Dipartimento del Tesoro

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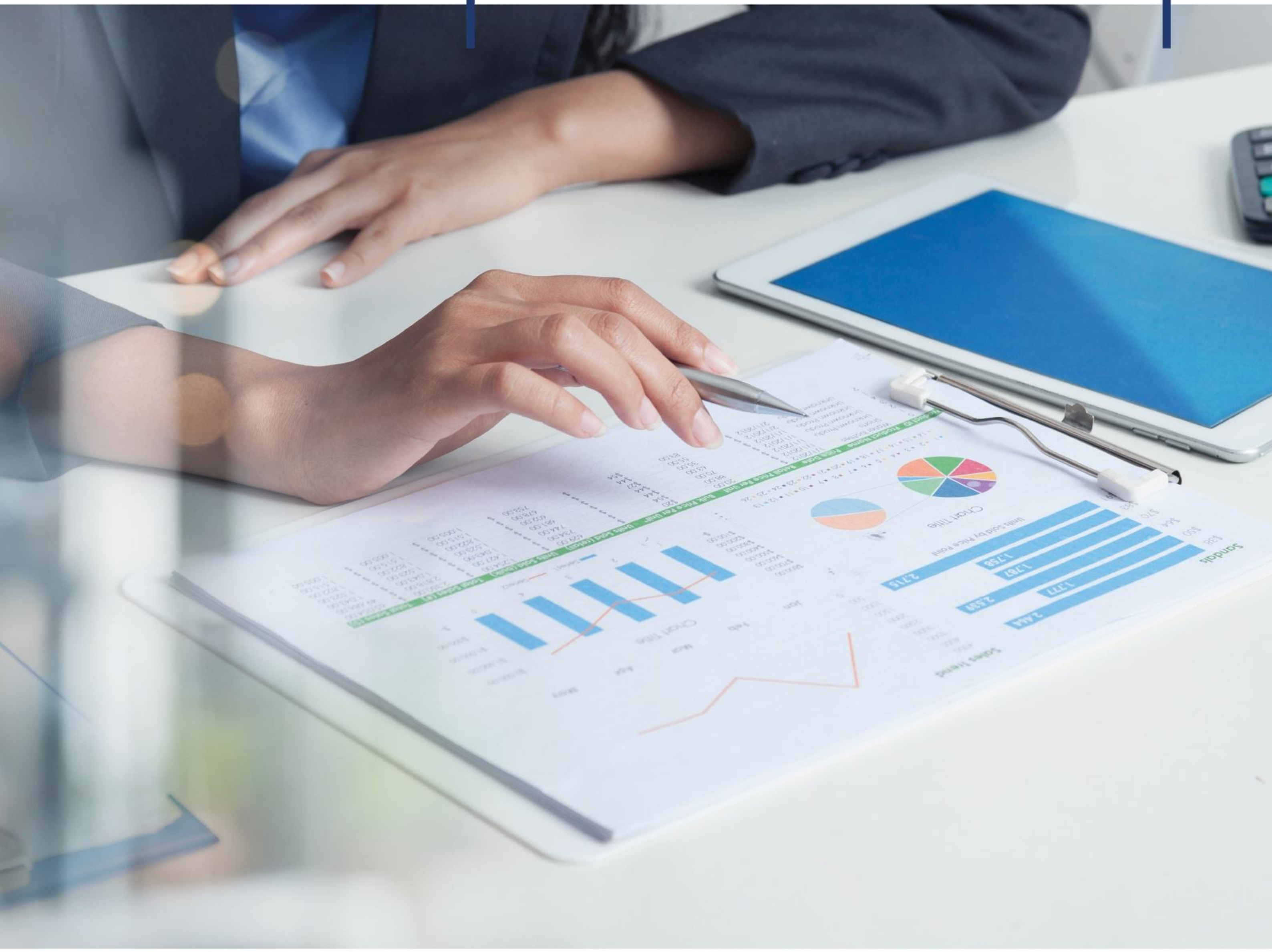
2022 public debt management guidelines



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FOREWORD

In line with a well-consolidated practice, the Italian Department of the Treasury publishes these Public Debt Management Guidelines for 2022. The aim of this document is to provide participants in the Italian public debt market with both quantitative and qualitative information on the strategy for issuing and managing government securities over the next twelve months. In particular, details are provided on the issuance plan for the various segments and various maturities, as well as the approach that will be adopted in order to satisfy both the strategic needs of the Treasury in terms of managing the main risks and any changes in market conditions over the course of the year. Please refer to the 2021 Public Debt Management Report, which will be published during 2022, for details about all the 2021 debt management activities, with a focus on the performance of financial markets and public finance during said period.

I. 2022 DEBT ISSUANCE AND MANAGEMENT POLICY

I.1 INTRODUCTORY CONSIDERATIONS

The year now drawing to a close has been marked by a strong recovery in economic activity, which has had a profound effect on both the revenue and expenditure side of the State budget, and thus on the size of the financing activity carried out on the government securities market. However, in the second half of the year, the evolution of the COVID-19 pandemic, which is still a risk factor, and uncertainties regarding the trend of inflation and the attitude of central banks in the near future, have led to an increase in volatility on all bond markets, including of course the government bond segment.

In this context, the funding activity carried out in the first part of the year, combined with the gradual improvement in the borrowing requirements, made it possible to reduce the issuance activity after the summer, within a market made difficult both by the conditions just described and the volatility induced by the repositioning of some investors on the ultra-long end of the European yield curves, which inevitably brought pressure also on the long end of the Italian BTPs curve.

Therefore, while the maintenance of favourable financial conditions throughout 2021 – mainly through the Central Banks' purchase programmes (APP and PEPP) - contributed decisively to maintaining low levels of volatility, after the summer, but in particular from October, uncertainty about the monetary authorities' responses to inflationary pressures due to these latter's possible temporary or more lasting nature produced an increase in volatility, with several drastic movements on all the government yield curves.

In this context, the yield curve for Italian government securities limited the upward movement, also thanks to the substantial stability of spreads vis-à-vis other issuers, both core and peripheral, accompanied by a moderate increase in the slope on the segment of the curve for maturities up to 10 years. On the other hand, the completion of the SURE programme and the launch of the Next Generation EU programme contributed to the consolidation of a constructive climate in financial markets. These factors, together with the stability of the national political framework, the strong growth of Gross Domestic Product for the current year and the good prospects for next year – which, among other things, have made it possible to anticipate the decline in the debt/GDP ratio -, have positively influenced the ratings expressed by various Rating Agencies in recent months.

