2019
Guidelines for public debt management
2019 Public Debt Management Guidelines

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FOREWORD

In line with a well-consolidated practice, the Department of Treasury presents the Public Debt Management Guidelines for 2019. The document aims at providing participants in the Italian public debt market with both quantitative and qualitative information on the issuance and management of government securities for the next twelve months. In particular, details are provided as to issuance plans for the various segments and maturities, as well as the approach that will be adopted in order to satisfy the strategic needs of the Treasury as far as the management of the main risks and changes in market conditions over the course of the year are concerned. The 2018 Public Debt Report that will be published in 2019 will focus on all debt management profiles during 2018 within the context of financial markets and public finance of the period.
2019 DEBT ISSUANCE AND MANAGEMENT PROGRAMME

Introductory considerations

2018 was a particularly difficult year as far as the management of public debt is concerned. In last year’s Guidelines, three factors that would have probably guided the evolution of the financial markets over the year had been pinpointed: a macroeconomic framework on a significantly improving trend, the risks coming from a national and international geopolitical scenario marked by a high degree of uncertainty and the entry into force of new regulations in the banking and financial sectors, particularly in the European Union. Most certainly, the prevailing factor was the one linked to national and international geopolitical events. Indeed, said factor led to clear discontinuity between 2017 and 2018, as correctly predicted by last year’s document.

Indeed, despite a positive macroeconomic trend in Europe in the first half of the year, in the wake of the constant North American expansion, the situation progressively changed in the second semester, also due to the exacerbation of the conflict between the USA and China over tariffs and the subsequent first signals of slowdown in global trade. This inevitably affected the economy of Europe, many countries of which, including Italy, experienced little-to-no growth in the third quarter. Within this already challenging picture, the laborious formation process of the Italian government after the elections held on 4th March took place together with its announcement of choices in apparent discontinuity with those of the previous governments, especially as far its fiscal policy was concerned.

Concurrently with the definition of the government program (starting from the second half of May) and the subsequent issuing of the first official documents on fiscal policy, the government securities’ market experimented phases of deep tension that translated into a marked increase in yield spread compared to the main European countries (first and foremost Germany) and a substantial increase in the volatility of securities’ prices, which, albeit to varying degrees, persisted until the end of 2018.
The consequences on debt management were significant, both as to the cost of new issuances and the reduction in the liquidity of securities on the secondary market, which was particularly significant as far as certain typologies are concerned. However, when looking at the entirety of the year, the average cost at issuance of 2018 amounted to 1.07%, which is higher than 2017’s 0.68% but still markedly low from a historical standpoint.

On the other hand, the structure of the debt prevented the developments of recent months to translate into an immediate and substantial increase in the average cost of the debt, despite the not quite negligible rise in interest rates on placements starting from the second half of May. Indeed, the initial estimates show that the average cost of debt in 2018, calculated as the ratio between the interests and debt stock of General Government, should amount to less than 3%, which is similar to 2017 and still very low from a historical standpoint. As mentioned earlier, this result is due to the composition features of the debt, which, at the end of 2018, had an average life of 6.78 years with respect to the stock of government securities, which is only slightly lower than the 2017 figure, namely 6.9 years. Indeed, a long average life not only has a tendency to mitigate the risk of refinancing by diluting over time the volumes to place on the market to cover the maturing debt, but also shows the issuer’s lower exposure to sudden increases in interest rates, as seen starting from the second half of May.

In 2019, medium-term issuances by the Treasury (which do not include BOTs) will be aimed at covering maturing medium/long-term securities, which will amount to about 201 billion euros (almost a 17-billion increase compared to 2018), and the borrowing requirements of the State Sector, which, in the light of the recent developments related to the Parliament’s budget session, should amount to about 50 billion euros (with only a slight increase compared to 2018’s likely final balance).

