



Dipartimento
del Tesoro

By directorate II

2021 public debt management guidelines



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CONTENTS

CONTENTS	3
INDEX OF TABLES AND FIGURES	4
FOREWORD	Errore. Il segnalibro non è definito.
I. 2021 DEBT ISSUANCE AND MANAGEMENT POLICY	6
I.1 INTRODUCTORY CONSIDERATIONS	6
II. ISSUANCE PROGRAMME FOR SECURITIES PLACED THROUGH PUBLIC AUCTION	9
II. 1 TREASURY COMMUNICATIONS: ANNUAL CALANDAR, QUARTERLY PROGRAMMES AND ISSUANCE PRESS RELEASES	9
II.2 FREQUENCY OF ACTIONS FOR THE VARIOUS TYPES OF SECURITIES	11
III. NOMINAL FIXED- AND FLOATING-RATE SECURITIES	14
III. 1 BOTs AND LIQUIDITY MANAGEMENT	Errore. Il segnalibro non è definito.
III.2 24-MONTH CTZs AND SHORT-TERM BTPs	Errore. Il segnalibro non è definito.
III.3 CTEUs	Errore. Il segnalibro non è definito.
III.4 NOMINAL 3- AND 5-YEAR BTPs	17
III.5 NOMINAL 7- AND 10-YEAR BTPs	18
III.6 NOMINAL LONG-TERM BTPs (15, 20, 30 and 50 YEARS)	19
III.7 SECURITIES INDEXED TO EUROPEAN INFLATION (BTP€i)	20
III.8 BTP ITALIA	21
III.9 BTP FUTURA	22
III.10 GREEN GOVERNMENT BONDS	23
IV. LIABILITY MANAGEMENT OPERATIONS: EXCHANGES, BUYBACKS, TAP ISSUES AND DERIVATIVES	25
V. ISSUANCES ON INTERNATIONAL MARKETS	27

INDEX OF TABLES AND FIGURES

Tavola 2.1 – AUCTION ANNOUNCEMENT CALENDAR AND SETTLEMENT DATES.....	10
Tavola 2.2 – FREQUENCY OF AUCTIONS.....	12

FOREWORD

In line with a well-consolidated practice, the Italian Department of the Treasury publishes these Public Debt Management Guidelines for 2021. 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 2020 Public Debt Management Report, which will be published during 2021, for details about all the 2020 debt management activities, with a focus on the performance of financial markets and public finance during said period.

I. 2021 DEBT ISSUANCE AND MANAGEMENT POLICY

I.1 INTRODUCTORY CONSIDERATIONS

The year that is coming to an end has represented an extraordinary challenge also in terms of public debt management and state budget financing needs. The Covid-19 pandemic initially caused an abrupt and violent upsurge in volatility on the financial markets and then gave rise, in all countries, to the need for greater recourse to the capital market. This entailed, among other things, the adaptation and revision of issuance and management policy choices, to such an extent that the Treasury was prompted to update its Guidelines back in April.

The pandemic and the containment measures of the first wave led to a substantial closure of production activities, which progressively extended to almost all developed countries, causing a pronounced economic contraction, with record-setting declines in Gross Domestic Product during the first two quarters not seen since the aftermath of World War II. On the other hand, the progressive reduction of infections and the adoption of specific measures for greater safety in the workplace, allowed for a sharp rebound in economic activity during the third quarter of 2020, followed by a slowdown in the last quarter, due to new restrictions resulting from the second wave of Covid-19 infections. The year 2020 will therefore be marked by a decline in GDP of a magnitude never experienced in recent decades, both globally and in individual countries.

In this extraordinary scenario, favourable financial conditions that resulted from accommodative monetary policies already in place were joined by equally extraordinary responses from Central Banks, which in the Euro area mainly involved the launch of the PEPP (Pandemic Emergency Purchase Programme), placed alongside the ongoing Asset Purchase Programme (APP), which has been extended, and other measures that have contributed decisively to the reduction of market volatility and the overall compression of yields of all government bonds yield curves. In this context, the yield curve of Italian government bonds also experienced a pronounced reduction in absolute value, and this trend was accompanied by a compression of spreads towards other issuers, both core and peripheral, and, very significantly, to a flattening of the curve, with relatively positive performance in the belly and at the long end of the curve.

