

2018

Guidelines
for public debt management



Ministero dell'Economia e delle Finanze



2018 Public Debt Management Guidelines

Contents

FOREWORD.....	2
2018 DEBT ISSUANCE AND MANAGEMENT PROGRAMME	3
Introductory considerations	3
ISSUANCE PROGRAMME FOR SECURITIES PLACED THROUGH PUBLIC AUCTION	9
1. Treasury communications: Annual Calendar, Quarterly Programme, and notices regarding issuance.....	9
2. Frequency of auction placement of the various types of securities	10
3. Nominal fixed- and floating-rate securities	13
a) BOTs and liquidity management.....	13
b) 24-month CTZs	14
c) CCTeus.....	15
d) Nominal 3- and 5-year BTPs	16
e) Nominal 7- and 10-year BTPs.....	17
f) Nominal long-term BTPs (15, 20, 30 and 50 years).....	18
4. Securities indexed to European inflation (BTP€is)	19
BTP ITALIA	20
EXCHANGE AND BUYBACK TRANSACTIONS.....	21
ISSUES ON INTERNATIONAL MARKETS.....	22

FOREWORD

As in past years, the Department of the Treasury presents the Public Debt Management Guidelines for 2018 in order to provide participants in the Italian public debt market with information about the issuance strategy as well as the management of government securities. In addition to generally outlining the framework within which the choices will be put into effect in the next 12 months, the document supplies further details about the policies that the Treasury intends to pursue regarding the various debt instruments that will be offered to the market during the year. As in the recent past, the ex-post analysis of debt management for 2017, accompanied by indepthts regarding the trends of financial markets and public finance, will be covered in the 2017 Public Debt Report that will be published next year.

2018 DEBT ISSUANCE AND MANAGEMENT PROGRAMME

Introductory considerations

In 2018, the Treasury will find itself operating in a framework that is likely to be very different with respect to that of 2017, mainly for three reasons: a) a decidedly improved macroeconomic framework, both at a global level and in Europe, mostly due to the return of higher levels of economic growth; b) a national and international geopolitical scenario marked by a high degree of uncertainty; and c) the entry into force of new regulations in the banking and financial sectors, particularly in the European Union, which will have a significant impact on the functioning of secondary markets in government securities.

Considering how 2017 is coming to an end, economic growth at a global level is expected to stand at similarly strong levels in 2018, albeit against a backdrop of gradual reduction of monetary stimuli. In the United States, the evolution of the economic cycle and the inflation as well as the labour market has prompted the Federal Reserve to inaugurate a preliminary series of interest-rate increases with a simultaneous start of reduction of the assets accumulated during the years of the Quantitative Easing programme. This monetary-policy orientation has led to a substantial increase in interest rates of the front end of the U.S. government securities yield curve, against some virtual stability of longer-term rates, which, although significantly volatile, did not register any particular trend. This movement follows (and, in some ways, completes) the trend seen last year, when the upward shift mainly concerned the long-term segment and not short-term rates. The monetary-policy orientation in United States is not expected to change significantly in 2018, and accordingly, the trend of the level and of the shape of government yield curve should remain substantially the same.

In Europe, the scenario looks rather different also for 2018. Economic growth has recently proven to be stronger than expected; the forecasts for inflation for the next few years are still below the European Central Bank target; and even though improving, labour-market conditions and wage trends are not comparable with what is taking place overseas. Considering the expectations about inflation, the ECB has announced the continuation of its asset-purchase policy (and, in particular, the purchase of public securities) until September 2018, even though with lower net volumes starting in January 2018.

Notwithstanding the improvement of current and future growth conditions in the Euro Area, and the slight increase in inflationary expectations, this ECB approach should guarantee that European interest rates will, in general, continue to remain at moderate levels and certainly below the levels of U.S. rates. In any event, the historical correlation with U.S. interest rates could cause a gradual increase in the slope of the European yield curve – a scenario that is already partially unfolding.

These forecasts will nonetheless have to be reconciled with the international geopolitical framework, which continues to be marked by the presence of numerous flare-ups of crises, and with the evolution of political developments at a global and European level. In this regard, it is sufficient to note the extent to which the elections in France impacted interest rates and the yields spreads among government bonds during the first quarter of 2017.

