



Dipartimento
del Tesoro

Edited by directorate II

2020 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 2020. 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 plans 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 2019 Public Debt Management Report, which will be published during 2020, for details about all the 2019 debt management activities, with a focus on the performance of financial markets and public finance during said period.

I. 2020 DEBT ISSUANCE AND MANAGEMENT POLICY

I.1 INTRODUCTORY CONSIDERATIONS

2019 saw a certain degree of continuity with 2018 with regard to the factors that drove financial market development over the course of the year, especially in relation to the international and national geo-political risks which, on several occasions, fuelled uncertainty and volatility. The continuing tariff tensions between the USA and China, with apparent willingness to discuss and find solutions alternating with postponements and increased tensions, undoubtedly had an effect on macroeconomic dynamics, mainly due to the difficulties faced by operators in identifying a reliable framework within which to shape and implement their economic decisions. This inevitably also affected Europe's economy which, in fact, saw many countries recording a much lower growth rate during the first three quarters of 2019, Italy included. Therefore, interest rates for fixed income markets are now expected to remain low over the long term, unlike the general consensus at the end of 2018, forcing domestic and international investors to look for strategies to try and improve the profitability of their portfolios to the greatest extent possible. In this context, Italy's political framework underwent a rapid change during the summer, with the government falling and a new government with a different majority subsequently being formed, which is more in line with European rules in terms of fiscal policies and budgetary matters.

At the same time as the new government was formed (from the second half of August), the government bond market saw the yield spread with the main EU countries (primarily Germany) reduce at a notably quicker rate, following an initial phase recorded in June, when the risk of Italy having to enter the excessive deficit procedure (EDP) ceased to exist.

In this context, debt management allowed the average cost at issuance to be reduced, which was equal to 0.93% in 2019, as was also the case for the average cost of debt, calculated as the ratio between the interest and the debt stock of General Government, which continued to decline down to 2.58%. This result must also be interpreted in relation to the composition of debt, which, at the end of 2019, presented an average life of 6.87 years in relation to the stock of government securities, which is only slightly higher than the figure at the end of 2018, equal to 6.78 years. This is thanks to the various issuances on the longer maturities of the yield curve, completed both through auctions and through the syndicated placement of three new nominal benchmark securities (15, 20 and 30 years), the reopening of the 50-year bond and the new 10-year BTP linked to European inflation. Indeed, a long average life not only has a tendency to mitigate the risk of refinancing, by diluting over time the volumes to place on the market to cover the maturing debt, but also shows the issuer's lower exposure to sudden increases in interest rates.

In 2020, medium/long-term issuances by the Treasury (therefore excluding BOTs) will aim at covering maturing medium/long-term securities, which will amount to approximately Euro 202 billion, and the borrowing requirements of the state sector, which, in light of recent developments in relation to the Parliament's budget session, should amount to around Euro 45 billion.

With regard to the macroeconomic scenario and national and international geo-political risks, based on the information that is currently available, 2020 will be characterised by a degree of uncertainty similar to the one experienced last year, making it difficult to predict the evolution of both rates on Italian debt and of European rates. This uncertainty will be partially mitigated by the ECB, which once again began to purchase government securities in November 2019 on a net basis, as part of the so-called Public Sector Purchase Programme, with this in turn being accompanied by the reinvestment of maturing securities.

In this context, the debt issuance and management policy in 2020 will mainly aim at achieving the following objectives:

- a) ensuring coverage of borrowing requirements at costs that are as aligned as possible with market performance;
- b) consolidating results that have already been achieved in terms of exposure to the main risks, in particular interest rate and refinancing risks;
- c) contributing to progressively improving liquidity conditions on the secondary market, especially in the segments and sectors that experienced the greatest difficulties in this regard over the course of 2019;
- d) making the management of the Treasury's cash balance more efficient, also through an increased diversification of instruments.

