



# **Italian Public Debt Management**

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Italian Ministry of Economy and Finance**



# **The Current Public Debt Management Framework**

# Republic of Italy: At a Glance

## Central Government Debt: Key Statistics

(as of 31 March 2007)

<b>Total Outstanding</b>	<b>€1.29 trillion</b>
<b>Average Interest Rate at Issuance</b>	<b>3.88%</b>
<b>Average Life</b>	<b>6.78 years</b>
<b>Average Duration</b>	<b>4.42 years</b>



# Credit rating history of the Republic of Italy

## L-T debt in local currency

	<u>Fitch</u>		<u>S&amp;P</u>		<u>Moody's</u>	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
1991			AA+	Stable	Aa1	Negative
1992			AA+	Stable	Aa3	Negative
1993			AA+	Stable	A1	Negative
1994	AA					
1995	AA-	Negative	AA	Negative		
1996	-				Aa3	Positive
1997						
1998	AA-	Stable				
1999						
2000						
2001						
2002	AA	Positive			Aa2	Positive
2003	AA	Stable	AA	Negative		
2004	AA	Stable	AA-	Stable	Aa2	Stable
2005	AA	Negative	AA-	Negative		
2006	AA-	Stable	A+	Stable		



# Debt Management Policy: Parameters/ Principles

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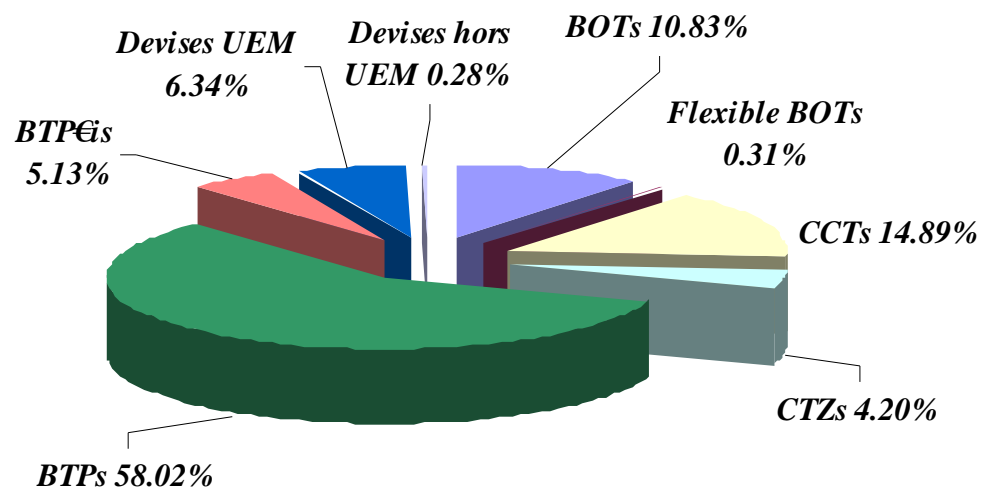
Domestic Issuance  
Program

Foreign Borrowing  
Program

- **Liquidity:** Highly liquid benchmark transactions in main funding markets
- **Transparency:** Efficient system of primary dealers and transparent screen-based market
- **Regularity:** Continuous and regular issuance pattern, also through syndicated transactions
- **Predictability:** Refers to the degree that a correct forecast of a system's State can be made either qualitatively or quantitatively
- **Investor Diversification:** Diversified access to capital markets through different sets of instruments and currencies



# Government bonds: breakdown by instrument



Source: Italian Treasury, as of March 31st 2007

## GOVERNMENT DEBT: BREAKDOWN BY INSTRUMENT AS OF 31 MARCH 2007

Bonds	Amount (mln €)	%
BOTs	139,250.00	10.83%
Flexible BOTs	4,000.00	0.31%
CCTs	191,505.35	14.89%
CTZs	53,979.00	4.20%
BTPs	745,371.32	57.95%
Atypical BTPs	890.13	0.07%
BTP€s	65,989.17	5.13%
<b>FOREIGN Debt</b>		
Emu currencies	81,595.55	6.34%
<i>Of which ISPA</i>	9,491.24	0.74%
<b>FOREIGN Debt</b>		
not Emu currencies	3,558.09	0.28%
<b>Total Amount</b>	<b>1,286,138.60</b>	<b>100.00%</b>

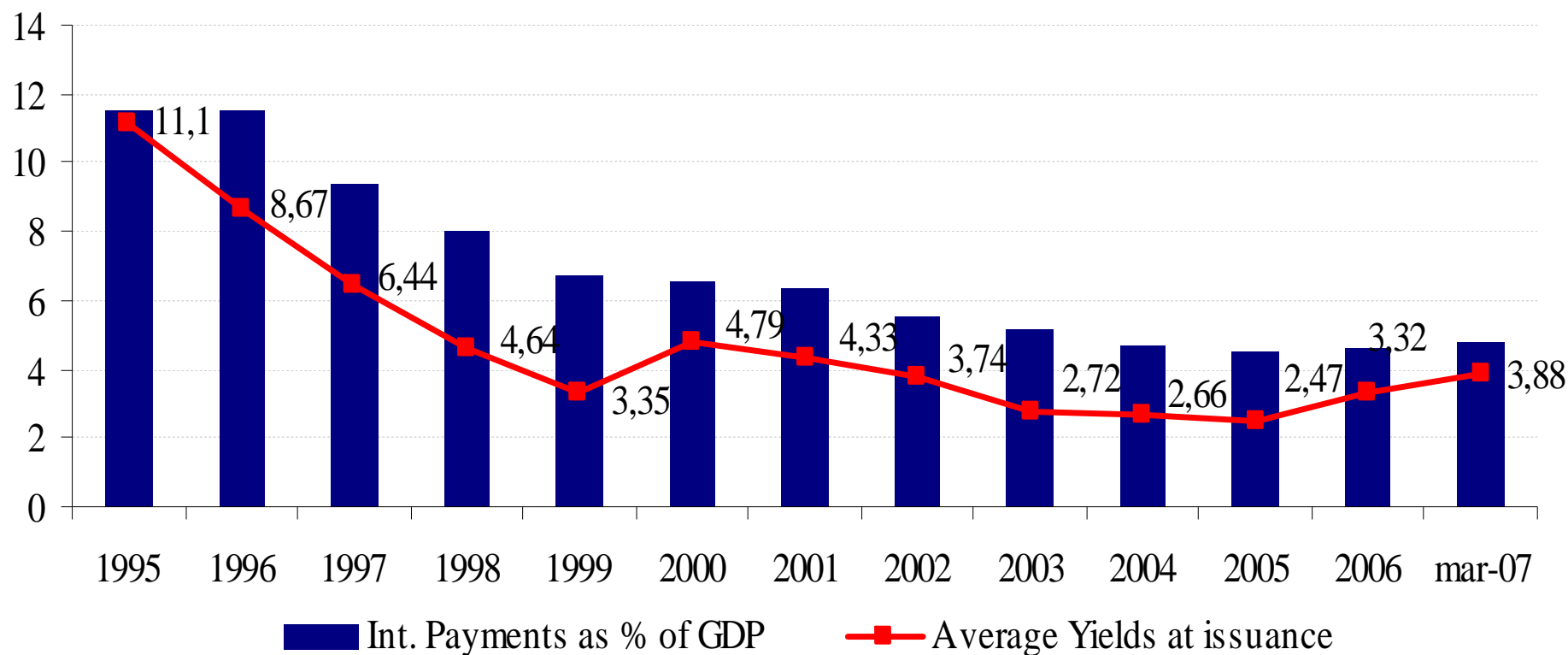
# Treasury securities: domestic market instruments

