

ANNO ACCADEMICO 2018–2019

SCIENZA DELLE FINANZE c.a.

PROF. GIUSEPPE EUSEPI

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Finanze)**

Update on Italian Public Debt



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November 2018



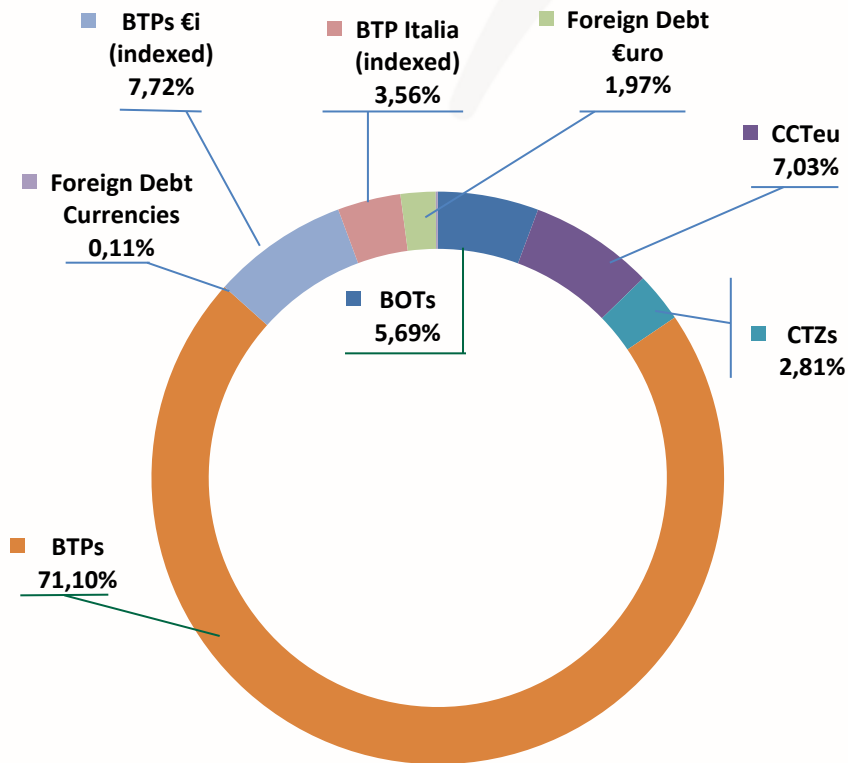
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Italian Public Debt in figures



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Central Government debt: breakdown by instrument as of October 2018

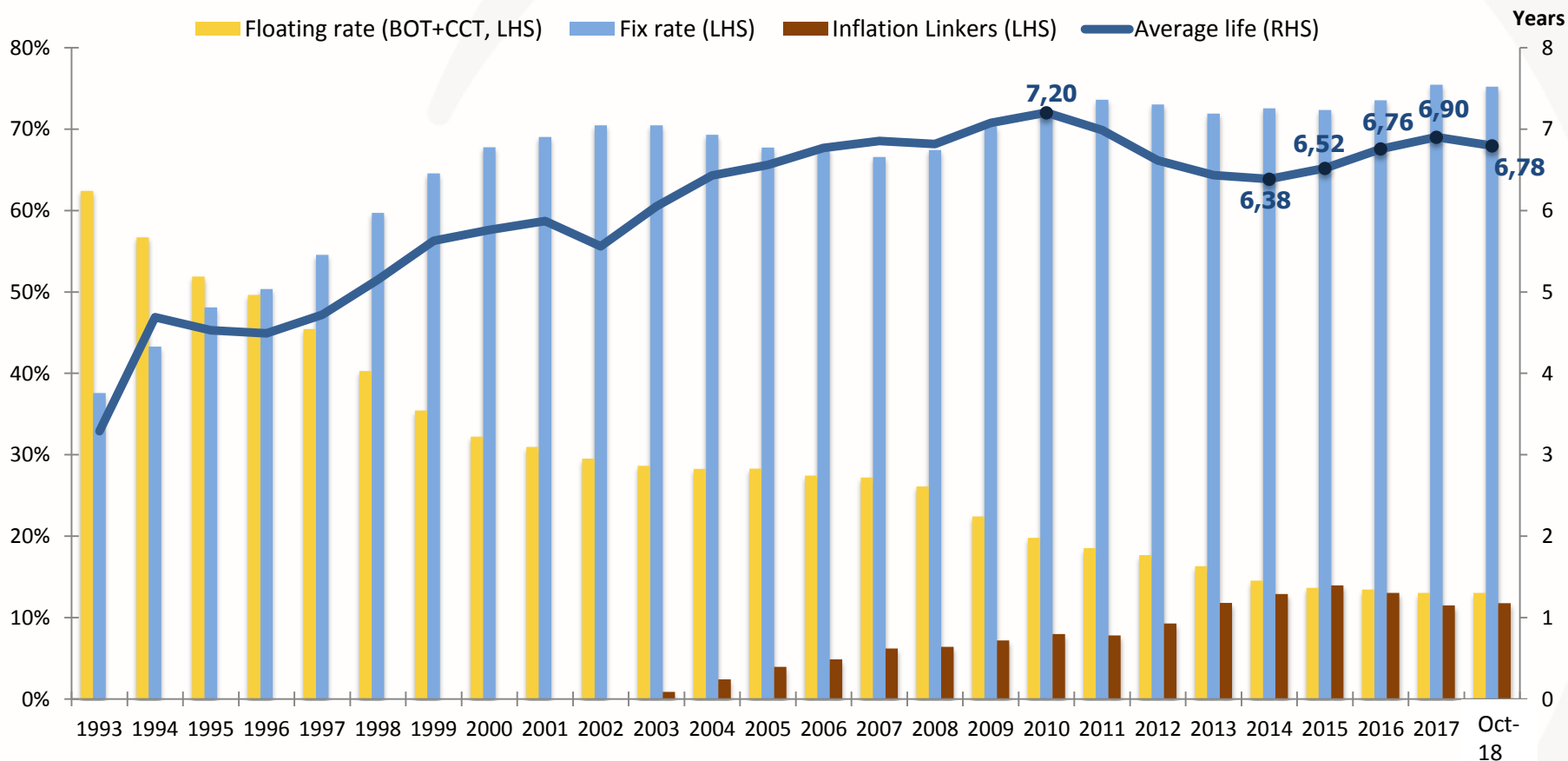


Securities	Amount (€ Mln)	%
BOTs	112.863,00	5,59%
Flexible BOTs	0	0%
CCTeu	139.345,74	6,97%
CTZs	55.614,58	2,13%
BTPs	1.409.287,81	71,78%
BTPs €i (indexed)	153.089,36	7,70%
BTP Italia (indexed)	70.637,63	3,48%
Atypical BTPs	313,66	0,02%
Foreign Debt in Euro	39.137,60	2,21%
<i>of which ISPA Bonds</i>	8.631,61	0,45%
Foreign Debt Currencies	2.269,28	0,11%
Total Amount	1.982.558,65	100%