In this context, debt management has made it possible to reduce the average cost of issuance, which in 2021 amounted to 0.10%, while the average cost of debt, calculated as the ratio of interest to the stock of debt of the Public Administrations, stabilised at a level of around 2.4%.

Market conditions and management decisions also made it possible to continue increasing the average life of debt which, at the end of 2021, relative to the stock of government bonds, was equal to 7.11 years (7.29 years including loans under the SURE and NGEU programmes), higher than that at the end of 2020 equal to 6.95 years. This was attributable to various issues on the long end of the yield curve, carried out both through auctions and with the launch - through a syndicated placement - of several new nominal benchmark securities (10-year, 15-year, 20-year and 50-year BTPs plus the BTP Green maturing in 2045).

In 2022, financing needs will be determined by the maturities of the outstanding securities which, net of BOTs, will amount to EUR 230 billion, as well as by the new State borrowing requirements for the coming year which, based on preliminary estimates consistent with the 2022 Draft Budgetary Plan of last October, should amount to around EUR 100 billion. On the other hand, the significant improvement in borrowing requirements over the past months leads to the conclusion that this estimate for 2022 will be revised downwards. In addition to government securities issues, these financial needs will also be covered by loans from the Recovery and Resiliency Facility package under the Next Generation EU programme.

From a macroeconomic perspective and according to the information currently available, the year 2022 should be characterised by a consolidation of the economic recovery. However, the current uncertainty regarding the development of European rates and the resulting attitude of international investors must be resolved.

In this context, the debt issuance and management policy in 2022 will mainly aim at achieving the following objectives:

a) ensuring coverage of borrowing requirements at costs that are aligned with market performance as much as possible;

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

c) contributing to a progressive improvement of liquidity conditions on the secondary market;

d) continuing the efficient management of the Treasury's cash stocks.

To this end, the Treasury’s market strategy over coming months will be based on:

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

b) the calibration of volumes offered to the market in order to give greater weight to sectors with better secondary market liquidity and greater depth of demand;

c) the use of liability management instruments (such as exchanges and buybacks), in line with the approach followed in recent years, with a frequency and intensity consistent with the market performance, and with the aim of reducing dislocations in specific securities, improving secondary market liquidity, managing the redemption profile in future years and helping to mitigate the average cost of out-standing debt;

d) the commitment to diversifying the investor base also through foreign currency issuances in both the Global and EMTN format, with a particular focus on placements in dollars;

e) the continuation of issuances devoted to retail investors, aimed at expanding their direct participation in public debt.

It is hereby announced that, as of the first day of the second month following the entry into force of the amendments to the Treaty establishing the European Stability Mechanism, all new government securities with a maturity of more than one year will be issued with single limb Collective Action Clauses (CACs).

The CACs currently in force, which were introduced in 2013 by the original version of the Treaty establishing the European Stability Mechanism, stipulate that a double-vote qualified majority of holders is required to amend the terms and conditions of the securities in a manner that is legally binding on all creditors, both for all securities subject to the proposed amendment and for each individual security (the so-called 'dual limb' model). The new type of CACs will instead require a majority vote of the holders of all the securities subject to the amendment, thus eliminating the need for a quorum of the holders of each individual security (or ISIN), while providing the possibility for the issuer to sub-aggregate securities according to their type in order to ensure fair treatment for each creditor.

As a reminder, the 2021 Public Debt Report will describe in detail all the different components of the debt management activity of the year that is coming to an end, highlighting the objectives pursued and the results achieved.

II. ISSUANCE PROGRAMME FOR SECURITIES PLACED THROUGH PUBLIC AUCTION

II. 1 TREASURY COMMUNICATIONS: ANNUAL CALENDAR, QUARTERLY PROGRAMMES AND ISSUANCE PRESS RELEASES

In 2022, the Public Debt Directorate will adopt a communication policy aimed at achieving the greatest possible transparency in defining the issuance strategy and specific issuance choices. Just to remind that, the objective of transparency is always balanced with the opportunity to reserve a certain degree of flexibility, which is necessary to ensure the most appropriate management choices, especially in market contexts whose evolution is difficult to predict.

This communication policy is pursued by publishing these Guidelines as well as through additional periodic publications, such as the Annual Calendar, the Quarterly Programmes and Issuance Press Releases. Furthermore, if the particular macroeconomic and/or market context makes it appropriate to significantly amend the issuance policy, the Treasury will promptly communicate these changes through an update of this document.

The Annual Calendar is published on the home page of the Public Debt website (www.debitopubblico.it). It contains the dates of the government bonds auctions planned for 2022, as well as the announcement and settlement dates for the various categories of securities on offer.

The "BOT issuance calendar" is also published on the home page of the Public Debt website. This contains all information on this type of placement, including the dates of announcement, auction, settlement and maturity of the securities on offer, as well as the deadline for investors to submit their bids.

Moreover, at the end of every quarter, the Treasury will publish the Quarterly Issuance Programmes, providing the market with information on new issues of nominal BTPs up to the 10-year maturity that will be placed through auction during the following quarter, together with the minimum outstanding volumes that the Treasury undertakes to reaches for each of them before placing new securities within the same segment. With regard to the new securities to be issued during the quarter, the Treasury will decide on a case-by-case basis, whether it is appropriate to also provide the exact maturity date and accrual date in addition to the type and maturity segment of the securities, in order to meet any flexibility requirements resulting from market evolution. In addition, the Treasury is considering possible information additions to be introduced during the course of the year to make this tool even more effective.

Lastly, in accordance with 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 relative quantities. These press releases also provide additional and useful information for investors, such as the deadline for submitting bids, the amount offered through supplementary placements reserved for Specialists, the entities that can participate in the auction, how to take part and, finally, whether or not stripping is admissible for the security offered through auction and whether it presents an initial “short coupon”.

Table 2.1 below summarises the timings for announcements and settlements normally adopted for the securities offered in auction by the Treasury:

TABLE 2.1 – AUCTION ANNOUNCEMENT CALENDAR AND SETTLEMENT DATES

Type of security	Announcement date	Auction	Auction date
All types issued via auction	T-3	T	T+2

As already happened in recent years, the 2022 Annual Calendar envisages the possibility, in certain sporadic occasions, that the auctions of BOTs and/or medium/long-term securities shall not comply with standard time frames, taking into account various aspects such as, among other things, the timing of auctions with respect to national or international holidays.

