

2017

Guidelines
for public debt management



2017 Public Debt Management Guidelines

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FOREWORD

The Department of the Treasury presents the Public Debt Management Guidelines for 2017 in order to outline its issuance and liability management strategy to participants in the Italian public debt market. As in the past, this document illustrates the issuing decisions to be adopted in the next 12 months with reference to all debt instruments offered by the Treasury to the market, and the general strategy backing such decisions. The ex-post analysis of 2016 debt management and the interaction with the markets and public finance evolution will be covered in the 2016 Public Debt Report.

2017 DEBT ISSUANCE AND MANAGEMENT PROGRAMME

Introductory considerations

The management of the public debt in 2017 will be carried out within a market framework likely to be very different from that in 2016. In view of the developments observed in the final weeks of the 2016, it is reasonable to expect that interest rates, the shape of the yield curve, and inflation will evolve in a significantly different manner with respect to the trends seen in the year that is about to end. In addition, the financing needs in 2017 will be larger than those for 2016, thereby making it necessary a broadly diversified use of the various debt instruments available to the Treasury, so as to ensure the streamlined placement of all issues and the regular functioning of the secondary market for government securities.

From the perspective of the international financial markets, the final two months of 2016 have been marked by a significant increase in interest rates in the bond market in the United States, and in particular in government securities rates, notably after the presidential election. This situation has triggered a similar, albeit less pronounced, process in Europe. The rate increases have nonetheless not been uniform across the yield curve, with the effect being much more significant for long-term rather than short-term maturities. The developments in the U.S. market can be attributed, on the one hand, to the expectation of the return of higher levels of inflation (partly due to the rise of energy prices), with a consequent response from the U.S. central bank and on the other hand, to the prospect that more expansionary fiscal policy will lead to an increase in the debt offered by the U.S. Treasury in the next few years, with a consequent increase in interest rates in order to attract greater demand from investors.

In Europe, the picture is very different. On the one hand, while expectations suggest higher inflation, the increase should be much more moderate and diluted over future years; on the other hand, when considering the level of debt of many European countries and European Union rules, largely expansionary fiscal policy does not appear to be on the agenda. These factors, along with the European Central Bank's programme to purchase public securities and other fixed income instruments, have contributed to making the recent rate increase less pronounced than in the United States, even though volatility in security prices has significantly increased also on the European

fixed-income markets, as is customary during major market shifts. There is nonetheless no doubt that the orientation of monetary policy on both sides of the Atlantic will remain very different again in 2017: in the United States, the Federal Reserve will be committed to using monetary-policy instruments also for controlling the potentially upward trend of inflation, whereas in Europe, the ECB recently announced its intention to continue the asset purchase programme until the end of 2017, albeit for slightly lower amounts starting in April, and it will expand the range of maturities for the eligible instruments, with the inclusion of those with a residual maturity of between one and two years. If it is therefore reasonable to expect some steepening of the slope of the European yield curve, it is more difficult to pinpoint the level that will prevail from the interaction between the trend of the international macroeconomic scenario and the ECB's action.

The recent events on the international markets have obviously had a broad impact on the market for Italian government securities, which have not only moved in line with the average European market trend, but have also felt the effects of the average increase in volatility and some domestic factors, whether of purely political or economic and financial type. As a result of these developments, the yield differentials between Italian government securities and similar securities from other core European countries (in particular, Germany) started to increase in September 2016, and then gradually stabilised before starting to tighten at the end of November.

The development of the Italian yield curve in 2017 will not only be influenced by the international macroeconomic trend, the ECB's action, and numerous European and global geopolitical events in the coming months, but it will also be affected by domestic economic and political events, in relation to their repercussions on key public-finance variables.

From the standpoint of public debt management, the year of 2017 will be different from 2016 on account of greater financing needs. The redemptions over the coming year are just under 216 billion euros (excluding BOTs), or some 30 billion euros more than in 2016, including approximately 3.3 billion euros in relation to the international programme. At the same time, the redemptions of currently outstanding BOTs amount to just over 107 billion euros, which is below the comparable amount in 2016 (115 billion euros) as a result of the policy initiated some years ago to reduce the borrowing in this segment. It will thus be possible to assume net positive issues of BOTs in 2017.

The Treasury's market operations will continue to be broadly anticipated, through a regular and transparent issuance policy. Although the market context and the size of the funding to be ensured will vary, the issuing decisions will be oriented toward managing interest-rate and refinancing risks, so as to continue to keep exposure to such risks under control. As part of the management of refinancing risk, the new maturities will be carefully calibrated so that the average life of the debt

represented by government securities will remain around the 2016 level of 6.76 years, which reflects further increase with respect to the 2015 level.