The interaction of the monetary policies implemented by the ECB, to which the unprecedented initiatives of the European Union were added, both in terms of fiscal rules and, above all, with programmes to support and relaunch the continental economies, immediately with the SURE programme and, in the near future, with the ambitious NextGenerationEU programme, have re-established a constructive

climate in financial markets and the reduction of yields has prompted various categories of investors to extend their investment horizon, exerting further downward pressure especially on the medium-long term part of the yield curve.

In view of the above context, despite a significant increase in the volume of issues, debt management made it possible to reduce the average issuance cost, which in 2020 was equal to 0.59%, as well as the average cost of debt, calculated as the ratio between the interest and the debt stock of the Public Administrations, which extended its descent to about 2.4%. Including loans under the SURE Programme, the average cost of issuance dropped to 0.57%.

Market conditions and management decisions also made it possible to continue increasing the average life of debt which, at the end of 2020, relative to the stock of government bonds, was equal to 6.95 years (7.02 years including loans under the SURE programme), a figure higher than that at the end of 2019 equal to 6.87 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 placement syndicate - of several new nominal benchmark securities (10-year, 15-year, 20-year and two new 30-year BTPs). Moreover, a longer debt average life not only tends to mitigate the refinancing risk by diluting over time the volumes placed on the market to cover maturing debt, but also contributes to the issuer's lower exposure to sudden interest rate hikes.

In 2021, financing needs will be determined by the maturities of the outstanding securities which, net of BOTs, will amount to Euro 222 billion, as well as by the new needs of the state sector for the coming year which, based on preliminary estimates consistent with the 2021 Draft Budgetary Plan of last October, should amount to around Euro 145 billion. In addition to the national debt issuance programme, these financial needs will also be covered by European resources, such as those relating to the SURE programme (for just over Euro 10 billion) and those coming from the loan component of the Recovery and Resiliency Facility package as part of the NextGenerationEU programme.

From the macroeconomic standpoint, according to information currently available, 2021 should witness a gradual defeat of the pandemic and a subsequent economic recovery. However, the trendline of European interest rates on Italian debt should continue to be influenced by the ECB's accommodative policy and the search for yields by international investors.

In this context, the debt issuance and management policy in 2021 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) make 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 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 buy-backs), 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 liquidity, managing the redemption profile in future years and helping to mitigate the average cost of outstanding 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;

f) implementing all organizational and market interventions pursuant to the issuance of green bonds;

g) the introduction of new short-term BTPs, thenew nominal coupon bonds with maturities ranging from 18 to 30 months, which will replace the issuance of CTZs during the year.

To remind, the 2020 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 2021, 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, as was the case in 2020, if the particular macroeconomic and/or market context makes it appropriate to significantly amend its issuance policy, the Treasury will promptly communicate these changes through an appropriate update of this document.

The Annual Calendar is published on the home page of the Public Debt website (http://www.dt.mef.gov.it/en/debito_pubblico). It contains the dates of the auctions of government securities planned for 2021, 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 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 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 and accrual date in addition to the type and duration of the securities, in order to meet any flexibility requirements resulting from market evolution. Notification is also provided for any re-openings of on-the-run securities such as CTZs and nominal BTPs with a maturity of up to 10 years.

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 pro-

vide 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 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

The 2021 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.

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.

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. However, as announced in the update of the April 2020 Guidelines, 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 at its discretion and on a case-by case basis, regardless of their residual maturity. Even in this case, the decision will be announced in the press releases for ordinary auctions. As regards the method for calculating the amount to which each Specialist is entitled in the supplementary quota with respect to the standard 15%, half of this amount is calculated on the basis of the Specialist’s performance on the electronic secondary market, while the other half is based on the quota allotted during the last three auctions for the same type and segment of security.

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 2021, 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 or 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 reopenings, 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 CTZs, or Short-Term BTPs (to be discussed below).

The three days of the month-end auctions 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 made three business days prior to the placement date.

Also in 2021, 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 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	
CTZs (UNTIL SHORT-TERM BTPs ARE INTRODUCED)		X
BTP SHORT TERM (STARTING FROM THE END OF CTZ ISSUANCE)		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
BTPs		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

The additional financing needs related to the epidemiological emergency from Covid-19, resulting from the Government's implementation of extraordinary measures aimed at strengthening the national health service and providing economic support to families, workers and businesses, determined in 2020, among other impacts on debt management, both an increase in the issuance of Treasury Bills (BOTs) compared to the initial forecasts, and the offer of maturities different from the conventional 6-month and 12-month BOTs.