The date of the additional placements reserved for Specialist dealers will be included in the Issuance Press Releases and in any case, these placements are normally carried out in the afternoon of the day after the ordinary auction is held. In particular, as far as medium/long-term securities are concerned, reopening shares will continue to amount to 30% for the first tranches and 15% for subsequent tranches. As regards the calculation method, in the case of new securities, the share to be assigned to each operator in proportion to the amount subscribed in previous auctions goes from 25% to 22.5%, while the share linked to the performance obtained by the same operator on the secondary market goes from 5% to 7.5%; for subsequent tranches, the share to be assigned to each operator in proportion to the amount subscribed in previous auctions goes from 10% to 7.5%, while the share linked to the performance obtained by the same operator on the secondary market goes from 5% to 7.5%.

In addition, as was the case last year, when determining the quotas relating to the tranches subsequent to the first, the Treasury will continue to make use of a number of flexibility options. In particular, the Treasury reserves the right to increase the re-opening share of nominal and inflation-indexed securities by an additional 5% on a case-by-case basis. Even in this case, the decision will be announced in the press releases for ordinary auctions. As regards the methodology for calculating the amount to which each Specialist is entitled in the supplementary quota with respect to the standard 15%, for bonds with a residual maturity of less than 15 years, this amount will continue to be calculated entirely on the basis of the tranche awarded in the last three auctions for the same type of security and segment; for bonds with a residual maturity greater than 15 years, half of the fee will continue to be calculated on the basis of the performance carried out by the Specialist on the electronic secondary market of reference, and the remaining half will be based on the quota awarded in the last three auctions relating to the same type and segment of security.

II.2 FREQUENCY OF AUCTIONS OF THE VARIOUS TYPES OF SECURITIES

The frequency of auction cycles offering government securities on a monthly basis will not undergo any changes during 2022, thus, guaranteeing the mid-month and month-end appointments.

With regard to the BOT segment, 12-month BOTs and 6-month BOTs will be placed on a monthly basis, during the mid-month and month-end auctions, respectively. If cash requirements make this necessary, 3-month BOTs will be offered at mid-month together with 12-month BOTs. Lastly, and again if cash requirements make this necessary, flexible BOTs may be offered at either the mid-month or the month-end auction.

On-the-run nominal securities with medium/long-term maturity will also be offered through two auction cycles, one at mid-month and one at month-end. At mid-month, 3-year and 7-year BTPs will be regularly offered and, if the necessary conditions are met, one or more long-term BTPs with a maturity of 15, 20, 30 or 50-years, may also be offered during the same auction cycle. Month-end auctions, on the other hand, will continue to offer 5-year and 10-year BTPs, along with CCTeus.

Securities indexed to European inflation, BTP€is, will continue to be placed on a monthly basis, at month end, normally on the same day as Short-Term BTPs.

The three days of the month-end auctions will therefore continue to be organized as follows: the auction of BTP€is and Short-Term BTPs will take place on the first day, with their settlement date normally being the day prior to the last business day of the month; the BOT auction is held on the second day, with settlement on the last business day of the month; the auctions of medium/long-term nominal securities are held on the third day, with settlement on the first TARGET business day of the month after the auction is held.

With regard to mid-month auctions, the BOT auction will be held first, with the settlement date normally falling on the working day before the 15th of the month; the day after the BOT auction, auctions of medium/long-term nominal bonds will be held, with the settlement date normally falling on the 15th of the month. Announcements for all auctions will be made three business days prior to the placement date.

Also in 2022, the Treasury may resort to the auction placement of off-the-run securities, if considered appropriate and aimed to support the optimal functioning of the secondary market, helping to remove possible distortions on the government securities yield curve and/or meeting specific demand requirements with respect to specific securities. In order to ensure a more efficient placement of these instruments, the Treasury reserves the right to use the greatest possible flexibility both in terms of its choice of securities and in relation to the frequency with which it offers them to the market.

Considering the specific nature of the reasons for offering them to the market, off-the-run securities may therefore be offered during both mid-month and month-end sessions. With regard to placement procedures, for off-the-run securities, ranges will be offered on the issue amounts for each security, or with a joint range in the case of several securities being offered at the same auction. On an exceptional basis and under certain market conditions, the Treasury may nonetheless decide to offer both off-the-run and on-the-run benchmark securities jointly, in the same issuance range.

Table 2.2 below summarises the frequency of auctions for each instrument:

TABLE 2.2 – FREQUENCY OF AUCTIONS

TYPE OF SECURITY	MID-MONTH AUCTION	MONTH-END AUCTION
FLEXIBLE BOTs	ISSUANCE CONTINGENT ON CASH REQUIREMENTS	
3-MONTH BOTs	ISSUANCE CONTINGENT ON CASH REQUIREMENTS	
6-MONTH BOTs		X
12-MONTH BOTs	X	
SHORT TERM BTPs		X
3-YEAR BTPs*	X	
5-YEAR BTPs*		X
7-YEAR BTPs*	X	
10-YEAR BTPs*		X
15, 20, 30 AND 50-YEAR BTPs*	OFFERED IN RELATION TO MARKET DEMAND	
CCTeus		X
BTP€is		X

** For securities marked with an asterisk, it should be specified that off-the-run securities falling into the respective duration category based on the criterion of residual maturity at the time of issuance may also be offered in medium/long-term auctions other than those in the table.*

Once again, under exceptional circumstances and if required to do so by specific liquidity needs, market functioning and/or demand, the Treasury may resort to re-opening both short and medium/long-term outstanding securities, also outside of the Annual Calendar. Any such placements will be decided also on the basis of detailed consultations with market participants and will be announced through the normal communication channels.

The auctions will be carried out in the same way: for BOTs, a multiple price (competitive) auction will be maintained, whereas all other instruments will be offered through a single price (marginal) auction, with the price being discretionally cut based on the demand at auction, within a quantitative range announced in advance.

III. NOMINAL FIXED- AND FLOATING-RATE SECURITIES

III. 1 BOTS AND LIQUIDITY MANAGEMENT

Although the risks arising from the ongoing pandemic situation are still far from being completely under control, the sentiment of economic players has definitely improved during 2021 and has led to a general economic recovery thanks to largely accommodative tax and monetary policies. For Italy, the trend of GDP growth that began in 2021 is expected to continue in 2022; therefore, the funding policy will be reflected in the start of a normalisation process with respect to the extraordinary situation experienced during the previous two years, also as a result of the reduction in demand and funding levels. This trend, together with the use of the new repurchase agreement operations launched in May 2021, which will be described in greater detail later in this paragraph, has produced - already from the second half of 2021 - a significant reduction in the level of planned issues, in particular with regard to ordinary Treasury securities (BOTs): there has thus been a pro-active return of BOTs to their natural role as an instrument to meet Treasury needs.