Average Life: 6.78 years

Source: MEF

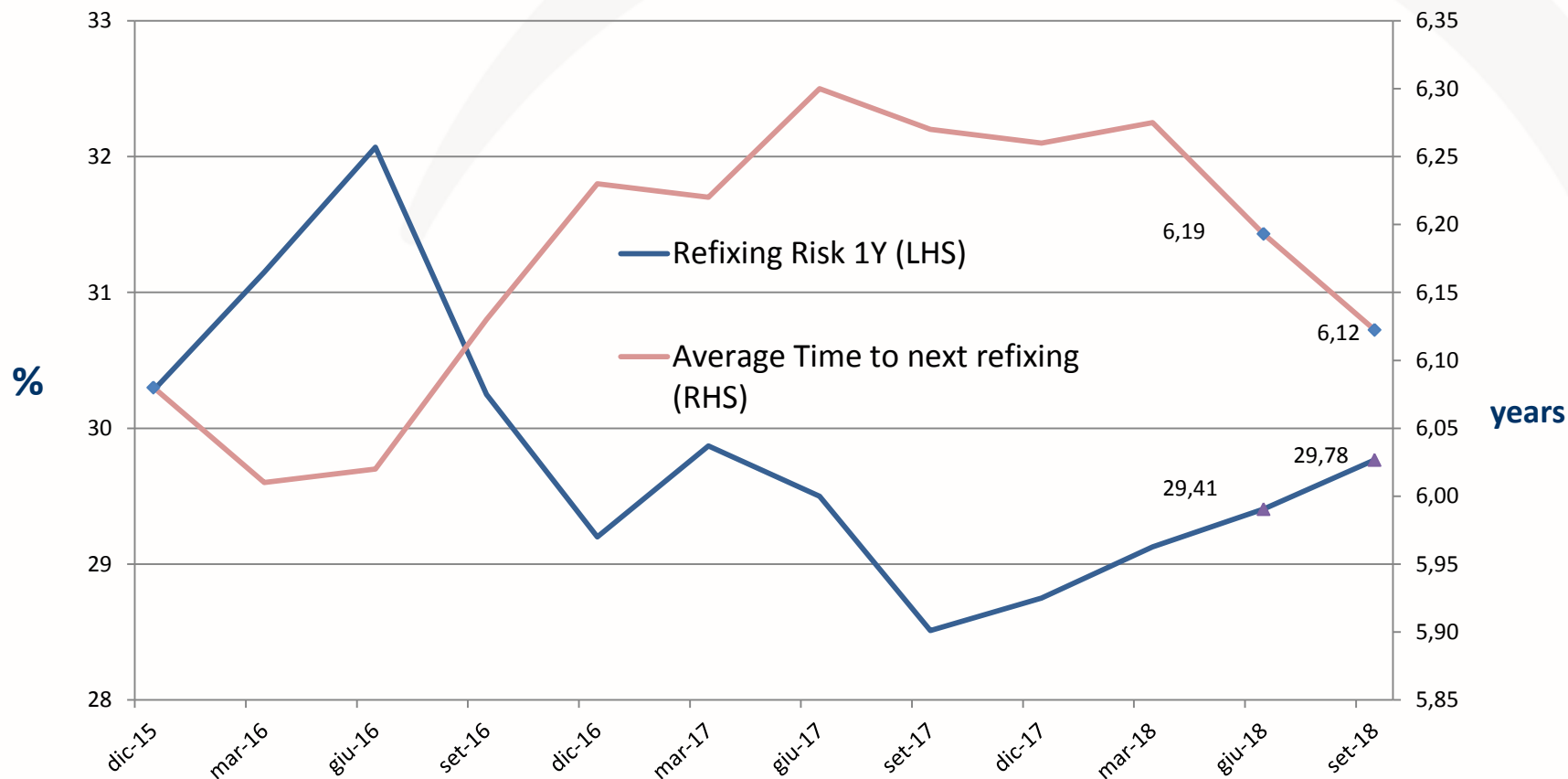
Evolution of debt composition by type of instrument and debt average life



(Average life October 2017: 6.84)

Source: MEF

Interest rate risk: ATR and % 1y refixing*



Source: MEF

* The Economic and Financial Sub-Committee on EU Sovereign Debt Markets (ESDM) has agreed an harmonized set of risk indicators in order to monitor market risks on a quarterly basis. Under criteria defined by the ESDM, inflation linkers are included within floating debt. Data also include Postal Bonds.

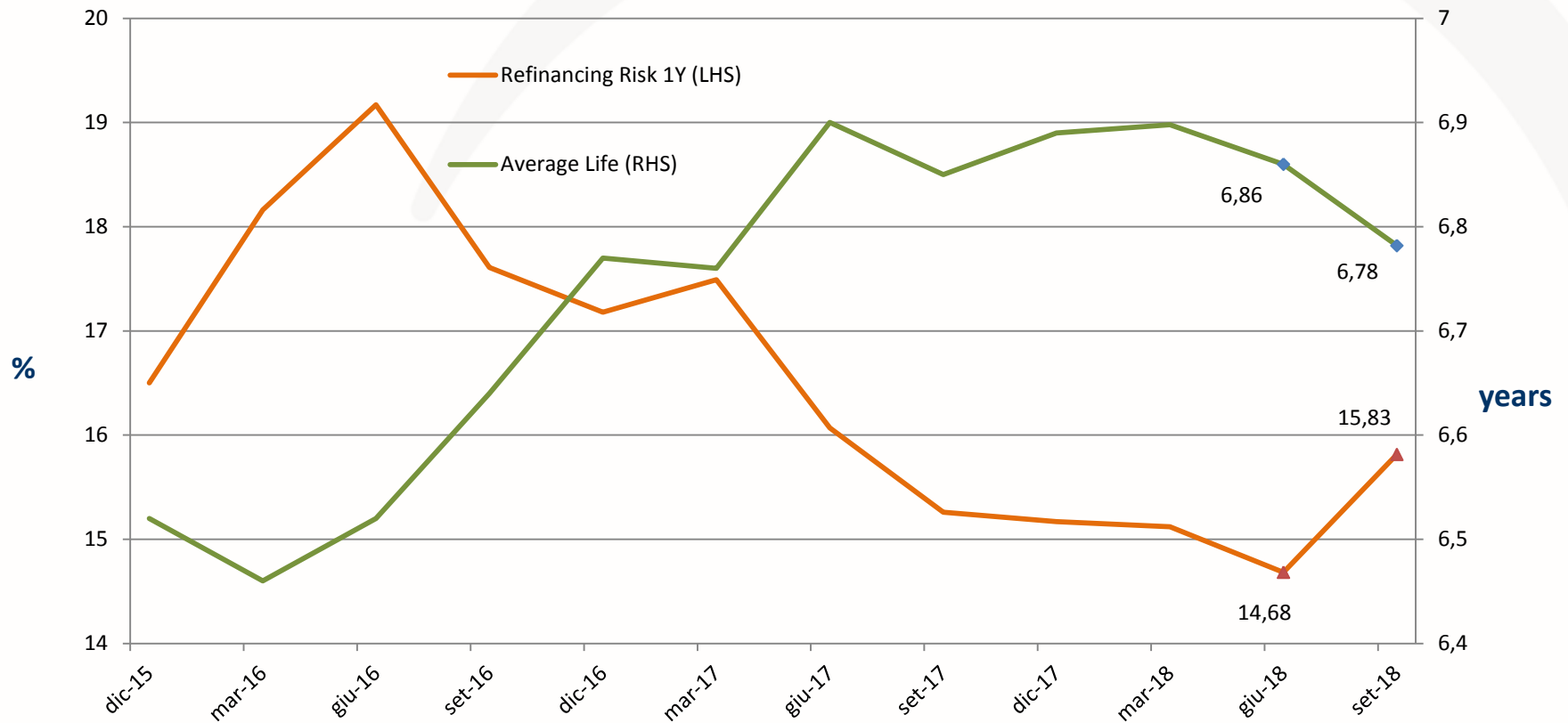
Sensitivity to interest rates shocks (parallel shift)

