2016

Guidelines for public debt management

Dipartimento del Tesoro

Ministero dell'Economia e delle Finanze

2016 Public Debt Management Guidelines

Contents

FOREWORD

The Department of the Treasury publishes the Public Debt Management Guidelines for the year 2016 fully in line with what is by now customary. This document is an instrument conceived to inform the wide range of public debt — represented by marketable Government securities — investors and market participants on issuance and management strategies for the upcoming year. The document focuses on the choices that will be made on all market segments where the Treasury is present with its instruments, illustrating the rationale and the objectives. The programme will of course have to take into account the effective market conditions during the next 12 months, which will inevitably influence the results that will actually be achieved. The document also summarises the changes that will be made to the debt management policy with respect to the past.

Having considered the introduction of the *Public Debt Report* (of which the first issue, regarding the year 2014, was published at the end of November this year) the 2016 Public Debt Guidelines, unlike in the past, will focus exclusively on the year ahead. The reason is that the entire analysis and evaluation of debt management and market dynamics for the year coming to a close will be published in the 2015 *Public Debt Report* next spring.

2016 ISSUANCE PROGRAMME AND DEBT MANAGEMENT

Preliminary considerations

2016 will be a year with some important changes with respect to the year coming to an end.

First of all, from the Treasury's point of view, financing needs will be lower.

In fact, in 2016, medium/long-term Government bonds (therefore excluding BOTs) will mature for 184.5 billion euros, slightly more than 8 billion euros from the foreign programme and in excess of 176 billion euros from the domestic programme. These are numbers that are about 18 billion euros less than in 2015, which had medium/long-term maturities for over 203 billion euros. Moreover, as of today, BOT redemptions in 2016 add up to around 115 billion euros. Also this figure is less than what was calculated in the same period last year for 2015 — 125.5 billion euros. Should BOT issuances that settle and mature next year be less than those of 2015, in keeping with the strategy to reduce the presence in that segment as will be illustrated further on in the document, the overall amount to refinance — including BOTs — could be 30 billion euros less than the previous year.

The reduction of the State Sector's cash borrowing requirement should also contribute to relieve financing needs, which the DEF Update Note of September 2015 estimates as 2.4% of GDP, a significant reduction from the 4% of 2015.

Moreover, having considered the customary large cash position with which this year should end, the need to increase issuance activity in 2016 above the redemptions and the borrowing requirement, so as to better face the higher volume of redemptions in 2017, seems to be somewhat limited.

Secondly, 2016 should be the first year with a reduction in the debt/GDP ratio after seven years of continuous growth. This aspect, while contributing to improve the credit risk perception of the country, should favour the placement of debt at better conditions, both in terms of the cost with respect to other European countries and the quality of investors.

Lastly, from the point of view of international financial markets, 2016 will be a particular year due to the different monetary policies which the Euro area and the USA will adopt. On the one hand, a significantly expansive phase, assisted by non-conventional measures on the part of the ECB — such as the purchase of public and private securities on the secondary market, which will continue beyond 2016 — and on the other hand, the effect of the Federal Reserve's increases of benchmark interest rates. The latter, in fact, after many years of accommodating policies following the international financial crisis of 2007-2008, recently decided on an initial rate increase and, according to the development of the economic cycle and inflation, could decide further increases during 2016. If this context will bring for Euro area countries, Italy included, the possibility of particularly low rates on Government securities, especially for short-term maturities, at the same time the asynchronous monetary policies on the two sides of the Atlantic will cause less predictable rate dynamics for the medium/long-term sector, notwithstanding the ECB purchasing on all segments up to 30 years foreshadows, according to an opinion common to all market analysts, a year characterized by historically low rates for the entire yield curve.

