

REPORT TO THE PARLIAMENT ON THE ADMINISTRATION OF THE "GOVERNMENT BOND SINKING FUND IN 2022"

Introduction

This Report is drawn up as per article 44, paragraph 3, of the President of the Republic's Decree no. 398, 30 December 2003 - Consolidated Act of legislative and regulatory dispositions on public debt (hereinafter "public debt CA"). It illustrates the purchase dynamics that determine the yearly balance of the Government Bond Sinking Fund (hereinafter "Fund"), as well as the management of the resources in pursuing the prescribed aims.

Following the regulatory guidelines issued by the European Central Bank (ECB) and in accordance with article 1, paragraph 387, of Stability Law no. 190, 23 December 2014, since January 2015 the Fund's administrative management provides that the entire stock of deposits in the Fund was transferred to the management account in the name of Cassa Depositi e Prestiti (CDP) held at the Bank of Italy.

A specific agreement contracted between the Treasury Department and CDP on 30 December 2014 and approved by the Director General of the Treasury's decree no. 3513, 19 January 2015, regulates how the Fund is to be managed, both in terms of the transfers to the above-mentioned account, and as regards debt reduction operations (refunds or buybacks). In March 2016 the above-mentioned agreement was modified by a new covenant registered with protocol of the Department of Treasury no. 30178, 24 March 2016, and entered into force with the Director General of the Treasury's decree no. 48912, 23 May 2016.

In December 2019 the Agreement expired and was then renewed for another 5 years. The renewal was registered with protocol of the Department of Treasury no. 111887, 20 December 2019, and entered into force with the Director General of the Treasury's decree no. 3897, 20 January 2020.

The management of sums credited and utilized is assigned by article 48 of the public debt CA to the director general of the Treasury, or by proxy, to the director general of public debt and annually confirmed with framework decrees, the last of which was the Ministry of Economy and Finance's decree no. 4632642, 29 December 2022.

Income to the Fund, as per article 45 paragraph 2 of the public debt CA, arrives through the following budget items of heading X: 3330 (donations or testamentary provisions and other proceeds to be allocated to the Fund); 3512 (resources deriving from the application of the remuneration cap on wages or compensation for employee or freelance working relationships with the public administration); 4055 (asset divestment and sale of State stock); 4533 (repayment of the principal of the loans granted to Greece, as per article 2 of the Decree Law no. 67, 10 May 2010); 4859 (repayment of the principal of sums advanced by the State to local authorities); 4863 (Repayment of the principal of sums advanced to local authorities and health institutions); 4862 heading XIV (repayment of the principal of sums advanced by the State to local authorities involved in restoring legality). In 2022 no income arrived through the remaining budget item 3428 of heading X (increment in thermal surcharge). In addition, sums may be allocated directly to expense item 9565 connected to the Fund, in those cases expressly provided for by law (see the following paragraph). Consequently, many of the amounts that transit in budget are initially transferred to the account managed by CDP by means of decrees of variation from income to expense item and then, after having been subject to the recording of the Court of Auditors, they transit via electronic payment orders to expense item 9565, pertaining to the MEF's responsible department - the Treasury - (Voting Unit 21.2 - Government bond Amortization).

The aim of reducing outstanding public debt is pursued both by market buybacks of circulating securities and by redemptions at maturity.

Income and transfers to the Sinking Fund

In 2022, a total of **4,613,577,224.21** euros entered the fund, of which **1,886,152,429.21** euros entered income items and **2,727,424,795.00** directly entered expense item 9565¹.

In detail, budget item **3330** received 19,982,811.17 euros due to the following operations:

- 14,040,063.52 euros concerned the unused COVID-19 emergency resources, as per articles 126, paragraph 8, of decree law no. 18, 17 March 2020 (converted with amendments into law no. 27, 24 April 2020) and as per article 265, paragraph 9, of decree law no. 34, 19 May 2020 (converted with amendments into law no. 77, 17 July 2020). Of that amount, 11,500,919.42 euros were transferred to the Fund account in 2022, while 2,539,144.10 euros are still being transferred;
- 1,220,846.37 euros pertained to the repayment of 10% of sums deriving from the transfer of real-estate assets which belonged to local authorities, enacting article 56-bis, paragraph 11, of decree law no. 69, 21 June 2013 (the so-called public property federalism). Of that amount, 777,730.30 euros were transferred to the Fund account in 2022, while 443,116.07 euros are still being transferred;
- 23,823.20 euros of donations by private citizens, as contributions to extinguish public debt, both through payments to the postal account in the Fund's name, and through bank transfers to the IBAN in the Fund's name connected with the same budget item. Of that amount, 14,917.20 euros were transferred to the Fund account in 2022, while 8,906.00 euros are still being transferred;
- 4,698,078.08 euros for accounting regulations by the Department of Finance and the Revenue Agency. This amount, entirely entered in December 2022, is still being transferred.