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 the main segments of domestic securities;
- b) the calibration of volumes offered to the market so as to give greater importance to the sectors with better liquidity on the secondary market and deeper demand;
- c) the use of liability management instruments (such as exchanges and buybacks), in line with the approach followed over the last two years, with a frequency and intensity that are instrumental in market performance, with the aim of reducing dislocations on specific bonds, improving the liquidity of the secondary market and managing the profile of redemptions in future years;
- d) the commitment to diversifying the investor base also through foreign currency issuances in both Global format and EMTN format, with a particular focus on placements in dollars;
- e) the possible use of innovative instruments also specifically dedicated to retail investors, after in-depth evaluations, feasibility studies and market surveys;
- f) implementing organisational and market measures to be able to issue "green" government bonds.

The 2019 Public Debt Report will contain detailed descriptions of all the different components of debt management activity during 2019, 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 2020, the Public Debt Directorate will adopt a communication policy aimed at achieving the greatest possible transparency in terms of both strategy definition and specific issuance choices. This represents one of the cornerstones of the communication policy that has been adopted by the Treasury for many years. Of course, 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, Quarterly Programmes and Issuance Press Releases.

The Annual Calendar is published on the home page of the Public Debt website (www.publicdebt.it). It contains the dates of the auctions of government securities planned for 2020, 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 the announcement, auction, settlement and maturity of the securities on offer, as well as the deadline for investors to submit their bids.

At the end of every quarter, the Quarterly Issuance Programmes are published, which provide the market with information on new-issue of CCTeus, CTZs and nominal BTPs up to the 10-year segment that will be placed through auction during the following quarter, together with the minimum outstanding volumes that the Treasury undertakes to reach for each one of them before placing subsequent 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 and accrual date in addition to the type and duration of the securities in question, in order to meet any flexibility requirements resulting from market evolution. Notification is also provided of any re-openings of on-the-run securities.

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, 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 and 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 1 below summarises the timings for announcements and settlements normally adopted for securities auctioned by the Treasury:

TABLE 2.1 – AUCTION ANNOUNCEMENT CALENDAR AND SETTLEMENT DATES			
Type of security	Announcement date	Auction	Settlement date
All securities issued via auction	T-3	T	T+2

The 2020 Annual Calendar nonetheless envisages that, on certain sporadic occasions, auctions of BOTs and/or medium/long-term securities shall not comply with standard time frames, in order to take into account various aspects such as the timing of auctions with respect to national or international public holidays.

The Annual Calendar does not state the date of supplementary placements reserved for Specialist dealers. However, this information will be included in the Issuance Press Releases and, in any case, these placements are normally completed during the afternoon of the day after the ordinary auction is held. With regard to supplementary placements, as was the case last year, the Treasury will continue to make use of a number of elements of flexibility. 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, whereas the ordinary quota may be increased by a further 5% for nominal and inflation-indexed securities with a residual maturity longer than 10 years, based on the indications provided in the ordinary auction announcement, on a case-by-case basis. The change introduced in 2018 regarding the calculation of the amount to which each Specialist is entitled regarding this additional 5% quota shall remain valid. This states that half of the amount in question is calculated based on the performance recorded on the electronic secondary market of reference, with the other half being based on the share allotted during the last three auctions relating to the same maturity segment.

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

The frequency of auction cycles offering government securities on a monthly basis will not undergo any changes during 2020, and nor shall 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 and 30-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. With regard to 50-year BTPs, the Treasury will maintain its commitment to ensuring adequate liquidity for the only security currently in circulation through subsequent re-openings, which may occur through auction (either at mid-month or month end) or through syndicated placements.

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 the CTZs.

The three days when the month-end auctions are held will therefore continue to be organised as follows: the auction of BTP€is and 24-month CTZs 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. Announcements for all auctions will be issued three business days prior to the placement date.

Also in 2020, the Treasury may resort to the auction placement of off-the-run securities, if it deems this to be appropriate and if this supports the optimal functioning of the secondary market, helps to remove possible distortions on the government securities yield curve and/or meets specific demand requirements with respect to specific securities. In order to pursue 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 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	
24-MONTH CTZs		X
3-YEAR BTPs*	X	
5-YEAR BTPs*		X
7-YEAR BTPs*	X	
10-YEAR BTPs*		X
15, 20 AND 30-YEAR BTPs*	OFFERED IN RELATION TO MARKET DEMAND	
50-YEAR BTPs	OFFERED IN RELATION TO MARKET DEMAND	
CCTEUs		X
BTP€Is		X