For the BOT segment, the volumes to be issued across all maturities will be moderately increased, but without changing the percentage of such securities to total issuance activity achieved in 2016.

The CTZ issues will be kept substantially in line with the volumes maturing, but the monthly issuing frequency will be reinstated as of the auction at the end of January, so as to facilitate the operation of the secondary market within new market framework for 2017.

The auctions of 3- and 5-year BTPs, which will be regularly held on a monthly basis, will increase over 2016 in terms of absolute volumes offered, while the weight against the total issuance activity will slightly increase for the 3-year maturity. The volumes of 7- and 10-year BTPs, which will also be offered through regular monthly auctions, will remain substantially in line with those for 2016, taking into account the demand conditions.

With reference to nominal securities with longer maturities, the Treasury has introduced two new maturities – 20 and 50 years – thereby increasing the array of instruments available for diversifying the supply, with the periodic offer of securities that enjoy greater market depth and better quality of final demand. At the mid-month auctions, the Treasury will be present with one or more on-the-run BTPs with 15-, 20- and 30-year maturities, whereas the new 50-year security may be reopened at auction either at mid-month or at month-end, depending on the on-the-run security's market performance. When the conditions exist for larger issues, the Treasury may reopen successive tranches of the 50-year BTP by making use of a syndicate placement, a method which will also be used for the launch of any new BTP securities in the sector, as it is deemed more appropriate for a one shot offering of sizeable amounts of long-term maturities.

In 2017, the Treasury will proceed with the re-opening of *off-the-run* securities (namely, those no longer being issued) at the mid-month or end-of-month auctions at times when the market demand emerges and in order to mitigate consequent distortions on the secondary market.

In consideration of the current macroeconomic framework and the trend of interest rates, the CCTeu will be offered regularly on a monthly basis and for volumes in excess of those offered in 2016, also to take into account the sizeable maturities, and with the objective of controlling overall exposure to interest-rate risk.

The securities indexed to European inflation will be issued in consideration of the trends of inflation and the macroeconomic framework. On a basis compatible with demand conditions, the Treasury

plans to increase the overall volumes offered of these securities with respect to 2016, with a diversified presence across all main maturities and the potential launch of a new 10-year issue.

In order to further facilitate secondary-market liquidity and efficiency with regard to nominal or inflation-indexed securities having a residual life of more than 10 years, the Treasury's 2017 programme includes the possibility of a discretionary increase in the percentage of supplementary placements reserved to the Specialists in Government Bonds with respect to the second or later tranches (the first tranche is normally issued through a syndicate placement), raising it to 20% (compared to the current 15%). In such case, the amount accruing to each individual Specialist will be determined on the basis of the performance on the primary market for securities of the same type and maturity (10%) and the performance on the screen-based secondary market (10%).

The year of 2017 also includes the maturity of two very sizeable BTP Italia issues (total of approximately 39 billion euros). Accordingly, in addition to the two customary placements (with securities whose maturity is to be between six and eight years), the Treasury plans to review the possibility of managing the sizeable maturities through exchange or buyback transactions; should the feasibility analysis of this prospect yield a positive outcome, the Treasury will accurately evaluate the most efficient means for execution.

Exchange or buyback transactions will have a significant role in the Treasury's strategy for 2017. Exchange transactions are used for managing the maturity profile, in order to further reduce refinancing risk; the transactions will mainly aim to reduce the volumes coming due in 2018 and 2019, and where possible, also in 2017. Buyback transactions (which can regard all of the various types of government securities outstanding) also contribute in this regard, but it is possible they may be used directly on the regulated secondary market, as is the case for the exchange transactions. The buybacks will also be aimed at facilitating the process of reducing the outstanding debt stock, through resources coming from privatisations.

Again in 2017, the transactions in derivatives instruments will support active portfolio management, and they will be aimed at improving the portfolio performance in the current market environment. The hedging of new foreign-currency-denominated issues through cross-currency swaps will also be possible, especially in a context regulated by a system of bilateral collateral.

As in past years, with the *2016 Public Debt Report* the Treasury will offer a detailed description of debt management, inclusive of objectives and results, and an overview of the market and public finance for the year which is about to end.

ISSUANCE PROGRAMME FOR SECURITIES PLACED THROUGH PUBLIC AUCTION

1. Treasury communications: Annual Calendar, Quarterly Programme, and notices regarding issuance

As in the past, the Treasury will ensure the maximum transparency in its issuing policy again in 2017 not only through the publication of the issuance and management strategy contained in these Guidelines, but also through other publications such as the Annual Calendar, the Quarterly Programmes and the issuance press releases .