	Treasury Bills	Zero Coupon Bonds	Treasury Certificates	Treasury Bonds	Inflation-linked Treasury Bonds
	Buoni Ordinari del Tesoro (BOT)	Certificati del Tesoro Zero Coupon (CTZ)	Certificati di Credito del Tesoro (CCT)	Buoni del Tesoro Poliennali (BTP)	BTP Indicizzati all'inflazione (BTP€)
<b>Currency</b>	Euro	Euro	Euro	Euro	Euro
<b>Maturity</b>	3,6 and 12 months typically	24 months with subsequent reopening	7 years	3, 5, 10, 15 and 30 years; the annual coupon is paid every six months	5, 10 and 30 years
<b>Remuneration</b>	Issued at discount	Issued at discount	Floating coupon indexed to 6-month BOTs	Semi-annual coupon	Semi-annual coupon (linked to European HICP ex-tobacco)
<b>Auction</b>	Competitive	Dutch auction	Dutch auction	Dutch auction	First tranche via syndication. Following via Dutch auction with the Treasury eventually deciding the supply
<b>Issue recurrence</b>	Monthly (mid month for quarterly and annual BOTs, end of the month for semi-annual BOTs)	Monthly	Monthly	Monthly	On a monthly basis according to market conditions
<b>Settlement dates</b>	T+3 in the primary market, T+2 in the secondary market	T+3 in the primary and secondary market	T+2 in the primary market, T+3 in the secondary market	T+2 in the primary market, T+3 in the secondary market	T+2 in the primary market, T+3 in the secondary market
<b>Market conventions</b>	Actual/360	Actual/Actual	Actual/Actual	Actual/Actual	Actual/Actual
<b>Redemption</b>	At par, single payment at maturity	At par, single payment at maturity	At par, single payment at maturity	At par, single payment at maturity	Single payment at maturity (linked to Euro HICP ex-tobacco)



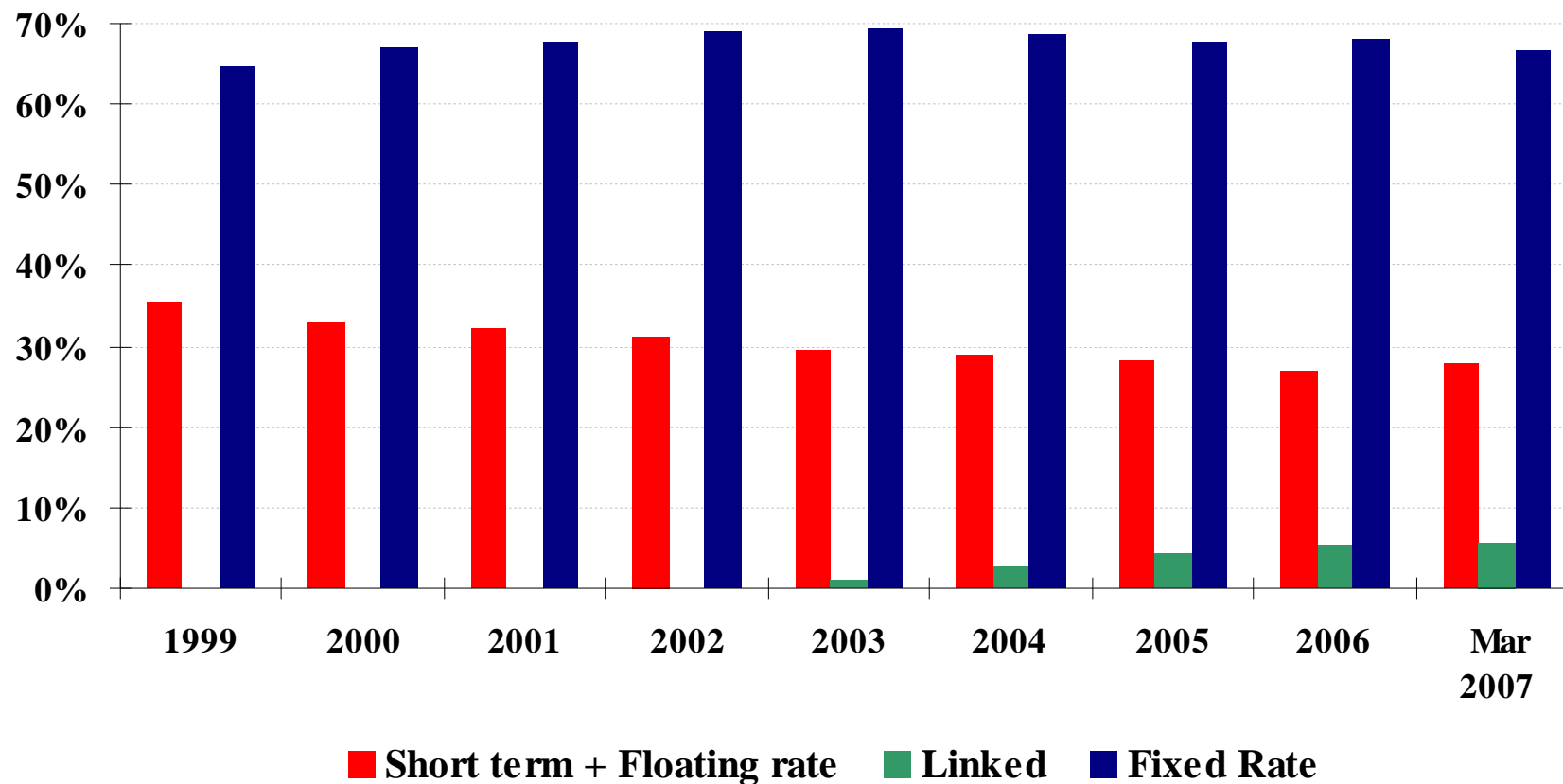
# The cost of public debt has improved in the long run