In formulating issuance choices, while keeping the commitment to regularity, transparency and predictability consistently with a consolidated approach, the Treasury will aim to take advantage of the above mentioned opportunities to privilege medium/long-term maturities and reduce short-term ones. The purpose is in fact that of continuing to reduce interest rate and refinancing risks in a market context that should allow to achieve these results at a cost that is low and significantly convenient in the medium/long-term perspective. In this sense, the aim is to obtain a further increase in the average life of outstanding Government securities, after that achieved in 2015 from 6.38 to 6.52 years. Nevertheless, the smaller volume of redemptions will make the aim of lengthening the average life particularly ambitious and difficult to obtain in 2016.

Specifically, the overall volumes of BOTs offered on all maturities will thus be reduced, in accordance with market needs, continuing a strategy set up in recent years.

CTZ issuance activity will be significantly reduced, both with respect to the volumes issued in 2015 and to redemptions; placements will no longer be monthly but every other month.

Even if on a minor extent — keeping with regular monthly auctions — also the recourse to 3- and 5-year BTPs will be reduced, so as to lower their proportion of overall yearly issuance activity. The Treasury will instead continue to be present with volumes in line with those of 2015 on 7- and 10-year maturities — always taking into account the evolution of demand during the year. For nominal long-term maturities the aim is to obtain a volume on offer in line with the above mentioned objectives, after a detailed analysis of the depth and quality of demand. In this context new bonds might be offered, along with off-the-run bonds that are particularly requested by the market. For medium/long-term maturities, private placements through the MTN programme will also be possible.

As regards CCTeus, the Treasury will continue to favour the 7-year maturity for new bonds. This strategy will take account of the smaller volume maturing and of the widespread normalization of quoting and trading activity on the secondary market seen in 2015, a year in which the critical issues produced in the years of the sovereign debt crisis were overcome.

Considering the present macroeconomic context and in line with the sector's strategy for 2015, medium/long-term maturities of bonds linked to European inflation will have a relatively increased weight, should market conditions allow, notwithstanding the need to introduce a new 5-year bond, since the previous was launched in 2013.

Lastly, as for the BTP Italia, considering the large redemptions' volume, the bond will be offered with two placements during the year, above all to give retail investors the possibility of re-investing the liquidity originating from the maturing bonds. The maturity of these issuances will be determined according to demand conditions.

The Treasury's strategy in 2016 will reserve an important role for exchange and buyback operations. Exchanges will continue to be used to manage the maturity profile, so as to further reduce the refinancing risk; in line with previous years, the operations will mainly aim at reducing the volumes maturing in 2017. Buybacks will also contribute to this end. They could be used directly on the regulated secondary market, just as with exchange operations, and this use could involve all types of outstanding Government securities. Buybacks will also strive to ease the process of reducing outstanding debt, through the resources deriving from privatization revenues and in line with the commitments foreseen in the MEF's planning documents.

In 2016, as far as the use of derivatives is concerned, continuing the trend of recent years, an active management — in a marginal manner — of the existing portfolio could be carried out only when the solutions that can improve the performance are found, taking into account market conditions. The possibility of new transactions will be connected exclusively to operations for hedging the exchange rate risk on foreign currency issuances, via cross currency swaps, in a context regulated by a bilateral collateral system.

Following the introduction of the *Public Debt Report*, this year the Treasury increased the information given to the public, in order to further favour transparency on public debt management decisions. The *Public Debt Report* will illustrate in detail, among other issues, both the objectives and the results obtained in debt management for the year in question.

ISSUANCE PROGRAMME FOR SECURITIES PLACED THROUGH PUBLIC AUCTION

1. Annual Calendar, auction frequency, and Quarterly Issuance Programmes

The communications regarding Government security auctions for 2016 are included, as always, in the Annual Calendar, published on the home page of the Public Debt website (www.publicdebt.it). Apart from auction dates, it also includes announcement and settlement dates of the various securities on offer.

Next year presents no changes with respect to the past as regards the timing with which the auctions will be communicated to the market. Therefore, three days before the auction there will be a single announcement which will indicate the securities on offer and their quantities.