The Annual Calendar is published on the home page of the public debt web site (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 securities to be offered.

The BOT auction calendar is published on the same web site, and contains all of the information regarding these placements, including the announcement, auction, settlement and maturity dates.

As always, the market will be promptly advised about the issuance of government securities through press releases, with the timing for their publication to remain the same as in the past. Accordingly, for any type of auction there will be a single press release published three days prior to the auction date, with the indication of the securities to be offered and the related quantities.

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

Table 1: Auction announcements and settlement dates

Type of Security	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/ CCTeu	T-3	T	T+2

The issuance press releases will also include information about the amount offered in the supplementary placement reserved for the Specialists in Government Bonds, which normally takes place on the day after the ordinary auction. Starting in 2017, the Treasury will introduce a flexibility factor regarding the quota offered in the supplementary placement for nominal and inflation-indexed securities having a residual life in excess of 10 years. As a rule, the re-opening quotas are 30% for the first tranches and 15% for the subsequent tranches; in the case of nominal and inflation-indexed securities with a residual life in excess of 10 years, the ordinary quota may be increased by another 5%, as indicated from time to time in the announcement of the ordinary auction. The amount of each Specialist's right to this additional quota is to be calculated on the basis of the respective performance as evaluated on the screen-based secondary market of reference.

At the end of each quarter, the Treasury will publish the Quarterly Issuance Programme, in which it will indicate the new securities in the following segments to be issued in the quarter thereafter: CCTeu, CTZ and nominal BTP up to 10 years. The Quarterly Issuance Programme will also indicate the minimum outstanding volume that the Treasury is committed to reach for each of these securities before launching a subsequent new security within the same segment.

2. Frequency of auction of the various types of securities

Except for the CTZs (see below), there are no revisions contemplated to the monthly offering of government securities, either with respect to the mid-month or end-of-month auctions.

The 6- and 12-month BOTs will be respectively placed at the end-of-month and mid-month auctions. The 3-month BOTs may be offered through auction at the same time as the 12-month BOTs, while the flexible BOTs may be proposed either at mid-month or month end.

With reference to the *on-the-run* nominal securities with medium/long-term maturity, the 3- and 7-year BTPs will be offered monthly at the mid-month auctions, and if the conditions are appropriate, the BTPs with longer term maturities (in particular, the 15- and 30-year maturities and the new 20-year maturity introduced in 2016) may be offered during the same auction cycle. With reference to *on-the-run* BTPs securities with maturity of 5 and 10 years, these will continue to be offered at month end, along with the CCTeu. With regard to the recently introduced 50-year BTP, the Treasury will commit, as in the case of all domestic securities, to ensure adequate liquidity thereof

through subsequent re-openings, which may occur through auction (either at mid-month or month end) or through syndicated placements.

As indicated in the Annual Calendar, the auctions of BTP€i will continue to be monthly, at month end, on the same day as the auction of the CTZ, which will again be issued monthly starting in 2017. As a rule, these categories of securities will continue to settle on the penultimate business day of the month in which the auction is held.

In 2017, the Treasury might rely more frequently on the auction placement of *off-the-run* securities. In order to achieve more efficient placement of such instruments, the Treasury reserves the option of making use of the utmost flexibility, both in terms of the selection of the securities and the frequency with which it will offer them to the market. This strategy is also aimed at ensuring the optimal operation of the secondary market, by contributing to removing possible distortions present on the government securities yield curve, so as to satisfy specific requirements of the demand with respect to such securities. Depending on the specific reasons for which these securities will be offered to the market, and thus unlike the *on-the-run* issues, the offering of *off-the-run* securities may accordingly occur either at mid-month or at month end.

In addition, in the presence of specific market conditions, and on a completely exceptional basis, the Treasury may decide to offer *off-the-run* securities in the same issuance range of the benchmark BTP securities being issued (*on-the-run* issues).

With further reference to exceptional situations, the Treasury may rely on the re-opening of securities outstanding, whether with a short or medium/long-term maturity, even outside of the Annual Calendar, should such re-opening be required by specific needs regarding market liquidity, market operation, and/or market demand. Any such placements will be decided with the input of detailed consultation with market participants, and will be announced through the regular communications channels.

Table 2 summarises the frequency of the auctions for each instrument.

