

2014

Guidelines
for public debt management



2014 Public Debt Management Guidelines

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FOREWORD

The Department of the Treasury presents the Public Debt Management Guidelines for 2014 in order to outline to all levels of participants in the Italian public debt market, the issuance strategy of government securities to be put into effect in the next 12 months. Through this document, the Treasury aims to supply information useful for understanding the issuance decisions to be made during the year, while bearing in mind that such decisions cannot be independent from the conditions that will develop in the international financial markets - conditions that will surely influence investor preferences for the various securities offered by the Treasury. Even so, these Guidelines should be considered as an instrument made available to the public so as to facilitate an understanding of the timing, means and criteria with which the Treasury intends to be present on the markets, highlighting the profiles of continuity and innovation in relation to such presence.

THE 2014 ISSUANCE PROGRAMME

Introduction

a) 2013

The key development for the Italian public debt market in 2013 has clearly been a return to normal, as shown by various aspects of the market's performance. If one looks at the trend of market interest rates and the shape of the yield curve, the development of trading volumes and prices on the secondary market, the composition of the issuance activity as well as the transactions carried out by Treasury on the primary and secondary market (through buybacks and exchanges), it is possible to gauge a remarkably different overall picture with respect to that for the 2011-2012 period, with a gradual, but continuous, return to increasingly normal and ordinary conditions for market's functioning and for Treasury's operations.

This line of reasoning is even more convincing when considering that the total gross issuance of government securities in 2013 was substantially in line with that for 2012, a year with a sizeable increase in the debt issuance activity. Although the Treasury had to increase its market funding to an amount in excess of that planned at the beginning of year (partly to guarantee suitable financial coverage to the decrees allowing for the Public Administrations to reimburse their outstanding commercial debts), the change had no significant impact on the market or on debt financing conditions.

The year of 2013 opened with the market further pursuing the same course plotted in the final months of 2012, with the continuation of the declining trend of interest rates and spreads against German bonds started from September 2012. This trend was the result of the improvement of domestic public finance balances, the achievement of important objectives at a European level with the institution of financial-support vehicles and the process integration of bank supervision, and last, but not least, the measures adopted by the European Central Bank, including the new system of possible intervention through the secondary-market purchase of government bonds with maturities up to three years (*Outright Monetary Transactions* ("OMT")) aimed at increasing the efficiency of the transmission mechanism of monetary-policy impulses to the economy. During this positive phase, the Treasury made a significant move back into the market for long-term bonds, with the launch in January 2013 of the new 15-year BTP, a placement that was a significant success in terms of cost conditions as well as quality of investors involved.

Tensions emerged anew on the Italian debt market in late February, following the outcome of the political elections and the consequent related difficulties in the formation of a new government. Although there were certainly days when volatility abruptly peaked, both the primary and the secondary markets continued to operate rather normally during this period, making it possible for the Treasury to manage placements through auction without any specific difficulty and allowing dealers to trade government bonds on the markets in the absence of any particular anomaly.

With the formation of the government and the relative stability of the international financial markets, the overall framework for the government bond market once again took on a remarkably positive tone, with a significant decrease in interest rates along the entire yield curve and a further reduction of the spreads against Germany, which eventually hit levels similar to those prevailing in the summer of 2011, before the European sovereign debt crisis directly affected Italy. This framework also allowed for the issuance of a new 30-year BTP, a maturity that the Treasury had not offered to the market via a new benchmark bond since September 2009.

During the May-July period, the market situation was once again volatile with an increase in interest rates and a flattening of the yield curve because of a more pronounced rise in short-term interest rates versus long-term ones. In this case, however, there were international factors to explain the movement, and specifically, the announcement of the U.S. Federal Reserve of a possible tapering, and subsequent potential interruption, of its quantitative easing policies -that is the bond-buying program on the US secondary market in order to guarantee low interest rates over the long term and sufficient liquidity conditions within the system so as to facilitate a more rapid economic recovery and a reduction in unemployment. This announcement had a significant impact on the levels of interest rates on a global scale, obviously including Europe and the Euro Area countries. Despite the magnitude of the phenomenon, the Italian government bond market continued to function in a substantially ordered manner, albeit while also witnessing large portfolio inflows and outflows in various segments of the yield curve driven by significant movements in the prices of the various bonds.

