2015

Guidelines for public debt management

MEF Dipartimento del Tesoro

Ministero dell'Economia e delle Finanze

2015 Public Debt Management Guidelines

Contents

FOREWORD

This document illustrates the Public Debt Management Guidelines for the year 2015. With the same, as is by now consolidated practice, the Treasury Department intends to inform those participating in the Government securities market regarding the issuance strategy to be followed during the next year with the aim of further highligthing the reasons behind the choices that the Treasury will make on a case-by-case basis on the sovereign debt market. As is customary, the indications outlined will have to be evaluated and considered in relation to international financial market conditions and the effects of these on dealers' and investors' choices with respect to the wide range of instruments offered by the Treasury. Lastly, one must remember that the Guidelines allow market participants to gain concise and direct knowledge of the salient innovations that will be introduced during the upcoming year and the reasons behind them.

THE 2015 ISSUANCE PROGRAMME

Introduction

a) 2014

2014 closes as an extremely positive year for the Italian public debt market, both for the issuer, who obtained highly satisfactory results as regards the cost of debt issues and their composition, and for the investors, for the performance of Government securities in their portfolios.

Compared to 2013, as a matter of fact, not only did the normalization process of the primary and secondary markets continue but it consolidated further, after the intense turbulence of the greater part of 2011-2012. Indeed, until last year, this process had not yet been fully felt by all the debt sectors and the main market functioning mechanisms. An overview of the events and the dynamics that involved Italian public debt in 2014 allows us to outline its basic trends. These are all largely interconnected:

a) the continued decrease of Government security market yields, determined by a concomitant reduction, on the one hand, of the general level of interest rates in Europe due to a macroeconomic context of low growth and low inflation, and, on the other, of the narrowing spread between the rates on Italian debt and those on the money market and on public debt of other euro area countries, firstly Germany;
b) a significant increase in liquidity on the secondary market for government bonds in all sectors, referring in particular to electronic trading platforms (by definition characterized by greater transparency), an increase thatcan be explained, at least in part, to a more systematic participation of foreign investors;
c) a growing return of interest for the debt sectors that were particularly penalized during 2011-12, such as inflation linked bonds (especially BTP€is) and floating rate bonds (particularly CCT*eus*), whose performance during the year was completely in line with the other instruments offered by the Treasury, allowing the latter to rely more on these sectors in enacting its issuance strategy.

Yields declined continuously during the entire year. The most affected were medium and long-term maturities, from 5 years on: comparing present levels to those of last January, the drop was between 150 and 200 basis points, depending on maturities. The evolution for shorter maturities was smaller – between 60 and 100 basis points of reduction – and it recorded a stabilisation of levels towards the end of August, as this segment of the curve had already experienced the reduction since the second half of 2012. In 2014, therefore, the Government bond yield curve, for maturities between 1 and 10 years, has seen a sharp flattening, that in terms of magnitude and continuity had no

precedent in previous years. Much of this intensity is due to the historically low interest rate level which obviously pushed many investors – above all foreign (but not only) – to switch their portfolios towards longer maturities.
The fall in interest rates during the year is surely to be ascribed to the general European macroeconomic situation. Its economic growth slowed and it experienced an evident slump in inflation expectations with the consequent increase of liquidity injections by the ECB. However part of the reduction was also due to the improvement of Italy's credit risk: indeed the yield spread with Germany and money market rates also experienced a considerable tightening (the 10-year bond spread between Italy and Germany went from 200 to the present ca. 135 basis points). The trend intensified in the last months of 2014 thanks to the growing expectations that the ECB will resort to direct action on the secondary market for government bonds in the Euro area.
During this extended phase of rate reduction there have obviously been moments of discontinuity. Some were significant – as was the case in some days of May and October when the rates began rising steeply, or in August and September, that witnessed an increased volatility of bond prices. Some cases were linked to political or financial news, others to market factors, such as the need to monetize profits after many months of positive performance. Even though they should not be underestimated, these events have in no way changed the basic trend that enabled the Treasury to carry out its funding in 2014 at a weighted average cost of 1.35%. This is an absolute historical minimum. It was reached in a year in which, even if the total issuance activity was less than in 2013, that on medium- and long-term maturities (longer than 12 months) has been slightly higher. In this respect, the Treasury benefitted from the shape of the yield curve as it was present with significant issuance activity on all longer-term maturities: apart from the 10-year, also the 7-year maturity was regularly issued with monthly auctions while a new nominal 15-year security was launched and a continuous presence was guaranteed on the 30-year tenor with various re-openings of the benchmark bond.
On the other hand, improved market conditions enabled the Treasury in 2014 to continue reducing short-term issuances, in line with the strategy of lengthening the average life of debt. Outstanding BOTs will be around 7% of Government marketable securities, more than one percentage point less than last year.

