Prospectus Supplement
(To Prospectus dated August 10, 1993)

$5,500,000,000

Republic of Italy

$2,000,000,000 6% Notes due September 27, 2003
$3,500,000,000 6⅞% Debentures due September 27, 2023

The Securities will constitute direct, general and unconditional obligations of the Republic of Italy. Interest on the Securities is payable semi-annually on March 27 and September 27, commencing March 27, 1994. All payments of principal and interest on the Securities will be made in U.S. dollars without deduction for or on account of taxes imposed by the Republic of Italy, subject to the exceptions described under "Description of Securities — Italian Taxation". The Securities will not be redeemable prior to maturity. See "Description of Securities".

Both the Notes and the Debentures will be represented by Global Securities in fully registered form without coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, DTC for the accounts of its participants, including Euroclear and Cedel. Beneficial interests in the Global Securities will trade in DTC's Same-Day Funds Settlement System, and secondary market trading activity in such interests will therefore settle in same-day funds. Beneficial interests in the Global Securities will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. Except in limited circumstances, registered definitive Securities will not be issued in exchange for beneficial interests in the Global Securities. See "Global Clearance and Settlement".

Application has been made to the International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (the "London Stock Exchange") and the Stock Exchange of Singapore Limited for the Securities to be admitted to the Official List of each such exchange. Application has also been made to list the Securities on The Stock Exchange of Hong Kong Limited. The Securities are offered for sale in those jurisdictions in the United States, Europe and Asia where it is legal to make such offers. See "Underwriting".

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT OR THE PROSPECTUS TO WHICH IT RELATES. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Initial Public Offering Price (1)	Underwriting Discount (2)	Proceeds to Italy (1)(3)
Per Note	99.851%	.350%	99.501%
Total	$1,997,020,000	$7,000,000	$1,990,020,000
Per Debenture	98.725%	.500%	98.225%
Total	$3,455,375,000	$17,500,000	$3,437,875,000

(1) Plus accrued interest, if any, from September 27, 1993.
(2) Italy has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.
(3) Before deduction of estimated expenses of approximately $2,000,000 payable by Italy, including approximately $400,000 of the expenses of the Underwriters to be reimbursed by Italy.

The Securities are offered subject to receipt and acceptance by the Underwriters, to prior sale and to the Underwriters' right to reject any order in whole or in part and to withdraw, cancel or modify the offer without notice. It is expected that delivery of the Global Securities will be made, against payment therefor in same-day funds, on or about September 27, 1993.

Goldman, Sachs & Co.
Salomon Brothers Inc

CS First Boston
Merrill Lynch & Co.
Deutsche Bank AG London
J.P. Morgan Securities Inc.
UBS Limited
IBJ International plc
Morgan Stanley International

Banca Commerciale Italiana
Banca Nazionale del Lavoro
BNP Capital Markets Limited
CREDITO ITALIANO
Dresdner Bank Aktiengesellschaft
Istituto Bancario San Paolo di Torino S.p.A.
Monte dei Paschi di Siena
Paribas Capital Markets
S.G. Warburg Securities

Banca di Roma
Gruppo Cassa di Risparmio di Roma
Banco di Napoli
CARIPLO S.p.A.
Daiwa Europe Limited
IMI Bank (Lux) S.A.
Lehman Brothers
Nomura International
Swiss Bank Corporation
Westdeutsche Landesbank Girozentrale

The activities of the Underwriters in connection with this transaction are led jointly by Goldman, Sachs & Co. and Salomon Brothers Inc.

The date of this Prospectus Supplement is September 16, 1993.

This Prospectus Supplement should be read together with the accompanying Prospectus, dated August 10, 1993 (the "Prospectus"), of the Republic of Italy ("Italy" or the "Republic"), which contains information regarding Italy and other matters, including a description of certain terms of Italy's securities. Further information regarding Italy and the 6% Notes due September 27, 2003 (the "Notes") and 6⅞% Debentures due September 27, 2023 (the "Debentures" and, together with the Notes and for purposes of this Prospectus Supplement only, the "Securities") offered hereby, which constitute two separate series of debt securities of Italy being offered from time to time pursuant to the Prospectus, may be found in registration statement no. 33-66854 (the "Registration Statement") relating to the securities of Italy described in the Prospectus, on file with the U.S. Securities and Exchange Commission (the "Commission").

The distribution of this Prospectus Supplement and the Prospectus and the offering of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus Supplement and the Prospectus come should inform themselves about and observe any such restrictions. This Prospectus Supplement and the Prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. See "Underwriting".

Any offer or sale or distribution of this Prospectus Supplement and the Prospectus or any rendering of advice in respect of investments in the Securities, in each case within Italy, in connection with the offering to which this Prospectus Supplement and the Prospectus relate must be conducted either by a registered securities dealing firm (a "SIM") or by an authorized bank, in each case as defined by Law no. 1 of January 2, 1991. Pursuant to Legislative Decree no. 481 of December 14, 1992, foreign banks organized in a member nation of the European Community may be permitted to conduct the foregoing activities from such member nation, *provided that* the authorities of such member nation have informed the Bank of Italy that such foreign bank intends to conduct such activities in Italy.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document. The Stock Exchange of Singapore Limited takes no responsibility for the correctness of any of the statements made, or opinions expressed, in this Prospectus Supplement or the Prospectus. Listing of the Securities is not to be taken as an indication of the merits of the Securities or Italy.

Italy accepts responsibility for the information contained herein and in the Prospectus. To the best of the knowledge and belief of Italy (which has taken all reasonable care to ensure that such is the case), the information contained herein and in the Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

IN CONNECTION WITH THIS OFFERING, GOLDMAN, SACHS & CO. (OR IN THE CASE OF ANY TRANSACTIONS IN THE UNITED KINGDOM, GOLDMAN SACHS INTERNATIONAL LIMITED), FOR THE ACCOUNT OF THE UNDERWRITERS, MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SECURITIES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE LONDON STOCK EXCHANGE, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. ANY STABILIZATION ACTIVITIES EFFECTED BY GOLDMAN, SACHS & CO. OR GOLDMAN SACHS INTERNATIONAL LIMITED ARE SUBJECT TO PRIOR AGREEMENT WITH SALOMON BROTHERS INC.

In this Prospectus Supplement and the Prospectus, all amounts are expressed in Italian lire ("Lit.", "lire" or "lira") or U.S. dollars ("U.S.$", "$" or "dollars"), except as otherwise specified. See "The External Sector of the Economy — Reserves and Exchange Rates" in the Prospectus for the average rates for the lira against the dollar for the period 1988 through 1992. On September 15, 1993, the noon buying rate for cable transfers of lire, as reported by the Federal Reserve Bank of New York, was 1,539.50 lire per dollar (or 0.06496 U.S. cents per lira). Unless otherwise indicated, lira amounts translated into dollars in this Prospectus Supplement and the Prospectus have been translated at such rate.

As used herein, one billion equals 1,000 million.

The Republic is a foreign sovereign government. Consequently, it may be difficult for investors to obtain or realize upon judgments of courts in the United States against Italy. Italy will irrevocably submit to the jurisdiction of the Federal and State courts in The City of New York, and will irrevocably waive any immunity from the jurisdiction (but not execution or attachment or process in the nature thereof) of such courts and any objection to venue, in connection with any action arising out of or based upon the Securities brought by any holder of Securities. Italy reserves the right to plead sovereign immunity under the United States Foreign Sovereign Immunities Act of 1976 (the "Immunities Act") with respect to actions brought against it under United States Federal securities laws or any state securities laws. In the absence of a waiver of immunity by Italy with respect to such actions, it would not be possible to obtain a United States judgment in such an action against Italy unless a court were to determine that Italy is not entitled under the Immunities Act to sovereign immunity with respect to such action. In general, the enforcement by an Italian court of a final judgment of a state or Federal court in the United States obtained other than by default would not require retrial of the case in Italy. The enforceability in Italy of such a judgment is subject to, among other things, the absence of any conflicting judgment in Italy, the absence of any pending proceeding in Italy among the same parties and the lack of contradiction with Italian principles of public order. The Italian courts may enter and enforce judgments in foreign currencies. See "Description of Debt Securities — Governing Law; Consent to Service" in the Prospectus.

SUMMARY OF THE OFFERING

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Prospectus Supplement and the Prospectus.