Once this phase had been overcome, a new round of rapid, irregular and unsynchronised movement began at the domestic level with uncertainties arising from the possibility of renewed political instability. In September and through the first days of October, the market once again hinted of turbulence, particularly in shorter term maturities, although the situation quickly turned around with the vote of confidence obtained by the government.

Since then, the performance of the government bonds market has been steady and uniform, as for the large part of instruments offered by the Treasury. This trend was facilitated by the outcome of

the first issuance, through syndication, of the 7-year BTPs, which saw the broad-based participation of both Italian and international institutional investors, and by the success, beyond even the most optimistic forecasts, of the year's second issuance of the BTP Italia, the bond dedicated to *retail* investors initially launched in 2012 (with the year's first placement in April already yielding satisfactory results).

The market's positive trend during the final quarter of the year has been mostly driven by the performance of short- and medium-term maturities, whose rates recorded absolute levels and spreads against Germany in line with those posted in 2010, well before the crisis. A likewise, significant reduction has been seen in the rates on longer term maturities, although the spreads against Germany continue to reflect the effects of the lengthy financial crisis that began in the U.S. in 2007, and then continued to unfold in various ways in Europe, with the sharp tensions on sovereign debt in 2010-2012.

With the improvement of the market's general situation and the significant easing of the sources of tension, the government bond market has simultaneously witnessed improvement in the liquidity conditions on the secondary segment, with a significant recovery of volumes traded and the efficiency of the quotations. Albeit to a differing extent, this process has impacted the entire spectrum of debt instruments, including those most adversely affected during the years of the debt crisis, namely, long nominal bonds, bonds indexed to European inflation and floating-rate bonds.

Another development supporting this framework has been the increasingly continuous return and in size of European and non-European foreign investors, who, depending on the market phases, have chosen to participate in both the primary market (auctions and syndications) and secondary market. This presence has allowed for stabilising and then enhancing the share of the Italian debt represented by government securities held by non-resident investors (a percentage that, as it is well known, experienced a less-than-negligible decrease during the period between mid-2011 and mid-2012).

On the non-domestic funding side the Treasury received significant expressions of interest from a meaningful number of global investors, and even though this might have laid the groundwork for a potential return in 2013 to the international markets with, for example, the *Global Bond* format, the financial and demand conditions did not allow this to happen. On the other hand, as regards the private placements program, to meet institutional investors' demand, the Treasury issued two new nominal bonds in May and September, with 50- and 40-year maturities, respectively, that in terms of size, cost of funding and signal to the market represented a very important achievement for the overall debt management policy.

b) 2014

Public debt management during next year will obviously take into account the indications coming in 2013, but it will continue to move forward by combining regularity and predictability overall, with adequate margins for flexibility so as to tackle effectively the conditions that will prevail on the international financial markets. The redemptions of maturing securities and the coverage of the State Sector's cash borrowing requirement are to be guaranteed through a market financing strategy aimed at pursuing the objective of controlling and containing the debt's exposure to the main market risks. More specifically, even in 2014 the issuances are to be calibrated so as to pursue the objective of further increasing the average life of the debt - an objective that cannot necessarily be met in the very near term, considering the absolute size of the stock of securities outstanding, that will not allow for any abrupt changes in its composition. In this regard, in 2014, the Treasury will continue pursuing the process already initiated in 2013 to significantly slow down the decline in the average life, thereby attempting to lay the foundation for the start of a turnaround.

As in past years, this document gives a detailed account of all of the characteristics of the issuance policy for 2014, emphasising continuity and innovation vis-à-vis the year now ending.

