The Italian Treasury Securities Market: Overview and Recent Developments

Public Debt Management Office
Department of The Treasury

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EXECUTIVE SUMMARY

- **Largest and Most Active Market in Euroland:** Italian total outstanding debt is more than that of France and Germany together. Daily trading volumes average about 26 billion Euro worldwide.
- **Primary Market**

  Wide range of securities: the maturities set in the regular issuance program range from 3-months to 30 years.

  Transparent: securities are allotted through electronic auctions.

  Predictable: regular schedule of auctions, annual auction calendar, quarterly issuance program.

  Liquid: the Treasury adds to, or reopens, an existing issue, so as to increase its outstanding amount.
- **Secondary Market**

  Extraordinarily liquid: Primary Dealers on MTS trade an average of 13 billion Euro worth of bonds on a daily basis.

  Competitive: the six primary dealers with the highest average volume of transactions accounted for only 35% of the primary dealers' trading activity which is well below the 50% registered in the correspondent US market.
- **Main Results of the Public Debt Management**

  Solid structure of debt: raised both financial duration and average life of debt reducing the share of Treasury bills and floating rate notes .

  Leadership in liquidity: Bid-ask spreads for Italian Treasury bonds range between 3 to 10 cents depending on the maturity, while German or French ones range from 10 to 15 cents and from 6 to 15 respectively.

  Successful buy-back program linked to privatisation: proceeds from privatisation used to reduce the Government debt for a total of 52 billion Euro or about 5.5% of GDP.
- **Focus**

  Keep and improve leadership in liquidity: maintain policy aimed at expanding the liquidity of the secondary market by issuing a smaller number of benchmarks with a greater outstanding amount than other European sovereign issuers.
  Further extension of financial duration and average life of debt.
  Improve the Public Debt Web-site: focus on clients needs, speed of information and transparency.

INTRODUCTION

The market for Italian Government securities is one of the largest and most active in Euroland. Italy is weighted 24,8% in the Barclays Capital Euro Government Bond Index, whereas France and Germany are weighted respectively 22,2% and 23,5%. During 1999, Primary Dealers on the official secondary electronic market of Italian Government Securities (named MTS), trade an average of 13 billion Euro worth of bonds on a daily basis.

This high volume of trading is the proof of the leading role assumed by Italian Government T-bonds in different maturity ranges in the European financial markets. The 30-year BTP, for instance, is now a real benchmark employed by all sort of investors - investment banks, money market funds, commercial banks, insurance companies and foreign central banks - for investing and hedging purposes. Indeed this bond is used in pricing other debt securities (including those issued by the private corporate sector) and in extracting information on market participants' expectations.

This pamphlet is organised as follows: Section 1 describes the structure of the Treasury market, including the process by which securities are issued in the primary market and the mechanics of the secondary market; Section 2 analyses the determinants of investors' demand for Treasury securities; Section 3 examines several recent developments that have affected the market; Section 4 outlines the issuance program for the year 2000; Section 5 concludes.

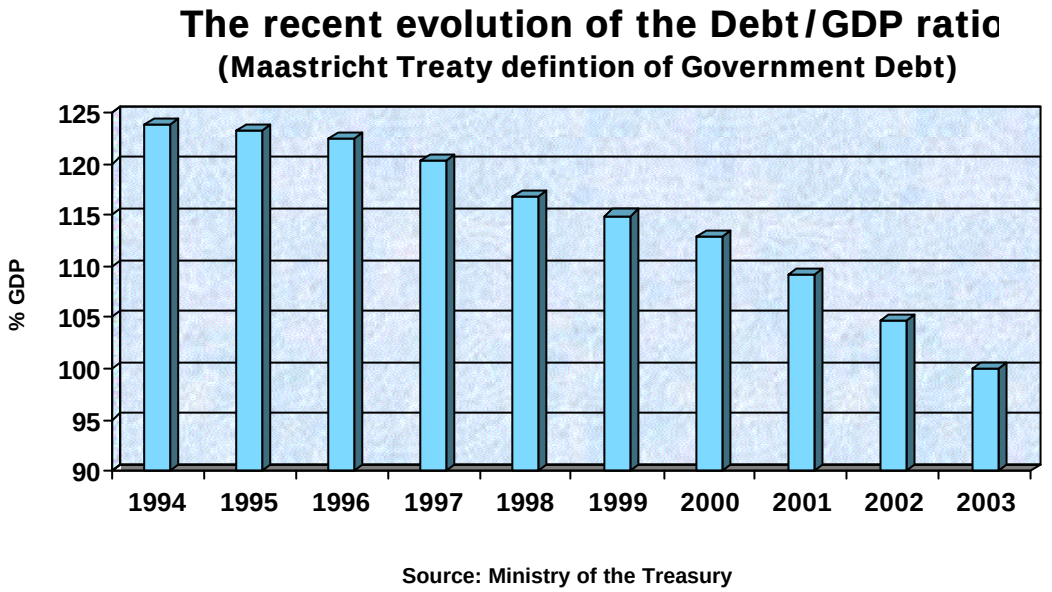
1.OVERVIEW OF THE MARKET

The market for Italian Government bonds involves several participants: the Department of the Treasury, as the issuer, also responsible for the set-up of the legal framework, Bank of Italy and Consob as supervisory bodies, the MTS Company as the secondary market manager, the Specialists in Italian Government Bonds, as the main market makers.