Issuer	The Republic of Italy.
Securities Offered	$2,000,000,000 principal amount of 6% Notes due September 27, 2003. $3,500,000,000 principal amount of 6⅞% Debentures due September 27, 2023.
Maturity Date	Notes: September 27, 2003 Debentures: September 27, 2023
Interest Payment Dates	March 27 and September 27 of each year, commencing March 27, 1994.
Redemption	The Securities are not subject to redemption prior to maturity. At maturity, the Securities will be redeemed at par.
Markets	The Securities are offered for sale in those jurisdictions in the United States, Europe and Asia where it is legal to make such offers. See "Underwriting".
Listing	Application has been made to the London Stock Exchange and the Stock Exchange of Singapore Limited for the Securities to be admitted to the Official List of each such exchange. Application has also been made to list the Securities on The Stock Exchange of Hong Kong Limited.
Form and Settlement	Both the Notes and the Debentures will be issued in the form of a limited number of fully registered global securities (collectively, the "Global Securities"), in each case registered in the name of Cede & Co., as the nominee of The Depository Trust Company ("DTC"). Except as described in this Prospectus Supplement, beneficial interests in the Global Securities will be represented through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Global Securities through DTC in the United States or through Morgan Guaranty Trust Company of New York, Brussels Office, as operator of the Euroclear System ("Euroclear"), or Cedel S.A. ("Cedel") in Europe, if they are participants in such systems, or indirectly through organizations which are participants in such systems. Euroclear and Cedel will hold interests on behalf of their participants through their respective depositaries, Morgan Guaranty Trust Company of New York and Citibank, N.A., which in turn will hold such interests in accounts as participants in DTC. Except as described in this Prospectus Supplement, owners of beneficial interests in the Global Securities will not be entitled to have Securities registered in their names, will not receive or be entitled to receive physical delivery of Securities in definitive form and will not be considered holders thereof under the Securities or the Fiscal Agency Agreement. The Securities will be issued only in registered form without interest coupons. See "Description of Securities — Form, Denominations and Registration". Initial settlement for the Securities will be made in same-day funds. Beneficial interests in the Global Securities will trade in DTC's Same Day Funds Settlement System; any secondary market trading of beneficial interests in the Global Securities will occur through participants in DTC, Euroclear and Cedel and will settle in same-day funds. See "Global Clearance and Settlement".
Withholding Tax	Principal of and interest on the Securities are payable by the Republic without withholding or deduction for Italian withholding taxes to the extent set forth herein. See "Description of Securities — Italian Taxation".

RECENT DEVELOPMENTS

On September 15, 1993, the Government presented to the Chamber of Deputies its draft Annual Financial Law for 1994, which reflects the goals set forth in the Government's 1994-96 Program Document. See "Public Finance — The Budget Process" and "— 1994 Budgetary Program" in the Prospectus. The draft Annual Financing Law, which calls for revenue increases of Lit. 3,800 billion and spending cuts of Lit. 27,200 billion, includes substantial spending reductions of a structural, as opposed to a temporary, nature in the areas of civil service, pensions, health care and education.

Since the date of the Prospectus, certain fiscal and economic data have become available. The unemployment rate in July 1993 was 10.3%, lower than the peak of 10.5% reached in April 1993 but higher than the rate of 9.5% posted in January 1993. See "The Italian Economy — Employment and Labor" in the Prospectus. During the twelve months ended August 1993, the Cost of Living Index increased at the rate of 4.4% per annum, below the rate of the comparable period ended 1992 but higher than the rate of 4.0% per annum of the twelve months ended May 1993. See "Public Finance — 1994 Budgetary Program" in the Prospectus.

The most recently released trade data illustrate the strength of Italian exports during the first half of 1993. Italy's trade balance with EC countries for the first six months of 1993 moved from a deficit of Lit. 8,539 billion for the same period in 1992 to a surplus of Lit. 4,390 billion, the combined result of an increase of 11.1% in exports to the other eleven EC countries and a decrease of 8.7% in imports from such EC countries. Italy's trade balance with non-EC countries for the first seven months of 1993 moved from a deficit of Lit. 4,318 billion for the same period in 1992 to a surplus of Lit. 8,157 billion, resulting from an increase of 30.6% in exports and an increase of only 6.9% in imports. Exports to non-EC countries during the first six months of 1993 reached 45% of total exports. See "The External Sector of the Economy — Foreign Trade" in the Prospectus.

On September 9, 1993, for the sixth time since the beginning of the year, the Bank of Italy lowered the discount rate and the rate on fixed term advances, to 8.5% from 9.0% and to 9.5% from 10.0%, respectively. These figures mark the lowest level of interest rates in Italy since 1976. See "Monetary System — Monetary Policy" in the Prospectus. From January 4 to September 15, 1993, the exchange rate of the lira, as published by the Bank of Italy, declined 1.2% against the dollar and 3.6% against the Deutsche Mark. See "The External Sector of the Economy — Reserves and Exchange Rates" in the Prospectus.

In early September 1993, the Government and IRI announced further increases in the scope of the privatization program, including the intended sale of the controlling share owned by IRI of Banca Commerciale Italiana S.p.A. and Credito Italiano S.p.A. and a portion of the Government's share of Istituto Mobiliare Italiano S.p.A. (IMI), in each case through public stock offerings in Italy and abroad. The Government recently completed the sale of certain subsidiaries of EFIM and a substantial portion of SME. See "Public Finance — Government Enterprises" and "—Privatization Program" in the Prospectus.

On August 27, 1993, the Council of Ministers approved a comprehensive banking law, expected to become effective on January 1, 1994, which supersedes almost all the approximately 1,400 currently existing banking laws and regulations. The new banking law, which in substance preserves most of the currently existing provisions, completes and codifies the reform of the Italian banking industry described in "Monetary System — Structure of the Banking Industry" and "—Amato Law and Other Developments" in the Prospectus, bringing the system into line with the provisions of the EC's Second Banking Directive.

In early September 1993, the EC Commission approved a draft agreement entered into with Italy, pursuant to which the EC will not consider the repayment by the Government of the debts of companies 100% owned (as opposed to less than 100% owned) by the Government to constitute unfair state subsidies. Under the agreement, the Government will be permitted to pay all the debts of EFIM and its directly or indirectly wholly owned subsidiaries. Also pursuant to the agreement, the Government is required to furnish a list of all the debts of Government-owned entities (excluding certain public service entities) to the EC by the end of 1993. After the delivery of such list, the aggregate debt of such entities will not be permitted to increase. The Government is further required by the agreement to improve the financial condition of such entities and, by 1996, to reduce its ownership of all such entities to below 100% in order to eliminate unlimited liability of the Government for new debts of such entities. See "Public Finance — Government Enterprises" and "—Privatization Program" and "Public Debt — General" in the Prospectus.

On September 13, 1993, the EC Council of Ministers approved the disbursement of the second tranche of the EC loan for an aggregate amount of ECU 2.0 billion. The EC Commission is expected to grant its approval of the disbursement in late September 1993. See "Public Finance — The Budget Process" in the Prospectus.

USE OF PROCEEDS

The net proceeds from the sale of the Securities will be used for the general purposes of the Government, including debt management purposes.

DESCRIPTION OF SECURITIES

The Securities are to be issued pursuant to a fiscal agency agreement, dated as of July 1, 1993 (the "Fiscal Agency Agreement"), between Italy and Morgan Guaranty Trust Company of New York, as Fiscal Agent (the "Fiscal Agent"). The following statements and the statements under "Description of Debt Securities" in the Prospectus briefly summarize some of the terms of the Securities and the Fiscal Agency Agreement. Such statements do not purport to be complete and are qualified in their entirety by reference to the Fiscal Agency Agreement and to the form of Global Security, described below, filed or to be filed by Italy with the Commission.

The Notes, which are to be issued in an aggregate principal amount of $2,000,000,000, will bear interest from September 27, 1993 at the rate set forth on the cover page of this Prospectus Supplement and will mature on September 27, 2003. Interest on the Notes will be payable semi-annually on March 27 and September 27 of each year, commencing March 27, 1994, to the persons in whose names the Notes are registered at the close of business on the preceding March 12 or September 12, as the case may be. Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months. The Debentures, which are to be issued in an aggregate principal amount of $3,500,000,000, will bear interest from September 27, 1993 at the rate set forth on the cover page of this Prospectus Supplement and will mature on September 27, 2023. Interest on the Debentures will be payable semi-annually on March 27 and September 27 of each year, commencing March 27, 1994, to the persons in whose names the Debentures are registered on the close of business on the preceding March 12 or September 12, as the case may be. Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months.

The Securities are not redeemable prior to maturity and are not entitled to the benefit of any sinking fund. At maturity, the Securities will be redeemed at par. Dealings in the Securities are expected to commence on or about September 27, 1993. Additional terms of the Securities are described in the Prospectus under "Description of Debt Securities".

The Fiscal Agent is not a trustee for the holders of the Securities and does not have the same responsibilities or duties to act for such holders as would a trustee. The Fiscal Agent is an affiliate of J.P. Morgan Securities Inc., one of the Underwriters referred to in the section entitled "Underwriting".