Within the regular plan for issuance through auction, the main change will be the introduction of the 7-year BTPs, that will be placed at mid-month, therefore in addition to the issuance of the 3-year BTPs and that of long BTPs with a maturity of 15 or 30 years. Partly as the result of this change, the CCTeus will go back to being offered at the end of the month, together with the nominal 5- and 10-year BTPs. The CCTeus will normally be issued monthly, considering the positive outcome of this decision in 2013. For each auction, the Treasury will decide on whether it will offer only the *on-the-run* bond, or one or more *off-the-run* bonds, together with, or as an alternative to, the *on-the-run* bond. In the event of multiple issuance, the bonds will always be announced within a single offer interval, regardless of the *on-the-run* or *off-the-run* status.

The BTP€is will continue to be offered on a regular basis at month end, along with the CTZs (except for December, as in the past). Based on market conditions and considering the significant redemption of a bond in September, the Treasury will evaluate the possibility of introducing one or more new bonds through the means deemed most appropriate for ensuring the positive outcome of the placements.

Even in 2014, the Treasury will consider resorting to the issuance of *off-the-run* bonds, in order to improve the conditions for the secondary-market trading of each individual bond and for satisfying specific types of demand.

Finally, in 2014, the Treasury will continue to maintain a significant presence on the money market, particularly through the issuance of BOTs with different maturities. In order to achieve better control over the total volume of BOTs' issuance, and to continue in the process of year-on-year reduction initiated in 2013, the re-openings of such bonds reserved for Specialists in Government bonds will normally be 10 per cent of the main auction, and thus down from the current level of 15 per cent.

In 2014, the Treasury will once again offer the BTP Italia, particularly in view of the extraordinary success registered by this product also in 2013. There may, however, be significant changes to the issuing process, in order to limit the size of the individual issuances, and to ensure the bond is increasingly addressed directly to *retail* investors. The bond characteristics themselves are not likely to be substantially changed, except for the maturity that might be longer than the current one of four years. Given the institutional investors' interest in the BTP Italia, the Treasury may also conduct a series of analyses in 2014 regarding market and technical/operational aspects, in order to evaluate the prospect of offering a bond linked to the domestic inflation rate that might respond to the needs of such investors, focusing the analyses not only on the financial characteristics of the instrument, but also on the format and means of issuance.

Finally, in 2014, the Treasury will for sure take the opportunity of evaluating the various prospects for non-domestic issuance through the two standard formats - *Global Programme and Medium Term Note Programme* - counting on an overall framework that will be even better than in 2013.

ISSUANCE PROGRAMME FOR SECURITIES PLACED THROUGH AUCTION

1. Annual Calendar, the periodicity of auctions and the quarterly issuance programmes

The auctions of government bonds for 2014 will be carried out in accordance with the Annual Calendar that has already been published on the Public Debt website (www.publicdebt.it). In addition to the auction dates, the Annual Calendar indicates the announcement dates and the settlement dates for the various types of bonds.

The announcements relative to the government bond auctions will continue to be made with the same timing: a single announcement, three days prior to the auction, through which the Treasury announces the securities to be offered and the related quantities.

There are no revisions contemplated to the sequence of the month-end auctions. The three days during which the auctions are carried out will continue to be organised as follows: the auctions of BTP€i and 24-month CTZs will occur during the first day, with the settlement date set for three business days after the auction; BOT auctions will take place during the second day, with the settlement date set for two business days thereafter; and as in the past, the auctions of nominal medium- and long-term bonds will be held on the third day, with settlement also set for two business days following the auction.

Table 1 summarises the auction announcement and settlement dates for each type of bond.

Table 1: Auction announcement and settlement dates

Type of Bond	2014 Announcement Date	Auction	Auction Settlement Date
BOT	T-3	T	T+2
CTZ	T-3	T	T+3
BTP€i	T-3	T	T+3
BTP/CCT/CCTeu	T-3	T	T+2

As for the periodicity of issuances made every month, the 12-month BOTs and 6-month BOTs will continue to be offered at mid-month and month-end, respectively. The issuance, if any, of 3-month bills and the so-called "flexible BOTs" will continue to be closely linked to the Treasury's cash needs. Any 3-month BOTs will be placed as of the same date as the auction of 12-month BOTs, whereas any flexible BOTs would be placed either at mid-month or month end.