1.1. Scope of the Market

The Italian Government finances its expenditures in excess of tax revenues through the issue of debt securities. The Department of the Treasury is responsible for this task. The Italian Treasury marketable debt[1] has grown at an impressive rate during the 1980s and

Chart 1:



Source: Ministry of the Treasury

the first years of 1990s, reaching a stock level greater than the GDP figure.

In recent years, however, large primary budget surpluses have initially slowed and then reversed the growth of the Government debt/GDP ratio. Nevertheless, the overall magnitude of outstanding debt remains impressive, a legacy of past budget deficits: at the end of December 1999, it was more than 1,1 trillion Euro – to be exact 1.102.050 million Euro. At the same time the debt/GDP ratio stood at 114,9% and has been declining since the peak of 1994. This ratio is expected[2] to decline significantly in the near future, reaching 100% by the end of 2003 (Chart 1).

1.2.Types of Treasury Securities

Virtually all public debt is in the form of marketable securities. The maturities set in the regular issuance program range from 3-months to 30 years.

[1] This aggregate represents about 85% of the total outstanding debt as defined in the Maastricht Treaty. However, in this script, Treasury securities and "Government debt" refer to the same aggregate.
[2] See the "Stability Plan 1999".

BOTs are Treasury-bills having a maturity of one year or less, now offered with a maturity of 3, 6 and 12 months, sell at a discount from their face value and do not pay interest before maturity. Investors get a return on BOTs from the increase in their price to face value at maturity.

CTZs sell at a discount from their face value and do not pay interest before maturity. Investors get a return on CTZs from the increase in their price to face value at maturity. They can have maturities of 18 and 24 months.

BTPs are fixed-rate bonds, now offered with a maturity of 3, 5, 10 or 30 years respectively.

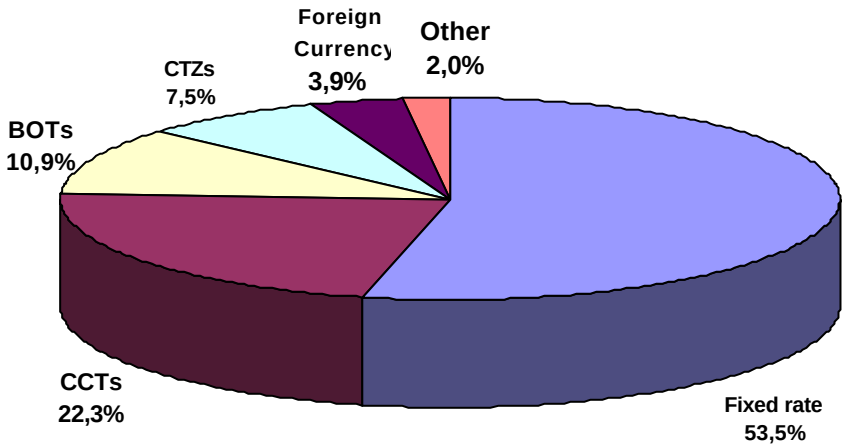
Finally **CCTs** are floating-rate notes with a maturity of 7 years.

BTPs and **CCTs** offer investors semi-annual interest payments, better known as coupons.

Chart 2:

Breakdown by instrument of Government debt

(as of 31-12-99)



Source: Ministry of the Treasury

More than half the marketable Treasury debt outstanding is in the form of BTPs – to be exact they represent 53,5% of it -, whereas BOTs, CTZs and CCTs represent the 10,9%, the 7,5% and the 22,3% respectively (Chart 2).

The Treasury does not issue callable bonds. Moreover all the marketable debt outstanding is in the form of nominal securities, i. e. securities for which the coupon and principal payments are fixed in nominal terms.

1.3. Issuance of Treasury Securities: The Primary Market

Marketable Treasury securities are issued through regularly scheduled auctions in what is called the "primary market". The process involves the Bank of Italy, the Italian central bank, which serves as conduit for the auction.

1.3.1. The participants to the auction and the role of Specialists in Italian Government Bonds

The operators allowed to participate to Treasury securities' auctions are banks and investment firms registered with the Bank of Italy. Although all these firms may bid at auctions, participation is typically concentrated among a small number of these firms, the **Specialists in Italian Government Bonds**, that get an average of 60-70% of total nominal amount of Treasury securities issued.

The Department of the Treasury selects the *Specialists* among the **Primary dealers** and requires them to participate meaningfully in both the primary and the secondary market of Treasury securities. As a reward, Specialists are entitled to participate to specific auctions reserved to them.