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

Table 1: 2016 Auction announcement and settlement dates

Security type	Announcement	Auction	Settlement
BOTs	T-3	T	T+2
CTZs	T-3	T	T+2
BTP€is	T-3	T	T+2
BTPs / CCT*eus*	T-3	T	T+2

The order of the type of securities offered for each auction cycle presents no novelties for mid- or end-of-month appointments, except for CTZs, which will be treated below.
As regards the BOT segment, 12- and 6-month bills will be placed at mid-month and end-of-month auctions respectively. If necessary, 3-month BOTs will be placed together with the auction of 12-month BOTs, whereas flexible BOTs can be freely placed either at mid- or end-of-month auctions.

For the nominal medium/long-term segment, in the case of on-the-run bonds, BTPs will be offered on a monthly basis at mid-month auctions for maturities of 3- and 7-year, as well as for maturities of 15- and 30- year (for the latter evaluating each time which bond to offer, according to market conditions). In end-of-month auctions, 5- and 10- year BTPs together with CCTeus will continue to be offered. In 2016, the Treasury will further investigate and analyse the possibility of issuing long-term maturities other than the established 15- and 30- year ones.

BTP€is will continue to be offered monthly, at end-of-month auctions according to the Annual Calendar, usually on the same day as CTZs. Following the change of the auction settlement date (T + 2) introduced last year — to align settlement dates on the primary and secondary markets, which since 6 October 2014 has been the second business day following the trade for transactions settled on all electronic trading platforms in the Eurozone — this category of bonds will continue to be settled, usually, on the second to last day of the month in which the auction takes place.

CTZ auctions will instead be proposed on alternating months at end-of-month — together with BTP€i auctions — in accordance with the dates set in the Annual Calendar. In this case too, settlement will be the second to last day of the month in which the auction takes place, except the cases in which a CTZ issued in the past matures on the last day of the month. Only in these circumstances, should the auction take place in the same month, the settlement will be moved to the last day of the month to align it with the maturity.

The Treasury, also in 2016, reserves the right to place off-the-run bonds. It will have great flexibility both in terms of the choice of bond type and the frequency with which they will be offered to the market, as always with a view to guarantee the best functioning of the secondary market, to contribute to remove any distortions on the Government bond yield curve, and to satisfy the specific needs of the demand. Because of the particular reasons they are offered to the market, and thus differently from on-the-run bonds, the supply of off-the-run bonds could therefore be made both at mid-month and end-of-month auctions.

Moreover, should there be particular market conditions, and in any case in an exceptional manner, the Treasury can decide to offer off-the-run bonds together with the issuance of on-the-run benchmark BTPs.

The Treasury may — in exceptional circumstances spurred by liquidity, by market functioning, and/or by market demand needs — re-open outstanding bonds (both short- and medium/long-term) even in dates not 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 for each instrument.

Table 2: Auction frequency

Bond type	Mid-month Auctions	End-of-month Auctions
Flexible BOTs	*Issued according to cash requirements*	
3 month BOTs	*Issued according to cash requirements*	
6 month BOTs		*X*
12 month BOTs	*X*	
24 month CTZs		*The bond will be offered every other month*
*3 year BTPs**	*X*	
*5 year BTPs**		*X*
*7 year BTPs**	*X*	
*10 year BTPs**		*X*
*15 and 30 year BTPs**	*The two bonds will be offered according to market demand*	
CCTeus		*X*
BTP€is		*X*

** Please note that off-the-run bonds marked with an asterisk that fall within the category based on residual maturity at issuance can also be offered in medium/long-term auctions other than those listed in the table.*

The Treasury, apart from the Annual Calendar and the press releases published close to the auction date, integrates the information to be given to the market with the Quarterly Issuance Programmes. These, in addition to information on the bonds to be issued, include new CCTeus, CTZs and medium/long-term nominal BTPs — up to 10- year maturity— to be issued in the following quarter, together with the minimum outstanding volume that the Treasury commits to reach for each of them before launching a new bond on the same segment.