The Italian government securities yield curve has obviously incorporated the effects not only of the global and European macroeconomic framework, but also of the aforementioned geopolitical events. In the final months of 2017, the release of a series of positive economic data, the upgrade of Standard& Poor's rating of Italian sovereign debt, and the ECB's continuing and steady actions were key factors that aided in keeping interest rates low overall, across all principal maturities, with an important contribution coming from the reduction of spreads with respect to countries having a higher credit rating. Even though the yield curve was steep especially in the 1-10-year segment, and despite periods of strong volatility, the Treasury was again able to finance itself in 2017 at very low average costs, notwithstanding a very uniform presence across all maturities (from very short-term maturities to those that are long and very long). This is confirmed by the fact that the average issuance cost was 0.68 percent in 2017, which is only slightly above the minimum of 0.55 percent achieved in 2016.

In 2018, these conditions should partially endure for the effect of: i) the continuity of the ECB's Quantitative Easing policy, which, in addition to new purchases, will be committed on reinvesting the resources coming from maturing securities, and ii) the improvement of the economic and public-finance framework, which should lead to a gradual decline of the debt-to-GDP ratio, with the consequent potential impact in terms of a reduction of the credit risk perceived by investors. Against this backdrop, it will obviously be necessary to verify the effect of the performance of the European and global economy, as well as of the various geopolitical events expected for the year, such as the political elections in Italy, and the integration roadmap of the European Union, which seems to have regained momentum following the exit of Great Britain planned for 2019, following the referendum outcome of 2016.

Finally, one should not overlook the important reforms that go into effect in 2018 at European and global level with regard to the regulation of intermediaries and financial markets, and that could play a significant role in conditioning the performance of the government securities markets. More specifically, the second Market in Financial Instruments Directive (MiFID2) goes into effect in January 2018 in Europe; the new directive, together with the Regulation on Markets in Financial Instruments (MiFIR), has revised and expanded the previous version (MiFID) with regard to the provision of investment services, the protection of retail investors, the definition of independent advisory services, and the adequacy of communication. These regulations also extensively cover the transparency of trading in debt securities, as well as the methods and procedures employed for the circulation of research by sector analysts, and therefore it will be important to monitor the extent to which these changes will impact the operation of the secondary market for government securities. All of these developments will be accompanied by the adoption of the new International Financial Reporting Standard (IFRS) 9, which is to substitute the International Accounting Standard (IAS) 39, and it will imply important changes in the accounting practices of banks.

The debt management in 2018 will thus be developed within this framework, with the aim of consolidating the results achieved in recent years in terms of exposure to principal market risks, thereby containing the cost of funding in the medium and long term.

The redemptions in 2018 are approximately €184 billion (excluding BOTs) including approximately €3 billion in relation to the international programme. This is something like €30 billion less than the total redemptions at the end of 2016 for 2017. Considering that the State Sector's borrowing requirement is expected to be at a level lower than in 2017 (going from approximately 3.4 percent to 2.8 percent of GDP), it is accordingly conceivable that there will be a simultaneous reduction of the volumes in the total medium- and long-term securities offered to the market in 2018. It should furthermore be noted that the stock of BOTs outstanding at the end of 2017 (approximately €106 billion) is likely to be perfectly in line with that at the end of 2016, which represented an historical low level. Based on market conditions and the demand (the latter of which will continue to be influenced by the absolute level of interest rates, which are currently still well in negative territory), the Treasury will assess whether i) it will maintain, as a target for the end of 2018, the current outstanding level (which appears as a minimum threshold that would be difficult to cross), and therefore go to the market with volumes essentially in line with redemptions or ii) it will decide for a moderate increase of net new issuances, also for the purpose of marginally lightening the supply of securities offered in other segments on the basis of market conditions.

The market presence in 2018 will once again be based on criteria of extreme regularity, transparency, and predictability, for the purpose of maximizing the benefits from a debt management perspective

derived from the adoption of this approach, especially for a large issuer. The composition of the issuances will be aimed at insuring that the exposure to market risks continues to be limited, for the purpose of facilitating, to the maximum extent possible, the refinancing of the debt in the next few years and the management of interest-rate fluctuations: in this regard, the commitment will go to consolidating the results achieved in the past year in terms of the average life of the stock of government securities, which was 6.9 years at the end of 2017.

