

Guidelines for public debt management for 2004- 2005

1. Objectives of public debt management

Efficient public debt management aims at meeting public borrowing requirements, and the renewal of redemptions by choosing a strategy that optimally combines the cost and risks of funding.

In 2004, the issuance strategy will be aimed at improving the distribution of Italian securities with particular regard to the geographical diversification, and to Italian retail investor demand. Increasing the range of products offered, and the activity of “Specialists in Government Bonds” will contribute towards reaching such an objective.

Currency composition of the debt will not be subject to substantial changes (euro-denominated securities are about the 98% of the total debt issued by the Treasury), while the policy of lengthening the financial duration, that to date is equal to 3,6 years (3,4 at the end of 2002) will continue. Exchange operations will be more regular and frequent.

Auctions will remain the main method for the issuance of Domestic Government bonds whereas syndication will be used for those market segments for which the traditional issuance method could prove to be less effective.

The commitment to create an always more efficient market for European inflation linked bonds will continue.

2. Debt management policy in 2003

The management strategy for 2003 has been developed by following the strategy identified in the guidelines published at the end of last year.

The choices made in line with the policy adopted in recent years took into account the different phases that characterized the financial markets.

In particular, the issuance strategy was characterized by:

- *new benchmarks on the long end of the interest rate curve*, placed via syndication in order to provide an efficient allocation to the final investors and also an increase in the amount issued;
- *entry into the inflation-linked securities market*: in September the first BTP linked to the Euro zone harmonized consumer price index, excluding tobacco, was issued;
- *the reduction of the CTZ share of total debt*.

3. Guidelines for public debt management for 2004

3.1 Domestic program.

The policy of domestic debt management has, in recent years, allowed for a more stable structure, less exposed to the volatility of financial market.

In 2004, the domestic debt management strategy will continue to minimize the funding cost with the objective of achieving a further reduction in both interest rate and refinancing risks.

In particular, activity in 2004 will be based on the following lines of action:

3.1.1 Reducing the number of auctions on the short end of the curve. Pursuing the strategy adopted for the CTZ in 2003, the 3 year BTP will also be offered, normally, at the end of month auction.

3.1.2 Supply of long term bonds. The issuance on the long end of the curve will, as in 2003, take place on a monthly basis and will offer either 15 or 30-year BTPs in such a way as to support the primary and secondary markets efficiency. Syndication will continue to be one of the options for increasing liquidity and improving the distribution of the bonds, mainly for the first tranches.

3.1.3 Issuance of inflation-linked bonds. For 2004, the Treasury confirms the commitment to complete the European real interest rate curve issuing medium and long term Euro-zone inflation-linked bonds. The amount and maturities of the new securities will be defined according to the development of this sector. The liquidity of the new benchmarks will be assured by the different methods of issuance (auction or syndication).

3.1.4 Policy for the issuance of 6 month BOTs (T-bills) and CCTs. The amount offered of 6-month BOTs will be decided according to the redemptions and in a way that, jointly with the re-openings reserved for specialists, the efficiency of the CCT market is preserved. The latter instrument will be regularly issued, in order to insure liquidity to each line.

According to market conditions and to the demand expressed by the investors, the Domestic program will follow the calendar outlined in Table 1.

The amount of new Government bonds issued during the year will be decided in such a way as to guarantee liquidity and a higher level of efficiency in the secondary market.

The dates of announcements and settlements for the auctions of Domestic bonds for 2004 are available, as always during November, on the Public Debt web site (www.tesoro.it/publicdebt).

Table 1 – Auction Calendar
(with reference to issuance date)

	First half of the month	Second half of the month
Cash Management Bills – 3 mth BOT	Issuance tailored to meet cash needs	
6 mth BOT		X
12 mth BOT	X	
24 mth CTZ		X
3 yr BTP	(*)	X
5 yr BTP	X	
10 yr BTP		X
15 and 30 yr BTP	The 2 bonds will be issued during the month according to market demand	
7 yr CCT		X
BTP €i	The offer will be established according to market demand	

(*) The MEF reverses the right to offer the bond according to market conditions

Regarding medium and long term bonds, the issuance program for 2004 provides for the launch of new benchmarks, and the attainment of the corresponding volume outstanding, as noted in Table 2:

Table 2 – New benchmark issuance in 2004

<i>Bond type</i>	<i>Expected number of new bonds</i>	<i>Expected outstanding at end of issuance (billions of euros)</i>
3 yr BTP	2-3	12-18
5 yr BTP	1-2	14-20
10 yr BTP	1-2	16-22
15 yr BTP	1	12-18
30 yr BTP	1	14-20
CCT	2-3	12-18
CTZ	2-3	9-15

Possible variations will be made known through quarterly issuance programs, available on the Public Debt web site (www.tesoro.it/publicdebt).

3.2 The international program

The strategy for international markets in 2004 will continue along the two usual channels:

1. the benchmark program in US Dollars;
2. the funding activity in other markets;
3. the commercial paper (CP) program.

The US Dollar program, that in 2003 raised 12 billion dollars in the 3 to 30 year redemptions, will continue to be developed in view of an increasing internationalization of the investor base. Among Sovereign credits, the Treasury's commitment to making Italian Government bonds increasingly stable also in foreign markets is proving to be profitable and offers encouraging prospects for the future.

Therefore, even greater efforts will be made to keep Italian Government bonds among the most liquid on the market, thus assuring maximum visibility to investors by being quoted on the main electronic trading networks.

The funding activity in other markets, being part of the MTN program, will continue to be developed. During 2003 the Republic has consolidated its position as a global issuer, thanks to a

diversification in the currency denominations of its issues, dealing not only in euros but also in American dollars, Swiss francs, Pounds Sterling and Norwegian crowns. In 2004 the evaluation of opportunities in different international markets will be pursued, and will be aimed at contributing to the reduction of the total cost of the Republic's indebtedness by acceding, at the same time, to areas of liquidity that are, for various reasons, more inclined to operate in their own currencies.

Overall, the Treasury will, in 2004, count on issuing at least the equivalent of 10 billion euros, with the following breakdown:

- at least 8 billion dollars, as part of the benchmark program in US dollars;
- the remainder in other markets.

The Commercial Paper program, that in 2003 saw nearly the equivalent of 5 billion euros outstanding, will continue to be developed with the aim of assuring short term funding that is coherent with optimum liquidity management.

In particular, a more regular resort to the American market, characterized by its flexibility in terms of the availability of maturities and traded volumes, and also by a variegated presence of investors, will allow temporary cash imbalances to be confronted, thus assuring a funding cost that is in line with the Treasury bills in the domestic market.