From the standpoint of macroeconomics and the national and international geopolitical risks, 2019, based on the currently available information, will be characterised by a level of uncertainty similar to that of last year, which makes it difficult to predict not only the evolution of rates on Italian debt, but also that of European rates. Said uncertainty will also be fuelled by the fact that, starting from January, the ECB’s programme for the purchase of government securities within the so-called Public Sector Purchase Program (PSPP) will continue only with regard to the reinvestments of maturing securities. Although this fact has been known and thus widely priced by the market for months, it could impact the functioning of the secondary market and the investment choices of the other investors.
Within this context, the debt issuance and management policy will be targeted at achieving the following goals:

a) ensuring the coverage of borrowing requirements at costs as in line as much as possible with market trends;

b) consolidating results that have already been achieved in terms of exposure to the main risks, in particular that related to interest rates and refinancing;

c) contributing to progressively improving the liquidity of the secondary market, especially as to those segments and sectors that experienced major difficulties in this respect in the second half of 2018;

d) making the management of the Treasury’s cash balance more efficient, also through an increased diversification of instruments.

To that aim, the Treasury’s market strategy of the next months will be based on:

a) the commitment to ensuring the predictability and regularity of issuances on all the main segments of domestic securities;

b) the calibration of the volumes offered to the market so as to give greater importance to the sectors with better liquidity on the secondary market and a deeper demand;

c) the use of liability management instruments (such as exchanges and buybacks), in line with the approach followed in 2018, with frequency and intensity functional to market trends, with the aim of reducing dislocations on specific bonds, improving the liquidity of the secondary market and manage the profile of redemptions of future years;

d) the commitment to diversifying the investor base also through foreign currency issuances in Global format as well as EMTN, dollars in particular;

e) the possible use of innovative instruments also specifically devoted to retail investors, after in-depth evaluations, feasibility studies and market surveys.

The 2018 Public Debt Report will contain detailed descriptions of all the components of debt management activity of the year that is about to end. Moreover, the pursued goals and achieved results will be highlighted.
ISSUANCE PROGRAMME FOR SECURITIES PLACED THROUGH PUBLIC AUCTION

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

2019 will also see the Public Debt Directorate adopt a consolidated communication policy towards all actors interested in the topic of debt management, and in particular investors in government securities, ensuring the greatest possible transparency as to the definition of the strategy and specific issuance choices, albeit reserving elements of flexibility useful for ensuring more appropriate management choices, especially in market contexts the evolution of which is difficult to predict. Said goals are pursued not only through the publication of these Guidelines, but also through further periodic 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’s website (www.publicdebt.it). It contains the dates of the government securities’ auctions to take place in 2019, as well as the respective dates of announcement and settlement, divided by categories of securities on offer.

Moreover, the “BOT auction calendar” is also published on the home page of the Public Debt’s website. It contains, on top of information on the dates of announcement, auction, settlement and maturity of the securities on offer, also the final date for presentation of bids by final investors.

Periodically, the Treasury will publish the Quarterly Issuance Programmes, whereby it integrates the information to provide to the market by disclosing which medium/long-term nominal CCTeu, CTZ and BTP securities – up to the 10-year segment – are to be issued in the following quarter, together with the minimum outstanding volumes that the Treasury commits to achieve for each one of them before placing subsequent new securities within the same segment. As to the new securities to be issued in the quarter, the Treasury will decide from time to time whether the exact maturity and issue date should be provided on top of the typology and duration of the securities, so as to satisfy possible flexibility requirements resulting from market trends. Moreover, any re-openings of on-the-run securities will be made known.
Finally, as envisaged by the Annual Calendar, an issuance press release will be published three days prior to each auction, informing the market about the specific securities on offer and the related quantities. Moreover, said releases contain further useful information for investors, such as the timing for the presentation of bids, the amount offered through supplementary placements reserved to Specialists, the entities that can participate in the auction, the means for participation, and finally, whether or not stripping is admissible for the securities offered through auction.

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**

<table>
<thead>
<tr>
<th>Type of Security</th>
<th>Announcement Date</th>
<th>Auction</th>
<th>Settlement Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>All securities issued via auction</td>
<td>T-3</td>
<td>T</td>
<td>T+2</td>
</tr>
</tbody>
</table>

The 2019 Annual Calendar envisages that, on some sporadic occasions, the BOT and/or medium/long-term securities’ auction will not comply with standard timings in order to take into account aspects such as the positioning of the auction date with respect to national or international holidays. As to the amount offered in the supplementary placement reserved to Specialists, just like last year, the Treasury will keep for itself some flexibility elements. In particular, as far as medium/long-term securities are concerned, reopening shares will amount to 30% for the first tranches and to 15% for subsequent ones, whereas 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 a further 5% and indicated from time to time in the announcement of the ordinary auction. The change introduced in 2018 regarding the calculation of the amount of each Specialist’s right to this additional quota of 5 percent, which requires the calculation to be 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, remains valid.
2. Frequency of auction placement of the various types of securities

As to the periodicity of the monthly offering of government securities in the various auction cycles, with respect to either mid-month or end-of-month auctions, no significant changes are to be made in 2019.