There are no changes contemplated to the frequency with which medium/long-term *on-the-run* bonds are to be offered, except for the introduction of the new 7-year BTPs to be auctioned on a monthly basis, and the CCTeus that will go back to being offered at month end, together with the 5- and 10-year BTPs. The new 7-year BTPs will be offered at the mid-month auctions, together with 3-year BTPs, and conditions permitting, with the 15- or 30-year BTPs.

The BTP€is and 24-month CTZs will be auctioned monthly on the same day at the end-month, according to the dates provided in the Annual Calendar.

Any auctions of *off-the-run* bonds will be carried out according to a flexible schedule that takes account of these types of placements, whose objective is to improve the functioning of the secondary market, by meeting specific demand needs. As in 2013, in 2014 the Treasury reserves the right to issue these bonds either at mid-month or at month-end, in order to ensure the maximum flexibility and speed in issuance decisions.

Moreover, in particular market conditions and in very exceptional cases, *off-the-run* bonds may be offered in a single range of issuance together with *on-the-run* benchmark BTPs.

During 2014, the Treasury will likely continue to reserve the faculty of re-opening outstanding bonds (both short- and medium-long term) off the Calendar; in very exceptional circumstances, that will be driven by liquidity needs and market demand. These placements will be announced with the usual means of communication, following broad-based consultation with market participants.

Table 2 summarises the frequency of the auctions for each instrument, including the new 7-year BTPs, offered at the mid-month auctions, and the change made to the CCTeus, which will be issued through auction at month-end.

Table 2: Periodicity of the auctions

Type of bonds	Mid-Month Auctions	Month-End Auctions
<i>Flexible BOT</i>	<i>Issued according to cash requirements</i>	
<i>3-month BOT</i>	<i>Issued according to cash requirements</i>	
<i>6-month BOT</i>		<i>X</i>
<i>12-month BOT</i>	<i>X</i>	
<i>24-month CTZ</i>		<i>X</i>
<i>3-year BTP*</i>	<i>X</i>	
<i>5-year BTP*</i>		<i>X</i>
<i>7-year BTP*</i>	<i>X</i>	
<i>10-year BTP*</i>		<i>X</i>
<i>15- and 30-year BTPs*</i>	<i>The two bonds will be offered according to market demand.</i>	
<i>CCTeu</i>		<i>X</i>
<i>BTP€i</i>		<i>X</i>

* Please note that off-the-run bonds marked with an asterisk that fall within the same category based on residual maturity at issuance may also be offered in medium/long-term auctions that are not listed in the table.

Fully consistent with past years, the quarterly issuance programmes will include not only information on the bonds to be issued, but it will also include the new medium/long-term bonds to be issued in the following quarter, together with the minimum outstanding volumes that the Treasury commits itself to reach for each of them.

2. Fixed nominal and floating-rate securities

a) BOTs and liquidity management

As in the past, BOTs (Treasury Bills) will be issued with the traditional maturities of 3, 6 and 12 months, with the possibility of adding flexible maturities for liquidity management purposes.

In view of the lower borrowing requirement forecasted for 2014 and the Treasury's pursuit of a strategy to lengthen the average life of the debt, the total BOT issuance activity may be less than that in 2013.

The 12- and 6-month BOTs will nonetheless be offered regularly, respectively at mid-month and at end-month, and the amounts will be determined in relation to both the aforementioned objectives and market conditions as well as demand. In reference to 6-month BOTs, the Treasury confirms its intention to calibrate the size of auctions that determine the indexation of still outstanding traditional CCTs' coupons, in order to ensure the efficiency of the related market.

