)		–	–	–	(7,451)	297,289	289,837
Position as at 31 December 2022 (12) = (7) + (8) + (11)		1,000	722,374	1,658,576	(402,306)	297,289	2,276,932
Position as at 31 December 2022 (7)		1,000	722,374	1,658,576	(402,306)	297,289	2,276,932
2022 profit distribution							
Dividends distribution to shareholders	21					(237,831)	(237,831)
Other operations	21		29,729	29,729		(59,458)	–
Sub-total of 2022 profit distribution (8)		–	29,729	29,729	–	(297,289)	(237,831)
Changes in 2023							
Actuarial gains/losses of the Pension Fund	32				(36,427)		(36,427)
Income tax – current	30						–
Adjustments on account of deferred taxes	30				1,907		1,907
Sub-total of changes in 2023 (9)		–	–	–	(34,520)	–	(34,520)
Net profit for the year (10)						(110)	(110)
Comprehensive income for the year (11) = (9) + (10)		–	–	–	(34,520)	(110)	(34,629)
Position as at 31 December 2023 (12) = (7) + (8) + (11)		1,000	752,103	1,688,305	(436,826)	(110)	2,004,471

Head of the accounting department
José Pedro Silva Ferreira

Note: Totals/sub-totals included in the tables and charts may not equal the sum of the figures presented due to rounding, since this section presents figures in € thousands.

Notes on the financial statements

(Figures in € thousands, save as otherwise stated)

NOTA 1 • BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1 Bases of presentation

The financial statements of the Banco de Portugal have been prepared in accordance with the Chart of Accounts of the Banco de Portugal (*Plano de Contas do Banco de Portugal – PCBP*), approved by the member of Government responsible for Finance, in accordance with the provisions laid down in Article 63(1) of the Statute of Banco de Portugal, and entered into force on 1 January 2012. The PCBP is a regulation specifically and appropriately designed for central banking activity.

The bases for preparation of the financial statements, envisaged in the PCBP in force, rely on two major regulations: (i) the Accounting Guideline of the European Central Bank¹ (ECB), which, taking into account Article 26(4) of the Statute of the ESCB and of the ECB, establishes the adoption of the mandatory rules defined by the Governing Council of the ECB on the treatment of core central banking activity, with the Banco de Portugal having decided to also adopt the optional rules recommended in that Guideline for participating interests; and (ii) technical guidance on the recognition and measurement based on the IFRS² for the other activities, which will be applied provided the cumulative conditions laid down in the PCBP are met.

The PCBP defines two single balance sheet items: (i) Revaluation accounts, representing potential gains that are not recognised in the Profit and loss account (points (d) and (p) of Note 1.2); and (ii) the General risk provision, which unlike the other provisions, is equivalent to a reserve, although its transfers and reversals are made directly against the Profit and loss account (point (q) of Note 1.2). These two items are recorded in the balance sheet between Liabilities and Equity.

In accordance with the ECB Accounting Guideline, the classification of assets and liabilities is made according to the euro area residency criterion. Euro area assets and liabilities are those relating to euro area residents.

Participating interests in subsidiaries and associated companies have a long-standing nature and their maintenance is connected with the Banco de Portugal's activity. These participating interests are measured in compliance with the accounting policy described in point (e) of Note 1.2. Given the immaterial nature of the results of a possible consolidation process, as well as the lack of economic sense justifying it, the Banco de Portugal does not prepare consolidated financial statements.

With regard to disclosures on positions relating to the participation in the European System of Central Banks (ESCB) operations, the Banco de Portugal uses the harmonised procedures laid down by the ECB as a basis. As to the other business areas, the disclosures are on the information defined by the IFRS, whenever it does not collide with (i) the day-to-day activity of the markets and market players; (ii) the purposes of the operations conducted by the Banco de Portugal; and (iii) the objective of the Banco de Portugal as a central bank.

¹ Guideline of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks, as amended (ECB/2016/34) – available at <https://eur-lex.europa.eu/>.

² IFRS: International Financial Reporting Standards, as adopted in the European Union.

1.2 Synopsis of the main accounting policies

The main accounting policies and valuation criteria used in the preparation of the financial statements of the Banco de Portugal for the year are the following:

a) Accounting assumptions and main qualitative characteristics of the financial statements

The financial statements of the Banco de Portugal reflect the economic reality of its assets and liabilities and are prepared in accordance with the following accounting assumptions: Accrual basis of accounting principle (in relation to most financial statement items, namely with regard to interest income and interest expense, which are recognised in the accounting period in which they are generated and not according to the moment in time in which they are paid or received) and continuity (assumption that financial statements are prepared assuming that the Bank operates continuously).

As a result of post-balance sheet events, assets and liabilities should be adjusted for events that occur between the reporting date and the date on which the financial statements are approved, if they have a material effect on the assets or liabilities at the reporting date. No adjustment will be made for assets and liabilities, but disclosure will be made of those events occurring after the reporting date that do not affect the assets and liabilities at the balance sheet date, but which are of such importance that non-disclosure is liable to affect the ability of the users of the financial statements to make proper analyses and decisions;

The main qualitative characteristics of the financial statements are economic reality and transparency, prudence, materiality, consistency and comparability.

b) Recognition of assets and liabilities

Assets are resources controlled by the Banco de Portugal on an individual basis, or by the Eurosystem on a collective basis (pooling), resulting from past events and which are expected to generate future economic benefit. Liabilities are commitments resulting from past events and their settlement is expected to result in an outflow or investment of resources embodying economic benefits.

c) Recognition date

Assets and liabilities in general are recognised on the settlement date rather than on the trade date. When the year ends between the settlement date and the trade date, transactions are recognised in off-balance-sheet accounts on the trade date.

Foreign exchange forward transactions are recognised in the balance sheet on the trade date, having an influence on the average cost of the foreign currency position as from that date.

The spot leg of foreign exchange swaps is recognised on the spot settlement date. The forward leg is recognised on the settlement date of the spot leg by the same amount, the difference between the two legs being treated as interest and recorded over the life of the swap on a straight-line basis (point (g) of this Note).

d) Recognition of gains and losses

The Banco de Portugal applies an asymmetric valuation approach to unrealised gains/losses in accordance with the ECB Accounting Guideline. Thus, over the course of the period, revaluation

differences (i.e. between the market value and the weighted average cost) are recognised in the balance sheet, in specific revaluation accounts for each type of asset and currency. At the end of the year, negative revaluation differences are recognised in the Profit and loss account under Unrealised losses on financial assets and positions. There is no netting of revaluation differences in any one security (ISIN – International Securities Identification Number – code), or in any currency.

Realised gains and losses arising from financial assets and positions, determined by the difference between the transaction value and the weighted average cost, are recognised in the Profit and loss account on the settlement date under Realised gains/losses arising from financial operations, except where envisaged in the 'economic approach' alternative method, described in the ECB Accounting Guideline. In these situations, where the operations are traded in one year, but settlement only occurs in the subsequent year, realised gains and losses arising from financial assets and positions are immediately recognised on the trade date.

In accordance with the Eurosystem's accounting framework, interest payable or receivable for each balance sheet sub-item is shown net under Interest income or Interest expense depending on whether its value is positive or negative.

e) Measurement of balance sheet items

Gold, foreign exchange transactions and securities in the trading portfolio are valued, at the end of the period, at the exchange rates and market price prevailing on the reporting date. Securities classified as held-to-maturity and securities held for monetary policy purposes regarding the programmes currently implemented are accounted for at amortised cost less potential impairment losses (point (f) of this Note).

Foreign currency revaluation is made on a currency-by-currency basis and no distinction is made between spot and forward currency positions. Securities price revaluation is also made on a security-by-security basis (ISIN code).

Special Drawing Rights (SDRs) are treated as a currency for accounting purposes. Currency holdings underlying the SDR basket are treated jointly with the SDRs, forming a single holding.

The accounting treatment of gold and foreign currencies is similar, with the average cost of the gold stock only being changed when the amount purchased on a given day is higher than the amount sold.

Financial participating interests in subsidiaries and associated companies, disclosed under Other financial assets, are valued in accordance with recommendations of the ECB Accounting Guideline, through the Net Asset Value³ valuation method. The other financial participating interests are measured at the acquisition cost, subject to potential impairment losses.

Tangible fixed assets and intangible assets are subsequently measured through the cost model, and therefore valued at the acquisition cost less accumulated depreciation and amortisation, in accordance with the rules laid down in IAS 16 and IAS 38 respectively. These assets are initially recognised at their acquisition cost, which includes expenditure directly attributable to the acquisition of goods.

Depreciation and amortisation are recorded in twelfths, according to the straight-line method, by applying annual depreciation and amortisation rates, according to their estimated useful life, which fall within the fiscally accepted intervals under Regulatory Decree No 25/2009:

³ Net Asset Value (NAV) = total assets less total liabilities of entities in which the Banco de Portugal has a participating interest, multiplied by the percentage level of that participating interest.

	Number of years
Tangible fixed assets	
Buildings and other constructions	10 to 50
Premises	4 to 20
Equipment	
Machinery and tools	4 to 8
Computer hardware	3 to 5
Transport equipment	4 to 8
Furniture and fittings	4 to 8
Intangible assets	3 to 6

According to IAS 36, where there is any indication that a tangible fixed asset or an intangible asset may be impaired, the asset's recoverable amount must be calculated, and an impairment loss is recognised in profit or loss whenever that asset's carrying amount exceeds the estimated recoverable amount.

Assets under construction are measured at the total expenses already borne by the Bank and transferred to tangible fixed assets or intangible assets when they are available for their intended use, and only then does their amortisation/depreciation start.

The recognition and measurement rules set out in IFRS 16 apply to tangible or intangible assets, for which the Bank concluded leases with a duration greater than 12 months, that is, (i) the recognition in Assets of rights-of-use of these assets, and (ii) the recognition in Liabilities of the lease liabilities relating to those agreements, initially measured at the present value of future lease payments, discounted using the incremental borrowing rate of the Banco de Portugal. Such rights-of-use are depreciated/amortised in accordance with the same method applied to assets similar to the underlying assets and for the duration of the agreement or period of use, whichever is earlier. Lease payments reduce the corresponding lease liability. Should there be a financial effect, it is recorded as interest. Leases of low-value assets (less than €10,000) continue to be directly recognised in the Profit and loss account.

Accounts receivable and payable and deposits with third parties and held by third parties with the Bank, as well as the other balance sheet positions denominated in euro not previously mentioned in this item, are recognised at nominal value, less any impairment losses where applicable (point (o) of this Note).

f) Securities

The Banco de Portugal holds marketable securities in its portfolio (trading portfolio), securities purchased to be owned until maturity (medium/long-term investment portfolio) and securities held for monetary policy purposes.

Premiums or discounts arising on securities are calculated and treated as interest and are amortised over the securities' remaining life, either according to the straight-line method, in the case of securities with coupon, or the internal rate of return (IRR) method, in the case of zero coupon securities.

- Securities for purposes other than monetary policy

Securities for purposes other than monetary policy are in the following portfolios:

- Trading book

The marketable securities portfolio is measured at market price. The market value of this portfolio is assessed using indicative market quotes.

The costing method adopted by the Banco de Portugal uses the adjusted weighted average cost of the accumulated amortisation of the premium or discount. The difference between the value of sales and the adjusted weighted average cost of the security is treated as realised gains/losses.

The cost of daily purchases is added to the weighted average cost of each type of security from the previous working day, so that a new weighted average cost can be calculated. Sales are deducted from the stock at the weighted average cost for the sale's value date, which already incorporates all the purchases made on that day.

Revaluation differences correspond to the difference between the amortised cost of the security and its market value and are recognised as referred to in point (d) of this Note.

- Medium/long-term investment portfolio

The portfolio of held-to-maturity securities is measured at amortised cost, calculated independently of the other securities classified as trading securities, and is subject to impairment tests according to the model defined by the Banco de Portugal, which follows the guidelines defined at Eurosystem level. The accounting treatment of interest and premiums and discounts of securities held in this portfolio is similar to that of the portfolio of marketable securities.

- Securities held for monetary policy purposes

The item Securities held for monetary policy purposes includes debt securities related to non-standard monetary policy operations.

Debt securities currently held for monetary policy purposes are accounted for at amortised cost subject to impairment tests conducted at Eurosystem level, regardless of the intention to hold those securities (in terms of how long they will be held for).

g) Derivative financial instruments

Foreign exchange forward transactions and forward legs of foreign exchange swaps are recognised in on-balance-sheet and off-balance-sheet accounts. In the case of foreign exchange forward transactions, the difference between the market exchange rate of the trade date and the agreed exchange rate is recognised as interest and recorded on a straight-line basis during the lifetime of the transaction. In the case of foreign exchange swaps, this interest is determined by the difference between the agreed currency spot rate and the agreed forward rate of exchange.

Interest rate swaps and interest rate futures are accounted for and revalued transaction by transaction. As to interest rate swaps, the revaluation gains/losses are treated as described in point (d) of this Note. In the case of interest rate futures, the result of the daily revaluation is recognised in Realised gains/losses arising from financial operations, in line with cash flows resulting from the change in the respective margin account.

In accordance with the Eurosystem's accounting framework, gold swaps are treated as repurchase agreements and gold flows relating to these operations have no impact on gold reserve levels. A gold swap for foreign currency (or for euro) is treated as deposit taking, in which interest is agreed (the difference between the spot and forward prices) and is accrued over the transaction's life.

h) Intra-ESCB balances

Pursuant to the Statute of the ESCB and of the ECB, the national central banks (NCBs) of the ESCB are the sole subscribers to and holders of the capital of the ECB (Article 28). The subscription of capital is made according to the key established in Article 29. Thus, the Banco de Portugal's share

in the capital of the ECB and claims allocated by the ECB relating to the transfer of foreign reserve assets as envisaged in Article 30 result from applying the weightings referred to in Article 29. The Banco de Portugal's share in the capital of the ECB is recorded in the balance sheet in Assets under Participating interest in the ECB.

Additionally, this balance sheet item includes (i) the NCBs' paid-up share in the ECB's subscribed capital, (ii) any net amount paid by the NCBs due to the increase in their shares in the ECB's equity value⁴ resulting from all previous ECB's capital key adjustments, and (iii) contributions in accordance with Article 48.2 of the Statute of the ESCB and of the ECB with respect to central banks of Member States whose derogations have been abrogated.

Intra-Eurosystem balances, recognised under Liabilities arising from balances of TARGET⁵ accounts, result from cross-border payments within the EU that are settled in euro. These transactions are for the most part initiated by private entities and are initially settled via TARGET and give rise to bilateral balances on the TARGET accounts of EU central banks. Payments made by the ECB and the NCBs also affect these accounts. All settlements are automatically aggregated and adjusted to be part of a single position of each NCB *vis-à-vis* the ECB. Movements on TARGET accounts are reflected daily in the accounting records of the ECB and the NCBs. The intra-Eurosystem balance arising from the transfer of reserve assets to the ECB when the Banco de Portugal joined the Eurosystem is denominated in euro and is recorded in the balance sheet under Transfer of foreign reserve assets to the ECB.

Intra-Eurosystem balances arising from the allocation of euro banknotes are included as a net single asset under Claims related to the allocation of euro banknotes within the Eurosystem (point (i) of this Note).

i) Banknotes in circulation

The ECB and the NCBs of the euro area, which together comprise the Eurosystem, issue euro banknotes.⁶

The ECB has been allocated an 8% share of the total value of euro banknotes in circulation, whereas the remaining 92% has been allocated to the NCBs according to their weightings in the ECB's adjusted capital key. The share of banknotes allocated to each NCB is disclosed in the balance sheet under the item Banknotes in circulation. The total value of euro banknotes in circulation is allocated on the last working day of each month in accordance with the 'banknote allocation key'.⁷

The difference between the value of euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the difference between banknotes put into circulation and banknotes withdrawn from circulation by that NCB gives rise to remunerated intra-Eurosystem balances.⁸ These claims or liabilities are disclosed under items Net claims/ liabilities related to the allocation of euro banknotes within the Eurosystem.

⁴ Equity value means the total of the ECB's reserves, revaluation accounts and general risk provisions, minus any loss carried forward from previous periods. In the event of capital key adjustments taking place during the financial year, the equity value also includes the ECB's accumulated net profit or net loss until the date of the adjustment.

⁵ Trans-European Automated Real-time Gross Settlement Express Transfer.

⁶ Decision of the ECB of 13 December 2010 on the issue of euro banknotes (ECB/2010/29), OJ L 35, 9.2.2011, p. 26, as amended.

⁷ Banknote allocation key means the percentages that result from taking into account the ECB's share in the total euro banknote issue and applying the subscribed capital key to the NCBs' share in that total.

⁸ Decision of the ECB of 3 November 2016 on the allocation of monetary income from national central banks of Member States whose currency is the euro (recast) (ECB/2016/36), OJ L 347, 20.12.2016, p. 26.

When a new Member State adopts the euro, the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted over a five-year period so that changes in banknote circulation patterns do not significantly alter the NCBs' relative income positions. These adjustments are made by taking into account the differences between the average value of banknotes in circulation of each NCB in the reference period and the average value of banknotes that would have been allocated to them during that period under the banknote allocation key. Those intra-Eurosystem balance adjustments will cease to apply as of the first day of the sixth year following the cash changeover year of each new Eurosystem participant.

The interest income and expense on these balances is cleared through the accounts of the ECB and disclosed under Net interest income in the Profit and loss account.

j) Distribution of the ECB's income

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, as well as the income arising from securities held by the ECB under the SMP, CBPP3, ABSPP, PSPP and PEPP portfolios, will be due to the NCBs in the same period it accrues and distributed on the last working day of January of the following financial year by means of an interim profit distribution, unless otherwise decided by the Governing Council.⁹ Any such decision will be taken where, on the basis of an estimate prepared by the Executive Board, the Governing Council expects that the ECB will have an overall annual loss or will make an annual net profit that is less than its income earned on euro banknotes in circulation and the above-mentioned securities purchase programmes, or when expenses incurred by the ECB in connection with the banknotes are deducted upon the Governing Council's decision. The Governing Council may also decide to transfer all or part of the ECB's seigniorage income to the provision for financial risks.

The amount distributed is recorded in the Profit and loss account under Income from equity shares and participating interest.

k) Pension Fund of the Banco de Portugal – Defined-Benefit Plan

The Banco de Portugal's liabilities to the Pension Fund, detailed in Note 32, are calculated on an annual basis, on the cut-off date for the accounts, by the Sociedade Gestora dos Fundos de Pensões do Banco de Portugal (SGFPBDP), using the Projected Unit Credit Method. The main (financial and demographic) actuarial assumptions used in the calculation of these liabilities are also presented in Note 32.

The recognition of costs and liabilities related to retirement pensions is made in accordance with IAS 19. According to its provisions, the amount recognised in Staff costs refers to the current service cost and to the net interest cost, which is calculated by applying a single interest rate to the Fund's assets and liabilities.

Actuarial gains and losses result chiefly from (i) differences between the actuarial and financial assumptions used and actual values and (ii) changes in the actuarial and financial assumptions. These gains and losses are directly recognised under Retained earnings.

The Pension Fund – Defined-Benefit plan encompasses two benefit plans: the Pension Plan and the Healthcare Plan, detailed in Note 32.

⁹ Decision of the ECB of 15 December 2014 on the interim distribution of the income of the European Central Bank on euro banknotes in circulation and securities purchased under the Securities Markets Programme (recast) (ECB/2014/57), OJ J 53, 25.2.2015, p. 24.