Interest expenditure as % of GDP and weighted average cost issuance %



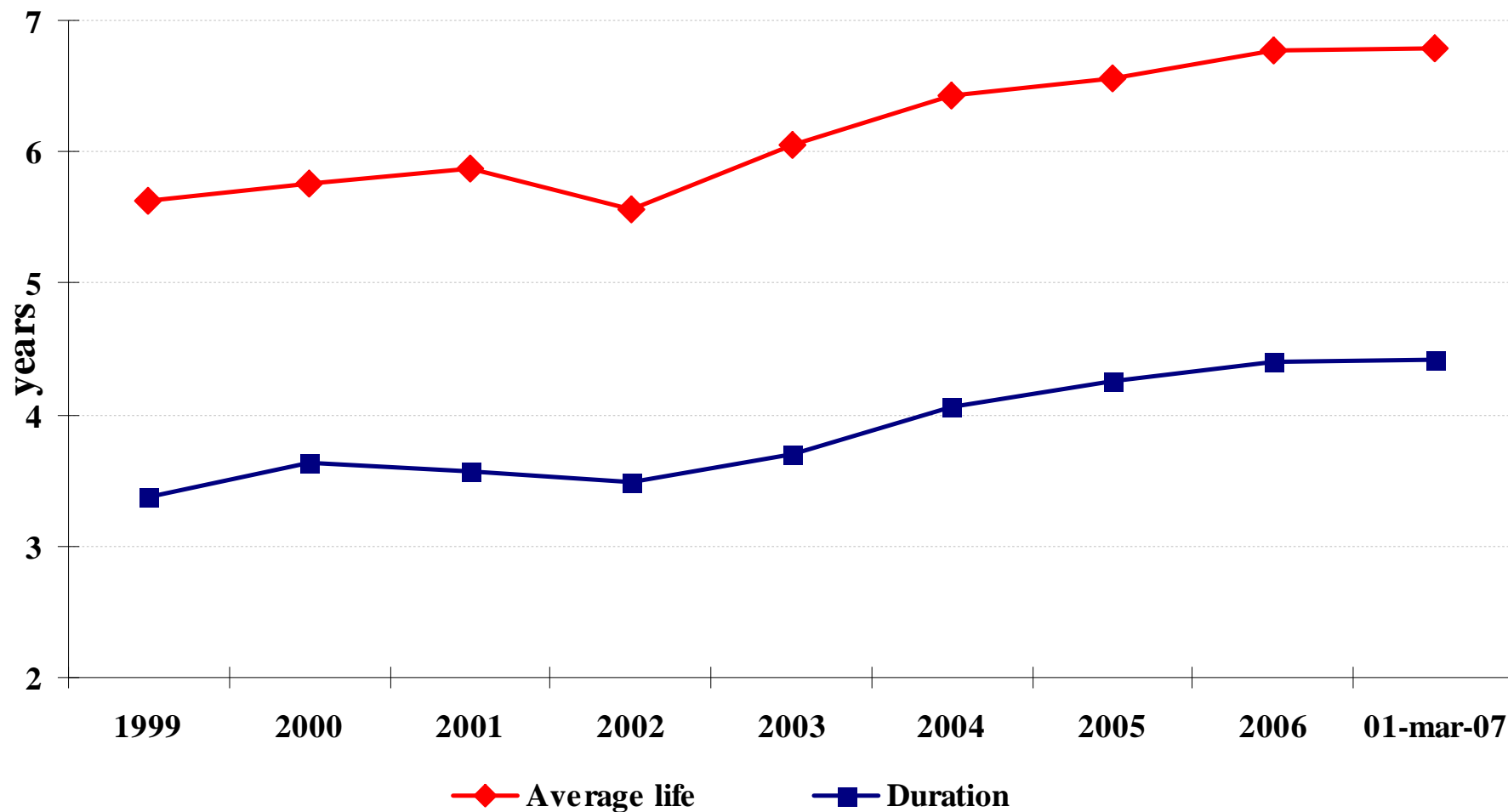
# Reduction of market risks

## Domestic Government Bonds Composition



# Reduction of market risks

Average Life and Financial Duration of Government Securities



# Sensitivity to interest rates shocks *(update Dec 2006)*

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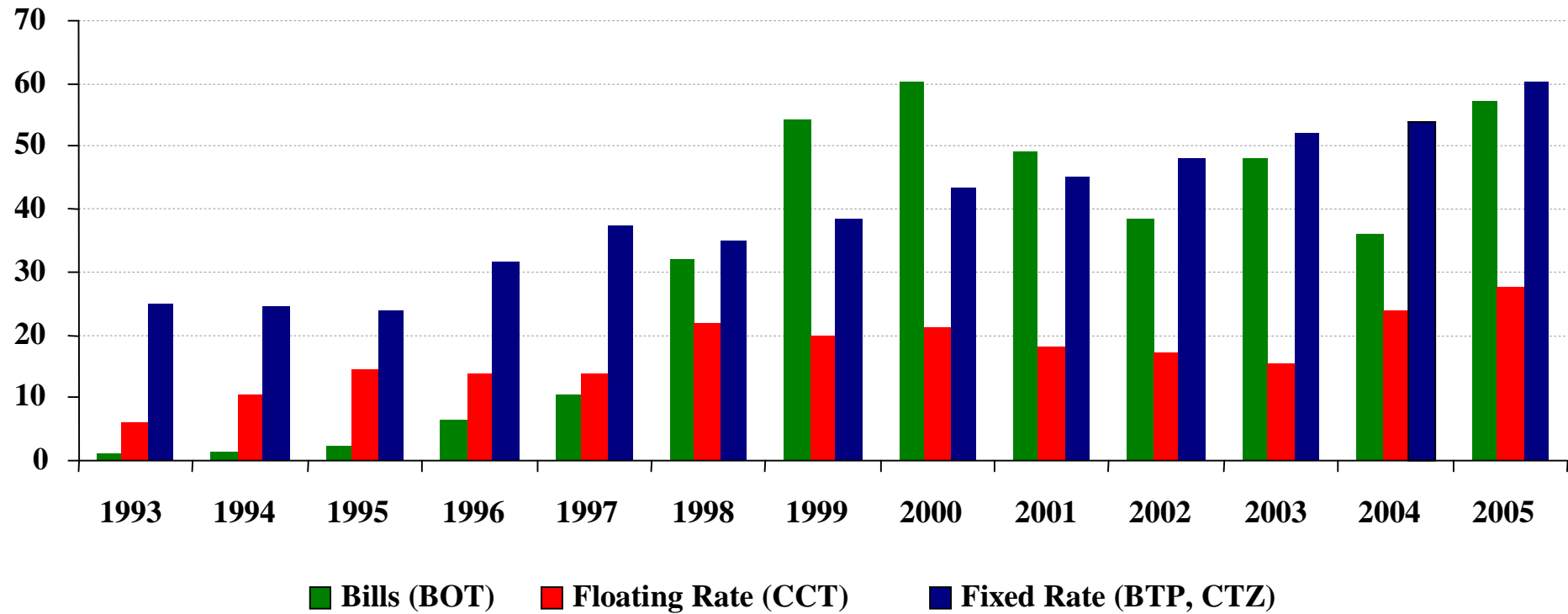
- The table shows the sensitivity of the interest expenditure to a 100 bps parallel shift of the whole yield curve, occurring in January 2007. Interest rates are assumed to follow the path predicted by December 2006 forward rates. PSBR and GDP levels are set accordingly to latest official estimates. The reduction of the sensitivity is partially due to the debt duration lengthening process followed during last year and partially to the improvement of the macro picture (which has brought about a lower PSBR and a higher nominal GDP)

