Guidelines for public debt management

2008

Introduction

Italy's total General Government debt at the end of 2006 was 1,575,441 million euros, that is to say 106.8% of GDP. 80% of this debt is made up of government securities, whose management is entrusted to the Public Debt Directorate of the Department of the Treasury, within the Ministry of the Economy and Finance.
The ratio of General Government total debt to GDP in 2007 is expected to head down to 105.0%.

As is the case every year, this document shows both the results achieved in public debt management in the year 2007 which is coming to a close and the guidelines underlying the Treasury's choices regarding the strategy to cover the 2008 State Sector Borrowing Requirement. In order to meet the financing needs, debt management will follow an already established medium/long-term approach aimed at further reducing exposure to interest rate (both nominal and real) and refinancing risks as well as keeping under control interest expenditure as a proportion of GDP.

1. Debt management in 2007

It goes without saying that the 2007 issuance policy implemented to cover the Public Sector Borrowing Requirements[1], was influenced by the performance of financial markets in the euro area, especially the bond market segment.

a) performance of euro-area bond markets and government securities in 2007

In keeping with the policy pursued in 2006, the monetary policy implemented by the European Central Bank (hereinafter ECB) in the first half of 2007 envisaged two further increases in the main reference rate – applied to the main refinancing operations of the Eurosystem – one in May and the other in June, that increased the rate to 3.75% and 4% respectively with a view to contain fears of inflation increases and therefore reducing any risk to price stability in the medium term.
These monetary-policy choices were made at a time of sound economic growth in the euro area and against a backdrop of expansionary trends in the monetary and credit market and widespread liquidity within the euro area. In this period the euro area yield curve was remarkably steep as a result of market expectations of further increases in the ECB reference rates, even though against a backdrop of rather modest volatility.

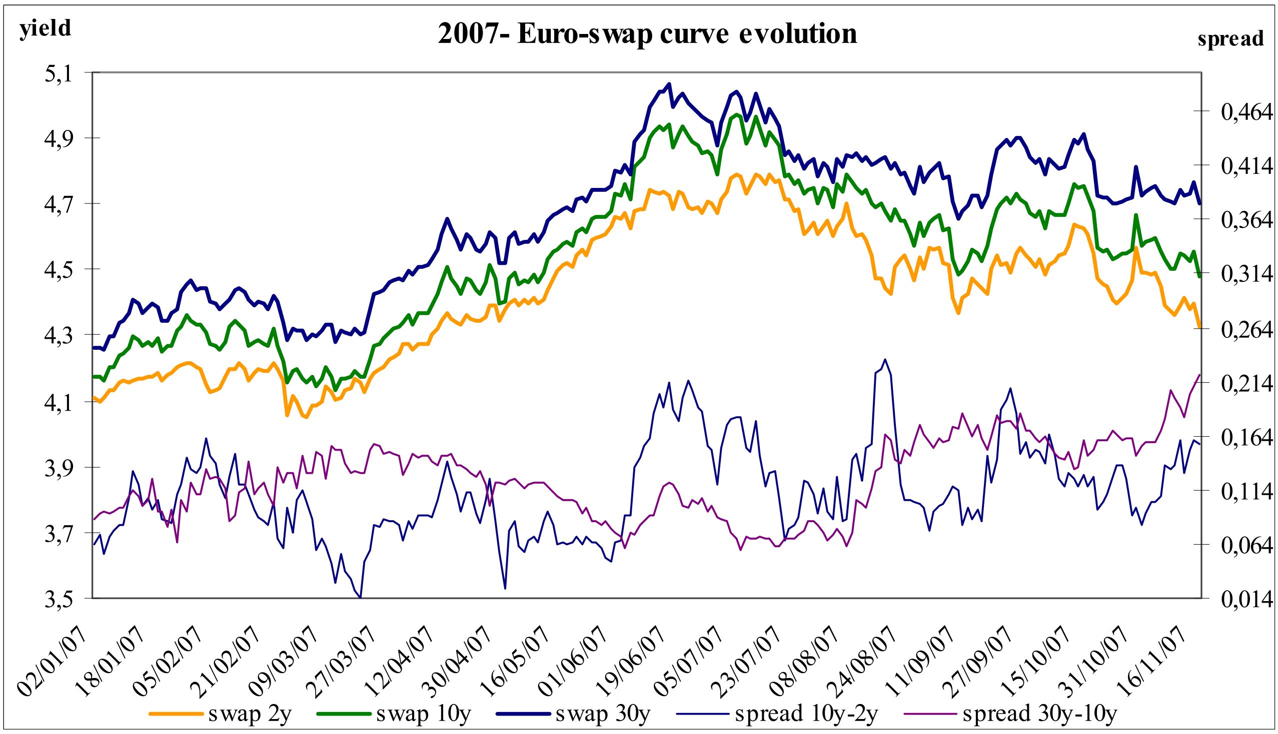
In the first six months of the year, at a time of restrictive monetary policy cycle, European government securities showed higher – even though uneven - returns on all maturities (see chart 1). Specifically the 2-10 year spread showed strong volatility compared to the 10-30 year spread that was, on average, more stable. The increasing trend in interest rates only stopped in February as a result of a very significant shift of investors' preferences out of markedly bear equities into bonds.
In the second half of the year the financial situation changed significantly. The US subprime mortgage crisis at the end of July spilled over into the European interbank market as a result of a strong deterioration of confidence in the medium-term solvency of banks. In this situation the ECB - despite the inflation risks coming from the commodities market and the economic growth expectations - did not just stop the increase in rates, but – in order to address the poor liquidity of the money market - also engaged in a number of additional liquidity injection operations aimed at a smoother functioning of the interbank market.

[1] It should be noted that in 2007 the Treasury's issuance activity made it possible to cover the financial impact of Art. 1 paragraph 630 of the 2007 Budget Law (Legge Finanziaria per il 2007) that envisaged the exit from the State Treasury of funds raised among private individuals by Poste Italiane Spa through current accounts .

As a matter of fact since August the money market has been remarkably volatile, with a marked spread between the rate of Eonia-indexed contracts and the Euribor rate for maturities longer than a month.

The crisis also caused a series of significant and continuous purchasing flows of euro-area government bonds, giving rise to the typical effects resulting from this kind of environment (the so-called *fly-to-quality flows*): drop in absolute interest rates and increased steepness of the yield curve. Since the end of July rates have stopped increasing and gradually decreased up until the end of November, except for the period straddling the end of September and the start of October, when it seemed that the market could go back to relatively normal conditions. At the same time the steepness of the 10-30 year segment gradually went up reflecting an higher risk adversion from the investors' side, while the volatility of the 2-10 year segment increased further (chart 1).