As regards these Plans, contributions made to the Fund aim to ensure the Plans' solvency. The minimum funding ratio required is 100% for current liabilities towards pensioners and retired employees and 95% for past-service liabilities of active members.

l) Pension Fund of the Banco de Portugal – Defined-Contribution Plan

Employees who started working at the Bank as of 3 March 2009 are now covered by the social security general scheme, under Decree-Law No 54/2009 of 2 March 2009. These employees may participate in a supplementary pension plan, to which the Banco de Portugal contributes 1.5% of the actual monthly compensation. However, since this is a defined-contribution plan, the Banco de Portugal has no legal or constructive obligation to pay any additional contribution.

m) Seniority and retirement bonuses

The Banco de Portugal recognises on the Liabilities side of its balance sheet the present value of liabilities for years of service, regarding seniority and other retirement bonuses.

The SGFPBDP calculates the current value of benefits with seniority bonuses on an annual basis, on the cut-off date for the accounts, using the Projected Unit Credit Method. The main (financial and demographic) actuarial assumptions used in the calculation of the present value of these benefits are presented in Note 32.

Annually, the Banco de Portugal recognises directly in the Profit and loss account the current service cost, interest cost and net actuarial gains/losses, arising from changes in assumptions or in benefits conditions.

n) Income tax

Charges for the year from income tax are calculated in accordance with the provisions laid down in the Corporate Income Tax Code (Código do Imposto sobre o Rendimento das Pessoas Coletivas – CIRC) and the tax incentives and benefits applicable to the Banco de Portugal.

Deferred tax assets and liabilities correspond to the value of the tax to be recovered and paid in future periods, arising from temporary differences between the accounting values of assets and liabilities and their tax base. In compliance with IAS 12, deferred taxes are calculated taking as a basis the best estimate of the amount of tax to recover and pay in the future and are recognised in the Profit and loss account, except where they are related to items directly recognised in Equity, in which case they are also recorded against Equity.

o) Impairment and provisions

Impairment of assets is shown in the balance sheet with a deduction from the book value of those assets, in accordance with IAS 36. The amount of this impairment results from the best estimate of losses associated with each asset class and takes as a reference the best estimate of future cash flows.

In accordance with IAS 37, provisions are recognised if: (i) the Banco de Portugal has a present legal or constructive obligation, (ii) payment is likely to be required and (iii) the amount can be estimated reliably. These provisions are recognised in liabilities through the best estimate of the payment amount, as at the date of preparation of the financial statements.

The PCBP also provides for the setting up of provisions resulting from risk shared with all other euro area NCBs, according to decisions and within the limits set by the Governing Council of the ECB. These provisions are deductible for tax purposes. For other provisions or impairment, the Banco de Portugal follows the regime defined in the Corporate Income Tax Code.

p) Revaluation accounts

Revaluation accounts are calculated as described in point 1.2(d) of this Note. When they are positive, they are retained in the balance sheet in order not to distribute unrealised gains. Positive revaluation accounts at the end of the year are presented on an item-by-item basis in the balance sheet between Liabilities and Equity.

At the end of the year, in accordance with the principle of prudence, when the revaluation accounts are negative they are transferred to the Profit and loss account, item Unrealised losses, thus contributing to the calculation of Net profit for the year.

q) General risk provision

In accordance with Article 5(2) of the Statute of Banco de Portugal, the Board of Directors may establish other reserves and provisions namely to meet depreciation risks or losses to which certain types of assets or operations are particularly liable.

The PCBP provides for the setting up of a General risk provision, which differs from the other provisions in that it is similar to a reserve, although its increases and decreases are directly made against the Profit and loss account. Given its similarity to a reserve, the General risk provision is only increased when results created previously allow it.

The General risk provision is considered as a separate item on the balance sheet, recorded between Liabilities and Equity (point 1.1 of this Note).

The General risk provision amount is defined taking into consideration, among other factors, the assessment of balance sheet risks from a medium-term perspective, ensuring that own funds are sufficient for the liabilities taken on by the Banco de Portugal, and that the capital ratio is held at levels allowing the coverage of potential losses, including those resulting from decisions taken by the Governing Council of the ECB with an impact on the Banco de Portugal's accounts.

Movements in the General risk provision are decided upon by the Board of Directors, in accordance with Article 5(2) of the Statute of Banco de Portugal, based on a set of qualitative and quantitative factors, involving technical assessment of developments in the financial statements, balance sheet risks (measured following methodologies common to the Eurosystem NCBs) and financial buffers that allow risks to be hedged over a medium-term horizon to a level defined by the Board of Directors. The General risk provision is, therefore, equivalent in nature to a reserve and does not fall within the scope of the International Financial Reporting Standards as adopted by the European Union.

r) Reserves and retained earnings

The reserves of the Banco de Portugal are set up and used according to the provisions of its Statute, being divided as follows: (i) legal reserve; (ii) special reserve relating to gains on gold sales; and (iii) other reserves.

The special reserve relating to gains on gold sales, provided for in Article 53(1)(b) of the Statute of Banco de Portugal, is annually endowed with the exact amount of gains on these operations, with no upper limit. Annual appropriations to increase this reserve are recognised in the Profit and loss account and contribute to the calculation of Net profit for the year.

Retained earnings represent profits from previous years pending distribution by the Board of Directors, or profits not recognised in the Profit and loss account as set out in the accounting rules.

1.3 Post-balance sheet events

In compliance with IAS 10, the Banco de Portugal's financial statements are adjusted for favourable or unfavourable events, which may occur between the balance sheet date and the financial statements' approval date, where there is evidence that these events existed on the balance sheet date. Events indicating conditions that arose after the balance sheet date, when they exist, and which do not give rise to any adjustment, are disclosed in a specific note.

1.4 Main estimates and uncertainties in the preparation of the Banco de Portugal's financial statements

The annual accounts were prepared taking into consideration the Banco de Portugal's estimates in quantifying certain assets, liabilities, income items, expenses, contingencies and, in particular, provision levels recorded. These estimates are based on the best information available upon closure of accounts.

Regarding monetary policy operations, which are made by the Banco de Portugal in a decentralised way, as they follow a common Eurosystem-wide policy, the estimates made for these operations by the Eurosystem are also taken into consideration in the preparation of the financial statements.

The main estimates and uncertainties assumed for the preparation of the financial statements relate to the following: asset impairment and risk provisions (Note 19), current and deferred taxes (Note 30) and liabilities related to retirement pensions and other benefits (Note 32).

1.5 Other subjects

Given the Banco de Portugal's role as a central bank responsible for issuing euro banknotes, the Eurosystem decided that the publication of a cash flow statement would not provide readers of the financial statements with additional relevant information.

The Banco de Portugal, as an integral part of the ESCB, is subject to the provisions laid down in Article 27(1) of the Statute of the ESCB and of the ECB, according to which the annual accounts of the national central banks (NCBs) of the Eurosystem must be audited by independent external auditors. For the purpose of ensuring the independence of the external auditors, the Banco de Portugal follows the Eurosystem's best practice to this end.

NOTA 2 • GOLD AND GOLD RECEIVABLES

	31/12/2023		31/12/2022	
	Fine ounces ^(a)	EUR thousands	Fine ounces ^(a)	EUR thousands
Gold stored at the Banco de Portugal	5,549,238	10,365,022	5,549,238	9,467,416
Gold sight accounts	41,411	77,348	744,135	1,269,549
Gold investments	6,711,414	12,535,767	6,007,088	10,248,543
Gold reserve	12,302,063	22,978,137	12,300,461	20,985,509

Note: (a) Ounce of fine gold.

As at 31 December 2023 the gold item had increased by €1,992,628 thousand compared to the previous year-end balance, chiefly due to a rise in the gold price denominated in euro (+9.5%). This increase was due to the gold price in US dollars (+13.4%), partly countered by the depreciation of the US dollar against the euro (-3.6%). The mild variation in the reserve in fine ounces of gold arose from minor adjustments in the execution of gold operations.

The Banco de Portugal's gold reserve was valued on 31 December 2023 at the market price of €1,867.83 per fine ounce of gold (31 December 2022: €1,706.08).

Capital gains resulting from this asset (€19,940,216 thousand on 31 December 2023, and €17,950,591 thousand on 31 December 2022) are recognised in the balance sheet (Note 20) as positive revaluation differences, according to the accounting policy described in points 1.2(d)(e) and (p) of Note 1.

There were investments in gold in 2023, although with no impact on the gold reserve level, as described in the accounting policy in point 1.2(g) of Note 1.

Gold was held in the following institutions:

	31/12/2023		31/12/2022	
	Fine ounces	EUR thousands	Fine ounces	EUR thousands
In the country – Banco de Portugal	5,549,238	10,365,022	5,549,238	9,467,416
Abroad				
Bank of England	5,993,468	11,194,768	5,992,153	10,223,063
Bank for International Settlements (BIS)	641,030	1,197,333	640,743	1,093,155
Federal Reserve System – United States	–	–	–	–
Banque de France	118,327	221,014	118,327	201,874
	6,752,825	12,613,115	6,751,223	11,518,092
	12,302,063	22,978,137	12,300,461	20,985,509

NOTA 3 • LENDING AND DEPOSIT OPERATIONS WITH THE INTERNATIONAL MONETARY FUND (IMF)

	31/12/2023		31/12/2022	
	SDR thousands	EUR thousands	SDR thousands	EUR thousands
IMF quota	2,060,100	2,504,464	2,060,100	2,578,627
IMF's holdings	(1,593,983)	(1,937,805)	(1,594,017)	(1,995,231)
Reserve tranche position in the IMF	466,117	566,659	466,083	583,397
SDR holdings	2,693,160	3,274,074	2,785,491	3,486,599
Other assets with the IMF	264,000	320,945	–	–
Claims on the IMF	3,423,277	4,161,678	3,251,575	4,069,996
Counterpart of special drawing rights allocated by the IMF	(2,780,990)	(3,380,850)	(2,780,990)	(3,480,965)
Liabilities to the IMF	(2,780,990)	(3,380,850)	(2,780,990)	(3,480,965)

Positions with the IMF, i.e. Special Drawing Rights (SDRs), are treated as a foreign currency, as described in point 1.2(e) of Note 1.

The Reserve tranche position with the IMF reflects the equivalent in euro on 31 December 2023 of Portugal's share in the IMF, corresponding to the initial participation and subsequent payments, less IMF deposits with the Banco de Portugal. The share of the Banco de Portugal in the IMF remained unchanged in 2023, and the variation in its value denominated in euro resulted solely from changes in the SDR price compared to December 2022.

In 2023 the Banco de Portugal conducted purchases and sales totalling SDR 155 million to support the most vulnerable countries and a voluntary channelling of SDRs through an investment in the Deposit and Investment Account (DIA) of the Poverty Reduction and Growth Trust (PRGT), totalling SDR 264 million.

Changes in the different claim and liability items include the effect of the depreciation of the SDR against the euro (-2.9%), from 1.2517 on 31 December 2022 to 1.2157 on 31 December 2023.

NOTA 4 • BALANCES WITH BANKS AND SECURITY INVESTMENTS, LOANS AND OTHER ASSETS DENOMINATED IN FOREIGN CURRENCY

	31/12/2023	31/12/2022
Claims on non-euro area residents denominated in foreign currency		
Securities	1,325,572	1,392,928
Balances with banks, deposits and other money markets	3,478,396	3,904,956
	4,803,968	5,297,884
Claims on euro area residents denominated in foreign currency		
Securities	40,983	79,834
Balances with banks, deposits and other money markets	19,962	28,376
	60,945	108,209
Liabilities to euro area residents denominated in foreign currency		
Deposits, balances and other liabilities	–	(108,058)
Liabilities to non-euro area residents denominated in foreign currency		
Deposits, balances and other liabilities	–	(1,301,770)
	4,864,914	3,996,265

As at 31 December 2023 the amount of the foreign currency trading portfolio was higher than in the previous year by €867 thousand.

Net foreign reserves and euro assets denominated in foreign currency amounted to €4,864,914 thousand, the foreign currency position corresponding to €1,853,833 thousand. The remainder is essentially related to temporary foreign exchange transactions in the amount of €3,007,955 thousand, which have no associated exchange rate risk (2022: €2,182,578 thousand).

As at 31 December 2023 liabilities to euro area and non-euro area residents denominated in foreign currency were nil (2022: €1,409,828 thousand), as there were no collateralised operations for gold investment in foreign currency.

As at 31 December 2023 and 2022 the securities portfolio denominated in foreign currency was broken down as follows:

	31/12/2023	31/12/2022
Securities of non-euro area residents denominated in foreign currency		
Government debt	914,035	1,174,907
Paragovernmental and supranational	411,536	218,021
	1,325,572	1,392,928
Securities of euro area residents denominated in foreign currency		
Government debt	–	18,875
Paragovernmental and supranational	40,983	60,959
	40,983	79,834
	1,366,555	1,472,761

As at 31 December 2023 the portfolio denominated in foreign currency continued to be mainly composed of investments denominated in US dollars, as in previous years.

NOTA 5 • BALANCES WITH BANKS AND SECURITY INVESTMENTS, LOANS AND OTHER ASSETS DENOMINATED IN EURO

	31/12/2023	31/12/2022
Claims on non-euro area residents denominated in euro		
Securities	472,353	581,233
Balances with banks, deposits and other money markets	153,150	18,350
	625,504	599,583
Claims on euro area residents denominated in euro		
Securities	2,326,691	3,196,829
Balances with banks, deposits and other money markets	833,621	226,849
	3,160,312	3,423,678
	3,785,815	4,023,261

The euro trading portfolio is composed of securities, balances with banks and other investments. The balances shown in the table above reflect the impact of temporary foreign exchange transactions to sell euro for foreign currency, referred to in Note 4. Excluding these operations, the trading portfolio in euro would be worth €6,324,038 thousand (€6,174,089 thousand in 2022).

In accordance with the Banco de Portugal's strategic decisions, securities of euro area residents continued to account for the largest share in this portfolio.

The securities trading portfolio denominated in euro, valued at market prices, was broken down as follows:

	31/12/2023	31/12/2022
Securities of non-euro area residents denominated in euro		
Paragovernmental and supranational	463,889	556,916
Companies/financial institutions	8,464	8,224
Government debt	–	16,093
	472,353	581,233
Securities of euro area residents denominated in euro		
Government debt	2,252,467	2,961,391
Paragovernmental and supranational	74,224	235,437
	2,326,691	3,196,829
	2,799,045	3,778,062

NOTA 6 • LENDING TO EURO AREA CREDIT INSTITUTIONS RELATED TO MONETARY POLICY OPERATIONS DENOMINATED IN EURO

At end-2023 the value of refinancing operations denominated in euro to euro area credit institutions relating to monetary policy operations at Eurosystem level reached €410,289,972 thousand (2022: €1,324,347,372 thousand), of which €2,955,330 thousand corresponded to the Banco de Portugal and all of them longer-term refinancing operations (2022: €16,021,880 thousand). The reduction of €13,066,550 thousand from 2022 is mainly related to the maturing and early repayment of targeted longer-term refinancing operations (TLTRO III).

Longer-term refinancing operations are liquidity-providing reverse transactions. These operations are conducted at fixed-rate tender procedures with full allotment.

In December 2020 the Governing Council added three operations to the series of seven TLTRO III initiated in 2019, which were conducted between June and December 2021. These operations have a three-year maturity. For the first seven TLTRO III, as of September 2021, beginning 12 months after the settlement of each TLTRO III, each quarter participants have the option to repay all or part of the amount of the TLTRO III in question before maturity. For the eighth TLTRO III or subsequent operations, participants have this option every quarter starting June 2022.

According to the decisions taken by the Governing Council on 27 October 2022, from 23 November 2022 until the maturity date or early repayment date of each TLTRO III, the final interest rate applicable to each TLTRO III will be indexed to the average applicable key ECB interest rates over this period. On the same date the Governing Council also decided to introduce three additional voluntary early repayment dates to offer additional opportunities for participants to repay part or all of their loans before maturity.

Against this background, the real interest rates can only be known at maturity or early redemption of each operation and until then a reliable estimate will only be possible to the extent that interest rate data related to the special interest rate period and the additional special interest rate period were already reported to the counterparties.

Furthermore, the so-called non-targeted pandemic emergency longer-term refinancing operations (PELTROs) were nil on 31 December 2023, due to the maturing of €200,000 thousand in January 2023. These operations provided liquidity backstop to the euro area banking system and helped to preserve the smooth functioning of the money market during the pandemic period. PELTROs were conducted as fixed rate tender procedures with full allotment. The interest rate was 25 basis points below the average rate applied in the Eurosystem's main refinancing operations over the life of the respective PELTRO.

The Eurosystem also offers a marginal lending facility, corresponding to overnight loans at the specified rate for these operations (4.75% since 20 September 2023). As at 31 December 2023 and 2022 the Banco de Portugal had not resorted to this operation.

All financing operations related to monetary policy are fully collateralised by eligible assets (Note 31).

In accordance with Article 32.4 of the Statute of the ESCB and of the ECB, losses from materialising monetary policy operations may be shared, in whole or in part, by all the Eurosystem NCBs, if so decided by the Governing Council, in proportion to their share in the ECB's capital as at the date they materialise. Losses on these operations will only materialise if both the counterparty fails and the recovery of funds received from the resolution of the collateral provided is not sufficient to cover the respective losses. The Governing Council has excluded a specific part of the collateral from risk sharing, including assets that may be accepted by NCBs at their own discretion.

NOTA 7 • SECURITIES HELD FOR MONETARY POLICY PURPOSES

As at 31 December 2023 the portfolio of Securities held for monetary policy purposes consisted of government sector securities and covered bonds, acquired by the Banco de Portugal under the debt securities market programme (SMP),¹⁰ the third covered bond purchase programme (CBPP3),¹¹ the public sector purchase programme (PSPP),¹² in its government and supranational securities components and the pandemic emergency purchase programme (PEPP),¹³ mainly in its government securities component (point 1.2(f) of Note 1).

A summary of the main programmes of this nature is presented below:

	Start date	End date	Decision	Universe of eligible securities ^(a)
Completed/expired programmes				
CBPP 1 ^(b)	July 2009	June 2010	ECB/2009/16	Covered bonds from euro area residents
CBPP 2 ^(b)	November 2011	October 2012	ECB/2011/17	Covered bonds from euro area residents
SMP	May 2010	September 2012	ECB/2010/5	Private and government debt securities issued in the euro area ^(c)
Asset purchase programme (APP) ^(d)				
CBPP 3	October 2014	assets	ECB/2020/8 (amended)	Covered bonds from euro area residents
ABSPP	November 2014	assets	ECB/2014/45 (amended)	Senior and guaranteed <i>mezzanine</i> tranches of asset-backed securities from euro area residents
PSPP	March 2015	assets	ECB/2020/9 (amended)	Securities issued by central, regional and local governments from the euro area or recognised agencies, as well as securities issued by international organisations and multilateral development banks in the euro area
CSPP	June 2016	assets	ECB/2016/16 (amended)	Bonds and commercial paper issued by non-banking institutions established in the euro area
Pandemic emergency purchase programme (PEPP)				
PEPP	March 2020	assets	ECB/2020/17 (amended)	All asset categories eligible under the APP

Notes: (a) See Decisions of the Governing Council for other eligibility criteria for specific programmes. (b) At the end of 2022 and at the end of 2023, the ECB did not hold securities under the first and second covered bond purchase programmes (CBPP 1 and CBPP 2). However, in 2022 the ECB still recorded interest income on these portfolios, as the last CBPP 1 and CBPP 2 holdings matured in July 2022 and September 2022 respectively. (c) Under the SMP, only Government securities issued by five euro area Governments were purchased. (d) APP reinvestments were discontinued as of 1 July 2023. (e) No securities were acquired under the corporate sector purchase programme (CSPP).