The secondary market benefitted greatly from this trend and has itself contributed to strengthen the effects. Thanks to a broader international investor base, volumes exchanged increased significantly, in particular in multilateral trading venues characterized by greater transparency, such as electronic platforms. Activity on the wholesale electronic market grew markedly as the average value of contracts traded daily nearly doubled with respect to 2013, also thanks to a trading activity that returned to efficiency standards comparable to those before the sovereign debt crisis – these standards were possible thanks to a net decline in average price volatility. In this context, dislocations on the yield curve due to single bonds were significantly reduced, until they practically disappeared. Increased liquidity on the secondary market allowed indeed market participants to neutralize these situations thanks to the lower transaction costs of trading, both in buying and selling.

Faced with this scenario, one must not neglect the decisive increase of the reactivity of market making to sudden and temporary hikes in bonds' volatility. The ongoing effects of the financial crisis on the capability of investment banks to warehouse risk, as well as those deriving from the present or future entry into force of a vast array of norms on banking and financial regulation at European and international levels, have *de facto* potentially weakened the dealers' ability to face very steep market shocks. This is in some way testified by what happened in the few days of May and October mentioned before, even if also in those phases the Italian public debt market guaranteed acceptable standards of liquidity and depth.

The third most important aspect that characterized public debt management in 2014 was the complete normalization of the markets of euro area inflation linked bonds (the BTP€is) and of CCT*eu*s. Their recovery in performance, volumes traded, and interest of domestic and international investors had begun in 2013 and gave signs of further improvement last year. As for BTP€is, the Treasury not only increased the supply to the market, with a new long-awaited 10-year bond, but it also resumed issuing on the entire curve of real rates, including the 30-year maturity, which had been precluded for years. Cost levels of CCT*eu*s re-aligned to those of the equivalent fixed rate BTPs and, in many cases, the on-the-run bonds recorded even a better performance than BTPs of the same maturity, highlighting a decisive return of interest mostly from domestic institutional investors. The Treasury matched this interest by increasing supply and gradually lengthening the maturity at issue of new bonds within the range announced last year between 5 and 7 years (the latest new CCTeu issued in 2014 had a maturity of 6.5 years).

As for international issuances, private placements to satisfy the demand of institutional investors with a long-term profile continued. In particular, there were two transactions on the European inflation sector, one in January and one in October, respectively with a maturity of 30 and 14 years. These met demand that was not present for bonds of the public programme, at more convenient cost conditions for the issuer with respect to bonds of the same maturity belonging to this programme.

b) 2015

Considering the number of macroeconomic and market factors that can significantly impact the Government bond market, management of public debt in 2015 will inevitably be guided by a framework intended to combine elements of regularity and predictability with suitable margins of flexibility. This will guarantee efficiency levels suited to both the primary and secondary markets in order to face the various events that will unfold during the next twelve months. The funding of both the redemptions of securities coming due in the year and the State Sector's borrowing cash requirement will be pursued according to a strategy consistent with market conditions but strongly anchored to the objective of minimizing issuance costs and containing the exposure of debt to the main market risks. After a year in which the average life of debt, in accordance with last year's Guidelines, has significantly halted its decline, the aim of 2015 is its lenghtening, always keeping in mind that the absolute volume of outstanding securities tends to extend the time needed to obtain this result.