In the BOT segment, the volumes of issuances will substantially be in line with the redemptions for the year, but it is not to be excluded that there may be a slight increase in order to take into account market conditions and to manage potential short-term cash imbalances. In any case, the share of BOTs with respect to the total government securities stock at the end of 2018 will continue to be extremely limited and in line with that for 2017 (approximately 5.6 percent).

Given the positive outcome of this strategy in 2017, the CTZs will again be issued regularly on a monthly basis in 2018, with the objective of continuing to ensure the positive performance of the product on the secondary market. The issuances will substantially be in line with the redemptions.

For the nominal 3- and 5-year BTPs, the issuances, which will also be conducted regularly on a monthly basis, are expected to be in absolute terms less than those in 2017, even though their weight against the total issuance will be similar to that for 2017. The 7- and 10-year BTPs will instead be regularly offered at monthly auctions for volumes similar to those of the past year, and on a basis consistent with demand; these issues should thus increase slightly as a percentage of the issuance portfolio.

Considering the wide array of maturities available since 2016, the Treasury will continue to have a regular presence on the market in 2018 with respect to the nominal long-term BTPs, choosing to re-open outstanding securities or to offer new bonds based on in-depth analyses of both demand conditions and the functioning of the secondary market. The re-openings via auction will continue to take place at mid-month, except for the 50-year maturity which may be re-opened at auction either at mid-month or at month end, in relation to the market performance of the on-the-run bond. The placement through syndicate of banks will continue to represent the main issue mechanism for introducing new long-term BTPs to the market, in view of the benefits realized in terms of flexibility, immediate penetration in the portfolios of final investors, and performance of the secondary market. In exceptional circumstances, it is possible that this mechanism may be used to reopen, for significant volumes, very long-term securities already outstanding.

While continuing to take a particularly prudent approach for the purposes of interest rate risk management, the issues of CCTeUs in 2018 will be greater than the redemptions, where market

conditions permit, also in consideration of the particularly high interest in this instrument among an increasingly broad range of investors, who are primarily domestic, but not only. The growth of the outstanding stock of CCTeus at the end of 2018 will nonetheless be such as not to alter significantly the weight of these securities with respect to the total stock of government securities.

In 2018, the Treasury will continue to ensure a significant presence in securities indexed to European inflation, with the volumes offered expected to exceed those for 2017, in accordance with the trend of demand. The Treasury also intends to examine the conditions for launching new securities in the 5-year segment and a longer maturity, following the launch of the new 10-year issue in 2017.

With a view toward optimizing the liquidity and the efficiency of the secondary market, the Treasury will proceed, where necessary, with the re-opening at auction of off-the-run bonds (at mid-month and month end), whereas for the securities with a residual life of more than 10 years, whether nominal or indexed to inflation, the Treasury will make use of the possibility, as it did in 2017, of discretionally increasing the percentage of supplementary placements reserved for the Specialists on tranches following the first tranche (which is normally issued via placement syndicate), to a level of 20 percent, with respect to the normal 15 percent.

Considering the market's continuing positive response to the BTP Italia (from both retail and institutional investors), at least one six-year BTP Italia issue will be guaranteed in 2018, also because no redemptions are taking place in the next 12 months. However, as in 2017, the Treasury will assess the possibility of execute exchange or buyback transactions with respect to the securities having a particularly high outstanding amount, for the purpose of contributing to the management of the redemptions' profile over the next few years.

Exchange and buyback transactions are considered an important part of the Treasury's strategy for 2018 with respect to managing the redemption profile, thereby further reducing refinancing risk; the transactions will be aimed at reducing the volumes maturing in the 2019-2020. The buyback transactions may regard all of the various types of government securities outstanding, and may be realized on the regulated secondary market platform dedicated to wholesale transactions, as is currently the case with exchange transactions. The buyback transactions will also be aimed at facilitating the process of reducing the outstanding debt stock, through the resources coming from privatization proceeds.

Consistent with recent years' activity, the management of derivatives transactions in 2018 will be addressed toward possible restructurings of the existing portfolio, with the objective of transforming its financial profile and/or its impact on the debt. The system for collateralization agreements –

CSA (whose secondary regulation is soon to be issued) may also regard specific contracts outstanding, and therefore this will be of help in the management of existing positions.