Given the current debt structure, expected sensitivity of interest expenditure to a 100 bps parallel shift of the whole yield curve turns out to be substantially unchanged since the previous sensitivity analysis

Interest expenditure/GDP		
Years	Update Sept. 2018	Update Apr. 2018
1st	0,11	0,11
2nd	0,27	0,25
3rd	0,39	0,36

Source: MEF, September 2018

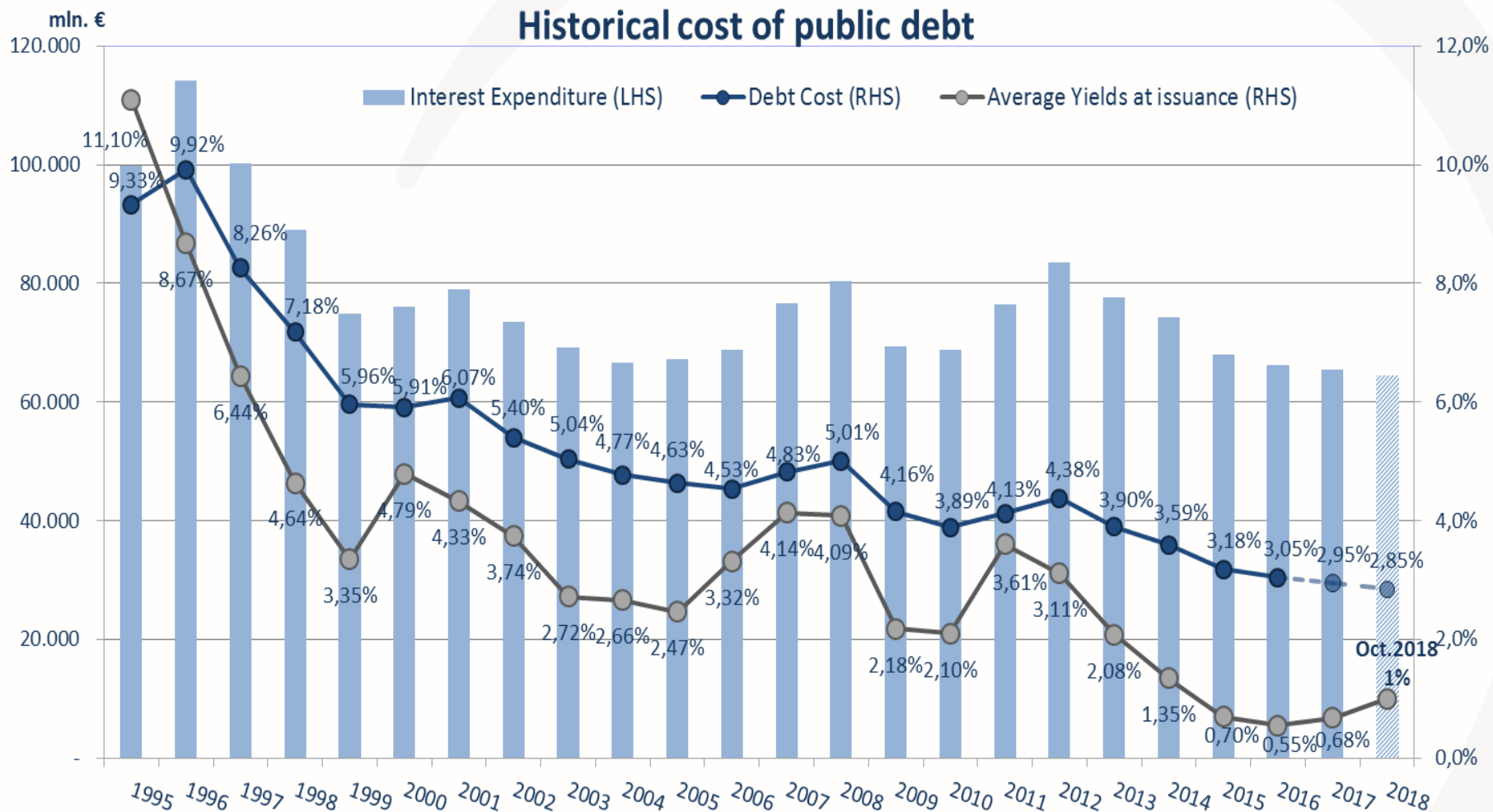
Refinancing risk: Average Life and % 1y refinancing*



Source: MEF

*The Economic and Financial Sub-Committee on EU Sovereign Debt Markets (ESDM) has agreed an harmonized set of risk indicators in order to monitor market risks on a quarterly basis. Under criteria defined by the ESDM, inflation linkers are included within floating debt. **Data also include Postal Bonds.**