Primary dealers are market-makers selected by MTS, the firm managing the Official Secondary market for Treasury Securities (see Paragraph 1.4.), on the base of specific prerequisites concerning their patrimonial stability and the volume traded on that market.

At the end of December 1999 there were 26 Primary dealers and 16 Specialists.

1.3.2. The Auctions

To foster liquidity in the market, the Treasury issues securities consistently and predictably through a regular schedule of auctions. Since 1994 in September of each year, the Department of the Treasury releases the **Annual Auction Calendar** for the following year. This calendar contains the announcement, the auction and the settlement dates concerning the issuance program of the year. This information, all available on Internet (www.tesoro.it/publicdebt), allows investors to know well in advance when a security is expected to be auctioned by the Treasury. In addition the Treasury publishes each quarter the **Quarterly Issuance Program** to announce the new securities to be issued in that period of time. The Quarterly Issuance Program contains all the relevant characteristics of

these securities as well as the minimum issue size, i. e. the minimum quantities to be reached by the new security overtime. Therefore the minimum quantity does not represent the amount to be issued during the same quarter.

The auction process begins some days before the scheduled auction, when the Treasury announces the details of the upcoming issue, including the amount to be auctioned. After the auction is announced, but before it takes place, investors begin trading the yet-to-be-issued security in what is called the **when-issued-market**. Transactions in this market are agreements to exchange securities and funds on the day the new security is settled (although a considerable portion of when-issued positions are unwound before the issue date). The when-issued market allows new Treasury issues to be efficiently distributed to investors and provides useful information to potential bidders about the prices the Treasury may receive at the upcoming auction.

After the announcement day, auction bids may be submitted to the Bank of Italy. The bid specifies the quantity of the security sought and a price. All entities admitted to the primary market may submit a maximum of three bids, for their own accounts or on behalf of their customers. All the bids are entered through a *network based system,* an electronic system introduced in the early 1990s for processing auction bids, based on the National Interbanking Network (SIA).

Bids can be amended as often as bidders like, given that the system will only consider valid the last chronological bid submitted before the deadline.

The deadline for submitting bids is 12:00 a. m.(GMT) of the auction date.

Treasury securities are issued according to two types of auction: the *multiple price auction* (also called *competitive* or *American auction)* without minimum price for T-bills (i. e. BOTs) and the *uniform price auction* (also called *Dutch auction),* not subject to a minimum price, for medium-long term bonds (i. e. BTPs, CCTs, and CTZs).

In the first type of auction each bid is satisfied at the price offered. The first bids to be accepted are those with the highest price and then all the others are satisfied in descending order until the quantity of accepted bids reaches the amount tendered by the Treasury.

In the second type of auction all the requests are auctioned at the same price, the so-called “marginal price”, which is determined by satisfying bids starting from the highest

price until the total amount of bids accepted equals the amount offered. The price of the last successful bid is the “marginal price”.

In both types of auction a “threshold price” is calculated according to the prices offered in order to limit bidders’ speculative behaviour. The algorithm used to obtain the “threshold price” is well known by the auction participants and it has not been changed since 1992, the year of its introduction.

The auctions take place just after the deadline for submitting bids and their results are promptly announced around 12:30 p. m. (GMT) through the main financial information providers.

Moreover the auction schedule has been adjusted over time by the Treasury, keeping with its diminishing financial needs, to foster liquidity.

Currently Treasury securities are offered under the following general schedule: 3-month and 12-month BOTs, 7-year CCTs, 10-year BTPs and 24-month CTZs are auctioned the **first half of every month**; 6-month BOTs, 30-year BTPs and 18-month CTZs are auctioned the second half of every month; 3-year and 5-year BTPs are auctioned both in the first and in the **second half of every month**. The following table shows the scheduled auctions of each month; exact dates are available on the yearly calendar issued in September of the previous year.

Type of security	1st half	2nd half
3 month BOTs	**X**	
6 month BOTs		**X**
12 month BOTs	**X**	
18 month CTZs		**X**
24 month CTZs	**X**	
3 year BTPs	**X**	**X**
5 year BTPs	**X**	**X**
10 year BTPs	**X**	
30 year BTPs		**X**
7 year CCTs	**X**	

The Treasury is committed to strictly follow the above mentioned issuance timing. It may decide not to hold a scheduled auction only in case of large financial surpluses. In this special circumstance the market is informed well in advance.

Instead of issuing each time a *new* security, the Treasury adds to, or *reopens,* an existing issue, so as to increase its outstanding amount. Indeed securities with larger amounts outstanding tend to be more liquid, making them more attractive for investors.

The Treasury systematically reopens medium and long term securities and only sporadically T-bills. Once a new bond is issued, it will be reopened for all the scheduled auctions until the issue reaches a large amount outstanding.

1.4. Trading in Treasury Securities: the Secondary Market

Government securities are negotiated on two kinds of secondary market: the regulated markets, acknowledged all over EU and the over-the-counter market (OTC).