Table 2: Frequency of auctions

Type of Security	Mid-Month Auction	Month-End Auction
<i>Flexible BOT</i>	<i>Issuance contingent on cash needs</i>	
<i>3-month BOT</i>	<i>Issuance contingent on cash needs</i>	
<i>6-month BOT</i>		X
<i>12-month BOT</i>	X	
<i>24-month CTZ</i>		X
<i>3-year BTP*</i>	X	
<i>5-year BTP*</i>		X
<i>7-year BTP*</i>	X	
<i>10-year BTP*</i>		X
<i>15-, 20- and 30-year BTP*</i>	<i>The three securities will be offered in relation to market demand.</i>	
<i>50 years BTP</i>	<i>The security will be offered in relation to market demand.</i>	
<i>CCTeu</i>		X
<i>BTP€i</i>		X

* Please note that off-the-run securities 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.

3. Nominal fixed- and floating-rate securities

a) BOTs and liquidity management

As in the past, BOTs (Treasury Bills) will be issued with the traditional maturities of 6 and 12 months, with the possibility of the addition of 3-month securities and the so-called flexible BOTs having other maturities in relation to specific needs for liquidity management. Considering the sizeable redemptions of securities in 2017, it will not be possible to continue the strategy of reducing the short-term issues, which will instead increase albeit without substantially shifting from the weight as a percentage of total issues of last year.

The 6- and 12-month BOTs will be offered regularly, and the related amounts will be determined by taking into account market conditions and demand. The possible issuance of 3-month securities and/or the flexible BOTs will be contingent on the Treasury's cash needs.

The Treasury will continue to offer the 6- and 12-month securities through ordinary auctions and the re-openings reserved for the Specialists in Government Bonds in government securities. As a rule, the amount of the re-openings will be equal to 10 per cent of the nominal amount offered at the ordinary auction. The aforementioned 10 per cent will be parameterised to the performance of the Specialists in Government Bonds observed on the primary market and secondary market, equally divided. The Treasury will maintain the option of adjusting such percentage at the time of each auction, in relation to market conditions, investors' demand, and the Treasury's need to optimise the overall volumes of BOTs issues for debt management purposes. The Treasury, nonetheless, is likely to rely on this option only in exceptional cases, and in such event, will issue a separate press release.

As for the running of the primary market, the competitive auction will continue as the placement system for the entire BOT segment. Issues will thus continue to be auctioned with the method prevailing on the money market, 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.

The safeguards set out in a ministerial decree regarding transparency in the placement of government securities will continue to apply to investors purchasing the securities at auction. In particular, the latest decree issued in January 2015 (replacing the previous decree of 2004 that was updated in 2009) reduced the maximum fee applicable to investors subscribing BOTs at auction, providing that there will be no fee in the event of negative yields.

The programme for short-term issues may be rounded out with the issuance of *Commercial Paper*. Given its extreme flexibility in terms of quantity and maturities, *Commercial Paper* is an instrument to be used as a corollary to ordinary BOT issues in order to meet specific and temporary cash needs with respect to liquidity management.

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 liquidity account (OPTES). These transactions, introduced in 2007 and further refined in 2011, provide for daily activity with the execution of operations that use or tap liquidity, depending on cash management needs. 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

During 2017, the total amount of the 24-month CTZs coming due will be substantially in line with that for 2016. More specifically, the maturities come to approximately 24 billion euros, which is just under the approximately 26 billion euros maturing in 2016. The reduction is the by-product of the issuing strategy adopted in recent years, which is based on decreasing the portion of shorter term instruments with respect to the total stock of securities outstanding, so as to lengthen the average life of the debt and contain the refinancing risk.

In 2017, the issues of CTZs will be basically in line with the amount of redemptions; accordingly, the net issues of this instrument at year end may be slightly negative or only marginally positive. However, the Treasury will revert to issuing CTZs on a monthly basis (instead of a bi-monthly basis) in order to ensure the issuing continuity needed for supply the liquidity required by the market, and in consideration of the ECB's recent decision to reduce the residual life of public securities eligible for purchase from two years to one year, which will place CTZs in the basket of securities eligible for purchase. The reinstatement of the monthly frequency is also related to the prospect of bolstering retail investor demand for CTZs and obtaining a more uniform distribution of the total annual volumes to be issued, thereby allowing for more effective management of market conditions, including in situations of potential volatility.

In 2017, CTZs will continue to be placed through marginal auction and discretionary price determination by the Treasury, with the offer within a minimum and maximum size, based on demand conditions. The issuance of the securities in this segment will furthermore continue to be carried out at the end-of-month auction, prior to the BOT auction and the auction of the medium-/long-term securities and the CCTeu. Settlement will take place on the day preceding the last business day of the month.