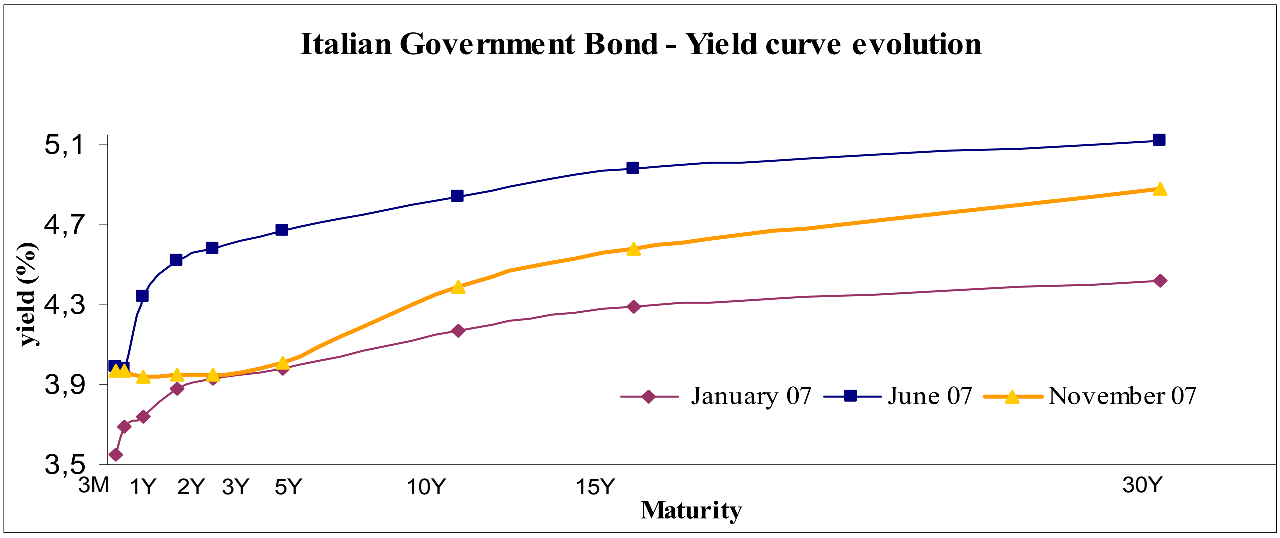
Chart 1



b) Performance of Italy's government bonds

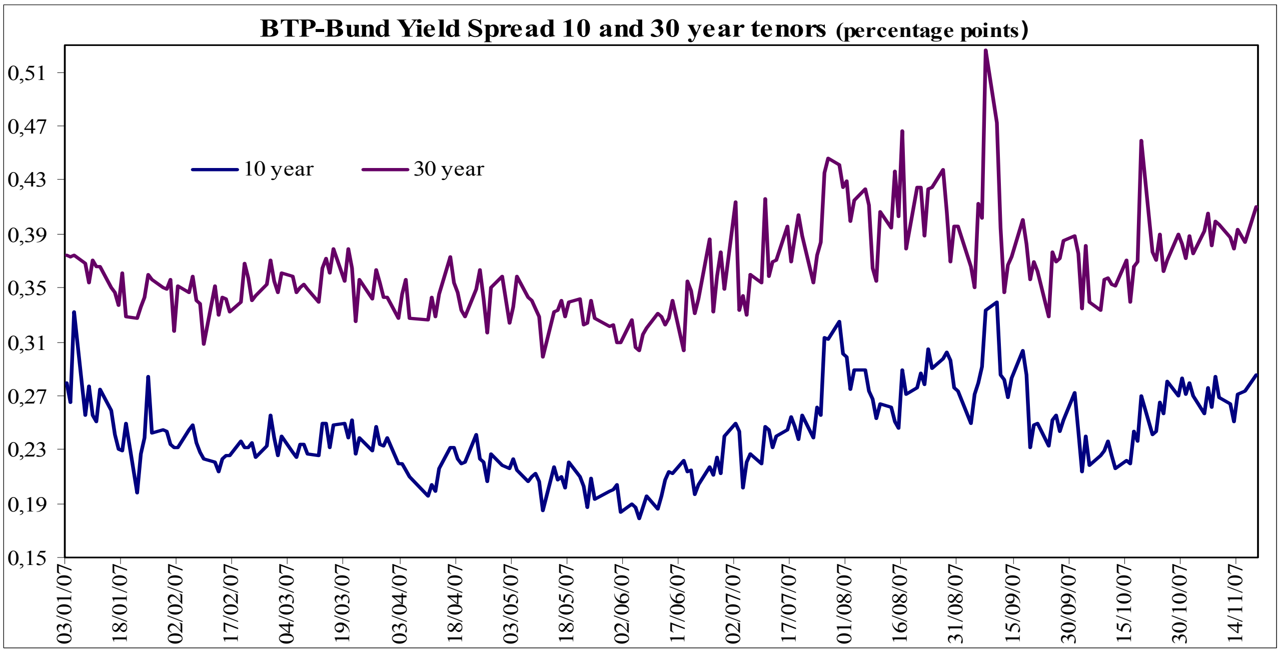
The performance of Italy's government bonds yield curve has obviously followed that of the Euro area (chart 2). After the increase in the period between January and June, the curve is now on an intermediate position, even though it is quite steeper in the 2-10 year segment: as a matter of fact the financial crisis induced investors to focus on shorter maturities preferring the 2-3 year segment over the 10-15 year one. On the other hand rates for maturities up to 1 year are higher than they were before the crisis precisely because of the strong turbulence still affecting money markets.

Chart 2



The other important phenomenon linked to the international financial crisis is the change in yield spreads between Italian and German government bonds (chart 3). In line with euro-area countries other than Germany, the spread between the Italian yield curve and the German one has been substantially stable with a slight but progressive reduction until July. In the following months the volatility of this spread went up notably with very significant increases and reductions also at very short time intervals. This phenomenon was a typical consequence of the confidence crises triggered by international markets: with every new piece of bad news concerning the solvency of banks, investors tend to invest their portfolios in government debt securities of countries with a high creditworthiness, which causes a more pronounced drop in the return rates of these countries compared to others (such as Italy). It should be noted, however, that in the face of such strong increase in volatility, at the end of November the spreads between Italian and German government securities with ten-year and thirty-year maturities were higher than those before the crisis (average of the months from January to June 2007) by few basis points: about 6 basis points at ten-year maturity and about 7 basis points at thirty-year maturity.

Chart 3



The liquidity of Italian government bonds has certainly played a role in the containing the spread widening process: in fact, while on the one hand during the crisis investors mainly rewarded securities issued by governments with a higher creditworthiness, on the other they also tended to choose securities with high efficiency levels in the secondary market in terms of trading costs.
The Italian government bonds liquidity, to be ascribed to both the average volume of each outstanding security and the organisational structure of the secondary market, continues to be supported by the issuance policy pursued by the Treasury, which is based on a practice of substantially regular and predictable issuance activity in the market.

As to securities linked to the Harmonised Consumer Price Index for the euro area, 2007 was basically a good year, with a rather sustained *performance* compared to equivalent nominal securities. Except for shorter-term securities, which by definition are more affected by the seasonal fluctuations of the index over the year, the real returns of ten and thirty-year maturity securities have increased year-on-year less than nominal returns (chart 4): this caused a gradual increase in the spread between nominal and real rates (*break-even inflation*). Of course, in addition to the interaction of supply and demand this is also due to the dynamics of the European inflation index, which has shown a gradual increase since September due to the surge in prices of energy products and processed food (chart 5).

Chart 4

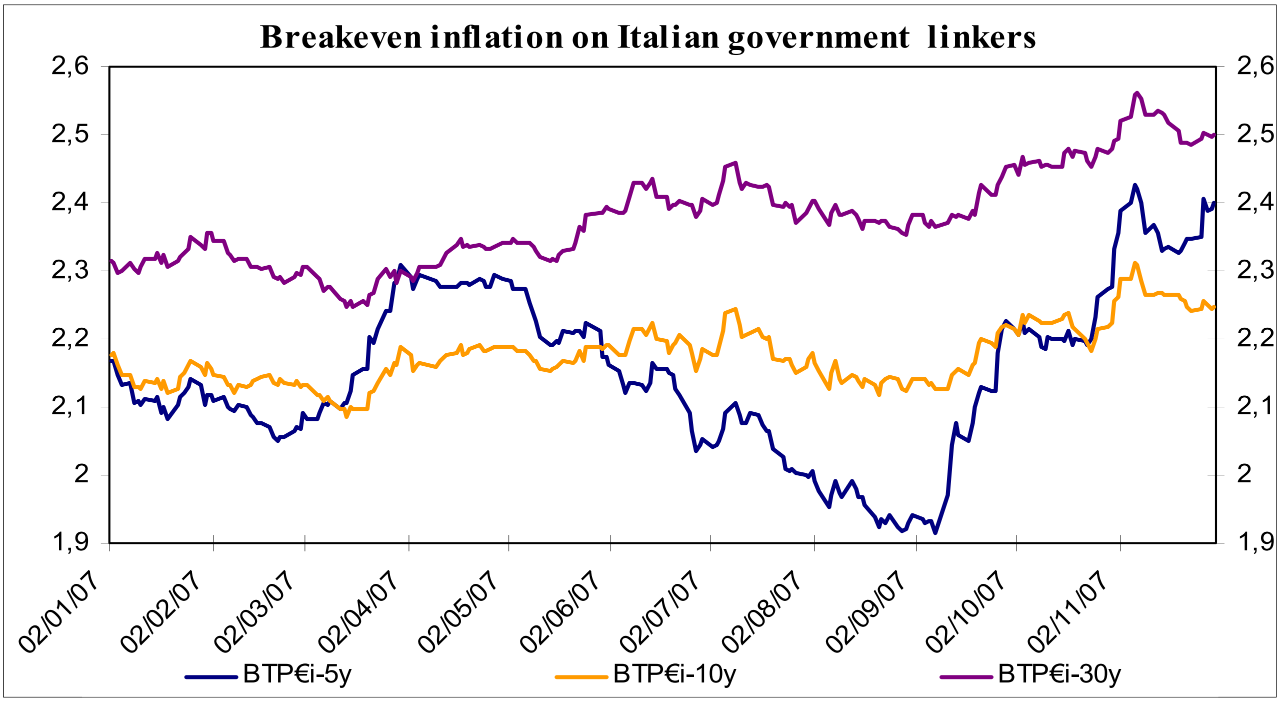
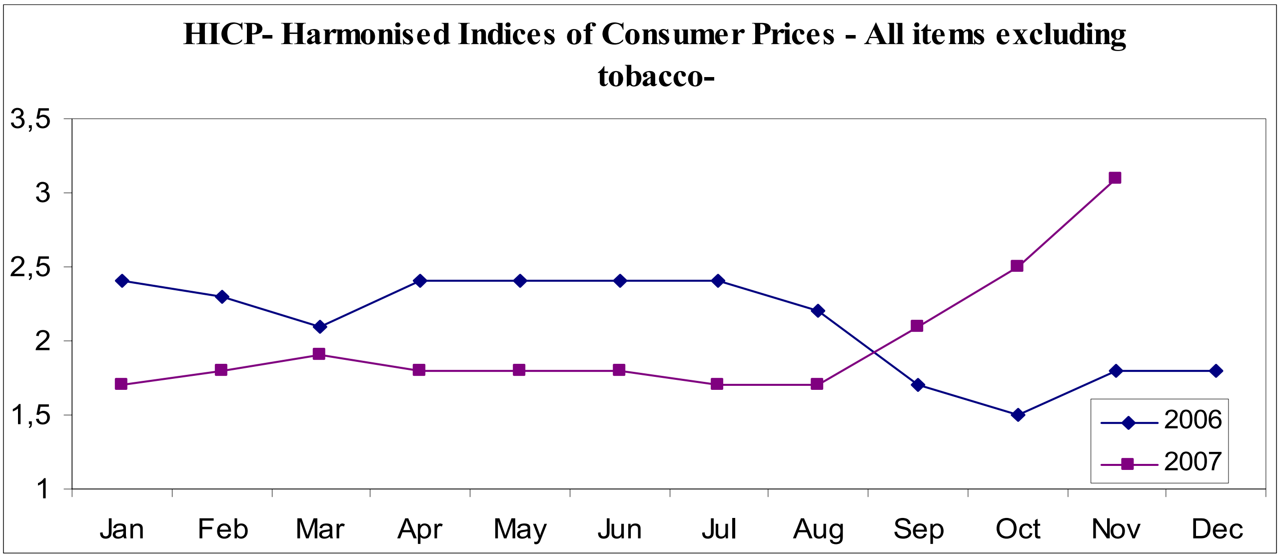