Budget item **3512** received 17,505,513.75 euros for resources deriving from the application of the remuneration cap on wages or compensation for employee or freelancer working relationships with the public administration, as per article 23-ter of decree law no. 201, 6 December 2011. Of this amount, 6,696,789.54 euros were transferred in 2022, while 10,808,724.21 euros are still being transferred.

¹ As usual, sums that are still being transferred to the Fund may face accounting regulations by the Treasuries (pursuant to art. 62, paragraphs 4 and 6, of the MEF Decree 29/05/2007) and roundings by the Central Budget Office.

A total of 165,977.95 euros were moved to budget item **4055**, owing to the following operations:

- payments totalling 20,496.13 euros from the divestment of State-owned agricultural land and land allocated for agriculture, as per article 33, paragraph 8-ter, of decree law no. 98, 6 July 2011, and as per article 66 of decree law no. 1, 24 January 2012. Of the mentioned amount, 13,255.57 euros were transferred in 2022, while 7,240.56 euros are still being transferred;
- payments for 2,311.82 euros for accounting adjustments by the Revenue Office. Of this amount, 503.75 euros were transferred in 2022, while the remaining 1,808.07 euros are still being transferred;
- 143,170.00 euros of proceeds distributed by real estate funds, as per article 33, paragraph 8-ter, of decree law no. 98, 6 July 2011 (Urgent dispositions for financial stability – Integrated system of real estate funds), paragraph added as per article 23-ter, paragraph 1, letter g), of law decree no. 95, 6 July 2012. This amount was entirely transferred in 2022.

On budget item **4533** entered four payments (in March, June, September and December) totalling 1,002,178,334.00 euros as repayment of the principal of the loans granted to Greece, as per article 2 of decree law no. 67, 19 June 2010 (Urgent measures for the financial stability of the euro area). Of this amount, 375,816,875.25 euros were transferred in 2022, while the remaining 626,361,458.75 euros are still being transferred. In December, in addition to the last of the four instalments due in 2022, the early repayment of the entire amount due in 2023 was also remitted.

Payments totalling 798,547,687.90 euros were made to item **4859**, for the principal of sums advanced by the State to local authorities to pay debts, as per articles 1, 2 and 3 of decree law no. 35, 8 April 2013 (Urgent dispositions to pay the public administration's overdue debt and to rebalance local authorities' finances), and article 45 of decree law no. 66, 24 April 2014 (Urgent measures for competitiveness and social justice – Restructuring Regional debt). Of that amount, 399,051,971.40 euros were transferred in 2022, while the remaining 399,495,716.50 euros are still being transferred.

On budget item **4862** entered 1,328,270.53 euros as repayment of the principal of sums advanced by the State to local authorities under receivership, as per article 6, paragraph 3, of decree law no. 78, 19 June 2015 (Urgent measures for emergency liquidity provision to local authorities involved in restoring legality). Of this amount, 286,156.15 euros were transferred in 2022, while the remaining 1,042,114.38 euros are still being transferred.

Budget item **4863** received 46,443,833.91 euros for resources deriving from the repayment of the principal of sums advanced by the State to local authorities to pay debts and liquidity advances for financing the healthcare system's current liabilities, as per articles 116, 117 and 118 of decree law no. 34, 19 May 2020 (Urgent measures on health, support to work, the economy and social policies related to the epidemiological emergency from COVID-19). The above-mentioned

amount was entirely transferred in 2022, together with 636,759.92 euros that entered on 30 December 2021.

A sum of 2,727,424,795.00 euros was directly allocated to expense item **9565** and was entirely transferred in 2022. That sum mainly concerned the early repayment of the mortgages granted to Lazio and Sicily, as per article 39, paragraph 13, of decree law no. 162, 30 December 2019 and as per article 1, paragraph 789, of law no. 178, 30 December 2020.