¹⁰ Decision of the ECB of 14 May 2010 establishing a securities markets programme (ECB/2010/5), OJ L 124, 20.5.2010, p. 8.

¹¹ Decision of the ECB of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16), OJ L 175, 4.7.2009, p. 18, Decision of the ECB of 3 November 2011 on the implementation of the second covered bond purchase programme (ECB/2011/17), OJ L 297, 16.11.2011, p. 70, and Decision of the ECB of 15 October 2014 on the implementation of the third covered bond purchase programme (ECB/2014/40), OJ L 335, 22.10.2014, p. 22.

¹² Decision of the ECB of 4 March 2015 implementing a public sector purchase programme (ECB/2015/10), OJ L 121, 14.5.2010, p. 20.

¹³ Decision of the ECB of 18 March 2020 on a pandemic emergency purchase programme (ECB/2020/17), OJ L 91, 25.3.2020, pp. 1-4.

The breakdown, by programme, of the monetary policy securities portfolio at the Banco de Portugal is as follows:

	31/12/2023		31/12/2022	
	Amortised cost	Market value	Amortised cost	Market value
Securities held for monetary policy purposes				
SMP	9,926	10,282	99,158	102,187
CBPP 3	1,744,894	1,688,866	1,725,009	1,613,252
PSPP – Government securities	43,642,725	41,372,618	45,106,326	40,536,840
PSPP – Supranational securities	8,471,382	7,491,638	9,670,580	8,365,619
PEPP – Government securities	26,639,231	23,946,844	29,390,930	25,093,834
	80,508,158	74,510,249	85,992,003	75,711,732

Under the SMP, the ECB and the NCBs purchased securities to correct the malfunctioning of certain segments of the euro area debt securities market and restore the proper functioning of the monetary policy transmission mechanism. The decrease in this item in 2023 was solely due to maturing securities.

Under the CBPP and CBPP3, the ECB and the NCBs purchased covered bonds of euro area residents denominated in euro with the purpose of improving funding conditions for credit institutions and firms as well as encouraging credit institutions to maintain or expand lending to their customers.

Up to the end of February 2023¹⁴ the Eurosystem continued to reinvest all of the principal payments from maturing securities purchased under the APP.¹⁵ Subsequently, the APP portfolio declined at a measured and predictable pace. Until the end of June 2023 the decrease amounted to €15 billion per month on average, as the Eurosystem did not reinvest all principal payments from maturing securities. In June 2023 the Governing Council decided¹⁶ to discontinue reinvestments under the APP as of July 2023. Subsequently, the APP portfolio decreased due to maturities.

The Eurosystem continued to reinvest all of the principal payments from maturing securities purchased under the PEPP¹⁷ throughout the year. The Governing Council intends¹⁸ to continue to reinvest all of the principal payments from maturing securities purchased under the PEPP during the first half of 2024. Over the second half of 2024, it also intends to reduce the PEPP portfolio by €7.5 billion per month on average and to interrupt reinvestments under the PEPP at the end of that year. Furthermore, the Governing Council will continue applying flexibility in reinvesting redemptions maturing in the PEPP portfolio, with a view to countering risks to the monetary policy transmission mechanism related to the pandemic. Securities purchased under these non-standard monetary policy programmes are valued on an amortised cost basis and subject to impairment tests (point 1.2(f) of Note 1).

¹⁴ See press release of 15 December 2022 on the Governing Council decisions.

¹⁵ Further details on the APP can be found on the [ECB's website](#).

¹⁶ See press release of 15 June 2023 on the Governing Council decisions.

¹⁷ Further details on the PEPP can be found on the [ECB's website](#).

¹⁸ See press release of 14 December 2023 on the Governing Council decisions.

In 2023 movements in the monetary policy securities portfolio were as follows:

	31/12/2022	Purchases	Sales	Wages and salaries	Accrual of premiums and discounts	ROF	31/12/2023
Securities held for monetary policy purposes							
SMP	99,158	–	–	90,000	768	–	9,926
CBPP 3	1,725,009	23,713	–	–	(3,829)	–	1,744,894
PSPP – Government securities	45,106,326	2,536,813	(1,494,549)	2,192,308	(305,125)	(8,431)	43,642,725
PSPP – Supranational securities	9,670,580	–	–	1,156,386	(42,813)	–	8,471,382
PEPP – Government securities	29,390,930	2,575,470	–	4,815,880	(511,289)	–	26,639,231
	85,992,003	5,135,997	(1,494,549)	8,254,574	(862,287)	(8,431)	80,508,158

Under monetary policy programmes, the total value of securities held by the Eurosystem NCBs was the following:

	31/12/2023	31/12/2022
Securities held by the NCBs of the Eurosystem		
SMP	1,901,390	2,142,532
CBPP 3	262,090,166	276,856,688
PSPP – Government securities	1,922,906,781	2,066,580,909
PSPP – Supranational securities	255,261,175	275,228,136
CSPP	323,921,484	344,119,235
PEPP – Government securities	1,297,396,796	1,317,936,824
PEPP – Supranational securities	154,331,953	145,687,092
PEPP – Covered bonds	5,197,203	5,282,762
PEPP – Private sector bonds	45,989,206	46,073,878
	4,268,996,154	4,479,908,056

In accordance with a decision of the Governing Council of the ECB taken under Article 32.4 of its Statute, any loss related to the securities of the Eurosystem's risk and income sharing programmes (i.e. SMP, CBPP3, PSPP – Supranational securities, CSPP, PEPP – Covered bonds), if materialised, may be shared by the various Eurosystem NCBs, in proportion to their capital key shares in the ECB.

The Governing Council assesses on a regular basis the financial risks associated with the securities held under these programmes. In this context, as referred to in point 1.2(f) of Note 1, impairment tests are conducted on an annual basis, using data as at the year-end and are approved by the Governing Council. In these tests, impairment indicators are assessed separately for each programme. In cases where impairment indicators are observed, further analysis is performed to confirm that the underlying securities' cash flows have not been affected by an impairment event.

As a result of impairment tests conducted on securities held by the NCBs, the Governing Council deemed appropriate to set up a provision to cover credit risk in monetary policy operations in 2023, in the amount of €42.9 million. In accordance with the above-mentioned Article of the Statute of the ESCB and of the ECB, this provision will be shared by all NCBs in proportion to their shares in the ECB's subscribed capital. As a result, the Banco de Portugal recognised a provision of €996 thousand, equivalent to its share in the ECB's subscribed capital (2.3217%), recorded under the item Provision for monetary policy operations (Notes 19 and 26).

NOTA 8 • INTRA-EUROSISTEM CLAIMS AND LIABILITIES

Participating interest in the ECB

Pursuant to Article 28 of the Statute of the ESCB and of the ECB, the NCBs of the ESCB are the sole subscribers to and holders of the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with the allocation key established in compliance with Article 29 of the Statute of the ESCB and of the ECB, which in paragraph 3 sets forth that the weightings assigned to the NCBs are subject to adjustment every five years after the establishment of the ESCB¹⁹ or whenever there is a change in composition of the ESCB national central banks.

Pursuant to Council Decision 2022/1211/EU of 12 July 2022, having regard to the Treaty on the Functioning of the European Union, and in particular Article 140(2) thereof, Croatia adopted the single currency on 1 January 2023. In accordance with Article 48.1 of the Statute of the ESCB and of the ECB and the legal acts adopted by the Governing Council on 30 December 2022,²⁰ Hrvatska narodna banka transferred the remainder of its capital subscription to the ECB. In accordance with Article 48.1, in conjunction with Article 30.1 of the Statute of the ESCB and of the ECB, Hrvatska narodna banka transferred foreign reserve assets to the ECB for the amount of its capital subscription to the ECB. As a result of the change in the capital key, following accession of Hrvatska narodna banka to the Eurosystem, the Banco de Portugal's share in the paid-up capital (capital key) of the ECB decreased from 2.34051% to 2.32168%. The Banco de Portugal's share in the subscribed capital of the ECB is 1.9035%.

¹⁹ The capital key is also adjusted as a result of the enlargement of the EU to include new Member States.

²⁰ Decision ECB/2022/51 of 30 December 2022 on the paying-up of capital, transfer of foreign reserve assets and contributions by Hrvatska narodna banka to the European Central Bank's reserves and provisions, OJ L 17, 19.1.2023, pp. 94-98.

The weightings are shown in the table below:

NCB	Country	Key for subscription of capital	
		from 1 January 2023	until 31/12/2022
Nationale Bank van België/Banque Nationale de Belgique	Belgium	2.9630%	2.9630%
Deutsche Bundesbank	Germany	21.4394%	21.4394%
Eesti Pank	Estonia	0.2291%	0.2291%
Banc Ceannais na hÉireann/Central Bank of Ireland	Ireland	1.3772%	1.3772%
Bank of Greece	Greece	2.0117%	2.0117%
Banco de España	Spain	9.6981%	9.6981%
Banque de France	France	16.6108%	16.6108%
Hrvatska narodna banka	Croatia	0.6595%	–
Banca d'Italia	Italy	13.8165%	13.8165%
Central Bank of Cyprus	Cyprus	0.1750%	0.1750%
Latvijas Banka	Latvia	0.3169%	0.3169%
Lietuvos bankas	Lithuania	0.4707%	0.4707%
Banque centrale du Luxembourg	Luxembourg	0.2679%	0.2679%
Bank Ċentrali ta' Malta/Central Bank of Malta	Malta	0.0853%	0.0853%
De Nederlandsche Bank	Netherlands	4.7662%	4.7662%
Oesterreichische Nationalbank	Austria	2.3804%	2.3804%
Banco de Portugal	Portugal	1.9035%	1.9035%
Banka Slovenije	Slovenia	0.3916%	0.3916%
Národná banka Slovenska	Slovakia	0.9314%	0.9314%
Suomen Pankki – Finlands Bank	Finland	1.4939%	1.4939%
Euro area NCBs		81.9881%	81.3286%
Българска народна банка/Bulgarian National Bank	Bulgaria	0.9832%	0.9832%
Česká národní banka	Czech Republic	1.8794%	1.8794%
Danmarks Nationalbank	Denmark	1.7591%	1.7591%
Hrvatska narodna banka	Croatia	–	0.6595%
Magyar Nemzeti Bank	Hungary	1.5488%	1.5488%
Narodowy Bank Polski	Poland	6.0335%	6.0335%
Banca Națională a României	Romania	2.8289%	2.8289%
Sveriges riksbank	Sweden	2.9790%	2.9790%
Non-euro area NCBs		18.0119%	18.6714%
		100.0000%	100.0000%

Foreign reserves transferred to the ECB

This item represents claims arising from the transfer of foreign reserve assets from the Eurosystem NCBs to the ECB. Pursuant to Article 30.2 of the Statute of the ESCB and of the ECB, the contributions of the NCBs to the transfer of foreign reserve assets to the ECB are fixed in proportion to their share in the ECB's subscribed capital. These claims were converted into euro at the exchange rate prevailing on the date they were transferred and are remunerated on a daily basis at the available marginal interest rate used by the Eurosystem for MROs, adjusted to reflect a zero return on the gold component.

As there were no changes to the ECB's capital key in 2023, the Banco de Portugal's position in the transfer of foreign reserve assets to the ECB remained at €942,252 thousand as at 31 December 2023.

Net claims related to the allocation of euro banknotes within the Eurosystem

This item consists of the Banco de Portugal's claims relating to the allocation of euro banknotes within the Eurosystem (points 1.2(i) and (j) of Note 1).

The increase in this asset position, compared with 31 December 2022 (from €54,857,596 thousand to €58,220,728 thousand), reflects the increase in the difference between Portugal's share and the positive difference between banknotes withdrawn from circulation and banknotes put into circulation by the Banco de Portugal, as overall circulation in the Eurosystem declined (-0.3% compared to 2022). The asset position of the adjustment to circulation is remunerated at the marginal interest rate on the Eurosystem's MROs.

Other intra-Eurosystem claims/liabilities

As at 31 December 2023 the balance of the item Other claims within the Eurosystem, in the amount of €6,833 thousand, referred to the amount transferred to the ECB related to interest payable under the SURE programme (Support to Mitigate Unemployment Risks in an Emergency), within the scope of the economic and financial assistance programme for Portugal, as laid down in the protocol signed between the parties.

As at 31 December 2023 the balance of the item Other liabilities within the Eurosystem, in the amount of €182,990 thousand, mainly referred to (i) the net result of the monetary income calculation method, corresponding to an amount payable of €182,792 thousand, which includes adjustments to the result of the monetary income calculation method related to previous years, in the net amount of €193 thousand, settled on 31 January 2023 (Note 26).

Net liabilities arising from balances of TARGET accounts

As at 31 December 2023 Net liabilities arising from balances of TARGET accounts (point 1.2(h) of Note 1) showed a credit position of €55,244,237 thousand (31 December 2022: €68,566,825 thousand). Interest on this position is calculated at the marginal interest rate on the Eurosystem's MROs.

NOTA 9 • TANGIBLE FIXED ASSETS AND INTANGIBLE ASSETS

	31/12/2023	31/12/2022
Tangible fixed assets		
Land	50,756	50,756
Buildings and other constructions	109,861	109,483
Premises	89,704	89,312
Equipment	105,123	102,149
Museum and art collections	9,881	9,867
	365,324	361,567
Leased assets		
Buildings and other constructions	13,674	11,849
Equipment	145	145
	13,819	11,994
Intangible assets		
Computer software	95,645	85,887
Other intangible assets	447	394
	96,092	86,281
Tangible fixed assets and intangible assets under construction	8,863	11,550
Total gross tangible fixed assets and intangible assets	484,099	471,391
Accumulated depreciation and amortisation		
Depreciation of tangible fixed assets	(244,432)	(237,690)
Depreciation of leased assets	(12,253)	(10,179)
Amortisation of intangible assets	(83,969)	(78,868)
	(340,654)	(326,737)
Total net tangible fixed assets and intangible assets	143,444	144,654

In 2022 and 2023 movements in this item were as follows:

	31/12/2021				31/12/2022
	Net balance	Additions	Disposals	Depreciation and amortisation for the year	Net balance
Tangible fixed assets					
Land	50,756	–	–	–	50,756
Buildings and other constructions	48,252	–	–	1,620	46,633
Premises	9,082	816	174	2,851	6,873
Equipment	9,843	4,388	267	4,216	9,748
Museum and art collections	9,780	87	–	–	9,867
	127,714	5,290	440	8,687	123,877
Leased assets					
Buildings and other constructions	4,262	52	–	2,528	1,786
Equipment	77	–	–	48	28
	4,339	52	–	2,577	1,814
Intangible assets					
Computer software	7,202	4,693	–	4,692	7,203
Other intangible assets	244	5	–	40	210
	7,446	4,698	–	4,732	7,412
Tangible fixed assets and intangible assets under construction					
Fixed assets under construction – Projects	10,388	5,951	4,789	–	11,550
	10,388	5,951	4,789	–	11,550
	149,887	15,991	5,229	15,995	144,654

	31/12/2022				31/12/2023
	Net balance	Additions	Disposals	Depreciation and amortisation for the year	Net balance
Tangible fixed assets					
Land	50,756	–	–	–	50,756
Buildings and other constructions	46,633	630	180	1,620	45,463
Premises	6,873	1,001	299	2,684	4,891
Equipment	9,748	4,897	277	4,466	9,902
Museum and art collections	9,867	16	2	–	9,881
	123,877	6,543	758	8,770	120,892
Leased assets					
Buildings and other constructions	1,786	2,995	516	2,698	1,566
Equipment	28	–	–	28	–
	1,814	2,995	516	2,727	1,566
Intangible assets					
Computer software	7,203	9,759	–	5,043	11,918
Other intangible assets	210	53	–	58	205
	7,412	9,812	–	5,101	12,123
Tangible fixed assets and intangible assets under construction					
Fixed assets under construction – Projects	11,550	7,840	10,527	–	8,863
	11,550	7,840	10,527	–	8,863
	144,654	27,190	11,802	16,597	143,444

The increase in the Equipment item was mainly due to the purchase of equipment and information and communication technology systems and infrastructure and equipment for cash handling. As regards the Premises item, the increase is mainly related to security installations.

In 2023 purchases related to Intangible assets were essentially associated with computer software licensing and upgrading and to the go-live of IT systems and technologies to support the areas of payment systems and supervision.

The amount under tangible and intangible fixed assets under construction as at 31 December 2023 largely related to projects concerning premises and equipment, in particular the refurbishing of the building of the Regional Delegation of Funchal and the renovation of security systems in the Bank's buildings, and to IT infrastructures and systems, in particular the development of the TARGET2/T2S and SIREs (relevant information system on supervised entities) systems.

Under IFRS 16 (Note 1.2.(e)), the amount recorded under lease assets relates to the rights of use over buildings and equipment, in respect of leases in force that fall under this Reporting Standard.

NOTA 10 • OTHER FINANCIAL ASSETS

	31/12/2023	31/12/2022
Participating interest in non-euro area resident entities	21,650	21,650
Participating interest in euro area resident entities	41,090	37,528
Medium/Long-term investment portfolio	3,614,608	3,180,012
Other assets	802	806
	3,678,150	3,239,996

The item Other financial assets essentially includes the Banco de Portugal's participating interests and its medium/long term investment portfolio.

The Banco de Portugal's participating interests as at 31 December 2023 and 2022 were broken down as follows:

	31/12/2023		31/12/2022	
	% share	Value	% share	Value
Participating interest in non-euro area resident entities				
Bank for International Settlements (BIS)	1.57%	21,650	1.57%	21,650
Participating interest in euro area resident entities				
SGFPBP, S. A.	97.91%	3,557	97.91%	3,407
VALORA, S. A.	100.00%	37,183	100.00%	33,771
EUROPAFI	0.25%	349	0.25%	349
Swift	0.01%	1	0.01%	1
		41,090		37,528

Changes in the value of the participating interests in SGFPBDP and VALORA resulted chiefly from the use of the Net Asset Value valuation method, with the counterpart of the valuation differences being directly recognised in the Profit and loss account (Note 27). The Banco de Portugal used interim financial statements of the entities in which it has a participating interest to value these interests, with reference to 31 December 2023, which according to those entities showed values fairly close to the final ones.

This procedure was not applied to participating interests in BIS, SWIFT and EUROPAFI, as their shares are residual (1.57%, 0.01% and 0.25%), these being recorded at acquisition cost, in accordance with the accounting policy outlined in point 1.2(e) of Note 1.

Within the scope of the Banco de Portugal's own funds management, the medium/long-term investment portfolio, given its characteristics, is included in Other financial assets. This portfolio is exclusively composed of securities denominated in euro and is valued at amortised cost less potential impairment losses.

In 2023 and 2022 no evidence was found of changes to the estimated future cash flows, and no impairment loss was therefore recorded. The market value of this portfolio is presented in Note 33, for information purposes.

NOTA 11 • ACCRUALS AND PREPAID EXPENSES

	31/12/2023	31/12/2022
Accruals		
Interest and other income receivable from central bank operations	1,830,998	1,312,041
Securities held for monetary policy purposes	946,993	964,912
Net position in relation to the allocation of euro banknotes	665,936	251,697
Lending to credit institutions related to monetary policy	104,311	29,395
IMF	28,196	18,243
Gold investments	–	15,861
Trading portfolio denominated in euro and foreign currency	10,969	6,872
Medium/Long-term investment portfolio	24,909	16,745
Other	49,684	8,317
Other accruals	1,232	2,025
	1,832,230	1,314,066
Prepaid expenses		
Prepaid expenses from central bank operations	10,486	32,350
Other prepaid expenses	9,321	8,396
Deferred tax assets	16,390	14,425
	36,198	55,171
	1,868,428	1,369,237

As at 31 December 2023 accruals relating to Interest and other income receivable from central bank operations included outstanding accrued interest receivable from securities held for monetary policy purposes, amounting to €946,993 thousand (2022: €964,912 thousand) and from the net balance arising from the allocation of banknotes, in the amount of €665,936 thousand (2022: €251,697 thousand) and lending to credit institutions in the amount of €104,311 (2022: €29,395 thousand).