Years	Interest expenditure/GDP	Interest expenditure/GDP
	Update Stability Program 2005	Update Stability Program 2006
1st	0.20	0.19
2nd	0.38	0.35
3rd	0.48	0.44
4th	0.56	0.51



# The investors base has widened

Percentage Held by Non Residents



Source: Bank of Italy



# International Funding Program

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- The International Funding activity of the Italian Treasury has been characterised by a diversified approach through:
  - Different instruments (Global issues, MTNs, private placements etc.), in order to have high flexibility in terms of investor demand
  - Wide number of currencies (GBP, CHF, JPY, AUD, NOK), on an arbitrage basis versus the equivalent BTP cost of funding
  - The global USD program is the highlight of the international funding activity

# US Dollar Global Program: Index Analysis

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## The Republic of Italy is well represented in the major global fixed income indices

- Citigroup European Government Bond Index: 22.96% of index
- JP Morgan EMU Index: 22.128% of index
- Lehman Brothers US Aggregate Index: 34.5% of the Sovereign sector (1st Largest sovereign issuer in LB Index)
- Merrill Lynch Corporate & Government Index: 22.62% of the Sovereign sector
- Morgan Stanley Euro Dollar Credit Index: 21.14% of the Sovereign sector

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Source: JP Morgan, Citigroup, Lehman Brothers, Merrill Lynch, Morgan Stanley.



# US Dollar Global Program: Liquid Yield Curve

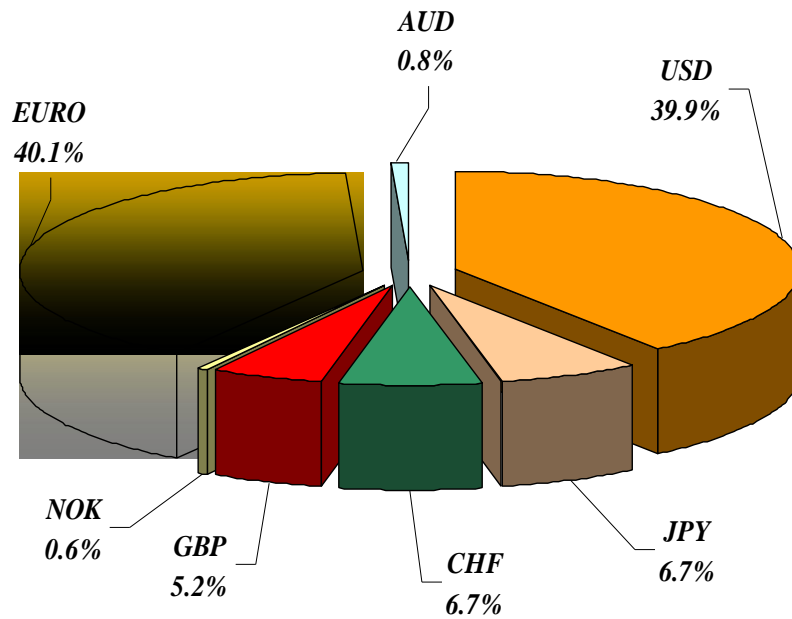
Maturity	Coupon (%)	Amount (US\$ bn)	Spread to UST at launch (bps)	Spread to US\$ L at launch (bps)	Spread to UST today	Spread to US\$ L today
14-set-07	3,625	3,0	+45	-	70	-12,2
14-dic-07	3,750	2,0	+60	-8,5	53	-23,4
06-mag-08	3,250	1,3	+30	-	43	-22,5
29-mag-08	6,000	2,5	+33	-	40,7	-22,6
16-giu-08	4,000	3,0	+34	-13,0	40	-19,5
15-lug-08	2,500	2,0	+23	-	41,5	-14,9
15-mag-09	3,250	2,0	+37	-8,0	19	-20,9
22-feb-11	6,000	2,0	+92	-	30,5	-15,0
15-giu-12	5,625	4,0	+60	-	31	-16,2
15-giu-13	4,375	2,0	+51	-	32	-17,6
21-gen-15	4,500	4,0	+37	-3,0	31,5	-14,4
25-gen-16	4,750	2,0	+52	2,0	42	-7,1
20-set-16	5,250	3,0	+49,5	-2,0	43	-8,1
27-set-23	6,875	3,5	+80	-	78	11,7
15-giu-33	5,375	2,0	+63	-	69	11,7