Chart 5

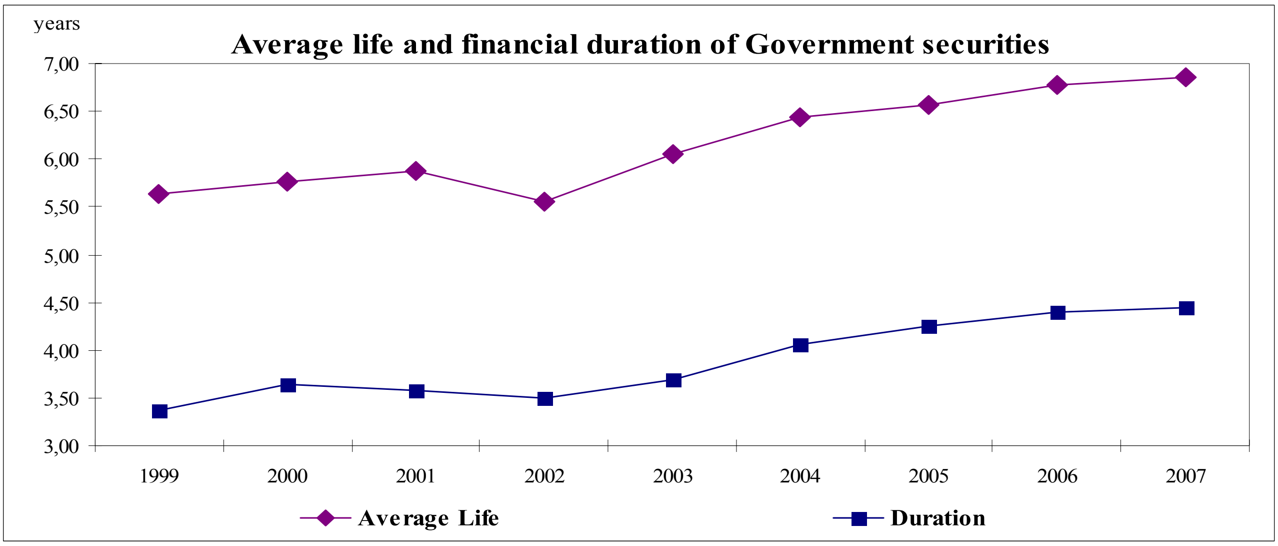


c) The results achieved by debt management

In the light of the above market conditions, in 2007 the Treasury aimed at further reducing the exposure to financial risks while at the same time keeping the cost of debt under control.
An analysis of the debt structure shows that the results achieved in 2006, in terms of exposure to refinancing risk and interest risk (chart 6), measured by the average life and the financial duration of the debt respectively, have been fully confirmed in 2007. The average life of all government securities at the end of 2007 was 6.85 years, higher than the figure for the end of 2006 (6.77 years); similarly the financial duration, which at the end of 2007 was 4.45 years, has grown if compared to 4.40 years at the end of 2006. The result achieved in terms of *Average Refixing Period*[2] is similar: only as far as domestic securities are concerned, at the end of 2007 it was 5.68 year, approximately 0.7 percent points more than at the end of 2006.

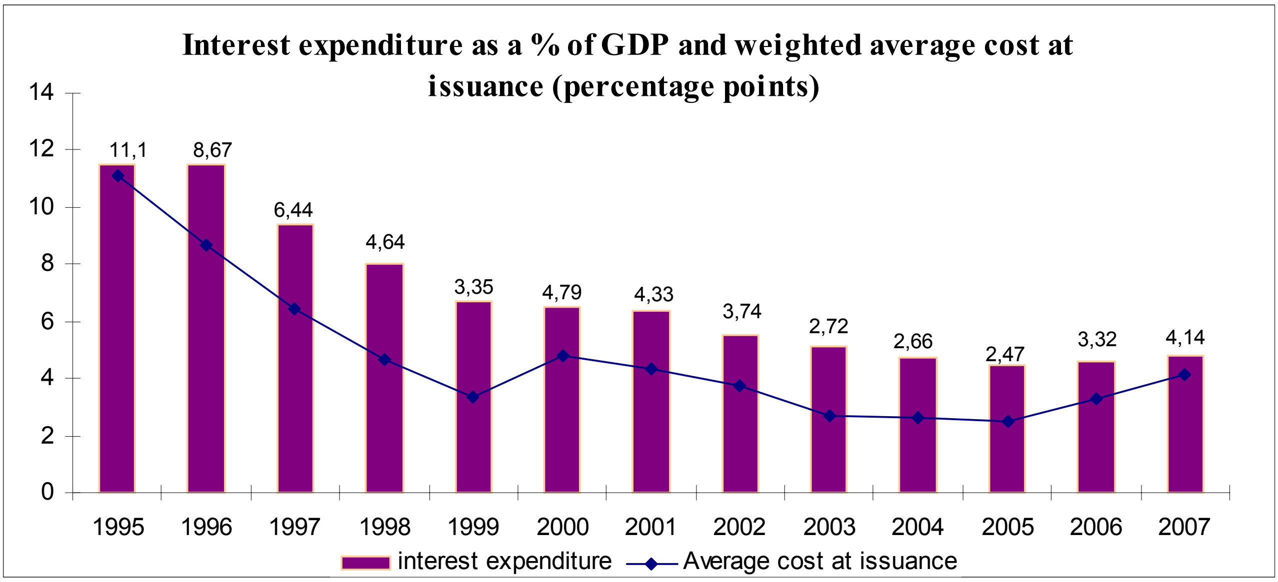
[2] The *Average Refixing Period* (ARP) measures the average time in which bond coupons are refixed. For zero-coupon bonds and fixed coupon bonds it corresponds to the residual life of bonds. For floating coupon bonds it corresponds to the time left until the fixing of the next coupon.

Chart 6



The weighted average cost at issuance of 2007 (chart 7) reached 4.14%, above the level of 2006 (3.34%), as a result of an across-the-board rise in market interest rates in the first seven months of the year, during which over 70 per cent of the annual issuance programme was carried out.