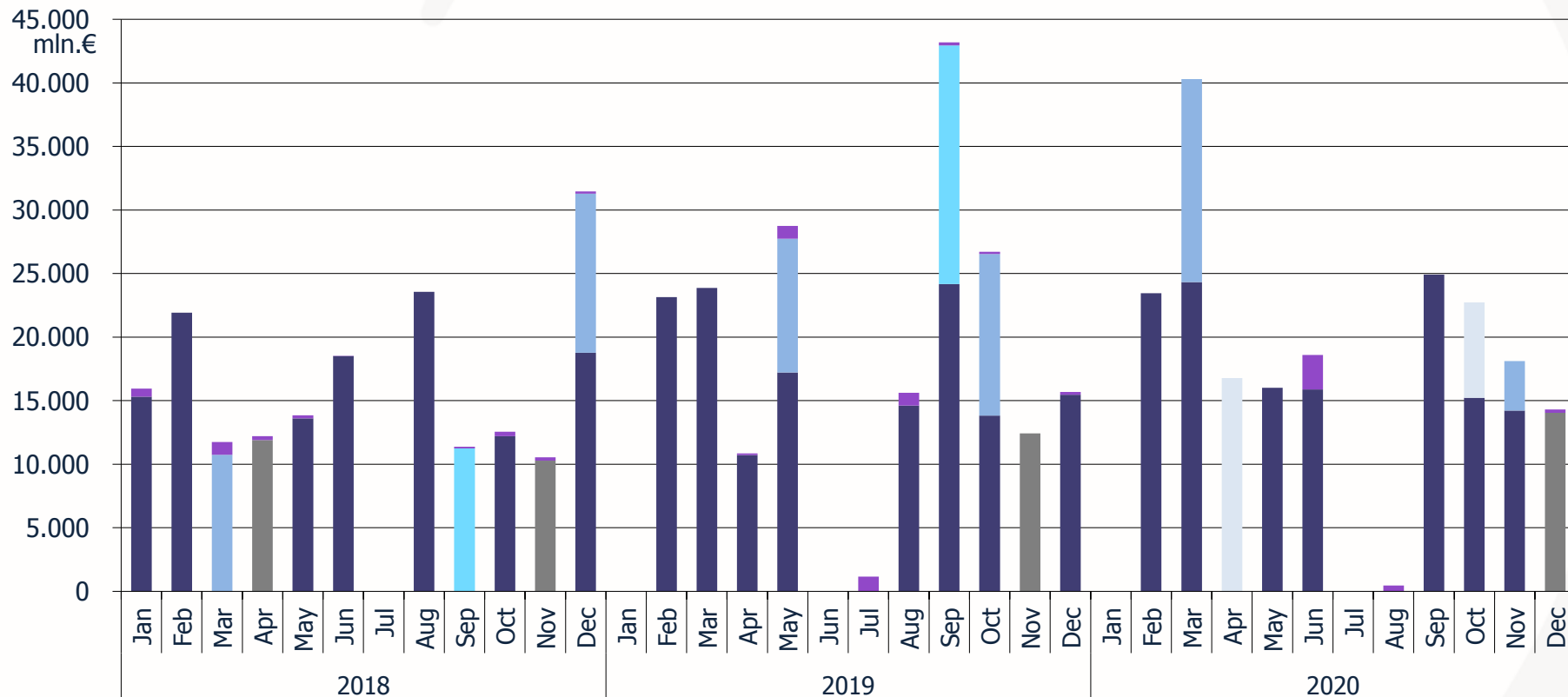
Trends in average debt cost, cost at issuance and interest expenditure



Source: MEF, ISTAT, (National Bureau of Statistics)

Bond redemptions Jan. 2018 – Dec. 2020 (as of October 2018)

■ BTPs ■ BTP€i ■ BTP Italia ■ CCTs ■ CTZs ■ Foreign Debt



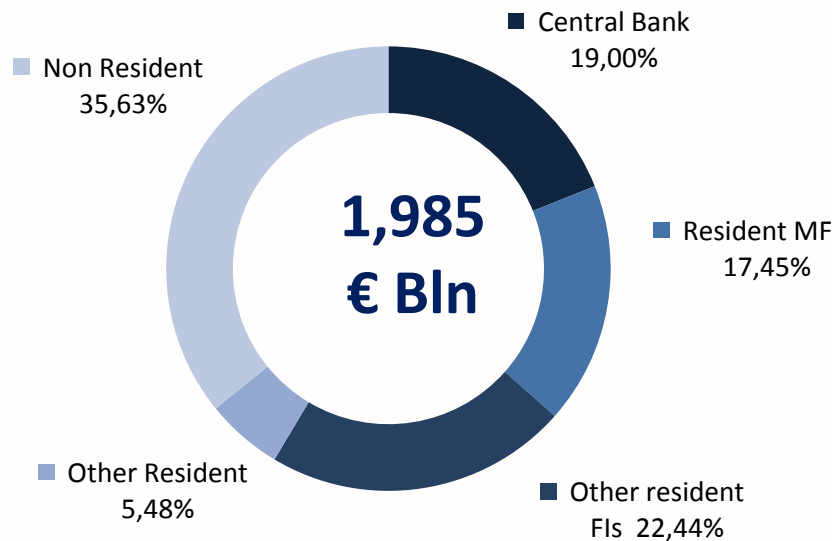
Source: MEF

Breakdown by holders :

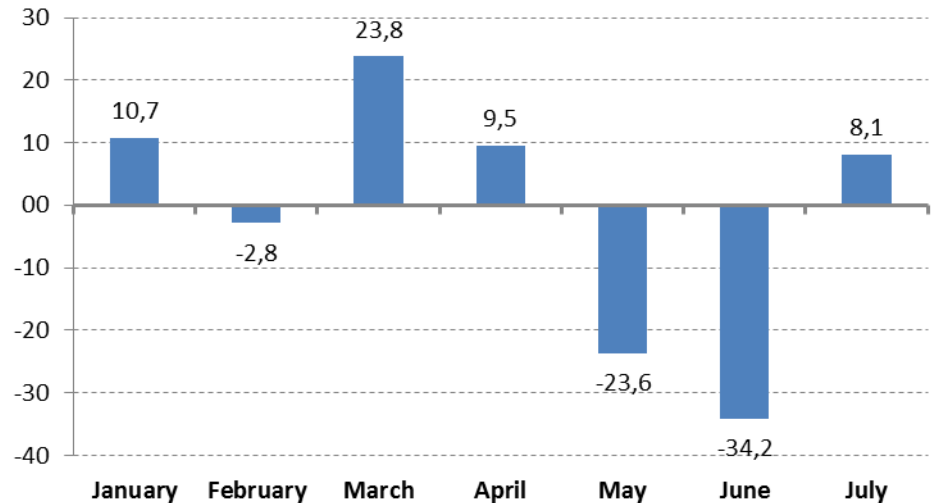
foreign component is declining but without any major shift so far

(data as of July/August 2018)

Central Government securities (marketable)



Monthly changes in total Central Government securities (marketable) held by not residents*