There is also no change contemplated in the terms and conditions of the auction announcements, which will be made through a press release, containing information about the minimum and maximum quantity, to be published three days prior to the auction date and thus, as the same time as the press release related to the BTP€i.

In addition to the normal re-opening of the securities outstanding, the Treasury plans the possible introduction of two new benchmark securities in the CTZ segment in 2017.

Finally, consistent with the strategy adopted in 2016, the Treasury may consider the possibility of including the CTZ among the securities involved in exchange or buyback transactions, with a view toward containing the amount of securities to be refinanced in the 2017-2018 period.

c) CCTeus

For the floating-rate nominal securities (CCTeu/CCT), 2016 was a very good year, marked by a significant increase in demand, which allowed for performance (in terms of valuation on the secondary market) that was even better than the BTPs with similar maturity, during many periods of the year.

Accordingly, in view of the macroeconomic framework and the growing solidity of the segment, the Treasury's plan for 2017 provides for an amount of gross issues in excess of that for 2016, even to take into account the higher volume of securities maturing. Indeed, the CCT maturities for 2017 amount to approximately 30 billion euros, a value that is significantly above the total of just over 13 billion euros for 2016. Despite these figures, the value of the net CCT issues for 2017 is likely to be close to zero, which is fully consistent with i) the reduction of the weight of variable-rate instruments to total securities issued, and ii) the more general objective of containing of the exposure of the debt to interest-rate risk. In addition, the year of 2017 will include the maturity of the last CCT that was indexed to the 6-month BOT yield at auction.

As to the timing of placement, the CCTeu will continue to be issued on a monthly basis, at the end of the month, at the same time as the 5- and 10-year nominal BTPs.

The terms and conditions for placement of the CCTeu will remain unchanged with respect to 2016, and therefore will entail a traditional marginal auction and discretionary price determination by the Treasury, with the offer within a minimum and maximum size, based on demand conditions. The Treasury has provided for the possibility of offering any *off-the-run* CCTeu security in a single range with the on-the-run securities, or within its own offer range.

In addition to the normal re-opening of the securities outstanding and consistent with the decisions adopted recently, the Treasury envisions the possible auction of two new benchmark securities in 2017, with a 7-year maturity at issuance.

d) Nominal 3- and 5-year BTPs

During 2016, the issues in the 3- and 5-year BTP segment were oriented toward the continuation of an overall reduction of the stock of such securities compared with the total debt. The negative net issues, particularly at the shorter end of the curve, were facilitated by huge maturities in the segment.

The Treasury's issuing policy decisions for these two maturities in 2017 are not likely to diverge from 2016, even though the overall net issues may be positive when considering the reduced volumes to be reimbursed, especially in the 3-year segment. The Treasury will continue to ensure a regular and continuous presence on the primary market, and has plans to place at least two new benchmark securities for both maturities. In any event, the decision regarding the most opportune timing for the opening of the new securities will be evaluated on the basis of a series of factors, including: the trend of market demand, the secondary-market performance of securities with a similar residual maturity, and the Treasury's financing needs. In any event, the Treasury will maintain the objective of ensuring adequate final float of the securities being issued.

There are no planned changes to the timing for the placement of the securities of this segment within the monthly auction cycles. Accordingly, the 5-year security will be offered together with the 10-year security at the end-of-month auctions, while the 3-year security will be placed at the mid-month auctions, together with the 7-year BTP, and, as a rule, one or more long-term securities with a maturity beyond 10 years. The offering of *off-the-run* securities, if any, could be done either at mid-month or month end.

The procedures for the placement of these securities have been confirmed, and will thus be entail a marginal auction and discretionary determination of the price. As a rule, at every auction, each *on-the-run* security will be offered with its own offer range, while the *off-the-run* securities, if any, will be offered with a volume range that includes all of them. Should the market circumstances so require, all of the securities may be offered with a single offer range, whether they are *on-the-run* securities or *off-the-run* securities.

e) Nominal 7- and 10-year BTPs

The nominal 7-year BTP introduced in 2013 has at this stage become a point of reference on the Italian yield curve, as it has continued to draw stable demand over time from both institutional and other investors.

The 10-year BTP is considered by the international and domestic investor community as the point of reference for the entire Italian nominal yield curve, and accordingly, in 2017, it should continue to represent the most important BTP segment, through regular issues on a monthly basis.