Form, Denominations and Registration

The statements set forth in this Prospectus Supplement in this section under this subsection and "Definitive Securities" and in the section entitled "Global Clearance and Settlement" include summaries of certain rules and operating procedures of DTC, Euroclear and Cedel that affect transfers of interests in the Global Securities.

The Securities will be issued in the form of the Global Securities registered in the name of Cede & Co. ("Cede"), as nominee of DTC. The Global Securities will be held by the Fiscal Agent as custodian for DTC. The Securities will be issued only in fully registered form, without coupons, and, in the case of any Securities issued in exchange for Global Securities, as provided below, in denominations of $1,000 and integral multiples thereof.

Except as set forth below, the Global Securities may be transferred, in whole and not in part, only to DTC, another nominee of DTC or a successor of DTC or its nominee.

Beneficial interests in the Global Securities will be represented, and transfers of such beneficial interests will be effected, through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Such beneficial interests will be in denominations of $1,000 and integral multiples thereof. Investors may hold Securities directly through DTC, Euroclear or Cedel, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Euroclear and Cedel hold securities on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which in turn hold such securities in customers' securities accounts in the depositaries' names on the books of DTC. Morgan Guaranty Trust Company of New York initially will act as depositary for Euroclear, and Citibank, N.A. initially will act as depositary for Cedel.

DTC may grant proxies or otherwise authorize DTC participants (or persons holding beneficial interests in the Notes through such DTC participants) to exercise any rights of a holder or take any other actions which a holder is entitled to take under the Fiscal Agency Agreement or the Securities. Under its usual procedures, DTC would mail an omnibus proxy to Italy assigning Cede's consenting or voting rights to those DTC participants to whose accounts the Securities are credited on a record date as soon as possible after such record date. Euroclear or Cedel, as the case may be, will take any action permitted to be taken by a holder under the Fiscal Agency Agreement or the Securities on behalf of a Euroclear participant or Cedel participant only in accordance with its relevant rules and procedures and subject to its depositary's ability to effect such actions on its behalf through DTC.

Persons who are not DTC participants may beneficially own Securities held by DTC only through direct or indirect participants in DTC (including Euroclear and Cedel). So long as Cede, as the nominee of DTC, is the registered owner of the Global Securities, Cede for all purposes will be considered the sole holder of the Securities under the Fiscal Agency Agreement and the Securities. Except as provided below, owners of beneficial interests in the Global Securities will not be entitled to have Securities registered in their names, will not receive or be entitled to receive physical delivery of Securities in definitive form and will not be considered the holders thereof under the Fiscal Agency Agreement or the Securities. Accordingly, any person owning a beneficial interest in the Global Securities must rely on the procedures of DTC and, to the extent relevant, Euroclear or Cedel, and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder of Securities. Italy understands that, under existing industry practice, in the event that an owner of a beneficial interest in the Global Securities desires to take any action Cede, as the holder of such Global Securities, is entitled to take, Cede would authorize the participants to take such action, and the participants would authorize beneficial owners owning through such participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Payment

Payment of principal of and interest on the Global Securities will be made to Cede, the nominee for DTC, as the registered owner. The principal of and interest on the Securities will be payable in U.S. dollars or in such other coin or currency of the United States of America as at the time of payment is legal tender for the payment therein of public and private debts.

Upon receipt of any payment of principal of or interest on the Global Securities, DTC will credit DTC participants' accounts with payment in amounts proportionate to their respective beneficial interests in the principal amount of the Global Securities as shown on the records of DTC. Payments by DTC participants to owners of beneficial interests in the Global Securities held through such participants will be the responsibility of such participants, as is now the case with securities held for the accounts of customers registered in "street name". Distributions with respect to Securities held through Euroclear or Cedel will be credited to the cash accounts of Euroclear participants or Cedel participants in accordance with the relevant system's rules and procedures, to the extent received by its depositary. Neither Italy nor the Fiscal Agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Global Securities or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Any moneys held by the Fiscal Agent in respect of the Securities and remaining unclaimed for two years after such amount shall have become due and payable shall be returned to Italy, and the holder of such Security shall thereafter look only to Italy for any payment to which such holder may be entitled.

Definitive Securities

If DTC notifies Italy that it is unwilling or unable to continue as depositary for the Global Securities or ceases to be a clearing agency registered under the U.S. Securities Exchange Act of 1934 (the "Exchange Act") at a time when it is required to be and a successor depositary is not appointed by Italy within 90 days after receiving such notice or becoming aware that DTC is no longer so registered, or if an event of default with respect to the Securities shall have occurred and be continuing as described under "Description of Debt Securities — Default; Acceleration of Maturity" in the Prospectus, Italy will issue or cause to be issued Securities in definitive form in exchange for the Global Securities. Italy may also at any time and in its sole discretion determine not to have any of the Securities represented by the Global Securities, and, in such event, will issue or cause to be issued Securities in definitive form in exchange for the Global Securities. Securities issued in definitive form will be issued only in fully registered form, without coupons, in denominations of $1,000 and integral multiples thereof. Any Securities so issued will be registered in such names, and in such denominations, as DTC shall request. Such Securities may be presented for registration of transfer or exchange at the office of the Fiscal Agent in The City of New York, and principal thereof and interest thereon will be payable at such office of the Fiscal Agent, provided that interest thereon may be paid by check mailed to the registered holders of the definitive Securities.

Italian Taxation

The principal of and interest on the Securities will be paid by Italy without deduction for or on account of any present or future taxes or duties, of whatsoever nature, imposed or levied by or within Italy or by or within any district, municipality or other political subdivision or taxing authority therein or thereof. The foregoing, however, will not exempt any Security (including a Global Security) or the income therefrom from Italian taxation when the registered or beneficial owners thereof are subject to Italian taxation otherwise than by reason of holding or owning an interest in a Security (including a Global Security) or the receipt of income therefrom. See "Description of Debt Securities — Italian Taxation" in the Prospectus.

United States Taxation

For information regarding United States taxation in respect of the Securities, see "Description of Debt Securities — United States Taxation" in the Prospectus.

Modification and Amendment

The Fiscal Agency Agreement and the terms and conditions of the Securities may be modified or amended by Italy and the Fiscal Agent, without the consent of the holders of the Securities, for the purpose of adding to the covenants of Italy for the benefit of the Holders, surrendering any right or power conferred upon Italy, securing the Securities pursuant to the requirements of the Securities or otherwise, curing any ambiguity or curing, correcting or supplementing any defective provision therein, or in any manner that Italy and the Fiscal Agent may determine and that shall not adversely affect the interests of the Holders of the Securities. See "Description of Debt Securities — Amendments" in the Prospectus.

Notices

All notices will be published in English in London in the *Financial Times*, in New York in *The Wall Street Journal* and, so long as the Securities are listed on the Stock Exchange of Singapore Limited, in Singapore in the *Business Times* and, so long as the Securities are listed on The Stock Exchange of Hong Kong Limited, in Hong Kong in the *South China Morning Post*. If at any time publication in any such newspaper is not practicable, notices will be valid if published in an English language newspaper determined by Italy with general circulation in the respective market regions. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once on different dates, on the first date on which publication is made.

GLOBAL CLEARANCE AND SETTLEMENT

Although DTC, Euroclear and Cedel have agreed to the procedures provided below in order to facilitate transfers of Securities among participants of DTC, Euroclear and Cedel, they are under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time. Neither Italy nor the Fiscal Agent will have any responsibility for the performance by DTC, Euroclear or Cedel or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

DTC, Euroclear and Cedel have advised Italy as follows:

The Clearing Systems

DTC. DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. DTC participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations such as the Underwriters. Indirect access to the DTC system also is available to indirect DTC participants such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Because DTC can act only on behalf of DTC participants, who in turn act on behalf of indirect DTC participants and certain banks, the ability of an owner of a beneficial interest in the Global Securities to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for such interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a Global Security to such persons may be limited. In addition, beneficial owners of Securities through the DTC system will receive distributions of principal and interest on the Securities only through DTC participants.

Euroclear and Cedel. Euroclear and Cedel hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Cedel provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Cedel interface with domestic securities markets. Euroclear and Cedel participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations and include certain of the Underwriters. Indirect access to Euroclear or Cedel is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Cedel participant, either directly or indirectly.

Initial Settlement

Investors electing to hold their Securities through DTC (other than through accounts at Euroclear or Cedel) will follow the settlement practices applicable to U.S. corporate debt obligations. The securities custody accounts of investors will be credited with their holdings against payment in same-day funds on the settlement date.

Investors electing to hold their Securities through Euroclear or Cedel accounts will follow the settlement procedures applicable to conventional eurobonds in registered form. Securities will be credited to the securities custody accounts of Euroclear holders on the business day following the settlement date against payment for value on the settlement date and of Cedel holders on the settlement date against payment in same-day funds.