Over the course of 2022, the Treasury expects to regularly issue 6-month and 12-month BOTs, except for situations in which a lack of cash requirements leads the Treasury to opt for the cancellation of the 6-month line, as already decided for the auction round of late December 2021. In any case, the amounts to be issued will be calibrated in such a way as to take into account the demand conditions of investors, guarantee sufficient liquidity for each security and also take into account the target of reducing the overall amounts of securities in circulation in this segment. In addition, for an optimal management of cash requirements to be ensured, especially in the shorter term, the Treasury will have recourse to Repo operations, namely an instrument introduced in 2021 that is expected to be used consistently also in 2022. As usual, should specific liquidity management needs arise, the Treasury will also consider issuing 3-month BOTs, reopening BOTs already in circulation or issuing so-called flexible BOTs.

Annual and semi-annual BOTs will thus be offered on a regular basis, and the Treasury will use competitive auctions for their issuance. Ordinary auctions will be followed by the relevant reopenings reserved to Specialists in Government securities, which normally amount to 10% of the nominal amount offered at auction, and will be allocated according to the performance of Specialists observed on the primary and secondary markets. The Treasury shall reserve the right to change this percentage for each auction - under exceptional circumstances and following a dedicated press release - in relation to market conditions and the level of demand expressed by dealers, as well as for debt management purposes, in line with the need to optimise the overall volumes issued for this segment. For each security offered, operators will be able to submit up to five requests expressed in terms of yield, as is customary on the money market. Investors who purchase BOTs at auction will be subject to the rules set forth in the Italian Ministerial Decree for transparency in the placement of Government securities.

In 2021, liquidity management was characterised by the introduction of the repurchase agreement (Repo) activity, which generated positive effects both in terms of efficiency in the collection of liquidity and in the management of distortions in the market. The constant positive spread between BOT rates and Repo rates with the same maturity allowed, compatibly with the Treasury's cash requirements, greater flexibility and more efficient funding compared to conventional instruments. On the other hand, the targeted offer of the securities most in demand on the secondary market has allowed the reduction of specialness and limited the discrepancies between the rates of securities belonging to the same segment. For the purposes of executing Repos with the aim of collecting liquidity, the Treasury has set up its own portfolio, composed of tranches of Government securities already in circulation in the nominal BTP segment. This portfolio will be periodically updated in order to adjust its composition and quantities in line with cash management needs and take into account the full implementation of Repo operations. Given the levels of market rates, for the first months of activity, the Treasury operated on the Repo market only in funding. However, as of 2022, the Treasury could have recourse to the Repo market also for liquidity use.

Later in 2021, the Treasury will close the process of reviewing the current regulatory framework for cash management activities to better adapt it to the market context and equip itself with instruments that are even more flexible and adequate to current market practices. With regard to the first aspect, the OPTES operations connected to overnight auctions will be suspended, given the ample liquidity, while the possibility of longer-term forms of lending and borrowing will be maintained, as these still have ample room for demand. With regard to the second point, the possibility of operating according to methods in use on the markets is foreseen, also through trading platforms, so as to facilitate the activity of both the Treasury and the counterparties concerned.

As regards the Commercial Paper (CP) sector, following the revision of the programme and the consequent obtainment of the STEP label, 2022 will see the Treasury make use of the instrument, following an in-depth analysis of the market and the verification of the attractiveness of the instrument to investors, thus adding a further possibility to the range of cash management instruments already available. The goal is to achieve maximum flexibility in terms of quantities issued and maturity range, resulting in efficient and timely liquidity management. Moreover, through the CPs, the Treasury will be able to increase the diversification of investors operating on short-term and very short-term instruments.

III.2 SHORT-TERM BTPS AND 24-MONTH CTZS

As announced in last year's Guidelines, over the course of 2021, the Treasury has progressively replaced CTZ issues with Short Term BTPs, that is a new instrument with a fixed coupon and maturity between 18 and 30 months; compared to traditional CTZs, these presented a yield and cost more aligned to the curve of the Treasury Bonds, in line with the objectives set by the Treasury.

Despite the fact that the Treasury had initially planned to be present in the segment with an issuance volume almost in line with the amount of CTZs maturing, amounting to approximately EUR 29.5 billion, the strong interest of the market in this new category of BTPs has allowed for an increase in issuance volumes during the year. Therefore, net issuance in 2021 has been largely positive, also in consideration of the repurchase and exchange transactions involving the CTZ segment, which have contributed to lightening the volumes maturing in the year of this segment.

In 2022, the Treasury will continue to issue Short-Term BTPs as a replacement for CTZs, presumably introducing two new benchmarks, in line with what happened last year. The issues will take place in the ordinary auction cycle at the end of the month together with those of BTP€is, and the Treasury will provide adequate information on the timeframe within which the new Short Term BTPs will be offered to the market through the publication of the Quarterly Issuance Programmes. The amounts placed will be calibrated taking into account the high volume maturing next year, which will see the redemption of two CTZs for an amount of approximately EUR 29 billion and one Short Term BTP for approximately EUR 15 billion. Accordingly, net issuance on the Short Term BTPs in 2022 may be negative.

Finally, consistently with what has already occurred in recent years, the Treasury will consider the possibility of including CTZs and Short Term BTPs among the securities subject to possible exchange or buyback transactions, with the intention of containing the amount maturing in the next two years.

III.3 CCTEUs

In 2021, as in the previous three-year period, the Treasury paid particular attention to supporting the CCTeu segment, both through a shrewd issuance policy based on greater flexibility in the choice of the maturity of the security, and through buyback transactions aimed at reducing the outstanding amount on the various maturities.

In addition, 2021 saw the continuation of the normalisation trend concerning the cost of CCTeus with respect to BTPs of the same maturity, as well as a reduction in the misalignment that had occurred in previous years, which had been favoured by the abovementioned issuance policy and an increase in investor demand, from which the entire segment benefited.