Source: MEF. Data as of 7 may 2007



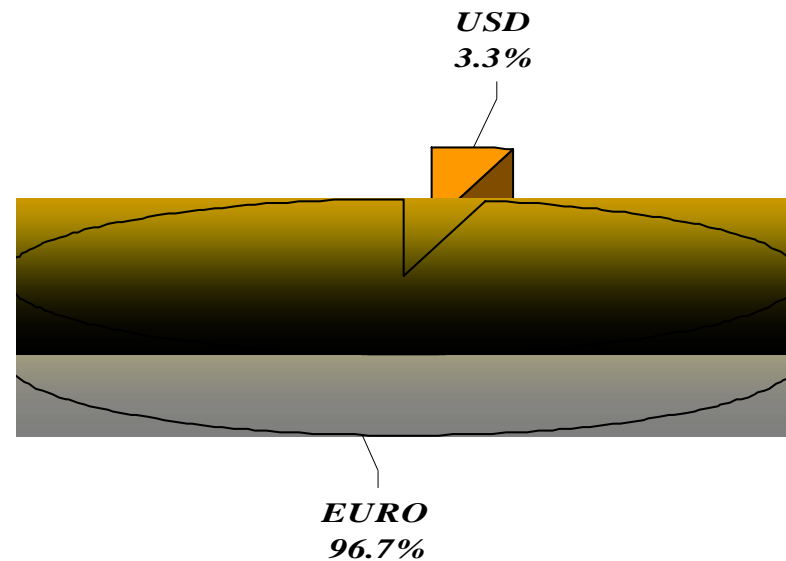
# Foreign debt composition by currency

## AT ISSUANCE



Source: Italian Treasury, as of March 31st 2007

## AFTER SWAP





## **Debt Policy in 2007**

# The 2007 issuance program

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- The borrowing requirement and the cost/risk profile of the are be the main drivers for the timing and the composition of the debt issuance activity
- Transparency, predictability and liquidity of the outstanding securities are the pillars followed for instruments regularly offered at auction (**6- and 12-month BOTs; CCTs; 3-, 5- and 10-year BTPs; and CTZs**)
- Demand conditions and efficiency of secondary-market drive the policy for instruments offered at auction less regularly (**BTPs and BTPs with a maturity longer than 10 years**)
- Cost conditions drive the issuance decisions for those instruments not by way of auction (**issues in foreign currency and private placements**)
- Coverage of temporary cash shortages, for liquidity management instruments (**3-month BOTs, flexible BOTs, Commercial Paper, and non-collateralized Deposits**)



# Issuance procedures

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- As in previous years, BOTs, CCTs, CTZs and BTPs will be mainly issued via auction, according to the annual issuance calendar (also available on our website [www.publicdebt.it](http://www.publicdebt.it)) and the Quarterly Issuance Programs that will be published at the end of each quarter
- Syndication will be used to introduce new long-term BTPs, in order to foster a broader presence in the portfolios of domestic and international investors, and satisfactory liquidity conditions in the secondary market from the very first issuance
- BTP€s will be auctioned normally on a monthly basis. New lines will mainly be launched through syndication according to liquidity conditions on the secondary market, the type of investors and the market tone

# Future Developments

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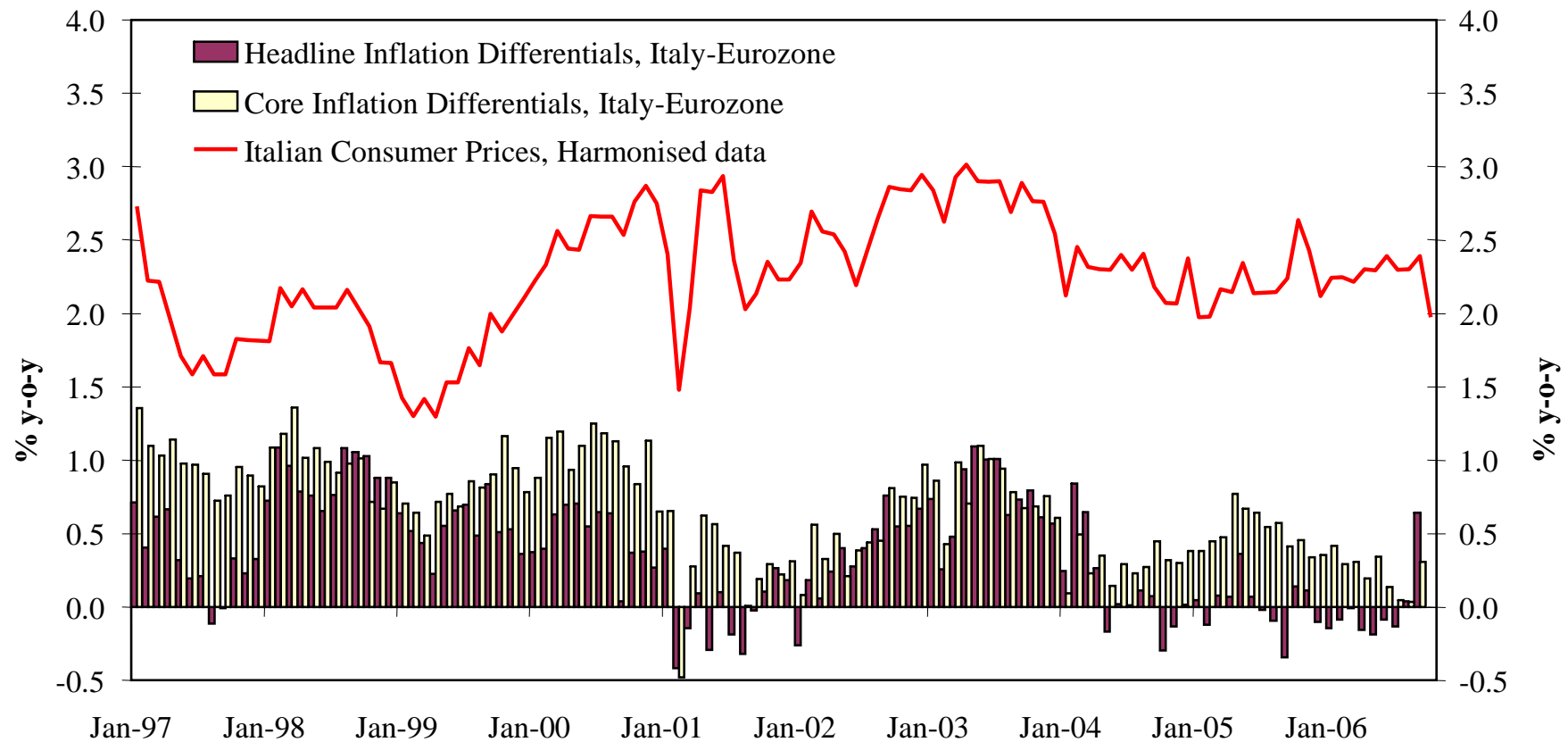
- **Debt policy for retail resident investors**: The Treasury is analyzing the diminishing presence of these investors in the government debt and its implications for debt management. Policies aimed at preserving and possibly consolidating the presence of this component among the holders of public debt will be carefully evaluated
- **Coupon stripping**: Taking into account the specific characteristics of inflation-linked bonds and the needs of those institutional investors most actively operating in this market, the Treasury is introducing a coupon stripping model for BTP-€s based on three-layers: capital, coupon, and inflation uplift



**Inflation Linked Program Update  
The Republic of Italy Commitment to the  
BTP€ Program**

# Inflation differentials vs. Eurozone have disappeared

- Leaving aside the slower adjustment to lower oil prices of the Italian inflation index, both core and headline inflation differentials vs. the rest of the Eurozone are likely to remain small