Secondary Market Trading

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Securities where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Trading between DTC participants. Secondary market trading between DTC participants (other than Morgan Guaranty Trust Company of New York ("Morgan") and Citibank, N.A. ("Citibank") as depositaries for Euroclear and Cedel, respectively) will be settled using the procedures applicable to U.S. corporate debt obligations in same-day funds.

Trading between Euroclear and/or Cedel participants. Secondary market trading between Euroclear participants and/or Cedel participants will be settled using the procedures applicable to conventional eurobonds in same-day funds.

Trading between DTC seller and Euroclear or Cedel purchaser. When Securities are to be transferred from the account of a DTC participant (other than Morgan and Citibank as depositaries for Euroclear and Cedel, respectively) to the account of a Euroclear participant or a Cedel participant, the purchaser must send instructions to Euroclear or Cedel through a participant at least one business day prior to settlement. Euroclear or Cedel, as the case may be, will instruct Morgan or Citibank, respectively, to receive the Securities against payment. Payment will include interest accrued on the Securities from and including the last payment date to and excluding the settlement date, on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to and excluding the first day of the following month. Payment will then be made by Morgan or Citibank, as the case may be, to the DTC participant's account against delivery of the Securities. After settlement has been completed, the Securities will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear participants' or Cedel participants' account. Credit for the Securities will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Securities will accrue from, the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (*i.e.*, the trade fails), the Euroclear or Cedel cash debit will be valued instead as of the actual settlement date.

Euroclear participants and Cedel participants will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Cedel. Under this approach, they may take on credit exposure to Euroclear or Cedel until the Securities are credited to their accounts one day later.

As an alternative, if Euroclear or Cedel has extended a line of credit to them, participants can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear participants or Cedel participants purchasing Securities would incur overdraft charges for one day, assuming they cleared the overdraft when the Securities were credited to their accounts. However, interest on the Securities would accrue from the value date. Therefore, in many cases, the investment income on Securities earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's particular cost of funds.

Because the settlement is taking place during New York business hours, DTC participants can employ their usual procedures for sending Securities to Morgan or Citibank for the benefit of Euroclear participants or Cedel participants. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC participant, a cross-market transaction will settle no differently than a trade between two DTC participants.

Trading between Euroclear or Cedel seller and DTC purchaser. Due to time zone differences in their favor, Euroclear participants and Cedel participants may employ their customary procedures for transactions in which Securities are to be transferred by the respective clearing system, through Morgan or Citibank, to another DTC participant. The seller must send instructions to Euroclear or Cedel through a participant at least one business day prior to settlement. In these cases, Euroclear or Cedel will instruct Morgan or Citibank, as appropriate, to credit the Securities to the DTC participant's account against payment. Payment will include interest accrued on the Securities from and including the last payment date to and excluding the settlement date on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to and excluding the first day of the following month. The payment will then be reflected in the account of the Euroclear participant or Cedel participant the following day, and receipt of the cash proceeds in the Euroclear or Cedel participant's account will be back-valued to the value date (which would be the preceding day, when settlement occurs in New York). If the Euroclear participant or Cedel participant has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date (*i.e.*, the trade fails), receipt of the cash proceeds in the Euroclear or Cedel participant's account would instead be valued as of the actual settlement date.

Finally, day traders that use Euroclear or Cedel and that purchase Securities from DTC participants for credit to Euroclear participants or Cedel participants should note that these trades would automatically fail on the sale side unless affirmative action were taken. At least three techniques should be readily available to eliminate this potential problem:

(1) borrowing through Euroclear or Cedel for one day (until the purchase side of the day trade is reflected in their Euroclear account or Cedel account) in accordance with the clearing system's customary procedures;

(2) borrowing the Securities in the United States from a DTC participant no later than one day prior to settlement, which would give the Securities sufficient time to be reflected in the borrower's Euroclear account or Cedel account in order to settle the sale side of the trade; or

(3) staggering the value dates for the buy and sell sides of the trade so that the value date for the purchase from the DTC participant is at least one day prior to the value date for the sale to the Euroclear participant or Cedel participant.

UNDERWRITING

Subject to the terms and conditions set forth in the Underwriting Agreement, Italy has agreed to sell to each of the Underwriters named below, and each of the Underwriters, for whom Goldman, Sachs & Co. and Salomon Brothers Inc are acting as representatives, has severally agreed to purchase, the principal amount of the Securities set forth opposite its name below:

Underwriter	Principal Amount of Securities: Notes	Principal Amount of Securities: Debentures
Goldman, Sachs & Co.	$ 730,500,000	$1,281,750,000
Salomon Brothers Inc	730,500,000	1,281,750,000
Credit Suisse First Boston Limited	50,000,000	87,500,000
Deutsche Bank AG London	50,000,000	87,500,000
IBJ International plc	50,000,000	87,500,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	50,000,000	87,500,000
J.P. Morgan Securities Inc.	50,000,000	87,500,000
Morgan Stanley International	50,000,000	87,500,000
UBS Limited	50,000,000	87,500,000
Banca Commerciale Italiana	5,000,000	8,000,000
Banca di Roma	5,000,000	8,000,000
Banca Nazionale del Lavoro S.p.A.	5,000,000	8,000,000
Banco di Napoli S.p.A.	5,000,000	8,000,000
Banque Paribas	16,000,000	28,000,000
BNP Capital Markets Limited	16,000,000	28,000,000
Cassa di Risparmio delle Provincie Lombarde S.p.A.	5,000,000	8,000,000
Credito Italiano	5,000,000	8,000,000
Daiwa Europe Limited	16,000,000	28,000,000
Dresdner Bank Aktiengesellschaft	16,000,000	28,000,000
IMI Bank (Lux) S.A.	5,000,000	8,000,000
Istituto Bancario San Paolo di Torino S.p.A.	5,000,000	8,000,000
Lehman Brothers International (Europe)	16,000,000	28,000,000
Monte dei Paschi di Siena	5,000,000	8,000,000
Nomura International plc	16,000,000	28,000,000
Swiss Bank Corporation	16,000,000	28,000,000
S.G. Warburg Securities Ltd.	16,000,000	28,000,000
Westdeutsche Landesbank Girozentrale	16,000,000	28,000,000
Total	$2,000,000,000	$3,500,000,000

Under the terms and conditions of the Underwriting Agreement, the Underwriters are committed to take and pay for all of the Securities, if any are taken.

The Underwriters propose to offer the Securities in part directly to retail purchasers at the public offering price set forth on the cover page of this Prospectus Supplement and in part to certain securities dealers at such price less a concession of .30% of the principal amount of the Notes and .40% of the principal amount of the Debentures. The Underwriters may allow, and such dealers may reallow, a concession not to exceed .25% of the principal amount of the Notes and the Debentures to certain brokers and dealers. After the Securities are released for sale to the public, the offering price and other selling terms may from time to time be varied by the representatives.

The Securities are offered for sale in those jurisdictions in the United States, Europe and Asia where it is legal to make such offers.

Each of the Underwriters has agreed that it will not offer, sell or deliver any of the Securities, directly or indirectly, or distribute this Prospectus Supplement or the Prospectus or any other offering material relating to the Securities, in or from any jurisdiction outside the United States except under circumstances that will to the best knowledge and belief of such Underwriter result in compliance with the applicable laws and regulations thereof and that will not impose any obligations on Italy except as set forth in the Underwriting Agreement.

Each of the Underwriters has also agreed that it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

Each of the Underwriters has agreed that it has not offered or sold, and it will not offer or sell, directly or indirectly, any of the Securities in or to residents of Japan or to any persons for reoffering or resale, directly or indirectly, in Japan or to any resident of Japan except pursuant to an exemption from the registration requirements of the Securities and Exchange Law available thereunder and in compliance with the other relevant laws of Japan.

In addition, each of the Underwriters has agreed that it has not distributed and will not distribute this Prospectus Supplement and the Prospectus in Hong Kong other than to persons whose business involves the acquisition, disposal, or holding of securities, whether as principal or as agent, unless such Underwriter is a person permitted to do so under the securities laws of Hong Kong.

The Securities are a new issue of securities with no established trading market. Italy has been advised by the representatives of the Underwriters that one or more of the Underwriters intend to make a market in the Securities in the United States but are not obligated to do so and may discontinue any such market making at any time without notice. Application has been made to the London Stock Exchange and the Stock Exchange of Singapore Limited for the Securities to be admitted to the Official List of each such exchange. Application has also been made to list the Securities on The Stock Exchange of Hong Kong Limited. No assurance can be given as to the liquidity of the trading markets for the Securities.

Italy has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the U.S. Securities Act of 1933.