Chart 7



The interest rate risk

The estimated impact of unexpected shocks on interest expenditure [3] provides a clear indication of the exposure to interest rate risk. As pointed out in the Update to Italy's Stability Programme in December 2007, thanks to the current composition of public debt the risk of exposure to rate shocks is somewhat smaller than in the past. Indeed, assuming a sudden and permanent increase of 1 % in the Italian yield curve, the impact on interest expenditure as a proportion of GDP would be 0.16 %

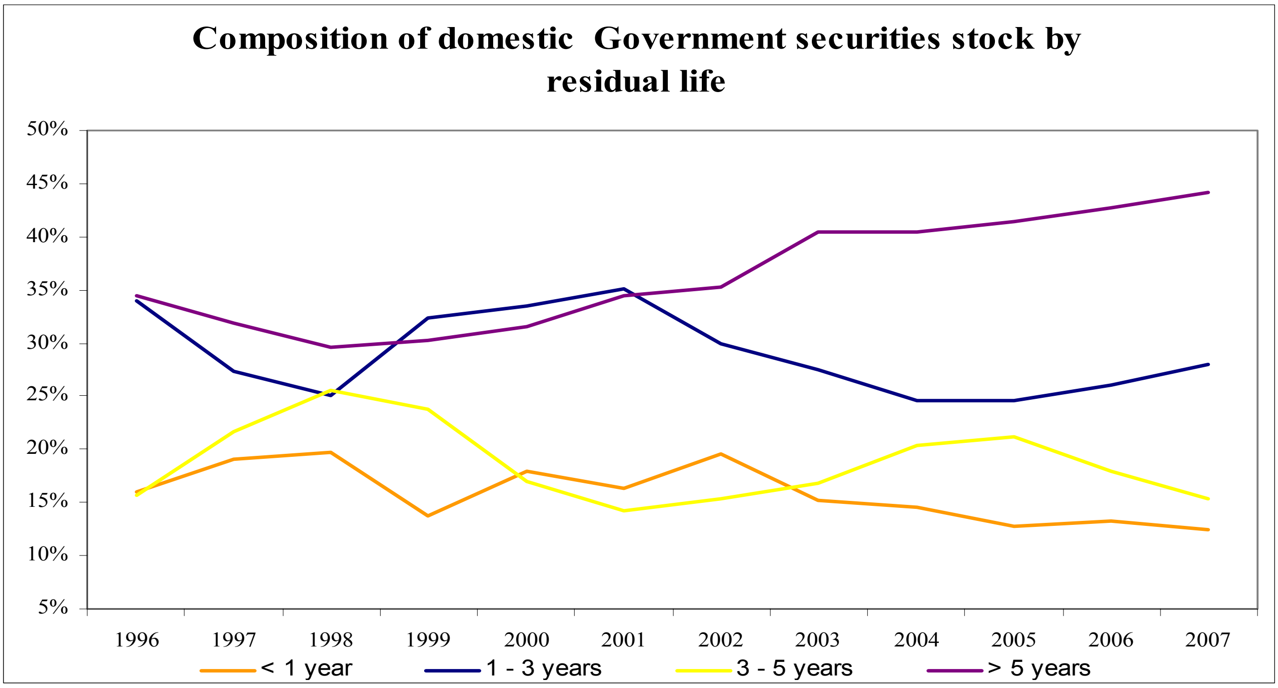
[3] It is worth noting that forecasts of interest expenditure contained in official documents are based on forward rates assuming no changes are made to the issuance strategy. These forecast therefore already imply a growing interest rate trend.

in 2008, 0.30 in 2009, 0.37 in 2010, 0.43 per cent in 2011, while the increase in interest rates, at November 30, 2007 would entirely transfer into the cost of debt after about 5.60 years (in the latest Update this figure was 5.56 years). This analysis confirms that the sensitivity of interest expenditure to interest rates continues to decrease especially in the medium term.

The refinancing risk

The evolution of the debt structure by residual life until December 31, 2007 (chart 8) shows an increase in the share of debt with residual maturity of over five years and a simultaneous gradual reduction of the very short-term component, with maturities of less than a year; furthermore, while the short-medium term component, with residual life ranging between one and three years, slightly increased, the medium-term component, with residual life ranging between three and five years, remained stable.

Chat 8



The exchange-rate risk

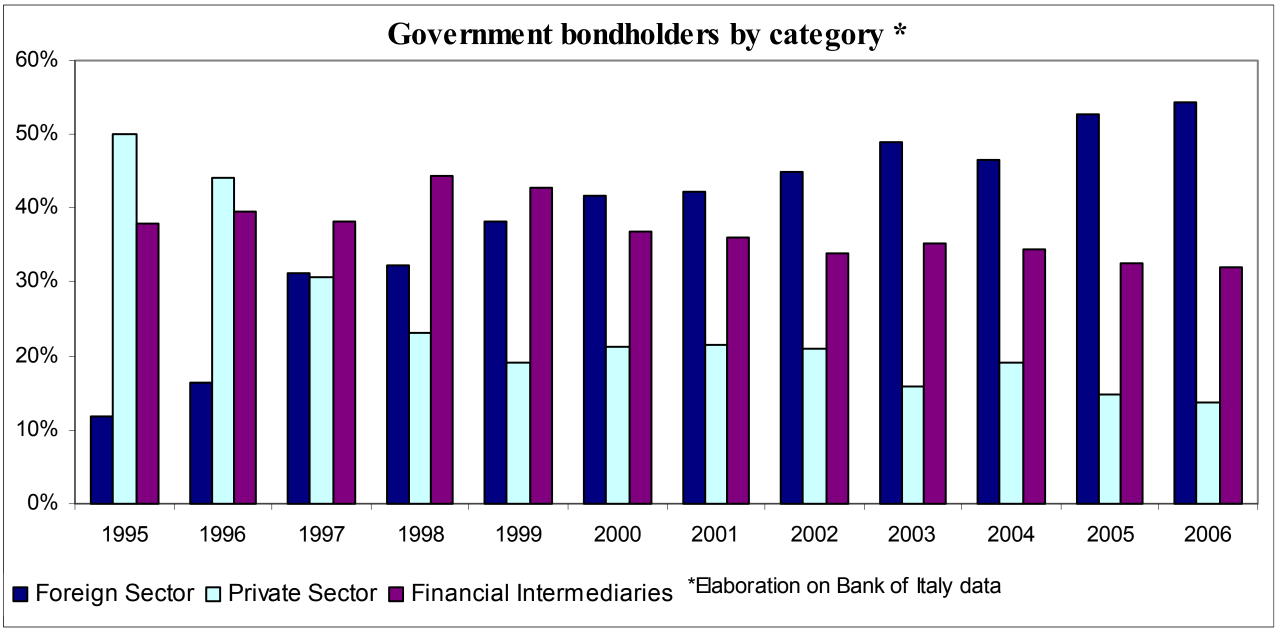
It should be noted that exposure to exchange-rate risk is gradually disappearing. At the end of 2007 93.83 % of tradable Central Government securities were made up of domestic securities, that is to say securities issued on the domestic market, and 6.17 % were securities issued in foreign markets, denominated both in euro and foreign currency. Only 0.17 % of the foreign component is made of securities exposed to foreign currency, a much smaller percentage compared to 0.73% in 2006.

Debt distribution at international level

Throughout 2007 a policy aimed at an ever deeper penetration of Italian public debt securities in the portfolios of international investors was pursued. In keeping with the strategy of the past few years,

in the selection of both debt instruments supplied to the market and their placement practices, special care was taken to ensure that a wide and varied range of investors – i.e. of various types and in different countries – was reached. At the end of 2006, 54 % of government bonds was owned by non residents, a slight increase compared to 2005 (53%); this development eroded the share held by residents (chart 9).
In addition, an analysis of the trading flows reported by the Specialists in government bonds[4] in the first nine months of 2007 shows that the share of trading with non-European residents, mainly in Asia, went up to 4.68%, from 3.84% in 2006. At the same time there was an increase in trading with clients residing in Italy (whose share went up from 45% to 48% approximately) and a slight reduction in the share of trading with European clients (whose share went down from 33% to 30%).

Chart 9



d) The issuance policy for domestic instruments

BOTs

Overall compared to 2006 the issued volume of BOTs in 2007 was larger both in absolute terms and as a percentage of domestic issuance activity. However, a closer look reveals that the increase is to be ascribed almost entirely to BOTs with three-month maturity and the so called miniBOTs (or flexible BOTs), whose share went from 5.2% and from 1.8% of 2006 to 7.3% and 3.4% in 2007 respectively. The issuance of BOTs with six-month and twelve-month maturities remained basically unchanged in absolute terms, whereas as a share of total of instruments issued in 2007 decreased slightly. However, at the end of the year, the share of BOTs on the total outstanding debt will be in line with that at the end of last year, which is to say below 10 per cent.

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[4] *Specialists in Government bonds* are: ABN Amro Bank N.V.; Banca IMI S.p.A.; Barclays Bank PLC; Bayerische Hypo und Vereinsbank AG; BNP Paribas; Calyon – Corp. Inv. Bank, Citigroup Global Markets Ltd., Credit Suisse Securities (Europe) Ltd.; Deutsche Bank A.G.; Dresdner Bank A.G.; Goldman Sachs Int. Bank; HSBC France; ING Bank N.V.; JP Morgan Securities Ltd.; Lehman Brothers Int. (Europe); Merrill Lynch Int.; Morgan Stanley & Co. Int. PLC; Monte dei Paschi di Siena Capital Services Banca per le Imprese S.p.A.; Nomura Int. PLC ; Société Générale Inv. Banking; UBS Ltd.