Source: Eurostat



# Building the Italian real yield curve (I)

## Linkers issuance activity

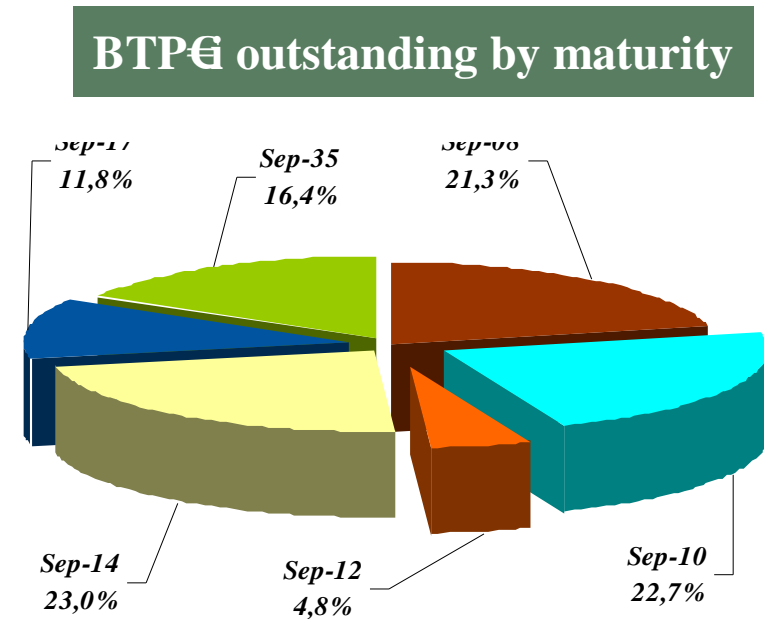
Bond	Tranche	Settlement Date	BEIR at issuance	Real Yield at issuance	Volume issued
BTP€ Sep 2008	Issuance	10-Sep-03	187	1.694	7.00
	Taps				6.40
	<b>Total</b>				<b>13.40</b>
BTP€ Sep 2010	Issuance	27-Jan-05	218	0.97	5.00
	Taps				9.30
	<b>Total</b>				<b>14.30</b>
BTP€ Sep 2012	Issuance	30-Mar-07	228	1.8	3.00
	Taps				0.00
	<b>Total</b>				<b>3.00</b>
BTP€ Sep 2014	Issuance	11-Feb-04	213	2.264	5.00
	Taps				9.50
	<b>Total</b>				<b>14.50</b>
BTP€ Sep 2017	Issuance	21-Jun-06	216	2.159	4.00
	Taps				3.45
	<b>Total</b>				<b>7.45</b>
BTP€ Sep 2035	Issuance	28-Oct-04	243.3	2.378	4.00
	Taps				6.31
	<b>Total</b>				<b>10.31</b>
<b>Total issued</b>					<b>62.97</b>

Source: Italian Treasury, as of March 31<sup>st</sup> 2007



# Building the Italian real yield curve (II)

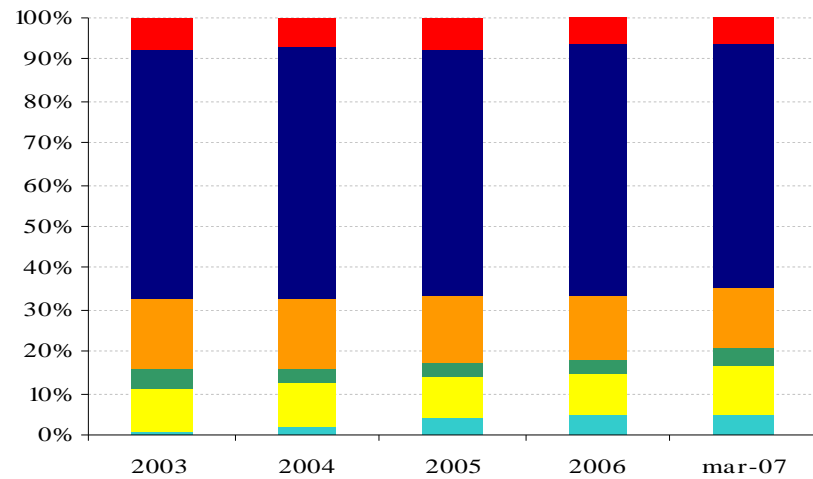
- Italy established a linker program as a source of diversified funding that provides scope for savings via capturing an inflation risk premium, while having costs more closely aligned than nominal debt with potential revenues of the Republic:
  - Italy is committed to a consistent and regular issuance program to establish and maintain a full and liquid curve
  - The commitment of the Republic to BTP€ is clear from over €60bn of issuance so far. BTP€ will continue to develop as a share of total debt in the coming years
  - Italy so far employs syndications to launch new issues coupled with regular end of month auctions. This has helped ensure continued liquidity across the curve, including on-the-run issues at benchmark maturities, while providing flexibility to respond to investor demand and market conditions