Certain of the Underwriters from time to time have performed various investment banking services for Italy in the ordinary course of their business. Italy owns, directly or indirectly, a majority of the shares of Banca Commerciale Italiana, Banca Nazionale del Lavoro S.p.A., Credito Italiano and IMI Bank (Lux) S.A. and a minority share of Banca di Roma and Banco di Napoli S.p.A.

OFFICIAL STATEMENTS

Information included in this Prospectus Supplement is included as a public official statement made on the authority of Professor Mario Draghi, Director General of the Ministry of the Treasury.

VALIDITY OF THE SECURITIES

The validity of the Securities will be passed upon on behalf of Italy by Mario Paolillo, Esq., Director General of the Ministry of the Treasury, Republic of Italy, Rome, and on behalf of the Underwriters by Sullivan & Cromwell, New York, New York, and by Chiomenti e Associati, Studio Legale, Rome, Italy. As to all matters of Italian law, Sullivan & Cromwell may rely on the opinions of Mr. Paolillo and Chiomenti e Associati. All statements with respect to matters of Italian law in this Prospectus Supplement and the Prospectus have been passed upon by Mr. Paolillo and are made upon his authority. Sullivan & Cromwell, Chiomenti e Associati and Mr. Paolillo, Esq., have given and not withdrawn their written consents to the issue of this document with the inclusion of the references to them in the form and context in which they are in fact included.

GENERAL INFORMATION

Except as disclosed herein, there has been no material change in the financial position of Italy since August 10, 1993.

The terms of the Securities have been determined by a Ministerial Decree, dated September 16, 1993, of the Minister of the Treasury, as authorized by Law No. 237 of July 19, 1993.

Copies of the Registration Statement, which includes the Fiscal Agency Agreement and the Underwriting Agreement as exhibits thereto, will be available for inspection at, and copies of the annual and quarterly reports of Italy may be obtained from, the offices of the respective paying agents in London, Singapore and Hong Kong during normal business hours on any weekday for so long as the Securities are listed on the applicable stock exchange.

The Notes have been accepted for clearance through Euroclear and Cedel (Common Code: 4622588; ISIN: US465410AG35; CUSIP: 465 410 AG3). The Debentures have been accepted for clearance through Euroclear and Cedel (Common Code: 4622596; ISIN: US465410AH18; CUSIP: 465 410 AH1).

PROSPECTUS

Republic of Italy

Debt Securities
and/or
Warrants to Purchase
Debt Securities

The Republic of Italy from time to time may offer up to $10,000,000,000 (or its equivalent in other currencies or composite currencies) aggregate principal amount of its debt securities consisting of bonds, notes and/or other evidences of indebtedness ("Debt Securities") with or without warrants to purchase Debt Securities (collectively, "Securities"). Such Securities may be denominated in U.S. dollars, or, at the option of the Republic of Italy, in any other currency or currencies, in composite currencies or in amounts determined by reference to an index. The Securities will be offered from time to time as separate issues in amounts and at prices and on terms to be determined at the time of sale and to be set forth in supplements to this Prospectus. The Debt Securities will be direct, unconditional and general obligations of the Republic of Italy for the payment and performance of which the full faith and credit of the Republic of Italy will be pledged.

The terms of the Securities, including, where applicable, the designation, aggregate principal amount, currency of denomination and payment, denominations, maturity, rate (which may be fixed or variable) and time of payment of interest (if any), terms for redemption at the option of the Republic of Italy or the holder (if any), terms for sinking fund payments (if any), terms relating to any warrants to be issued, the initial public offering price, the names of and the amounts to be purchased by any underwriters or agents, the compensation of any such underwriters or agents and the other terms in connection with the offering and sale of each issue of the Securities in respect of which this Prospectus is being delivered will be set forth in the Prospectus Supplement relating to such issue of Securities.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is August 10, 1993.

No person has been authorized to give any information or to make any representations other than those contained in this Prospectus or any accompanying Prospectus Supplement, and, if given or made, such information or representation must not be relied upon as having been authorized. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Securities described in a Prospectus Supplement relating thereto, or any offer to sell or the solicitation of an offer to buy such Securities in any circumstances in which such offer or solicitation is unlawful. The delivery of this Prospectus at any time does not, under any circumstances, imply that the information herein is correct as of any time subsequent to the date hereof. The information contained in this Prospectus is qualified in its entirety by the supplementary information contained in the Prospectus Supplement.

TABLE OF CONTENTS

In this Prospectus, all amounts are expressed in Italian lire ("Lit.", "lire" or "lira"), except as otherwise specified. See "The External Sector of the Economy — Reserves and Exchange Rates" for the average rates for the lira against the dollar for the period 1988 through 1992. On August 9, 1993, the noon buying rate for cable transfers of lire, as reported by the Federal Reserve Bank of New York, was 1614 lire per dollar (or 0.0620 U.S. cents per lira). Unless otherwise indicated, lira amounts translated into dollars in this Prospectus have been translated at such rate.

As used herein, one billion equals 1,000 million.

INTRODUCTION

The economy of the Republic of Italy ("Italy" or the "Republic"), as measured by Gross Domestic Product ("GDP"), is currently the fifth largest in the developed world, after the United States, Japan, Germany and France. During the 1980's, Italy's real GDP grew by an average of 2.4% per year, compared with 2.2% per year for the European Community ("EC") as a whole. Italy's economy began to experience slower growth in 1989, in step with other EC countries, and entered a recession in the third quarter of 1992. Real GDP growth in Italy during 1992 was 0.9%.

Italy is a founding member of the EC, and its economy is closely linked with those of the other EC members. Over half of both Italy's exports and imports involve other EC countries. Italy's exports are dominated by manufactured goods, including industrial machinery, office machinery, automobiles, clothing, shoes and textiles.

Italy's household savings ratio, 15.6% of household disposable income in 1991, is the highest among the major industrialized countries. The principal fiscal objective of the Government is to reduce the size of the budget deficit in order to direct a greater portion of those savings away from financing public sector deficits and toward investment in the private sector.

As a result of persistent budget deficits financed by borrowing, Italy's public debt has been growing consistently over the past two decades, reaching 110.8% of GDP at the end of 1992, which is the highest among G-7 countries at such date. The primary budget deficit (which excludes interest costs) has declined steadily over the past five years, and the primary balance reached a small surplus in 1992. However, the growing burden of interest payments on outstanding debt has more than offset the decline in non-interest spending, and the ratio of debt to GDP has therefore continued to rise. Because of the high household savings ratio, the Government has been able to raise large amounts of funds through issuances of Treasury securities in the domestic market, with only limited recourse to external financing. The Government has adopted a package of spending cuts and tax increases that are intended to stabilize the debt-to-GDP ratio by 1996, although it is expected that the ratio will continue to increase in the short run.

In July 1992, the Government announced a program for the reorganization of its properties, including the privatization of various operating subsidiaries of its major holding companies. The creation of an administrative structure to manage the privatization process has taken longer than expected because initially several different governmental bodies had overlapping authority with respect to privatization. In June 1993, however, the Government appointed a five-person committee, headed by the Director General of the Ministry of the Treasury, to manage the privatization process. To date, none of the planned privatizations of the larger state-owned companies has been completed, in part because of the economic downturn, in part because of the administrative difficulties described above and, to a lesser extent, because of early political resistance. However, the Government has recently stated its intention to proceed rapidly with the sale of several companies. See "Public Finance — Privatization Program".

Since 1979, the Bank of Italy, Italy's central bank, has pursued an anti-inflationary monetary policy. Inflation, as measured by the consumer price index, declined from a peak of over 21% in 1980 to 5.3% in 1992. In July 1992, the Government reached an agreement with the principal unions and the industrial employers' association that abolished the *scala mobile*, a system of indexing wages to inflation. In June 1993, the principal unions and the industrial employers' association reached a four-year wage agreement covering all public and private sector industrial employees. The agreement bases wage increases on the Government's inflation targets rather than the actual rate of inflation.

Prior to September 1992, this anti-inflationary monetary policy was pursued by maintaining the value of the lira against the other currencies within the Exchange Rate Mechanism ("ERM"), the intervention mechanism of the European Monetary System ("EMS"). On September 17, 1992, however, in response to strong downward pressure on the lira against other ERM currencies that continued despite intervention by the Bank of Italy and the Bundesbank, the Government suspended the lira from the ERM. The value of the lira subsequently declined by 21.3% against the Deutsche Mark from the third week of September

1992 to the first week of May 1993. During the same period, partly as a result of a rise in the U.S. dollar against the other major currencies, the lira declined by 35.6% against the dollar. This fall in the value of the lira has made Italian exports more competitive in world markets, and preliminary data show a significant increase in exports following September 1992. In addition to these positive effects, the depreciation of the currency can also have inflationary effects. The Bank of Italy, however, remains committed to an anti-inflationary monetary policy.