Importantly, the new collateralization system will allow for covering, through cross-currency swaps, the foreign-exchange risk on possible new foreign-currency denominated issues, at costs equal to or less than the costs of domestic issues. Indeed, should the financial conditions be favourable in terms of cost at issuance, a return to the dollar market through the Global Bond Programme, would be particularly appropriate for further expanding the base of investors in Italian government securities, and the opportunities in this area will be carefully considered in 2018.

The 2017 Public Debt Report will provide details on the various components of debt-management activity for the year, highlighting the objectives pursued and the results achieved.

ISSUANCE PROGRAMME FOR SECURITIES PLACED THROUGH PUBLIC AUCTION

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

The Public Debt Directorate's communications policy with respect to all of its stakeholders, and in particular, investors in Italian government securities, will again follow a consolidated approach in 2018, with the key objective of ensuring the greatest degree of transparency in the definition of strategy and specific issuance decisions. These objectives are pursued not only through the publication of these Guidelines, but also through additional periodical 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 date, the Annual Calendar indicates the announcement date and the settlement date for the various types of securities to be offered. The BOT auction calendar is published on the home page of the same web site, and contains all of the information regarding these placements, including the announcement, the auction, the settlement and maturity dates, and the final date for presentation of bids by investors.

At the end of each quarter, the Treasury provides further information to the market through Quarterly Issuance Programmes, which disclose the new CCTeu, CTZ and medium-/long-term nominal BTPs (up to the 10-year segment) to be issued in the next quarter, together with the minimum volumes outstanding that the Treasury is committed to achieving for each of these before placing a subsequent new bond within the same segment. The publications also make known the re-openings, if any, of securities already outstanding.

Finally, as provided in the Annual Calendar, an issuance press release will be published three days prior to each auction, so as to inform the market of the securities to be offered and the related quantities.

Table 1 summarises the timing for the auction announcements and settlement dates for each type of security placed by the Treasury via auction:

Table 1: Auction announcements and settlement dates

Type of Security	Announcement Date	Auction	Auction Settlement Date
All securities issued via auction	T-3	T	T+2

The issuance press release also contains additional information useful for investors, including, for example, the timing for the presentation of bids, the amount offered through supplementary placements reserved for Specialists, the entities who can participate in the auction and the means for participation, and finally, whether or not stripping is admissible for the security offered through auction.

Again in 2018, the Treasury will continue to make use of an important flexibility element regarding the share offered to Specialists in the supplementary placement (non-comp auctions) of nominal and inflation-indexed securities having a residual life in excess of 10 years. While the re-opening shares are normally 30 percent for the first tranches and 15 percent 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, as was already done in 2017, by another 5 percent, as indicated from time to time in the announcement of the ordinary auction. The change with respect to 2017 regards the calculation of the amount of each Specialist’s right to this additional quota of 5 percent; the calculation is 50-percent based on performance as evaluated on the screen-based secondary market of reference, and 50-percent based on the share allotted during the most recent three auctions related to the same segment.

2. Frequency of auction placement of the various types of securities

For 2018, 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, depending on cash needs. Flexible BOTs may be proposed either at mid-month or month end. On-

the-run nominal securities with medium-/long-term maturity will also be offered through two auction cycles, at mid-month and month end. The 3- and 7-year BTPs will regularly be offered monthly at the mid-month auctions, and if the conditions are appropriate, one or more BTPs with longer term maturities (in particular, the 15-, 20- and 30-year maturities) may be offered during the same auction cycle. The 5- and 10-year BTPs will continue to be offered at month end, along with the CCTeu. With regard to the 50-year BTP, the Treasury will commit to ensuring, through subsequent reopenings, adequate liquidity for the only outstanding security; this may occur through auction (either at mid-month or month end) or through syndicated placements.

With reference to securities indexed to European inflation, the BTP€i will continue to be offered monthly, at month end, normally on the same day as the auction of the CTZ.

Accordingly, the three days in which the end-of-month auctions are carried out will continue to be organized as follows: the auction of the BTP€i and 24-month CTZ will take place in the first day, whose settlement date will, as a rule, be the day before the last day of the month; in the second day there will be the BOT auction, with settlement on the last day of the month; the auctions of medium- and long-term nominal securities will take place in the third day, with settlement on the first TARGET business day of the month subsequent to the auction. The announcements for all auctions will be issued three business days before the placement date.