The item Prepaid expenses from central bank operations comprises mainly accrued coupon interest on securities held in the Banco de Portugal's portfolios (i.e. trading portfolio, medium/long-term investment portfolio, and portfolio of securities held for monetary policy purposes), including outstanding interest paid to the counterparty at acquisition and which will be received by the Banco de Portugal upon maturity of the corresponding coupons or the sale of the securities. Key among the values in this item as at 31 December 2023 was interest on (i) securities held for monetary policy purposes (€7,392 thousand in 2023 and €27,002 thousand in 2022) and (ii) trading and medium/long-term investment portfolios (€3,094 thousand in 2023 and €5,348 thousand in 2022).

The item Other prepaid expenses includes the updated value of the difference between cash flows of interest receivable from Lending to employees, at the interest rate applicable according to Collective Labour Agreements and market interest rates, totalling €3,853 thousand (2022: €4,155 thousand). The equivalent to this value is recorded against a deduction in assets referring to Lending to employees (Note 12).

Note 30 presents a more detailed description of the amount of deferred tax assets in 2023 and 2022.

NOTA 12 • OTHER ASSETS – SUNDRY

	31/12/2023	31/12/2022
Lending to employees	168,790	172,867
Special credit situations – BP/Finangeste Arrangement	389	398
Other special credit situations	285	400
Pension Fund – Defined-Benefit Plan	149,058	174,878
Pension Fund – Defined-contribution plan – Reserve account	45,172	43,519
Sundry debtors	9,898	13,644
Corporate Income Tax – Estimate for income taxes	(179)	(133,615)
Corporate Income Tax – Payments on account and additional payment on account	80,448	203,476
Other reduced value accounts	10,550	6,703
	464,411	482,271
Impairment of recoverable amounts	(674)	(798)
	463,737	481,472

The item Lending to employees corresponds mostly to mortgage loans to employees.

The value recorded under Special credit situations – BP/Finangeste Arrangement relates to amounts under the BP/Finangeste Arrangement of 9 January 1995, to which an annex was added in 2016, and represented an asset worth €389 thousand as at 31 December 2023 (2022: €398 thousand). The decrease in 2023 corresponded to the nominal amount of claims recovered in that year by Finangeste, transferred to the Bank through the calculation of an annual instalment. As at 31 December 2023 and 2022 an impairment for the total value of this asset was recognised (Notes 19 and 30).

The item Pension Fund – Defined-Benefit Plan relates to this Fund's surplus as at 31 December 2023 and 2022 (Note 32).

The position concerning the Pension Fund – Defined-Contribution Plan – Reserve account of the Sponsor reflected the value of the participating units of this Fund held by the Banco de Portugal as at 31 December 2023 and 2022, valued at market price as at those dates (Note 32).

The estimate for income tax is detailed in Note 30. In 2023 the net value between this estimate and the value of payments on account and the additional payment on account (under the provisions of Articles 104 and 104-A of the Corporate Income Tax Code) resulted in a net asset position, thus being included in this item.

NOTA 13 • BANKNOTES IN CIRCULATION

Euro banknotes in circulation as at 31 December 2023 represent the Banco de Portugal's share in total euro banknotes in circulation in the Eurosystem (point 1.2(i) of Note 1).

	31/12/2023	31/12/2022
Banknotes in circulation		
Banknotes put into circulation (net)	(24,744,759)	(21,003,866)
Adjustments to circulation in the Eurosystem	58,220,728	54,857,596
	33,475,969	33,853,731

In 2023 the total value of euro banknotes in circulation in the Eurosystem decreased by -0.3% (2022: +2%). In accordance with the banknote allocation key, on 31 December 2023 the Banco de Portugal recorded an aggregate value of banknotes in circulation of €33,475,969 thousand, compared to €33,853,731 thousand on 31 December 2022. The difference between banknotes put into circulation and banknotes withdrawn from circulation by the Banco de Portugal as at 31 December 2023 continued to show a debit balance, higher than in 2022. This increase was due, among other factors, to an increase in tourism in Portugal throughout 2023. These two effects combined accounted for an increase in Adjustments to circulation in the Eurosystem, recognised against an asset recorded under Other intra-Eurosystem claims (Note 8).

NOTA 14 • LIABILITIES TO EURO AREA CREDIT INSTITUTIONS – MONETARY POLICY OPERATIONS DENOMINATED IN EURO

As at 31 December 2023 the balance on Liabilities to euro area credit institutions related to monetary policy operations denominated in euro (€44,112,766 thousand) regarded deposit facility operations outstanding (€41,055,361 thousand as at 31 December 2023 and €42,973,015 thousand as at 31 December 2022), and current accounts of credit institutions with the Banco de Portugal (€3,057,405 thousand in 2023 and €3,456,241 thousand in 2022).

The item Current accounts of credit institutions shows the credit balance on the accounts of credit institutions which are required to meet the minimum reserve requirements, excluding funds of credit institutions that are not freely disposable, which are shown under liability item Other liabilities to euro area credit institutions denominated in euro together with the accounts of credit institutions exempt from minimum reserve requirements.

The banks' reserve requirement balances were, until 19 September 2023, remunerated at the deposit facility rate (weighted according to the number of calendar days) up to the limit of minimum reserve requirements. By decision of the Governing Council on 27 July, the remuneration of minimum reserves was set at 0% starting on 20 September 2023. Excess reserves are remunerated at 0% or at the deposit facility rate (whichever is lower).

As at 31 December 2023 the item Deposit facility included the balance of deposit facility operations outstanding, which correspond to overnight deposits of domestic credit institutions with the Banco de Portugal, used as a means to access the Eurosystem's liquidity-absorbing operations at the pre-specified rates for these operations.

NOTA 15 • LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

	31/12/2023	31/12/2022
Other liabilities to euro area credit institutions denominated in euro		
Euro area liabilities for collateralised operations	9,327,425	2,931,225
Current accounts of credit institutions for SICOI guarantees	109,308	119,613
Current accounts of credit institutions to comply with liquidity guarantees	94,500	–
	9,531,233	3,050,838
Liabilities to other euro area residents denominated in euro		
General government		
Current accounts of the Portuguese Treasury and Debt Management Agency (IGCP)	5,361,752	–
European Financial Stabilisation Mechanism (EFSM)	–	6,038,316
European Financial Stability Facility (EFSF)	–	711,260
Current accounts of General government for SICOI guarantees	311,931	230,391
	5,673,683	6,979,967
Other liabilities		
Current accounts of the autonomous funds	103,945	577,322
Current accounts of other entities	1,006,500	2,679,079
	1,110,445	3,256,401
	6,784,129	10,236,369

The item Other liabilities to euro area credit institutions denominated in euro incorporated liabilities relating to gold swaps for euro (Note 1.2.(g)), recorded in the accounts as collateralised loans, in line with the applicable rules (Note 16), and to sale and repurchase agreements (REPO), covered by investment portfolio securities and monetary policy securities.

The remuneration of deposits of the Portuguese Treasury and Debt Management Agency (Agência de Gestão da Tesouraria e da Dívida Pública – IGCP) is subject to the provisions of Article 4(1)(d) of the Guideline of the ECB on domestic asset and liability management operations by the national central banks (ECB/2019/7).

The accounts associated with the Economic and Financial Assistance Programme (EFAP) were remunerated up to 30 April 2023, as a result of the Governing Council's decision to temporarily remove the 0% interest rate ceiling for the amount exceeding the monthly deposit limit until that date, at the €STR rate up to the limits established and above these limits at the deposit facility rate or the €STR (whichever is lower). As of 1 May 2023, by decision of the ECB, the ceiling for the remuneration of government and EFAP deposits was removed and these deposits were remunerated at €STR minus 20 basis points.

The current accounts of autonomous funds in 2023 mostly concerned balances of the Resolution Fund held at the Banco de Portugal.

NOTA 16 • LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO

As at 31 December 2023 the balance on the item Liabilities to non-euro area residents denominated in euro included: (i) temporary liabilities for collateralised loans under gold investments of €6,644,680 thousand (2022: €5,896,078 thousand) (Note 5), (ii) euro amounts received as collateral worth

€59,280 thousand (2022: €71,290 thousand) (Note 5), and (iii) balances of current accounts with several central banks and international organisations (excluding the IMF), not subject to reserve requirements in the amount of €637 thousand (2022: €1,453 thousand).

NOTA 17 • ACCRUALS AND INCOME COLLECTED IN ADVANCE

	31/12/2023	31/12/2022
Income collected in advance		
Other income collected in advance	2	2
Deferred tax liabilities	271	282
	274	285
Accruals		
Accruals from central bank operations	419,042	471,329
Other accruals	25,749	25,243
	444,792	496,572
	445,065	496,857

Under Accruals from central bank operations reference should be made to accrued interest payable on (i) reserve asset management operations in the amount of €110,759 thousand (2022: €8,588 thousand) and (ii) and interest payable on TARGET liabilities in the amount of €219,578 thousand (2022: €128,857 thousand).

The decrease compared to 2022 was mainly due to the offsetting effect of the decrease in interest payable on Lending to credit institutions, as a result of a reduction in the volume of these operations.

Other accruals reflected accrued staff costs (€21,374 thousand) and accrued supplies and services from third parties payable (€4,375 thousand).

NOTA 18 • OTHER LIABILITIES – SUNDRY

	31/12/2023	31/12/2022
Third parties	25,432	21,892
Liabilities relating to the payment to employees of seniority bonuses	14,883	13,280
Other central bank liabilities	6,833	6,833
Other accounts of reduced individual value	1,179	5,133
	48,327	47,138

The item Third parties included a lease liability related to future liabilities with property and equipment lease agreements with a duration of more than 12 months, recognised under IFRS 16 (point 1.2(e) of Note 1) which, as at 31 December 2023, amounted to €1,566 thousand (2022: €1,751 thousand).

The item Liabilities relating to the payment to employees of seniority bonuses reflected as at 31 December 2023 the current value of liabilities for years of service, determined through an actuarial valuation carried out by the SGFPBDP. Actuarial gains/losses associated with these liabilities, calculated at the end of the period under review, are recorded in the Profit and loss account, as described in point 1.2(m) of Note 1. In 2023 actuarial gains/losses were positive (Note 32) and recognised under Other income.

NOTA 19 • IMPAIRMENT, PROVISIONS AND GENERAL RISK PROVISION

Accounting movements in items Impairment and provisions for the years 2022 and 2023 may be summarised as follows:

	Balance as at 31/12/2021	2022			Balance as at 31/12/2022
		Increase	Decrease	Net value	
Impairment of assets					
Adjustments for Special credit situations – BP/Finangeste Arrangement	409	–	(11)	(11)	398
Adjustments for other special credit situations	400	–	–	–	400
	809	–	(11)	(11)	798

	Balance as at 31/12/2022	2023			Balance as at 31/12/2023
		Increase	Decrease	Net value	
Impairment of assets					
Adjustments for Special credit situations – BP/Finangeste Arrangement	398	–	(9)	(9)	389
Adjustments for other special credit situations	400	–	(116)	(116)	285
	798	–	(125)	(125)	674
Provisions					
Provision for monetary policy operations	–	996	–	996	996
	–	996	–	996	996

Under Adjustments for Special credit situations – BP/Finangeste Agreement, the decrease in 2023 includes €9 thousand, which were not recognised directly in profit or loss and only entailed the derecognition of the asset and its impairment.

Furthermore, as a result of impairment tests conducted on securities under monetary policy programmes, the Governing Council deemed appropriate to set up a provision to cover credit risk in monetary policy operations in 2023, in the amount of €42.9 million. In accordance with Article 32.4 of the Statute of the ESCB and of the ECB, this provision will be shared by all NCBs in proportion to their shares in the ECB's subscribed capital. As a result, the Banco de Portugal recognised a provision of €996 thousand, equivalent to its share in the ECB's subscribed capital (2.3217%), recorded under the item Provision for monetary policy operations (Notes 7 and 26).

Movements in the General risk provision in 2022 and 2023 were as follows:

	Balance as at 31/12/2021	2022		Balance as at 31/12/2022
		Increase	Decrease	
General risk provision	3,676,622	235,000	–	3,911,622

	Balance as at 31/12/2022	2023		Balance as at 31/12/2023
		Increase	Decrease	
General risk provision	3,911,622	–	1,053,916	2,857,706

The purpose of the General risk provision is to cover potential medium-term risks and in each period its use takes into consideration, among other factors, the estimated future income and the risk projection for subsequent periods.

Article 8 of the ECB's Accounting Guideline recommends the establishment of general risk provisions. At the Banco de Portugal, under the provisions of Article 5(2) of its Statute, the Board of Directors is responsible for deciding whether the General risk provision should be used, and to which amount. Such movements are made as described in point (q) of Note 1.2 based on the information considered, which includes profit projections and risk assessments from a medium-term perspective. The Board of Directors decides on the movements in the provision by taking into account the hedging level deemed appropriate in each year, over a medium-term horizon, to maintain levels of financial autonomy that in its opinion will allow, if necessary, the possibility of covering potential losses, including those resulting from decisions made by the Governing Council with an impact on the Banco de Portugal's accounts.

In 2023 the increase in interest rates led to the materialisation of balance sheet structure risk, due to the fact that the securities of the monetary policy programmes have fixed and relatively low yields and are funded by short-term liabilities with sharply rising interest rates throughout the year. Therefore, the Banco de Portugal posted a negative result before provisions and taxes of €1,053,916 thousand, which was covered by the general risk provision, and its final amount fell to €2,857,706 million on 31 December 2023.

NOTA 20 • REVALUATION ACCOUNTS

	31/12/2023	31/12/2022
Gold revaluation differences	19,940,216	17,950,591
Foreign currency revaluation differences	100,173	215,294
Securities revaluation differences	33,972	5,137
Revaluation differences	20,074,362	18,171,023

Gold increased by €1,989,625 thousand compared to 2022, as a result of the appreciation in the price of gold in euro (Note 2).

Potential capital gains resulting from fluctuations in the price of securities as at 31 December 2023 corresponded to securities denominated in foreign currency and euro, amounting to €18,002 and €15,971 thousand respectively (2022: €5,123 thousand and €15 thousand respectively).

NOTA 21 • EQUITY

Movements in the Equity item in 2023 and 2022 are detailed in the Statement of changes in equity.

The capital of the Banco de Portugal amounts to €1,000 thousand and may be raised, in particular by incorporation of reserves, pursuant to a decision of the Board of Directors and upon authorisation of the Minister of State and Finance.

In accordance with Article 53(2) of the Statute of Banco de Portugal, net profit for the year will be distributed as follows: 10% to the legal reserve, 10% to other reserves to be decided by the Board of Directors and the remainder to the State, as dividends, or to other reserves, as approved by the Minister of State and Finance, on a proposal of the Board of Directors. Net profit for the year 2022

gave rise to the transfer of €29,729 thousand to the Legal reserve and an equal amount to Other reserves, and to the distribution of dividends to the State, totalling €237,831 thousand.

Actuarial gains/losses of liabilities related to the Pension Fund and deferred taxes recognised on 31 December 2023 accounted for total retained earnings (Notes 30 and 32).

NOTA 22 • NET INTEREST INCOME

	31/12/2023	31/12/2022
Interest income		
Gold	–	28,117
Trading portfolio denominated in foreign currency	44,199	29,681
Securities	42,971	27,132
Balances with banks, deposits and other money markets	1,228	2,549
Trading portfolio denominated in euro	90,113	9,648
Medium/Long-term investment portfolio	40,165	23,121
Longer-term refinancing operations	277,713	1
Securities held for monetary policy purposes	1,027,026	889,484
Lending operations with the ESBC	2,213,837	325,210
International Monetary Fund	154,729	49,101
Off-balance-sheet instruments	122,807	13,268
Other assets	4,927	1,028
Current accounts of credit institutions for compliance with minimum reserve requirements	–	113,422
	3,975,516	1,482,081
Interest expense		
Gold	342,387	–
Trading portfolio denominated in euro	14,133	1,174
Securities	–	1,174
Liabilities from euro area investment in euro	14,133	–
Longer-term refinancing operations	–	215,887
Current accounts of credit institutions for compliance with minimum reserve requirements	60,518	–
Deposit facility	1,213,519	196,982
General government	445,382	32,340
Other liabilities to euro area residents denominated in euro	73,429	3,501
Intra-Eurosystem liabilities	2,360,602	402,749
International Monetary Fund	130,878	42,799
Off-balance-sheet instruments	907	4,667
	4,641,755	900,099
Net interest income	(666,238)	581,982

The decrease in Net interest income in 2023 was largely due to the impact of the rise in official interest rates, especially the increase in the interest payable component, mainly interest on deposit facilities, general government liabilities and collateralised operations within the scope of the Bank's asset management. Costs of collateralised operations made it possible to cut interest expenses on intra-Eurosystem liabilities at a more favourable rate.

Partly offsetting this negative impact was an increase in interest receivable from longer-term refinancing operations. Also of note is the growth in interest receivable relating to (i) foreign reserves and euro assets, specifically those relating to trading portfolios in foreign currency and in euro, associated with the increase in rates of return; (ii) monetary policy securities as a result of the increase in their average rate of return; and (iii) claims relating to adjustments to euro

banknotes in circulation arising from the debit position relating to the difference between banknotes put into circulation and banknotes withdrawn from circulation by the Banco de Portugal and the decline in overall circulation in the Eurosystem.

In a standardised way across the Eurosystem, positive and negative interest on monetary policy operations is presented at net value under either Interest income or Interest expense, depending on whether it is positive or negative in value. For consistency purposes, this decision has been extended to interest in general at the Banco de Portugal.

NOTA 23 • REALISED GAINS/LOSSES ARISING FROM FINANCIAL OPERATIONS

	31/12/2023	31/12/2022
Foreign exchange transactions	24,947	117,194
Transactions in the portfolio for monetary policy purposes	(8,431)	13,259
Financial operations in euro	(4,369)	(17,543)
Other financial operations in foreign currency	(1,293)	(8,372)
Medium and long-term investments	(1,807)	4,639
Interest rate futures	(2,743)	50,255
	6,303	159,432

In 2023 realised gains/losses arising from financial operations showed a positive value and declined by €153,129 thousand compared to 2022.

In 2023 gains from financial operations associated with foreign exchange transactions in the amount of €24,947 thousand were particularly noteworthy (2022: €117,194 thousand). These positive results more than offset net losses in other operations, namely those related to the management of trading portfolio assets in euro and foreign currency, totalling -€5,662 thousand (2022: -€25,915 thousand) and medium and long-term investments in the medium/long-term investment portfolio, totalling €1,807 thousand respectively (2022: €+4,639 thousand).

Income from monetary policy operations included losses associated with sales of PSPP securities for compliance with the rules of this programme.

NOTA 24 • UNREALISED LOSSES ON FINANCIAL OPERATIONS

	31/12/2023	31/12/2022
Unrealised exchange rate losses	1,349	10
Unrealised losses on investments in foreign currency	1,495	8,110
Unrealised losses on euro operations	471	71,260
	3,315	79,379

As regards the item Unrealised losses on financial operations, the amount recognised in 2023 resulted from losses caused by the exchange rate and price devaluation of securities in the trading portfolio denominated in foreign currency and in euro.

NOTA 25 • INCOME FROM EQUITY SHARES AND PARTICIPATING INTERESTS

This item only contains dividends received from the Banco de Portugal's participating interests in the Bank for International Settlements – BIS (€2,978 thousand), concerning 2022 profits, distributed in 2023.