Nonetheless, the increase in the volume of issues in 2020 will not exert a significant impact on the maturities of BOTs in 2021, compared to 2020, due to management of the issues carried out in the last year which favoured the issuance of securities other than those with a tenor of 6-months and 12-months, with maturities generally included within 2020 and therefore such as not to weigh on the following year.

The Treasury will proceed regularly with issuances of securities having 6-month and 12-month maturities and, if cash needs require it without the possibility or opportunity for them to be met with medium/long-term securities, it will reserve the right to offer also non-regular BOT issuances such as those with a quarterly maturity, or to reopen BOTs already outstanding or the so-called flexible BOTs, with different maturities linked to specific liquidity management needs.

The Treasury will offer both 6-month and 12-month BOTs on a regular basis and the relative amounts will be consistent with those of maturing debt. For 6-month and 12-month securities, the Treasury will make use of ordinary auctions, with the relative re-openings 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 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.

Concerning the primary market functioning, 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 in 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 aimed at investing or raising liquidity, depending on cash management needs.

Given current money market conditions and the abundant liquidity present in the system, the programme of transactions that involves using or raising liquidity through daily auctions shall remain temporarily suspended and may be reactivated by providing due notice and appropriately informing the market, if it will be the case. 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.

In the course of 2021, the Treasury will expand the tools at its disposal for liquidity management, both in terms of investing and raising liquidity through repurchase agreements (repo). In the case of repo transactions performed with the purpose of raising liquidity, the Treasury will supply government bonds which it will have previously placed in its portfolio. This portfolio will consist of tranches of government securities already outstanding, mainly in the nominal BTP segment. Repo operations will be carried out through the specific segment of the wholesale market for government securities (MTS Italy) and therefore, unlike OPTES operations, all dealers participating therein can be counterparties with the Treasury. This activity will be carried out in such a way as not to alter the orderly conduct of trading or the efficiency of the secondary market.

Furthermore, thanks to the revision of the Commercial Paper (CP) programme which took place in 2020 and involved obtaining the STEP Label, the Treasury could use this tool again, offering commercial paper denominated in euros or other currencies, in order to achieve the greatest possible flexibility in terms of amounts issued and variety of maturities, essential requirements for timely and more efficient liquidity management. The use of CPs will also be aimed at increasing the diversification of investors focused on short-term and very short-term instruments offered by the Treasury.

III.2 24-MONTH CTZs AND SHORT-TERM BTPs

Despite the Treasury's initial plans to be present on the market with an issuance roughly in line with redemptions, about Euro 32 billion, the increased issuance volumes due to greater funding needs related to the Covid-19 crisis, caused net issuances in the CTZ segment to be positive. However, demand for this instrument, in the specific context of negative rates that characterized the segment in the second half of the year, was impacted by its strictly domestic character, resulting in a significant and persistent misalignment of cost with respect to BTPs of the same maturity.

In order to take into account the particular characteristics of demand for this segment, to broaden the investor base and to avoid mismatches between instruments of equal maturity, CTZ issuance will be replaced in 2021 by issues of a new

type of BTP, called Short-Term BTP, with a fixed coupon and maturity ranging from 18 to 30 months.

The issuance of Short-Term BTPs, which will take place at the end of every month together with BTP€is, will be lower than the volume of CTZs issued in 2020 and will be aimed mainly at covering the amount of maturing CTZs, equal to Euro 29.5 billion. Therefore, the issuance of Short-Term BTPs, net of the redemption of CTZ maturities, may be zero or marginally negative in 2021. Two new benchmarks will be presumably introduced for Short-Term BTPs during the year. As in the case of CTZs, the Treasury will provide adequate information about the time frame when the new Short-Term BTP securities will be offered to the market through the publication of Quarterly Issuance Programmes. The auction method will be the same as that for CTZs, i.e. marginal auctions.

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 2021-2022 period.

III.3 CCTEUs

In line with its policy over the past two years, also in 2020 the Treasury paid particular attention to supporting the CCTeu segment, through an accurate issuance policy underpinned by greater flexibility of the maturity of securities and lower amounts in issuance, and through exchange and buyback transactions aimed at reducing the outstanding CCTeu volumes across the various maturities.