The placement procedures will remain unchanged for both instruments, and will accordingly entail the marginal auction mechanism and discretionary determination of the price. The 7-year securities will continue to be issued at the medium-/long-term auctions at mid-month, together with the 3-year BTP and one or more long-term securities with maturity longer than 10 years. Instead, the 10-year security will be issued at the end-of-month auctions, together with the 5-year BTP and the CCTeu.

In the event of needs to normalise the yield curve, tensions on specific securities, and/or strong and specific investor demand, the *off-the-run* issues of these two maturities may be offered either at mid-month or at month end by communicating a volume range, which, should there be two or more *off-the-run* issues, may also cover the entire offer. Should market circumstances warrant, both *on-the-run* and *off-the-run* securities may be offered with a single offer range.

It is likely that there will be two new securities issued for each of the two maturities in 2017. Before a decision is made to open a new benchmark, the total float for these securities will be identified, including in relation to the possibility that they may be re-opened subsequently as *off-the-run* issues or as part of exchange transactions.

There are no 7-year securities due to mature in 2017, and accordingly, the net issues will be positive, and for an absolute value that should not be too different from that for 2016. As a result, the stock of 7-year BTPs to total government securities will rise further, although the weight of this maturity as a percentage of total gross issues of government securities could stand at slightly lower levels. This segment will continue to be very important in consolidating the results obtained in recent years with reference to the average life of the debt.

In consideration of the strategic role of the 10-year security in debt management (with regard to controlling both refinancing and interest-rate risks), the Treasury will keep the gross issues in this segment in line with the already important volumes for 2016, increasing its weight with respect to the debt stock, as a result of broadly positive net issues.

f) Nominal long-term BTPs (15, 20 and 30 years)

The Treasury's issuance policy for the long-term segments yielded extremely satisfying results in 2016, with these maturities accounting for approximately 10% of the total gross issues, thanks to

solid demand. This did not negatively impact the slope of the BTP yield curve which remained positively inclined, albeit with a more moderate slant than in the recent past, while at the same time the interest rates on the securities issued in 2016 were largely below the historical rates for the segment. Furthermore, the Treasury steadily introduced the new 20-year BTP in 2016, launching it through a syndicated placement during the month of April and re-opening it through auctions on two subsequent occasions.

For 2017, the Treasury plans an issuing policy designed to consolidate the results obtained in 2016. Regularity and continuity will be the key factors for placements in this segment, with periodic assessment as to which of the three maturities should be offered to the market. Such assessment will consider information acquired through direct and indirect links with investors and the most active dealers in these instruments and the trends of trading on the secondary market. As a rule, the choice will entail one or more *on-the-run* securities. Obviously, should the need for or the opportunity of re-opening *off-the-run* securities be indicated by information received and analyses carried out, the Treasury will exercise this option, placing them with the maximum flexibility, and namely, by making use of both auction cycles (mid-month and month end) and through the possibility of jointly issuing two or more *off-the-run* securities.

As in the case of all other nominal BTPs, these securities, both *on-the-run* and *off-the-run* issues, will also be placed through marginal auction with the discretionary setting of the price. Should there be two or more securities in this segment offered at the same auction, a notice will normally be given for a minimum and maximum quantity for each *on-the-run* security, taking into account what has already been mentioned for the *off-the-run* issues.

The segment's net issues can be expected to be broadly positive, even though below the 2016 level as there is only one 15-year security maturing in 2017. However, the weight of the long-term segment will continue to grow as a percentage of the government securities stock.

As in the past, the Treasury will not announce any new securities with these maturities as part of the Quarterly Programme, although it will evaluate during the year the opportunity of a syndicated placement of a new 15-year security, and the issuance, in the presence of favourable market and demand conditions, of new securities with longer maturities, taking into account the residual life of *on-the-run* securities outstanding.

Considering that i) the new securities with these maturities are issued through a syndicated placement, ii) there is therefore no larger re-opening quota reserved for the Specialists in Government Bonds than that for subsequent tranches, and iii) it is necessary to favour the liquidity of the secondary market for these securities, the Treasury reserves the option, starting in 2017, of

establishing a percentage of the offer amount in the respective supplementary placement reserved to Specialists in Government Bonds that may be increased by another 5%. The amount of each Specialist's right to this additional quota is to be assigned based on performance on the secondary market platform selected for the Specialist's evaluation.

g) Nominal long-term BTPs (50 years)

The year of 2016 included another significant development in the basket of securities offered to investors: the introduction of the 50-year BTP. The market debut was extremely successful for the Treasury, with the rate set at 2.85% and the issuance involving approximately 370 investors for a total offer of 5 billion euros.