The Governing Council of the ECB decides each year on the distribution of (i) seigniorage income, which arises from the 8% share of euro banknotes allocated to the ECB; and (ii) the ECB's income arising from securities purchased under the SMP, CBPP3, ABSPP, PSPP and PEPP. The ECB distributes this income in full to the NCBs, unless otherwise decided by the Governing Council in the financial year to which they relate. In 2023 this income was not distributed.

NOTA 26 • NET RESULT OF POOLING OF MONETARY INCOME

The amount of each Eurosystem NCB's monetary income is determined by measuring the effective annual income from a set of assets – earmarkable assets – less any interest (accrued or paid) on components of a set of liabilities – the liability base.

The items that compose these earmarkable assets and the liability base, to which the remuneration rates presented apply, are described in the table below.

Earmarkable assets	Applicable rates	Liability base	Applicable rates
Amount of gold holdings in proportion to each NCB's capital key	0%	Banknotes in circulation	Not applicable
Claims equivalent to the transfer of foreign reserves to the ECB (except gold)	Main refinancing operations rate	Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	Real remuneration rate
Lending to euro area credit institutions related to monetary policy operations denominated in euro	Real remuneration rate	Net liabilities arising from balances of TARGET accounts	Main refinancing operations rate
PSPP-GOV and PEPP-GOV portfolio	Main refinancing operations rate		
SMP, CBPP 3, PSPP-SUPRA and PEPP-SUPRA portfolio	Real remuneration rate		
Non-euro area national central banks' assets related to liquidity-providing operations	Real remuneration rate		
Accrued coupon interest related to securities held for monetary policy purposes with impairment (shared income and risk)	Not applicable		
Claims related to the allocation of euro banknotes within the Eurosystem	Main refinancing operations rate		
Accrued interest relating to regular monetary policy operations with a maturity of over 1 year	Not applicable		

Where the value of each NCB's earmarkable assets exceeds the value of its liability base, as is the case for the Banco de Portugal in 2023, the difference (known as 'the gap'), calculated at the ECB reference rate for MROs, is deducted from the monetary income to be pooled. When the gap is negative, i.e. the value of the earmarkable assets falls short of the value of its liability base, this difference is added to the monetary income to be pooled. The sum of the monetary income and the gap is termed the net contribution.

The monetary income pooled by the Eurosystem is allocated among all NCBs according to the ECB's subscribed capital key.

In 2023 total contributions from the Eurosystem increased considerably, from €7,136,056 thousand to €40,759,568 thousand. This increase was mostly driven by a rise in key interest rates, with very significant effects on the income obtained from TLTRO III (in 2022 these operations represented an expense in the NCBs' accounts (Notes 6 and 22).

The result of the method (-€182,792 thousand) corresponds to the difference between the net contribution of the Banco de Portugal, in the amount of €1,129,098 thousand, and the allocation to the Banco de Portugal according to the aforementioned capital key, in the amount of €946,306 thousand. This effect is detailed in its various components in the table below:

	31/12/2023			31/12/2022	
	Net contributions from Portugal	Net contributions for NCBs	MI redistribution according to the capital key	Result of the monetary income pooling method	Resultado do método da repartição do Rendimento Monetário
	(1)		(2)	(2) - (1)	
Lending to euro area credit institutions	277,713	26,849,937	623,369	345,657	(30,701)
Securities held for the monetary policy of shared risk	76,961	8,483,281	196,954	119,993	58,466
Securities held for the monetary policy of non-shared risk ^(a)	2,852,549	127,854,247	2,968,364	115,817	23,080
Claims equivalent to the transfer of foreign reserves to the ECB (except gold)	30,984	1,334,524	30,983	(1)	0
Banknote issuance related assets (net)	2,182,628	(4,816,858)	(111,832)	(2,294,460)	(337,719)
GAP (difference between earmarkable assets and liability base) ^(b)	(657,373)	(2,729,959)	(63,381)	593,992	12,660
Liabilities to euro area credit institutions	(1,274,037)	(130,387,326)	(3,027,174)	(1,753,140)	(69,200)
Liabilities (claims) related to TARGET operations	(2,360,328)	14,171,723	329,022	2,689,350	451,557
	1,129,098	40,759,568	946,306	(182,792)	108,143

Notes: (a) In the calculation of monetary income, it is assumed that these securities generate income at the latest available interest rate used by the Eurosystem in its tender procedures for the main refinancing operations, so that the figure considered in the table above differs from that of interest margin (€950,065 thousand, see Note 22). (b) For presentation purposes, residual contributions and deductions are included in this item at net value.

In 2023 the net result of pooling of monetary income includes, in addition to the result of the method described above, the value of the adjustments relating to previous years in the amount of -€193 thousand, resulting from backward-looking changes to the calculation method, as well as €996 thousand relating to the provision for credit hedging in monetary policy operations – in the proportion equivalent to the Banco de Portugal's share in the ECB's subscribed capital key (Notes 7 and 19), as identified in the following table:

		31/12/2023	31/12/2022
A	Total contribution from all Eurosystem NCBS	40,759,568	7,136,056
B	Paid-up capital key	2.3217%	2.3405%
C = A x B	Total reallocation to the Banco de Portugal	946,306	167,020
D	Total effective contribution from the Banco de Portugal	1,129,098	58,876
E = C - D	Result of the method	(182,792)	108,143
F	Eurosystem adjustments to the result of the method relating to previous years	(193)	1,015
G	Eurosystem provisions	(996)	-
H	Loss of the Indover Bank	(5)	-
I= E+ F + G + H Net result of pooling of monetary income		(183,986)	109,158

The net result of pooling of monetary income for the year decreased by €293,144 thousand from 2022, shifting to a negative result (the Banco de Portugal went on to have a paying position), which was largely due to the increase in the component of interest payable on current accounts of credit institutions and deposit facilities, in a context where, in this item, the weight of the Banco de Portugal's contributions in relation to total Eurosystem contributions (0.98%) was lower than the corresponding capital key (2.3217%).

NOTA 27 • OTHER INCOME AND EXPENSES

	31/12/2023	31/12/2022
Other income		
Capital gains on tangible fixed assets	233	9
Previous fiscal years income	268	706
Sales and supply of services to third parties	4,550	4,311
Sundry income	7,405	99,442
	12,456	104,469
Other expenses		
Capital losses on tangible and intangible fixed assets	320	149
Previous fiscal years expenses	191	154
Sundry expenses	1,440	4,042
	1,951	4,345
	10,505	100,123

The item Sales and supply of services to third parties was largely related to services provided by the Banco de Portugal through the BPNet portal, totalling €3,829 thousand (2022: €3,599 thousand).

Under the item Sundry income, in 2023 reference should be made to: (i) €3,240 thousand related to the results of the annual revaluation of the Reserve account of the Sponsor of the Defined-Contribution Plan (ii) profit resulting from the adjustment of the value of the Banco de Portugal's interests in VALORA and the SGFPBDP, resulting from the implementation of the Net Asset Value method as explained in point 1.2(e) of Note 1 and Note 10 (€3,412 thousand and €150 thousand respectively); and (iii) €13 thousand related to credit recovery under the BP/Finangeste Arrangement (Note 12).

NOTA 28 • STAFF COSTS

	31/12/2023	31/12/2022
Remuneration of the members of the Board of Directors and Board of Auditors	1,702	1,279
Employees' salaries	91,414	84,714
Compulsory social charges	22,990	32,323
Voluntary social charges	7,977	11,299
Other staff costs	1,041	1,051
	125,124	130,666

In 2023 staff costs totalled €125,124 thousand, a €5,542 thousand decrease from 2022 (-4%).

This decrease was mainly due to (i) the contribution from a reduction in compulsory social charges compared to 2022 largely related to a decrease in the annual charge with the Pension Fund – Defined-Benefit Plan (-€10,424 thousand) (Note 32), as a consequence of a rise in the discount rate and (ii) a decrease in voluntary social charges, related to the decrease in early retirement costs (-€2,836 thousand), due to a lower number of employees in this situation, compared to 2022 (Note 32).

The increase in employees' salaries was driven by a salary update in 2023 (4.5%).

NOTA 29 • SUPPLIES AND SERVICES FROM THIRD PARTIES

	31/12/2023	31/12/2022
Electricity	3,740	1,410
Travel, accommodation and other transport	2,287	1,501
Litigation and notary services	5,315	5,056
Maintenance and repairs	4,992	4,520
Rentals	1,790	922
Fuel and water	536	549
Specialised work		
Surveillance and security	5,038	4,768
IT	3,161	2,822
Use of databanks	3,204	3,027
Remuneration of SGFP	3,190	3,133
Other specialised work	5,515	3,817
Software licensing and maintenance	8,472	8,900
Training	978	988
Other supplies and services from third parties	5,360	5,864
	53,577	47,278

At the end of 2023 Supplies and services from third parties amounted to €53,577 thousand, reflecting an increase of 13.3% compared to the same period in 2022.

The main contributors to this increase were (i) an increase in electricity expenses (€2,330 thousand) as a result of rising energy tariffs, (ii) an increase in specialised work (€2,541 thousand) as a result of pay rises, partly indexed to the minimum monthly wage, (iii) an increase in rentals (€868 thousand), especially computer software and hardware renting owing to an increase in IT

market prices; and (iv) an increase in business travel expenses (€786 thousand), due to an increase in list prices.

NOTA 30 • INCOME TAX

The Banco de Portugal is subject to corporate income tax and to the corresponding municipal and state surcharge and autonomous taxation.

Tax authorities are allowed a four-year period during which they can revise the Banco de Portugal's tax situation. Therefore as a result of different interpretations of tax legislation, there may be additional payments. However, the Board of Directors of the Banco de Portugal firmly believes that there will be no significant additional payments regarding previous financial periods.

As at 31 December 2023 and 2022 income tax liabilities were broken down as follows:

	2023	2022
Estimated current tax on profit/loss	179	133,615
Estimated current tax on equity	–	–
Withholdings at source	(24)	(24)
Payments on account and additional payments on account	(80,448)	(203,476)
	(80,293)	(69,885)

In 2023 current tax only reflects autonomous taxation, insofar as the Bank recorded a tax loss in the period.

The expense/income items comprising income tax on profit for the year, as well as the tax burden, measured through the ratio of total income tax to income before taxes are detailed as follows:

	2023	2022
Current tax		
Corporate income tax collection	–	90,092
Municipal corporate tax and state surtax	–	43,406
Autonomous taxation	179	116
	179	133,615
Deferred tax	(70)	2,530
Total income tax	110	136,145
Profit/loss before taxes	–	433,433
Effective tax rate		31.41%

In 2022 and 2023 the movements related to deferred tax assets and liabilities were broken down as follows:

	2023			
	Δ			31/12/2023
	31/12/2022	Equity	Profit/Loss	
Assets				
Temporarily non-deductible provisions and impairments	250	–	(39)	211
Staff benefits				
Seniority bonus	4,151	–	29	4,180
Early retirements	10,024	1,907	(2,099)	9,832
Tax losses	–	–	2,168	2,168
	14,425	1,907	59	16,391
Liabilities	–			–
Depreciation surplus (reinvestment of capital gains)	(282)	–	11	(271)
	(282)	–	11	(271)
	14,142	1,907	70	16,119

	2022			
	Δ			31/12/2022
	31/12/2021	Equity	Profit/Loss	
Assets				
Temporarily non-deductible provisions and impairments	253	–	(4)	250
Staff benefits				
Seniority bonus	5,157	–	(1,006)	4,151
Early retirements	2,071	9,484	(1,531)	10,024
	7,482	9,484	(2,541)	14,425
Liabilities				
Depreciation surplus (reinvestment of capital gains)	(293)	–	11	(282)
	(293)	–	11	(282)
	7,189	9,484	(2,530)	14,142

Deferred tax corresponds to the impact on tax receivable/payable in future periods, resulting from temporary deductible/taxable differences between the balance sheet value of assets and liabilities and their taxable basis, used to determine the taxable profit.

They are calculated based on tax rates expected to be in force on the date the temporary differences are to be reversed, i.e. rates approved or substantially enacted as at the balance sheet date.

Also, deferred taxes have no expiry dates and the Bank expects to obtain positive results in the future that will make it possible to realise them, especially those relating to the tax loss recorded in 2023.

NOTA 31 • OFF-BALANCE SHEET INSTRUMENTS

	31/12/2023	31/12/2022
Contracted financial operations	124,681	(298,500)
Collateral given	(1,471,635)	(1,471,623)
Collateral received	69,923,480	71,788,734
Items held in custody	27,583,077	26,786,335
Irrevocable credit lines	(3,987,802)	(4,044,214)

Contracted financial operations

This item recorded open positions in financial operations that are under contract but still outstanding at the year-end. As at 31 December 2023 and 31 December 2022 these positions related only to derivative financial instruments essentially designed to manage risks associated with their assets and liabilities, as follows:

	31/12/2023					31/12/2022	
	Contract value ^(a)		Market value ^(b)	Effect on profit/loss ^(c)	Accrued interest	Contract value ^(a)	
	Purchases	Sales	Net	Net	Net	Purchases	Sales
Currency forwards	40,096	(40,096)	5	6	–	6,073	(6,073)
Currency swaps	3,544,460	(3,544,460)	(50,999)	(69,127)	18,129	2,502,926	(2,502,926)
Interest rate futures	270,953	(146,272)	–	–	–	–	(298,500)

Note: (a) Theoretical or notional value of the contract. (b) The market value corresponds to income or expenses associated with the potential closing of open positions, taking into account current market conditions and the valuation models commonly used. (c) The effect on profit/loss corresponds to the impact of the potential closing of open positions on the Profit and Loss Account, taking into account current market conditions and the valuation models commonly used. (d) The value of accrued interest corresponds to interest income and expense plus open positions until the balance sheet date.

Collateral given, collateral received, items held in custody and other commitments to third parties

Collateral given included the promissory note issued by the Banco de Portugal in favour of the IMF, under Article III, Section 4 of the IMF's Articles of Agreement.

Collateral received mainly included collateral related to monetary policy operations of the Eurosystem in the amount of €69,917,925 thousand as at 31 December 2023 (€71,784,647 thousand as at 31 December 2022), including collateral used under the Correspondent Central Banking Model (CCBM). This collateral is valued at market rates, less the respective haircuts.

Items held in custody essentially comprised securities owned by the Portuguese State (€22,925,059 thousand) and securities held in custody by the Banco de Portugal as collateral in monetary policy operations with other NCBs, under the CCBM (€4,061,300 thousand).

As at 31 December 2023 the item Irrevocable credit lines recorded the amount of €2,082,800 thousand for the limit on the intraday credit lines to the Portuguese financial system and the amount of SDR 1,567,000 thousand (€1,905,002 thousand) for a credit line granted to the IMF under the New Arrangements to Borrow (NAB).

NOTA 32 • LIABILITIES RELATED TO RETIREMENT PENSIONS AND OTHER BENEFITS

Pension Fund of the Banco de Portugal – Defined-Benefit Plan

- Background

The Pension Fund of the Banco de Portugal – Defined-Benefit Plan is a closed-end fund made up of autonomous assets solely earmarked for the fulfilment of the Banco de Portugal's liabilities relating to the Pension Plan and the Healthcare Plan. The Pension Plan guarantees the payment of retirement and survivors' pensions and death grants to staff recruited by the Banco de Portugal before 3 March 2009, and the payment of post-employment charges to SAMS (the social and health assistance service for banking sector employees) concerning all staff members. The Healthcare Plan takes responsibility for the payment of post-employment healthcare costs and covers all staff.

Until 31 December 2010 the Banco de Portugal was the sole entity responsible for the payment of the retirement and survivors' pensions and death grants of staff recruited by the Bank before 3 March 2009, who were covered by a substitutive social security scheme for bank employees, enshrined in the collective labour regulations for the banking sector. Decree-Law No 1-A/2011 of 3 January 2011 laid down that from 1 January 2011 the Banco de Portugal's active employees recruited before 3 March 2009 and registered in Caixa de Abono de Família dos Empregados Bancários (CAFEB), the family allowance fund for bank employees, would be integrated in the general social security scheme with respect to statutory retirement pensions.

Thus, the Pension Fund – Defined-Benefit Plan, in terms of the statutory retirement/old-age pensions of the Bank's staff recruited before 3 March 2009, maintained under its responsibility the payment of past-service liabilities until 31 December 2010. From 1 January 2011 onwards, the Pension Fund only covers liability for the difference between the benefits defined in the respective pension plans – which are based on the applicable labour agreements for the banking sector and on the Banco de Portugal's internal regulations – and the benefits calculated under the general social security scheme. The payment of disability and death grants remained totally under the Fund's responsibility as well.

The table below shows the most significant risks among those arising from the Pension Plan and the Healthcare Plan:

Risk sub-category	Risk definition
Longevity risk	The longevity risk of the population covered proves to be higher than that assumed in actuarial valuations, resulting in an increase of the liabilities of the Pension Fund – Defined benefit plan.
Disability risk	Risk attached to potential deviation in the disability rate, compared with that assumed in actuarial valuations, resulting in an increase of the liabilities of the Pension Fund – Defined benefit plan.
Health risk	Risk of take-up of subsidised clinical services being higher than assumed in actuarial valuations, thus resulting in an increase of the liabilities of the Pension Fund – Defined benefit plan.
Risk of regulatory changes to the general social security scheme	Risk attached to the occurrence of regulatory changes to the general social security scheme, impacting on the Pension Fund – Defined benefit plan.
Medical services inflation risk	Risk of an increase in medical services costs and higher inflation than assumed in actuarial valuations and of a resulting increase in liabilities of the Pension Fund – Defined-Benefit Plan.
Risk of inflation implied in assumed wages and pensions growth rates	Risk of a reduction in the funding ratio arising from the materialisation of adverse movements in historical and/or expected inflation rates.
Interest rate risk	Risk of reduction of the funding ratio arising from adverse interest rate movements.

The risks from population movements and regulatory arbitrage are mitigated by defining prudent actuarial assumptions. The risks from adverse movements in inflation and interest rates are mitigated by adopting a Fund's investment policy driven by the objective of offsetting variability in liabilities arising from these movements.

- Pension Fund Plans

- Pension plan

- a) Beneficiaries (pensions and other benefits)

The number of members who are beneficiaries of pensions and other benefits is as follows:

Number of scheme members	31/12/2023	31/12/2022
Active members	609	657
Former employees with pension rights	259	262
Retired members	2,042	2,073
Pensioners	598	592
	3,508	3,584

The assumed average life expectancy for scheme members and beneficiaries of pensions and other benefits is as follows:

Average life expectancy (years)	31/12/2023	31/12/2022
Active members	35	35
Former employees with pension rights ^(a)	28	28
Retired members	15	15
Pensioners	13	13

Nota: (a) The population of former employees with pension rights is now considered.

- b) Methodology, assumptions and accounting policy

Liabilities arising from the pension plan funded through the Pension Fund – Defined-Benefit Plan were calculated on an actuarial basis by the SGFPBDP, using the Projected Unit Credit Method, in accordance with the principles laid down in IAS 19.

