



Dipartimento
del Tesoro

Edited by directorate II

2023 public debt management guidelines



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FOREWORD

In line with a well-consolidated practice, the Italian Department of the Treasury publishes these Public Debt Management Guidelines for 2023. The aim of this document is to provide participants in the Italian public debt market with both quantitative and qualitative information on the strategy for issuing and managing government securities over the next twelve months. In particular, details are provided on the issuance plan for the various segments and various maturities, as well as the approach that will be adopted in order to satisfy both the strategic needs of the Treasury in terms of managing the main risks and any changes in market conditions over the course of the year. Please refer to the 2022 Public Debt Management Report, which will be published during 2023, for details about all the 2022 debt management activities, with a focus on the performance of financial markets and public finance during said period.

I. 2023 DEBT ISSUANCE AND MANAGEMENT POLICY

I.1 INTRODUCTORY CONSIDERATIONS

The year 2022 has been marked by a number of events that changed the reference framework for financial markets: from the legacy of the Covid pandemic on global economy to the dramatic war in Ukraine, which also triggered an energy crisis that has had and is still having an impact on consumer price trends and economic activity; from the launch of restrictive monetary policies in response to the sharp rise in inflation, not to mention the lingering effects of the still ongoing aftermath of the pandemic. All these factors also affected the issuance activity of the Treasury and other issuers (sovereign and non-sovereign), as well as interest rates and investor preferences.

In this scenario, the Treasury's issuance activity proved very strong in the first half of the year, allowing it to slow down in the second half, when market volatility increased to historically high levels.

Indeed, in 2022 volatility no doubt dominated financial markets across all asset classes, including the core market of European and US government bonds. The confirmed end of net purchases in the Central Banks' purchase programmes (for the ECB, the APP and PEPP programmes) was accompanied by a marked rise in reference rates by the monetary authorities in response to inflationary pressures. The yield curve for Italian government securities showed a marked upward movement, accompanied by an increase, albeit to a lesser extent, of the spreads vis-à-vis other issuers, both core and peripheral, with a decisive increase in the slope of the curve for maturities up to 10 years, which was however accompanied by a significant decrease, and then reversal, of the curve for maturities over 10 years during the second half of the year.

The rise in market rates and in the indexation of prices led to an increase in the average cost of issuance, which in 2022 amounted to 1.71%, while the average cost of debt, calculated as the ratio of interest to the stock of debt of the Public Administrations, rose to a level of around 2.9%.

In 2022, a total of almost EUR 285 billion was issued in medium- to long-term securities, of which EUR 7 billion were exchange transactions. Thus, the issues net of the exchanges amounted to EUR 278 billion, a figure very much in line with that reported in the last Quarterly Programme amounting to EUR 275 billion. BOT issues amounted to EUR 139.4 billion.

Market conditions and management decisions also made it possible to keep high the average life of debt which, at the end of 2022, relative to the stock of government bonds, was equal to 7.04 years (7.31 years including loans under the SURE and NGEU programmes), only slightly lower than that at the end of 2021 equal to 7.11

years. This was attributable to various issues on the long end of the yield curve, carried out both through auctions and with the launch - through a syndicated placement - of two new nominal benchmark securities (with 30-year and 15-year maturities) plus the BTP Green maturing in 2035, a 10-year inflation-indexed BTP (BTP€i) and an 8-year CCTeu.

In 2023, financing needs will be determined by the maturities of the outstanding securities which, net of BOTs, will amount to just under EUR 260 billion, as well as by the new State borrowing requirements for the coming year which, based on preliminary estimates consistent with the latest version of the 2022 Draft Budgetary Plan of last November, should amount to around EUR 90 billion.

Considering the loans from the NGEU package and the cash management activity, based on currently available information, total gross issues of medium-long term securities are expected to amount to between EUR 310 and 320 billion.

In this context, the debt issuance and management policy in 2023 will mainly aim at achieving the following objectives:

a) ensuring coverage of borrowing requirements at costs that are aligned as much as possible with market performance;

b) consolidating results that have already been achieved in terms of exposure to main risks, in particular interest rates and refinancing risk, especially through the progressive and gradual reduction of issuances in the short end of the yield curve;

c) contributing to a progressive improvement of liquidity conditions on the secondary market;

d) continuing the efficient management of the Treasury's cash stocks.

To this end, the Treasury's market strategy over coming months will be based on:

a) the commitment to ensuring the predictability and regularity of issuances in all main segments of domestic securities;

b) the calibration of volumes offered to the market in order to give greater weight to sectors with better secondary market liquidity and greater depth of demand;

c) the continuation of issuances devoted to retail investors, aimed at expanding their direct participation in public debt, including through new instruments;

d) the use of liability management instruments (such as exchanges and buy-backs), in line with the approach followed in recent years, with a frequency and intensity consistent with the market performance, and with the aim of reducing dislocations in specific securities, improving secondary market liquidity, managing the redemption profile in future years and helping to mitigate the average cost of outstanding debt;

e) the monitoring of developments in foreign currency markets to be exploited in both the Global and EMTN formats, with a particular focus on placements in dollars, in the presence of favourable economic conditions;

As a reminder, the 2022 Public Debt Report will describe in detail all the different components of the debt management activity of the year that is coming to an end, highlighting the objectives pursued and the results achieved.