Again in 2018, the Treasury might rely on the auction placement of off-the-run securities, when deemed appropriate. Such placements are aimed at ensuring the optimal functioning of the secondary market, by contributing to i) removing possible distortions present on the government securities yield curve, or ii) satisfying specific requirements of demand with respect to such securities. For the purpose of pursuing more efficient placement of such instruments, the Treasury reserves the right to make use of the maximum flexibility, both in terms of the selection of the securities and in relation to the frequency for offering them to the market.

Considering the specific reasons for which they will be offered to the market, the off-the-run bonds may be offered either at mid-month or at month end. As regards the placement conditions for off-the-run securities, the offering will entail its own range or a joint range in the case of two or more securities offered at the same auction.

Furthermore, 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 on-the-run securities.

With further reference to exceptional situations, the Treasury may rely on the re-opening of securities outstanding, whether having 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 also 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	End-of-Month 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>Offered in relation to market demand</i>	
<i>50-year BTP</i>	<i>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.

All instruments other than BOTs will be placed through marginal auction in accordance with the terms and conditions applied in recent years, namely, with the discretionary setting of the price based on the demand at auction, within a quantitative range announced in advance.

3. Nominal fixed- and floating-rate securities

a) BOTs and liquidity management

As usual, 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. In 2018, the short-term issuances are likely to be held stable at current levels, both as a percentage of total debt issuances and as an average amount of the individual auctions.

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 BOTs through ordinary auctions and the re-openings reserved to Specialists in government bonds. As a rule, the amount of the re-openings will be equal to 10 percent of the nominal amount offered at the ordinary auction. The aforementioned 10 percent will be parameterised to the performance of the Specialists observed on the primary 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, dealers' demand, and the Treasury's need to optimise the overall volumes of BOTs issued 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 functioning of the primary market, the competitive auction will continue as the placement system for the entire BOT segment. Issuances will thus continue to be auctioned with the method 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 the 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 commissions applicable to investors subscribing BOTs at auction, providing that there will be no commissions in the event of zero or negative yields.

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. In addition, further bilateral instruments to employ liquidity may be introduced for the purposes of improving the diversification and profitability of liquidity management, with a view toward containing counterparty risks.

b) 24-month CTZs

The issuance strategy adopted by the Treasury in recent years has been focused on the reduction of shorter term instruments with respect to the total stock of securities outstanding, in line with the objectives of lengthening the average life of the debt and containing the refinancing risk. Consistent with this strategy, and after years of significant reduction of the total amount of the issues in this segment, the volume of CTZs maturing in 2018 will be approximately €24 billion, which is an amount almost in line with that of the past two years; the figures thus confirm the virtual stabilization of the amount of annual redemptions, as the by-product of the previously mentioned issuing policy.

In 2018, the issues of CTZs will be basically in line with the redemptions; accordingly, the net issues of this instrument at year end may be slightly negative or only marginally positive. The Treasury's decision in 2017 to revert to issuing the CTZs on a monthly basis (instead of a bi-monthly basis) turned out to be particularly positive for this instrument, whose trend on the secondary market was more stable in 2017 than in the prior year. Accordingly, in order to continue to enhance the liquidity and an efficient quotation activity on the secondary market, the Treasury will stick to the monthly frequency of the issues of this security for 2018.

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

Finally, consistent with the strategy adopted in 2016-2017, the Treasury may consider the possibility of including the CTZs among the securities involved in exchange or buyback transactions, with a view toward containing the amount of securities to be refinanced in the 2018-2019 period.

c) CCTeus

As in the case of 2016, the year of 2017 proved to be very positive for the floating-rate securities segment (CCTeus), which continued to perform strongly on the secondary market, supported by buoyant demand mostly coming from domestic investors.

Accordingly, in view of a further consolidation of the segment, and the evolution of the macroeconomic picture (which, as in the case of 2017, appears favourable to demand for floating-rate securities), the Treasury's plan for 2018 provides for issuance of CCTeus in an absolute amount equivalent to that for the previous year. The CCTeu redemptions for 2018 amount to approximately €22 billion, against the approximately €30 billion for 2017. With the reduction of the amount of the volumes maturing and keeping the issues in line with those of 2017, the net issues for this segment should be positive. However, it is estimated that the share of CCTeus in relation to the total stock of securities outstanding will remain almost unchanged, consistent with the Treasury's strategy aimed at containing the debt's exposure to interest-rate risk.