Consistently with this issuance policy, which for the first year saw the issuance of a new benchmark with a 5-year maturity, the additional financing needs that arose from the Covid-19 crisis were not met by issuing higher amounts in this segment. Therefore, in line with what was forecasted at the outset of the year, at the end of 2020 the net issuance of CCTeus was only slightly positive, influenced by the reduced volume maturing in the course of the year.

Given the issuance policy adopted and the flexibility introduced in the case-by-case selection of the most suitable maturity to meet demand needs, and considering the increase in investor demand from which the entire belly of the BTP curve has benefited, 2020 witnessed a partial normalization of the cost of CCTeus with respect to BTPs of the same maturity, as well as a reduction in the misalignment that has occurred in recent years.

Given the results achieved to date, the Treasury's issuance policy for this segment will remain in line with that of the past year, and will continue to be based on limiting the volumes on offer, while making use of the flexibility to select the most suitable maturity to meet demand needs. No CCTeus will mature in 2021, so the net issuance of this instrument will necessarily be positive. As regards the volume of securities on offer, in keeping with the policy adopted in recent years, this will be slightly lower in 2021 than the volume offered in the year that just came to an end.

During 2021, the Treasury will place on the market at least one new benchmark security whose maturity will be between 3 and 7 years and will be determined only after an in-depth market analysis and an assessment of investor preferences. The

time frame when the new securities will be launched will normally be communicated within the Quarterly Programme and the decision will also take into account the amount of outstanding securities. The final volume of each of them could be lower than the current volume of the CCTeus issued over the last three years.

As regards off-the-run CCTeus, these will continue to be offered in a single range with on-the-run securities, or within their own offer range. Furthermore, in the event that particular market and demand conditions so require, only off-the-run securities may be offered within an auction cycle.

Finally, it should be remembered that in line with the procedure adopted in recent years, should the need arise, CCTeus may be subject to exchange and buy-back transactions aimed both at lightening the volumes maturing within the next two years and easing any tensions that might occur across the segment.

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

During 2020, the Treasury's issuance of bonds with a three-year maturity in the nominal BTP segment totalled about Euro 50 billion, higher than the previous year both in terms of absolute value, equal to around Euro 32 billion, and percentage value compared with the total securities issued over the year. The five-year segment of nominal BTPs also recorded an increase in gross issuances, which amounted to approximately Euro 47 billion, more than the Euro 34 billion issued in the previous year, while the percentage of the total securities issued remained virtually unchanged. Although the Treasury initially intended to enter the market with issuance volumes in line with those of 2019 and slightly above the redemptions, the growing financial needs triggered by the Covid-19 crisis made it necessary in both segments to boost issuance, which, net of maturities, was largely positive across both tenors.

In 2021, the issuance choices of the Treasury will aim to achieve a greater balance of the overall amounts issued in the two segments, lowering the volumes of last year. Considering that over the next year redemptions will amount to approximately Euro 28.5 billion and Euro 30 billion respectively for three-year and five-year maturities, net issuances for both segments will likely be 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 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 standard method for offering the new benchmarks with the above maturities. As was the case for 5-year securities in 2020, in exceptional cases, if the particular market and demand conditions make it nec-

essary that the amount of the first tranches is well distributed among the final investors and is of a size such as to guarantee immediately adequate performance on the secondary market, the Treasury may decide to opt for a syndicated placement.

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

The larger volume of issuances resulting from the financing needs related to the Covid-19 crisis affected the 7-year maturity to a limited extent compared to other maturities of the nominal BTP segment. In fact, the Treasury calibrated the amounts to issue taking into account the conditions of demand and the liquidity of the secondary market. In 2020, gross issuances of 7-year BTPs totalled approximately Euro 35 billion, an amount which, although in terms of absolute value showed an increase compared to the approximately Euro 28 billion issued in 2019, was slightly down in terms of percentage compared to total volume issued.

During 2021, the first two 7-year bonds issued respectively in 2013 and 2014 are due to mature, for an amount equal to approximately Euro 32 billion.

As regards the volume of issuances, with the aim of consolidating the Treasury's presence in an important segment of the nominal BTP curve, also for the purpose of extending the average life of debt, in 2021 it will presumably be in line with that of the year that just ended. Therefore, a slightly positive amount of net issuances is expected, while after years of continuous increase due to the absence of maturities in the 7-year segment, 2021 will be the first year that will see a substantial stabilization of the share of BTP securities in the 7-year segment relative to the stock of government bonds.