II. ISSUANCE PROGRAMME FOR SECURITIES PLACED THROUGH PUBLIC AUCTION

II.1 TREASURY COMMUNICATIONS: ANNUAL CALENDAR, QUARTERLY PROGRAMMES AND ISSUANCE PRESS RELEASES

In 2023, the Public Debt Directorate will adopt a communication policy aimed at achieving the greatest possible transparency in defining the issuance strategy and specific issuance choices. Naturally, the objective of transparency is always balanced with the opportunity to reserve a certain degree of flexibility, which is necessary to ensure the most appropriate management choices, especially in market contexts whose evolution is difficult to predict.

This communication policy is pursued by publishing these Guidelines as well as through additional periodic publications, such as the Annual Calendar, the Quarterly Programmes and Issuance Press Releases. Furthermore, if the particular macroeconomic and/or market context makes it appropriate to significantly amend the issuance policy, the Treasury will promptly communicate these changes through an update of this document.

The Annual Calendar is published on the home page of the Public Debt website (www.debitopubblico.it). It contains the dates of the government bonds auctions planned for 2023 (BOTs included), as well as the announcement and settlement dates for the various categories of securities on offer.

At the end of every quarter, the Treasury will publish the Quarterly Issuance Programmes. As of the third quarter of 2022, the Quarterly Issuance Programme has been enriched with additional information in order to improve the effectiveness of this instrument. In the new version, besides updates on the total expected volume of medium- and long-term debt issuances until the end of the year, information on the macroeconomic reference framework - with a summary of the most recent economic information - and on public finance is provided. In the section on Government securities issuances, as usual, the market will be provided with information on new issues of nominal BTPs up to the 10-year maturity that will be placed through auction during the following quarter, together with the minimum outstanding volumes that the Treasury undertakes to reach for each of them before placing new securities within the same segment. With regard to the new securities to be issued during the quarter, the Treasury will decide on a case-by-case basis, whether it is appropriate to also provide the exact maturity date and accrual date in addition to the type and maturity segment of the securities, in order to meet any flexibility requirements resulting from market evolution.

Lastly, in accordance with the Annual Calendar, an Issuance Press Release will be published three days prior to each auction, informing the market about the specific securities on offer and the relative quantities. These press releases also provide additional and useful information for investors, such as the deadline for submitting bids, the amount offered through supplementary placements reserved for Specialists, the entities that can participate in the auction, how to take part and, finally, whether or not stripping is admissible for the security offered through auction and whether it presents an initial “short coupon”.

Table 2.1 below summarises the timings for announcements and settlements normally adopted for the securities offered in auction by the Treasury.

TABLE 2.1 – AUCTION ANNOUNCEMENT CALENDAR AND SETTLEMENT DATES			
Type of security	Announcement date	Auction	Settlement date
All types issued via auction	T-3	T	T+2

As already happened in recent years, the 2023 Annual Calendar envisages the possibility, in certain sporadic occasions, that the auctions of BOTs and/or medium/long-term securities shall not comply with standard time frames, taking into account various aspects such as, among other things, the timing of auctions with respect to national or international holidays.

The date of the additional placements reserved for Specialist dealers will be included in the Issuance Press Releases and in any case, these placements are normally carried out in the afternoon of the day after the ordinary auction is held. In particular, as far as medium/long-term securities are concerned, reopening shares will continue to amount to 30% for the first tranches and 15% for subsequent tranches. As regards the calculation method, no changes will be introduced with respect to what was already introduced starting in 2022. Therefore, in the case of new securities, the share to be assigned to each operator in proportion to the amount subscribed in previous auctions remains equal to 22.5%, while the share linked to the performance obtained by the same operator on the secondary market remains unchanged at 7.5%; for subsequent tranches, the share to be assigned to each operator in proportion to the amount subscribed in previous auctions remains at 7.5%, while the share linked to the performance obtained by the same operator on the secondary market remains at 7.5%.

In addition, as was the case in the last years, when determining the quotas relating to the tranches subsequent to the first, the Treasury will continue to make use of a number of flexibility options. In particular, the Treasury reserves the right to increase the reopening share of nominal and inflation-indexed securities by an additional 5% on a case-by-case basis. Even in this case, the decision will be announced in the press releases for ordinary auctions. As regards the methodology for calculating the amount to which each Specialist is entitled in the supplementary quota with respect to the standard 15%, for bonds with a residual maturity of less than 15 years, this amount will continue to be calculated entirely on the basis of the tranche awarded in the last three auctions for the same type of security and segment; for bonds with a residual maturity greater than 15 years, half of the fee

will continue to be calculated on the basis of the performance carried out by the Specialist on the electronic secondary market of reference, and the remaining half will be based on the quota awarded in the last three auctions relating to the same type and segment of security.

II.2 FREQUENCY OF AUCTIONS OF THE VARIOUS TYPES OF SECURITIES

The frequency of auction cycles offering government securities on a monthly basis will not undergo any changes during 2023, thus guaranteeing the mid-month and month-end appointments.

With regard to the BOT segment, 12-month BOTs and 6-month BOTs will be placed on a monthly basis during the mid-month and month-end auctions, respectively. If cash requirements make this necessary, 3-month BOTs will be offered at mid-month together with 12-month BOTs. Lastly, and again if cash requirements make this necessary, flexible BOTs may be offered at either the mid-month or the month-end auction.

On-the-run nominal securities with medium/long-term maturity will also be offered through two auction cycles, one at mid-month and one at month-end. At mid-month, 3-year and 7-year BTPs will be regularly offered and, if the necessary conditions are met, one or more long-term BTPs with a maturity of 15, 20, 30 or 50-years, may also be offered during the same auction cycle. Month-end auctions, on the other hand, will continue to offer 5-year and 10-year BTPs, along with CCTeus.