The Treasury will continue to offer the 6- and 12-month securities through ordinary auctions and the re-openings reserved to the Specialists in government bonds. However, normally, the amount of the re-openings in 2014 will be equal to 10 per cent of the nominal amount offered at the ordinary auction (compared with 15 per cent in 2013), so as to remain consistent with the aforementioned strategy of containing the issuance volume of short-term securities. The right to the aforementioned 10 per cent will be equally based on the performance of the Specialist observed on the primary market and secondary market. The Treasury will maintain the option of adjusting such percentage at the time of each auction, in relation to market conditions, dealer demand, and the Treasury's need to optimise the overall volumes of BOTs issuance activity for debt management purposes. The Treasury, nonetheless, is likely to rely on this option only sporadically, and in such case, it will issue a specific press release.

3-month bills, as well as BOTs issued with non-standard maturities, will be offered by fully exploiting the flexibility of the instrument in relation to cash requirements. The Treasury contemplates limited use of such instruments in 2014.

As for the functioning of the primary market, the competitive auction will continue as the placement system for the entire BOT segment. Issuances will thus continue to be auctioned with the method initiated in 2009, which requires the presentation of bids in terms of yield (instead of price), with the possibility for dealers to place up to five bids for each BOT offered, as has been the case since 2010.

The programme for short-term issues may be completed with the issuance of *Commercial Paper* (CP), a useful money-market instrument for liquidity management. CP, if any, will be issued essentially in relation to the Treasury's cash needs that may arise during the year, and by taking into account the needs of specific investors, with the intention of diversifying their base. Given its extreme flexibility in terms of quantity and maturities, this programme is a mechanism to be used as a corollary to ordinary BOT auction activity.

Finally, over the next year, the Treasury plans to maintain a steady presence in the money market in both short- and very short-term maturities, through financial transactions carried out using the Treasury's availability account (OPTES). These transactions, following on the reform of the Treasury's liquidity management introduced at the end of 2011, provide for daily activity with the execution of operations that mostly entail the investment of cash liquidity. These transactions will continue to be carried out through auction or bilateral deals with *overnight* or longer maturities, in relation to cash requirements and market conditions. Finally, these transactions provide the Treasury with the option of investing its own liquidity in time-deposits with predetermined maturities at the Bank of Italy.

b) 24-month CTZs

In 2014, the 24-month CTZs will continue to be placed through marginal auction and discretionary price determination by the Treasury, with the offer within a minimum and maximum range, based on an approach of regularity and for volumes consistent with demand conditions. The quantities will be announced in the issuance press release, which is published three days prior to the auction date.

When compared with 2013, the volumes of CTZs maturing will increase in 2014, with redemptions equal to more than 56 billion euros. The increase in redemptions is the result of the issuance policies in past years tailored to the Treasury's debt management requirements, that brought more bonds coming in 2014.

The net issuance of CTZs will thus be negative at the end of 2014. The strategy that the Treasury plans to pursue in the next years of reducing the issuance of short term instruments will accordingly entail a reduction of the CTZs outstanding as of the end of 2014, and a consequent reduction of the percentage of CTZs outstanding over the total debt stock

c) CCTeus/ CCTs

For the floating-rate notes segment (CCTs and CCTeus), 2013 has been a year of gradual return to normality. This was partly due to the Treasury's decision to go back to monthly issuance for

amounts not too different from those normally issued in the period prior to the most acute phase of the crisis (that began in the summer of 2011 and continued to a varying extent in 2012).

The yields of CCTeus in 2013 gradually moved back in line with those on the nominal BTPs with equivalent maturity, thus signalling renewed demand from both institutional and *retail* investors.

With the segment expected to operate increasingly at more normal conditions, for 2014 the Treasury generally plans to issue again CCTeus normally on a monthly basis, so as to ensure the continuity of issuance needed to provide the liquidity required by the market.