The Italian political system is going through potentially substantial changes. Over the last few years, public support for the principal parties in Italy's recent coalition governments, Christian Democracy and the Socialist Party, has been eroded by new parties, including particularly the Northern League, which is based principally in northern Italy. A related phenomenon has been public support for a reform in Italy's electoral system. On April 18 and 19, 1993, in one of eight national referenda, Italy's electorate approved the abolition of Italy's proportional representation system for the election of Senators. See "Republic of Italy — Government and Political Parties".

USE OF PROCEEDS

The net proceeds from the sale of Securities will be used, unless otherwise indicated in the relevant Prospectus Supplement, for the general purposes of the Government, including debt management purposes.

REPUBLIC OF ITALY

Area and Population

The Republic of Italy is situated in south central Europe on a peninsula approximately 1,120 kilometers (696 miles) long, on the islands of Sicily and Sardinia in the Mediterranean Sea and on numerous smaller islands. To the north, Italy borders on France, Switzerland, Austria and Slovenia along the Alps, and to the east, west and south it is surrounded by the Mediterranean Sea. Its total area is approximately 301,300 square kilometers (116,336 square miles), and it has 7,456 kilometers (4,632 miles) of coastline. The independent states of San Marino and Vatican City, whose combined area is about 61 square kilometers (23.5 square miles), are located within the same geographic area. The Appennine Mountains running along the peninsula and the Alps north of the peninsula give much of Italy a rugged terrain. The Republic is divided into 20 regions containing 102 provinces. The Italian Constitution reserves certain functions, including police services, education and other local services, to the regional and local governments.

At December 31, 1992, Italy's population was estimated at approximately 57.2 million, smaller than that of Germany but slightly larger than that of either the United Kingdom or France. The Italian population represents approximately 17% of the population of the EC. The eight regions in the southern part of the peninsula plus Sicily and Sardinia, known as the "Mezzogiorno", have a population of about 21 million, compared with about 36 million for northern and central Italy. At January 1, 1991, the breakdown of the population by age group was as follows: under 20, 23.8%; 20 to 39, 30.4%; 40 to 59, 25.2%; and 60 and over, 20.6%. Because population growth has been slight in recent years, the average age of the population is progressively increasing. The population density is approximately 190/km^2 (492/mi^2). In recent years, Italy has experienced immigration, particularly from North African, Middle Eastern and Eastern European countries.

Rome, the capital and largest city, is situated near the western shore approximately halfway down the peninsula, and had a population of 2.8 million at the end of 1990. The next largest cities are Milan, with a population of 1.4 million, Naples, with 1.2 million, and Turin, with 1.0 million. Approximately 43.3% of the population lives in urban areas.

Government and Political Parties

Italy has been a democratic republic since June 2, 1946. Its government operates under a Constitution, adopted in 1948, that provides for a division of powers among Parliament, the executive branch and the judiciary.

Parliament consists of a Chamber of Deputies, with 630 elective members, and a Senate, with 315 elective members and a small number of life Senators, consisting of former Presidents of the Republic and prominent individuals appointed by the President. The Chamber of Deputies and the Senate equally share the legislative power and have substantially the same powers. Any statute must be approved by both assemblies before being enacted. Except for life Senators, members of Parliament are elected for five years by direct universal adult suffrage, although in the past elections have been held more frequently because of the collapse of multi-party coalitions leading, in turn, to premature dissolutions of Parliament.

Since the adoption of the Constitution, both chambers of Parliament have been elected by a system of proportional representation with a nominal lower limit on the percentage of votes needed to achieve representation. Except for brief periods, no one party has been able to command an overall majority in Parliament, and Italy has had a long history of weak coalition governments. As a result of a referendum on the method of election of the Senate, one of the referenda discussed below, the electorial system will change beginning with the next Parliamentary elections, which are expected to be held in 1994. On August 4, 1993, Parliament adopted legislation providing that 75% of the members of both the Senate and the Chamber of Deputies will be elected through a "first past the post" system of single-member districts in which the candidate receiving the largest number of votes wins. The remaining 25% will be elected through a proportional representation system. In the Chamber of Deputies, only parties that receive 4% of the total vote on a nationwide basis will be eligible for the seats elected by proportional representation. These changes are expected to reduce the number of Parliamentary seats held by parties with relatively small shares of the popular vote, and may increase the chances of a single party obtaining an overall Parliamentary majority.

The following table shows the percentage of the vote received by the major parties in the last three general elections for the Chamber of Deputies and the number of seats currently held in the Chamber of Deputies and in the Senate.

	Parliament June 1983	June 1987	April 1992	Seats Currently Held in: Chamber of Deputies	Senate
	(% of total vote)				
Christian Democracy	32.9	34.3	29.7	206	112
Communist Party	29.9	26.6	—	—	—
Democratic Party of the Left (1)	—	—	16.1	107	66
Socialist Party	11.4	14.3	13.6	92	51
Northern League	—	0.6	8.7	55	25
Communist Refoundation (1)	—	—	5.6	35	20
Proletarian Democracy (1)	1.5	1.7	—	—	—
Social Movement	6.8	5.9	5.4	34	16
Republican Party	5.1	3.7	4.4	27	12
Liberal Party	2.9	2.1	2.8	17	5
Greens	—	2.5	2.8	16	7(2)
Social Democratic Party	4.1	3.0	2.7	16	—
La Rete	—	—	1.9	12	—(2)
European Federalism — Pannella List	—	—	1.2	6	—
Radical Party	2.2	2.6	—	—	—
Others	3.2	2.7	5.1	7	12
Totals	100.0	100.0	100.0	630	326

(1) Prior to the 1992 general election, the Communist Party changed its name to the Democratic Party of the Left. As a consequence, a minority of the party broke away and founded Communist Refoundation, a new party that soon thereafter merged with Proletarian Democracy.

(2) Greens and La Rete were elected in the Senate on a joint ticket.

The 1992 general election, in which the traditional parties such as Christian Democracy and the Socialist and Communist Parties lost support to new political groupings, signalled a possible change in the Italian political system. The growth of support for the Northern League, which advocates a devolution of power from the central government to regional and local governments, was a significant factor. Another force for change was the movement to reform the electoral system.

On April 18 and 19, 1993, eight national referenda were held on proposals to, among other things, modify the electoral system for the Senate, strengthen the powers of the regions, remove from the Government the power to appoint the managers of savings banks and abolish certain ministries. All eight referenda were approved by significant majorities. Parliament was required by one of the referenda to alter the proportional representation system for election to the Senate, but, as discussed above, Parliament changed the system for elections to both chambers.

The executive branch consists of a Council of Ministers selected and headed by a Prime Minister. The Prime Minister is appointed by the President of the Republic and his government is confirmed by Parliament. The Prime Minister has typically come from Christian Democracy. One member of the Republican Party and two members of the Socialist Party have also served as Prime Minister on four separate occasions, all within the last 12 years.

In June 1992, Giuliano Amato became Prime Minister, leading a four-party coalition government formed by Christian Democracy and the Socialist, Social Democratic and Liberal Parties. Shortly after the referenda described above, Mr. Amato resigned. On April 26, 1993, the President of the Republic appointed the Governor of the Bank of Italy, Carlo Azeglio Ciampi, to serve as Prime Minister and form a new government. Mr. Ciampi is the first Italian Prime Minister who is not a member of Parliament, and he is also the first who is not a member of a political party. His cabinet includes members of Parliament from all four of the parties in the prior governing coalition plus the Republican Party, as well as prominent persons from outside Parliament. The cabinet initially also included members of the Democratic Party of the Left and the Greens, but those ministers resigned after the refusal by the Chamber of Deputies to lift parliamentary immunity with respect to certain charges brought against a former prime minister in connection with the investigations discussed below.

Judicial power is vested in the ordinary, administrative and accounting courts. The highest ordinary court is the *Corte di Cassazione* in Rome, where cases of lower courts of local jurisdiction may be appealed. The highest of the administrative courts, which hear claims against the state and local entities, is the *Consiglio di Stato* in Rome. The *Corte dei Conti* in Rome supervises and adjudicates the state budget of Italy. There is also a Constitutional Court that does not exercise general judicial powers, but adjudicates conflicts among the other branches of government and determines the constitutionality of statutes. Italy is a civil-law jurisdiction.

The President of the Republic, who is the Head of State, is elected by a joint session of all the members of Parliament and representatives of the regions, and holds office for seven years. The current President is Oscar Luigi Scalfaro, elected in May 1992. The President has the power to appoint the Prime Minister and to dissolve Parliament. The Constitution also grants the President the power to appoint one-third of the members of the Constitutional Court, to call general elections and referenda and to command the armed forces.