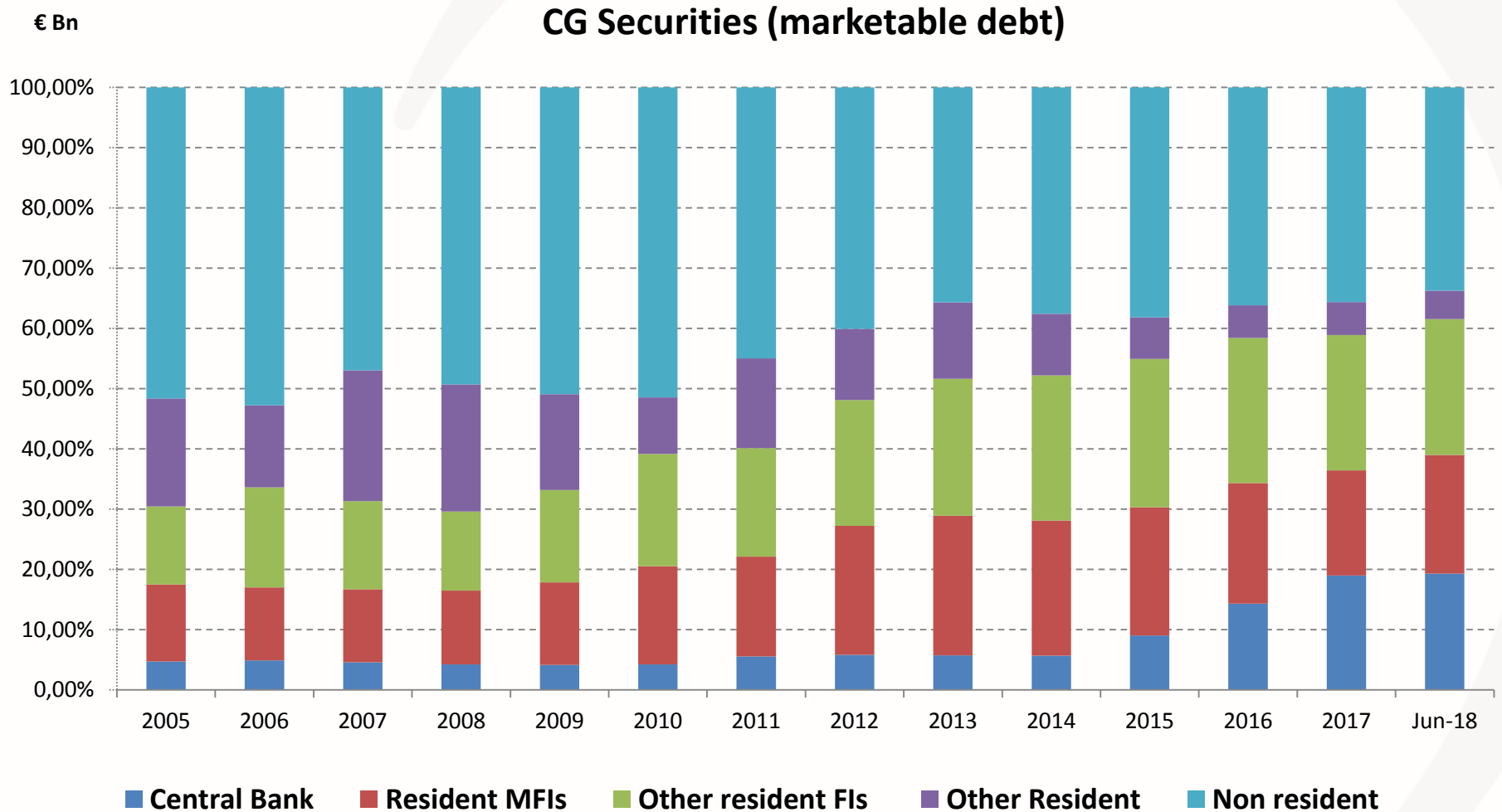


* Data are derived from Bank of Italy's Bulletin on «Public Finance:s: Borrowing requirement and Debt»

Central Government Securities = 84.9% of General Government Debt

Source: MEF, Bank of Italy

Central Government securities: breakdown by holders as of June 2018 (trends)



Government securities breakdown by asset and investor

4Q2017

BREAKDOWN BY ASSET AND INVESTOR - 4Q2017

	BTPs BTP€is BTP ITA CTZs	CCTs	BOTs
Not resident	34%	18%	80%
Insurance Co. and Pension Funds	17%	14%	1%
Banks	14%	39%	11%
Households and Corporate	9%	1%	1%
Financial Institutions	6%	7%	7%
Central Bank	20%	21%	0%
	100%	100%	100%



2 Public Debt management in 2018



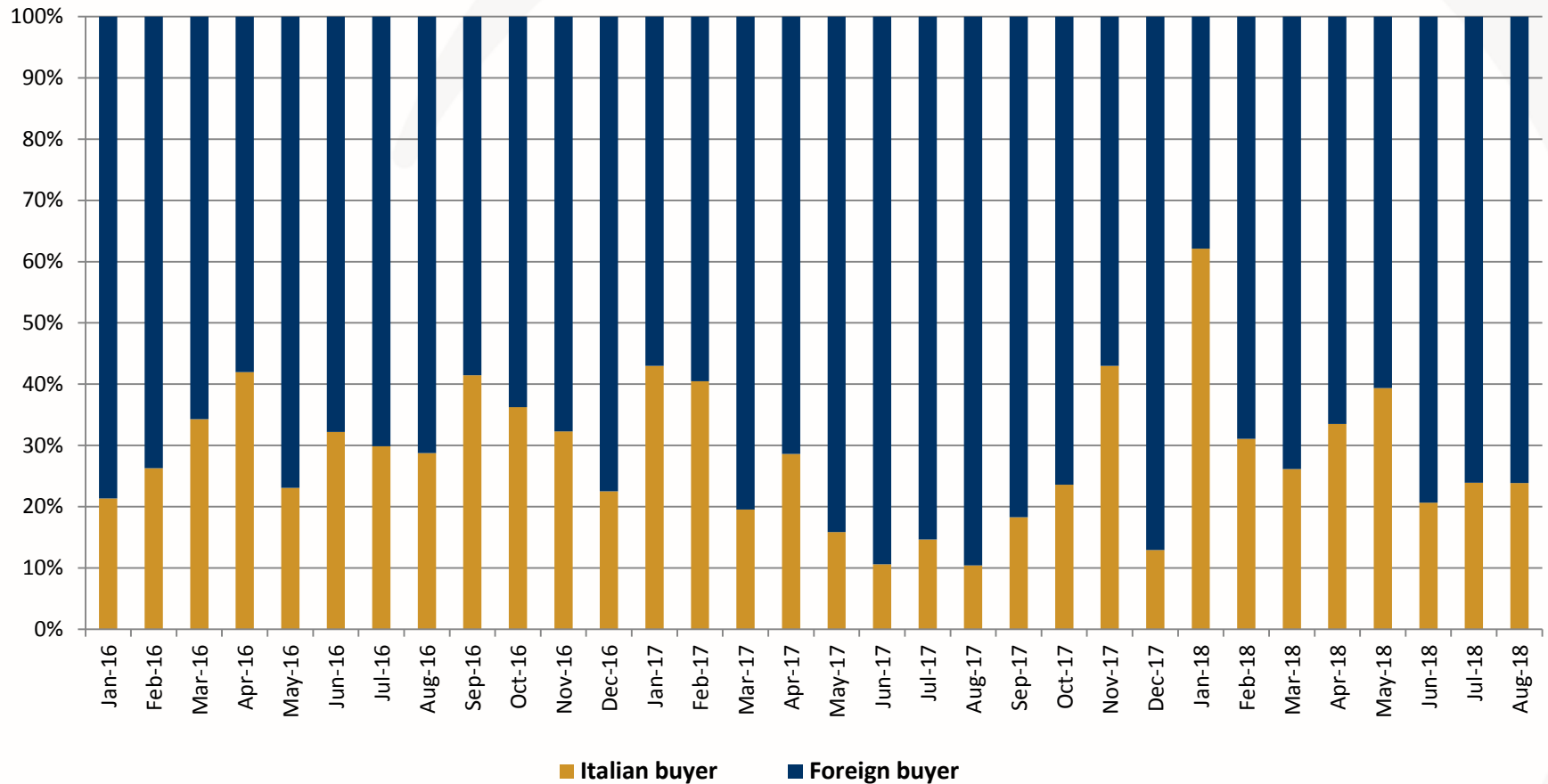
Debt Policy for 2018 (I)