After 2013, a year when the amount of redemptions of CCTs was just over 14 billion euros and thus, very modest, the redemptions in 2014 will once again be significant, amounting to approximately 26 billion euros, and thus in line with the average redemptions since 2006. Partly for this reason, the issuance of the CCTeus in 2014 will be such as to allow for their overall reduction in relation to the debt outstanding; this objective is to be achieved also through possible exchange and buyback transactions that will involve the segment, consistently with the decisions taken in 2013. Such decisions are based on the Treasury's aim to continue pursuing the containment of the public debt's exposure to interest-rate risk.

In accordance with the methods introduced some years ago, the CCTeus will continue to be placed through marginal auction, with the discretionary price determination by the Treasury on the basis of secondary-market conditions, within a pre-announced range of quantity on offer. As if the case of the BTP€is segment, should the Treasury decide to offer *off-the-run* CCTeus, these will be supplied together with *on-the-run* bonds in a single offer range.

In 2014, the normal re-opening of outstanding bonds will be accompanied by the issuance of new benchmark with maturity of at least five years, on a basis consistent with the decisions taken in the past two years. Instead, the timing of the placements will change in 2014, reverting back (after the exception in 2013) to the end-month, together with the issuance of nominal 5- and 10-year BTPs.

d) Nominal 3 and 5-year BTPs

The Treasury's issuance policy for the shorter term maturities in the nominal BTP segment, namely the 3- and 5-year, will be characterised by a regular and continuous presence on the primary market. In line with the policy of transparency pursued by the Treasury, the launch of new benchmarks is to be announced from time to time in the quarterly programmes, and will take place with frequencies so as to guarantee that the final outstanding of the bonds being issued is such as to allow for the

possibility that the same may be re-opened at a later date either as *off-the-run* or for exchange transactions.

The gross issuance of these two instruments will be downsized overall in 2014, partly in relation to the pursuit of the Treasury's objective of lengthening the average life of the debt.

The timing for the placement adopted in 2012 and 2013 remains unchanged, and thus, the 5-year BTPs will be issued along with the 10-year BTPs at end-month, whereas the 3-year BTPs will be auctioned at mid-month, along with the new 7-year BTPs, and as a rule, with a long-term bond with maturity of more than 10 years.

The placement of the bonds in this segment will occur through marginal auction with discretionary setting of price. Normally, at every auction, each *on-the-run* bond will be offered with its own offer range, while the *off-the-run* bonds, if any, will be offered with a volume range that includes all of them. Should the market circumstances so require, all bonds may be offered in a single offer range, if they are *on-the-run* bonds or together with *off-the-run* bonds.

e) Nominal 7-year BTPs

One of the most important changes in 2014 to the Treasury's nominal BTP issuing policy is the issuance of a bond with a 7-year maturity, as already indicated in the press release covering the inaugural issuance that was placed through syndication with a consortium of banks selected among the Specialists in Government bonds.

Considering the outcome of the first issuance in October 2013 (which was very positively received by both domestic and international institutional investors), and the objective of guaranteeing the needed liquidity to the segment, the Treasury will continue to offer this maturity on a regular basis through an ordinary auction mechanism.

With reference to the timing for the placements, the Treasury plans to offer this bond at the medium-/long-term auctions at mid-month along with the 3-year BTPs and a long-term bond with maturity of more than 10 years. As in the case of all other medium-/long-term bonds, the 7-year BTPs will also be placed through marginal auction with the discretionary setting of the price.

The Treasury plans to carefully calibrate the quantities of this bond offered, simultaneously taking into account the need to guarantee adequate liquidity to the *on-the-run* bond, thus satisfying the segment demand, and the aim of using this maturity for appropriately reducing the quantities

offered of other types of bonds (in particular, shorter term maturities) so as to gradually reinstate the trend toward the lengthening of the average life of the debt.

f) Nominal 10-year BTPs

Even in 2014, the 10-year BTPs will maintain their role of reference bonds for the entire Italian nominal yield curve, and accordingly, through regular monthly placements, it will continue to be one of the references on which the nominal BTPs issuances are based.