As was the case in the past years, the Guidelines for 2015 aim to provide a detailed view of the issuance policy of the various instruments offered by the Treasury for the year, highlighting changes to be introduced.

The first of these changes is in the Annual Calendar. Even if it does not alter the auction cycles and confirms the allocation of the different instruments offered at the mid- and end-of-month appointments, it reduces the auction settlement period by one day for CTZ and BTP€i auctions. This fully aligns the settlement period of all auctions with that of the secondary market which, since October 2014, is T+2 for all trading activity concluded on electronic platforms.

Auctions for 3- and 7-year BTPs are confirmed at mid-month. Along with these, one or more bonds of the long end of the yield curve with maturities exceeding 10 years, be they on- or off-the-run, may be announced in the same or in a separate range as per their status.

At the end of the month, as usual, 5- and 10-year BTPs will be offered together with CCT*eu*s. Depending on market conditions, the latter might be offered with a maturity at issuance close to the maximum range of 7 years – in any case, not less than 5 years. On-the-run CCT*eu*s could be offered together with, or substituted by, off-the-run CCT*eu*s. As in the past, with multiple issuances, the bonds will be announced in a single offer interval, regardless to their on- or off-the-run status.

Apart from the novelty of the settlement period, BTP€is will continue to be offered regularly at the end of the month along with CTZs with the exception of June and December. If needed, the opportunity of introducing new benchmarks will be assessed, assuring that overall volumes proposed to the market are in line with the aim of keeping under control the total exposure to inflation. In fact, no bonds of this sector mature in 2015.

The possibility of issuing off-the-run bonds will be considered in 2015. The aim is to meet demand for specific bonds and minimize any ensuing distortions on the secondary market due to these bonds.

Considering the absolute size of the stock of bonds outstanding , in 2015 the Treasury is committed to guaranteeing at least one issue of the BTP Italia dedicated to retail investors, according to the issuance framework introduced in the last two issues. An in-depth analysis will be performed for institutional investors to assess whether conditions exist to continue to provide them with a dedicated window right after the retail placements, as has been the case so far, or to provide them a dedicated product with longer duration, with an indexation mechanism similar to the BTP Italia or the BTP€i, to be placed via public or private syndication. In this last case, in the public form, the decision will be closely tied to conditions allowing for the launch of an issuance programme.

2015 will see a decisive presence of the Treasury on the money market. It will be concentrated on BOT issuances of different maturities, with overall issuance volumes that should bring the outstanding end-of-year level near that of 2014. It is also with this in mind that re-openings of BOTs reserved to Specialists in Government bonds will usually remain at 10% of the amount on offer in the main auction (compared to 15 or 30% of medium/long-term bonds).

Moreover, in 2015 the Treasury will continue to monitor “non-domestic” issuance opportunities. These are both within the Global Bond Programme, which could present a better general context with respect to 2014, and within the Medium Term Note Programme. Here the approach will be the same as that followed until now, with the readiness to satisfy institutional investors’ demand – especially on long-term maturities– and with an eye to the above considerations regarding issues linked to domestic inflation dedicated to specific institutional investors.

Lastly, in 2015 exchange and buyback transactions will continue to be offered regularly. These aim to reduce the redemptions in the following years, manage any cash surpluses, and meet possible market demands for specific bonds.

ISSUANCE PROGRAMME FOR SECURITIES PLACED THROUGH PUBLIC AUCTION

1. Annual calendar, auction frequency and quarterly issuance programmes

The 2015 Annual Calendar contains the auction dates of Government securities. It is published on the home page of the Public Debt website (www.publicdebt.it), and also includes the announcement and settlement dates of the various types of securities on offer.

Timing of the announcements of Government security auctions will continue to be published as in previous years: there will be a single announcement three days prior to the auction stating the securities to be offered and their associated quantities.

Even if there are no modifications, as stated, to the timing of auction announcements, there will however be an important change concerning the timing of auction settlements: except for a few specific cases, already taken into account in the Annual Calendar, settlement dates for all auctions will be in line with those of the secondary market. That is: two business days after the auction (T+2) – analogous to transactions settled on the secondary market on electronic platforms in the Eurozone since the 6th of October 2014. This change intends to standardize market practices to make operations more fluid and efficient, in line with new European standards.