As far as the BOT segment is concerned, 12-month BOTs will be placed at the mid-month auctions, whereas 6-month BOTs will be placed at the end of the month. The offering of 3-month BOTs will take place, if needed, at mid-month, together with 12-month BOTs. Flexible BOTs may be proposed either at mid-month or at the end of the month.

On-the-run nominal securities with medium/long-term maturity will continue to 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 15-, 20- and 30-year maturities will be offered during the same auction cycle. The 5- and 10-year BTPs will continue to be offered at month end, along with the CCTeus. With regard to the only 50-year BTP, the Treasury will commit to ensuring, through subsequent re-openings, adequate liquidity, as with all securities of the domestic segment; this may occur through auction (either at mid-month or month end) or through syndicated placements.

Moreover, with reference to end-of-month auctions, CTZs and BTPeis, namely securities indexed to European inflation, will be offered on a regular basis, normally on the same day – with the exception of the December auction, in which the offering of the indexed security is not scheduled.

Accordingly, the three days on which the end-of-month auctions will be carried out will be organised as follows: the auction of BTPeis and 24-month CTZs will take place on the first day, their settlement date being the day prior to the last day of the month, as a rule; the second day will see the BOT auction, with settlement on the last day of the month; the auctions of medium- and long-term nominal securities and CCTeus will take place on 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 prior to the placement date.

Also in 2019, the Treasury might rely on the auction placement of off-the-run securities, when deemed appropriate and in circumstances requiring an intervention aimed at ensuring the optimal functioning of the secondary market, removing possible distortions present on the government securities yield curve and/or satisfying specific demand requirements with respect to specific securities.
Therefore, it will be possible to issue said securities both during the mid-month and the end-of-month session, so as to ensure maximum flexibility and timeliness to the Treasury when making issuance choices. Moreover, in the presence of specific market conditions and on a completely exceptional basis, it will be possible to offer off-the-run securities jointly with on-the-run benchmark BTP securities in the same issuance range.

Table 2 below summarises the frequency of auctions for each instrument:

### Table 2: Frequency of auctions

<table>
<thead>
<tr>
<th>Type of security</th>
<th>Mid-Month Auction</th>
<th>End-of-Month Auction</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Flexible BOTs</strong></td>
<td>Issuance contingent on cash needs</td>
<td></td>
</tr>
<tr>
<td><strong>3-month BOTs</strong></td>
<td>Issuance contingent on cash needs</td>
<td></td>
</tr>
<tr>
<td><strong>6-month BOTs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>12-month BOTs</strong></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td><strong>24-month CTZs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>3-year BTPs</strong></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td><strong>5-year BTPs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>7-year BTPs</strong></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td><strong>10-year BTPs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>15, 20 and 30-year BTPs</strong></td>
<td>Offered in relation to market demand</td>
<td></td>
</tr>
<tr>
<td><strong>50-year BTPs</strong></td>
<td>Offered in relation to market demand</td>
<td></td>
</tr>
<tr>
<td><strong>CCTeus</strong></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td><strong>BTP€i</strong></td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

* 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.

In order to ensure maximum flexibility, the Treasury might rely on the re-opening of outstanding securities, whether having a short- or a 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 also on the basis of detailed consultations with market participants and will be announced through the regular communications channels.
All instruments other than BOTs will be placed through marginal auctions 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

Also in 2019, BOTs (Treasury Bills) will be issued with the traditional maturities of 6 and 12 months, with the possible addition of 3-month securities and the so-called flexible BOTs having other maturities in relation to specific needs for liquidity management. 12- and 6-month BOTs will be offered on a regular basis, their amounts tending to ensure the renewal of redemptions. In particular, as far as 12-month BOTs, given the demand and conditions of the market, it will be even possible an increase of the net issuances.