In Italy, so far, the only regulated government bond wholesale secondary market is the MTS, which is managed by a private company entitled to pursue this task according to the new financial market regulatory framework set up in 1998.

Trading activity on MTS takes place among professional agents for amounts not less than 2,5 million Euros. Individuals are not allowed to trade on this market.

Primary dealers, “make markets” in Treasury securities by standing ready to buy and sell securities at specified and binding prices. In the process of making markets, dealers purchase securities at the “ask” price and sell the same securities at a slightly higher price, the “bid” price. Through these sales and purchases, the dealer can facilitate transactions between customers while taking only temporary positions in the security. In doing so, the dealer earns the difference between the bid and the ask prices, referred to as the “bid-ask spread”.

On average in the second half of 1999 nearly 65% of total transactions on this market has been carried over by the Specialists in Government Bonds. However the degree of competition on the market is remarkable, considering that the activity is not significantly concentrated: the six primary dealers with the highest average volume of transactions

accounted for only 35% of the primary dealers' trading activity which is well below the 50% registered in the correspondent US market.

2.THE DEMAND FOR TREASURY SECURITIES

The supply of Treasury securities is largely a function of the need to finance the cumulative budget deficits of the Italian government. The demand for those securities is determined largely by their usefulness for investment and hedging purposes.

2.1 Treasury Securities in Non Resident Investors' Portfolios

Until few years ago most of the Italian Treasury securities were held by residents. Indeed at the end of September 1990 the share of T-bills and long term fixed rate bonds held by non-residents was only 0,53% of government debt. This could be attributable not only to the low level of capital movements throughout Europe and the rest of the world at that time but also to the low-risk profile of Italian investors' preferences, inducing them to mainly hold risk-free assets.

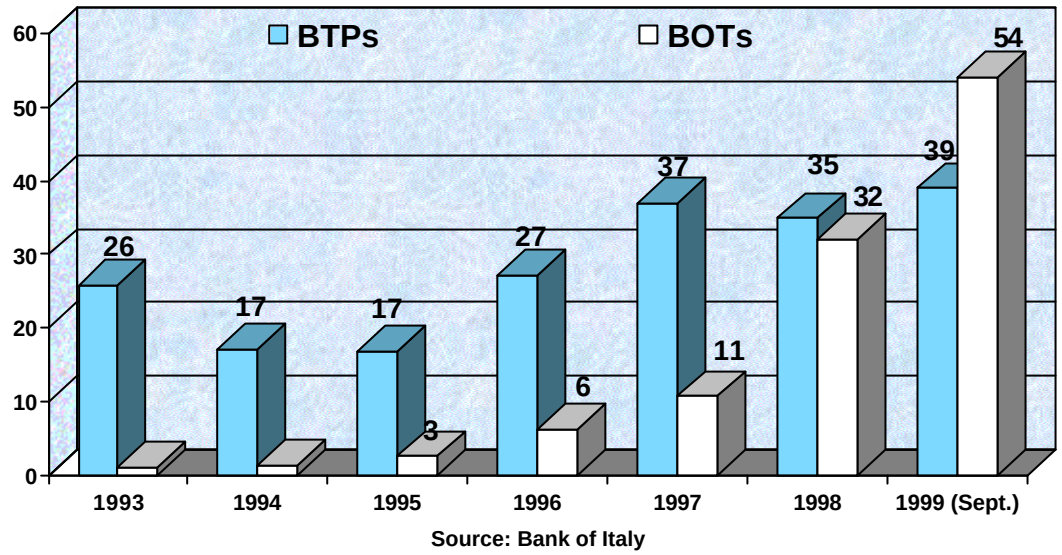
However, the Treasury over time has managed to reach new investors, especially abroad, with the aim of lowering the cost of the debt and stabilising the demand for its securities, by shaping its foreign currency program accordingly. This task has been achieved in a context of increasing internationalisation of financial markets and the introduction of the Euro.

To improve its relationship with investors the Treasury has worked on:

- the enhancement of its **credit worthiness;**
- the improvement the **liquidity** of its securities.

As regards the former, given the structural improvement of Italy public finance in those recent years as well as the growing convergence and integration within the Euro area, the

Chart 3:
The share of BOTs and BTPs held by non-residents



Source: Bank of Italy

country-specific credit risk of the Republic of Italy has gradually declined.

For what concerns the latter, the issuance policy and the reforms carried out by the Treasury on the secondary market during the last years have remarkably boosted the liquidity of its securities. As a consequence, currently, Italian Treasury bonds represent an efficient tool for investors to pursue hedging and other trading-intensive investment activities.

As a result of the efforts made so far, at the end of September 1999 the share of BTPs and BOTs held by non-residents was 39% and 54% of their respective total outstanding. The figure concerning BOTs is particularly striking if we consider that at the end of 1993 the same share was only 1% (Chart 3).