Table 1 below summarises auction announcement and settlement dates per security type.

Table 1: Auction announcement and settlement dates

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

As for issuance frequency, 12- and 6-month BOTs will continue to be offered respectively at mid- and end-of-month. The issuance of 3-month bills and "flexible BOTs" will continue to be closely linked to the Treasury's cash needs. If necessary, 3-month BOTs will be placed at the same date of 12-month BOT auctions, whereas flexible BOTs can be placed either at mid- or end-of-month BOT auction appointments.

The allocation of bonds to be offered for each auction cycle does not present novelties for mid- or end-of-month appointments. In particular, with regards to medium/long-term on-the-run bonds offered on a monthly basis: 3- and 7-year BTPs will be auctioned at mid-month, along with the 15- and 30-year BTPs, depending on market conditions; at the end-of-month auctions 5- and 10-year BTPs as well as CCT*eu*s will continue to be offered..

BTP€i and 24-month CTZ auctions will continue to be offered monthly on the same day, at end-of-month auctions according to the Annual Calendar. However, since these bonds are the only ones with a new settlement period of T+2, they will settle on the day before the end of the month during which the auction takes place and no longer on the last day of the month, as was the case in 2014.

For 2015 too, the Treasury reserves the right to auction off-the-run bonds with large flexibility in terms of both the choice of the bonds and the frequency with which they may be offered to the market. The goal is to guarantee the best functioning of the secondary market by smoothing the Government yield curve and, at the same time, meeting specific demand that could emerge for bonds that are no more included in the regular issuance activity. Therefore, as in 2014, issues of these bonds may be both at mid- and end-month, to give the Treasury maximum flexibility of choice and speed of intervention.

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.

The Treasury may – in exceptional circumstances spurred by liquidity, market functioning and/or demand needs – re-open outstanding bonds (both short- and medium/long-term bonds) even in days different from those foreseen in the Annual Calendar. These placements will be announced with the usual means of communication following an in-depth consultation with market participants.

Table 2 below summarises auction frequency per security.

Table 2: Auction frequency

Security	Mid-month Auction	End-of-month Auction
Flexible BOT	*Issued according to cash requirements*	
3-month BOT	*Issued according to cash requirements*	
6-month BOT		*X*
12-month BOT	*X*	
24-month CTZ		*X*
*3-year BTP**	*X*	
*5-year BTP**		*X*
*7-year BTP**	*X*	
*10-year BTP**		*X*
*15- and 30-year BTP**	*The two bonds will be offered according to market demand*	
CCTeu		*X*
BTP€i		*X*

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

The Treasury, in addition to the Annual Calendar and the regular press releases delivered before the auctions, provides further information to the market with the Quarterly Issuance Programmes. Beyond the information regarding the bonds to be issued, these announce the new CCT*eu*s, CTZs and nominal BTPs –up to the 10-year maturity – to be issued in the following quarter. They also inform of the minimum and maximum outstanding volumes that the Treasury commits itself to reach for each security before placing a new one on the same segment.

2. Fixed- and floating-rate nominal bonds

a) BOTs and liquidity management

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

Following on 2014 when the Treasury reduced outstanding BOTs by more than 15 billion euros, in 2015 the use of short-term instruments might be slightly more pronounced. This is also due to the higher medium/long-term bonds' redemptions of the year.

12- and 6-month BOTs will nonetheless be offered regularly, respectively at mid- and end-of-month. Amounts will be determined in relation to the above objectives, as well as demand and market conditions.

The Treasury will continue to offer 6- and 12-month bonds through ordinary auctions and re-openings reserved to Specialists in Government bonds. The re-opening will usually be 10% of the nominal amount offered in the ordinary auction, a policy that began in 2014. This percentage will be achieved according to the Specialists' performance on the primary and secondary markets, each considered equally. The Treasury retains the option to modify the percentage for each auction, in relation to market conditions, dealers' demand, as well as for debt management purposes, consistently with the Treasury's need to optimise the overall volume of BOTs issued. The Treasury, nonetheless, is likely to make use of this option only sporadically – when it does, it will issue a specific press release.