The Treasury will continue to offer 6- and 12-month BOTs through ordinary auctions and the re-openings reserved to Specialists in government securities. As a rule, the share 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 exceptional cases and by issuing a separate press release – in relation to market conditions, dealers’ demands and debt-management purposes, in line with the need to optimise the overall volumes issued on this segment.

As to 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 prevailing method on the money market, which requires the presentation of bids in terms of yield (rather than 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 securities at auction.

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 provide for a daily activity with the execution of operations aimed at lending or borrowing liquidity, depending on cash management needs. These transactions will continue to be carried out through auctions or bilateral deals with overnight or longer maturities, based on cash requirements and market conditions. In addition,
further bilateral instruments to invest liquidity may be introduced for the purposes of improving the diversification and profitability of cash management, with a view toward containing counterparty risks.

b) 24-month CTZs

In 2019, the volume of maturing CTZs will amount to around 23 billion euros, which is in line with previous years. Indeed, the issuance policy adopted by the Treasury in recent years, targeted at containing the issuance of shorter-term instruments in favour of medium/long-term ones, has led to a substantial stabilisation in the amount of annual redemptions on said segment.

As to the volume of issuances, 2019 will also see the Treasury be present on the market for overall amounts generally in line with maturing volumes. However, it will assess, given the good development of demand experienced in the last months of 2018 and in accordance with issuance criteria aimed at favouring the efficiency of the secondary market, the possibility of carrying out slightly positive net issuances. Moreover, together with the normal reopening of outstanding securities, two new benchmark securities will probably be introduced into the CTZ segment.

Finally, consistent with the strategy adopted in recent years, the Treasury will consider the possibility of including CTZs among the securities involved in exchange or buyback transactions, with a view toward containing the amount of securities to be refinanced in the 2019-2020 period.

c) CCTeus

Just like last year, 2019 will see a further reduction in maturing volumes in the CCTeu segment: indeed, a single security will mature, for a total amount of 12.5 billion euros, about half of the volumes maturing in 2018.

During the second half of 2018, the CCTeu segment was particularly impacted by the tensions that affected the Italian public debt. This effect was clearly evident on the prices of securities, which went significantly below par.

Therefore, so as to favour the normalisation of the liquidity of said instrument and a realignment in terms of costs compared to BTPs of the same duration, 2019 will see the Treasury continue ensuring the offering of CCTeus to the market, with an issuance volume that in absolute value will be lower than that of last year. Moreover, in line with the actions undertaken in 2018, if needed, said goal will be pursued through exchange and buyback operations aimed at easing possible tensions in the sector. Given the low redemption volume, the net issuances of the segment are estimated to remain
positive in 2019. The CCTeu share with respect to the overall stock of outstanding securities is estimated to remain unchanged, in line with the Treasury’s strategy aimed at the stabilisation of the debt’s exposure to the interest rate risk.

Throughout the year, on top of the normal reopening of outstanding securities, the Treasury expects to issue two new benchmark securities with a maturity at issuance included in the 5-to-7-year range, which will be evaluated keeping into account market and demand conditions.

As to off-the run CCTeus, it will still be possible to offer them in a single range together with on-the-run or within their own offering range.

d) Nominal 3- and 5-year BTPs

In 2018, the Treasury issued nominal 3-year BTPs for approximately 36 billion euros, which is in line with the previous year. However, they represent a slight increase if calculated as a percentage of the total securities issued over the year. The picture is slightly different for the nominal 5-year BTP segment, with an amount of gross issuances lower than that of the previous year, both in absolute value (around 31 billion euros) and as a percentage of total issues (about 7.9 percent).

In 2019, the Treasury’s issuance policy will be in line with that of 2018, and will thus be focused on calibrating the total amounts issued in these two segments for total volumes similar to those of the previous year, but with a tendency to give more weight to the 3-year period over the 5-year one. Therefore, considering that 2019 maturities will amount to over 24 billion and 47 billion euros for 3- and 5-year maturities respectively, the net issues for the 3-year security will most certainly be positive, whereas they should be negative for the 5-year one.