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

Once again under exceptional circumstances and if required to do so by specific needs in terms of liquidity, 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 upon 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, held in accordance with the procedures followed in recent years, i.e. 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

Also in 2020, BOTs (Treasury Bills) will be issued with the traditional maturities of 6 and 12 months, with the possible addition of 3-month securities and so-called flexible BOTs, that have different maturities linked to specific cash management needs. 12-month and 6-month BOTs will be offered on a regular basis, with their amounts tending to ensure the renewal of redemptions. The Treasury will offer both 6-month and 12-month BOTs through ordinary auctions, with the relative re-openings being reserved for Specialists. The amount of each re-opening, normally equal to 10% of the nominal amount offered in the auction, will be attributed based on the performance of the Specialists recorded on both the primary and the secondary market. 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.

With regard to how the primary market works, all BOTs will continue to be placed through the competitive auction system. BOTs will therefore continue to be issued in accordance with the prevailing procedure on the money market, which requires bids to be submitted in terms of yield (rather than price), also confirming the possibility for dealers to place up to five bids for each BOT offered. The safeguards set out in the Italian Ministerial Decree regarding transparency in the placement of government securities will continue to apply to investors purchasing securities at auction.

Lastly, over the coming year, the Treasury will maintain a constant presence on the money market regarding both short- and very short-term maturities, through financial transactions carried out using the Treasury's cash account (OPTES). These transactions involve daily activity, with operations being carried out to invest or raise liquidity, depending on cash management needs. Given current money market conditions and the abundant liquidity present in the system, the programme of transactions to invest or raise liquidity through daily auctions shall remain temporarily suspended and may be reactivated by providing due notice and appropriately informing the market, should the opportunity to do so arise. At the same time, bilateral trading to invest liquidity will continue, with maturities longer than overnight, in order to optimise management and improve its profitability, with a view to managing counterparty risks.

III.2 24-MONTH CTZs

Despite the Treasury's initial plans to be present on the market with a volume of issuances more or less in line with redemptions, the good level of demand for this instrument actually meant that, over the course of 2019, net issuances of CTZs were largely positive.

In 2020, the volume of maturing CTZs will be higher than last year, reaching approximately Euro 32 billion.

With regard to issuance volumes, the Treasury will be present on the market for overall amounts that may be in line or marginally lower than maturing volumes. Issuance choices in this segment will pay particular attention to the development of demand for the product and will be made in accordance with criteria aimed at supporting liquidity and the efficiency of the secondary market.

Together with the normal re-opening of outstanding securities, two new benchmark securities will presumably be introduced in the CTZ segment.

Lastly, in line with the strategy adopted in recent years, the Treasury will consider the possibility of including CTZs among the securities subject to possible exchange or buyback transactions, with a view to limiting the amount of securities maturing during the 2020-2021 period.

III.3 CCTEUs

Over the course of the last two years, demand for this instrument has declined, due to both the general context of a higher level of volatility of rates at issuance and the lower level of support from redemptions, which, over the last two years, have also reduced compared with the past. In order to facilitate the process to normalise liquidity in this segment and help realignment in terms of cost compared to BTPs of the same maturity, the Treasury significantly reduced CCTeu issuances in 2019 and, as was the case in 2018, intervened on several occasions through exchange and buyback transactions aimed at reducing the amount of outstanding CCTeUs for the various maturities. Considering also the amount of the numerous buyback transactions completed for this instrument, this meant that net issuances of CCTeUs were largely negative, unlike the expectations stated by last year's Guidelines.

In 2020, only one CCTeu will mature, for a volume equal to approximately Euro 13 billion, an amount which is only slightly above the 2019 figure. Considering the reduced amount of maturing securities, it is estimated that, next year, net issuances in this segment may be positive.

Taking into account the specific performance of this segment over the last two years and in order to satisfy demand requirements, covering various maturities, the Treasury may issue benchmark securities with different maturity in 2020, which will in any case be between 3 and 7 years. Therefore, once new benchmarks with different maturities have been introduced to the CCTeu segment, for each auction cycle, as is the case for securities indexed to European inflation, the Treasury shall reserve the right to offer the security (or securities), with the most suitable maturity to meet demand requirements, ensuring adequate liquidity at all points of the CCTeu curve. The Treasury will pay particular attention to ensuring that this change does not affect the average life of the overall stock of government securities.