The growth of short-term BOTs, which by definition do not affect the trend in debt maturity at the end of each year, as they are instruments issued to cover short-term cash requirements, is a result of the increased volatility of the monthly and daily cash requirements in 2007, even though against a backdrop of a decreasing overall annual figure of the Borrowing Requirement. The established practice followed in the last few years by the Treasury has been to resort to flexible BOTs and three-month BOTs, in conjunction with other shorter term instruments, as pure cash management instruments, to be placed on the market only to cover very short-term cash needs. As a matter of fact, miniBOTs were issued in five monthly auctions that were held at different times of the year, whereas three-month BOTs were issued on a more continuous basis to deal with Treasury cash flows that were more volatile compared to the past.

CCTs

As was expected, CCT volumes placed on the market in 2007 were basically in line with those in 2006, even though their share continued to decrease as a percentage of the overall domestic issuance portfolio (from 5.7% in 2006 to 5.2% in 2007). However, unlike 2006, the outstanding stock went down moderately due to the limited amount coming due in 2007 (approximately 15.3 billion euros as against almost 24 billion last year). Even though to a moderate extent, the stabilization of the outstanding volume of CCTs continues to ensure that they will decrease as a proportion of the overall debt (from 15.2% at the end of 2006 to 14.8% in December 2007).
Although during the year there were strong volatility spells in this sector, also characterised by short-lived reductions of liquidity in the secondary market – especially in the most acute stage of the international financial crisis, the Treasury, thanks to its policy based on auctions held regularly but for small amounts, exchange and buyback transactions – that frequently include securities from this category - financed with the Treasury account balances, reaffirmed its commitment to ensure an efficient functioning of the secondary market for these instruments, given their importance within the overall debt.

CTZs

Also in 2007 the Treasury regularly offered 24-month CZTs to the market. This year's overall redemptions, 2.7 billion euros more than last year, gave rise to greater demand for renewals, especially by resident investors, that the Treasury was able to meet without undermining its objective of gradually but constantly reducing this instrument as a proportion of the total debt. Actually at the end of 2007 the share of CZTs on the total outstanding government securities will be smaller than that at the end of 2006 (3.34% as against 3.47%). This instrument has allowed the Treasury to continue to rely on a small but constant funding channel that seems to adequately respond to the investment needs of a proportion of domestic institutional investors.

BTPs

In absolute terms the overall issued volumes of BTPs in 2007 were larger than in 2006, thus confirming the central role played by this instrument in debt management. The Treasury continued to use BTPs to reduce exposure to market risks.

i) Nominal BTPs

Issues of nominal BTPs were in line with those of last year. However, the maturities offered to the market changed slightly in terms of percentage composition over the total domestic issued volume: three-year and five-year maturity bonds, with the launch of two new securities for each maturity, played a slightly smaller role (going down from 8.6% in 2006 to 7.7% in 2007 and from 7.9% in 2006 to 7.5% in 2007 respectively); whereas the share of ten-year and thirty-year instruments edged up. These issuance choices were also partly due to the changes in the yield curve shape which – up until August - when the Treasury had completed most of its annual funding programme - had made it more convenient to issue on curve segments of over ten-year maturity compared to shorter maturities.
In the ten-year segment the Treasury offered a new *benchmark* and also reopened a bond that had been placed on the market a few years back with an original maturity of 15 years but with a residual life of approximately ten years, whose coupon was in line with market 10-year maturity rates existing at the moment in which this tenor had to be offered to the market.
On the thirty-year segment, in keeping with the issuance policies of the last few years – with the Treasury ensuring a continued and significant presence on long-term securities - the market was offered in October the new BTP 2039 through syndication. Despite a generally unfavourable market situation, the new security met with buoyant overall demand and a notable presence of institutional and real money investors. In addition, the placement conditions were fully in line with the levels expressed by the market.
Finally, on the basis of market conditions, the fifteen-year benchmark security was offered repeatedly until a satisfactory level was reached in terms of liquidity and penetration into international portfolios.

ii) BTP€i

After a year characterised by a more modest presence, in 2007 the Treasury participated more in the market of euro-area inflation-indexed securities, placing a volume amounting to over 16 billion euros, almost 3.7% of the total domestic issued volumes as against 3.1% per cent in 2006. Following the strong growth registered in this segment in Europe and responding to the need for a further diversification of the nominal/real composition of the debt, the Treasury ensured its stable presence in terms of issuance activity throughout the year and introduced two new securities to the market: a new five-year benchmark, the BTP€i 2012, and a new maturity, the fifteen-year BTP€i with maturity in 2023.
Unlike what had been done in the past, the first was placed via auction procedure ever since its first trance, given that the short-term segment of linkers is now fully mature and it can provide reliable and significant price indications to investors. Placing the new security via auction procedure clearly shows the strategic role played by this segment in debt-management policy: by choosing an auction the Treasury reaffirms its commitment to ensure a regular presence based on transparency and predictability.
The fifteen-year BTP€i was issued through a placement syndication in June at the end of a careful market analysis. With this issue the Treasury made a significant contribution not just to completing the real curve of Italy's government bonds, which now also includes benchmark maturities at five, ten, fifteen and thirty years, but also to the efficiency of the European market for securities indexed to European inflation, by offering a long-term maturity still not provided by other European sovereign having linkers' programs.
Given the characteristics of this market and its wider range of products, the Treasury has been able to develop its own issuance programme offering to the market those instruments whose placement could from time to time ensure the highest efficiency.

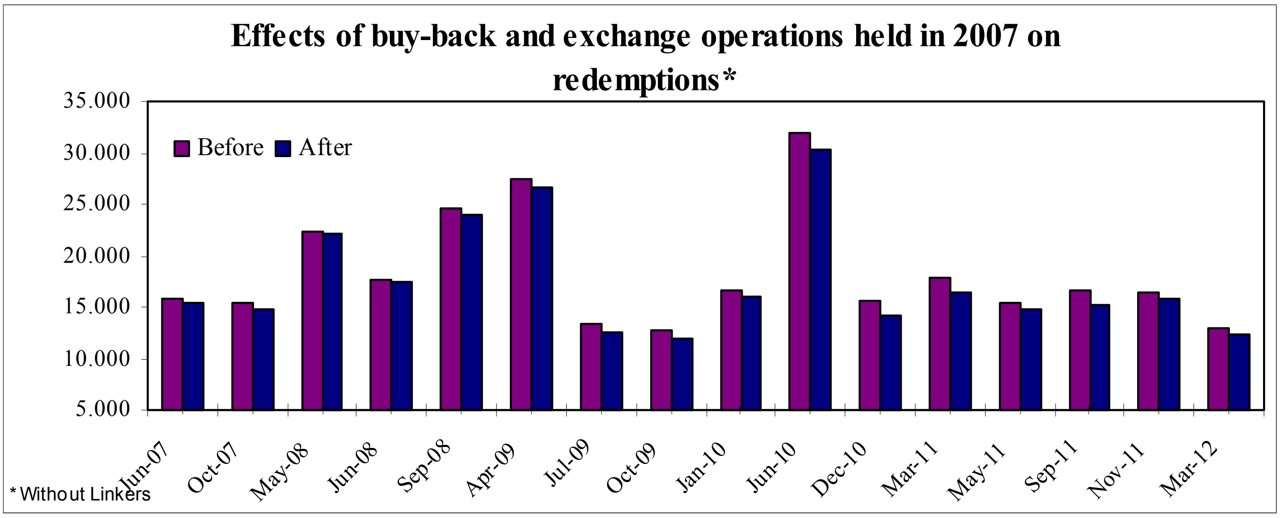
e) Issuance policy of foreign currency securities and private placements

Since 2001 the *Global Dollar Emission Programme* has been the main channel providing access to international markets for the Italian Treasury; it mainly focuses on US dollars transactions. Twelve major international banks have committed themselves to quoting the securities issued within the programme on the trading desks dedicated to US Agencies with the aim of ensuring maximum liquidity.
In 2007, with the international borrowing programme, the Treasury set itself two main goals:
• to diversify the range of investors holding Italy's government bonds;
• to help reducing the cost and refinancing risk for Italy through a more diversified issuance policy.
In 2007 a benchmark security in dollars was issued for a notional amount of 2 billion with maturity on June 12, 2017 and a 5.375% coupon. Its success was also confirmed by the security's positive performance in the secondary market.
The reason why decreasing volumes were issued in this segment compared to the average of the previous years is that foreign-currency securities are less convenient than domestic ones.
The traditional issuance activity of the Treasury in 2007 also included a number of private placements with arbitrage as against the relevant maturity on the BTP curve and also to respond to investors' specific needs. The overall amount of private placements made in 2007 was 1.7 billion euros approximately.
More specifically two EMTN–format securities were placed for the first time in the euro market with extremely long maturities (2057 and 2062) indexed to European inflation; they met the strong demand present in a thus far unexplored sector of the curve and at advantageous cost for the issuer.

f) The role of buyback and exchange operations reserved to Specialists

In 2007 the Treasury continued to make use of exchange and buyback operations as a way to reduce the refinancing risk by smoothing out redemptions, properly manage cash flows and support the liquidity in the secondary market.
In 2007 two exchange operations amounting to approximately 3.1 billion euros were made with which government bonds with initial maturity falling between 2007 and 2010 were bought back and two BTPs with maturities in 2011 and 2017 were offered. In addition the Treasury held two buyback auctions that allowed an earlier redemption of BTPs and CCTs with maturities between 2009 and 2012 amounting to approximately 9.1 billion euros of nominal capital.