The Treasury will continue to ensure a regular and continuous presence in placing these two segments through the re-opening of outstanding securities, until an outstanding amount is reached which is suitable for ensuring adequate liquidity on the secondary market, but also through the launch of new securities, with the placement of at least two new benchmarks planned for both maturities. The opportunities for launching new securities will entail an assessment of the Treasury’s financing needs and the secondary-market performance of securities with a similar residual maturity, and the timing for their offer to the market will be communicated, as usual, in the Quarterly Programmes.

The Treasury reserves itself the right to offer off-the-run securities, if any, for both segments, in the presence of specific needs and 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

Also in 2018, the Treasury issued nominal 7-year BTPs for about 33 billion euros, which is in line with the previous years. In 2019, net issuances on the segment will remain widely positive, since the first 7-year securities have not reached maturity yet. However, gross issuances could reach values that are lower than those of previous years. As a result, the share of 7-year BTPs to total government securities stock will rise and will continue to be very important in consolidating the average life of the debt.

The 10-year BTPs are 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. In 2019, the segment will experience more than 48 billion euros of redemptions. However, despite such a maturing volume, net issues could be only marginally negative.

At least two new securities for each of the two maturities are planned for 2019, 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.

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)**

In 2018, although investors were not so focused on this long-term segment as in previous years, the Treasury was able to place volumes for an overall amount of 30 billion euros through a careful management of the offer in the various segments. Although these volumes are lower than previous years, they amount to 7.2% of 2018’s total issuances nonetheless. When assessing the results achieved over the course of the year, the market conditions, which enabled the Treasury to issue only one new benchmark in this part of the curve, should be taken into account.

The 2019 issuance policy for long-term segments will not undergo major changes, and, like past years, it will be focused on supplying liquidity to all instruments available through placements 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, should the need for, or the opportunity of, re-opening off-the-run securities arise from the information gathered and the carried out analyses, the Treasury will exercise this option, placing them with the maximum flexibility, 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.

Gross issuances in this segment should reach levels not so different from those of last year. Therefore, given the 23 billion euros of redemption on the 15-year security, the Treasury predicts to make positive net issuances on the long-term segment. In any case, said goal will largely depend on the Treasury’s possibility of placing new benchmarks. In the presence of favourable market and demand conditions, 2019 will see the Treasury assess the opportunity to issue a new 15- and/or 30-year security through a placement syndicate. As usual, given the nature of the operation carried out through syndicate and outside the auction calendar, the new securities in the segment will be announced through the usual press releases and will not be included within the Quarterly Programme.

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)

Starting from the second half of 2018, the segment of securities indexed to European inflation was impacted by the volatility experienced by the nominal securities segment. Moreover, the overall macroeconomic picture, which was characterised by a progressive reduction in inflation expectations in the Eurozone and a reduction in oil prices, affected the performance of indexed securities, especially in the second half of the year. These elements led securities indexed to inflation to have a significantly weaker performance in terms of relative value in the last months compared with nominal securities with a similar maturity.

However, the Treasury supported said segment through both a wise issuance policy, based on a progressive reduction in the offered amounts, and a buyback operation involving the BTP€i maturing in September 2019. Although the market conditions did not enable the Treasury to issue a new benchmark on the long-term segment of the real curve, the aforementioned actions allowed for a constant presence on the market, without affecting the efficiency of the secondary market.

2019 will see a 10-year BTP€i security coming due, for a non-re-evaluated amount of about 18.8 billion euros, which translates to an 8 billion euros increase in volume compared to 2018 redemptions.

As to issuances, the Treasury, taking into account the evolution of the macroeconomic picture and the market context, will keep distributing the offering on a monthly basis on the various maturities of the real yield curve, for an amount generally in line with the redemption volume. Considering also that the net issuances of the BTP Italia will be positive due to the absence of redemptions, the weight of securities indexed to inflation with respect to the overall stock of outstanding government securities may experience a slight increase compared to 2018.

As in the past, off-the-run BTP€is may be offered in a single range with 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 trends of demand. The placement of new securities with a duration of 10 or more years will be, as customary, done through a syndicated transaction. Over the course of 2019, the Treasury will evaluate the opportunity to issue a new 10-year security and, should market and demand conditions be favourable, a new benchmark on the long-term segment of the real yield curve, which was not made in 2018 due to the difficulty for executing such a transaction in that year context.
Should new benchmarks be launched, the Treasury, based on market feedback and the need to ensure the optimal management of cash flows, will continue to choose the May-November coupon cycle.