During 2020, the Treasury will place at least one new benchmark security on the market, whose maturity will only be defined following an in-depth analysis of the market and once investors' preferences have been analysed. The Quarterly Programme normally provides notification of when the new securities will be brought to market and this will also be decided taking into account the size of outstanding securities. The final volume of each of them may be lower than the outstanding of CCTeus issued during the last three years.

It will continue to be possible to offer off-the-run CCTeus in a single range together with on-the-runs or within their own offer range. Furthermore, if so required by specific market and demand conditions, only off-the-run securities may be offered within a given auction cycle.

Lastly, it should be noted that, in line with the last two years, should it become necessary, CCTeus may be subject to exchange and buyback transactions aimed at both lightening the maturing volumes in the upcoming two-year period and easing any tensions that may arise in this segment.

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

In 2019, the Treasury issued nominal 3-year BTPs for approximately Euro 32 billion, down compared with the amount placed during the previous year, in terms of both absolute value, equal to around Euro 37 billion, and percentage value compared with the total securities issued in the year. The reduction in the 3-year BTPs on offer was offset by the increase in quantities of nominal 5-year BTPs issued. In fact, in 2019, gross issuances in this segment amounted to approximately Euro 34 billion, compared with approximately Euro 32 billion issued the previous year. These choices are in line with the market performance recorded in the two segments.

Unlike the approach adopted in 2019, in 2020 the Treasury will adjust the amounts to be issued in the two segments for total amounts similar to those of the previous year, but with a tendency to give more weight to the 3-year segment over the 5-year segment. Therefore, considering that 2020 redemptions will amount to over Euro 31 billion and approximately Euro 30 billion, respectively, for the 3-year and 5-year maturities, net issuances for both segments will be slightly positive.

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 guarantee them with 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.

Should end investors make specific requests 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 via auction, as part of either the mid-month or month-end session, in line with requirements to manage the average life of the 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 2019, the Treasury issued a lower amount of nominal 7-year BTPs than in previous years, for a total of approximately Euro 28 billion (compared with approximately Euro 33 billion in 2018). In 2020, gross issuances in this segment should be more or less in line with those of the previous year. The aim is to consolidate presence in an important sector of the curve of the nominal segment of government securities, also for the purpose of extending the average life of the debt, taking into consideration the solid level of demand and the liquidity conditions of the secondary market.

The share of 7-year BTPs to the total stock of government securities will, of course, increase at the end of 2020, considering that the first 7-year BTP issued is not due to mature until 2021.

10-year BTPs will maintain their role as a reference point for Italy's entire nominal yield curve and, accordingly, the Treasury will continue to offer this maturity within the issuances of nominal BTPs, through regular auctions on a monthly basis. In 2019, securities amounting to approximately Euro 39 billion were issued through ordinary auctions, in addition to over Euro 4 billion through exchange transactions. Considering that maturing securities amounted to over Euro 48 billion, net issuances were equal to the negative amount of approximately Euro 5 billion. In 2020, the Treasury plans to strengthen its presence in the 10-year BTP segment compared to 2019. However, considering that redemptions are expected to amount to approximately Euro 48 billion in 2020, net issuances may nevertheless remain slightly negative for this year.

The new lines to be issued over the course of the coming year will be announced in the Quarterly Issuance Programmes. With regard to 7-year BTPs, at least one new benchmark security is planned to be offered, with at least two new securities being offered in the 10-year segment. 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 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 such as to also 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 normalise 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. This is without prejudice to the fact that, 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)

2019 saw Italy's long-term nominal yield curve attract significant levels of demand from end investors. The Treasury was able to successfully place a new benchmark for each point on the curve (15, 20 and 30 years), as well as re-opening the on the run 50-year BTP, again by placing it through syndication. Overall, the Treasury placed volumes amounting to over Euro 40 billion, a significant figure representing just under 10% of total issuances in 2019.