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 2020, around Euro 50 billion were issued in the segment through ordinary auctions in addition to the Euro 14 billion issued through syndication. Given the good investor demand trend across this maturity, the Treasury has therefore decided to funnel a significant part of its additional financing needs through the 10-year maturity, with net issuances which, contrary to what was expected at the beginning of the year, were largely positive.

Approximately Euro 47.5 billion of 10-year BTPs is due to mature in 2021, in line with the figure seen in 2020. As regards the volume of issuances, although the absolute value will be lower than that of the past year, the weight that 10-year BTPs will have with respect to total issuances during 2021 will be in line with that of 2020. Therefore, net issuances across this segment are expected to be largely positive also in 2021.

The new lines to be issued over the next 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, while at least two new securities will be 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 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, although the auction remains the ordinary method for launching new benchmarks, if conditions require, the Treasury could also decide to issue new securities through syndicated placement as was the case with 10-year BTPs in 2020.

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. 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)

In 2020, Italy's long-term nominal yield curve performed well, attracting significant levels of demand from end investors. The Treasury was able to successfully place a new benchmark with 15-year and 20-year maturity, two new bonds in the 30-year section of the curve, as well as reopen the on-the-run 30-year BTP, again by placing it through syndication. Overall, due to the increased financing needs, issuances in the long-term segment exceeded Euro 60 billion, compared to over Euro 40 billion in the previous year, with the percentage of total issuances increasing compared to the already significant quota reached in 2019.

In line with past years, also in 2021 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 30 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. Otherwise, the 50-year BTP can be offered in both mid-month and end-of-month auction cycles, following a careful analysis of the evolution of the market and the dynamics of demand 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.

In 2021, gross issuances of long-term BTPs, considering the exceptional financing needs during 2020, could be lower than those seen last year, while maintaining the weight that nominal long-term BTPs will have on total issuances. In any case, even taking into consideration the absence of maturities in 20-year and 30-year securities, the Treasury expects positive net issuances in the long-term segment, whereas in the 15-year segment, for which a significant amount equal to approximately Euro 25 billion is due to mature in 2021, net negative issuances are expected.

If there are favourable market and demand conditions, 2021 will see the Treasury weigh up the opportunity to issue new securities with benchmark maturities through syndicated placement. 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)

In 2020, the outbreak of the crisis, initially health-related due to the spread of the Covid-19 epidemic then turned into an economic and financial crisis, weighed down the overall macroeconomic context characterized by low inflation expectations. This, in turn, led to a significant reduction in issuances of index-linked securities by all European sovereign issuers.

Faced with this situation, and given the unfavourable market and demand conditions, the Italian Treasury did not deem it appropriate to place the new benchmark security in the long-term segment of the real yield curve.

Since no BTP€is matured in 2020, the year ended as expected with positive net issuances in the segment, equal to approximately Euro 12.5 billion.

In 2021, on the other hand, a single BTP€i security will mature for an amount of approximately Euro 19 billion.

As regards the issuance volume, despite the fact that a larger volume of BTP€i issuances is estimated in absolute terms compared to 2020, given the significant amount of redemptions, net issuance in this segment is expected to be negative at the end of 2021.

In any case, the supply in this segment will carefully calibrate the volumes issued in order to take into account the evolution of the macroeconomic context and demand.

Furthermore, it is estimated that the weight of inflation-indexed securities with respect to the total stock of government securities outstanding will remain

virtually unchanged, in line with the debt management policies related to the containment of inflation risk.

With regard to issuances, the Treasury will maintain its regular presence on the market also in 2021, distributing its offering on a monthly basis across 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 the 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 maturity, 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. For securities with a duration of less than 10 years, the auction will remain the ordinary method of placement. Should the particular market and demand conditions make it necessary that the amount of the first tranches is well distributed among the end investors and of such size as to immediately guarantee an adequate performance on the secondary market, the Treasury may decide to use syndication also to offer new securities with a duration of less than 10 years.

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

Now in its sixteenth issue, in 2020 the BTP Italia once again proved to be a product that is widely appreciated by both retail and institutional investors. The placement in May, the proceeds of which were destined to cover the financial needs related to the measures adopted by the Government to deal with the health, economic and financial crisis following the Covid-19 pandemic, exceeded expectations and set a record in terms of total amount issued, equal to approximately Euro 22.3 billion.