At the same time, however, domestic demand for Italian Treasury securities continues to be significant as shown by the bid-to-cover ratio resulting at auctions and confirmed during the Specialists' monthly meetings.

In a nutshell, the main outcome of this Treasury strategy is the sharp reduction of Italian bonds spreads versus other members of Euro area having traditionally an higher credit standing.

For instance, from 1998 to 1999 Italian spreads on 10-year maturity versus AAA rated issuers like France and Austria have decreased from 23 bps to 13 bps and from 16 bps to 4 bps respectively.

2.2. Factors Affecting Individual Treasury Securities

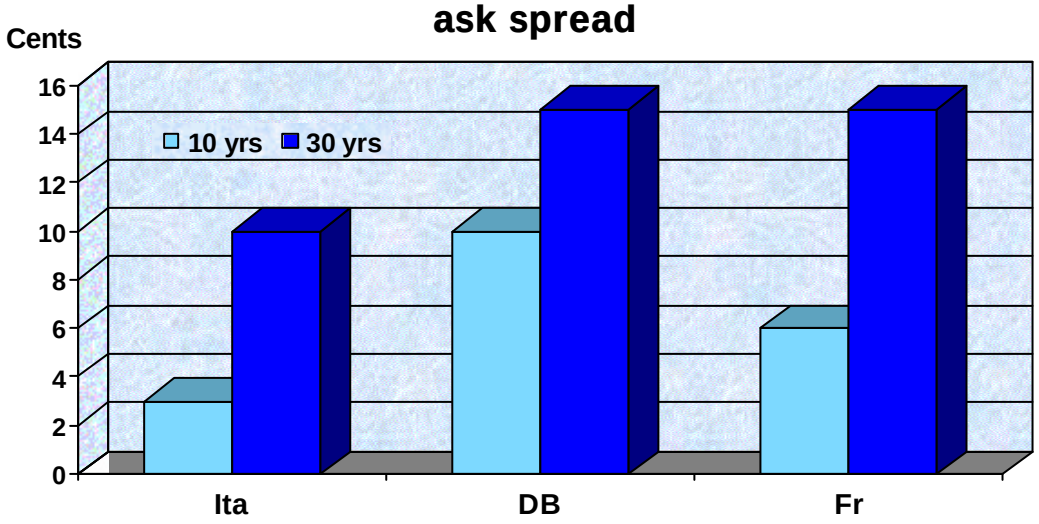
The yields on individual Treasury securities with similar maturities may be remarkably different, reflecting specific characteristics of particular Treasury securities.

2.2.1 Liquidity and hedging demand.

Overall, the Italian Treasury market is extraordinarily liquid. Enormous amounts of securities are traded every day. On a daily basis, during the last quarter of 1999 the volume on cash regulated secondary market (MTS) was on average of 13 billion Euro. The considerable trading volume allows market participants to move in and out of large Treasury position rapidly with little effect on the prices of those securities. Because of the extensive trading and the high degree of competition and transparency among *Specialists,* Treasury securities are quoted at narrow bid-ask spreads. Bid-ask spreads for Italian Treasury securities range between 3 to 10 cents depending on the maturity. By comparison, bid-ask spreads for German or French Bonds are reported to range from 10

Chart 4:

Efficient secondary market. The 10 and 30 year bid-ask spread



Source:JPM

to 15 cents and from 6 to 15 respectively.

As commonly observed in all securities markets, liquidity is not evenly distributed across securities. Most of the trading activity takes place in on-the-run issues – the most recently issued security in a particular maturity class. Even on Italian “on-the-run” securities trading volumes are greater than those on previously issued (off-the-run) ones. For this reason in recent years the Treasury is requiring Specialists to continuously quote with a strict bid-ask spread off-the-run securities in order to provide liquidity to the outstanding bonds.

Because of the remarkable liquidity of on-the-run Italian Treasury securities, some investors are willing to pay a premium for (that is, accept a lower yield for) those securities compared with similar, off-the-run securities.

The remarkable liquidity of Treasury securities make them well suited for hedging positions in other fixed income products. Because balance sheet positions of dealers can change rapidly, they want to be able to quickly alter their holdings of the hedging instrument in order to maintain the proper hedges. Furthermore the use of these bonds for hedging purposes relies on the easy access to a liquid and active repo market.

The repo market allows participants to exchange funds and securities on a temporary basis, i. e. borrowing and lending using Treasury securities as collateral. This market allows investors to deliver securities that they sold short by "reversing in" the securities repeatedly, until they decide to cover the position by purchasing the securities outright. On the other side, investors frequently rely on the repo market to finance their long positions in Treasury securities by "repoing out" those securities. Partly as a result of these activities, trading volume in the repo market is heavy: MTS reported about 20 billions Euro of lending and borrowing in the repo market.

To facilitate transactions in the repo market, the Treasury will start a securities lending program that allows primary dealers to borrow individual Treasury securities from the Treasury portfolio.