Taking into account these factors, and in order to satisfy the ample market demand, the Treasury deemed it appropriate to increase its presence in the CCTeu segment with respect to what was initially planned by issuing a new benchmark through syndicated placement for an amount equal to EUR 6 billion, in addition to the EUR 18.5 billion issued in the segment through ordinary auctions and exchange transactions. Considering the absence of maturing volumes during the year, net issuance of CCTeus at the end of 2021 was therefore ample.

On the basis of the results achieved, the Treasury's issuance policy for 2022 in this segment will remain in line with that of last year; the abovementioned flexibility will continue to be used in choosing the maturities most suitable to satisfy demand in each monthly placement by ordinary auction. In the event that particular market and demand conditions so require, the Treasury may consider using syndication for the placement of the first tranches.

Given the sector's good performance over the year, the volume of securities on offer in 2022 may be higher than in the previous year, resulting in a higher proportion of the sector's issues to the total volume of securities on offer. However, given that two CCTeus with a total value of approximately EUR 27 billion will mature in 2022, net issuance in the segment is expected to be close to zero or marginally negative. Therefore, this strategy will be compatible with the objective of keeping interest rate risk under control in relation to the entire debt stock.

Over the course of next year, in addition to the normal reopening of securities in circulation, the Treasury expects to place on the market at least one new benchmark security with a maturity between 3 and 10 years, which will be defined only after an in-depth assessment of the market context and the investors' preferences.

As regards off-the-run CCTeus, these may still be offered in a single range with on-the-runs, or within their own range. Moreover, if particular market and demand conditions so require, only off-the-run bonds may be offered in an auction cycle.

Finally, in line with what has happened in recent years, CCTeus may also be subject, if necessary, to exchange and buyback transactions aimed both at reducing the volumes maturing in the next two years and at easing any tensions that may affect the sector.

III.4 NOMINAL 3-YEAR AND 5-YEAR BTPs

With regard to the 3-year maturity of nominal BTPs, 2021 saw Treasury issuance stand at around EUR 41.5 billion, which was lower than in 2020, when it was around EUR 50 billion. The 5-year nominal BTP segment also recorded a reduction in gross issuance, which stood at around EUR 40.5 billion, compared to the EUR 47 billion of the previous year. Of course, although these amounts are smaller than those issued in 2020, the volume issued is still on average higher than in pre-covid years, thus reflecting the growing financing needs of the last two years. Therefore, as expected, net issuance in 2021 was also largely positive in both segments.

As regards the percentage of total securities issued, while in 2020 the share of the 3-year segment was predominant with respect to the 5-year segment, in 2021 the weight of the 3-year BTPs with respect to the total decreased, resulting in a greater balance between the two sectors.

In 2022, the volumes being issued in both segments will undergo a further decrease compared to 2021, in line with the lower financing requirements.

Also next year, the Treasury's issuance choices will continue to favour a balance of issuance volumes between the two sectors; however, it should be borne in mind that the amount maturing on the 3-year BTP, amounting to approximately EUR 13.5 billion, will be substantially lower than that on the 5-year BTP, amounting to approximately EUR 35 billion. Therefore, net issuance, although estimated to be largely positive on both maturities, may be lower on the 5-year segment than on the 3-year maturity.

For both segments, the Treasury will continue to ensure a regular and continuous presence by re-opening outstanding securities, until a suitable outstanding amount is reached, in order to ensure an adequate liquidity on the secondary market, and by launching new securities, in relation to which at least two new benchmarks are expected to be issued for both maturities. The opportunity to offer new securities to the market and the relative timing will be assessed in order to take into account the Treasury’s financing needs and the secondary market performance of securities with a similar residual maturity. The market will, of course, be adequately informed about the timing for the new securities to be offered to the market, thanks to the publication of the Quarterly Issuance Programmes.

The marginal auction will remain the method for offering the new benchmarks with the above maturities.

Should investors make specific enquiries or should there be a need to guarantee the correct functioning of the secondary market, the Treasury shall reserve the right to offer off-the-run securities for both segments through an auction, as part of either its mid-month or month-end schedule, in line with requirements to manage the average life of debt. Should specific 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.

III.5 NOMINAL 7-YEAR AND 10-YEAR BTPs

In 2021, gross issues of the 7-year BTP stood at around EUR 39 billion, up from the EUR 35 billion issued in 2020. Indeed, during the year, the 7-year maturity received growing interest from end investors, as also confirmed by the successful reopening via syndication of a 7-year BTP in April. Considering the positive performance of the sector, which was also supported by demand from the maturities of the first two 7-year bonds for an amount of over EUR 32 billion, the percentage of such bonds issued with respect to the total was also up compared to 2020. As a result, net issuance was largely positive.

Two 7-year bonds in the amount of approximately EUR 34 billion will also mature during 2022.

The volume of issues is expected to continue to be in line with that of the previous year, reflecting the objective of continuing to consolidate the Treasury's presence in an important sector of the nominal BTP curve, also with a view to extending the average life of the debt. Therefore, a positive amount of net issuance is expected. In view of the lower total issuance in 2022 due to reduced funding needs, the weight of the 7-year maturity in total issuance may increase compared to last year.

In 2021, around EUR 40 billion was issued in the 10-year segment through ordinary auctions in addition to the EUR 20 billion issued through syndication. In view of the good performance of investor demand, the Treasury has thus continued to distribute a significant part of the issues on this maturity, which will continue to maintain its role as a reference point for the entire Italian nominal yield curve. As a result, this year's net issuance was largely positive.

A significant amount of 10-year BTPs will mature in 2022, totalling around EUR 60 billion, up from the amount maturing in 2021. In terms of issuance volume, although this may be lower in absolute terms than last year, the weight of 10-year BTPs in total issuance in 2022 is likely to be in line with that of 2021. However, given the large amount maturing, it is estimated that net issuance in this segment may be negative.

A significant amount of 10-year BTPs will mature in 2022, amounting to approximately EUR 60 billion, up from the amount maturing in 2021. In terms of issuance volume, although this may be lower in absolute terms than last year, the weight of 10-year BTPs in total issuance in 2022 is likely to be in line with that of 2021. However, given the large amount maturing, net issuance in this segment is estimated to be negative.

New lines to be issued in the coming year will be announced in the Quarterly Issuance Programmes. At least two new benchmark securities are expected to be offered in the 7-year segment, while at least one new security will be offered in the 10-year segment. The Treasury's preferred method for launching new benchmark securities will continue to be the ordinary auction.