Securities indexed to European inflation, BTP€is, will continue to be placed on a monthly basis, at month-end, normally on the same day as Short-Term BTPs.

The three days of the month-end auctions will therefore continue to be organized as follows: the auction of BTP€is and Short-Term BTPs will take place on the first day, with their settlement date normally being the day prior to the last business day of the month; the BOT auction will be held on the second day, with settlement on the last business day of the month; the auctions of medium/long-term nominal securities will be held on the third day, with settlement on the first TARGET business day of the month after the auction is held. With regard to mid-month auctions, the BOT auction will be held first, with the settlement date normally falling on the working day before the 15th of the month; the day after the BOT auction, auctions of medium/long-term nominal bonds will be held, with the settlement date normally falling on the 15th of the month. Announcements for all auctions will be made three business days prior to the placement date.

Also in 2023, for all the nominal BTPs, for CCTeus and for BTP€is - which will be examined in detail in this document - the Treasury may resort to the auction placement of off-the-run securities, if considered appropriate and aimed to support the optimal functioning of the secondary market, helping to remove possible distur-

tions on the government securities yield curve and/or meeting specific demand requirements with respect to specific securities. In order to ensure a more efficient placement of these instruments, the Treasury reserves the right to use the greatest possible flexibility both in terms of its choice of securities and in relation to the frequency with which it offers them to the market.

Considering the specific nature of the reasons for offering them to the market, off-the-run securities may therefore be offered during both mid-month and month-end sessions. With regard to placement procedures, for off-the-run securities, ranges will be offered on the issue amounts for each security, or with a joint range in the case of several securities being offered at the same auction. On an exceptional basis and under certain market conditions, the Treasury may nonetheless decide to offer both off-the-run and on-the-run benchmark securities jointly, in the same issuance range.

Table 2.2 below summarises the frequency of auctions for each instrument:

TABLE 2.2 – FREQUENCY OF AUCTIONS		
TYPE OF SECURITY	MID-MONTH AUCTION	MONTH-END AUCTION
FLEXIBLE BOTs	ISSUANCE CONTINGENT ON CASH REQUIREMENTS	
3-MONTH BOTs	ISSUANCE CONTINGENT ON CASH REQUIREMENTS	
6-MONTH BOTs		X
12-MONTH BOTs	X	
SHORT TERM BTPs		X
3-YEAR BTPs*	X	
5-YEAR BTPs*		X
7-YEAR BTPs*	X	
10-YEAR BTPs*		X
15, 20, 30 AND 50-YEAR BTPs*	OFFERED IN RELATION TO MARKET DEMAND	
CCTeus		X
BTP€is		X

* For securities marked with an asterisk, it should be specified that off-the-run securities falling into the respective duration category based on the criterion of residual maturity at the time of issuance may also be offered in medium/long-term auctions other than those in the table.

Once again, under exceptional circumstances and if required to do so by specific liquidity needs, market functioning and/or demand, the Treasury may resort to re-opening both short and medium/long-term outstanding securities, also outside of the Annual Calendar. Any such placements will be decided also on the basis of detailed consultations with market participants and will be announced through the normal communication channels.

The auctions will be carried out in the same way: for BOTs, a multiple price (competitive) auction will be maintained, whereas all other instruments will be offered through a single price (marginal) auction, with the price being discretionally cut based on the demand at auction, within a quantitative range announced in advance.

III. NOMINAL FIXED- AND FLOATING-RATE SECURITIES

III.1 BOTS AND LIQUIDITY MANAGEMENT

For Italy, the trend of GDP growth that began in 2021 continued in 2022, as did the process of normalisation with respect to the extraordinary situation experienced during the pandemic. The decline in borrowing needs and funding levels, combined with the use of the new repurchase agreement operations, led to a significant reduction in the level of planned issues in the ordinary Treasury securities (BOTs) segment, with BOTs increasingly returning to their status of Treasury instruments.

In 2023, the Treasury will face a changing monetary market. As already announced by the European Central Bank, its monetary policy will proceed to reduce the monetary accommodation trend seen over the last decade, by easing repayments of TLTRO operations, by additional rises in reference interest rates, accompanied by a reduction, albeit expected to be gradual, in the reinvestment quota of maturing bonds under the APP programme. The effects of all these operations on the monetary market will have to be carefully monitored in order to adjust issuance choices on the BOT segment and to assess, on a case by case basis, the most appropriate instrument for efficient liquidity management.

Starting in May, provided there are no changes to the current regulatory framework, the return on government deposits with national central banks will no longer be equal to whichever is lower between the €str rate and the ECB's Deposit Facility (DFR) rate, but will be capped at zero. As a consequence, even more careful and dynamic liquidity management will be required for the Treasury, in order to minimise the amount deposited in the availability account but at the same time ensure the maintenance of a liquidity buffer to prudently cope with unforeseen movements in treasury flows.

Over the course of the coming year, the Treasury will continue to regularly issue 6- and 12-month BOTs on the primary market, taking into consideration investor demand, the need to guarantee sufficient liquidity of each security, and the need to continue to contain the Treasury's presence in this segment. Given the maturities of medium- and long-term securities and the levels of requirements expected for 2023, rather than in absolute levels, the Treasury's presence is likely to be contained in terms of the share of BOTs with respect to total issues, and therefore also in terms of percentage share with respect to the stock of government securities.