- Scheduled redemptions in 2018 are about € 30 bn less than in 2017. This is the legacy of past issuance choices as well as of liability management transactions carried out in the recent past as exchanges and buybacks, that were heavily focused on 2018-19 redemptions.
- Considering that net borrowing requirement is lower than in previous year, total issuance volume of medium-long term securities will be in the region of 250 bn euros. As of the end of October roughly more than 90% of the 2018 funding plan has been completed
- BOT issuance volume has been kept in line with that of 2017 – or slightly more – thereby bringing the stock at the end of 2018 more or less to same level as of 2017 year-end (i.e around € 106Bn)
- In the nominal space, issuance of BTPs has been predictable over the all segments up to 10 years, with some more weight on the 7-10 years' sector vs the 3-5 years' one, also to take into account the increase of volatility in this segment since May
- On the nominal long end, supply has been spread out on all the lines (15-20-30-50 years) according to market conditions. Total share of long end issuance will continue to be relevant as in recent years.

Debt Policy for 2018 (II) and initial thoughts for 2019

- On floaters, supply has been kept regular and at adequate size taking in account redemptions in order not to significantly alter the stock at year-end, thereby keeping interest rate risk under control
- In the inflation segment:
 - A new 5 years introduced in March
 - After the issuance held in the month of May, a further BTP Italia issuance is scheduled for November
- Derivatives: following the entering into force of a specific legislative framework, a bilateral CSA system is being implemented, allowing counterparties to ease meeting regulatory requirements and to lower possible FX hedging costs (see following point)
- For 2019 more focus will be given to retail investors (even, if possible, with new tailored instruments) and foreign currency issuance (thanks to the introduction of CSA as mentioned in the previous point)

Participation to nominal BTP auctions : breakdown foreign/domestic buyer

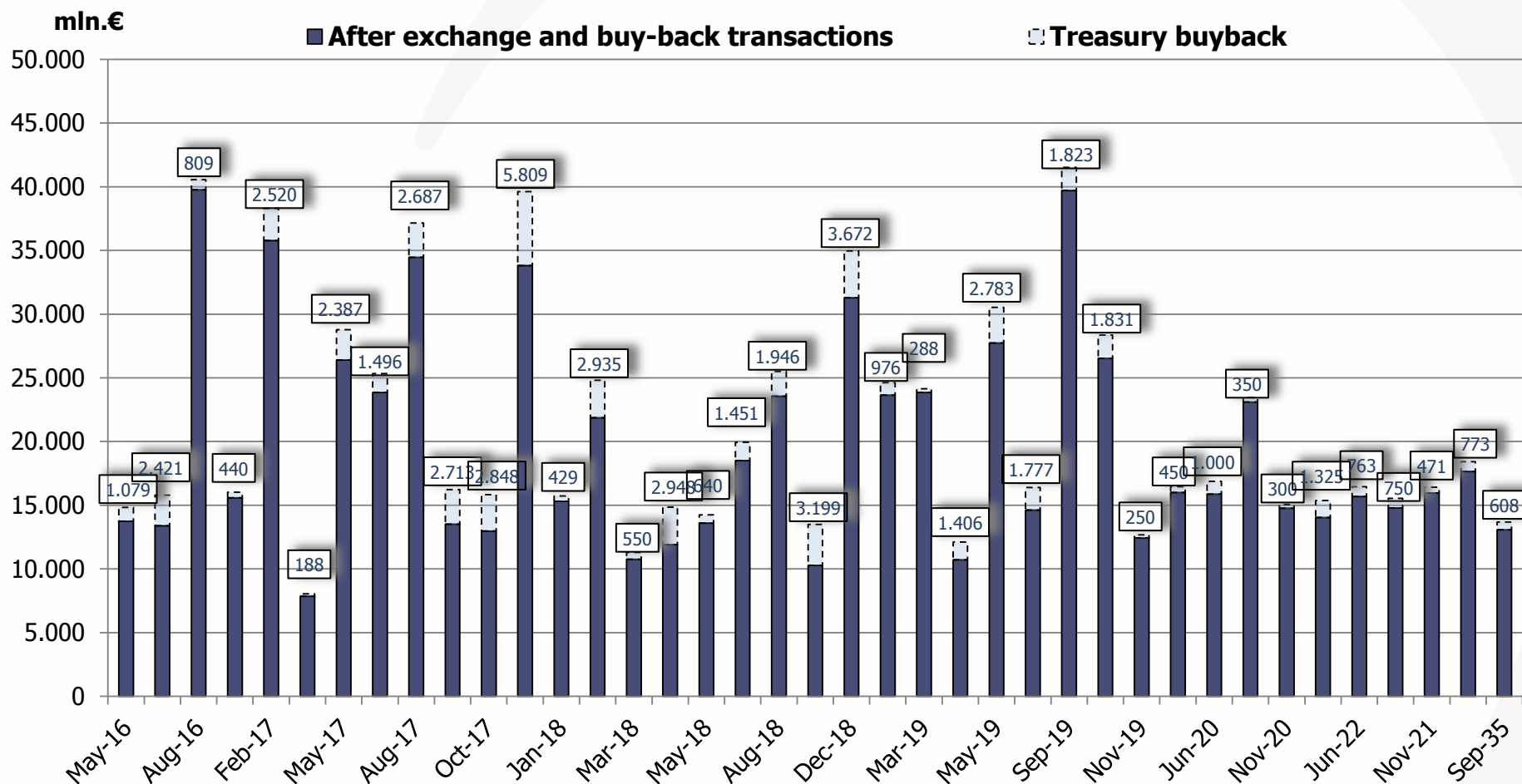


*These data are collected by the Treasury from Primary Dealers in occasion of nominal BTPs auctions. Since representing flows recorded at the time of auctions, they are not comparable to data about stock owned by investors recorded at Bank of Italy.