In addition to the normal re-opening of the securities outstanding and consistent with the decisions adopted more recently, the Treasury foresees the launch of two new benchmark securities in 2017, which normally will have a 7-year maturity at issuance.

The Treasury also contemplates the possibility of offering off-the-run CCTeus in a single range with the on-the-run securities, or within their own offer range.

d) Nominal 3- and 5-year BTPs

In 2017, the Treasury issued nominal 3-year BTPs for approximately €36 billion, which represents an increase over 2016 both in terms of absolute value and as a percentage of total securities issued during the year. In consideration of the limited redemptions in this segment, the ratio of 3-year BTPs to the stock of securities outstanding increased by several percentage points. Instead, the picture is slightly different for the nominal 5-year BTP segment, with the amount of gross issuances in 2017 essentially in line with that for the previous year, both in absolute value (around €35 billion) and as a percentage of total issues (about 8.5 percent). Considering the sizeable amount of redemptions in 2017 (more than €45 billion), there was a significant decline in the ratio of the 5-year security with respect to the total stock of securities outstanding.

In 2018, the Treasury's issuance policy will be focused on achieving a greater balancing with respect to the total amounts issued in these two segments, and, in any case, for total volumes which should be lower than those of the previous year. Considering the sizeable amounts of redemptions in both segments during 2018 (over €41 billion and approximately €37 billion, respectively), the net issues for both segments should be negative (particularly for the 3-year security, considering the high volumes to be reimbursed).

The Treasury will continue to ensure a regular and continuous presence on the primary market, not only through the re-opening of outstanding securities, but also through the launch of new securities, with the placement of at least two new benchmark planned for both maturities. The decision regarding the opportunities for launching new benchmark and the timing for their offer to the market will be periodically communicated in the Quarterly Programmes, and will entail an assessment of the Treasury's financing needs and the secondary-market performance of securities with a similar residual maturity, while also attempting to ensure adequate final outstanding to the existing on-the-run bonds.

The Treasury reserves the right to offer off-the-run securities, if any, for both segments, on a basis compatible with the general strategy of managing refinancing risk and in the presence of specific needs, so as to ensure the proper functioning of the secondary market. The offering of off-the-run securities, if any, could be done either at mid-month or month end. Should the market circumstances so require, all of the securities may be offered with a single offer range, whether they are only on-the-run securities or in association with off-the-run securities.

e) Nominal 7- and 10-year BTPs

Since the launch of the nominal 7-year BTP introduced in 2013, this segment of the Italian yield curve has become a reference point for investors, as demonstrated by the stability of the annual amounts issued, which have regularly exceeded €30 billion in the past few years.

The 10-year BTPs is instead considered as the reference point for the entire Italian nominal yield curve, and accordingly, the Treasury will continue to offer this maturity within the nominal BTP segment through regular issues on a monthly basis. During the past five years, the yearly average issuances for this segment have amounted to around €40 billion, and the gross amount for 2018 should remain around this level.

At least two new securities for each of the two maturities are planned for 2018, with the related announcements to the market to be made through the Quarterly Programmes. Before a decision is made to open a new benchmark, an in-depth analysis will be undertaken with regard to the market context and the market's capacity to absorb a new benchmark through auction (normally for amounts in excess of ordinary re-openings), and in order to identify if the outstanding of the current on the run securities is also such as to guarantee that they may be re-opened subsequently as off-the-run bonds through auction or as part of exchange transactions.

There are still no 7-year securities due to mature in 2018, and accordingly, the net issues will be positive, and will necessarily coincide with the gross issues, whose values should not be too distant from those in recent years. As a result, the share of 7-year BTPs to total government securities stock will rise by the end of 2018. 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 issuances in this segment in line with the already important volumes for 2017, increasing its weight with respect to the debt stock, also thanks to a broad positive net issuances.

In the event of needs to normalize the yield curve, tensions on specific securities, and/or specific and strong investor demand, the *off-the-run* securities for both maturities may be offered at mid-month or at month end, announcing a volume range, which may be joint should the offer involve two or more off-the-run securities. Should specific market circumstances so require, all of the securities, whether they are on-the-run securities or off-the-run securities, may be offered with a single offer range.

f) Nominal long-term BTPs (15, 20, 30 and 50 years)

As in 2016, the Treasury's issuance policy for the long-term segments yielded extremely satisfying results in 2017. For the second consecutive year, the gross issues of nominal securities with a maturity in excess of 10 years (also including those effected through exchange transactions) accounted for approximately 10% of total gross issues (about one percentage point higher than in 2016), and accordingly, for a total volume that exceeded €40 billion.