2. Fixed- and floating-rate nominal securities

a) BOTs and liquidity management

As is customary, BOT (Treasury Bill) issuances will be with the traditional 6- and 12-month maturities, which might be accompanied by 3-month bills and flexible bills with unusual maturities related to specific cash management requirements. In keeping with the trend of the last few years, 2016 will be characterized by reduced short-term issuances, also in light of a greater concentration of redemptions foreseen for 2017.

12- and 6-month BOTs will be offered regularly, with amounts being driven by the above mentioned goals, as well as according to demand and market conditions. Any recourse to 3-month bills, as well as to flexible BOTs, will be related to the Treasury's cash requirements. An extremely limited use of these last instruments is envisaged for 2016.

The Treasury will continue to offer 6- and 12-month bills through ordinary auctions and re-openings reserved to Specialists in Government bonds. Once again in the view of containing short-term issuances, re-openings will continue to be 10% of the nominal offered in the ordinary auction (against the 15 or 30% of medium- and long-term bonds). This 10% will be linked to the observed performance of the Specialists on the primary and secondary markets, equally distributed. The Treasury reserves the right to adjust this percentage in each auction — in exceptional cases and publishing a relative press release — according to market and demand conditions, as well as for debt management goals, in line with the need to optimize overall volumes issued on the BOT segment.

As for the functioning of the primary market, the competitive auction will continue to be the placement system for the entire BOT sector. Issuance activity will thus continue to be conducted with the prevailing market method, which require the presentation of bids in yield terms (instead of price), confirming, moreover, the possibility for dealers to place up to five bids for each BOT on offer.

Investors who purchase bills at auctions will continue to be protected by the ministerial decree on transparency in Government bond placements. In particular, the new decree issued in January 2015 (replacing the preceding of 2004, updated in 2009) reduced the maximum fees that can be applied to investors subscribing BOTs in auctions. They are not due in the case of negative yields. This was the case in some BOT auctions of 2015, that benefited from a monetary market characterized by near zero or negative short-term yields — a market context that will presumably continue in 2016.

The Treasury will be able to complete the short-term issuance programme with Commercial Paper, a flexible instrument in terms of quantity and maturity, used in addition to BOT issuances to face specific and temporary cash requirements within the liquidity management framework. However, in 2016, recourse to these instruments should be extremely limited, or even not necessary.

Lastly, next year, the Treasury will maintain a steady presence in the money market in both short- and very-short-term maturities, through financial transactions based on the Treasury's Availability account (OPTES). This activity, introduced in 2007 and developed since the end of 2011, entails daily operations with the execution of transactions that mostly require cash investment. 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.

b) 24-month CTZs

In 2016, the overall amount of CTZs maturing will show a further reduction with respect to the around 30 billion euros of 2015. The limited amount of redemptions – around 26 billion euros - is the result of the issuance policy adopted in recent years, aimed at reducing the weight of the CTZ segment within the Government bond portfolio so as not to burden the refinancing of the near future redemptions.

Notwithstanding the drop in redemptions, net CTZ issuances at the end of 2016 will be definitely negative. To this end — this is the most important issuance policy change in the segment — CTZ auctions in 2016 will be every other month, without any significant changes in the quantities offered in the single auctions. The issuance of at least one new bond is nevertheless guaranteed during 2016. The significant reduction of gross issuance in terms of absolute values with respect to the quantity offered in 2015 will imply a consequent reduction in percentage of the overall yearly issuance activity. Therefore, the debt quota of outstanding CTZs at the end of 2016 will be subject to a substantial decline.

The diminished presence on the CTZ segment is fully in line with the more general aim of lengthening the duration of debt and, at the same time, reducing exposure to the refinancing risk.

The Treasury will continue its commitment to guarantee the liquidity of outstanding bonds and will continue to offer this instrument to investors via the customary means — i.e. with a marginal auction and discretionary pricing within a minimum and maximum quantity on offer, based on demand conditions.