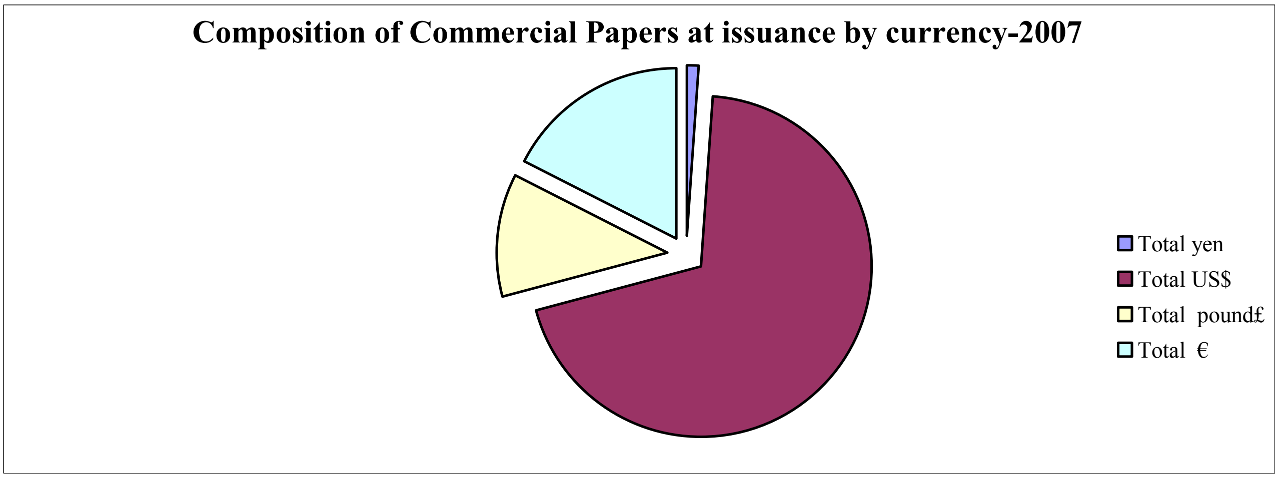
Chart 10



g) Cash management activities

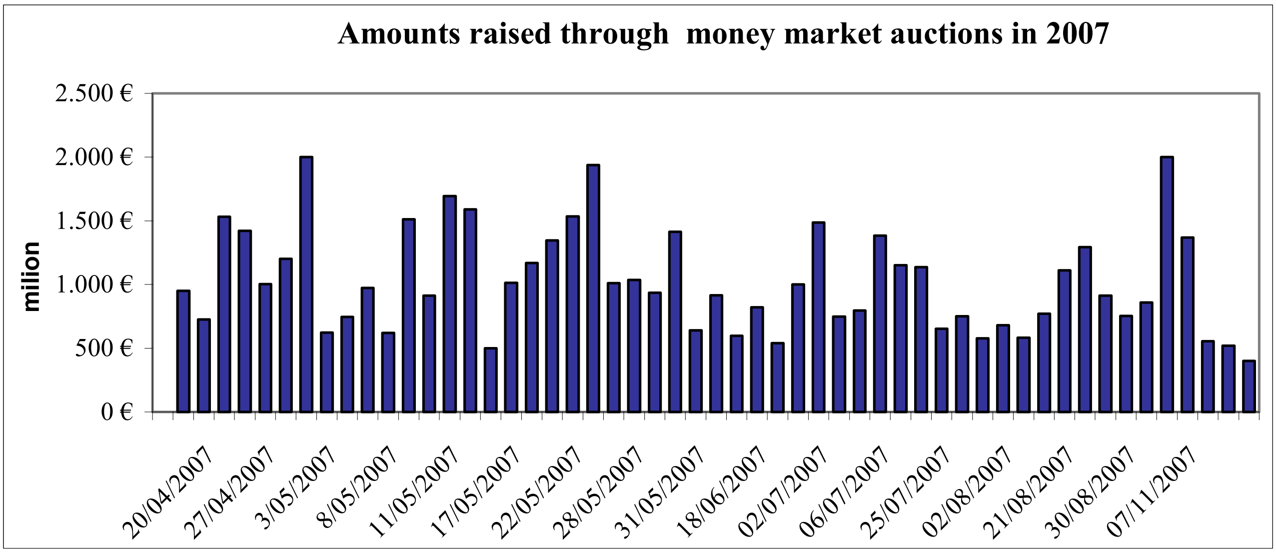
In addition to the use of flexible BOTs and three-month BOTs outlined above, in 2007 the cash management activity also included the use of Commercial Papers. In 2007 the Treasury issued Commercial papers denominated in euros, yens, dollars and pounds – all the last three converted into euros – for a total of approximately 2,220 million euros.

Chart 11



To complete its set of cash-management instruments on April 18, 2007 the Treasury started its operations on the money market to settle on the Treasury account. These new operations provide greater flexibility to the Treasury in managing cash in order to meet the short-term and very short-term daily financing needs and avoid the use of longer-term, and therefore more costly, instruments. In 2007 53 operations were carried out with an average volume of funds raised by the Treasury amounting to approximately 1,051 million euros per operation and an average bid to cover ratio of 3.18.

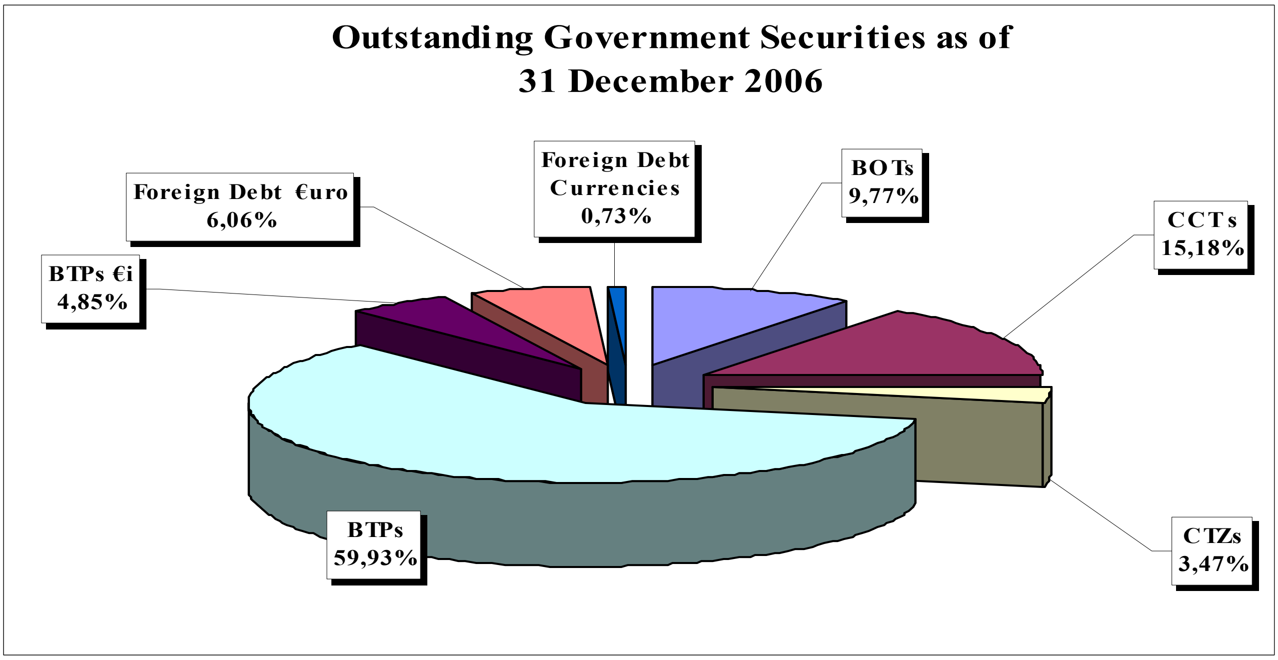
Chart 12



h) Debt composition by instrument

The debt issuance and management decisions implemented in 2007 did not cause substantial changes in the composition of debt by instrument. At the end of 2007 and compared to 31 December 2006, the structure of government securities (chart 14) shows a stable share of fixed-rate securities (chart 13), a slight reduction in the short-term (BOT) and floating rate (CCT) component as well as in the foreign segment. The share of securities indexed to European inflation shows a notable increase, up from 4.95% to 6.14%. Similar, but more marked, changes affected the stock of securities issued in the domestic market (chart 15). In a medium-term perspective the chart reveals the gradual decrease in the floating-rate or short-term share, the stability of fixed rate nominal securities (at approximately 67%) and the consolidation of linkers' share, which, however, remains modest.