2.2.2. *Derivatives and stripping market.*

The demand for Treasury securities is also affected by the markets for derivatives. A small and not too much active market exists for derivative securities whose values are based on

the prices of Treasury securities. Futures contracts for 10-year BTPs are listed by the Italian future Market (MIF). In addition, options on Treasury futures (contracts that allow the holder to buy or sell a futures contract at a specified price) are listed by the electronic option Market (MTO).

Although regular coupon payments may suit the needs of some investors, others may prefer securities offering a single payment when the security matures (zero-coupon bond). To satisfy these investors, in 1998 the Treasury initiated a programme that allow them to split a Treasury bond into zero-coupon securities, or Separated Trading of Registered Interest and Principal of Securities (STRIPS), corresponding to each coupon payment and the principal payment of the underlying security. It is possible the reconstitution of the stripped security from STRIPS matching all the security's coupon and principal payments. Bonds eligible for stripping are 10 and 30 year BTPs.

Even if the contingent “stripping” market conditions on an international basis are not appealing, it is worth reminding that the strippable volume of Italian Treasury bonds (currently about 102,4 billion Euro) is absolutely remarkable and still increasing. Italy, therefore, is well-positioned to benefit from any eventual renewed interest for this market.

3. RECENT DEVELOPMENTS AFFECTING THE MARKET

Some of the developments and emergent trends that have recently influenced the market for Treasury securities are discussed in this section.

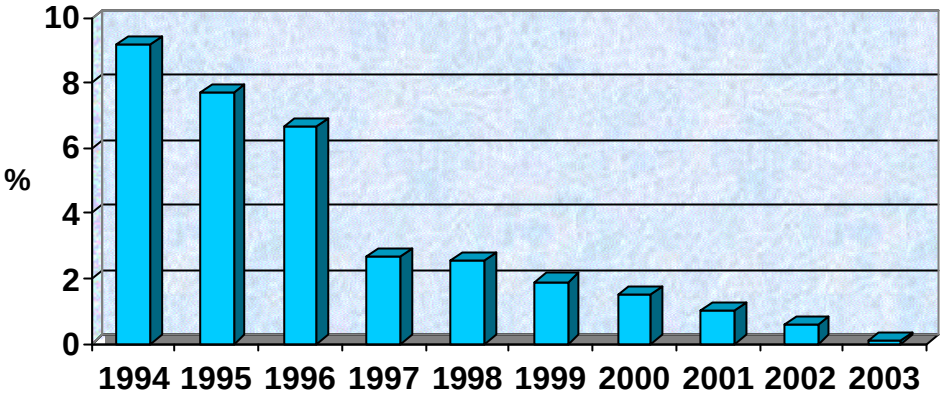
3.1 Reduction in the Supply of Government Bonds

In order to improve its fiscal position, Italy, in the last decade, has experimented large primary budget surpluses. Indeed, the efforts made so far have led to a reduction of the deficit to GDP ratio from the 9.2% of 1994 to the 1,9% of 1999. For the next three years, Government projections (see DPEF 2000-2003) assume a yearly reduction of the deficit by around 0.5% of GDP, thus reaching the balance by 2003 (Chart 5).

Chart 5:

The evolution of Deficit/GDP ratio

(Maastricht Treaty definition of PSBR)



Source: Ministry of the Treasury

This sharp decline of Deficit/GDP ratio and the privatization program have allowed the Treasury to decrease its securities issuance enough to decelerate the growth of total *nominal* debt and to start reducing the Government Debt/GDP ratio (see Section 1). This process is having several implications for the Treasury securities market.

3.1.1. Developments in the Government debt composition

The issuance of T-bills has been cut more sharply than that of Treasury bonds, leading to an increase both in the financial duration and the average life of debt. The duration has gone up from 1,6 years in 1993 to 3,5 in 1999 whereas the average maturity of debt has remarkably increased from 3,3 years in 1993 to 5,6 years in 1999 (Chart 6).

This is the result of the policy followed by the Treasury based on a sharp reduction in the issuance of BOTs, CCTs and on a larger offer of medium and long term bonds like BTPs and CTZs[3]. Therefore the share of debt exposed to short term rates (T-bills: BOTs and Floaters: CCTs) has thus declined from 65% to 35% in six years. Fixed-rate bonds (BTPs, CTZs) share up from 35% of total domestic debt in 1993 to 65% at the end of 1999 (Chart 7).

[3]However the maturity and the duration of the outstanding debt have been also affected by changes in the yearly auction schedule followed by the Treasury over time.