As with all BTPs, the Treasury is committed to ensuring the liquidity of the new security, reserving the option of issuing additional tranches through ordinary auction and/or syndicated placement when opportunities are identified following in-depth market analysis. Should the placement through auction be preferred for any specific tranche, the Treasury reserves the option of issuing the security (as in the case of *off-the-run* issues) either at the mid-month or end-of-month auction.

The auction procedures for this segment are identical to those for all other BTPs, and namely, entail the marginal auction mechanism and discretionary determination of the price. Should the security be offered with other long-term securities or with *off-the-run* securities, the Treasury may decide to communicate a minimum and maximum quantity for each *on-the-run* security or, in special circumstances, for two or more securities jointly.

As in the case of the long-term securities with maturity between 15 and 30 years, the Treasury reserves the option of setting a percentage of the amount offered of the 50-year security in the respective supplementary auction that can be increased by an additional 5% and assigned to the Specialists in Government Bonds based on their performance on the platform selected for their evaluation.

4. Securities indexed to European inflation (BTP€i)

In 2017, a 10-year BTP€i will come due for approximately 13.6 billion euros (amount not revalued). When allowed by market conditions, there will be an increase during the year in the issues of securities indexed to European inflation, given the ongoing changes in the macroeconomic framework, with a contribution of all maturities based on market conditions and the depth of demand.

The Treasury's issuing policy for the securities indexed to European inflation will continue to be oriented to the regularity of the issues, through a monthly market presence, as indicated by the Annual Calendar. The stock of the securities indexed to European inflation in absolute value should be slightly higher by year end; however, when calculated in terms of the real securities to the total debt, the overall exposure to inflation risk (European and Italian inflation, and thus also considering the BTP Italia) should remain substantially unchanged with respect to 2016.

The auction placement of the BTP€i will be done with discretionary determination of the price, at month end on a monthly basis as indicated in the Annual Calendar (which excludes issues only for the month of December).

Two or more securities – whether *on-the-run* or *off-the-run* – may be offered at the same auction, with a single volume range, within which the quantity for each individual security will be allocated.

Starting in 2017, the Treasury reserves the right to increase the percentage of the supplementary placement reserved for the Specialists in Government Bonds for securities indexed to inflation with a residual life of more than 10 years. The increase of up to 5% will apply to the second tranche and any later tranche. The amount of each Specialist's right to this additional 5% quota is to be assigned based on performance on the secondary market platform selected for the Specialist's evaluation.

The assessment regarding the introduction of a new benchmark will be made by considering the conditions for the individual securities already outstanding (with regard to the float and residual life for each), and the trend of demand. The placement of the new securities with a duration of 10 or more years will be done through a syndicate.

With the possible launch of a new 10-year benchmark through a syndicated placement, the Treasury evaluate the possibility of shifting the final maturity to the month of May, considering both market feedback and the need to ensure optimal management of cash flows. Such a shift would put the coupon payments in May and November, and would be consistent with what was done with the launch of a new 5-year BTP€i during 2016. In addition, in the presence of appropriate market conditions, the Treasury will evaluate the possibility of issuing other new benchmark securities on

the curve of the securities indexed to European inflation, taking into account the status (in terms of residual life) of the existing *on-the-run* securities.

5. Strips

The month of November 2016 marked the start of the new activity for separating and reconstituting government securities, commonly known as ‘stripping’. The new activity allows for the full implementation of the Ministerial Decree No. 96718 of 7 December 2012, which introduced the fungibility between separate coupons (strips) having the same maturity – but coming from different nominal fixed-rate securities – with principal coming from the same or other securities, obviously provided they have the same maturity date. It is now possible that the reconstitution process (so-called ‘unstripping’) generates strip securities with outstanding balances in excess of the original securities. Accordingly, the possibility for intermediaries to separate and reconstitute securities benefits from even greater flexibility that will provide incentives for stripping activity, responding to investor and dealer demand, with the effect of increasing the supply of separate components, which, for all effects, are zero-coupon government securities. This process should thus make the underlying securities more appealing to the market, thereby supporting demand, especially for longer term maturities.

It is nonetheless noted that this is predominantly secondary-market activity and it does not alter the actual float of any security for which the Treasury is committed to pay interest and reimburse principal at maturity.

BTP ITALIA

The two BTP Italia securities issued in 2013 will come due in 2017, with total repayment of approximately 39 billion euros.

During the next year, the BTP Italia will be reoffered through two placements, one of which is likely in the spring and the other in the fall. The accent is on continuing to supply retail investors with an instrument to protect their savings and to offer the possibility of reinvesting in the new securities the principal paid out in 2017. These placements will also continue to be open to institutional investors, in consideration of the broad-based and continuing interest shown by both domestic and foreign intermediaries in the security indexed to Italian inflation.