The Treasury will also introduce an important change to the issuance policy for 6-month BOTs: the 6-month BOT will be regularly offered on the market every month, but the same security will be reopened in the auction cycle of the following month by means of a second tranche. This solution, with a view to progressively reducing the segment's issues, will, on the one hand, guarantee greater liquidity to

each line of the 6-month segment, and on the other hand, ensure greater flexibility in the BOT issuance policy by making it possible to place several BOT lines in the same auction cycle. In this way, it will be possible to choose each time the point on the monetary curve that is most in demand or that allows the Treasury's cash needs to be optimised.

As from 2023, in line with the need to manage more efficiently the publication and communication of the ISINs associated with new securities being issued, and in agreement with the Bank of Italy, the entity responsible for issuing ISIN codes for government securities, the issuance and communication of the ISINs of new BOT securities will take place on the same day as the publication of the related issue announcement, thus aligning the procedures to the same procedures provided for BTPs.

With respect to the entire segment, should specific liquidity management needs arise, the Treasury will as usual consider issuing 3-month BOTs or so-called flexible BOTs.

The Treasury will continue to use competitive auctions for the issuance of all BOTs. As is customary, for each security offered, operators will be able to submit up to five requests expressed in terms of yield. Investors who purchase BOTs at auction will be subject to the rules set forth in the Italian Ministerial Decree for transparency in the placement of Government securities. Each ordinary auction will be followed by a reopening reserved to Government bond Specialist dealers, which will normally remain equal to 10% of the nominal amount offered in the auction. The share of the reopening will be allocated according to the performance of the Specialists observed in the primary and secondary market. However, the Treasury will retain the right to modify this percentage in each auction if exceptional circumstances arise and in any case by means of a dedicated press release.

As usual, the reopening reserved to Specialists will not take place for bond tranches subsequent to the first, except for the 6-month BOT segment. Possible variations will be considered on the basis of market conditions and demand expressed by operators, as well as for debt management purposes, again in line with the need to optimise the overall volumes issued in this segment.

In 2022, liquidity management was greatly facilitated by the entry into full operation of the repurchase agreement (Repo) activity, launched in the previous year. This type of operation was particularly positive for the Treasury, which was able to carry out liquidity raising operations in an efficient and flexible manner, contributing to the management of distortions in the market and facilitating the market making operations of Specialists. The success of the operations led the Treasury to gradually increase in March and November the securities in its portfolio, composed of tranches of Government securities already in circulation in the nominal BTP segment, and which reached the amount of EUR 45 billion.

The Treasury expects that in the course of 2023, repo transactions will consolidate their role among the instruments available for liquidity management, both with regard to funding and lending. In fact, as already mentioned, from May onwards, Government stocks will no longer be remunerated by monetary policy decisions, and the Treasury will therefore have to perform a prudent and even more active management of its resources, in order to minimise surplus stocks above the amount of liquidity maintained for prudential purposes. Given the need to manage

liquidity and the important positive effects produced on the market by Repo operations, the Treasury plans to continue to provide securities to the market in the event of situations of stress or dislocation that require the use of Repo operations and, at the same time, to provide liquidity through operations in Reverse Repo, on the General Collateral contract, always taking care not to interfere with the normal and orderly course of the market.

Furthermore, on the lending side, the Treasury will be able to count on the new non-collateralised deposit facility introduced in 2022 and carried out also through electronic trading platforms. In the space of a few months, this instrument has in fact proven to facilitate the activities of both the Treasury and its counterparties, making operations faster and more efficient, and producing excellent results in terms of volumes traded and variety of counterparties involved.

In 2023, the Treasury may also consider using Commercial Paper (CP) as an additional cash management instrument. The aim is to achieve greater flexibility in terms of quantities issued and maturity range, as well as to increase the diversification of investors operating on short-term and very short-term instruments.

III.2 SHORT-TERM BTPS

As announced in last year's Guidelines, over the course of 2022, the issues of Short Term BTPs definitively replaced those of Zero Coupon Treasury Certificates (CTZs), which effectively ceased to exist following the redemption of the last two bonds that matured during the year.

In 2022, the Treasury launched two new benchmarks on the BTP Short Term segment with amounts placed at around EUR 32 billion, leaving the segment's weight on total issues unchanged from the previous year.

With respect to redemptions, two CTZs, amounting to over EUR 29 billion, and one Short Term BTP, amounting to about EUR 15 billion, matured in the year just ended. Therefore, also considering the exchange transactions on the Short Term segment and a buyback at the beginning of the year on the CTZ segment, net issues in 2022 were largely negative, in line with expectations.

In 2023, as occurred in the last year, the Treasury will continue to issue on a regular basis Short Term BTPs, together with indexed BTPs, in the ordinary end-month auction cycle, and will presumably introduce two new benchmarks with timelines that will be adequately communicated to the market through the publication of the Quarterly Issuance Programmes. The amounts placed may, however, be lower than in the past, consistent with the Treasury's objective of carrying out a gradual and progressive decline of the quantities issued on the short end of the yield curve, consequently distributing the volumes on offer over the other maturities.

In any case, taking into account that only one bond, amounting to just over EUR 13 billion, will mature next year, positive net issuance is expected in the segment.

Finally, in line with what has already occurred in recent years, the Treasury will consider the possibility of including Short Term BTPs among the securities subject to possible exchange or buyback transactions, with the intention of containing the amount maturing in the next two years.