The role of buy-backs and debt exchanges in managing redemption profile

- Buy-backs and debt exchanges are steadily used by MEF as a tool of the overall Debt management risk policy, as they may actually contribute to reduce refinancing risk and smooth redemption profile.
- Buy-backs are also used as a way to contribute to an adequate liquidity and efficiency of the secondary market especially in periods of market stress (like since mid-May this year)
- Securities to possibly buy back are selected by Treasury on several criteria including redemption profile, bond liquidity (aiming to avoid negative impacts in the secondary market) and impact on outstanding debt (bonds traded at par or below maximize the effects in terms of outstanding debt reduction). Buyback are performed via a competitive auction or a bilateral transaction
- Exchanges are performed via an exchange auction or via electronic trading system, allowing the Treasury to directly operate on the secondary market

Impact of all buy-backs and exchange transactions on future redemptions profile



Source: MEF

A proactive approach to face increasing volatility: buy-backs and exchange transactions in 2018

- *2018 Exchanges on electronic platform*
 - 2000 mln (issuance of a BTP 21, buyback of BTP 2018-19 area and CTZ 2018-2019 area) on April the 18th
 - 2100 mln (issuance of a BTP 28, buyback of BTP 2019-20-21 area) on October the 3rd
 - 3800 mln (issuance of BTPs 25,26,28,29 and 46, buyback of BTP Italia April 2020) on October the 18th
- *2018 Bilateral Buybacks*
 - 500 mln (BTP 2019, 2020 area) on May the 31st
 - 700 mln (BTP 2020, CCTeu 2019-20 area) on June the 22nd
 - 950 mln (BTP 2020, CCTeu 2019-22 area) on August the 3rd
- *2018 Public Buybacks*
 - 2.750 mln (BTP€i 2019, CCTeu 2020, 2022) on September the 7th

Source: MEF



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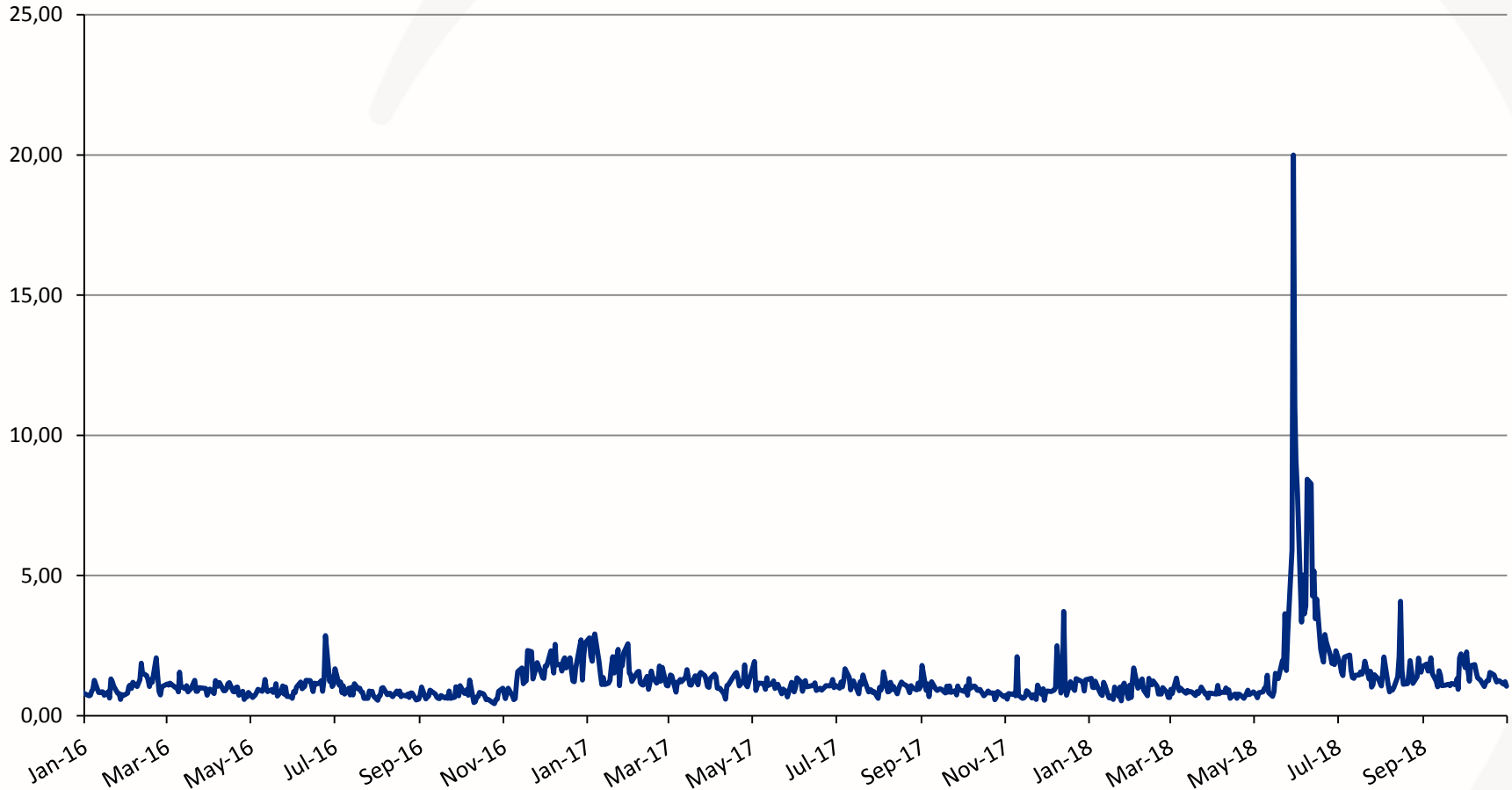
Market data