Unlike last year, which saw two BTP Italia mature for a total amount of approximately Euro 22.4 billion, in 2021 no BTP Italia will mature. Therefore, with the aim of meeting as much as possible the growing demand from retail investors and in order to continue to provide a tool for protecting their savings, the Treasury will assess the possibility of BTP Italia issuance during the year. However, given how difficult it is to predict the evolution of market conditions, the Treasury reserves the utmost flexibility to evaluate, as the time of placement approaches, the most

appropriate maturity for the issuance of the new bond near the time of placement, which in any case will have a maturity between 4 and 8 years.

The securities offered next year will have the same financial characteristics as those already in circulation: a fixed real annual coupon rate, indexation to the Italian inflation rate, reimbursement on a semi-annual basis of the revaluation of capital, and a final bonus payment 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. In these circumstances, the placement will continue to include a first phase reserved for retail investors and a second phase open to institutional investors, in consideration of the broad and continuing interest shown by both domestic and foreign investors in the security indexed to Italian inflation.

Lastly, in line with its policy in recent 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, 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

In line with what was announced in the April 2020 update of the Public Debt Guidelines, the Treasury introduced a new instrument dedicated exclusively to retail investors, the BTP Futura. Designed specifically for "the future of the country", this new bond was created for the explicit purpose of helping to cover the financial needs associated with the measures adopted by the Government to tackle the health, economic and financial crisis in the wake of the Covid-19 pandemic.

The BTP Futura is the only Government Bond reserved exclusively for the retail market and is distinguished by an innovative coupon structure, designed to reward savers who hold the bond until maturity. The nominal coupons, paid every six months, are calculated on the basis of preset rates increasing over time (the so-called "step-up" mechanism), with guaranteed minimum coupon rates. The floor rate will be disclosed before the issuance and may be confirmed or revised (only upwards) at the close of the placement. As in the case of the BTP Italia, a final bonus will be paid to those who buy the security on the days of issuance and hold it until maturity. The bonus will be equal to 1% of invested capital, although this floor rate may increase, up to the preset cap of 3%, depending on the average annual growth rate of Italian GDP, based on figures provided by ISTAT (Italian National Institute of Statistics) throughout the lifetime of the bond.

BTP Futura are placed through the MOT, Borsa Italia's screen-based retail market for securities and government bonds, making use of support from the dealer banks chosen directly by the Treasury among Specialists in Government bonds.

Over the past year, the two issuances in July and November of the BTP Futura were well received by the market, and this new type of government bond was highly appreciated by a wide range of individual investors. Given the excellent market feedback in 2020, in order to continue to offer retail investors a tool to protect their savings and support the recovery of the country, in 2021 the Treasury will offer the market at least one BTP Futura issue. Furthermore, if the right conditions are in place and due to financing needs, the possibility of carrying out a second placement during the year will be evaluated. Taking into account the unpredictable evolution of market conditions and demand, the Treasury reserves the utmost flexibility in assessing the most appropriate maturity for the issuance of the new bond as the placement date approaches. In any case, the maturity of the bond will not be less than 8 years.

The securities offered over the next year will have the same financial characteristics as those already on the market: semi-annual coupons set on the basis of nominal rates increasing over time (step-up mechanism), with principal redeemed at par in a single payment at maturity and a final bonus linked to the growth of the Italian GDP for investors who buy the bond at issuance and hold it until maturity. The securities will continue to be issued directly on the MOT.

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

As announced last year by the Italian Minister of Economy and Finance and in line with the provisions of the 2020 budget law, the Treasury has continued the organizational process that will allow the Italian Republic to enter the sustainable finance market with the first green bond issuance in 2021 aimed at supporting the financing of projects with positive environmental impact.

In line with the provisions of the budget law, an *ad hoc* Interministerial Committee was set up under the Prime Ministerial Decree dated 9 October 2020 with the aim of coordinating the Public Administrations involved in the process of gathering information on the eligible expenditures, to be provided to investors, as well as the methods and relative timing for making this information available to the market. The Committee was set up and started to operate at the end of November 2020.