The form of announcements will not change. During the auction month the minimum and maximum quantities will be announced with the issuance press release, published three days before the auction date together with the BTP€i ones. The issuance of bonds on this segment will continue to be at end-of-month, before the BOT auction and the medium/long-term nominal BTP and CCTeu auctions. Settlement will be the second to last business day of the month, except for April: should the CTZ auction take place in that month, it will be together with the BOT auction and be settled on the last business day of the month so as to allow it to coincide with the maturity of a CTZ issued in 2014.

In order to curb the amount of bonds to be refinanced in 2017, the Treasury may also consider the CTZ segment among those to be repurchased in exchange or buyback operations.

c) CCTeus / CCTs

In 2015, market conditions of the CCTeu segment continued to normalize. In 2016, the Treasury plans to issue CCTeus 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 in the traditional end-of-month auctions, together with nominal 5- and 10-year BTPs.

CCTeus will continue to be placed through marginal auctions in which the Treasury determines 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 CCTeus, these will be offered together with on-the-run bonds in a single range on offer.

CCTs maturing in 2016 will be slightly more than 13 billion euros — a steep drop from the previous year. This will produce a positive net issuance. Yet, with a view to containing debt exposure to the interest rate risk, CCTeus gross issuance as a proportion of the overall one will be limited so as to stabilize the debt share of floating-rate Treasury Certificates.

Aside from the normal reopening of current outstanding bonds, 2016 should see the launch of two new benchmark bonds via auction. The 7- year maturity will be privileged, in continuity with recent choices.

d) 3- and 5-year nominal BTPs

As regards 3- and 5-year maturities, the Treasury's issuance policy choices in the nominal BTP segment will continue to be characterized by a regular and continuous presence on the primary market. During 2016, the Treasury intends to place at least two new bonds for both maturities. These will however be announced in the Quarterly Issuance Programmes.

The timing of the launch of the new bonds will be set taking into account: market demand, the performance on the secondary market of bonds with the same residual maturity, the Treasury's financing needs, and, in any case, taking care to supply a suitable final outstanding amount of on-the-run bonds, also paying heed to the possibility that the same can be reopened later on as off-the-run bonds or in exchange operations.

Continuing with the trend that began in 2014, 5-year bonds will be placed together with 10-year bonds at end-of-month auctions. 3-year bonds will be placed at mid-month auctions along with 7-year bonds and, normally, with one or more bonds with a maturity longer than 10 years.

Bond placement on these segments will continue to be via marginal auction with discretionary price determination, as has been the case for the past years. Each auction will usually offer on-the-run bonds, each with its own range on offer, while off-the-run bonds, should they be present, will be offered announcing a range of volumes that includes all of them. Should particular market conditions request it, all bonds can be offered in a single range, regardless they are all on-the-run bonds or also off-the-run bonds.

With respect to 2015, there will be slightly fewer redemptions for the 3-year segment in 2016, and, instead, those of the 5-year segment will be sizeably reduced (about a third less than in 2015). Despite reduced overall redemptions on these two segments, should market conditions allow, with the goal of lengthening the average life of debt, 2016 will see a reduction in gross issuance of 3- and 5- year BTPs, both in absolute value and relative to overall yearly issuance activity. Therefore, the year could close with negative net issuance in the two segments considered together.

e) 7- and 10-year nominal BTPs

Following the success of the launch in October 2013, and then the introduction in the monthly auction calendar in 2014, 2015 saw the 7-year nominal BTP becoming a reference point on the Italian yield curve. This tenor has, thus, achieved a crucial role for the monthly auction programme, and will further consolidate its position in 2016. On the one hand, issuance will be set to satisfy investors' consolidated demand, and, on the other, it will be managed strategically by the Treasury to strengthen the process of lengthening the average life of debt.

As for the 10-year BTP, seeing as it is a reference point in the Italian nominal yield curve for domestic and foreign investors, in 2016 it will continue to represent the most important segment for the Treasury's issuance activity in the nominal BTP space, with regular monthly placements.