III.3 CCTEUs

In 2022, similarly to what happened in previous years, the Treasury paid particular attention to supporting the CCTeu segment, both through an issuance policy entailing greater flexibility in the choice of the maturity of new securities, and through repurchase and exchange transactions aimed not only at reducing outstanding amounts on the various maturities, but also at favouring a regular and orderly trading trend on the secondary market.

Despite the Treasury's initial plans to be present in the segment with an even higher volume of issues than in 2021, high market volatility and the increase in cost compared to BTPs of the same maturity led to a downward adjustment of the volumes on offer, equal to about EUR 18 billion, with a subsequent reduction in the segment's weight with respect to the volume of total securities placed. Therefore, considering the volumes maturing on two securities for about EUR 27 billion during the year and the redemptions through exchange and repurchase transactions that affected the segment, net issues of CCTeUs were largely negative at the end of 2022.

The Treasury's issuance policy for 2023 will continue to use flexibility in choosing outstanding or new maturities best suited to meet demand in each placement. The amounts offered monthly in ordinary auctions will be calibrated to take into account the high volumes maturing next year, amounting to just under EUR 21 billion. Consequently, the volume of securities on offer may be higher than in the year just ended, as well as the weight of the segment on the total volume of securities in issue. Thus, considering the maturity profile, net issues may be marginally positive.

Over the course of next year, in addition to the normal reopening of securities in circulation, the Treasury expects to place on the market at least one new benchmark security with a maturity between 3 and 10 years, which will be defined only after an in-depth assessment of the market context and the investors' preferences. Based on market conditions and demand, the Treasury will assess whether syndication is necessary for the launch of the new bond, especially if the chosen maturity is on the longer side of the aforementioned range, as was the case in 2022.

Finally, as has occurred in recent years, CCTeUs may also be subject to exchange and buyback transactions aimed both at reducing the maturity profile in the next two years and at easing any tensions that may affect the sector.

III.4 NOMINAL 3-YEAR AND 5-YEAR BTPs

With regard to the 3-year maturity of nominal BTPs, 2022 saw Treasury issuance stand at around EUR 37 billion, which was lower than in 2021, when it was around EUR 41.5 billion. The drop in emissions in the segment, which reflects the more general progressive normalisation of emission levels compared to those of the last two years, was nevertheless such that the segment's weight in total emissions for the year remained virtually unchanged.

The 5-year segment, on the other hand, saw a slight increase in gross issues, which stood at around EUR 43 billion, compared to around EUR 40.5 billion a year earlier, resulting in an increase in the share of the 5-year segment on total securities issued in 2022.

Compared to 2021, when the weight of the two sectors on total issuances was roughly balanced, in 2022 the weight of 5-year BTPs outweighed that of 3-year BTPs.

Furthermore, as expected, net issuance in 2022 was also largely positive in both segments.

In 2023, consistent with what happened this year, the volumes being issued in both segments will be adjusted so as to slightly overweight the 5-year segment compared to the 3-year segment.

Volumes issued in the 3-year maturity segment are estimated to be slightly above those recorded in 2022. Considering the significant volume of maturities due next year, amounting to more than EUR 44 billion, net issuance may be negative.

With regard to the 5-year maturity, issuance volumes are expected to be slightly lower than during 2022, in line with the lower amount of securities maturing, equal to approximately EUR 31 billion. Therefore, net issues are expected to be largely positive in 2023 as well.

The Treasury will continue to ensure a regular and continuous presence by re-opening outstanding securities, until a suitable outstanding amount is reached, in order to ensure an adequate liquidity on the secondary market, and by launching new securities, in relation to which at least two new benchmarks are expected to be issued for both maturities. The opportunity to offer new securities to the market and the relative timing will be assessed in order to take into account the Treasury's financing needs and the secondary market performance of securities with a similar residual maturity. The market will, of course, be adequately informed about the timing for the new securities to be offered to the market, thanks to the publication of the Quarterly Issuance Programmes.

The marginal auction will remain the method for offering the new benchmarks with the above maturities.

III.5 NOMINAL 7-YEAR AND 10-YEAR BTPs

In 2022, gross issues of 7-year BTPs stood at around EUR 36 billion, down from the EUR 39 billion issued in 2021. Considering the lower overall volume of issues in 2022 compared to 2021, the weight of the 7-year maturity remained unchanged with respect to total issues, in line with the continued interest shown by end-investors in this product and with the Treasury's more general objective of continuing to consolidate its presence in an important sector of the nominal BTP curve for the purposes of extending the average life of debt.

Contrary to what was announced at the beginning of the year, when positive net issuances were expected, during 2022 the repurchase and exchange transactions affecting several securities of this maturity increased the total volume reimbursed (which amounted to approximately EUR 37 billion compared to the initially projected EUR 34 billion), thus resulting in negative net issuances.

In the course of 2023, two 7-year securities amounting to approximately EUR 32 billion will mature.

In 2023, the volume of issues is expected to remain in line with or only slightly higher than last year. Positive net issuance is therefore expected. The weight of the 7-year maturity on the total amount issued is also expected to be in line with or only slightly higher than last year.

In 2022, around EUR 40 billion was issued in the 10-year segment through ordinary auctions, significantly less than in 2021, when around EUR 60 billion was issued. This issuance volume is more in line with that of the pre-Covid period: considering that a significant portion of the additional funding needs to address the Covid-19 crisis were concentrated on the 10-year segment, the drop in issuances on the segment, as well as the non-use in 2022 of syndication as a placement method unlike in the previous two years, indicate a gradual return to an ordinary issuance policy. However, 10-year maturities continued to have a significant weight on total issues, only slightly lower than in 2021, and continued to preserve their role as a reference point for the entire Italian nominal yield curve. As anticipated, given the significant amount of securities maturing in 2022 (equal to about EUR 60 billion), net issues were largely negative.