The main actuarial and financial assumptions adopted are as follows:

Actuarial and financial assumptions used				
	31/12/2023	01/01/2023	31/12/2022	01/01/2022
Discount rate	3.339%	3.739%	3.739%	1.048%
Expected return rate on the Fund's assets	N/A	3.739%	N/A	1.048%
Wage growth				
1st year	4.545%	4.442%	4.442%	2.672%
Subsequent years	3.823%	3.869%	3.869%	3.456%
Pensions growth rate				
1st year	3.000%	3.000%	3.000%	1.254%
Subsequent years	2.289%	2.435%	2.435%	2.028%
Tables used				
- Mortality	Male population	TV 88/90 adjusted by 2 years	TV 88/90 adjusted by 2 years	
	Female population	TV 88/90 adjusted by 6 years	TV 88/90 adjusted by 6 years	
- Disability		1978 - S.O.A. Trans. Male (US)	1978 - S.O.A. Trans. Male (US)	
- Turnover		Null	T-1 Crocker Sarason (US)	
Statutory retirement age under the Pension Fund of the Banco de Portugal		65 years	65 years	
Statutory retirement age under the general social security scheme ^(a)				
1 st year		66 years and 4 months	66 years and 4 months	
2 nd year		66 years and 7 months	66 years and 4 months	
Percentage of married members		80%	80%	
Age difference between spouses		3 years	3 years	

Note: (a) For the purpose of projecting the Normal Retirement Age, from the third year onwards, an annual increase in average life expectancy at 65 years of age is assumed to be 0.1 years.

The discount rate was calculated using interest rates on private debt bond issues of high credit quality and whose denomination and maturity are appropriate for the term structure of the Pension Fund's liabilities.

For the purpose of establishing the funding needs of the Pension Fund – Defined-Benefit Plan, the SGFPBDP uses, as a matter of prudence, a lower discount rate, based on interest rates on sovereign bond issues. Thus, the value of the Fund's liabilities considered in the Banco de Portugal's accounts is below that calculated for the purpose of determining funding needs.

– Healthcare plan

a) Members

The number of members covered by the healthcare plan is as follows:

Number of scheme members	31/12/2023	31/12/2022
Active members	1,752	1,721
Retired members and pensioners	2,576	2,597
	4,328	4,318

The assumed average life expectancy for scheme members and beneficiaries is as follows:

Average life expectancy (years)	31/12/2023	31/12/2022
Active members	45	44
Retired members	15	16
Pensioners	13	13

b) Methodology, assumptions and accounting policy

The actuarial and financial assumptions used in the calculation of these liabilities are established according to IAS 19. Reference should be made to the following:

Actuarial and financial assumptions used				
	31/12/2023	01/01/2023	31/12/2022	01/01/2022
Discount rate	3.339%	3.739%	3.739%	1.048%
Expected return rate on the Fund's assets	N/A	3.739%	N/A	1.048%
Growth rate in healthcare expenses	2.299%	2.455%	2.455%	2.051%
Tables used				
- Mortality	Male population	TV 88/90 adjusted by 2 years	TV 88/90 adjusted by 2 years	TV 88/90 adjusted by 1 year
	Female population	TV 88/90 adjusted by 6 years	TV 88/90 adjusted by 6 years	TV 88/90 adjusted by 4 years
- Disability		1978 - S.O.A. Trans. Male (US)	1978 - S.O.A. Trans. Male (US)	
- Turnover		Null	T-1 Crocker Sarason (US)	
Statutory retirement age under the Pension Fund of the Banco de Portugal		65 years		65 years
Statutory retirement age under the general social security scheme ^(a)				
1 st year		66 years and 4 months		66 years and 4 months
2 nd year		66 years and 7 months		66 years and 4 months
Percentage of married members		80%		80%
Age difference between spouses		3 years		3 years

Note: (a) For the purpose of projecting the Normal Retirement Age, from the third year onwards, an annual increase in average life expectancy at 65 years of age is assumed to be 0.1 years.

• Evolution of liabilities and assets of the Pension Fund

	31/12/2023			31/12/2022		
	Retired members and pensioners	Active members	Total	Retired members and pensioners	Active members	Total
Total past-service liabilities of the Fund						
Retirement and survival benefits	1,053,668	369,190	1,422,858	1,011,341	358,392	1,369,733
Pensions' inherent charges to SAMS	59,943	21,544	81,487	57,354	18,930	76,284
Death grants	1,699	608	2,307	1,811	620	2,431
Healthcare	54,826	16,122	70,948	54,694	17,362	72,055
	1,170,136	407,464	1,577,599	1,125,200	395,304	1,520,504

The table below presents the evolution of past-service liabilities of the Fund in 2023 and 2022:

Past-service liabilities	2023	2022
Value at the beginning of the year	1,520,504	1,983,833
Current service cost	8,765	15,681
Benefits payable (expected value)	(83,337)	(78,879)
Interest cost	56,852	20,785
Actuarial gains/losses, excluding early retirements	74,489	(422,276)
Increase in liabilities arising from early retirements	327	1,360
Value at the end of the year	1,577,599	1,520,504

The Fund's financial management is geared towards hedging the risks implicit in assumed liabilities, which may be mitigated by financial instruments, with the aim of maintaining the funding level.

Among the various assumptions adopted in the valuation of the Fund's liabilities, the most relevant due to their impact on the value of liabilities are those relating to longevity, the discount rate and the rate of increase of salaries and pensions.

The table below shows the sensitivity of the Fund's assets and liabilities to changes in the assumptions adopted:

Sensitivity as at 31/12/2023	One-year increase in life expectancy	10 b.p. reduction in discount rate ^(a)	10 b.p. increase in wages and pension growth rates ^(b)
Impact on the Pension Fund's assets	0.0%	1.2%	0.8%
Impact on the Pension Fund's liabilities	4.0%	1.3%	1.2%
Impact on the Pension Fund's funding ratio	-4.0%	-0.1%	-0.4%

Notes: (a) Assuming a stable spread between interest rates on private and sovereign debt. Should this spread between the rates vary, the impact on the Fund's assets and the financing of a 10 b.p. reduction in discount rate will be different from that presented. (b) The wages and pensions growth rate only affects the value of the Pension Plan's liabilities (and not that of the Healthcare Plan). The impact on the Fund's assets is based on the assumption that the wages and pensions growth rate results from an increase in inflation, with a resulting increase in the price of inflation-linked bonds comprised in the Fund's assets.

As at 31 December 2023 the modified duration of liabilities stood at 13.2 (2022: 13.7) and the difference between the modified duration of the bond portfolio on the assets side and the modified duration of liabilities, adjusted to incorporate the size differences between these two aggregates, stood at -0.7 (2022: -1.9).²¹

Fund's assets	2023	2022
Value at the beginning of the year	1,695,382	2,176,288
Current contributions paid to the Fund	11,865	12,169
On account of the Banco de Portugal	10,143	10,445
On account of the employees	1,722	1,724
Contributions paid on account of early retirements	2,985	5,706
Benefits and inherent charges paid by the fund	(83,253)	(80,087)
Net income of the Fund	99,679	(418,694)
Value at the end of the year	1,726,658	1,695,382

The Fund's assets can be broken down as follows:

Fund's investments	31/12/2023	31/12/2022
Land and buildings	255,330	264,166
Variable income securities	133,827	85,183
Fixed income securities	1,315,771	1,327,374
Cash and bank deposits	7,571	4,735
Other	14,160	13,925
	1,726,658	1,695,382

²¹ The difference between the modified duration of the bond portfolio on the assets side and the modified duration of liabilities, adjusted to incorporate the size differences between these two aggregates, but assuming the funding level in the scenario used to calculate the funding needs was -1.2 (2022: -1.9).

Land and buildings includes the Castilho Building, used by the Banco de Portugal, which was recorded in 2023 at a value of €41,097 thousand.

Securities portfolio of the Fund	31/12/2023	31/12/2022
Variable income securities		
Participation units – Investment funds	133,827	85,183
Fixed income securities		
Government debt	1,315,771	1,327,374
	1,449,598	1,412,557

At the end of 2023 the funding level of the Banco de Portugal's Pension Fund – Defined-Benefit Plan stood at 109.4%, above that of the scenario used to calculate the funding needs (most prudent scenario) of 105.1%.

The value of actuarial gains and losses, excluding early retirements, calculated in 2023 and 2022 can be broken down as follows:

	31/12/2023	31/12/2022
Actuarial gains/losses		
Population movements, excluding early retirements	2,856	(2,087)
Technical gains and losses	2,211	(395)
Wage growth ^(a)	(21,262)	(12,076)
Increase in pensions ^(b)	(15,340)	(927)
Change in average healthcare expenses	5,923	1,990
Improvements in the actuarial model ^(c)	7,967	(2,060)
Projection method for external pensions	26,184	
Other improvements	(18,217)	
Change in career promotion of any type	(3,308)	
Change in mortality		(162,071)
Assumption of 'zero' turnover	(1,534)	
Other gains and losses ^(d)	(7,469)	5,278
Indexation of assumptions:		
Wage and salary growth in labour force	14,737	(73,976)
Salary growth in beneficiaries	19,587	(78,785)
Change in average healthcare expenses	1,719	(10,442)
Discount rate	(80,577)	757,828
Total actuarial gains (+) and losses (-), excluding early retirements	(74,489)	422,276
Financial gains and losses		
Benefits paid vs expected benefits, excluding early retirements	1,773	1,828
Gains and losses in expected income of the Fund	36,289	(441,040)
Total financial gains and losses, excluding early retirements, and gains and losses in regular contributions	38,062	(439,211)
Total gains and losses recognised under retained earnings	(36,427)	(16,935)

Notes: (a) Career promotion and wage growth. (b) External pensions update and growth. (c) The revision of the methodology for projecting pensions of external origin, the financing of disability and survival retirement coverage, was one of the improvements in the actuarial model. (d) These gains and losses include updating the Social Support Index, the National Minimum Wage and funeral subsidy.

Actuarial gains and losses in 2023 included deviations resulting from the indexation of assumptions, associated with a decrease in the discount rate, which meant an increase in the Fund's liabilities and a downward revision of assumptions of future salary and pension growth, reflected in a decrease in liabilities. Actuarial losses resulting from the revision of wage growth in the year and the growth rate of the retired staff's pension tables are also of note.

The amounts recognised in staff costs relating to the Pension Fund – Defined-Benefit Plan are summarised in the table below:

	2023	2022
Staff costs		
Current service cost(a)	6,690	13,556
Interest cost	56,852	20,785
Expected return on the Fund's assets	(63,390)	(22,801)
Increase in liabilities arising from early retirements	2,016	4,852
Increase in liabilities arising from early retirements	327	1,360
Other increase in costs from early retirements	1,689	3,492
	2,167	16,392

Note: (a) Excluding costs borne by staff and other entities.

Seniority and retirement bonuses

The table below shows the most relevant risks:

Risk sub-category	Risk definition
Interest rate risk	Risk of adverse interest rate movements and of a resulting increase in the liabilities arising from these benefits.
Risk of undervaluation of wage growth rate	Risk of career progress and salary growth rate being higher than assumed in actuarial valuations, thus resulting in an increase of the liabilities arising from these benefits.

Risks from the undervaluation of salary increases are mitigated by defining prudent actuarial assumptions.

Changes in past-service liabilities were as follows:

Past-service liabilities	2023	2022
Value at the beginning of the year	13,280	16,482
Seniority bonuses paid	(922)	(1,151)
Current service cost	1,013	1,360
Interest cost	499	141
Actuarial gains/losses	1,013	(3,552)
Value at the end of the year	14,883	13,280

As at 31 December 2023 the modified duration of liabilities with seniority and retirement bonuses stood at 9.8 (2022: 9.7).

The main actuarial and financial assumptions used in the calculation of these liabilities are the following:

	Actuarial and financial assumptions used			
	31/12/2023	01/01/2023	31/12/2022	01/01/2022
Discount rate	3.270%	3.755%	3.755%	0.853%
Wage growth				
1 st year	4.545%	4.442%	4.442%	2.671%
Subsequent years	3.703%	3.825%	3.825%	3.358%
Tables used				
- Mortality	TV 88/90 adjusted by 2 years		TV 88/90 adjusted by 2 years	
	TV 88/90 adjusted by 6 years		TV 88/90 adjusted by 6 years	
- Disability	1978 - S.O.A. Trans. Male (US)		1978 - S.O.A. Trans. Male (US)	
- Turnover	T-1 Crocker Sarason (US)		T-1 Crocker Sarason (US)	
Statutory retirement age under the Pension Fund of the Banco de Portugal	65 years		65 years	
Statutory retirement age under the general social security scheme ^(a)				
1 st year	66 years and 4 months		66 years and 4 months	
2 nd year	66 years and 7 months	66 years and 4 months	66 years and 4 months	

Note: (a) For the purpose of projecting the Normal Retirement Age, from the third year onwards, an annual increase in average life expectancy at 65 years of age is assumed to be 0.1 years.

The population considered for the calculation of these liabilities in December 2023 was 1,752 members (2022: 1,721).

Group Life Insurance – Defined-Benefit Plan

For a group of workers, pension contributions associated with their complementary salary are collected on a voluntary basis under a group life insurance scheme, and not by the Pension Fund of the Banco de Portugal – Defined-Benefit Plan. As at 31 December 2023 this insurance scheme covered 3 members (2022: 5).

Pension Fund of the Banco de Portugal – Defined-Contribution Plan

The Banco de Portugal's company-level agreements provide for a supplementary defined-contribution pension plan, funded through contributions from the Bank and its staff, as regards the Banco de Portugal staff who started working in the banking sector after 3 March 2009 and are covered by the general social security scheme by virtue of Decree-Law No 54/2009 of 2 March 2009 (point 1.2(l) of Note 1). This plan was created in 2010, backdated to 23 June 2009.

This supplementary defined-contribution pension plan, which is contributory with vested rights, is voluntary for the members and compulsory for the sponsor where the participant chooses this pension plan.

The Banco de Portugal has set up a closed-end pension fund to provide an alternative funding vehicle for its employees. Employees can join this Fund or any other of a similar nature and are also able to choose an investment profile for their contributions. The funding vehicle can be changed annually at the employee's initiative.

At the end of 2023 the supplementary pension plan funded through this Pension Fund covered 1,202 members (2022: 1,110).

When this Pension Fund was set up, the Banco de Portugal made an initial contribution of €5 million, which constituted a reserve account in its name, called Reserve Account of the Sponsor. In 2016 this Reserve account was first increased by €20 million and in 2021 it was topped up again by €25 million with a view to overcoming the Fund's operational and financial constraints in connection with the reduced amount under management.

As at 31 December 2023 the assets of the Fund amounted to €54,752 thousand, broken down as follows:

Participation units (in value)	31/12/2023	31/12/2022
Reserve account (Note 12)	45,172	43,519
Members' individual accounts	9,580	7,455
	54,752	50,974

Units in this Reserve account are transferred on a monthly basis to the individual accounts of its members for the amounts corresponding to:

- i) contributions from the Banco de Portugal; and
- ii) contributions from the active members (by withholding these amounts each month when salaries are processed).

The table below shows movements in the Reserve Account of the Sponsor; the results of the annual revaluation are recognised in the Profit and loss account of the Banco de Portugal:

Reserve account of the sponsor	2023	2022
Value at the beginning of the year	43,519	48,399
Transfer of rights to members – contributions of the year	(1,587)	(1,375)
Revaluation of the period (Note 27)	3,240	(3,505)
Value at the end of the year	45,172	43,519

NOTA 33 • RISK MANAGEMENT

Effective and efficient risk management contributes to the fulfilment of the Banco de Portugal's statutory responsibilities as the central bank of the Portuguese Republic. The Banco de Portugal follows an Integrated Risk Management Policy aimed at ensuring the institution's robustness and sustainability, ultimately contributing to the pursuit of its strategic goals. The Integrated Risk Management Policy is materialised in the Risk Appetite Statement, which sets the risk profile and degree of tolerance defined by its Board of Directors and follows a prudent, integrated and predominantly forward-looking view of risks in the various areas of the Bank.

The Banco de Portugal adopts the Institute of Internal Auditors' Three Lines Model in its risk management. The first line in risk management is made up of the structures in charge of business processes that trigger risks and is responsible for governance. The second line in risk management comprises the structures that oversee risk management, financial control, business continuity, security, ethics and compliance, and personal data protection at the Banco de Portugal. The third line in risk management is ensured by the internal audit of the Banco de Portugal and comprises independent actions to assess the effectiveness of the performance of the first two lines. Implementation of the Integrated Risk Management Policy is ensured by second line structures, in articulation with the Risk Committee and the other departments of the Bank, and it is monitored by the Board of Auditors and the Board of Directors on a regular basis.

- Strategic risk management

Strategic risks are those whose materialisation impairs the pursuit of the mission entrusted to the Banco de Portugal and may originate in strategic decision-making. The Board of Directors assesses these risks by identifying the main risks of the Bank's activity.

- Financial risk management

- Risk management policies

Financial risks primarily arise from own investment asset management operations and participation in the ECB's monetary policy, including credit risk, market risk (interest rate, exchange rate and price of securities and gold) and the risk associated with financing medium to long-term asset purchase programmes against short-term interest-bearing liabilities.

These risks are monitored through the regular quantification of standard risk measures, namely value at risk (VaR) and expected shortfall (ES) computed on a daily basis for certain confidence levels and specific time horizon, as well as through regular sensitivity analyses.

The Banco de Portugal's own investment assets are managed with reference to a strategic benchmark portfolio that results from a strategic asset allocation (SAA) exercise reflecting the preferences of the Board of Directors in terms of risk and return. The strategic benchmark portfolio reflects the discussion of scenarios and forecasts for the main economic and financial variables and the conduct of several optimisation exercises to determine efficient portfolios. This benchmark is valid for a one-year period but may be subject to a mid-term review. The strategic benchmark plays a major role in guiding asset management and serves as the basis for setting the allowed asset management deviation margin.

Risk control of own investment assets is based on eligibility criteria and limits set out in the Investment Guidelines approved by its Board of Directors. In the case of credit risk, the criteria and limits are based on credit ratings assigned by rating agencies and incorporate a qualitative assessment of all information available. Market risk control is based on the application of limits to the VaR, as well as to foreign currency positions.

The valuation, performance attribution and control of limits and restrictions in asset management operations are carried out with recourse to an information system for the management of reserves and assets, similar to the one used by the ECB and most NCBs of the Eurosystem. This system also ensures the settlement of the operations and the monitoring of the positions and main risk measures. Standard commercial software and an integrated financial risk model developed by the Eurosystem and approved by the Governing Council of the ECB are also used to calculate VaR and expected shortfall for credit risk and market risk.

Exposure to risk arising from monetary policy operations results from the share of the Eurosystem's global exposure attributable to the Banco de Portugal, according to its capital key (shared risk), and from operations where the risk is directly taken on by the Banco de Portugal (non-shared risk).

The risk of these operations is controlled by applying rules and procedures defined at Eurosystem level. Follow-up and monitoring is made through several aggregate risk indicators produced by the ECB, supplemented by internal measures for intervention portfolios, created under non-standard monetary policy measures.

The Banco de Portugal runs a projection exercise for financial statements and balance sheet risks in the medium term, which allows not only for monitoring the evolution of these risks against expected developments in assets and liabilities but also for the continuous assessment of coverage by the Banco de Portugal's financial buffers (capital, reserves and provisions). This exercise is also taken into account in the decisions concerning the General risk provision (Note 19).

A medium to long-term projection of the Bank's income is also carried out, which allows for the analysis of the resilience of its profitability.

— Fair value

The comparison between the market value and the balance sheet value of the main financial assets measured at amortised cost as at 31 December 2023 and 2022 is as follows:

	31/12/2023		31/12/2022	
	Amortised cost	Market value	Amortised cost	Market value
Securities held for monetary policy purposes (Note 7)	80,508,158	74,510,249	85,992,003	75,711,732
Medium/Long-term investment portfolio (Note 10)	3,614,608	3,493,989	3,180,012	2,918,993
	84,122,766	78,004,238	89,172,015	78,630,725

Market prices were used to assess the market value of the securities, as previously presented.

Market prices were also used to assess the market value of the financial assets recognised on the financial statements (point 1.2(f) of Note 1).