The securities offered will have the same financial characteristics as those already on the market: fixed real coupon rate per annum, indexing linked to the rate of national inflation, reimbursement on a semi-annual basis of the revaluation of the capital, and loyalty bonus for retail investors who purchase the securities at issuance and hold them until maturity. The duration of the new securities will be evaluated based on market and demand conditions around the time of the placement, and could be equal to six or eight years. The securities will continue to be issued directly on the MOT, the screen-based market regulated by Borsa Italiana and dedicated to retail trading. The orders for purchases will be taken on the MOT during the placement period, and with the support of dealer banks, directly chosen by the Treasury among the Specialists in Government Bonds. The liquidity of the securities on the secondary market will be ensured by the commitments of the dealers and co-dealers selected by the Treasury from the most active participants on the MOT in the Italian government securities segment.

In addition, the Treasury may manage the sizeable BTP Italia redemptions by employing extraordinary exchange or buyback transactions, carefully analysing the most appropriate means for intervention, and proceeding in this direction should the analysis produce an outcome favourable to this solution.

EXCHANGE AND BUYBACK TRANSACTIONS

The Treasury will again rely on extraordinary buyback and exchange transactions in 2017 for the purpose of managing refinancing risk, thereby reshaping the maturity profile and simultaneously favouring the liquidity and the efficiency of the market for government securities. As in past years, these transactions will be specifically aimed at reducing the concentration of repayments coming due in future years (2018-2019), though intervention cannot be excluded with respect to current year should the appropriate opportunities and necessary market conditions exist. The use of these transactions will nonetheless depend on conditions prevailing in the secondary market and, for buybacks, also on the level of the balances in the Treasury account and in the Sinking Fund.

Again in 2017, the Treasury will periodically evaluate the best means for execution of these transactions. As in the past, the exchange transactions will be executed with the use of the screen-based trading system, which operates on the regulated secondary market, or the auction system managed by the Bank of Italy; the buyback transactions will be carried out through the Bank of

Italy's auction system or bilateral negotiations, or through a new procedure that would entail direct execution on the secondary market, as is the case for the exchange transactions.

ISSUES ON INTERNATIONAL MARKETS

The Global Bond Programme and the Medium-Term Notes (MTN) Programme have long represented the two channels through which the Treasury has established a significant presence on the international markets. The international market presence is aimed at broadening and diversifying the investor base, and at securing at costs comparable to those on the domestic market for issues with the same characteristics. The activity on the international markets through these two programmes will be carried out by considering the approximate 3 billion euros of total redemptions of international securities in 2017.

The *Global Bond Programme* allows for direct issuance to high-profile investors in any part of the world, and has made it possible for the Treasury to position itself in the past as one of the main non-domestic issuers on the U.S.-dollar market.

Even though the costs for foreign-exchange risk hedging through cross-currency swaps and the absence of a collateralisation system have recently made domestic financing more attractive, the Treasury regularly and carefully monitors the markets with the objective of identifying and validating interest for possible new issues, at a cost that is less than or equal to the cost on the domestic market, also considering that the total outstanding of dollar-denominated securities is currently rather insignificant. Considering furthermore the long absence from the segment (the most recent transactions date back to 2010), the opportunities for making use of the Global Bond Programme in 2017 will be accurately assessed, not only in relation to international market conditions, but also by considering the status of the availability and implementation of collateral agreements aimed at mitigating the risk related to these transactions.

The *Medium-Term Notes Programme* instead represents a highly flexible programme for the Treasury's public issue or private placement to investors interested in holding a securities portfolio denominated in euros or other currencies. This programme, which has been the focal point of activity on the international markets in recent years, allows for periodically considering and evaluating the different financing opportunities indicated directly by institutional investors to

dealers selected as intermediaries, and adjusting the issuer's needs to the investor's specific demands, in terms of both maturity and structure.

From the standpoint of continuity, proposals with specific characteristics will be examined for private placements, which have been the only vehicle for all of the MTN Programme issues in recent years. These characteristics are: maturity of at least three years, minimum amount of 200 million euros, and minimum negotiable amount of 500,000 euros.

The strategy pursued with these issues is aimed at obtaining an economic advantage with respect to the BTP curve, and namely, to secure a cost of financing that is no greater than that for the 'theoretical' corresponding domestic security with the same maturity (arbitrage principle). As in past years, the possibility of issuing securities indexed to inflation will be considered in the event of the manifestation of special needs.