As per standard procedure, before deciding on whether or not to open a new benchmark security, an in-depth analysis will be carried out into the market context, to check the market’s ability to absorb a new benchmark via auction - normally for volumes in excess of ordinary re-openings - and whether the total amount of outstanding securities is sufficient also to guarantee that they may be re-opened subsequently, as off-the-run securities through auction or exchange transactions.

For both maturities, in the event of a need to normalize the yield curve, tensions surrounding specific securities and/or strong investor demand, off-the-run securities may be offered at both mid-month and month-end, announcing a volume range, which may also be joint should the offer involve two or more off-the-run securities. Moreover, 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 joint offer range.

III.6 NOMINAL LONG-TERM BTPs (15, 20, 30 AND 50 YEARS)

Over the course of 2021, the issuance of new benchmark securities on the long-term segment was well received by end-investors. The Treasury was able to place a new benchmark security on the 15-year maturity through syndication and, for the first time since the first bond launched in 2016, a new security on the 50-year maturity. Overall, around EUR 33 billion was placed on the long-term segment through both auction and syndication, down sharply from the EUR 60 billion issued in 2020. In addition to being naturally linked to the reduced funding requirements compared to 2020, this decrease was partly determined by an issuance policy aimed at limiting the volumes on offer on the long-term segment, especially in the second half of the year, in order to take account of secondary market conditions. As a result, the percentage of total issuances was also down from the significant share reached in 2020.

In line with past years, also in 2022 the issuance policy in the long-term segment will continue to focus on providing liquidity to all available instruments through placements that will be conducted on a regular and continuous basis. In the mid-month auctions, the Treasury will offer the market at least one of the securities with a maturity of between 15 and 50 years, choosing each time on the basis of assessments that will take into account the information acquired - through direct and indirect channels - with investors and with the most active dealers in these instruments and considering the dynamics of exchanges on the secondary market.

Should the information received and in-house analysis flag up the need and opportunity to re-open off-the-run securities, then the Treasury shall of course reserve the right to issue them with the utmost flexibility, i.e., using both auction cycles (mid-month and month-end), and the possibility to jointly issue two or more off-the-run securities together.

In 2022, gross issuance on the long-term portion of the BTP curve could be slightly higher than in 2021; however, considering the reduced funding needs in 2022 with respect to last year, the weight that nominal long-term BTPs will have on total issuance is estimated to increase slightly with respect to 2021. In any case, considering the absence of maturities on the long-term section, the Treasury expects to make positive net issuances.

Moreover, the Treasury will evaluate the opportunity to issue new securities on the various benchmark maturities of this segment through syndication, also by virtue of the free float reached by the current benchmark securities on the 15-, 20- and 30-year maturities, should market and demand conditions prove favourable.

As per standard procedure, given the fact that this operation is carried out through a syndicate and outside of the auction calendar, the new long-term BTPs will be announced in the usual press releases and will not be included in the Quarterly Issuance Programme.

III.7 BONDS INDEXED TO EUROPEAN INFLATION (BTP€Is)

The first half of 2021 was characterised by low inflation expectations as a reaction to the pandemic crisis, while in the second half of the year, the inflation-indexed securities of all European issuers were affected by uncertainty regarding inflation trends and the attitude of central banks in the near future. In this context, 2021 saw the Italian Treasury confirm its presence in the index-linked securities segment by issuing a new benchmark security with a 30-year maturity. Given the large volume of securities maturing this year, net issuance was negative as expected.

Over the course of next year, a single BTP€i for an amount of approximately EUR 11 billion will mature. As regards the volumes issued, the Treasury expects to be present on the market with an amount almost in line with that of the previous year. However, considering the reduced volume of securities maturing in 2022 with respect to 2021, positive net issuance is estimated for the entire segment.

Also in 2022, the Treasury will continue to be regularly present on the market and monthly distribute the offer on the various maturities of the real yield curve, carefully calibrating the volumes issued and taking into account the evolution of the macroeconomic context and demand, as well as the overall trend of securities at European level. The abovementioned aspects will also be the subject of in-depth analysis as part of the Treasury's assessment of the advisability of issuing a new benchmark security with a maturity between 10 and 15 years.

The evaluation of the possibility of introducing new benchmarks will continue to take into account the conditions of the individual securities already in circulation, both in terms of the free float reached by each of them and in terms of residual life. As per normal procedure, new securities with a maturity of 10 years or more will be placed through a syndicated transaction.

Should new benchmarks be launched, the Treasury, based on market feedback and the need to manage cash flows in an optimal way, shall continue to favour the May-November coupon cycle.

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

III.8 BTP ITALIA

During 2021, following a careful assessment of market conditions and taking into account the absence of maturing volumes during the year, the Treasury decided not to issue a new BTP Italia. Accordingly, 2021 ended with negative net issuance, against a redemption of approximately EUR 1.3 billion through an exchange transaction conducted in the middle of the year.

In contrast to last year, 2022 will see a BTP Italia maturing in an amount of slightly more than EUR 2 billion. Therefore, taking into account the maturing volumes, and paying particular attention to maintaining the instrument's viability, the

Treasury will consider the opportunity of issuing a BTP Italia during the year in order to satisfy the demand of institutional and retail investors and continue to provide a well-established instrument to protect their savings.

As regards maturity, the Treasury reserves the utmost flexibility in assessing the most appropriate maturity for the issue of the new security close to the placement. At the same time, the attention to the instrument will lead the Treasury to evaluate possible adjustments to the characteristics of the security and issuance methods, preserving the elements that contributed to its appreciation by retail savers in particular.

In any case, the securities that may be offered next year will maintain the indexation linked to the national inflation rate and a final bonus for retail investors who purchase the security at issuance and hold it until maturity. The securities will continue to be issued directly on the MOT platform, the screen-based market owned by Borsa Italiana (the Italian Stock Exchange) and dedicated to retail trading. Purchase orders will be collected during the placement period on the platform itself, making use of support from dealer banks chosen directly by the Treasury among the Specialists in Government bonds.

Lastly, in line with its policy in recent years, the Treasury reserves the right to analyze the possibility of carrying out extraordinary exchange or buyback transactions to manage the BTP Italia amounts maturing in the following years, assessing the most efficient way to complete said transactions. Furthermore, these transactions may also be used to provide adequate support in terms of the liquidity and efficiency of the secondary market, should market conditions require this type of intervention.