**BTP ITALIA**

Starting from the second half of 2018, the segment of securities indexed to Italian inflation was also affected by the turbulences that involved nominal securities, leading to the loss of the traditional resilience with respect to the movements of the nominal curve that usually characterises this type of instrument.

Similarly to 2018, there will be no maturing BTP Italia in 2019. Therefore, in order to satisfy the demands of retail as much as possible and keep providing said kind of investors with an instrument to protect their savings, 2019 will see the Treasury be present on the market with at least one BTP Italia issuance. Should the conditions warrant, the Treasury will also evaluate the possibility of carrying out a second placement during the year. However, given how difficult it is to predict developments in market and demand conditions, the Treasury reserves itself maximum flexibility in evaluating, as the time of placement approaches, the most appropriate maturity for the issuance of a new security, which will in any case be included between 4 and 8 years.

The securities offered next year 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 platform, the screen-based market regulated by Borsa Italiana and dedicated to retail trading. Orders for purchases will be taken on the MOT during the issuance 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 commitments of the dealers and co-dealers selected by the Treasury among the most active participants in the MOT in the Italian government securities. 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, in line with the last two years, the Treasury reserves itself the option of analysing the possibility of executing extraordinary exchange or buyback transactions that could be used for managing the high amounts of BTP Italia securities redeeming in subsequent years. Such analysis would also entail the assessment of the most efficient terms and conditions for executing the transactions. Moreover, as it happened in 2018, which saw the Treasury conduct an exchange operation that, from the buyback side, involved the BTP Italia maturing in April 2012, said operations may be used also to provide adequate support to the liquidity and efficiency of the secondary market of this segment, should market conditions require an intervention in this sense.

**LIABILITY MANAGEMENT OPERATIONS:**

**EXCHANGES, BUYBACKS AND DERIVATIVES**

In recent years, the Treasury has increasingly relied on extraordinary buyback and exchange transactions. Said activities, which have been characterised by great flexibility in terms of mode of execution, timing and goals, such as the management of the refinancing risk, the reshaping of the maturity profile and support to the liquidity and the efficiency of the market for government securities, have led to very positive results. In 2018, said operations also contributed to restoring an adequate slope in the yield curve of government securities and they contribute, at least partially, in favouring an orderly functioning of trading in the CCTeu segment. Therefore, in continuity with recent years, the use of the extraordinary transactions will depend on the conditions of the secondary market, with a frequency/intensity determined by specific market situations, keeping the aforementioned goals in mind.

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. However, as in 2018, said transactions might also be executed through syndicated operations, given the higher speed of execution and the Treasury’s direct intervention onto the allocation of the security among investors. Buyback transactions will be carried out through Bank of Italy’s auction system, bilateral negotiations, the screen-based platform dedicated to the wholesale secondary market or, as for exchange transactions, through syndicated operations.

Consistently with the activity of recent years, the management of derivatives transactions in 2019
will be addressed, where possible, toward possible restructurings of the existing portfolio, with the objective of making the cost-risk profile of the debt more efficient and facilitate the management of cash flows.

Moreover, the collateralisation system launched in 2018 to support the management of the derivatives portfolio in place with some counterparties\(^1\) will be able to favour the placement of securities and further incentivise the efficiency of the secondary market thanks to the decrease in the credit exposure of said counterparties to the Treasury.

In 2019, collateralisation agreements to be used for possible new derivative positions will be active, thus enabling a reduction in the cost of cross-currency swaps covering new foreign-currency issuances. In this regard, the Treasury aims, as will be explained below, at returning to issue in the Global bond segment, especially in dollars.

**ISSUANCES ON INTERNATIONAL MARKETS**

The Treasury’s presence on international markets is executed through issuances carried out through the two main channels, namely the Global Bond Program and the Medium Term Notes Program-EMTN. In recent years, only the latter has been used.

The issuance programme on foreign markets plays an important role in the management of debt, which is aimed not only at enlarging the base of investors in Italian government securities, but also at obtaining economic advantages in terms of the costs to be borne with respect to the domestic market.