The placement format of these instruments will be the same as the past years: via marginal auction with discretionary price determination. As for placement scheduling, the 7-year segment will continue to be issued with medium/long-term auctions at mid-month together with 3-year BTPs and one or more long-term bonds with a maturity longer than 10 years. 10-year bonds will be placed at end-of-month auctions together with 5-year BTPs and CCTeus.

The Treasury foresees issuing two new bonds for each maturity. As always, they will be announced through the Quarterly Issuance Programme.

Since no bonds in the 7-year segment mature in 2016, net issuance will obviously be positive, and, if possible, should not, in absolute terms, be different from those of last year. Having considered that the overall gross value of issuance of Government securities in 2016, as stated in the introduction, will be lower than in 2015, it follows that in percentage terms the 7-year segment will increase its presence and it will reduce the presence of shorter term instruments, in particular CTZs and 3- and 5-year nominal BTPs.

Considering the strategic role the 10-year segment plays for debt management, both for controlling the refinancing risk and the interest rate risk, the Treasury will keep gross issuance in this segment in line, if not slightly more, than those of recent years, increasing, also thanks to fewer redemptions with respect to 2015 (about 40% less), its proportion of debt.

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

In 2016, the Treasury's issuance policy on the 15- and 30-year segments of the nominal yield curve will be concentrated on consolidating the satisfactory results obtained in 2015, trying at least to reproduce the gross issuance of that year. Supply will be regular and continuous, evaluating each time which of the two maturities to offer the market, paying heed to the information gained through communications with the most active players of these instruments and considering the trade dynamics on the secondary market. This choice will usually be for on-the-run bonds, but, as was often the case in 2015, it could entail the use of more flexible strategies. These include the contemporary issuance of both on-the-run bonds or the reopening of long-term off-the-run bonds, in addition to or in substitution of on-the-run bonds.

Auctions will be conducted in the same manner as for nominal BTPs, both for on-the-run and off-the-run bonds, i.e. with a marginal auction and discretionary price determination. Should there be more bonds of the segment on offer in the same auction, a minimum and maximum quantity for each on-the-run bond will usually be announced — except, should the Treasury deem it necessary, when offering a cumulative quantity, as it is the case for off-the-run bonds. The latter, for that matter, could be proposed not only at mid-month auctions, as for on-the-run bonds, but also at end-of-month auctions, should market conditions make this preferable.

The Treasury, as is customary, will not announce new bonds of this segment in the Quarterly Issuance Programme but, taking advantage of the opportunity of long-term financing at historically low rates, will aim for a new bond both on the 15- and the 30-year segments through syndication if favourable market conditions allow. This will make the goal of increasing the average life of debt easier to achieve.

Lastly, during 2016, considering the present context of market rates and the development of demand, the Treasury will begin to study the possibility of offering to the market bonds with nominal BTP format on the long-term segment of the curve with maturities other than the traditional 15- and 30- year.

3. European-inflation-linked bonds (BTP€is)

In 2016, a 5-year BTP€i will mature for over 9 billion euros (non revaluated amount). The Treasury's issuance policy for European inflation linked bonds will continue to be oriented to an approach of regular issuance, being present on the market every month, as set out in the Annual Calendar. At the end of the year, the absolute value of outstanding bonds linked to European inflation should grow. Nevertheless, overall exposure to the inflation rate risk (both European and

Italian, thus also considering the BTP Italia), calculated in terms of the proportion of inflation linked bonds on total debt, should end up at a slightly lower level than 2015.

BTP€is will be placed at end-of-month auctions with prices set discretionally according to the monthly schedule illustrated in the Annual Calendar (that only for December it has no issuance).

Two or more bonds (whether on- 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 bond will be allocated.