III.9 BTP FUTURA

The BTP Futura, which was first introduced in 2020 through two issues aimed at financing the measures launched by the Government in order to deal with the health and economic-financial crisis resulting from the Covid-19 pandemic, has reached its fourth issuance in 2021, thereby confirming its wide acceptance by retail investors. Indeed, in 2021, the government security reserved exclusively for the retail market was offered through two issues aimed at financing the measures launched by the Government to support the country's economic growth, with total funding of over EUR 8.7 billion.

In addition to the innovative coupon structure based on the 'step-up' mechanism, which provides for nominal semi-annual coupons calculated on the basis of a series of pre-established rates increasing over time, with minimum guaranteed yields, the two 2021 issues saw the Treasury introduce a double bonus paid at two different times in order to reward savers who hold the security until maturity. In particular, this formulation provides for the payment of an intermediate bonus at the end of an initial period of life of the security to investors who have held the BTP Futura since issuance, and a final bonus to investors who have continued to hold the security without interruption from issuance to maturity.

In view of this, and in order to continue offering retail investors an instrument to protect their savings and support the country's growth, 2022 will see the Treasury issue at least one BTP Futura. In addition, if conditions are met, the possibility of a second placement during the year will be assessed in light of financing needs. With respect to the characteristics of the BTP Futura, the Treasury reserves the utmost flexibility in assessing the most appropriate maturity for the issuance of the new security close to the placement.

The securities offered next year may have the same financial characteristics as those already present on the market or others that will be deemed appropriate. However, the payment of principal amount at maturity will be at par value and a bonus payment linked to the growth of the national economy during the life of the security, paid at different times, will be confirmed for investors who purchase the security at issuance and hold it until maturity.

As for previous issues, the BTP Futura will be issued directly on the MOT platform, that is, Borsa Italiana's regulated electronic market dedicated to retail trading, making use of the order collection support of dealer banks chosen directly by the Treasury among the Specialists in Government securities. In addition, institutional investors will continue to be excluded from placements, as this is a security reserved exclusively for individual and other similar investors.

III.10 GREEN BONDS

In 2021, the Treasury completed the organisational process that allowed the Italian Republic to enter the sustainable finance market with the first issue of the BTP Green, the government bond dedicated to financing expenditure incurred by the State with a positive environmental impact, as provided for by the Italian Budget Law for 2020 (Italian Law No. 160 of 27 December 2019).

On 25 February, as part of the preparatory activities for the first issue, the Treasury published the Green Bond Framework, i.e., the regulatory and organisational framework of reference for the issue of green securities. The contents of the Framework have been elaborated through a complex data collection and information activity within the Interministerial Committee for Green Government Bonds established by the Italian Prime Ministerial Decree of 9 October 2020.

Moreover, in analogy with the best market practices already adopted by other sovereign issuers, the Green Bond Framework received a Second Party Opinion from Vigeo Eiris, namely the independent evaluation body specifically selected by the Treasury.

Following the publication of the Green Bond Framework and the related Second Party Opinion, the syndicated issue of the first tranche of the BTP Green with maturity 30 April 2045 took place on 3 March, for an amount of 8.5 billion, of which more than half was subscribed by ESG (Environmental, Social and Governance) investors. The inaugural issuance was well received by the market, with a total demand of more than EUR 80 billion, thus setting a record for inaugural sovereign Green Bond issuance in Europe.

In accordance with the criteria set out in Section 4 of the Green Bond Framework, the Treasury disclosed the details of the green expenditure in September for an amount equal to the net proceeds of the first issue.

The selection of the expenditures included in the State budget relative to the year of issuance and to the three preceding years has been carried out in adherence to the Green Bond Principles drafted by ICMA and considering, where possible, the Green Bond Standards currently under discussion by the European Union.

In 2022, the Treasury will make available the Italian Sovereign Green Bond Allocation and Impact Report, which will contain the detailed reporting of the expenditures already selected and assigned to the issues made in line with the best international practices. In addition, the duly certified information on the environmental impact of the above expenditures will be made available over time, in accordance with the provisions of the Budget Law.

In consideration of the excellent response received from investors and in order to provide adequate support for the liquidity of the security on the secondary market, on 20 October, the first BTP Green was reopened via syndication for an amount of EUR 5 billion, with the participation of about 350 investors against a total demand of over EUR 55 billion. In this context, too, ESG investors' interest in the Italian green bond was reconfirmed, with almost half of the placement subscribed.

In 2022, in relation to the evolution of market conditions, the Treasury will consider the possibility of reopening the existing security, also considering the auction as a method of placement. As regards the possibility of issuing a new line of the green segment, the Treasury will reserve maximum flexibility in the choice of the execution method and maturity most suitable to satisfy the needs of demand.

IV. LIABILITY MANAGEMENT OPERATIONS: EXCHANGES, BUYBACKS, TAP ISSUES AND DERIVATIVES

In 2022, as in previous years, the Treasury will resort to extraordinary Liability Management operations, taking into account the conditions of the secondary market with a frequency driven by specific situations/needs of the market itself. Only Specialists in Government bonds will be able to participate in said operations, which, as a rule, will be held in the weeks free of bond auctions, which have already been scheduled.

The Treasury will pursue a variety of objectives through exchanges and buybacks. In continuity with the policy adopted in recent years, maximum attention will be paid to situations of market efficiency, intervening in situations of stress on specific securities or on certain points of the yield curve of government bonds. Another aspect that the Treasury will continue to monitor is the maturity profile and the management of refinancing risk.

The exchange operation can be carried out using the telematic trading system or the auction system managed by the Bank of Italy. As in the recent past, such operations may also be carried out through syndication, whose procedure favours greater rapidity of execution and the possibility of a more efficient allocation of the security in issue among investors who request it. Moreover, this modality allows the Treasury to issue, where deemed appropriate, different quantities between the two legs of the operation or the issuance of several securities against the buyback of a single Government bond.

For repurchase transactions, the Treasury may consider using the Bank of Italy's auction system, bilateral negotiations or the electronic trading system. Finally, as already indicated for the exchange, the possibility of resorting to syndicated transactions is not excluded.

The use of TAP issues will continue to be a viable option, both to support the Treasury's financing programme and to meet specific demand needs for certain securities. Therefore, one or more securities may be issued in the TAP transactions, tending to be off-the-run. Such operations may be performed using the electronic trading system.

With reference to the activity of liability management through the use of derivative financial instruments, the Treasury will continue its strategy aimed at containing the overall cost of debt and at the active management of risks connected to the debt portfolio, in particular interest rate and exchange rate risks, also contributing to an efficiency of the cost-risk profile in the medium-long term.