In December 2021, 636,669,538.00 euros were allocated to the Fund as per article 25, paragraph 1, of decree law no. 201, 6 December 2011, as modified by law no. 214, 22 December 2011, that redeploys the proceeds deriving from the auctioning of the emission of carbon dioxide (CO₂) quotas available for the year 2020, pursuant to article 19, paragraph 5, of legislative decree no. 30, 13 March 2013. This amount is still being transferred.

The remaining 4,370,200.00 euros (entirely transferred in June 2022) pertain items of lesser entity: 1,870,200.00 euros as per article 13-quater of decree law no. 50, 24 April 2017, concerning the suspension of the minting of 1- and 2-euro cent coins, and 2,500,00.00 euros as per article 88, paragraph 3, of decree law no. 1, 24 January 2012, concerning the application of the ordinary regime of deductibility of interest expenses for publicly-owned companies active in the fields of energy, district heating, water, purification of waste water, and collection and disposal of waste.

In summary, during 2022 and for the same financial year, a total of **2,931,501,379.49** euros was transferred to the Fund's account (2,931,501,370.00 euros net of accounting regulations and rounding), of which 840,746,113.00 euros from the above-mentioned income items, and the remaining 2,090,755,257.00 euros directly entered the budget expense item 9565.

In addition to the aforementioned transfers, sums collected on the budget items during the 2021 financial year (see the 2021 Report to Parliament), totalling **1,282,632,813.86** euros (1,282,632,738.00 net of rounding) were credited to the Fund's account in 2022. These were from a variety of incomes, mostly concerning the unused COVID-19 emergency resources (806,221,860.36 euros), as per articles 126, paragraph 8, of decree law no. 18, 17 March 2020 and as per article 265, paragraph 9, of decree law no. 34, 19 May 2020, while the remaining 476,410,953.50 euros mainly pertained the repayment of the principal of the loans granted to Greece (236,448,210.42) and the repayment of the principal of the outstanding debt by local authorities (233,280,299.71 euros).

A grand total of **4,214,134,108.00** euros, net of the rounding made by the Central Budget Office, was thus transferred to the Fund's account during 2022, including the above-mentioned transfers related to sums collected in the budget during the 2021 financial year, as described above and detailed in Tables B and D.

Furthermore, as it will be reported in the 2023 Report to Parliament, an overall amount of **1,682,075,844.72** euros (gross of accounting regulations and rounding that will be operated by the Central Budget Office) is still being transferred to the Fund. Of this amount, 853,217,625.16

euros refer to incomes of November and December, 192,188,681.56 euros to incomes of October that were transferred to the expense item **9565** on 16 December 2022, and 636,669,538.00 euros deriving from the aforementioned auctioning of the emission of carbon dioxide (CO₂) quotas.

Interest

Like every year, interest accrued on the account's balance is directly credited to the same account, as per article 46, paragraph 3, of the public debt CA.

As per article 2 ("Interest rate and methods of recognition") of the new Agreement with CDP, the remuneration rate applied daily is the 3-month Euribor. In the event that this rate is negative, the remuneration rate applied is the highest between the 3-month Euribor and the Deposit Facility Rate plus a spread of 0.25%.

The remuneration is calculated twice a year with the Actual/360 Accrual Method. The account accrued an interest expense of 421,455.52 euros in the period 1 July – 31 December 2021, and 278,630.57 in the period 1 January – 30 June 2022, calculated as per article 2 of the Agreement in force since in both cases the interest rate was negative. As usual, the interest payable for the second semester of the year is settled the following January.

The amounts as presented in the annexed tables (in particular Table C) reflect the account's remuneration regime mentioned above and the changed market conditions.

Use of the Fund

The balance on the Fund's account can be used either to buy back securities on the market or to redeem securities reaching maturity, as per article 48, paragraph 1, letter a) and letter b), of the public debt CA.

Given the market context and the substantial amounts available, in 2022 it was decided to opt for buyback operations, both by assignment to an intermediary chosen among the Specialists in Government bonds and by means of a competitive auction, as per article 48, paragraph 2, letter a) and letter b) of the public debt CA. Several reasons motivated this choice: to maximize the reduction of the outstanding debt (thanks to the difference between the price of the security and its face value) and to smooth the peaks of future maturities with substantial repayments, always in compliance with the usual criterium of economic and financial convenience.

In order to maximize the reduction of the outstanding debt, the buyback operations involved securities quoted below par value. Overall, their weighted average maturity was 2.1 years.

During 2021 the Fund's balance was used for two buyback operations: the first one was carried out by appointing an intermediary chosen among the Specialists in Government bonds, while the second one was arranged through a competitive auction.