Beginning in early 1992, an investigation into corruption of managers of public enterprises in Milan began to focus on the payment of bribes by major enterprises to the political parties for the award of contracts for public works. Such practices impose significant costs on the Italian economy by, among other things, increasing the cost of public works and other construction projects and creating misallocations of resources. The investigation, known as "Clean Hands", subsequently spread from Milan throughout Italy, fostering new investigations in most of the major cities. By May 1993, investigators and magistrates had discovered evidence of illegal financing of the main political parties. As a consequence of the investigations, six cabinet ministers of the former Amato Government resigned, as did the leaders of the Socialist, Republican and Liberal Parties. Several other prominent politicians, including a former Christian Democratic and a former Socialist Prime Minister and over 100 members of Parliament, have been named as subjects of investigations. In all, the Clean Hands investigation has led to the arrest of more than 1,300 politicians, businessmen and civil servants. No members of the Ciampi cabinet have been implicated.

On June 6, 1993, local elections were held in a number of regions and cities, including in Milan and Turin, involving a significant proportion of Italian voters. In most cities, the mayoral elections held at such time used a system similar to the French electoral system, which generally requires two rounds of voting. If no candidate receives more than 50% of the vote in the first round, the two candidates with the largest share of the vote compete in a second round. Christian Democracy and the Socialist Party won a smaller share of the vote than in past local elections. The Northern League won the mayoralty of Milan and generally continued to increase its support in northern Italy.

Membership in International Organizations

Italy is a founding member of the European Economic Community, which now forms part of the EC. Italy is also a member of the North Atlantic Treaty Organization (NATO) and a member of many other regional and international organizations, including the United Nations and many of its affiliated agencies. Italy is one of the Group of Seven ("G-7") industrialized nations, together with the United States, Japan, Germany, France, the United Kingdom and Canada, and a member of the Organization for Economic Cooperation and Development (OECD), the General Agreement on Tariffs and Trade ("GATT"), the International Monetary Fund ("IMF"), the International Bank for Reconstruction and Development (World Bank), the European Bank for Reconstruction and Development and other regional development banks.

LIECHTENSTEIN
SWITZERLAND
AUSTRIA
HUNGARY
SLOVENIA
CROATIA
SERBIA
BOSNIA
MONTENEGRO
FRANCE
Lake Geneva
Balaton
Trentino-Alto Adige
Bolzano
Friuli-Venezia Giulia
Trento
Belluno
Udine
Pordenone
Gorizia
Trieste
Sondrio
Valle D'Aosta
Aosta
Varese
Como
Bergamo
Brescia
Veneto
Treviso
Vicenza
Verona
Padova
Venice
Novara
Milan
Vercelli
Lombardia
Cremona
Mantova
Rovigo
Pavia
Piacenza
Turin
Piemonte
Asti
Alessandria
Parma
Ferrara
Reggio
Modena
Bologna
Ravenna
Cuneo
Genoa
Savona
Liguria
La Spezia
Emilia-Romagna
Forli
SAN MARINO
Imperia
Massa
Lucca
Pistoia
Florence
Pesaro
Pisa
Livorno
Toscana
Arezzo
Siena
Marche
Ancona
Ligurian Sea
Macerata
Perugia
Elba
Grosseto
Umbria
Ascoli Piceno
Terni
Teramo
Viterbo
Rieti
Pescara
L Aquila
Chieti
Adriatic Sea
Lazio
Abruzzi
Corsica (FRANCE)
VATICAN CITY
Rome
Molise
Frosinone
Isernia
Campobasso
Foggia
Latina
Caserta
Benevento
Bari
Campania
Puglia
Avellino
Naples
Salerno
Brindisi
Strait of Otranto
Potenza
Matera
Taranto
Basilicata
Lecce
Sassari
Nuoro
Oristano
Sardegna
Tyrrhenian Sea
Golfo di Taranto
Cagliari
Calabria
Cosenza
Catanzaro
Mediterranean Sea
Ionian Sea
Messina
Palermo
Reggio di Calabria
Trapani
Sicilia
Italy
National Capital
Provincial Capital
International Boundary
Regional Boundary
Enna
Caltanissetta
Catania
Strait of Sicily
Agrigento
Siracusa
Ragusa
Pantelleria
TUNISIA
MALTA
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Miles
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THE ITALIAN ECONOMY

General

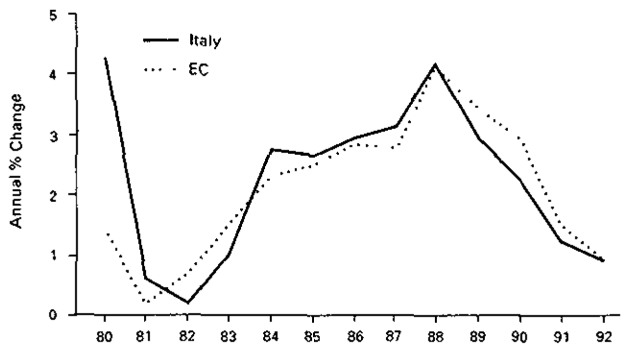
Italy currently has the fifth largest economy in the developed world (after the United States, Japan, Germany and France) as measured by GDP. The economy developed rapidly in the period following World War II, as large-scale, technologically advanced industries grew up alongside more traditional agricultural and industrial enterprises.

Between 1960 and 1974, Italian GDP grew by an average of 5.1% per year in real terms. As a result of the 1973-74 oil price shocks and the accompanying worldwide recession, output declined by 3.5% in 1975, but between 1976 and 1980 GDP again grew by an average rate of almost 4% per year in real terms. During this period, however, the economy experienced higher inflation, driven in part by wage inflation, and high public sector borrowing.

During the period 1981-83, Italian GDP growth slowed significantly to an average rate of approximately 0.8% per year, followed by a recovery beginning in the mid-1980's that saw GDP growth rise to 4.1% in 1988. For the decade as a whole, real GDP growth averaged 2.4% per year, compared with 2.2% per year for the EC. Beginning in 1989, GDP growth began to slow as in other European countries, reaching 0.9% in 1992. The downturn in Italy became a recession in 1992, with the economy ceasing to expand in the second half.

The graph below shows real GDP growth for Italy and the EC for the period 1980-1992.

REAL GDP GROWTH



	Italy	EC
	(Annual % change)	
1980	4.2	1.4
1981	0.6	0.2
1982	0.2	0.7
1983	1.0	1.5
1984	2.7	2.3
1985	2.6	2.5
1986	2.9	2.8
1987	3.1	2.8
1988	4.1	4.1
1989	2.9	3.4
1990	2.2	2.9
1991	1.2	1.5
1992	0.9	0.9

Substantial budget deficits have been a persistent problem affecting the Italian economy. Prior attempts to deal with this problem have been hampered by, among other factors, the fact that social services and other non-market activities of the central and local governments and their agencies and instrumentalities account for approximately 18.7% of total employment. The wages of these employees, like those of the private sector, were until the end of 1991 indexed to the inflation rate, exacerbating both inflation and the budget deficit. In 1992, the Government, the principal unions and the industrial employers' association reached an agreement ending such indexation. See "Wages and Prices". The Government has also adopted a medium-term program that is intended to stabilize the ratio of public debt to GDP. See "Public Finance — 1993 Budgetary Program — Medium-Term Adjustment Program and the EC Loan".

Historically, Italy has had a high savings rate. Although the savings rate has declined over the past three decades in Italy as in most of the developed world, household saving, as a percentage of household disposable income, was 15.6% in 1991, the highest of any G-7 country. By contrast, the ratio was 4.9% in the U.S., 14.6% in Japan, 11.2% in Germany, 12.6% in France, 9.8% in the U.K. and 10.5% in Canada. As a consequence, Italy has a significant domestic pool of capital available for investment and, although its fiscal deficits have remained large, the high private savings rate has enabled the Government to finance those deficits principally in the domestic bond market.

The economy is also characterized by significant regional disparities. The level of economic development of southern Italy is well below that of northern Italy; the Mezzogiorno's per capita GDP is lower and unemployment is substantially higher than that of the remainder of the country despite large and longstanding infusions of development funds and other income transfers from the Government. Public sector expenditure in the South exceeds 70% of southern GDP, both resulting in a less market-oriented economy and contributing to Italy's high public sector deficits.