Though keeping the gross issuance in line with those of recent years, the Treasury intends to increase the weight of this segment as a percentage of the debt stock outstanding.

With reference to the auction schedule, the bond will continue to be issued at end-month auctions together with the 5-year maturity and, as mentioned, the floating-rate notes (*CCTeus*).

As in the past, the placement of new 10-year benchmark will be communicated through the quarterly issuance programme; the bond will be placed through the auction system with discretionary setting of the price. Such mechanism will also be used for the following tranches.

g) Nominal long-term BTPs (15 and 30 years)

The issuance policy in 2014 will be aimed at consolidating the results obtained in 2013 and, accordingly, the strategy will be focused on maintaining the commitment to issue with appropriate regularity, taking into account market dynamics and investor expectations. The objective is to ensure efficient execution of the placements, also through an accurate selection of the bonds to be issued from time to time.

The Treasury will carefully calibrate the amounts to be issued, reserving the option of choosing the 15- or 30-year *on-the-run* bond in relation to demand, or also, in the event of particular market conditions, relying (as a complement or an alternative) on the re-openings of long-term *off-the-run* bonds, the latter of which may also possibly offered at end-month auctions.

The auctions' pricing methodology will be similar to that for the other nominal BTPs, for both *on-the-run* and *off-the-run* bonds.

Should bonds being issued have reached an overall adequate outstanding for guaranteeing their liquidity on the secondary market, and should the market conditions be appropriate, the Treasury

might decide to place new benchmarks which, as in the past year, will be launched through syndication, by virtue of the flexibility granted by this issuance mechanism.

3. Bonds linked to European inflation (BTP€is)

In 2014, the redemptions of BTP€is amount to approximately 15 billion euros (amount not revalued). In consideration of the Treasury's intention to ensure the continuity of monthly issuances (as indicated by the Annual Calendar), the stock of bonds linked to European inflation might decline only marginally in absolute terms, whereas it will certainly decrease as a percentage of the total debt stock, thereby improving the issuer's exposure to inflation risk. The placement of the bonds of this segment will be done according to the monthly schedule provided by the Annual Calendar (which excludes issuance in December only), except when new benchmark with a maturity of more than five years will need to be launched and offered through syndication. Two or more bonds (whether *on-the-run* or *off-the-run*) may be offered jointly at the same auction, with a single range of volumes offered, within which the quantity issued for each individual bond is to be allocated.

The assessment about the introduction of new *benchmarks* will be made by taking into account both the conditions of the individual bonds issued (especially in terms of the outstanding reached by each of them) and the trend of demand. In addition, upon any placement of new benchmark, the Treasury will accurately assess, together with market dealers and investors, the possibility of changing the coupon payment cycle (coupons are currently paid in the months of March and September).

A special emphasis is to be placed on interaction with investors in this segment in 2014 so as to ensure that debt management decisions are as closely in line as possible with investor expectations. Such approach, however, does not mean overlooking the Treasury's strategic issuance objectives, which will also need to consider, for the purpose of overall exposure to inflation risk, the decisions made in relation to the BTP Italia, the bond linked to domestic inflation tailored to *retail* investors.

4. Strips

Following the introduction of the collective action clauses (CACs) on all new bonds issued from January 2013 onward, the *strips* coming from bonds with CACs are no longer fungible with those coming from bonds without CACs, launched before January 2013. Therefore, while taking into account other debt management requirements, the Treasury will attempt to ensure continuity and consistency in the decisions about coupon cycles for new bonds with more than a 10-year maturity

introduced in 2013, with the aim also to increase the liquidity of the *strip* market in the most constructive manner possible. This last objective has already been partially achieved through the reform in 2013 which inaugurated the fungibility between the principal and the coupons with same maturity. All new BTPs with a maturity of no less than five years and the new BTP€is will nonetheless continue to be strippable.