The issuance policy for long-term BTPs will continue to focus on providing all available instruments with liquidity, by tapping them on a regular and continuous basis. In any case, the Treasury will offer the market at least one security with a maturity between 15 and 30 years through the mid-month auctions and this choice will be made on a case-by-case basis only after obtaining the necessary information - through direct and indirect channels - with the most active investors and dealers for these instruments and after taking into consideration trading dynamics on the secondary market. 50-year BTPs, on the other hand, may be offered during both mid-month and month-end auction cycles and only after careful analysis is carried out into market developments and demand trends for this instrument.

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.

Considering the exceptional results achieved in 2019, there may be a lower total issuance of long-term BTPs compared with the one recorded last year. In any case, even taking into consideration the fact that over Euro 23 billion of 15-year BTPs are maturing, the Treasury expects positive net issuances in the long-term segment.

If there are favourable market and demand conditions, 2020 will see the Treasury weigh up the opportunity to issue a new 15-year and/or 30-year security through a syndicated placement. As per normal 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.

With regard to these segments of the curve, the Treasury will continue to reward the work of the best Specialists, who actively contribute to the primary market and provide the secondary market with liquidity and depth, through the option of increasing the percentage of the offer amount by another 5 percent in the respective supplementary placements. The amounts to which each Specialist is entitled regarding this additional quota shall be attributed as follows: half based on the performance of each Specialist on the screen-based secondary market of reference and the other half based on the share allotted during the last three auctions relating to the same segments.

III.7 SECURITIES INDEXED TO EUROPEAN INFLATION (BTP€I)

In 2019, the segment of inflation-indexed securities continued to be weighed down by the general macroeconomic context, characterised by low expectations with regard to inflation. This led to a significant reduction in said products being issued by all European countries. In order to support this segment and preserve its efficiency on the secondary market, the Italian Treasury also adopted a wise issuance policy, based on reducing the quantities offered to the market, at the same time as focusing on ensuring regular issuance for the various maturities of the real yield curve.

Despite the fact that the Treasury successfully placed a new 10-year benchmark security through a syndicate, the aforementioned issuance policy meant that 2019 closed with negative net issuances, unlike what was initially announced.

No BTP€is will mature in 2020. However, considering the high number of BTP Italia bonds maturing (details of which are provided in the following paragraph), it is estimated that the weight of inflation-indexed securities compared with the overall stock of outstanding government securities will remain more or less unchanged compared to 2019.

With regard to issuances, the Treasury will maintain its regular presence on the market also in 2020, distributing its offering on a monthly basis for the various maturities of the real yield curve. Furthermore, taking into account the evolution of the macroeconomic scenario and the overall performance of securities at European level, the Treasury will weigh up the opportunity to issue a new 5-year bond and, should market and demand conditions be favourable, also a new benchmark for the long-term part of the real yield curve.

The possibility to introduce new benchmarks will continue to be assessed by taking into consideration the conditions for the individual outstanding securities, in terms of both the outstanding amount and residual life, as well as demand characteristics and trends. As per normal procedure, new securities with a duration 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 2019, despite the fact that no BTP Italia bonds matured, leading to a lack of support from matured securities in terms of liquidity, the placement in October gave rise to extremely satisfying results, confirming the high level of appreciation for this product among both private and institutional investors.

In 2020, two BTP Italia bonds will mature, for a total amount of approximately Euro 22.5 billion.

Considering the good level of interest recorded in 2019, in order to continue offering retail investors with an instrument to protect their savings from inflation and the possibility to reinvest the liquidity generated by the two maturing securities, the Treasury will be present on the market with at least one BTP Italia issuance in 2020. Furthermore, should the right conditions be in place, the Treasury will also consider the possibility of completing a second placement over the course of the year. However, given how difficult it is to predict the evolution of market and demand conditions, the Treasury reserves itself the maximum flexibility to evaluate, as the time of placement approaches, the most appropriate maturity for the issuance of the new security, which in any case will be between 4 and 8 years.

The securities offered next year will have the same financial characteristics as those already on the market: fixed real annual coupon rate, indexation to the Italian inflation rate, reimbursement on a semi-annual basis of the revaluation of capital, and a bonus payment for retail investors who purchase the security at issuance and hold on to it until maturity. The securities will continue to be issued directly on the MOT platform, the screen-based market owned by Borsa Italiana (*Italian Stock Exchange*) and dedicated to retail trading. These placements will also continue to be open to institutional investors, in consideration of the broad and continuing interest shown by both domestic and foreign dealers in the security indexed to Italian inflation.