The use of derivative instruments underlying the issuance policy may take place through the execution of new transactions and/or the restructuring of positions already in the portfolio.

Should the current market context, which is characterised by extremely low swap rates, persist also during 2022, the Treasury, in continuity with what has happened in past years, will evaluate the possibility of executing new long-term interest rate swaps (IRS). The twofold objective of these transactions would be to mitigate the exposure to interest rate risk and, at the same time, lengthen the overall duration of the debt, as well as contribute to the reduction of the average rate paid on the overall portfolio of this type of derivative. Should such operations take place, they would be aimed at a macro-hedge strategy in order to protect the portfolio of domestic floating-rate issues from an increase in interest rates, without necessarily creating a specific security-derivative hedge.

As regards the management of risks linked to non-domestic currency activity, given the re-established presence on the dollar market and the interest shown also for issues in other currencies, the Treasury will continue to make use of the cross-currency swap instrument. Through this liability management activity, it will be able to transform liabilities in foreign currency into synthetic liabilities denominated in euros, contain the economic-financial burdens as much as possible and neutralise the impact of exchange rate volatility for the entire lifetime of the securities.

Finally, the Treasury will continue to monitor the existing operations in the derivatives portfolio, resorting to the transformation of their financial profile in line with the set macro-objectives. Operational choices will continue to be made on the basis of an accurate economic-statistical analysis, as well as on the functionality of each transaction to the more general strategy of debt management. The Treasury will thus be able to reshape/renegotiate all or part of the financial terms of some existing positions by taking advantage of possible favourable market contexts, with the aim of obtaining an improvement in terms of accounting impact on debt and/or on interest expenditure.

V. ISSUANCES ON INTERNATIONAL MARKETS

The Global Bond Programme and the Medium Term Note Programme - EMTN - are the two channels through which the Treasury has established a significant presence on international markets over the years.

The use of these financing modalities, which are additional to the domestic issuance programme, is aimed both at increasing the number of institutional investors, making possible the involvement of new ones in Italian public debt, and containing costs with respect to 'traditional' types of issuance.

With reference to 2021, the Treasury managed to finalise two new transactions in US dollars, both in the first and second semester, thus making the most of the intrinsic potential of this format also within a market context characterised by uncertainty on the epidemic and economic recovery.

The Global Bond channel, which is reserved for investors with a high institutional profile distributed in different geographic areas, has returned to play an important strategic role in the management of Italian debt, thus making it possible to considerably differentiate the base of bond holders and strengthen the connection with certain investors, especially from the United States and Asia, who could manifest interest in domestic instruments once retained.

In April, the Treasury issued two new Global bonds maturing in May 2024 and May 2051, respectively, thereby increasing the dollar balance by USD 3.5 billion and fulfilling the commitment made on the occasion of the 2019 multi-tranche issue to maintaining a regular presence in the segment and creating an increasingly rich, liquid yield curve. In the second half of the year, in the face of sustained demand from international institutional investors and in line with the objective of giving depth to the different segments of the curve and improving their liquidity on the secondary market, the Treasury returned to this segment through the reopening via syndication of the security previously issued during the year with maturity in May 2051, thus bringing the bond's outstanding amount to 2.5 billion and the total amount of the entire programme in dollars to 20 billion.

Given the positive response in terms of demand, the strategy for the next twelve months will be oriented towards consolidating the Treasury's role as frequent issuer, thus ensuring a regular cadence of operations under this format.

Therefore, the Treasury will continue its careful and constant monitoring of the market both to guarantee a good performance of the outstanding securities and to assess the feasibility of launching new issues, thus giving continuity and predictability to the issues during 2022. The Treasury will be able to seize the opportunities that will arise from momentary misalignments of the euro and dollar curves in order to guarantee an ever more complete and liquid USD yield curve through the issuance of new benchmarks, possibly also on non-conventional maturities.

The assessment of the possibility of issuing on new maturities will take into account both the evolution of demand (investors' preferences on different points of the curve) and the performance of existing securities, paying attention to yield differentials compared to the levels of domestic securities of the same maturity.

The issuance of one or more securities - whether single or multi-tranche - will take place through the usual syndicated placement channel, with the participation of some Specialists in Government bonds as lead managers and of the other Specialists as co-lead managers.

The Treasury will also reserve the possibility of re-opening existing securities so as to favour an optimal functioning of the syndicated market and satisfy specific needs of investor demand. In order to continue to improve the degree of liquidity of the securities present on the market, the Specialists' activity of monitoring the quotations and the actual buying and selling of the same on the secondary market will be further consolidated so as to increase their relevance in the choice of lead-managers of future issues.

Finally, in order to mitigate the exchange rate and interest rate risks connected with the execution of new securities, these latter will be associated with cross currency swap transactions subject to a Credit Support Annex by choosing, among the Treasury's derivative counterparties, those that will guarantee a more contained level of hedging costs and a high degree of efficiency in operations.

The Medium Term Note Program channel, which has been in operation since 1998, is widely used to meet specific investor demands through Government bond specials in the form of public issues or private placements. Through this format, securities with different structures can be issued, including plain vanilla, fixed or floating rate, denominated in euros or foreign currencies, and nominal or indexed to inflation, depending on the requests received.

During 2021, the Treasury did not conclude new private placements because the proposals received could be satisfied through public instruments - thereby avoiding cannibalisation phenomena - or were not deemed consistent with the guidelines outlined.

In the coming year, the Treasury will continue to evaluate the expressions of interest from investors to avail themselves of this important channel, which is characterised by a high degree of flexibility in terms of structure, maturity and currency, as well as execution methods and timing.

The three minimum requirements that requests must meet in order to be assessed by the Treasury remain unchanged: a maturity of not less than three years, a minimum amount of EUR 200 million and a minimum negotiable amount of not less than EUR 500,000. Private placements arise from reverse enquiries by institutional investors, i.e., specific requests that would be difficult to satisfy through ordinary issuance channels, and are based on a buy-and-hold strategy, i.e., securities are purchased with the purpose of holding them in the portfolio until maturity.

The main purpose of these issues is to build investor loyalty and pursue a possible reduction in financing costs with respect to domestic securities of the same maturity and similar characteristics.

The Treasury will carefully examine the requests received that satisfy the three abovementioned requirements, thus directing its choices towards those most consistent with the debt management objectives while avoiding overlaps with the programme of issues in public format.