THE BTP ITALIA

The BTP Italia, the instrument dedicated to *retail* investors launched in March 2012, was again a sweeping success in 2013. The two placements in April and November enjoyed a broad-based, satisfactory track record with respect to both *retail* and institutional investors, making it possible for the Treasury to collect more than 39 billion euros.

During 2014, the Treasury broadly plans to offer the BTP Italia again through two placements, with investors being offered an instrument without any substantial changes to that offered to date: fixed annual real coupon rate, indexation to the national inflation rate, semi-annual payment of the principal revaluation, and a final bonus for physical persons who buy the bond during the placement period and hold it until maturity. However, new maturities may be considered, although they will not be below the current maturity of four years.

At least as far as *retail* investors are concerned, the bonds will continue to be issued directly on the MOT, the regulated screen-based *retail* market managed by Borsa Italiana. During the placement period for each issuance, orders will be collected directly through the MOT platform by means of the support of *dealers* selected by the Treasury among the Specialist Government bonds. The liquidity of the bonds on the secondary market will be guaranteed through the commitment of *Dealers* and *Co-Dealers*, which the Treasury will select among the most active MOT participants in Italian government bonds.

The Treasury nonetheless reserves the right to introduce several substantial changes to the placement process in order to limit the size of the individual issuance and to make the instrument increasingly tailored to *retail* investors. As a consequence, the Treasury plans to develop a series of analyses in 2014 in order to assess the ways in which it can make the most of the broad-based interest shown by institutional investors for the BTP Italia in its current form. The objective of such

analyses will be to decide if the conditions exist for offering a domestic-inflation linked product tailored to institutional investors, and if so, the financial characteristics (maturity, indexing mechanism, etc...), the issuance methodology and the format thereof.

ISSUANCE ACTIVITY ON INTERNATIONAL MARKETS

The *Global Bond Programme* and the *Medium Term Note Programme* are the two standard channels that the Treasury would be able to use for issuing on international markets.

Even though the amount of redemptions in non-domestic bonds is modest in 2014, it is believed that the renewed interest of institutional investors for new issuance in U.S. dollars (in *the Global Bond format*) might provide significant support for a return to this market over the next 12 months.

Accordingly, the Treasury will continue to monitor the market in order to test the interest for new issuances, while hoping for a more favourable context in terms of the costs of executing hedging through *cross-currency swaps*.

The *Medium Term Note Programme* instead allows for public issuance or private placements in euros or other currencies, with extremely flexible characteristics that allows for a perfect alignment between the issuer's needs and the specific demands of one or more investors, in terms of both maturity and structure.

More specifically, the Treasury will consider scenarios for private placements that satisfy specific requisites in terms of maturity of no less than three years, a minimum amount of 200 million euros or more and a minimum negotiable amount of at least 500,000 euros.

Such scenarios will be examined provided that (i) the cost of financing is no greater than that for the corresponding "domestic" bond and (ii) there are no negative repercussions on public issuances.

The Treasury may also evaluate the possibility of a public issuance of bonds through the MTN in order to meet the combined needs of a group of institutional investors; such issuances, if any, might also be in currencies other than the euro, including, for example, the Swiss franc and British pound, which are markets through which the Treasury has funded itself in the past, albeit not recently.

EXCHANGE AND BUYBACK TRANSACTIONS

As in past years, the Treasury may again rely on buyback and exchange transactions in 2014 for the purpose of managing refinancing risk, thereby reshaping the maturity profile and simultaneously enhancing the liquidity and the efficiency of the secondary market for government bonds. In view of the concentration of redemptions in the years of 2015 and 2017, the Treasury contemplates being able to carry out these transactions with greater frequency than in the past few years.

The reliance on such transactions will depend on the secondary-market conditions and buyback transactions, in particular, on the cash availability on the Treasury account and on the Government bond Sinking Fund. The Treasury will also consider such aspects when deciding on the methodology for execution: exchanges will be carried out with the screen-based trading system or through Bank of Italy auction, whereas, as in the past, the options available for the buybacks are the auction system managed by the Bank of Italy and bilateral negotiations.