Chart 13



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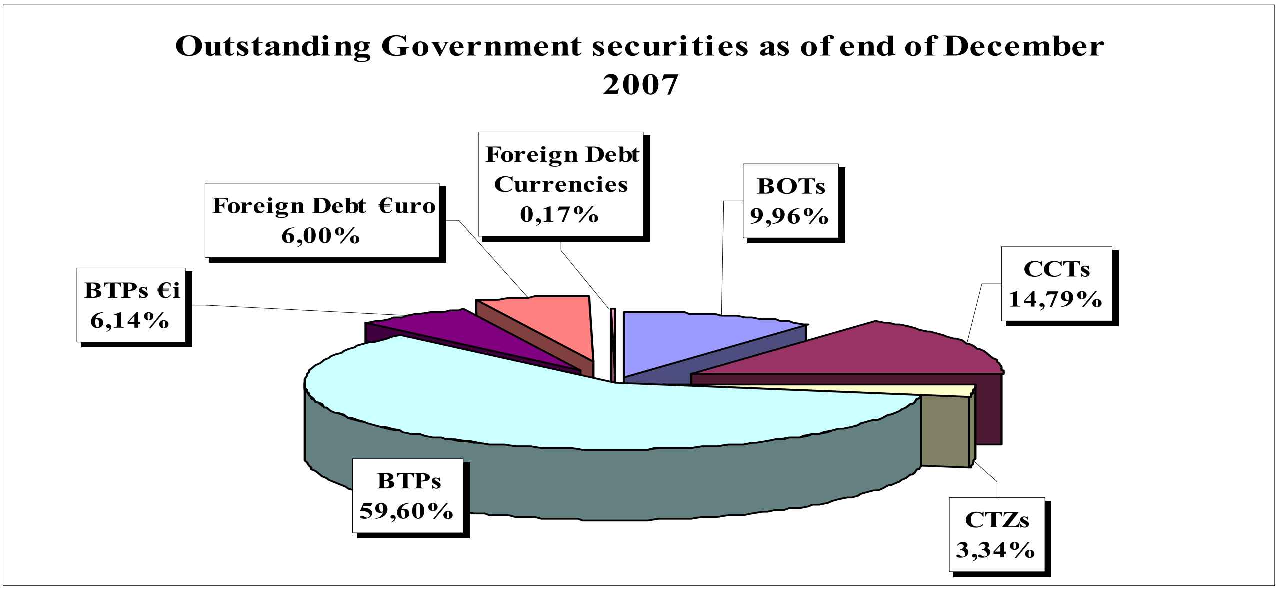
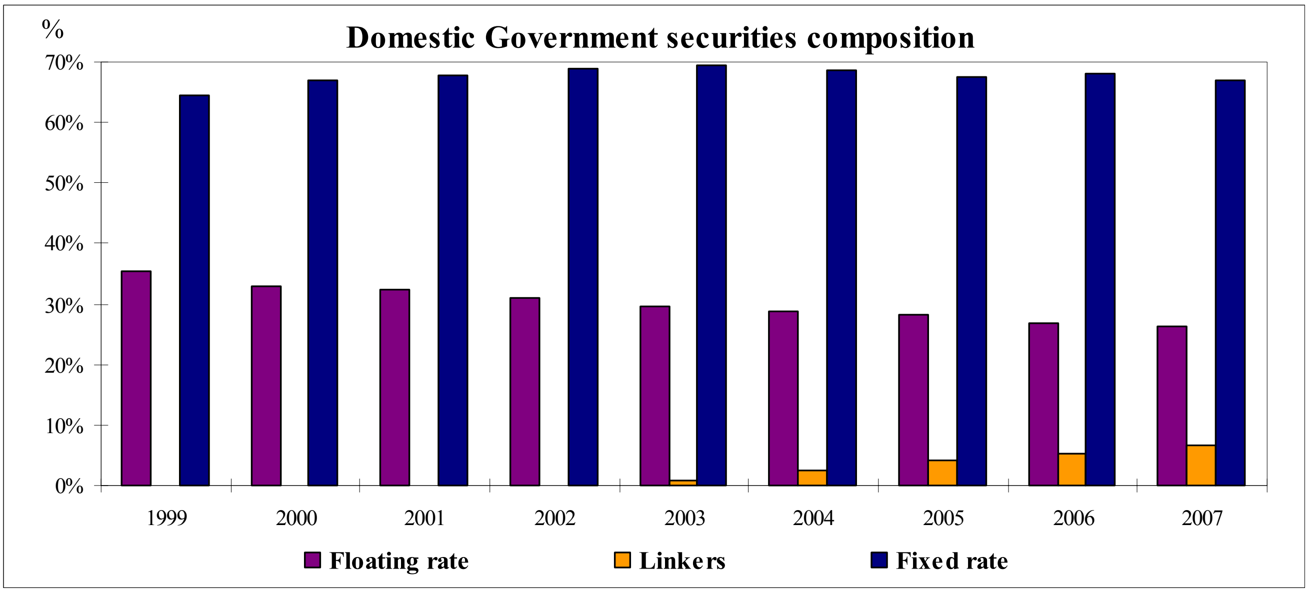


Chart 15



%
Domestic Government securities composition
70%
60%
50%
40%
30%
20%
10%
0%
1999
2000
2001
2002
2003
2004
2005
2006
2007
Floating rate
Linkers
Fixed rate

2.*The 2008 issuance programme*

The approach to the issuance policy and debt management for 2008 will ensure continuity with 2007 policies. Most of the issuance activity will rely upon principles of regularity, transparency and predictability. In other words the Treasury will continue to offer various instruments according to a prearranged schedule providing ample and early information about the type and quantity of instruments to be placed.

Instruments will continue to be offered mainly via auction procedure, thus ensuring that a wide range of national and international investors can have access to the primary market of government securities under conditions of utmost transparency and uniformity. Therefore a great deal of the financing requirements will be met through a regular issuance programme covering all types of maturities and securities, including those indexed to European inflation. However, the Treasury reserves the right to use more flexible margins when offering very short-term instruments, which by their very nature will only be used to cover temporary cash requirements and when choosing what linkers should be offered to the market on a regular and continuous basis. In addition, based on market conditions and especially with regard to the BTP segment, the Treasury will be able to assess if it is necessary to resort to reopening – also by means of exchange transactions – of outstanding securities, other than on-the-run ones, in order to meet the liquidity requirements in the secondary market or to achieve a more even distribution of redemptions.

On the other hand, greater flexibility will be adopted, as was done in the past, for foreign-currency issuance activity and private placements with a view to obtaining more favourable costs compared to the securities of the domestic programme.

All debt issuance and management choices, even though they are made on the basis of market conditions, will in any case be consistent with the Treasury's need to reduce the cost of debt in the medium term, and they will be part of a more general strategy aimed at keeping exposure to financial risks under control.

The issuance programme of securities placed via public auction procedure

The placement auctions of nominal bonds (BOTs, CCTs, CTZs, and BTPs) will take place according to the annual issuance calendar published on the website of the Public Debt Directorate of the Department of the Treasury *(www.publicdebt.it)*. As of this year, the calendar also includes the dates of auctions of inflation-linked bonds. Actually, in the last two years auctions of these instruments have been held very regularly at the end of each month, the day after the BOT/CTZ auction and before the medium - long-term bond auction. Given the success of this practice, it was deemed appropriate to directly include the auction of this type of bonds in the annual calendar. Therefore should the auction be cancelled, the Treasury will make an official announcement.

The calendar includes dates of announcement, auction, and settlement of the various types of securities throughout 2008. In addition, at the end of each quarter, a Quarterly Issuance Program will be published to inform investors on the new securities that will be issued in the following three months, including the settlement dates. The detailed issuance policy of the Treasury for 2008, by each individual instrument, is as follows.