Preparation of the regulatory and organisational framework for the issuance of the first green bond, the so-called Green Bond Framework, by the Italian State has reached the advanced stage. According to the content of this document, which will be available to the market from the beginning of 2021, the country's environmental strategy will be disclosed for the benefit of investors and stakeholders, as

well as the core mechanisms of each issuance: the eligibility criteria for green expenditures as in the State budget, the use of proceeds from the issuance, the monitoring of expenditures and the related environmental impact. Furthermore, consistent with the best market practices already adopted by other sovereign issuers, the Green Bond Framework will receive a Second Party Opinion from an independent review body selected by the Treasury.

The structuring of the issue will follow the international principles drawn up by the ICMA (International Capital Market Association) but will also take into consideration as far as possible the recommendations for the application of the Green Bond Standards of the European Union - consistent with the EU Taxonomy Regulation No. 852/2020 of 18 June 2020 - issued by the Technical Expert Group (TEG) of the European Commission¹.

Once the critical mass of eligible expenditures with a positive environmental impact has been identified, all the necessary tools will be prepared to trace the effective allocation of resources comparable to the volumes of green debt issuances towards "green" projects in a manner consistent with the best European revenue allocation reporting practices. In line with the budget law, an external certification system will also be prepared regarding the reporting on the environmental impact of the above interventions.

Using the standard communication channels, the Treasury will provide all indications regarding the issuance strategy and how these instruments are to 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.

¹Reference is made in particular to the *EU Green Bond Standard Usability Guide* published by TEG in March 2019. However, at the European level, the preparation of subordinate legislation (delegated acts) is currently underway for the implementation of the Taxonomy Regulation which should be completed at the end of 2021.

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

During 2021, the Treasury will continue to make use of extraordinary operations, such as exchanges and buybacks, reserved for Specialists in Government bonds. Recourse to these operations will be characterized by even greater 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, supporting the liquidity and efficiency of the market for government securities as well as reducing the average cost paid by the Treasury on outstanding bonds. Therefore, in line with past practice, 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. In order to manage specific situations and in line with experimental practice in recent years, the Treasury could make use of specific issuance methods such as the use of differing quantities between the two legs of the transaction or the issuance of a greater number of securities against the buyback of a single government bond.

As part of extraordinary transactions, in 2021 the Treasury will continue to make use of the new facility introduced in 2020, the so-called TAP issues, which will constitute an important instrument in support of the Treasury's financing programme and through which it will be possible to issue one or more off-the-run securities, generally in the weeks when there are no pre-scheduled government bond auctions. The opportunity and type of securities to be offered will be envisaged with the aim of meeting specific market demands and the needs of the demand for particular securities. These "taps" will be carried out through the use of the electronic trading system.

With regard to liability management activity through derivative financial instruments, during 2021, the Treasury will continue to pursue its strategy aimed mainly at containing the overall cost of debt by managing active protection against the risks underlying the debt portfolio, in particular interest rate and exchange rate risks, and also contributing to the efficiency of the cost/risk profile in the medium-long term.

The use of derivative instruments, ancillary/subordinated to the Treasury's issuance policy, is to be carried out by executing new transactions and/or restructuring existing portfolio positions.

Given the current financial context characterized by extremely low swap rates at all-time lows, the Treasury, in keeping with past practice, will evaluate the pos-

sibility of carrying out new interest rate swap transactions under long-maturity derivative contracts, with the dual objective of mitigating exposure to interest rate risk and extending the overall duration of debt as a whole, also contributing to the reduction of the average rate paid on the interest rate swap (IRS) sub-portfolio dedicated to managing duration. Any new transactions will be aimed at a macro-hedging strategy, to protect against a rise in interest rates for the proportion of floating-rate securities in the domestic debt issuance portfolio, without necessarily creating a specific derivative-security hedge.

Given a re-established presence on the dollar market and the interest shown also for issuances in other currencies, the Treasury will continue to use cross-currency swaps to convert foreign currency liabilities into synthetic euro-denominated liabilities, in order to mitigate the economic burden as much as possible and to cover the exchange risk.

Lastly, the Treasury will continue to monitor outstanding transactions in the derivatives portfolio, resorting to the conversion of their financial profile and/or their closure, against an accurate assessment of the functions of each in the context of liability management. The Treasury will therefore be able to proceed with the reshaping/renegotiation of some existing positions, exploiting as much as possible any favourable market conditions, with the aim of managing the effects on debt associated with the start of some contracts, as provided for by European accounting rules (SEC 2010).