The evaluation of whether to introduce new benchmarks will take into account the conditions of the individual outstanding bonds, primarily in terms of their stock, and of the trend of market demand. In case new bonds are placed, the Treasury will accurately analyse, together with market dealers and investors, both the possibilities of changing the coupon payment cycle — for now the months of March and September — and of changing the bond's maturity month. New bonds will be placed, as has been the case these last years, the same way as bonds with maturity equal or longer than 10 years, through syndication. Also for European inflation linked bonds, considering the present macroeconomic context and in line with the strategy pursued in the sector in 2015, medium/long-term maturities, market permitting, will see an increase of their weight. This is also thanks to regular reopenings of the new 15-year benchmark (the 15 September 2032 BTP€i), issued in October 2015.

THE BTP ITALIA

The first three BTP Italia issued in 2012 will come due in 2016. Redemptions will total around 27 billion euros.

During next year, the BTP Italia will presumably be supplied in two placements: one in spring and one in autumn. In this manner retail investors will continue to be offered both an instrument to protect their savings and the possibility of reinvesting the liquidity coming from the maturing bonds in new ones.

These bonds will have the same financial characteristics as those now present on the market: fixed real annual coupon rate, linked to domestic inflation, semi-annual payment of principal revaluation, and a final bonus for retail investors who purchase the bond at issuance and keep it until redemption. The maturity of the new bonds will be set according to demand and market conditions around the time of placement, keeping in mind the Treasury's aim of lengthening the average life of debt.

The bonds will continue to be issued directly on the MOT platform, the Italian stock exchange's regulated electronic market dedicated to retail trading. Orders will be collected during the placement period on the platform's circuit with the support of dealer banks, chosen directly 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 among the most active MOT participants in the Italian Government bond sector.

In 2016, placements of BTP Italia will also continue to be open to institutional investors, considering the extensive and continued interest demonstrated for the bond both by domestic and foreign investors.

EXCHANGE AND BUYBACK OPERATIONS

2016 will most likely see a frequent use of extraordinary exchange and buyback operations to manage the refinancing risk, thus changing the maturity profile and, at the same time, supporting the liquidity and efficiency of the Government bond market. As has been the case in the past few years, these operations will aim in particular at reducing the concentration of redemptions in 2017. This recourse to extraordinary operations depends, however, on the prevailing conditions of the secondary market and, for buybacks, also on the cash position of the Treasury Availability account and of the Government bond Sinking Fund.

Also in 2016, how these operations are to be executed shall be decided evaluating the best method on every single occasion. For exchanges, as usual, electronic trading system will be used on the regulated secondary market, or auctions run by the Bank of Italy; for buybacks, auctions set up by the Bank of Italy, bilateral deals, or new methods which could include operations executed directly on the secondary market, as it is already the case for exchanges.

ISSUANCE ACTIVITY ON INTERNATIONAL MARKETS

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

As for the Global Programme tailored to institutional investors from around the globe, even though the conditions present on financial markets in terms of demand were once again favourable for new bonds, the high costs of hedging — through derivatives — did not allow to satisfy the demand with new offers of that kind of bonds. During 2016 the Treasury will continue to carefully monitor and analyse the market to be able to assess the presumably significant amount of institutional investors' demand. This is the case in particular for new issuances in USD, a segment in which Italy has not been present since the second semester of 2010.

Instead, the Medium Term Note Programme allows the Treasury to issue in public or private format, with extremely flexible characteristics in order to favour the best possible alignment between the issuer's needs and the particular requests of one or more investors, both in terms of maturity and of structure of the issuance.

As regards private placements, the proposals that satisfy the following requisites will be considered: at least 3- year maturity, minimum amount of 200 million euros, and minimum trading lot of 500,000 euros. Moreover, the Treasury will consider whether or not to proceed with these issuances, taking into account their correspondence to the overall financing strategy which aims to lengthen the average life of debt, and verifying that the financing cost is lower than that of the equivalent domestic bond, so as to avoid negative repercussions on bonds issued in a public format.

In order to meet the common needs coming from a group of institutional investors, opportunities on the inflation linked bond segment might also be considered.