Given the long absence from the Global segment – in that regard, note the last issuance in said format, which dates back to September 2010, and the more recent lack of placements under the Medium Term Notes programme, the last being in October 2016 – 2019 will see the Treasury continue its careful and constant market monitoring and analysis activity, so as to conduce to the execution of a new placements and ensure a more regular presence on foreign markets.

\(^1\)Pursuant to the joint provision of Italian Ministerial Decree no. 103382 of 20\(^{th}\) December 2017 (known as “Decreto Garanzie”) art. 6, par. 1, letter b) and Italian Ministerial Decree no. 104477 of 28\(^{th}\) December 2017 (known as “Decreto Cornice” for 2018) art. 4, par. 4, the banks that satisfy the exposure prerequisite for the signing of a collateral agreement to secure positions in existing derivative instruments in the portfolio of the Italian Republic have been pinpointed.
The Global Bond Programme was formally launched in 2001, but it had already been implemented in 1993 with the first issuance – a 30-year maturity – of 3.5 billion US dollars. It is an instrument for directly tapping high-profile investors who are diversified from the standpoint of geographic distribution. This programme had made it possible for the Treasury to position itself as one of the main sovereign issuers, both in terms of volumes issued and the completeness and liquidity of the yield curve. The current outstanding under the Global Bond Programme is rather limited and is equal to $5.5 billion, including $3.5 billion maturing in 2023 and another $2 billion maturing in 2033.

From a market standpoint, 2018 saw many institutional investors express their interest in a new US-dollar issuance on the part of the Treasury, but the market volatility conditions of government securities did not enable to take this step. Should the market context become more stable, given the fact that the list of the Global Programme’s lead managers, which now includes all Specialists in government securities, has recently been enlarged, the Treasury will take into account the launch of a first security with the maturity that will receive the most feedback among investors. Based on the result of this issuance and the market context, new maturities and currencies (such as the yen) may be proposed.

The Treasury’s intention to resume issuing securities denominated in US dollars in 2019 is strongly supported by what has been realised from a regulatory and organisational standpoint in recent months: after the issuing of the “Decreto garanzie” at the end of 2017, the second half of 2018 saw the completion of all legal and organisational aspects in order to finalise bilateral guarantee agreements (technically called Credit Support Annex, CSA) for new derivative operations. This will enable the overcoming of the main restrictions that have hindered currency issuances, such as the high costs for protection from exchange and interest rate risks, thereby favouring the finalisation of cross currency swaps to hedge new securities at a low cost, which can be achieved thanks to the mitigation of the exposure to credit risk between the Treasury and each one of its counterparties. The CSA, which is being agreed upon together with Specialists in government securities, will be exclusively referred to derivative operations concluded after its signing, and will have the same format for each counterpart, for the purposes of fair treatment.

Also for 2019, the Treasury confirms its resorting to the EMTN programme, which has been active since 1998 and is characterised by great flexibility. This funding channel has been widely used to satisfy, by use of issuances in both public and private format, specific financial needs – in terms of structure, maturities and currencies – expressed by investors interested in holding securities of the foreign programme (in euros or other currencies). In particular, for maturities longer than 10 years,
the channel of private placements may be used to satisfy peculiar requests, such as dollars and yens, which could come from a diverse base of investors that sometimes is not so present on domestic government securities.

Compared to previous years, the key criteria for these private placements have not been modified: only proposals with a maturity of at least three years, a minimum amount of €200 million, and a minimum tradable amount of €500,000 will be taken into account.

The Treasury will evaluate the opportunity of resorting to new EMTN issuances, carefully examining both the characteristics of the securities requested by institutional investors and market conditions so as to obtain a reduction in the cost of financing compared to the comparable “theoretical” domestic securities with the same maturity, thereby also preventing possible overlaps with public issuances.

As already highlighted, this format has not been used in the last two years, since the demand did not find a perfect correspondence with the needs of the Treasury, and also because that demand was satisfied through the enlargement of the public format securities. However, in 2019, provided that the market is sufficiently stable, it could be used more actively through notes denominated not only in euros, but also in foreign currencies, with a fixed or floating rate, which may be either nominal or indexed to inflation, if requested by investors, with the idea of maximising the benefits resulting from this issuance strategy.