The issuance policy for the long-term segments will be focused on supplying liquidity to all instruments available, through placements that will be made on a regular and continuous basis, with a periodic assessment of which available maturities are to be offered to the market. Such assessment will consider information acquired through direct and indirect contacts with investors and the most active dealers in these instruments, and the trends of trading on the secondary market. As a rule, one or more on-the-run securities will be offered through auction at mid-month, except for the 50-year BTP, which could be offered through auction at mid-month or at month end. Obviously, when from the information gathered and from own analysis carried out should arise the need for, or the opportunity of, re-opening off-the-run securities, 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.

Despite the Treasury's intention to keep the percentage of gross issues essentially in line with the trend of volumes for the past two years, the total absolute amount is expected to decrease in consideration of the lower funding needs for 2018. Despite this, the net issuances should be abundantly positive when considering there are no maturities in the segment in 2018, and therefore, the share of long-term segments to the total stock of the government securities will continue to grow.

As indicated, the Treasury will not announce new securities with these maturities as part of the Quarterly Programme. In any case, the Treasury will assess the opportunities for issuing a new 20-year security through a placement syndicate in 2018, and should market conditions and demand be favourable, it could also issue new long-term securities with other maturities.

Again in 2018, the Treasury will continue to reward the Specialists for their primary- and secondary-market activity in these segments of the curve, reserving the option of increasing the percentage of the offer amount in the respective supplementary placements reserved to Specialists, by as much as another 5 percent. The amounts of each Specialist's right to this additional quota is 50-percent based on performance as evaluated on the screen-based secondary market of reference, and 50-percent based on the quota allotted during the most recent three auctions related to the same segments.

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

In 2018, a 5-year BTP€i in the amount of approximately €10.8 billion (amount not revalued) will come due. Even though the volume of issues in 2017 did not allow for balancing the amount of securities maturing, in 2018, as a result of the favourable conditions created by the trend of the macroeconomic picture and should the market circumstances so require, the absolute value of the issues of securities indexed to European inflation is expected to rise. Accordingly, the net issuances will be positive in 2018, and the ratio of these securities to the total stock of government bonds outstanding is expected to increase. Considering also that the net issuances of the BTP Italia will be positive due to the absence of redemptions in 2018, the ratio of inflation-indexed securities (whether European or Italian inflation, and therefore also taking into account the BTP Italia) to the total debt will experience an increase with respect to 2017.

This outcome will be the by-product of an issuance policy that will continue to ensure the regularity of the issues, and the continuous market presence on a monthly basis, with the contribution of all maturities, which is regularly based on a careful assessment of the specific market/demand conditions.

As in the past, the off-the-run BTP€is may be offered in a single range with the on-the-run securities, or within their own offer range.

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 outstanding amount and residual life for each), and the characteristics and trend of demand. The placement of the new securities with duration of 10 or more years will be, as customary, done through a syndicated transaction.

As known, the new issues of indexed securities are not announced as part of the Quarterly Programme. However, the Treasury will assess the opportunity for issuing a new 5-year security in 2018, and, should market conditions and demand be favourable, it could also issue a new benchmark at the long end part of the real yield curve, which would undoubtedly be done through syndication.

In the event of any launch of new benchmarks, the Treasury, consistently with what was done with the launch of the new 5-year BTP€i in 2016 and the 10-year BTP€i in 2017, is likely to continue to choose the May-November coupon cycle, also taking into consideration market feedback and the need to ensure optimal management of cash flows.

BTP ITALIA

In 2017, the Treasury managed to achieve the issuance of its twelfth BTP Italia, thereby confirming the significant interest in this instrument from both retail and institutional investors. Two placements – in May and November – produced satisfactory results overall, contributing to the development of the BTP Italia curve and the achievement of a highly liquid and flourishing market.

Unlike 2017, there will be no BTP Italia securities maturing in 2018, mainly due to the decision of extending the maturity of the bond in 2014. Even though there will be no need to refinance maturities in 2018, the Treasury is committed to ensuring at least one 6-year BTP Italia issue during the year, in view of the security's significance within the retail market and in order to continue to supply these investors with an instrument for protecting their savings. Should the conditions warrant, the Treasury will also evaluate the possibility of carrying out a second placement during the year.