In 2023, 10-year BTPs amounting to approximately EUR 18 billion will mature, significantly less than those matured in 2022. The volume of issues may exceed that of the year just ended, and with it the weight of 10-year BTPs with respect to total issues. Thus, net issuance in the 10-year segment of the BTP curve is estimated to be largely positive.

New lines to be issued in the coming year will be announced in the Quarterly Issuance Programmes. At least two new benchmark securities are expected to be offered in the 7-year segment, while at least one new security will be offered in the 10-year segment. The Treasury's preferred method for launching new benchmark securities will continue to be the ordinary auction.

As per standard procedure, before deciding on whether or not to open a new benchmark security, an in-depth analysis will be carried out into the market scenario, to check the market's ability to absorb a new benchmark via auction - normally for volumes in excess of ordinary re-openings - and whether the total amount

of outstanding securities is sufficient also to guarantee that they may be re-opened subsequently, as off-the-run securities through auction or exchange transactions.

III.6 NOMINAL LONG-TERM BTPs (15, 20, 30 AND 50 YEARS)

Over the course of 2022, the issuance of new benchmark securities on the long-term segment was well received by end-investors. The Treasury was able to place a new benchmark security on the 15- and 30-year maturities through syndication. Overall, around EUR 31 billion was placed on the long-term segment, an amount almost in line with the approximately EUR 33 billion issued in 2021, with an increase in the weight of the long-term segment on the total issued during the year. Also in 2022, in order to take account of secondary market conditions and demand, the second half of the year was characterised by an issuance policy aimed at limiting the volumes on offer on the long-term segment.

In line with past years, in 2023 the issuance policy in the long-term segment will continue to focus on providing liquidity to all available instruments through placements that will be conducted on a regular and continuous basis. In the mid-month auctions, the Treasury will offer the market at least one of the securities with a maturity of between 15 and 50 years, choosing each time on the basis of assessments that will take into account the information acquired - through direct and indirect channels - with investors and with the most active dealers in these instruments and considering the dynamics of exchanges on the secondary market.

In 2023, gross issuance on the long-term portion of the BTP curve could be higher than in 2022; thus, the weight that nominal long-term BTPs will have on total issuance is estimated to increase slightly with respect to 2022. In any case, considering the absence of 20- and 50-year bond maturities, the Treasury expects to make positive net issuances, while in the 15-year segment, where securities for a significant amount, equal to approximately EUR 22 billion, will mature in 2023, negative net issuances are expected.

Moreover, the Treasury will evaluate the opportunity to issue new bonds on the various benchmark maturities of this segment through syndication, should market and demand conditions prove favourable. As per standard procedure, given the fact that this operation is carried out through a syndicate and outside of the auction calendar, the new long-term BTPs will be announced in the usual press releases and will not be included in the Quarterly Issuance Programme.

III.7 BONDS INDEXED TO EUROPEAN INFLATION (BTP€is)

In the face of renewed inflation, 2022 was characterised by a growing demand for securities indexed to European inflation.

In this scenario, the Treasury confirmed its presence in the segment with a volume of issues only slightly lower than in 2021. However, following an appropriate balance between demand conditions and the more general objective of containing exposure to inflation risk, the weight of issues of indexed securities on total issues was slightly higher than in the previous year.

Testifying to the high level of popularity of this instrument among investors, a new 10-year benchmark security in the amount of EUR 5 billion was successfully issued in 2022 through syndication. Considering the volume maturing during the year, net issuances were positive, as expected.

Over the course of next year, two 5- and 15-year BTP€i securities will mature. Their revalued amount is approximately EUR 36 billion, a significantly higher amount than the approximately EUR 11 billion matured in 2022. As regards the volumes issued, the Treasury expects to be present on the market with an amount and a share of issues slightly higher than in the year just ended. However, considering the volume of securities maturing, negative net issuance is estimated for the entire segment.

Also in 2023, the Treasury will continue to be regularly present on the market and monthly distribute the offer on the various maturities of the real yield curve, carefully calibrating the volumes issued and considering the evolution of the macroeconomic context and demand, as well as the overall trend of securities at European level.

The evaluation of the possibility of introducing new benchmarks will continue to take into account the conditions of the individual securities already in circulation, both in terms of the free float reached by each of them and in terms of residual life. As per normal procedure, new securities with a maturity of 10 years or more will be placed through a syndicated transaction.

Should new benchmarks be launched, the Treasury, based on market feedback and the need to manage cash flows in an optimal way, shall continue to favour the May-November coupon cycle.

III.8 BONDS ADDRESSED TO RETAIL SAVERS

As is known, for several years the Treasury has pursued a debt management policy also aimed at increasing the involvement of small retail investors, who have the opportunity or need to invest even small amounts in the Government securities market. Given the historically low interest rate scenario and the strong development of alternative instruments offered by the financial industry, which has characterised the last decade, pursuing this objective has been complex, and indeed the share of government bonds in the hands of these investors has remained very

low in recent years. Only recently, during 2022, a first reversal of this trend was observed, with this share slightly rising again despite the underlying continued growth of the debt stock. This change was driven not only by interest rate trends, but also by the instruments dedicated to such savers introduced by the Treasury in the last decade, such as the BTP Italia and the BTP Futura.