• Non-financial risk management

Non-financial risks are events that lead to negative impacts for the Bank in business, financial or image/reputation areas, and which may have their origin in failures or deficiencies in business processes, staff, systems or third-party actions. Non-financial risks are divided into several risk subcategories, whose identification, assessment and monitoring is provided by the second line structures in risk management. Risk controlling by subcategory of non-financial risk is carried out using Key Risk Indicators (KRI), which monitor risk alignment over time, with the risk profile and tolerance set out by the Board of Directors. KRI results are reported to the Board of Directors.

Non-financial risks are managed by using risk management instruments implemented by those responsible for the second line of risk management, identified in the Integrated Risk Management Policy adopted by the Bank: the Risk Management Department (operational risks), the Administration Services Department (physical security), the Information Systems and Technology Department (cybersecurity), the Compliance Office (compliance), the Data Protection Office (personal data protection) and the Business Continuity Management Steering Committee (business continuity).

NOTA 34 • PENDING LEGAL PROCEEDINGS

As at 31 December 2023, various legal proceedings were pending against the Banco de Portugal.

Developments in these proceedings are monitored regularly by the Board of Directors of the Banco de Portugal, with technical and legal work undertaken by its Legal Services Department and, in certain cases, external lawyers, duly coordinated by this Department.

The litigation currently pending falls under the following categories: common lawsuits of various nature (including claims for damages), administrative lawsuits (including lawsuits challenging an administrative act, an order for a required action to be taken, non-contractual civil liability for a lawful and unlawful act and litigation concerning public procurement), levies-related lawsuits (concerning contributions to the banking sector and periodical contributions to the Resolution

Fund), interim injunctions, proceedings for the provision of information, administrative offence proceedings, proceedings related to labour disputes and monitoring of judicial winding-up of credit institutions and financial companies. Interventions before the Court of Justice of the European Union may also be mentioned in the context of the reference for a preliminary ruling, as well as the monitoring of cases in foreign jurisdictions (in particular, Spain) and arbitral tribunals.

Although the Board of Directors of the Banco de Portugal regularly monitors administrative offence proceedings and the judicial winding-up proceedings of credit institutions and financial companies, these do not have a direct impact on the financial statements of the Banco de Portugal, as they result from the exercise of the Board's legal powers.

The Board of Directors' assessment of the Banco de Portugal's current position in the most relevant judicial proceedings, considering both the significant amount of lawsuits pending according to the typologies identified and the nature of the proceedings in question, is presented below.

- Resolution measure applied to Banco Espírito Santo, S. A. ("BES")

By its nature, the resolution process of Banco Espírito Santo, S. A., taking the form of the transfer of most of BES's activity and assets, liabilities and off-balance-sheet items to a bridge bank, Novo Banco, S. A., led to a significant increase in litigation, with proceedings brought against Banco de Portugal in (civil and administrative) national courts specifically by virtue of its decisions as national resolution authority as adopted pursuant to its Statute and the Legal Framework of Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras – RGICSF), approved by Decree-Law No 298/92 of 31 December 1992.

Within the Banco de Portugal's powers as resolution authority of the Portuguese financial sector, by decision of the Board of Directors of the Banco de Portugal of 3 August 2014, pursuant to Article 145-G(5) of RGICSF, the Novo Banco, S. A. (hereinafter "Novo Banco") was established following the Banco de Portugal's application of a resolution measure to BES, under the terms of Article 145-C(1) and (3)(c) of RGICSF.

In this regard, as determined by the second point of the decision of the Board of Directors of the Banco de Portugal of 3 August 2014 (20:00), as amended by the decision of the same Board of Directors of 11 August 2014 (17:00), the assets, liabilities, off-balance-sheet items and assets under management of BES were transferred to the Novo Banco, under the terms and for the purposes of the provisions of Article 145-H(1) of RGICSF, in accordance with the criteria set in Annex 2 to the decision.

Following the application of this measure, various proceedings were brought into court, as described below.

- i) Court order proceedings for the provision of information and issuance of certificates

Several court order proceedings for the provision of information and issuance of certificates have been brought before the Administrative Court of the Lisbon District.

Most of these proceedings were finalised and those still pending are associated with the proceedings informing the decision-making of the resolution measure, with access to certain documents prepared by an external entity or with the sale process of the Novo Banco.

The Banco de Portugal contested such lawsuits, by invoking supervisory secrecy under Article 80 of RGICSF or on the grounds that disclosure of certain material and information was impossible, as it is reserved under Article 6(6) of the Law for Access to Administrative Documents (Lei de Acesso aos Documentos Administrativos). The Banco de Portugal is awaiting further developments in these proceedings.

It should be noted that in these types of proceedings, if the Banco de Portugal is convicted by a judgment that has the force of *res judicata*, the Banco de Portugal will only have to provide information and issue certificates, which will not involve the payment of pecuniary sums (aside from legal costs) at any time, hence there is no financial risk for the Banco de Portugal connected to these proceedings.

ii) Requests for cancellation of the resolution measure applied

Lawsuits challenging the legality of the decisions of the Board of Directors of the Banco de Portugal regarding the BES resolution measure, chiefly, albeit not exclusively, the decisions of 3 and 11 August 2014 and 29 December 2015, are pending at the administrative and tax courts. These lawsuits were mostly brought within the three-month limit following publication of the decisions of the Board of Directors of the Banco de Portugal, in compliance with Article 58(1)(b) of the Administrative Courts Procedure Code (which sets this limit for requesting the annulment of administrative acts).

The aforementioned lawsuits do not carry any financial risk for the Banco de Portugal, as it would not be ordered to pay any amount as compensation for damages, aside possibly from legal costs, should the claims be judged to be well-founded. In these annulment claims, the Banco de Portugal believes, supported by the opinion of its internal and external legal counsel, that those proceedings do not present financial risks for the Banco de Portugal at present, since the legal framework in force at the time of BES's resolution awards responsibility for any compensation claims to the Resolution Fund.

Indeed, in order to assess the financial risk at stake, due consideration must be given to the purpose of the Resolution Fund, which is to provide financial assistance to the application of the resolution measures adopted by the resolution authority as per Article 153-C of the RGICSF. The rationale behind the resolution regime, both in the version prior to publication of Law No 23-A/2015 and in the current version, is that the Resolution Fund is the entity that provides financial support to the resolution measure and to its implementation. For the sake of consistency, if a resolution measure were to be annulled by a judgment that has the force of *res judicata* and the resolution authority deems that, for public interest and financial stability reasons, the effects of the resolution measure should remain in force, then it shall be the Resolution Fund that settles any compensation payable for the continuation of the resolution measure. However, this compensation is distinct from other sorts of compensation that may arise from any tort claims filed against the Banco de Portugal, in relation to which, given the legal and procedural information available at present, there is a higher probability of a decision in favour of the Banco de Portugal.

Regarding the annulment actions challenging the initial BES resolution measure (decisions of the Board of Directors of the Banco de Portugal of 3 and 11 August 2014), an order was handed down in October 2018 by the President of the Administrative Court of the Lisbon District requiring the application of the procedural mechanism provided for in Article 48 of the CPTA (Código de Processo nos Tribunais Administrativos, Administrative Courts Procedural Code), which provided for the selection of two actions (pilot proceedings) with the suspension of the remaining related proceedings. The order in question specified the selection of the proceedings numbered 2586/14.3BELSB and 2808/14.0BELSB as pilot proceedings and suspended another 24 proceedings, which will await procedural developments in regard to the former.

Regarding the pilot proceedings, on 19 March 2019, twenty judges of the Administrative Court of the Lisbon District rendered a unanimous judgment confirming the constitutionality of the legal framework on bank resolution and the full legality of the resolution measure. Thus, multiple allegations of unconstitutionality or illegality attributed to the referred decision of 3 August, as well as to the prior deliberation on prudential provisioning, were rejected in bulk.

The applicants of the two pilot proceedings appealed against that judgment directly to the Supreme Administrative Court. As these proceedings concerned matters of European law and the Supreme

Administrative Court was the last instance rendering a judgment, it decided to refer the case for a preliminary ruling of the Court of Justice of the European Union ("CJEU"), in compliance with the obligations arising from the Treaties, with a view to obtaining the CJEU judgment on specific EU-law matters.

On 14 October 2021, Advocate General Giovanni Pitruzzella delivered an opinion very much in favour of the view expressed by the Banco de Portugal in those proceedings.

On 5 May 2022, following the Advocate General's opinion, the CJEU rendered its judgment very much in favour of the interests of the Banco de Portugal in this litigation. In that judgment, the Court held that the national legislation under which BES resolution was taken, is compatible with Article 17(1) of the Charter of Fundamental Rights of the European Union. It also ruled that the transposition by a Member State, only in part, of certain provisions of a directive before the expiry of the period prescribed for its transposition is not, as a matter of principle, liable seriously to compromise the result prescribed by that directive.

As the questions regarding the conformity of the national legislation with EU law have been clarified, it was for the Supreme Administrative Court to render its judgment in the pilot proceeding.

On 9 March 2023, the Supreme Administrative Court ruled totally in favour of the Banco de Portugal, thus confirming the lawfulness of its decisions as national resolution authority in the context of the resolution measures applied to BES in August 2014. Particularly noteworthy is that: (i) the court rendered a unanimous judgment and the trial was held in extended composition; (ii) the allegations of unconstitutionality were dismissed in their entirety – thus validating a number of favourable assumptions of the bank resolution legal framework itself; (iii) the judgment reasoning is particularly assertive, robust and unequivocal; (iv) in matters of European Union law, the Supreme Court followed very closely the reasoning and conclusions of the recent judgment of the CJEU in the context of the reference for a preliminary ruling in this case, also referring to the Advocate General's opinion and the recent judgment of the European Court of Human Rights.

In the light of the delivery of that judgment of the Supreme Court, which has in the meantime acquired the force of *res judicata*, its consequences for the remainder of the suspended litigation are awaited.

Meanwhile, in a lawsuit challenging the resolution measure not covered by the suspension mechanism described above, in November 2020 the Administrative and Tax Court of Sintra delivered a judgment dismissing in its entirety the proceedings in which some (formal and substantive) unconstitutionality and illegality were claimed in relation to the resolution measure imposed on BES. This judgment has acquired the force of *res judicata* since no appeal has been lodged.

In turn, in October 2022, the Administrative and Tax Court of Porto rendered a decision in proceedings contesting the BES resolution measure brought by a shareholder and claiming the existence of several (formal and substantive) unconstitutionality and illegality. This decision dismissed in its entirety the lawsuit, thus constituting a further favourable case-law precedent with the force of *res judicata*.

At the end of 2022, the Administrative and Tax Court of Sintra delivered another favourable decision on the merits of the case. Despite the fact that it is a lawsuit for non-contractual civil liability for an unlawful act (and not a lawsuit challenging an administrative act), the Court, in assessing the requirements for non-contractual civil liability, held that BES's resolution measure was lawful in a particularly reasoned manner, thus acquitting the Banco de Portugal.

In relation to the annulment actions challenging, notably, the Retransfer Decision (decision of the Board of Directors of the Banco de Portugal of 29 December 2015), between 2016 – when the first lawsuits were brought into the court – and the end of 2022 this litigation remained somewhat stable, with the developments indicated below.

In 2021, the first decision on the merits was rendered, which dismissed in its entirety the lawsuit brought by a natural person who invested in retransferred obligations, claiming a breach of the principle of legitimate expectations and legal certainty. In the same year, the first hearing within the scope of this litigation was held – before the Administrative and Tax Court of Mirandela –, evidence was taken, but a ruling upon it is yet to be given.

However, in 2023, there was a procedural move of material significance in this litigation: the President Judge of the Tribunais Administrativos e Fiscais da Zona Centro (tax and administrative courts of the central region), Tribunal Administrativo de Círculo de Lisboa (administrative court of the Lisbon District) and Tribunal Administrativo e Fiscal do Funchal (administrative and tax court of Funchal) decided, by order, to apply the procedural mechanism provided for in Article 48 CPTA, with the creation of a new “Retransfer pilot proceeding”. The parties – including the Banco de Portugal – submitted their opinion, awaiting further procedural terms in the context of this procedural concentration mechanism.

The judgment rendered by the Administrative Court of the Lisbon District, as well as both the judgments of the Administrative and Tax Court of Sintra, as well as the judgment of the Court of Justice of the European Union, established important judicial milestones between 2019 and 2022, but the fact that there were still few doctrinal and case-law precedents had not made it possible for the Banco de Portugal, until then, to predict the tendency of the decisions to be delivered by the Courts. However, the delivery in March 2023 of that judgment of the Supreme Administrative Court, the conclusions of which will have consequences in the pending litigation, reinforces the prospects of favourability previously indicated.

Annulment of the decisions in question does not raise any type of financial risk for the Banco de Portugal whenever payment by the Banco de Portugal of a pecuniary amount is not sought. In the other cases, given the legal and procedural information available at present, there is no evidence to refute the belief that there is a higher probability of a decision in favour of the Banco de Portugal.

iii) Requests for reimbursement of sums transferred and/or compensation

Pending both at the civil courts and administrative courts are proceedings pleading for the Banco de Portugal and/or the Resolution Fund to pay financial compensation for damages arising from alleged deposits in BES (or the purchase of debt instruments with BES acting as financial intermediary) and for moral damages.

Following defence based on inadmissibility grounds presented by the Banco de Portugal and/or the Resolution Fund, a considerable number of decisions have been handed down in favour of them both. In addition, financial claims on damages in various pending lawsuits were withdrawn following the agreement between former BES customers and PATRIS – SGFTC, S. A., in its capacity as management company of FRC – INQ – Papel Comercial and Rio Forte.

In the other pending proceedings, where the civil courts deemed themselves without jurisdiction by reason of the subject matter, lawsuits were remitted to the administrative courts or new suits were lodged, which are at the end of the initial procedural phase or awaiting the pre-trial hearing phase, in any event without unfavourable decisions on the merits having been rendered in the proceedings brought against the Banco de Portugal.

There have been cases where the administrative courts received remitted proceedings and deemed themselves without jurisdiction also, by reason of the subject matter, which led to those proceedings – brought against the Resolution Fund – being transferred to the Conflicts Court. The Conflicts Court has deemed the civil courts as having jurisdiction to resolve civil law disputes, which were brought against the Resolution Fund, and such disputes are still pending. Importantly, in only one lawsuit brought against the Banco de Portugal, the civil courts were deemed as having jurisdiction, finalised in the meantime by lack of action by the parties.

In addition, since 2019, the emergence of another litigation front in the context of the BES resolution, with compensation claims brought against the Resolution Fund and jointly and severally against the Banco de Portugal. These are a set of administrative lawsuits – currently amounting to five – for the payment of compensation under the “no creditor worse off” principle.

As the contentious matters subject to these proceedings have no solid doctrinal or case-law precedent and involve considerable legal complexity, it is impossible at present for the Banco de Portugal to predict the tendency of the decisions to be delivered by the Courts. However, given the favourable developments to date in these legal proceedings, and the legal and procedural information available at present, there is no evidence to refute the assessment that there is a higher probability of a decision in favour of the Banco de Portugal. Furthermore, given the abovementioned inherent uncertainty, it is impossible to estimate accurately the likely value of any financial obligation, for reporting purposes, as at the closing date of the accounts.

iv) Oak Finance (including the proceedings filed by Goldman Sachs, Oak Finance, Guardians of the New Zealand Superannuation Fund and others)

Pending at the Administrative Court of the Lisbon District are lawsuits brought by Goldman Sachs, Oak Finance and the Guardians of the New Zealand Superannuation Fund, as well as by other related funds, which seek the annulment of the decisions of the Board of Directors of the Banco de Portugal of 22 December 2014, 11 February 2015, 15 September 2015 and 29 December 2015.

Those proceedings are still pending a first-instance decision and, in general, the proceedings continue with the submission of applications and the lodging of requests, production of documents and adversarial proceedings, without any preliminary hearings being scheduled.

The fact that these proceedings have no legal precedent and involve considerable legal complexity precludes any prediction, even directional, of the decisions to be handed down by the Courts. Therefore, an adequate assessment is not possible until further procedural developments occur. This said, annulment of the decisions in question does not trigger any type of financial risk for the Banco de Portugal, as payment by the Banco de Portugal of a specified pecuniary amount is not sought.

v) Other court proceedings related to the resolution measure applied to BES

In the administrative courts, several lawsuits are pending, which seek a declaration of invalidity of the decision to award the sale process of the Novo Banco to Lone Star, issued by the Board of Directors of the Banco de Portugal on 31 March 2017.

In 2022 there were significant developments in one of those lawsuits: the Court delivered a conclusive opening order recognising the exception of procedural illegitimacy to seek action claimed by the Banco de Portugal and handing down a decision in favour of the defendants. The Court held that the applicants have no direct and personal interest in challenging the award decision, which has not immediately and detrimentally affected them, as their legal position has previously been ascertained when the rules on the eligibility of tenderers were laid down (such rules have since become indisputable because they were not timely challenged).

Similarly, in the first half of 2023, two more favourable judgments were rendered in two of these proceedings. In both proceedings, the Court delivered a conclusive opening order recognising the exception of procedural illegitimacy to seek action claimed by the Banco de Portugal and handing down a decision in favour of the defendants.

As these matters have no solid doctrinal or case-law precedent, the Banco de Portugal is unable to predict the outcome of the decisions to be delivered by the Courts. Annulment of the decision

in question does not trigger any type of financial risk for the Banco de Portugal, as payment by the Banco de Portugal of a specified pecuniary amount is not sought.

During 2023, one interim injunction proceeding was still pending, relating to the sale process of the Novo Banco to Lone Star. The main request of these interim injunctions – almost all concluded – was the suspension of the award decision to that entity and the consequent prohibition from concluding the definitive contract.

For these pending proceedings, the decision by the South Administrative Central Court on the appeal lodged on the judgment rejecting the interim injunction is yet to be rendered.

As these matters have no crucial doctrinal or case-law precedent, the Banco de Portugal is unable to predict the tendency of the decisions to be delivered by the Courts in the interim injunction. Nevertheless, the following factors reinforce the absence of a financial risk for the Banco de Portugal: (i) the interim injunctions are ancillary to the main lawsuits, (ii) decisions on merit in the interim injunctions identified have already been ruled in favour of the Banco de Portugal, with only one pending the decision to be rendered, (iii) the provisional decisions on interim injunctions were rejected, and (iv) the sale process of the Novo Banco has been concluded.

Proceedings are still pending for annulment of the decision which excluded the transfer to the Novo Banco of the balances held in BES on behalf of the applicants who are family members of former members of the Board of Directors of BES, proceedings still pending at the first instance, with no relevant developments in 2023.

Finally, there were also fourteen interventions of the Banco de Portugal and the Resolution Fund, in the Spanish jurisdiction, in the context of the sale of the Novo Banco and relating to the Spanish branch. The Banco de Portugal intends to defend the legality and effectiveness of the decisions on the BES resolution measure before the Spanish Courts (similarly to the prior intervention in the Goldman Sachs International proceedings at the UK's Supreme Court).

In April 2019, the Banco de Portugal and the Resolution Fund were both accepted as parties in the first lawsuit in which they requested to intervene. The Supreme Court of Spain has ruled that: (i) the Banco de Portugal, as national resolution authority, had an interest in the interpretation of its decisions; and that (ii) in accordance with the Neutralisation Decision of 29 December and with the Novo Banco sale contracts, the Resolution Fund may bear financial liabilities as a result of the decisions issued by the Banco de Portugal being ruled as invalid and ineffective. On 7 June 2019, the Supreme Court of Spain delivered a favourable decision, acknowledging thereby: the banking resolution as a solution whose adoption was possible and provided for in the Portuguese legislation and Directive 2001/24/EC of the European Parliament and of the Council of 4 April 2001; (ii) that, regardless of the alleged behaviour, this would not justify the transfer of the responsibility to Novo Banco (and its branches), as the relevant liability was excluded from the sphere of Novo Banco under the resolution measure adopted by the Banco de Portugal, (iii) that such responsibility would not prevent the resolution measure adopted by the Banco de Portugal from being recognised.