The securities offered in 2018 will have the same financial characteristics as those already on the market: fixed real annual coupon rate, indexation to the Italian inflation rate, reimbursement on a semi-annual basis of the revaluation of the capital, and bonus payment for retail investors who purchase the securities at issuance and hold them until maturity. 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. 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 among the most active participants on the MOT in the Italian government securities segment. The 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.

Finally, despite the absence of maturities in 2018, the Treasury reserves the option (as it did in 2017) of analysing the possibility of executing extraordinary exchange or buyback transactions that could be used for managing the high amounts of BTP Italia securities coming due in subsequent years. Such analysis would also entail the assessment of the most efficient terms and conditions for executing the transactions.

EXCHANGE AND BUYBACK TRANSACTIONS

In 2018, the Treasury will again rely on extraordinary buyback and exchange transactions 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 (2019-2020). The use of the extraordinary transactions will nonetheless depend on conditions prevailing in the secondary market and, for buybacks, also on the level of the balances on the Treasury Account and the Sinking Fund.

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 the adoption of new procedures that might entail execution on the screen-based platform dedicated to the wholesale 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 to ensure the Treasury's presence on the international markets.

Through its activity on the international markets, the Treasury has the possibility of further enlarging the base of investors in Italian government securities and containing the costs incurred when compared with the domestic market.

Considering the possible economic advantages related to foreign issues, and the role of these issues in debt management, the Treasury intends to examine all opportunities that will be present for issuing in these two formats during 2018, also considering that the international securities maturing in 2018 amount to approximately €3 billion.

The Global Bond Programme was set up in 1993, and represents an instrument for directly tapping high-profile investors, who are diversified from the standpoint of geographic distribution: this programme 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, due to both the volumes issued (at least \$2 billion per issue) and a sufficiently liquid and complete yield curve.

The current outstandings under the Global Bond Programme are rather limited (\$5.5 billion, which is equivalent to 0.24 percent of securities outstanding at the end of November 2017) and includes \$3.5 billion coming due in 2023 and another \$2 billion maturing in 2033. The market situation has indeed not been favourable for these issues in recent years: the most recent transaction was executed in 2010.

In 2018, the Treasury is committed to an in-depth and regular monitoring of this segment, with the objective of once again issuing global bonds after accurately considering the costs in relation to this

type of issue.

Moreover, it should also be noted that the process aimed at the implementation of bilateral guarantee agreements (Credit Support Annex) is now essentially complete: with the requirement for guarantees on all new transactions in derivatives instruments, including those aimed at hedging new foreign-currency denominated issues, the aforementioned process will allow for a considerable reduction of the costs related to cross-currency swaps, thereby making it easier to issue securities under the Global Programme during 2018.

Therefore, in view of the long absence from the Global segment and equipped with all the regulatory instruments for executing collateralization agreements for the purposes of risk mitigation, the chance for the Treasury for a return to this market in 2018 is now more concrete. In view thereof, the Treasury conducted an impact analysis with respect to the group of dealers (approximately 12) who acted as the programme's lead managers in the past, and it now appears appropriate to expand this group to include all Specialists who have demonstrated an appreciable capacity for penetration of the dollar market. In 2017, a total of 9 out of the 18 Specialists ranked among the top 10 positions in the SSA segment of the Global USD market, and all the 18 Specialists accounted for just under two-thirds of the total volume of dollar issues.

The Medium-Term Notes Programme created in 1998 is instead a programme for the Treasury's public or private placement tailored to investors interested in holding a securities portfolio denominated in euros or other currencies (generally other than the dollar and the yen). The outstandings under this programme currently amount to 2 percent of total securities outstanding. This type of issue is adequately flexible, and allows for periodically evaluating the opportunities for new transactions, adjusting the issuer's needs to the specific demands of investors, in terms of both maturity and structure.

As usual, only proposals with certain 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, and minimum tradable amount of €500,000.

The planning and realization of new placements will be carefully examined, taking into account institutional investor demand, market conditions and the cost of financing, which, as a rule, should be below that for comparable "theoretical" domestic securities with the same characteristics, thereby also preventing negative repercussions on public issues denominated in euros.