In details:

Bond buybacks	ISIN	Amount in euros	Means
BTP 0.35% 1 October 2019 / 1 February 2025	IT0005386245	1,252,000,000.00	Auction
BTP 1.50% 2 March 2015 / 1 June 2025	IT0005090318	656,000,000.00	Auction
BTP 1.85% 28 April 2020 / 1 July 2025	IT0005408502	1,092,000,000.00	Auction
BTP 0.95% 1 March 2018 / 1 March 2023	IT0005325946	900,000,000.00	Specialist
BTP 0.00% 28 January 2022 / 29 November 2023	IT0005482309	500,000,000.00	Specialist

The competitive auction was carried out at the Bank of Italy and was reserved to Specialists in Government bonds, both on their own behalf and on behalf of their customers. Specifically, the buyback involved fixed income securities with maturity in 2025.

The amounts were settled on 20 June 2022, the same day of the auction².

The Fund's balance was used for the payment of both the capital equivalent and the accrued interest.

In details:

Bond	Nominal Amount	Price	Capital Equivalent	Accrued Interest	Fund Reduction
BTP 01/02/25	1,252,000,000.00	94.691	1,185,531,690.00	1,682,591.66	1,187,214,281.66
BTP 01/06//25	656,000,000.00	96.893	635,620,070.00	510,820.05	636,130,890.05
BTP 01/07/25	1,092,000,000.00	97.593	1,065,712,700.00	9,487,126.80	1,075,199,826.80

With a nominal amount of buybacks equal to 3,000,000,000.00 euros, outflows from the Fund were thus equal to **2,898,544,998.51** euros, the total equivalent including accrued interest paid on the same bonds.

The dealer that performed the bond buyback was chosen among the Specialists in Government bonds. Specifically, the buyback involved fixed income securities with maturity in 2023.

The buyback was performed on 2 December 2022 and the amounts were settled, as per market convention, on the second working day after the transaction, on 6 December 2022.

The Fund's balance was used for the payment of both the capital equivalent and the accrued interest.

For all bonds in question, the purchase operations were settled at the best market conditions at the closing of operations. The dealer informed the Treasury, which verified their conformity, of all the details of the purchases made, specifying the bond's nominal value and the corresponding equivalent divided into capital and accrued interest.

² With the exception of 300,000,000.00 euros of BTP 1.85% 28 April 2020 / 1 July 2025 settled on 21 June 2022 (capital equivalent 295,481,353.50 euros), as per Ministerial Decree no. 43044, 5 May 2004, published on the Official Gazette of the Italian Republic no. 111, 13 May 2004.

In details:

Bond	Nominal Amount	Price	Capital Equivalent	Accrued Interest	Fund Reduction
BTP 01/03/23	900,000,000.00	99.785	898,065,000.00	2,267,370.00	900,332,370.00
BTP 29/11/23	500,000,000.00	97.735	488,675,000.00	0.00	488,675,000.00

With a nominal amount of buybacks equal to 1,400,000,000.00 euros, outflows from the Fund were thus equal to **1,389,007,370.00** euros, the total equivalent including accrued interest paid on the same bonds.

A total of **4,287,552,368.51** euros was used (equal to nominal 4,400,000,000.00 euros), as detailed in Tables D and E.

For a complete presentation of the Fund's account's activity, see the tables on inflows and activity, which illustrate, for the entire period, the amounts transferred and their utilizations, including interest deposited every year (Table B - *Activity on the Fund's account up to 31.12.2022* and Table C - *Interest credited to the Fund's account per year up to 31.12.2022*).

The Fund's balance on 31 December 2022, corresponding to the availability recorded in the account managed by Cassa Depositi e Prestiti was equal to **249,415,451.42** euros (see Table D).

Inflows to the Fund's budget items – 3330, 3512, 4055, 4533, 4859, 4862, 4863 – are detailed in the annexes (Table A/A1 – Account balances up to 31.12.2022 - Summary of inflows from 2020 to 2022).

Annexes:

- Table A/A1 - *Government bond sinking fund - Details of budget income from 2020 to 2022;*
- Table B - *Activity on the Fund's account - Income and utilizations from 2012 to 2022;*
- Table C - *Summary of interest credited to the Fund's account per year from 2008 to 2022;*
- Table D - *Description of the Fund's financial situation in 2022;*
- Table E - *Summary of debt relief operations with the Sinking Fund from 1995 to 2022.*

THE MINISTER OF ECONOMY AND FINANCE