Chart 6:

Duration and Average Life of Government Debt (as of 31-12-99)

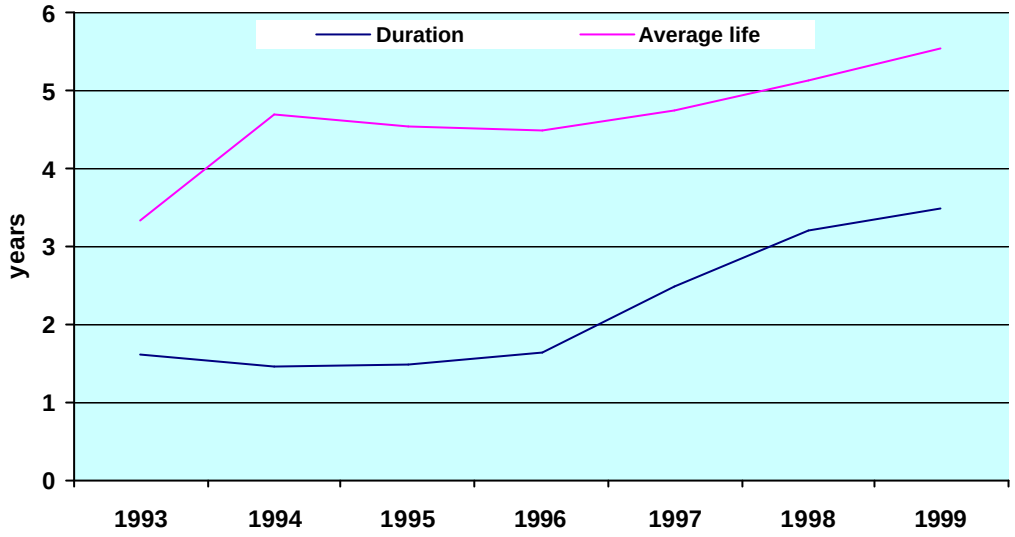
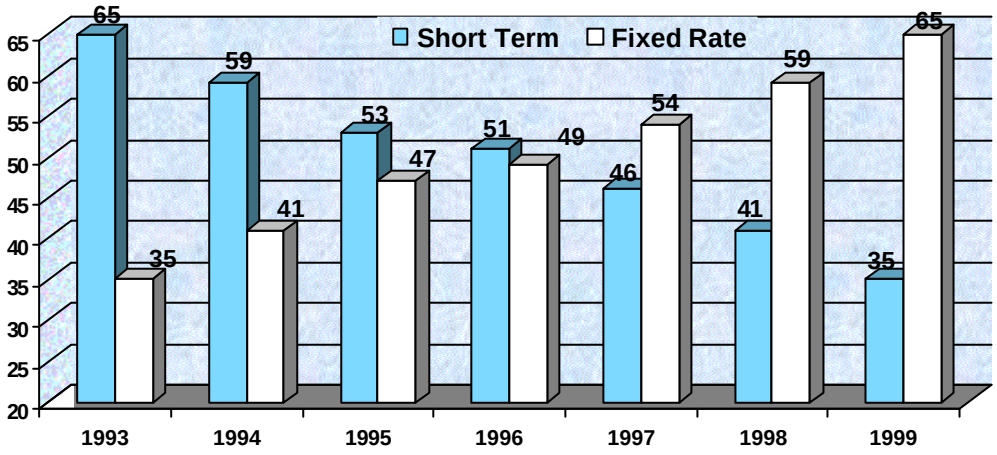


Chart 7 **:**

Evolution of Government debt stock composition



Source: Ministry of Treasury

3.2. Debt Buybacks

In the last decade the Italian Government has gone through a large program of privatisation of public utilities and corporations. These proceeds have been employed to buy back some outstanding Treasury bonds in order to reduce the total Government debt.

Tab. 1:

Sell-offs directly managed by the Treasury

Date	Name	Gross revenue (Million Euro)	% of capital	Offering Type	Sector
Feb-94	**IMI 1**	**927**	**27,90**	**Public Offer**	**Banking**
June-94	**INA 1**	**2.340**	**49,45**	**Public Offer**	**Insurance**
jul-95	**IMI 2**	**471**	**14,48**	**Private Placement**	**Banking**
Oct-95	**INA 2**	**871**	**18,37**	**Private Placement**	**Insurance**
Nov-95	**ENI 1**	**3.218**	**15,05**	**Public Offer**	**Oil**
June-96	**INA 3 (1)**	**570**	**31,08**	**Convertible**	**Insurance**
June-96	**IMI 3**	**259**	**6,94**	**Public Offer**	**Banking**
Nov-96	**ENI 2**	**4.582**	**15,81**	**Public Offer**	**Oil**
June-97	**San Paolo**	**148**	**3,36**	**Public Offer**	**Banking**
June-97	**Banco di Napoli**	**32**	**60,00**	**Competitive Bidding**	**Banking**
jul-97	**ENI 3**	**6.833**	**17,60**	**Public Offer**	**Oil**
Oct-97	**Telecom Italia**	**11.818**	**39,54**	**Public Offer / Priv. Plac.**	**Telecom**
Nov-97	**SEAT**	**849**	**44,74**	**Competitive Bidding**	**Publishing**
June-98	**ENI 4**	**6.712**	**14,21**	**Public Offer**	**Oil**
Dec-98	**BNL**	**3.464**	**67,85**	**Public Offer**	**Banking**
ott-99	**ENEL**	**16.550**	**34,50**	**Public Offer**	**Electricity**
Dec-99	**Mediocredito Centr.**	**2.064**	**100,00**	**Private Placement**	**Banking**
	TOTAL	**61.708**			

Source: Ministry of the Treasury

Since 1995 the Treasury has implemented several buy-backs and reimbursements (Tab.1) for a growing total nominal value. The last buyback auction took place at the end of last year (December 1999) when a large public corporation, named ENEL (the national public utility for electricity), was privatised. Through the sale of about the 32% of ENEL, the Treasury raised about 16.5 billion Euro or 1.5% of GDP.