3-month bills, and BOTs issued with non-standard maturities, may be offered according to cash requirements. The Treasury foresees limited use of such instruments in 2015.

As for the functioning of the primary market, the competitive (multi-price) auction will continue to be the placement system for the entire BOT segment. Issues will thus continue to be auctioned with the method initiated in 2009 requiring bids to be presented in yield (not price) terms. Dealers also have the possibility of placing up to five bids for each BOT offered – as has been the case since 2010.

The short-term issuance programme could be combined with the issue of Commercial Paper (CP), a money-market instrument useful to manage temporary cash imbalances that occur during the year. Given its extreme flexibility in terms of quantity and maturities, this programme is an instrument to be used alongside ordinary BOT auction activity.

Lastly, over the next year, the Treasury will maintain a steady presence in the money market in both short- and very-short-term maturities, through financial transactions using the Treasury's Availability Account (OPTES). These transactions, introduced at the end of 2011, provide for daily activity with the execution of operations that mostly entail the investment of cash liquidity. They will continue to be carried out through auction or bilateral deals with *overnight* or longer maturities, in relation to cash requirements and market conditions.

b) 24-month CTZs

The 24-month CTZ segment in 2015 will not change as regards the issuance method. It will continue to be placed in the ordinary standard way, i.e. through marginal (uniform-price) auction and discretionary price determination by the Treasury, with the offer within a minimum and maximum quantity range. They will be offered regularly with volumes consistent with demand conditions. The quantities determined in this manner will be communicated in the issuance announcement (press release), published three days prior to the auction date. As stated above, the issuance of bonds on this segment will be in the end-of-month session before BOTs and medium/long-term bonds, bringing the bonds' settlement date to two business days after the auction date. In 2015 therefore, settlement of these bonds will be the day before the last working day of the month.

CTZ redemptions in 2015 will be far less than in 2014: from 56 billion euros to slightly more than 31 billion euros. This decrease can be ascribed to the Treasury's past issuance decisions which, with fewer lines maturing in 2015 and lower outstanding final volumes of the same, allowed for a decisive reduction of redemptions githereby paving the way tolower total volumes to be re-financed for the year.

Notwithstanding the sizeable decline of redemptions, net CTZ issuance activity at the end of 2015 should be only slightly positive. In full accordance with an overall issuance strategy based on reducing issues of shorter term instruments, to minimize the re-financing risk and lengthen the average life of debt, the percentage of outstanding CTZs of overall debt at the end of 2015 will most probably be less than the present one.

c) CCT*eu*s / CCTs

As stated in the introduction, 2014 was a year in which the floating rate bonds' segment (CCTs and CCT*eu*s) consolidated its performance after a return-to-normality trend that had already begun in 2013. CCT*eu* yields recorded a good performance and gradually aligned to those of nominal BTPs with the same maturity. This last fact indicates a strong interest from both institutional and retail investors, mostly domestic.

In 2015 the Treasury plans to issue CCT*eu*s normally on a monthly basis, to ensure the continuity of issuance needed to provide the liquidity requested by the market. Placements will continue to be at end-of-month, in conjunction with nominal 5- and 10-year BTPs.

CCTs' redemptions in 2015 will amount to around 25 billion euros, in line with those of the previous year. CCT*eu* issuance volume will be enough to allow an overall reduction of floating-rate Treasury Certificates with respect to total debt. This last goal will also be achieved through exchange or buyback transactions involving this segment, consistently with the choices made in 2014. This strategy fits with the background of continuing to mitigate the exposure of debt to the interest rate risk.

In accordance with the method introduced some years ago, CCT*eus* will continue to be placed through marginal (uniform-price) auction where the Treasury will determine prices in a discretionary manner on the basis of secondary-market conditions, within a pre-announced range of quantity on offer. As with the BTP€i segment, should the Treasury decide to offer off-the-run CCT*eu*s, these will be supplied together with on-the-run bonds in a single range on offer.