Source: Italian Treasury, as of March 31<sup>st</sup> 2007

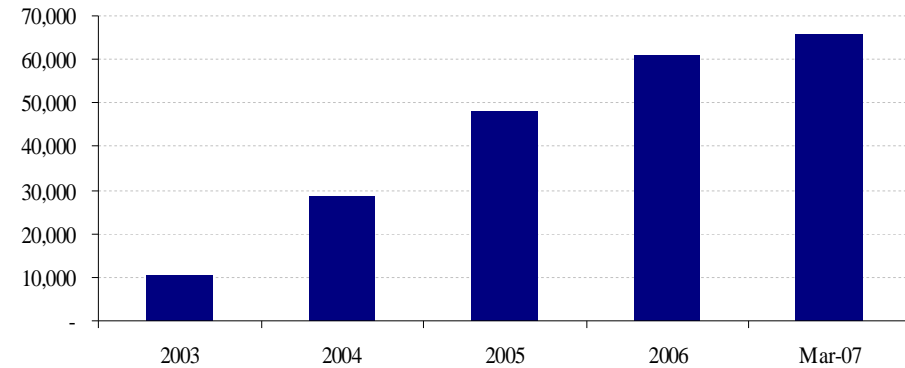
# Evolution of the BTP€ Program

## Government Debt by Instrument



■ BTP€ 
 ■ BOT 
 ■ CTZ 
 ■ CCT 
 ■ BTP 
 ■ Foreign Debt

## BTP€ outstanding (€mln)

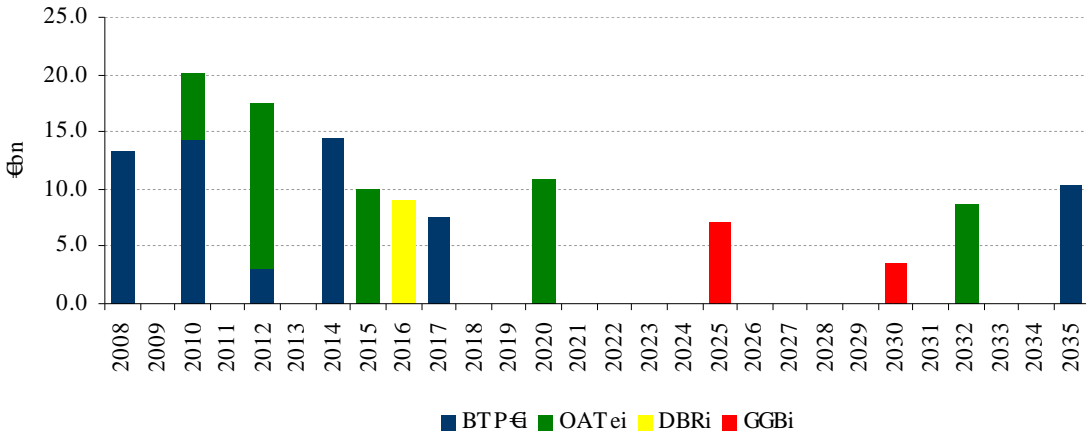


Source: Italian Treasury, as of March 31<sup>st</sup> 2007

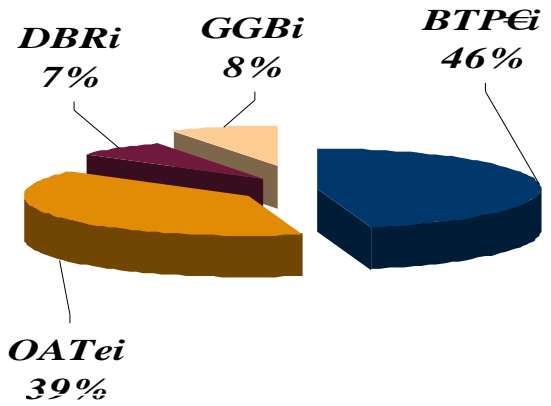


# The relevance of Italy as an Inflation-Linked Issuer in Europe

European Inflation-Linked outstanding



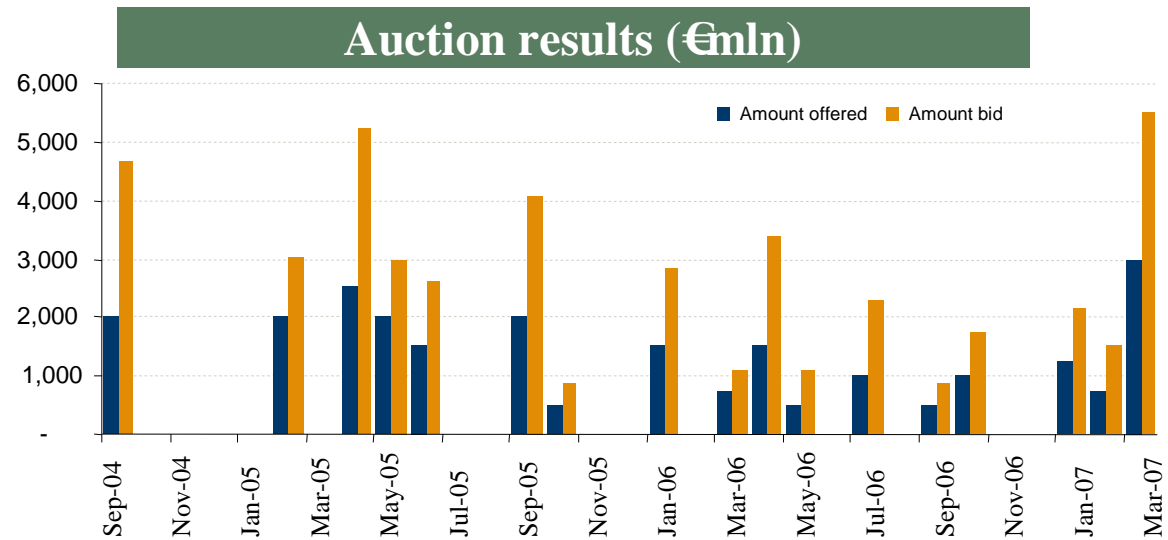
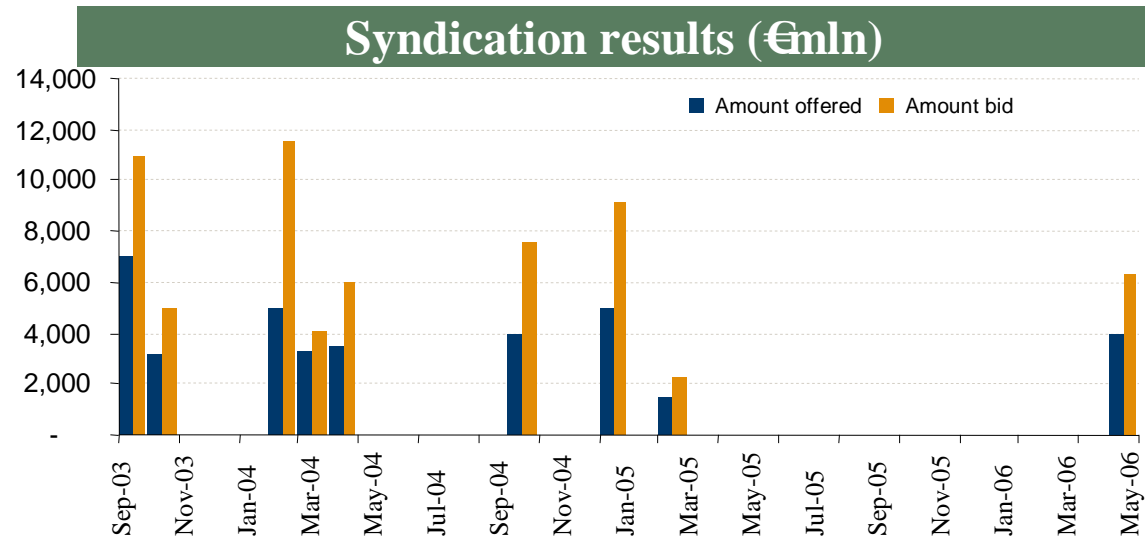
Breakdown by issuer