Next year, besides proposing these instruments, the Treasury will also consider the possibility of offering additional new instruments that may appeal to retail savers in a scenario where interest rates are much higher than even those of the recent past.

With regard to the BTP Italia, given inflationary dynamics, in 2022 the Treasury put particular effort into providing retail savers with an instrument for protecting against inflation, thus contributing to increase direct participation in public debt by a growing number of small savers. Indeed, two issues of BTP Italia were made during the year, for a total amount of over EUR 21 billion. This is a substantial amount, also considering the small number of reinvestments from the only bond maturing during the year, amounting to just over EUR 2 billion. As a result, net issues in the segment were largely positive.

In 2023, three BTP Italia bonds totalling approximately EUR 25 billion will mature.

Considering the volumes maturing, and in order to continue to satisfy the demand of institutional and retail investors and to provide a well-established instrument to protect their savings, the Treasury will consider issuing one or more BTP Italia bonds during the year.

As regards maturity, the Treasury reserves the utmost flexibility in assessing the most appropriate maturity for the issue of the new security close to the placement.

In any case, the securities that may be offered next year will maintain the indexation linked to the national inflation rate and a final bonus for retail investors who purchase the security at issuance and hold it until maturity.

Lastly, in line with its policy of recent years, the Treasury reserves the right to analyse the possibility of carrying out extraordinary exchange or buyback transactions to manage the BTP Italia amounts maturing in the following years, assessing the most efficient way to complete said transactions. Furthermore, these transactions may also be used to provide adequate support in terms of the liquidity and efficiency of the secondary market, should market conditions require this type of intervention.

With regard to the BTP Futura, the government security reserved exclusively for the retail market, which was first introduced in 2020 to finance the measures launched by the Government to deal with the crisis resulting from the Covid-19 pandemic, it must be said that, contrary to what had been announced, the Treasury did not deem it appropriate to issue any BTP Futura securities during 2022.

In 2023, if conditions are met, the possibility of a placement during the year will be assessed in light of financing needs.

With respect to the characteristics of the BTP Futura, the Treasury reserves the utmost flexibility in assessing the most appropriate maturity for the issuance of the new security close to the placement. The securities offered next year may have the same financial characteristics as those already present on the market or others that will be deemed appropriate. However, the payment of principal amount at

maturity will be at par value and a bonus payment linked to the growth of the national economy during the life of the security, paid at different times, will be confirmed for investors who purchase the security at issuance and hold it until maturity.

As for previous issues, the BTP Italia and the BTP Futura will be issued directly on the MOT platform, that is, Borsa Italiana's regulated electronic market dedicated to retail trading, making use of the order collection support of dealer banks chosen directly by the Treasury among the Specialists in Government securities. In addition, while for the BTP Italia a separate and subsequent ad hoc issuance period for institutional investors will be scheduled, for the BTP Futura, since it is a security reserved exclusively for individual and similar investors, this procedure will not be available.

III.9 GREEN BTPs

In view of the excellent response received from investors at the launch of the BTP Green in 2021, the syndicated issue of the second BTP Green maturing on 30 April 2035 took place on 6 September, for an amount of EUR 6 billion. Also in this context, the interest of ESG investors in the Italian Green bond was reconfirmed, with more than half of the issue subscribed by ESG (Environmental, Social and Governance) investors, with a total demand that reached EUR 40 billion.

In addition, in order to provide adequate support for the liquidity of the security on the secondary market, last November the BTP Green maturing on 30 April 2035 was reopened via marginal auction for an amount of EUR 2 billion. The net proceeds of BTP Green issues are intended to cover the pool of sustainable expenditures in the State Budget for the year of issuance and the balances for the previous three years.

As with the previous issue, the selection of expenses was made in compliance with the Green Bond Principles drawn up by the ICMA (International Capital Market Association) and considering, where possible, the criteria underlying the EU Taxonomy under EU Regulation 2020/852.

In line with international best practices and ICMA criteria and following the provisions of the Green Bond Framework (GBF) published on 25 February 2021, last May the Treasury released the Italian Sovereign Green Bond Allocation and Impact Report containing all available information on the allocation of the proceeds of the two issues relative to the BTP Green 2045, with two tranches issued for a total nominal value of EUR 13,5 million. In addition, the document provides an account, when already available, of the positive environmental impact actually observed, or in any case that can be assessed using scientific criteria, of the interventions made possible thanks to the expenditure considered.

In 2023, in relation to the evolution of market conditions, the Treasury will consider the possibility of offering on the market a volume of issues higher than in

2022. This objective will be achieved both by reissuing securities already in circulation and by introducing new ones. Issuance modalities will be chosen according to market conditions and the characteristics of the maturities to be issued.

IV. LIABILITY MANAGEMENT OPERATIONS: EXCHANGES, BUYBACKS, TAP ISSUES AND DERIVATIVES

In order to manage exposure to the main risks of the outstanding stock of debt and contribute to the efficiency of the secondary market, in 2023, as in previous years, the Treasury will resort to extraordinary Liability Management operations based on market conditions and which will be carried out at a frequency dictated by such conditions. Only Specialists in Government bonds will be able to participate in said operations, which, as a rule, will be held in the weeks free of bond auctions, which have already been scheduled.

The Treasury will pursue a variety of objectives through exchanges and buybacks. In continuity with the policy adopted in recent years, maximum attention will be paid to situations of market efficiency, intervening in situations of tension on specific securities or on certain points of the yield curve of government bonds. Another aspect that the Treasury will continue to monitor is the maturity profile and the management of refinancing risk.