Buybacks allow the Italian Treasury to:

- reduce the volume of debt outstanding, enhancing the credibility of Italian Authorities' determination in pursuing the public finance restructuring, as requested by the Stability Pact, and consequently its cost;
- lower the cost of debt through the repurchase of the most expensive securities on the market;
- smooth out the maturity profile of the debt, concentrating on purchases of bonds coming due in a single day or month.

Tab. 2:

Buy-backs and Reimbursements made by the Treasury in the period 1995-99

(million Euro)

Year	Buy-backs		Reimbursements					Total
	CCTs	BTPs	CTOs	CCTs	BTPs	CTEs	CTZs	
1995	871	1.985	-	-	-	-	-	2.856
1996	1.528	643	2.302	-	2.324	-	-	6.797
1997	3.787	1.068	-	-	7.747	-	-	12.602
1998	-	-	-	69	1.759	-	9.539	11.367
1999	3.688	-	-	950	6.575	1.500	6.410	19.123
Total	9.874	3.696	2.302	1.019	18.405	1.500	15.949	52.745

Source: Ministry of the Treasury

Currently buy-backs are implemented through “reverse auctions” in which the Treasury announces the total amount of securities it wishes to buy and the type of securities that would be eligible. Bids are submitted by Specialists following the same procedure used for ordinary issuance auctions. The total amount of bids accepted cannot exceed, and could be less than, the announced amount of the purchase offer.

The actual repurchase of bonds in the buy-back operations takes place using the Sinking Fund for Government Bonds, established in 1993 with the exclusive task of withdrawing Treasury bonds from the market and redeeming them.

The same Fund has also been employed to directly reimburse bonds at their maturity without drawing from the Treasury current account in order to permanently lower the level of Government debt stock.

4. ISSUANCE PROGRAM FOR THE YEAR 2000

In the current year, the Italian Treasury aims at further gradual extension of the average life of the Italian debt that has already reached 5.6 years as of December 1999. Larger issuance of 10 and 30 year BTPs, and net redemptions of BOTs and CCTs over the last five years, has brought the proportion of BTPs over the whole Italian debt to about 65% from only 35% in 1993.

The Treasury intends to continue decreasing the share of CCTs and BOTs in its debt.

The Treasury will maintain its policy aimed at expanding the liquidity of the secondary market by issuing a smaller number of benchmarks with a greater outstanding amount than other European sovereign issuers.

This will be achieved as follows.

BOTs. The 3 month BOT will be used to manage the Treasury's liquidity requirements, offering them with a more flexible maturity range. The 6 and 12 month BOTs will maintain their present status. The Treasury will assure the liquidity and market efficiency of the 6 and 12 month BOTs with a view to ensure a transparent and efficient CCT coupon setting.

CTZs. Since last June, the Treasury has offered the 18 month CTZ at the end-of-month auction and the 24 month CTZ at the mid-month auction. The Treasury will maintain this auction schedule in the forthcoming future.

CCTs. The Treasury will continue its negative net supply as to increase the duration of the overall debt and to reduce the sensitivity of coupon payments to interest rates. To maintain the necessary level of liquidity, the Treasury is planning to auction a fewer number of benchmarks per year as to increase the total amount outstanding of every single benchmark.

BTPs. The Treasury will continue to issue the usual 3,5,10 and 30 years benchmarks. However, to improve further the liquidity of the benchmarks, the Treasury will also limit the number of the new BTP benchmarks offered per year. The target outstanding will be - at least - in the range between 8-10, 10-13, 20-25 and 25-30 billion Euro respectively for the 3, 5, 10 and 30 year BTPs. The auction schedule will remain unchanged, with a twice-monthly auction for the 3Y and 5Y BTPs and a monthly auction for the 10Y and 30Y BTPs.

CONCLUSIONS

The market for Italian Treasury securities is vast and serves important functions for numerous investors. The characteristics and behaviour of the market are not static but instead evolve with the changing objectives and needs of both the Treasury and investors.
This work has identified several important changes in recent years, including a decline in budgetary needs and changes in the way Treasury securities are traded.
Although these and additional, unforeseen changes will continue to shape the Treasury market, the crucial role of Treasury securities in world financial markets is likely to remain unchanged.