Source: Bloomberg as of March 31st 2007



# BTP€ - auction and syndication

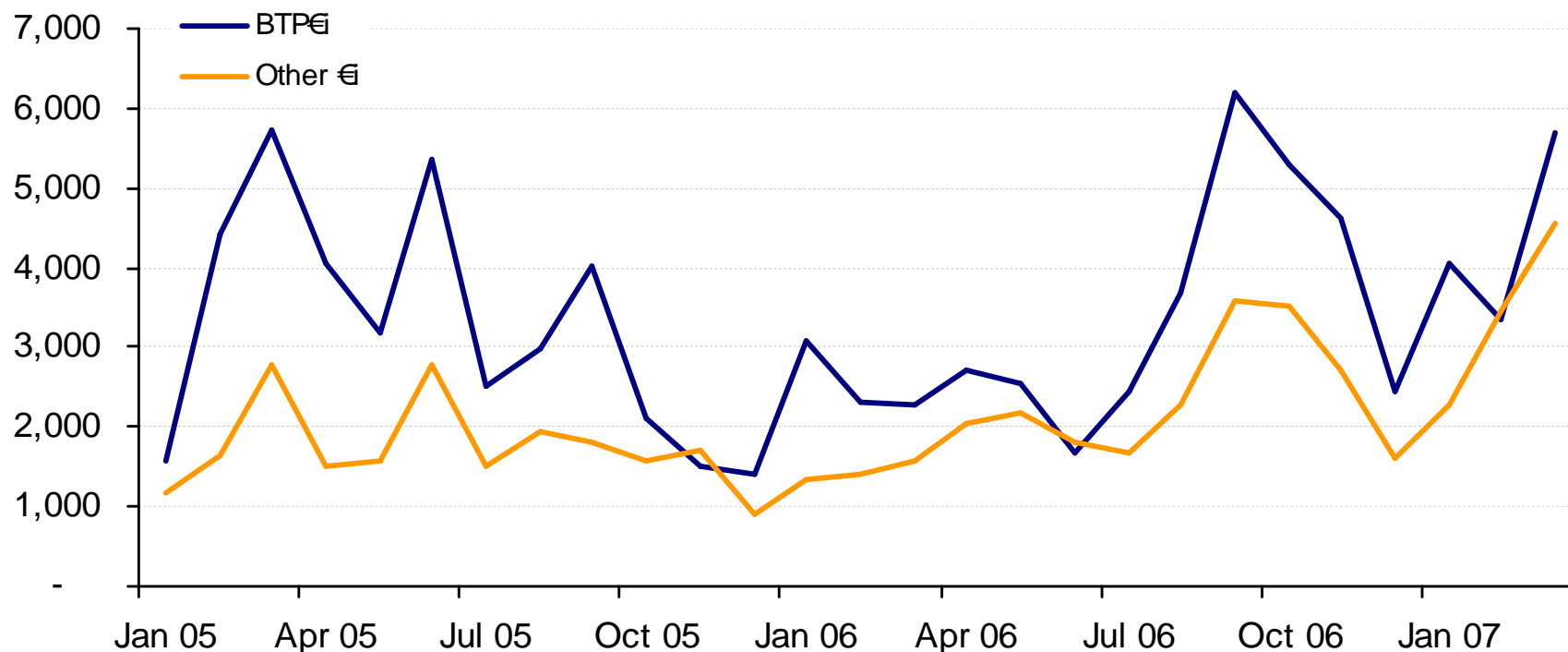


Source: Italian Treasury



# Liquidity of BTP€ remains a priority

Cash volume of € traded on MTS 2005-2006 (€mln)

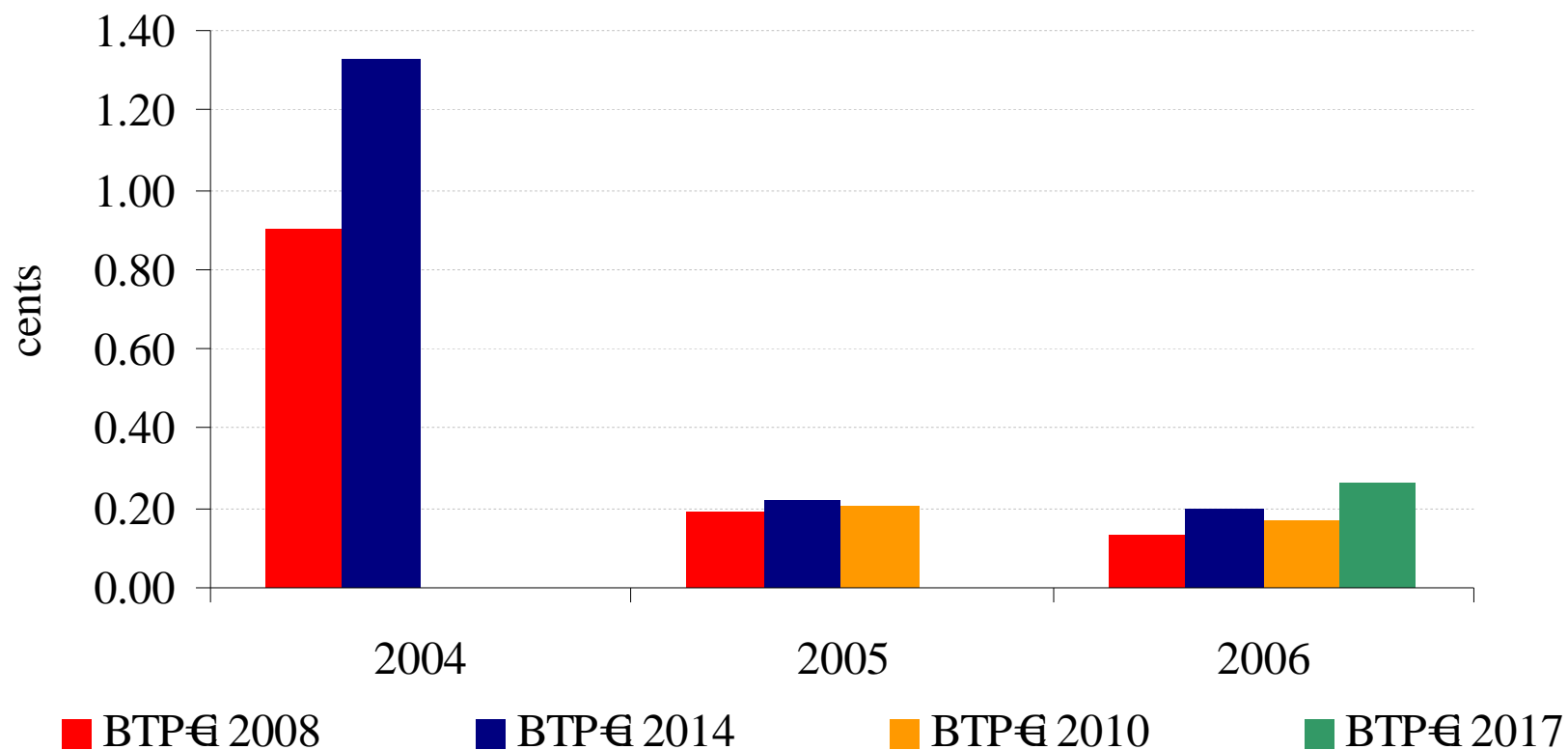


- Turnover in BTP€ is higher than in other Government issues linked to euro inflation
- Since January 2005 on MTS platforms the five most traded € were BTP€



# Liquidity of BTP€s has improved over time

Bid-ask spread of the most traded  
BTP€s on MTS (cents)





For more information, visit our web site:

*[www.publicdebt.it](http://www.publicdebt.it)*