In 2015, once the issuance programme of the current on-the-run bond is complete, new benchmark bonds will be placed on auction with initial maturities between 5 and 7 years. The Treasury will favour, should the market conditions be appropriate, the 7-year maturity, in continuity with recent decisions.

d) Nominal 3 and 5-year BTPs

The Treasury's issuance policy for shorter term maturities in the nominal BTP segment, 3 and 5 years, will be characterised by a regular and continuous presence on the primary market. The launch of new bonds will always be announced in the Quarterly Programmes. These will be decided taking into account the Treasury's funding needs, the performance of equivalent maturity bonds on the secondary market, and at all times striving to guarantee that the final outstanding amount of bonds being issued is such to allow the possibility that the same may be re-opened at a later stage either as off-the-run or for exchange transactions.

Should market conditions of 2015 allow, also so as to follow the aim of lengthening the average life of debt, there will be lower issued volumes on these two segments in absolute terms and also relative to the total gross issuance activity.

Placement schedules for these two maturities are confirmed as for the recent years. 5-year BTPs will be issued along with 10-year BTPs at end-month auctions, whereas 3-year BTPs will be auctioned at mid-month, along with 7-year BTPs, and, usually, a long-term security with a longer than 10 year maturity.

Bonds in this segment will be placed through marginal (uniform-price) auction with discretionary price determination by the Treasury. Normally, at every auction, each on-the-run security will be offered in a range of its own, while any off-the-run bond will be offered with an interval range including all of them. Should market circumstances require, all bonds can be offered in a single range, either only on-the-run or together with off-the-run bonds.

e) 7-year nominal BTPs

The Treasury's issuance policy introduced the 7-year bond within the monthly auction programme in the nominal BTP segment in 2014. The far-reaching and positive response from investors during the placements of 2014 testifies to how the 7-year segment has become a reference point (and thus a benchmark) on the Italian yield curve.

The Treasury will continue offering this security at medium/long-term auctions at mid-month along with 3-year BTPs and a long-term security with maturity above 10 years. As is the case for all other medium/long-term bonds, 7-year BTPs will also be placed through marginal auction with discretionary price setting.

Compared to 2014, gross issuance of this maturity will tend to remain the same or increase slightly, should market conditions consent. This segment, still in a fully maturing phase due to its recent introduction, will be subject to a careful calibration of quantities to be offered at auction. The decisions will respond both to the need to guarantee adequate liquidity of the security being issued, and to the goal of using this maturity to reduce the quantities offered on shorter maturities in view of lengthening the average life of debt.

f) 10-year nominal BTPs

10-year BTPs in 2015 will confirm their role as reference bonds for the whole Italian nominal yield curve. They will continue to be one of the pillar on which relies the Treasury issuance activity on nominal BTPs, through regular monthly placements.

The Treasury will keep gross issuance of this sector in line with recent years. It will try to increase its proportion of outstanding debt, having considered its strategic role in managing the main risks to which debt is exposed.

As already mentioned, the placement frequency of the 10-year bonds will continue to be at end-of-month auctions together with 5-year BTPs and the floating-rate security (CCT*eu*).

The bonds will be placed via uniform-price auction with discretionary price setting. New issuances will be announced to the market beforehand with the Quarterly Issuance Programme.

g) Long-term nominal BTPs (15- and 30-year)

In 2014 the Treasury maintained its commitment to place the bonds of this segment by issuing regularly and without interruptions on both sections of the yield curve. In May, on the 15-year segment, the Treasury placed a new benchmark security for a total of 7 billion euros. It succeeded in attracting very mixed and broad demand, both in terms of residence and type of investor. On the 30-year segment the Treasury had no need of introducing a new benchmark since the present on-the-run security had not reached a sufficient outstanding amount to guarantee adequate liquidity on the secondary market. Furthermore, market conditions were not receptive to the launch of a new benchmark. Nonetheless, the Treasury guaranteed its presence on the segment through regular re-openings of the on-the-run bond, thus contributing to improve liquidity conditions for longer term bonds on the secondary market.