The exchange operation can be carried out using the telematic trading system or the auction system managed by the Bank of Italy. As in the recent past, such operations may also be carried out through syndication, whose procedure favours greater rapidity of execution and the possibility of a more efficient allocation of the security in issue among investors who request it. Moreover, this modality allows the Treasury to issue, where deemed appropriate, different quantities between the two legs of the operation or the issuance of several securities against the buyback of a single Government bond.

For repurchase transactions, the Treasury may consider using the Bank of Italy's auction system, bilateral negotiations or the electronic trading system. Finally, as already indicated for the exchange, the possibility of resorting to syndicated transactions is not excluded.

The use of TAP issues will continue to be a viable option, both to support the Treasury's financing programme and to meet specific demand needs for certain securities. Therefore, one or more off-the-run securities may be issued in the TAP transactions. Such operations may be performed using the electronic trading system.

The Treasury intends to continue the activity of liability management through the use of derivative financial instruments; this strategy is aimed at reducing the interest rate risk associated with the policy of issue diversification, thus contributing to the optimisation of the cost-risk profile in the medium-long term.

The derivative activity will be aimed at performing new transactions as well as restructuring existing positions.

The current market context is characterised both by rising swap rates, although still contained from a historical perspective, and by a pronounced inversion in the long-term segment; should the conditions exist, the Treasury will evaluate the possibility of executing transactions consistent with this context in order to mitigate interest rate risk, lengthening the overall duration of the debt (the objective of each long-term IRS) and reducing the average rate paid on the entire portion of the derivatives portfolio concerned. Should these transactions be carried out, they would be part of a macro-hedge strategy in order to protect the portfolio of domestic floating-rate issues from an increase in interest rates, without necessarily creating a specific security-derivative hedge.

In addition, the Treasury will continue to monitor existing swaps and may decide to modify their financial characteristics, provided this is in line with the overall strategy for issuing and managing public debt. Operational choices will be supported by an accurate economic-statistical analysis, and also by an analysis of the features of each transaction in the context of liability management. The financial aspects of some existing transactions may therefore be renegotiated, taking advantage of favourable market conditions, with the aim of improving the accounting impact on interest expenditure and/or debt.

Lastly, as regards the management of risks linked to any non-domestic currency activity, the Treasury will continue to make use of the cross currency swap instrument. Through this liability management activity, it will be able to transform liabilities in foreign currency into synthetic liabilities denominated in euros, contain the economic-financial burdens as much as possible and neutralise the impact of exchange rate volatility for the entire lifetime of the securities.

V. ISSUANCES ON INTERNATIONAL MARKETS

During the past few years, the Treasury has been present on international markets with issues made through the Global Bond and Medium Term Note Programmes with the aim of increasing the number of institutional investors and containing financing costs compared to “traditional” issues on domestic markets.

The Global Bond channel, which is reserved for investors with a high institutional profile distributed in different geographic areas, made it possible to differentiate the base of bond holders and strengthen the ties with certain investors, especially from the United States and Asia.

However, given the high volatility of swap spreads and the evolution of the euro-dollar exchange rate, which resulted in issuance costs being higher on the foreign curve than on the domestic one, in 2022 the Treasury deemed it appropriate not to carry out financing operations through this channel.

In the coming year, the Treasury will continue to monitor market trends, evaluating the possibility of offering new benchmarks, possibly also on non-conventional maturities. In any case, the decision to issue new securities will be subject to the return of more favourable cost conditions and will take into account both the evolution of market demand and the performance of existing securities, with particular attention to yield differentials compared to the levels of domestic securities of the same maturity.

The issuance of one or more securities - whether single or multi-tranche - will take place through the usual syndicated placement channel, with the participation of some Specialists in Government bonds as lead managers and of the other Specialists as co-lead managers.

Finally, in order to mitigate the exchange rate and interest rate risks connected with the execution of new securities, these latter will be associated with cross currency swap transactions subject to a Credit Support Annex by choosing, among the Treasury's derivative counterparties, those that will guarantee a more contained level of hedging costs and a high degree of efficiency in operations.

The Medium Term Note Program, which has been in operation since 1998, is used to meet specific investor demands through Government Bond Specialists in the form of public issues or private placements. Through this channel, securities with different structures can be issued, including plain vanilla, fixed or floating rate, denominated in euros or foreign currencies, and nominal or indexed to inflation, depending on the requests received.

The main purpose of such issues is to create investor loyalty, as well as to possibly reduce financing costs compared to domestic securities of the same maturity and with similar characteristics.

During 2022, the Treasury did not conclude new private placements because the proposals received could be satisfied through public instruments or were not deemed consistent with the guidelines outlined.

In the coming year, the Treasury will continue to evaluate the expressions of interest from investors to avail themselves of this important channel, which is characterised by a high degree of flexibility in terms of structure, maturity and currency, as well as execution methods and timing.

The three minimum requirements that requests must meet in order to be assessed by the Treasury remain unchanged: a maturity of not less than three years, a minimum amount of EUR 200 million and a minimum negotiable amount of not less than EUR 500,000. Private placements arise from reverse enquiries by institutional investors, i.e., specific requests that would be difficult to satisfy through ordinary issuance channels and are based on a buy-and-hold strategy, i.e., securities are purchased with the purpose of holding them in the portfolio until maturity.

The Treasury will carefully examine the requests received directing its choices towards those most consistent with the debt management objectives while avoiding overlaps with the programme of issues in public format.