Lastly, in line with the last two years, the Treasury reserves the right to analyse 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, as was the case in the last two years, these transactions may also be used to provide adequate support in terms of the level of liquidity and efficiency in the secondary market, should market conditions require this type of intervention.

III.9 GREEN GOVERNMENT BONDS

As recently announced by the Italian Minister of Economy and Finance, Italy has decided to introduce so-called “green” instruments into its range of debt securities offered to the market, with the aim of bringing financial resources to the state budget in order to support investments in environmental sustainability.

To this end, the draft budget law currently being discussed by Parliament explicitly provides for the issuance of “green” government securities, in proportion to the measures financed by the State budget that have a positive environmental impact, and the launch of the necessary organisational process, starting from the creation of an inter-ministerial committee, which will be responsible for coordinating the Public Administrations involved in the process of gathering information on the effective implementation of said measures. The budget law also provides for an external certification system with regard to reporting on the environmental impact of these measures.

In fact, during the initial phase, “green” expenditure in the State Budget will be identified, classed as such based on the main standards recognised at European and international level, in order to quantify the area of activity to be used as a reference to align the volumes of these instruments that could potentially be placed on the market. During the second phase, it will be necessary to implement an organisational and institutional structure able to trace the effective allocation of resources related to the issuance volumes of “green” debt to expenditure with a positive environmental impact.

Alongside this activity, the Treasury will carry out an in-depth analysis of the market, especially by appropriately liaising with investors specialised in sustainable finance, in order to plan the timing as well as the procedures necessary to place these new instruments.

Using the standard communication channels, the Treasury will provide all indications regarding the issuance strategy and how these instruments will be placed, as well as the specific characteristics of the securities that it intends to offer to the market, above all in terms of maturity.

IV. LIABILITY MANAGEMENT OPERATIONS: EXCHANGES, BUYBACKS AND DERIVATIVES

The use of exchange and buyback operations will be characterised by a large degree of flexibility in terms of mode and timing of execution, in order to achieve a range of objectives, such as managing the refinancing risk, reshaping the maturity profile and supporting the liquidity and efficiency of the market for government securities. Therefore, in line with previous years, these transactions will continue to be carried out taking into consideration the conditions of the secondary market, with frequency/intensity being determined by specific market situations, keeping the aforementioned goals in mind.

Exchange transactions may be carried out using both the electronic-based trading system and the auction system managed by Banca d'Italia. However, as in recent years, said transactions may also be carried out through syndicated placement, given the higher speed of execution and the possibility for the security being issued to be allocated in a more efficient way among those investors who request it. Buyback transactions may be carried out using the Banca d'Italia auction system, bilateral trading, the electronic-based trading system or, as already mentioned for exchange transactions, through syndicated operations.

With regard to liability management activity through derivative financial instruments, during 2020, the Treasury will continue with its strategy aimed mainly at restructuring existing portfolio positions, with the goal of benefiting from any unusual shape of the interest rate curve. However, it will also continue to keep the risk profile under control, as well as limiting any negative impacts on the main public finance aggregates.

As in previous years, the Treasury will continue to pursue important objectives, such as extending the financial duration of the debt and reducing expenditure for derivative interest, as well as managing the effects on debt associated with the start of some contracts, as provided for by European accounting rules (SEC 2010).

With regard to the plan to introduce collateralisation agreements into derivatives operations, as provided for by the so-called "Decreto Garanzie" ("*Assurance Decree*") dated December 2017, a collateralisation system has been implemented regarding both existing derivatives positions with a small number of counterparties, having a significant credit exposure vis-à-vis the Treasury, and new operations, by entering into Credit Support Annex agreements with all Primary Dealers.

V. ISSUANCES ON INTERNATIONAL MARKETS

For a long time now, the Treasury has guaranteed its presence on international markets through issuances carried out as part of the Global Bond Programme and the Medium Term Notes Programme - EMTN, both of which were widely used during 2019.