The Treasury's issuance policy in 2015 on these segments will focus on enhancing the results obtained in 2014. It will uphold its commitment to issue regularly without interruptions, each time assessing which security to offer, choosing between the 15- and 30-year maturities. The decision will consider market dynamics and investors' expectations, as well as yield trends.

The Treasury will carefully adjust the amounts to be issued keeping the flexibility of choosing between the 15- or 30-year on-the-run security in relation to demand, or, in particular market conditions, it will use (in combination with or as an alternative to) re-openings of long-term off-the-run bonds, even offering them together in the same range. Off-the-run bonds might not only be offered at mid-month auctions but also at end-of-month auctions, should the Treasury identify an opportunity on the market.

Auctions will be conducted like those of other nominal BTPs, both for on-the-run and off-the-run bonds.

Should the market present the optimal conditions and on-the-run bonds reach an outstanding level to be able to guarantee sufficient liquidity on the secondary market, the Treasury may decide to place new bonds. These, like in previous years, will be offered to the market through syndication, by virtue of this issuance mechanism’s flexibility.

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

2014 was a year of gradual return to normality for the European-inflation-linked bonds’ segment (BTP€is). A satisfactory liquidity returned on the whole real yield curve along with a good performance on the secondary market, in line with the trend of similar instruments issued by other European countries.

Therefore the Treasury’s plan for the segment in 2015 will thus be to continue to distribute the supply on the different lines so as to contribute to liquidity on the whole real yield curve.

Since there are no redemptions of BTP€is in 2015, and considering the commitment to guarantee a regular monthly issuance as per the Calendar, net positive issuance volume of European-inflation-linked bonds will increase the stock in absolute terms and as a percentage of the overall debt. Even so, management decisions of the inflation-linked segment will be fine-tuned to take into account the general exposure to the risk of inflation, as determined by the issuances of all inflation linked bonds, both European and domestic.

BTP€is will be placed at end-of-month auctions according to the monthly schedule in the Calendar (only December has no issuance) with prices set discretionally. The launch of new bonds with maturities above 5 years is an exception: these will be offered through syndication. Two or more bonds (whether on-the run or off-the-run) may be offered jointly at the same auction, included in a single range of volumes, within which the quantity issued for each individual security will be set.

As for other market segments, special emphasis will be placed on interaction with investors, particularly those specialized in this segment, so as to ensure that debt management decisions are as closely as possible in line with investors’ expectations, while keeping within the Treasury’s general issuance strategy.

The evaluation of whether to introduce new benchmarks will take into account the conditions of the individual on-the-run bonds, in terms of their outstanding stock, and of the trend of market demand. Should new bonds be placed, the Treasury will accurately assess, on the basis of market surveys and the need for the most advantageous cash flow management, the possibility of changing, while keeping the same coupon payment cycle (currently March and September), the month of maturity of the new security – moving it from September to March – or changing the coupon payment cycle with a resulting change in the final month of maturity.

THE BTP ITALIA

This instrument dedicated to retail investors was launched in March 2012. Its success was confirmed in 2014. The two placements of April and November enjoyed a highly satisfactory track record with wide-ranging interest from both retail and institutional investors. The Treasury was in fact able to collect a total of around 28 billion euros.

In 2014, the Treasury offered the bond with a longer duration (6 years) and introduced some substantial changes to the placement process to limit the final size of the single issuance while trying to fully meet retail demand. In fact, from the April 2014 issue, placements were divided into two phases: an initial phase of three days – unless early closing – dedicated to retail investors; and a second phase, the last placement day, for institutional investors. During the second phase of the October placement an allocation mechanism was provided in case institutional investors' demand exceeded the Treasury's planned supply.