Nominal securities

BOTs and cash management: BOTs will continue to be issued according to the traditional maturities – i.e. three, six and twelve months.

Annual BOTs will be offered regularly at mid-month auctions and on the basis of demand and market conditions.
Six-month bills will be issued regularly every month, depending on flows reaching maturity, at ordinary auctions as well as reopening reserved to Specialists in order to ensure efficiency of the CCT market. The amount offered at reopening will be determined from time to time on the basis of auction outcomes and market conditions.
Three-month bills, as well as non-standard BOTs (the so-called flexible BOTs) will be offered by fully exploiting the flexibility of this type of security in relation to cash requirements.
In addition, in 2008 the Treasury will continue to use Commercial papers, also non euro-denominated, to achieve maximum flexibility in terms of quantity and maturities, which are essential prerequisites for timely cash management. The use of Commercial papers will also be targeted to greater diversification of investors.
Finally in 2008 the Treasury will continue to be present in the money market on short and very short-term maturities by means of auctions or bilateral trading. Transactions may have overnight or longer durations depending on the Treasury's requirements and market conditions.

24 month- CTZ

The volume of CTZ reaching maturity in 2008 is slightly higher than it was in 2007 (+ 2.5 billion euros approximately). This will allow the Treasury to issue this instrument regularly during the year without renouncing its goal of reducing the CTZ share of outstanding debt. Indeed, in addition to being interesting for domestic institutional investors, this instrument is also becoming increasingly appealing to a small number of European investors.

CCTs

CCTs will continue to play a significant role in the Treasury's strategy for funding and managing the refinancing risk. On the one hand the Treasury will reaffirm its commitment to reduce the CCT share of the outstanding debt, in keeping with the results achieved in past years, and on the other it will adjust its decisions on how to issue and manage the instrument with a view to contributing to the efficiency of the secondary market, also taking into account the current turbulence affecting monetary markets. To this end the instrument will be offered regularly at month-end auctions and in amounts that can preserve and improve the liquidity of individual bonds. As the volume reaching maturity in 2008 is limited – even though it exceeds last year's amount by 4.5 billion euros approximately – the amount outstanding at the end of 2008 will not be significantly different from that of the end of 2007.

Medium-term nominal BTP

Three-year and ten-year BTPs will be offered regularly at month-end auctions, whereas five-year BTP will be placed via mid-month auctions. The amounts offered will be determined on the basis of market conditions in order to ensure efficient placements and adequate levels of liquidity in the secondary market. The timing of the introduction of new securities will respond to the need to make the redemptions profile even more uniform and to ensure that each bond has a satisfactory liquidity performance in the secondary market and an adequate distribution among investors.

Long-term nominal BTPs

Fifteen-year and thirty-year BTPs will be offered to investors on the basis of market conditions. Also in 2008 the Treasury may place fifteen- and thirty year securities with greater flexibility to take into account changes in demand and trading conditions in the secondary market. With regard to on-the-run securities, the Treasury is committed to reaching final volumes that can ensure high liquidity levels. As in past years, new securities will be introduced to the market through placement syndications carried out under market conditions that can ensure a positive outcome of operations. Given the pivotal role that long-term bonds play in the Treasury's management of financial risks, long-term nominal BTPs will also be used to maintain the now established leading position in the European market in terms of liquidity and wide range of maturities offered.

Inflation-linked securities (BTP€is)

Inflation-linked securities will play a very important role in the Treasury's issuance strategy. Given the wide range of maturities available, regular monthly auctions will be ensured which, from time to time, will be used to offer the on-the-run instruments which are considered the best by the market and that best meet the Treasury's debt management requirements. The issuance choices will also aim at ensuring liquidity on the different segments of the real curve, bearing in mind the typical nature of each one of them. Following the positive experience of 2007, the preferred issuance procedure for the launch of new securities will be the public auction in the case of five-year securities and the syndication in the case of longer-term securities, also in the light of the benefits this system provides in terms of quality penetration into international portfolios and in terms of liquidity on the secondary market. Should a syndicated placement take place in a given month, no auction will be held in the same month.
Finally it is worth noting that, as of 2008, coupon stripping of these securities will be initiated. Investors can request that real coupons and the so called *uplift* (the component of the redemption at maturity due to the accreting inflation) be separated from the principal expressed in nominal terms. The Treasury is thus introducing a major innovation, given that the three-component stripping model does not exist in Europe or elsewhere in countries with a long-standing tradition of government linkers' issuance activity.

Exchange and buyback operations

Also in 2008 the Treasury will make use of exchange and buyback operations to manage the refinancing risk, promote the efficiency of the various instruments in the secondary market and restructure the overall stock of outstanding government securities.

Auctions schedule

As every year, the following table provides a schedule of monthly auctions at which the instruments outlined so far will be offered to the market.

Table 1 : Auction schedule

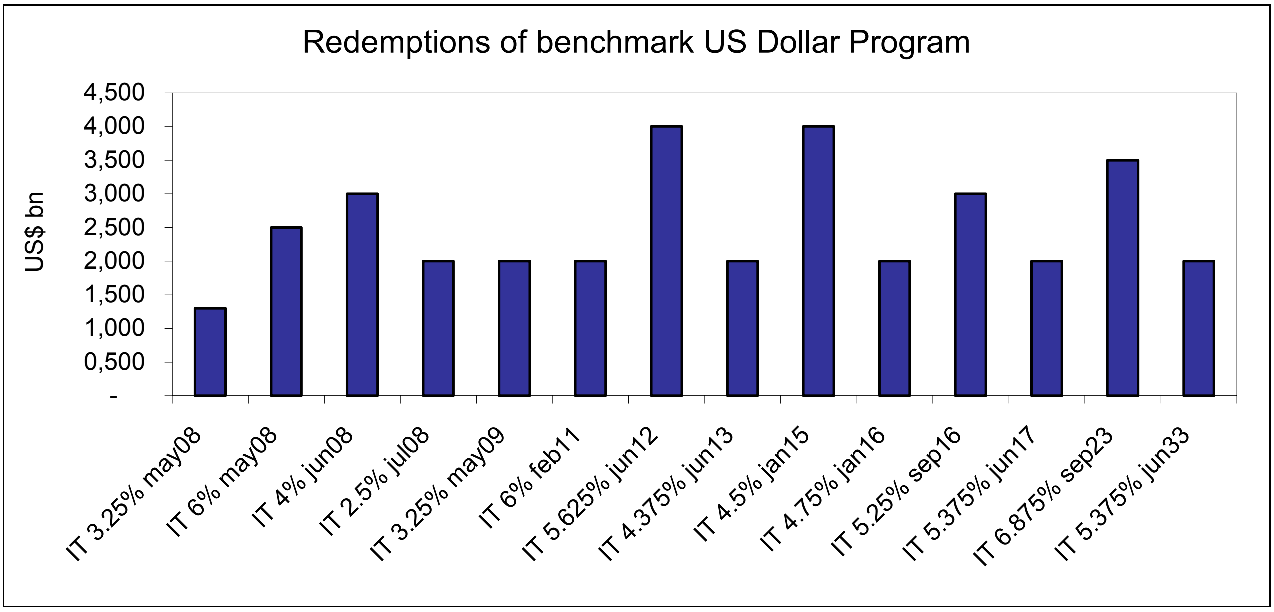
	Mid-month auctions	*End-of-month auctions*
Flexible BOTs	***Issuance depending on cash requirements***	
3-month BOTi	***Issuance depending on cash requirements***	
6-monts BOT		*X*
12 month BOT	***X***	
24 month CTZ		***X***
3 year BTP		***X***
5 year BTP	***X***	
10 year BTP		***X***
15 and 30 year BTP	***The two securities will be offered on the basis of market demand***	
7 year CCT		***X***
BTP€i		***X***

The foreign currency issuance programme

US dollar global benchmark programme

The Treasury confirms its intention to maintain its presence on the dollar market also to deal with the foreign currency securities maturing in 2008, even though without a pre-determined issuance calendar. The financing conditions will obviously be decisive in determining to what extent it will participate in this market.

Chart 6



Issuance activity in other markets

By their very nature, issuance activity in euros and in other foreign currencies through the EMTN programme will be determined on the basis of reverse enquiries received by the Treasury.
More specifically for private placements, proposals will be considered on the basis of the following criteria:

- issuance for a single institutional investor that will hold the security until redemption due to its own portfolio requirements;
- minimum tradable amount of 500,000 euros;
- medium / long-term maturities;
- economic advantage compared to the BTP curve;
- no overlap with other Treasury issuance programs or instruments.

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