In another case, following the intervention of the Banco de Portugal and the Resolution Fund being approved, the Spanish Supreme Court decided to refer the case for a preliminary ruling to the CJEU. In this context and following the submission of observations of all the parties and the oral public hearing held in September 2020, the Advocate General Juliane Kokott rendered an Opinion, published in November 2020, which was favourable not only to the interests of the NBSE, but also to the Banco de Portugal and the Resolution Fund.

However, on 29 April 2021, the European Court of Justice rendered a judgment in the opposite direction to that advocated by Advocate General. On that basis, the Supreme Court of Spain decided, in July 2021, to dismiss both the appeal (*recurso de casación*) brought by NBSE and the extraordinary appeal due to procedural infringement (*recurso extraordinario por infracción procesal*) brought by NBSE, with the intervention of the Banco de Portugal and the Resolution

Fund, on the grounds that, in the court's view and taking into account the specific circumstances of the case, a contrary decision would violate the principle of legal certainty and the right to effective judicial protection.

In the other pending proceedings, the intervention of the Banco de Portugal and the Resolution Fund has already been approved for the most part, and thus the relevant proceedings are still ongoing. In three of those lawsuits, following the intervention of the Banco de Portugal and the Resolution Fund being approved in 2022, the Spanish Supreme Court decided to refer the case for a preliminary ruling to the CJEU, referring four questions, in which written observations have been submitted by all the parties. The oral hearing in this case was held on 26 October 2023 and the Advocate General's opinion was scheduled for 2024. As a result of this request for a preliminary ruling, the other proceedings in respect of which the intervention of the Banco de Portugal and the Resolution Fund have already been approved are suspended.

As these matters have no solid doctrinal or case-law precedent, the Banco de Portugal is unable to predict the tendency of the decisions to be delivered by the Spanish Courts. In any event, payment by the Banco de Portugal of a specified pecuniary amount is not sought: its intervention is limited to defending the recognition of the resolution measure.

- Resolution measure applied to Banif – Banco Internacional do Funchal, S. A. ("Banif, S.A.")

Within the exercise of its powers as national resolution authority, and pursuant to Article 17-A of the Statute of the Banco de Portugal and Articles 145-E and 146 of RGICSF, the Banco de Portugal applied a resolution measure to Banif – Banco Internacional do Funchal, S. A. (hereinafter "Banif, S. A.") on 19 and 20 December 2015, as it deemed that this was "the only solution to protect depositors and to ensure continuity of the essential financial services provided by BANIF, safeguarding the stability of the financial system with fewer costs for the public purse". The resolution measure consisted of declaring that "BANIF is failing or likely to fail, according to and for the purposes of Article 145-E(2)(a) of RGICSF" and taking "the steps required towards the sale of the business of BANIF, with Banco Popular Español, S. A., and Banco Santander Totta, S. A.". Subsequently, Banif, S. A. was sold to Banco Santander Totta, S. A., in accordance with the decision of 20 December 2015.

Currently, there are eighteen administrative lawsuits challenging the legality of these decisions.

Following the decision to join the proceedings numbered 99/16.8BEFUN, 100/16.5BEFUN, 101/16.3BEFUN, 102/16.1BEFUN and 197/16.8BEFUN to the proceeding numbered 98/16.0BEFUN (main proceeding), the trial hearing was held from October to December 2018.

At the beginning of 2021, the Administrative and Tax Court of Funchal dismissed the lawsuit in its entirety and consequently ordered that those decisions be upheld in the legal order, thereby confirming the lawfulness of the resolution measure. That judgment was subsequently upheld by the Southern Central Administrative Court in November 2021. The applicants appealed to the Supreme Administrative Court, which decided to reject those appeals, currently pending a decision by the Constitutional Court following the lodging of a constitutional appeal.

These are the first judicial decisions which directly reviewed the legal and constitutional compliance of the resolution measures applied to Banif by the Banco de Portugal and thus constitute an important case-law precedent for this type of litigation.

The remaining lawsuits are at the end of the initial procedural phase and await scheduling of the pre-trial hearing phase/conclusive opening order or a judgment to be rendered.

There are also three civil lawsuits pending at the Lisbon District Court, requesting the Banco de Portugal and/or the Resolution Fund to pay financial compensation for losses and moral damages arising from investments made in BANIF, showing a significant decrease in those civil lawsuits

compared to previous years. Those civil lawsuits have been brought to an end by decisions based on particularly procedural grounds; nevertheless, some of those decisions expressed jurisprudential understandings confirming the legality of the Banco de Portugal's decisions.

Despite the case-law precedent established by the judgment rendered by the Administrative and Tax Court of Funchal and its confirmation by the Southern Central Administrative Court, as there are few doctrinal and case-law precedents, it is impossible to predict even the tendency of the decisions to be delivered by the Courts. These factors, combined with the general procedural dynamic and the vicissitudes of legal proceedings, impede the recognition of actual risks for the Banco de Portugal in this phase and the estimation of possible compensation amounts resulting therefrom. However, considering the legal and procedural information available at present, there is no evidence to refute the belief that there is a higher probability of a decision in favour of the Banco de Portugal.

The aforementioned administrative lawsuits do not carry any financial risk for the Banco de Portugal, as it would not be ordered to pay any amount as compensation for damages, aside possibly from legal costs, should the claims be judged to be well-founded. Regarding the proceedings which exclusively seek the annulment of the decisions, the Banco de Portugal believes, supported by the opinion of its internal and external legal counsel, that those proceedings do not present financial risks for the Banco de Portugal at present, since the legal framework in force at the time of BES's resolution awards responsibility for any compensation claims to the Resolution Fund.

In order to assess the financial risk at stake, due consideration must be given to the purpose of the Resolution Fund, which is to provide financial assistance to the application of the resolution measures adopted by the resolution authority as per Article 153-C of the RGICSF. The rationale behind the resolution regime, both in the version prior to publication of Law No 23-A/2015 and in the current version, is that the Resolution Fund is the entity that provides financial support to the resolution measure and to its implementation. For the sake of consistency, if a resolution measure were to be annulled by a judgment that has the force of *res judicata* and the resolution authority deems that, for public interest and financial stability reasons, the effects of the resolution measure should remain in force, then it shall be the Resolution Fund that settles any compensation payable for the continuation of the resolution measure. However, this compensation is distinct from other sorts of compensation that may arise from any tort claims filed against the Banco de Portugal, in relation to which, given the legal and procedural information available at present, there is a higher probability of a decision in favour of the Banco de Portugal.

- Judicial winding-up proceedings of Banco Privado Português, S. A. ("BPP, S.A.")

There are ten lawsuits pending in court, mostly pleading for the Banco de Portugal or the Deposit Guarantee Fund to pay compensation for balances on accounts opened with BPP, S. A.

In all these lawsuits, the initial phase has come to an end, and they are awaiting further procedural developments. Some of those lawsuits have already been tried.

In particular, in the lawsuits brought against the Banco de Portugal (i.e. not exclusively against the Deposit Guarantee Fund), there were no significant developments in litigation in 2023.

There is the possibility of financial risk to the Banco de Portugal in these proceedings. The fact that these proceedings have no strong legal precedent and involve considerable legal complexity precludes any prediction of the courts' decisions, or even only the decisions' tendency. These factors, combined with the general procedural dynamic and the vicissitudes of legal proceedings, impede the recognition of actual risks for the Banco de Portugal in this phase and the estimation of possible compensation amounts resulting therefrom.

However, given the history of favourable developments to date in these legal proceedings, and the legal and procedural information available at present, there is no evidence to refute the belief that there is a higher probability of a decision in favour of the Banco de Portugal.

- General litigation

A significant number of cases are still pending, mainly before the administrative courts, which concern various and disparate issues, including administrative lawsuits involving claims related to the assessment and reassessment of suitability, suspension of voting rights, supervisory matters, procedures for authorising the pursuit of an activity, litigation concerning public procurement or claims relating to access to administrative documents or the removal of names from databases managed by the Banco de Portugal.

The possible success of these cases does not entail any kind of financial risk where payment by the Banco de Portugal of a pecuniary amount is not sought, which is the case for the vast majority of pending lawsuits. In the other cases and given the legal and procedural information available at present, there is no evidence to refute the belief that there is a higher probability of a decision in favour of the Banco de Portugal.

- Overall assessment of the Board of Directors of the Banco de Portugal

The complexity and procedural developments of the litigation have continued to warrant the additional allocation in 2023 of specialised internal resources to the Legal Services Department and the engagement of external legal services, to respond to the Banco de Portugal's considerable needs in terms of legal workload and representation in court.

Lastly, as the lawsuits relating to the resolution measures have not yet come to a meaningful number of judgments – although, those few judgments that have been delivered indicate a favourable tendency for the Banco de Portugal and the Resolution Fund – it has been deemed impossible to use the criterion of case-law precedent to make a prudent assessment of any associated legal or financial risk. However, based on the facts summarised above, and given the applicable legislation and the reasoned opinion of the internal and external legal counsel, the Board of Directors of the Banco de Portugal, taking as a basis the information available, believes that the ruling on these lawsuits will not have an unfavourable outcome for the Banco de Portugal, and therefore there is no specific provision recognised for the pending lawsuits as at 31 December 2023.

In compliance with its Statute, the Banco de Portugal has established, in turn, a General risk provision (Note 19), movements of which are decided upon by the Board of Directors, to cover risks for the Banco de Portugal which are not covered by specific provisions.

NOTA 35 • RELATED PARTIES

On 31 December 2023 the Banco de Portugal's related parties were Sociedade Gestora dos Fundos de Pensões do Banco de Portugal, S.A. and VALORA, S.A., entities over which the Banco de Portugal exerts significant influence (Note 10).

The Banco de Portugal is VALORA, S.A.'s sole shareholder, holding 100% of its share capital and voting rights. VALORA S.A.'s corporate purpose is to print euro banknotes as a result of the decentralised production of banknotes in force in the Eurosystem.

The Banco de Portugal's participating interests in Sociedade Gestora dos Fundos de Pensões do Banco de Portugal, S.A. amount to 97.91% of its share capital and voting rights. This company is responsible for managing the Banco de Portugal's Pension Fund - Defined-Benefit and Pension Fund – Defined-Contribution.

As at 31 December the Board of Directors of the Banco de Portugal was represented on the Board of Directors of Sociedade Gestora dos Fundos de Pensões do Banco de Portugal, S.A. and the Board of Directors of VALORA, S.A.

All transactions between the Banco de Portugal and related parties are contracted, accepted and conducted under terms or conditions essentially similar to those that would normally apply to independent entities in comparable operations.

Transactions between the Bank and the SGFP and VALORA in 2023 and 2022 were as follows:

	31/12/2023	31/12/2022
SGFP		
Assets		
Financial holdings	3,557	3,407
Sundry	124	122
Liabilities		
Sundry	266	314
Income/(expenses)		
Staff transfer	1,543	1,686
Reimbursement of costs incurred	156	151
Acquisition of pension fund management services	(3,190)	(3,133)
Costs of services provided to the Banco de Portugal	(198)	(199)
VALORA		
Assets		
Financial holdings	37,183	33,771
Sundry	128	68
Liabilities		
Sundry	1,945	1,843
Income/(expenses)		
Staff transfer	940	950
Reimbursement of costs incurred	183	136
Costs of printing euro banknotes	(7,962)	(6,418)
Costs of transferred staff	–	(19)

One member of the Board of Directors of the Banco de Portugal forms part of the Management Committees of the Resolution Fund and the Deposit Guarantee Fund. The Management Committees are the bodies responsible for managing these Funds' activity.

The Portuguese State is the owner of the Banco de Portugal's equity. In accordance with Article 53(2) of the Statute of Banco de Portugal, net profit for the year will be distributed as follows:

10% to the legal reserve, 10% to other reserves to be decided by the Board of Directors, and the remainder to the State, as dividends, or to other reserves, as approved by the Minister of State and Finance, on a proposal of the Board of Directors.

NOTA 36 • SUBSEQUENT EVENTS

Between the reporting date of this report and the date of approval of the financial statements by the Banco de Portugal's Board of Directors no events occurred constituting a subsequent event within the meaning of accounting standards.

3 External Auditors' Report



Auditors' Report

(Free translation from a report originally issued in Portuguese language. In case of doubt the Portuguese version will always prevail)

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Banco de Portugal, which comprise the balance sheet as at 31 December 2023 (which shows total assets of Euros 184.847.806 thousand and total shareholders' equity of Euros 2.004.580 thousand including a net loss of Euros 110 thousand), the statement of income, and the statement of changes in equity for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Banco de Portugal as at 31 December 2023, and its financial performance for the year then ended in accordance with the accounting principles included in the Chart of Accounts of Banco de Portugal, which are described in Note 1 of the accompanying notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the financial statements" section below. In accordance with the law, we are independent of Banco de Portugal and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and supervisory board for the financial statements

Management is responsible for:

- a) the preparation of the financial statements, which present fairly the financial position and, the financial performance of Banco de Portugal in accordance with the accounting principles included in the Chart of Accounts of Banco de Portugal;
- b) the preparation of the management report;

- c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- d) the adoption of appropriate accounting policies and criteria; and
- e) the assessment of Banco de Portugal's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Banco de Portugal's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of Banco de Portugal's financial information.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- a) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Banco de Portugal's internal control;
- c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Banco de Portugal's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Banco de Portugal to cease to continue as a going concern;
- e) evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and

- f) communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibility also includes verifying that the information included in the management report is consistent with the financial statements.

Report on other legal and regulatory requirements

Management report

It is our opinion that the information included in the management report is consistent with the audited financial statements and, taking into account the knowledge and assessment about Banco de Portugal, no material misstatements were identified.

15 March 2024

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

José Manuel Henriques Bernardo, ROC no. 903
Registered with the Portuguese Securities Market Commission under no. 20160522

(This is a translation, not to be signed)

4 Report and Opinion of the Board of Auditors

REPORT AND OPINION OF THE BOARD OF AUDITORS

2023

1. BACKGROUND

Under the terms of Article 43 of the Statute of Banco de Portugal, approved by Law No 5/98 of 31 January 1998, the Board of Auditors monitors the business of the Banco de Portugal and the observance of the laws and regulations applicable thereto and, among other functions, issues its opinion on the Annual Report presented by the Board of Directors.

These powers generally consist of participation, without voting rights, in the meetings of the Board of Directors, review of the decisions described in the minutes of the meetings of the Board of Directors and the Executive Committee for Administrative and Staff-Related issues and regular meetings to monitor the Banco de Portugal's functions and activities, attended by the persons responsible for the relevant internal services, as well as the external auditors.

2. ACTIVITY CARRIED OUT

The Board of Auditors monitored the functions and activities performed by (i) risk management, in its various areas, such as operational and business continuity risk management and financial and non-financial risk management; (ii) accounting, control and financial reporting; (iii) internal auditing and (iv) external auditing. Such monitoring consisted essentially of the review and discussion of reports, presentations and information produced by the Risk Management Department, the Accounting Department, the Markets Department, the Audit Department and other departments and structural units of the Banco de Portugal, responsible for or involved in the performance of their respective activities, and also requests for additional information on subjects being monitored, in particular, situations deemed to have significant risk, whenever necessary or appropriate.

Within the scope of financial reporting, the Board of Auditors monitored compliance with the accounting policies and practices adopted, focusing in particular on the financial information preparation and disclosure process and the evaluation of the effectiveness of the applicable internal control systems.

The Board of Auditors analysed, in particular, the financial information contained in the Management Report and Accounts for the fiscal year ended on 31 December 2023 – approved in the meeting of the Board of Directors held on 27 February 2024 – and the conclusions of the external audit work carried out by PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda., which issued its opinion on 15 March 2024 without any qualification or emphasis of matter.

3. REVIEW OF THE REPORT AND FINANCIAL STATEMENTS

In 2023, the Banco de Portugal's activity continued to be significantly affected by developments in the economic as well as the geopolitical environment, which marked the most recent years with high inflation rates and led the European Central Bank to a pronounced change in its monetary policy stance, with sharp and steady rises in key interest rates (ending a long period of very low or even negative interest rates), and the accelerated ending of a set of non-standard monetary policy measures. This set of measures resulted in a significant reduction in the Banco de Portugal's balance sheet in 2022 and a reversal in its income before provisions and taxes that were strongly negative in 2023. The materialisation of balance sheet structure risk in the Banco de Portugal's income stems from the fact that the securities of the monetary policy programmes have fixed yields lower than those of the short-term liabilities financing them and remunerated at key interest rates, thus generating negative net interest income.

The Report and Financial Statements for the year ending on 31 December 2023 show with sufficient clarity and detail the accounting effects of the Banco de Portugal's activity and operations as a national central bank of the Eurosystem, as well as of the decisions taken by the Board of Directors during the financial year.

The Banco de Portugal's balance sheet shows a decrease of around €13.1 billion, from €197.9 billion on 31 December 2022 to €184.8 billion on 31 December 2023, a 6.6% decrease, which is a downward trend already evident in 2022, with a decrease of €21.3 billion compared to 2021.

The following made a decisive contribution to this decrease: (i) the reduction in financing operations to credit institutions by €13.1 billion due to early repayments of targeted longer-term refinancing operations (TLTRO III) for credit institutions and (ii) the non-reinvestment of securities held for monetary policy purposes under the Asset Purchase Programme to the amount of €5.5 billion.

In turn, Income before provisions and taxes for the year is negative by approximately €1.054 billion, which by decision of the Board of Directors, was fully covered by the General risk provision of the same amount. In 2022, Income before provisions and taxes and Profit/Loss for the year were positive, €668.4 million and €297.3 million respectively.

Essentially, the following were the main contributors to this change from 2022 to 2023: (i) a decrease in the interest margin by €1.25 billion, from a positive amount of €582 million in 2022 to a negative amount of €666 million in 2023, (ii) a reduction in Realised gains arising from financial assets and positions by €153 million, and (iii) a reversal of the Net result of pooling of monetary income allocated by the ECB, from an income of €109 million to an expense of €184 million.

Despite the losses of the year and the payment of dividends to the State amounting to €237.8 million, the Banco de Portugal's Own funds (including Revaluation accounts, General risk provision, Capital and reserves, Retained earnings or Profit/Loss for the year) showed a positive change as at 31 December 2023, to the amount of €577 million, largely due to an increase in the revaluation accounts resulting from the appreciation of gold.

The Board of Auditors also analysed the proposal for the distribution of losses for 2023, to the negative amount of €110,000, and will propose to the Minister of Finance that such amount be transferred to Retained earnings.

4. OPINION

In light of the above, the Board of Auditors raises no objection to the approval of the 2023 Financial Statements, nor to the proposal for the distribution of losses presented by the Board of Directors of the Banco de Portugal.

5. ACKNOWLEDGEMENTS

The Board of Auditors wishes to express its recognition for the institutional cooperation with all members of the Board of Directors and to thank the entire staff of the Banco de Portugal for their contributions.

Lisbon, 20 March 2024

The Board of Auditors

Óscar Figueiredo

Alexandre Boa-Nova Santos

Maria Albertina Barreiro Rodrigues

EXPLANATION ADDED FOR TRANSLATION

(This report is a translation of a report originally issued in Portuguese, and therefore not to be signed. In the event of discrepancies, the Portuguese language version prevails.)