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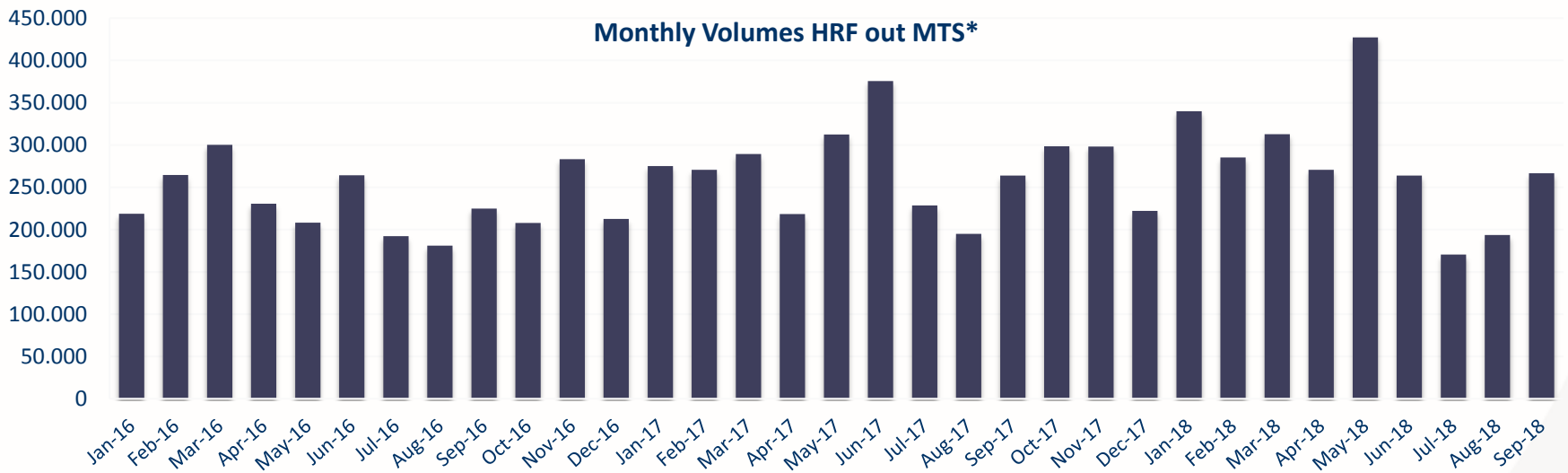
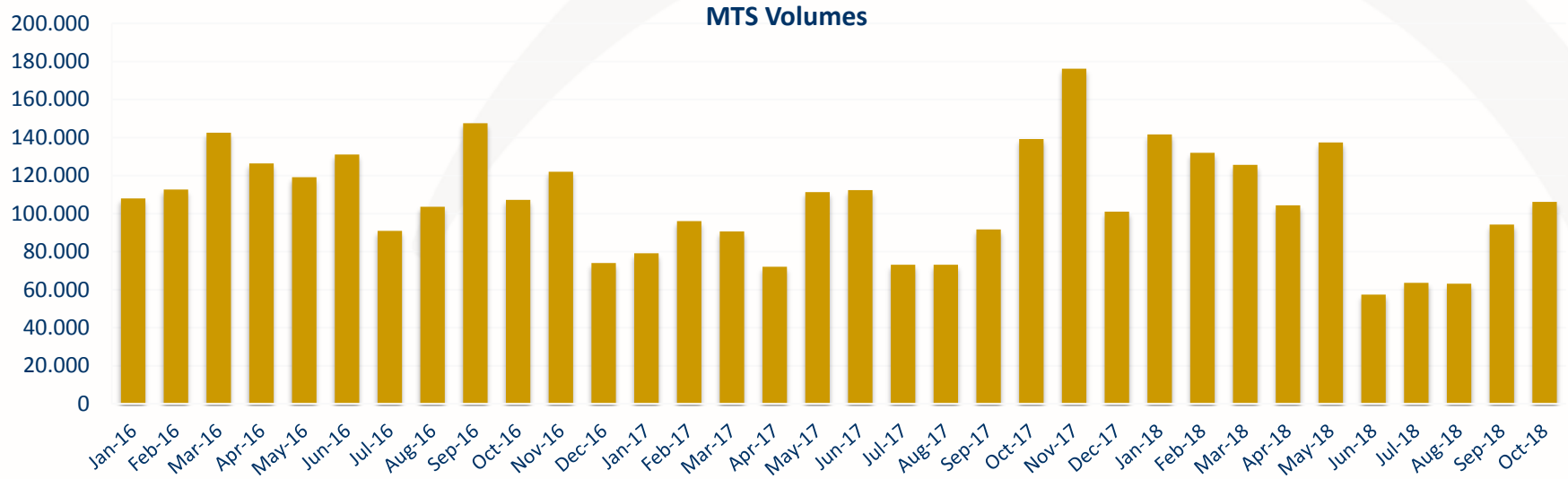
Liquidity of the secondary market

10 yr BTP bid-ask spread, b.p.
(January 2016-September 2018)



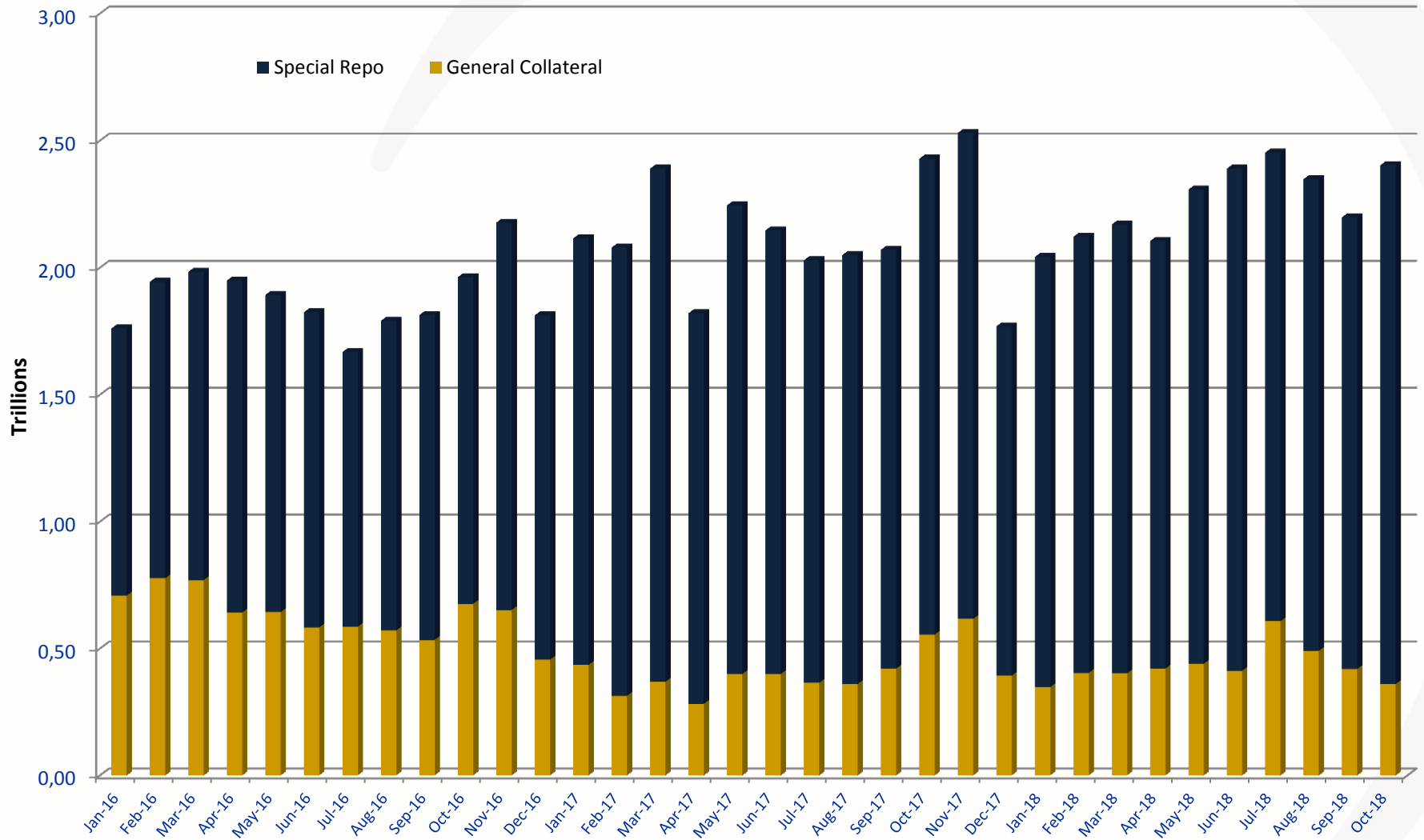
Source: MTS Italy interdealer platform

Secondary market volumes (€ Mln)



* Data collected from Italian primary dealers only. Single counted.

Repo market volumes





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