In 2015, the Treasury is envisaging to offer retail investors the BTP Italia with at least one placement. The instrument will not present significant changes with respect to the current format: fixed annual real coupon rate, linked to domestic inflation, semi-annual payment of principal revaluation, and a final bonus for retail investors who buy the security during the placement period and hold it until maturity. The only aspect that could be modified is its final maturity: this could exceed 6 years, if requested by market conditions. Bonds for retail investors will continue to be issued on the MOT platform, the Italian stock exchange's regulated electronic market dedicated to retail trading. Orders will be collected during the issue's placement period on the platform's circuit with the support of dealer banks, chosen by the Treasury among the Specialists in Government bonds. The bonds' liquidity on the secondary market will be ensured through dealers and co-dealers chosen by the Treasury from the most active MOT participants in the Italian Government bonds sector.

Taking into account institutional investors' interest for the security, an in-depth market analysis will be performed to assess the existence of conditions to continue to provide a window reserved to them after the retail placement, as was the case in 2014, thus setting up a second phase of the placement period. Otherwise, a product will be dedicated to them, with a longer maturity, an indexation mechanism which could be either that of the BTP Italia or the BTP€i, to be placed through syndication, in a public or private form. In the case of a dedicated product with a public syndicate, the decision will be closely connected to the existence of conditions allowing for a true issuance programme tied to a scenario of adequately regular and stable demand.

ISSUANCE ACTIVITY ON INTERNATIONAL MARKETS

The Global Bond Programme and the Medium Term Note Programme are the two channels that the Treasury can use to issue on international markets.

The approval of the 2015 Stability Law completes the legal process allowing the Treasury to draw up bilateral collateral agreements. This brings the Treasury's *modus operandi* to the level of other sovereign issuers. When the implementation of the legal framework is completed, this faculty will be a useful instrument to reduce counterparty risk with the ensuing improvement, all other things being equal, of issuance conditions on international markets. Having considered the substantial amount of redemptions in 2015 ($6.5 billion in the Global sector alone) and the absolute levels of interest rates in the Euro-zone, the renewed interest of institutional investors for new issuances in USD, especially in the form of Global bonds, could effectively support the return to that market during the coming year, considering the above mentioned expected improvement of the cost of hedging execution carried out through cross currency swaps. The Treasury will thus carefully monitor markets, to gauge a comprehensive evaluation of issuance opportunities.

On the contrary, the Medium Term Note Programme allows for public or private issuances, in euros or other currencies, with extremely flexible characteristics. This favours a perfect alignment between the issuer's needs and the specific demands of one or more investors, both in terms of maturity and structure.

Specifically, the Treasury will consider proposals for private placements satisfying specific requisites: maturity of at least three years, a minimum nominal amount of 200 million euros, and a minimum tradable amount of at least 500,000 euros.

These proposals will be assessed by setting a final placement cost no higher than that of a domestic security of the same maturity and similar characteristics, while avoiding negative repercussions on benchmarks issuance activity of the domestic program.

The Treasury might also evaluate the possibility of a public issuance of securities in MTN format, even in foreign currencies, in order to meet the shared needs of a group of institutional investors. The Treasury has often raised funds on these markets in the past, albeit not recently. According to the same logic, the Treasury will consider opportunities on the domestic inflation-linked sector to address the needs of institutional investors. These were referred to in the above BTP Italia section.

EXCHANGE AND BUYBACK TRANSACTIONS

As announced in the Guidelines for 2014, the Treasury this year relied significantly on exchange and buyback transactions to manage the refinancing risk. This reshaped the maturity profile and enhanced the liquidity and efficiency of the Government bonds' secondary market.

The Treasury even in 2015 does not exclude a frequent use of extraordinary transactions of this kind. This depends, however, on the prevailing conditions of the secondary market and, for buybacks, on the level of cash balances on the Availability Account and on the Government bonds Sinking Fund.

As always, the most suitable way to perform these transactions will be evaluated on every occasion. At present these include: for exchanges, the use of the screen-based trading system or the Bank of Italy's auction system; for buybacks, the Bank of Italy's auction system or bilateral negotiations. However, in 2015 the Treasury does not exclude introducing new methods to carry out these extraordinary transactions. This in order to increase the efficiency of the same, in line with debt management objectives and market conditions.