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 methods alongside the domestic issuance programme is aimed at expanding the base of institutional investors, making it possible to involve new dealers in Italian public debt and, secondarily, to contain costs with respect to conventional types of issuance.

In 2020, despite the high volatility and uncertainty stemming from the Covid-19 emergency, the Treasury managed to finalize a new issue in US dollars in the second half of the year and to implement several requests for private placements during the year, unlocking to the best of its ability the potential typical of these formats envisaged for activity on foreign markets even amid a challenging environment.

Specifically, the **Global Bond** channel, reserved for high-profile investors and distributed in every geographical area across the globe, resumed its strategic role in Italian debt management, making it possible to considerably differentiate the investor base, and to strengthen ties with some investors, especially those in the United States, also with regard to domestic financial instruments.

The Treasury issued in November a new global bond maturing in February 2026, increasing the amount of outstanding securities in USD to \$15.5 billion, in compliance with the commitment made during a multi-tranche issuance in 2019 aimed at maintaining a constant presence in the segment and achieving a complete yield curve with ample liquidity across all maturities.

The strategy for the next 12 months, considering both the positive feedback in terms of demand and the alignment of the documentation with the requirements of the US Security Exchange Commission (SEC), will be aimed at consolidating the role of frequent issuer by ensuring a constant frequency of transactions under this format.

Therefore, the Treasury will continue its careful and constant monitoring of the market both in order to guarantee good performance of the securities issued and to assess the feasibility of launching new issues, thus giving continuity and predictability to its issuances in 2021. Taking advantage of the opportunities that will arise, the Treasury will aim to build up the USD curve alongside the Euro curve, thereby guaranteeing liquidity for all segments. In this way, the Treasury will focus attention not only on benchmark maturities but also in line with the opportunities offered by the market, on unconventional segments.

An assessment of the feasibility of issuing on new maturities, including non-standard tenors, will factor in both the evolution of demand (investor preferences

along different points of the curve) and the performance of existing securities, devoting attention to the yield differentials detected with respect to the levels of domestic securities of the same maturity.

As was the case in 2020, any new issuance of securities in Global format - single or multi-tranche - will be placed by forming a syndicate of three banks, chosen from among Specialists in Government bonds, which will act as lead managers, with all other Specialists taking part as co-lead managers. In keeping with the procedure for such transactions over the past two years, prior to the launch of new securities the Treasury may organise a Global Investor Call to provide updates to investors and obtain feedback and support for subsequent issuances.

The Treasury shall also reserve the right to re-open existing securities, in order to further increase liquidity. Moreover, to further improve the liquidity of the securities that are placed on the market, the monitoring activity of the Specialists' commitment to quote and trade them on the secondary market will be enhanced to make it more relevant for the selection of the lead managers of the various issuances.

Finally, to mitigate the exchange rate and interest rate risks associated with the execution of new bonds, cross currency swaps subject to Credit Support Annexes will be concluded, choosing, among the counterparties in Treasury derivatives, those that will guarantee a low level of hedging costs and a high degree of efficiency in operations.

The **Medium Term Note Programme** channel, active since 1998, is widely used to meet specific requests made by investors through Specialists in Government bonds, via public offering or private placement. Through this format, new issuances of securities with different structures, at fixed or variable rates, denominated in Euro or foreign currency, nominal or indexed to European inflation, can be carried out, depending on the opportunities offered on a case-by-case basis by the financial context.

During 2020, the Treasury completed five new private placements, four of which were zero-coupon securities, and one 22-year issue with a floating rate.

The Treasury will make use of this important channel also in 2021, benefiting from the high level of flexibility not only in terms of structure, maturities and currency characterising this type of structure, but also execution methods and timing.

There will be no changes to the three conditions that enquiries must meet in order to be taken into consideration by the Treasury: a 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. Private placements arise from a reverse enquiry, i.e. they respond to specific enquiries from institutional investors that could hardly be satisfied through ordinary issuance channels and are based on a buy and hold strategy, i.e. the securities are purchased with the aim of holding them in a portfolio until maturity.

The main purpose of this issuance is attributable to investor loyalty, and secondarily to the pursuit of a possible reduction in financing costs compared to domestic securities of the same maturity and with the same characteristics.

The Treasury will carefully examine the enquiries received, directing its choices towards those that best meet its debt management objectives, while attempting to avoid overlap with traditional domestic placements.