In 2020, the Treasury intends to continue regularly issuing securities on foreign markets, as the use of these two instruments not only allows for the base of investors in Italian government securities to be enlarged, significantly diversifying distribution by type of investor and by geographic origin, but also ensures that issuance costs are in line with those achievable on the domestic market.

As predicted, 2019 saw the Treasury return to the US dollar bond market, after nine years of absence: in October, it completed a multi-tranche issuance using the Global format, with 5-year, 10-year and 30-year maturities, amounting to a total of USD 7 billion, against demand totalling over USD 18 billion. This has allowed for a USD curve to be built up alongside the Euro curve, despite the volumes not being comparable, thereby guaranteeing liquidity for new issuances and significantly expanding the base of institutional investors. The amount of outstanding securities in USD currently stands now at Euro 12.5 billion.

Before the issuance in 2019, intense and complex preparation work was carried out, aimed, on the one hand, at identifying the best market conditions and assessing financing needs in order to complete this operation and, on the other, at finalising the various legal and organisational aspects involved with this type of transaction.

The significant progress achieved over the last two years with the conclusion of bilateral collateralization agreements has made it easier and less costly to use swaps to hedge against the exchange rate and interest rate risk, allowing for one of the restrictions to be overcome which had made it impossible in recent years to issue securities in a foreign currency. By entering into cross currency swaps associated with the system of bilateral collateralization agreements, the Treasury has therefore transformed debt issued in USD into synthetic debt in Euro, substantially aligning the costs of these transactions with those incurred on the domestic market in Euro.

Given the very positive feedback from foreign investors and in order to consolidate the results achieved in 2019, in 2020, the Treasury will continue to monitor the markets in order to identify the best financial context for new issuances in USD, with the objective of reaching new investors who do not hold many positions in domestic securities and achieving a complete yield curve characterised by plenty of liquidity across all maturities. In order to guarantee

these levels of liquidity for the securities issued, all Specialist have been asked to promote trading of Global bonds on the secondary market, through a formal renewal of their “commitment”.

The aim is to maintain a stable and solid presence on the US market, launching new lines of securities for those maturities that attract the greatest interest from investors, thereby attempting to adapt market demand to the Treasury’s needs. There may also be the possibility to re-open outstanding securities in order to boost levels of liquidity in the secondary market. All issuances will be made at a lower or similar cost to issuances made on the domestic market, for the same maturity.

As was already the case in 2019, any new issuances in Global format will be placed by creating a syndicate generally made up of three banks, chosen out of Specialists in Italian Government bonds, which will act as lead managers, with all other Specialists taking part as co-lead managers.

In addition to overall performance, the choice of the lead managers among Specialists will also take into account specific activity carried out in the Global bond- Sovereign Supranational and Agencies segment. As is the case with all transactions completed by the Treasury through syndication, a principle of rotation shall also be applied to these operations.

In line with 2019, the Treasury will also carefully assess the opportunity to use the Medium Term Notes Programme - EMTN - during 2020, issuing new securities in Euro or in a foreign currency.

By using this segment, the Treasury can complete placements through public or private placement in order to satisfy the specific proposals put forward by one or more investors to the dealers (reverse enquiry), also benefiting from the high level of flexibility in terms of structure, maturity and currency characterising this type of transactions, while at the same time trying not to overlap with traditional domestic placements.

There will be no changes to the three conditions that reverse enquiries must meet in order to be taken into consideration by the Treasury: maturity of no less than three years, a minimum amount of Euro 200 million and a minimum negotiable amount of no less than Euro 500,000.

In this regard, it should also be remembered that, in 2019, two issuances were completed as part of the EMTN programme, one with a 4-year maturity in Japanese Yen in March and one with a 20-year inflation linked security in Euro in October, both aimed at satisfying specific requests and obtaining arbitrage vis-à-vis theoretical domestic securities with the same maturity.

The Treasury will continue its constant and in-depth monitoring of the markets, examining and carefully selecting the requests received, and shall focus its attention on the most efficient solutions, including also those in a foreign currency or with very long maturities, with the aim of benefiting from the best financial conditions and gaining economic advantages in terms of costs, at the same time as avoiding repercussions for the domestic issuance programme.