The Italian economy is becoming increasingly integrated with those of the other EC countries. A single market in goods and services was established throughout the EC as of January 1, 1993, although certain barriers have yet to be removed, particularly in services. Italy is a signatory to, and Parliament has ratified, the Treaty of European Union of February 1992 (also known as the "Maastricht Treaty"), which is awaiting ratification by some of the signatory states. Among the aims of the Maastricht Treaty is to establish a European Monetary Union culminating in the introduction of a single currency. The Maastricht Treaty requires the EC Commission to report periodically to the EC Council the extent to which each member state has achieved convergence of fiscal and monetary performance with the other member states. The Treaty measures such convergence according to four criteria, which are (i) an inflation rate that does not exceed by more than 1.5 percentage points that of the three best performing member states, (ii) a budget deficit of less than 3% of GDP, (iii) the observance without devaluation of the ERM fluctuation margins for at least two years and (iv) average nominal long-term interest rates on government bonds that do not exceed by more than two percentage points those of the three best performing member states. Italy does not currently meet any of the convergence criteria; however, the Government believes that continued efforts to reduce the budget deficit (which was 11.0% of GDP in 1992) will improve Italy's performance in all four areas. Although the Government has stated its intention to return to the ERM as soon as practicable, it has not announced any target date for such return.

The lira has been part of the EMS since its founding in 1979, and since that time the Bank of Italy has adopted an anti-inflationary policy based on maintaining a stable exchange rate. See "Monetary System — Monetary Policy". In 1992, the lira came under sharp downward pressure against the other currencies within the ERM that continued despite intervention by the Bank of Italy and the Bundesbank, leading in September to the devaluation of the lira within the ERM, and its subsequent suspension. Following the suspension, the market value of the lira declined by 21.3% against the Deutsche Mark from the third week of September 1992 to the first week of May 1993. During the same period, the market value of the lira declined by 35.6% against the U.S. dollar, setting the stage for reductions in real interest rates and increases in competitiveness, which the Government believes will have a positive impact on economic growth. In addition to these positive effects, the depreciation of the currency can also have inflationary effects. The Bank of Italy, however, remains committed to an anti-inflationary monetary policy.

Since the lira's suspension from the ERM, Italian medium- and long-term interest rates have fallen steadily. In September 1992, the medium- and long-term interest rate index published by the Bank of Italy, which is based on the rates on Italian Treasury bonds with maturities greater than one year, was 13.54%. In June 1993, the index was 10.14%.

GDP

After a period of solid economic growth from 1984 to 1988, by mid-1989, Italy began to experience slower economic growth, arising largely from the worldwide economic downturn. In the period 1989 to mid-1992, domestic consumption remained high, resulting in a downturn that was mild in comparison with most of the industrialized world. However, although productivity growth was high compared with most European economies during this period, Italy's relatively high inflation rate, coupled with persistently high unit labor costs and the strength of the lira, reduced Italian competitiveness by approximately 10% between 1987 and 1992 and increased import penetration. The depreciation of the lira since September 1992 has more than reversed this trend. Exports increased in 1992 just as domestic demand began to fall. Real GDP grew at a rate of 2.9% in 1989, 2.1% in 1990, 1.3% in 1991 and 0.9% in 1992.

The following tables set forth nominal and real GDP and expenditures for the periods indicated:

GDP Summary

	1988	1989	1990	1991	1992
Nominal GDP (1)	1,091,837	1,193,462	1,311,638	1,427,342	1,507,190
Real GDP (1)(2)	895,397	921,714	941,387	953,181	962,037
% Change (real)	4.1%	2.9%	2.1%	1.3%	0.9%
Population (thousands)	56,761	56,837	56,937	57,114	57,187
Nominal per capita GDP (3)	19,236	20,998	23,044	24,978	26,356
Real per capita GDP (2)(3)	15,775	16,217	16,534	16,689	16,823

(1) Billions of lire.

(2) Constant lire with purchasing power equal to the average for 1985.

(3) Thousands of lire.

Source: Annual Report of the Bank of Italy (1992)

GDP and Expenditures

	1988	1989	1990	1991	1992
			(billions of lire)		
Real GDP	895,397	921,714	941,387	953,181	962,037
Add: Imports of goods and services	220,960	237,667	256,785	264,337	276,405
Total supply of goods and services	1,116,357	1,159,381	1,198,172	1,217,518	1,238,442
Less: Exports of goods and services	191,127	207,858	222,401	222,982	234,062
Total goods and services available for domestic expenditure	925,230	951,523	975,771	994,536	1,004,380
Domestic Expenditure					
Private sector consumption	571,453	591,686	606,345	620,445	631,644
Public sector consumption	147,833	149,071	150,856	153,077	154,699
Total consumption	719,286	740,757	757,201	773,522	786,343
Total gross fixed investment	192,365	200,664	208,228	209,556	206,564
Changes in inventories	13,579	10,102	10,342	11,458	11,473
Total Domestic Expenditure	925,230	951,523	975,771	994,536	1,004,380

Source: *Relazione Generale Sulla Situazione Economica del Paese* (General Report on the Economic Situation of the Country) (1992)

GDP and Expenditures
(as percentage of real GDP)

	1988	1989	1990	1991	1992
Real GDP	100.0	100.0	100.0	100.0	100.0
Add: Imports of goods and services	24.7	25.8	27.2	27.7	28.7
Total supply of goods and services	124.7	125.8	127.2	127.7	128.7
Less: Exports of goods and services	21.4	22.6	23.6	23.4	24.3
Total goods and services available for domestic expenditure	103.3	103.2	103.6	104.3	104.4
Domestic Expenditure					
Private sector consumption	63.8	64.2	64.4	65.1	65.6
Public sector consumption	16.5	16.2	16.0	16.0	16.1
Total consumption	80.3	80.4	80.4	81.1	81.7
Total gross fixed investment	21.5	21.7	22.1	22.0	21.5
Changes in inventories	1.5	1.1	1.1	1.2	1.2
Total Domestic Expenditure	103.3	103.2	103.6	104.3	104.4

Source: *Relazione Generale Sulla Situazione Economica del Paese* (General Report on the Economic Situation of the Country) (1992)

Prior to mid-1992, domestic consumption, particularly of household durable goods (such as furniture and appliances), communications and recreational services, continued to grow steadily even as GDP growth slowed. However, the rate of increase of gross fixed investment began to decline in 1990, and in 1992 total gross fixed investment decreased by 1.4%. Total domestic expenditure, encompassing consumption, investment and changes in inventories, increased by 1.0% in 1992.

For budgetary purposes, the Government in July 1993 forecast real GDP growth of 0.4% in 1993. See "Public Finance — 1994 Budgetary Program". Domestic consumption remains weak, and overall domestic expenditure is expected to weaken further. However, the Government also expects the increased competitiveness derived from the lira's devaluation to result in stronger export growth. In the first four months of 1993, Italy's trade balance with the other eleven countries of the EC moved from a deficit of Lit. 6,092 billion in the corresponding period in 1992 to a surplus of Lit. 2,108 billion. In the same period, Italian exports to non-EC countries increased by 22.6%. The growth in exports for the remainder of 1993 will depend in part on how quickly western Europe and the United States recover from recession.

Principal Sectors of the Economy

The following tables set forth real GDP and the annual percentage increase in real GDP, in each case by sector, for the periods indicated.

Real GDP at Market Prices by Sector

	1988	% of Total	1989	% of Total	1990	% of Total	1991	% of Total	1992	% of Total
	(in billions of 1985 lire and as a percentage of total GDP)									
Agriculture, fishing and forestry	37,177	4 1	37,608	4 1	36 509	3 9	39,237	4 1	39,745	4 1
Industry										
Energy production	41,190	4 6	42,173	4 6	43 912	4 7	44,285	4 7	44,632	4 6
Non energy production	224,875	25 1	233 259	25 3	237,742	25 2	236 241	24 8	234 585	24 4
Manufacturing	266,065	29 7	275 432	29 9	281 654	29 9	280 526	29 5	279 217	29 0
Construction	53 386	6 0	55,265	6 0	56 667	6 0	57,384	6 0	56 878	5 9
Total industry	319,451	35 7	330,697	35 9	338,321	35 9	337,910	35 5	336,095	34 9
Market Services										
Commerce, hotels and public works	171,181	19 1	174 796	19 0	178,256	18 9	180,607	18 9	181 345	18 8
Transport and communications	50 709	5 7	53,378	5 8	55,423	5 9	57 274	6 0	59 227	6 2
Financial services	44 712	5 0	47,253	5 1	49 474	5 3	49 907	5 2	55 853	5 8
Rent	56 473	6 3	58,422	6 3	59,749	6 3	60,788	6 4	62,164	6 5
Other	96 117	10 7	99,679	10 8	103,260	11 0	105,410	11 1	107,549	11 2
Total market services	419,192	46 8	433 528	47 0	446 162	47 4	453 986	47 6	466 138	48 5
Total goods and services for sale	775 820	86 6	801,833	87 0	820 992	87 2	831,133	87 2	841,978	87 5
Non Market Services										
Public administration	100,160	11 2	101 031	10 9	101,821	10 8	102 517	10 8	103,077	10 7
Other	7,063	0 8	7,166	0 8	7,460	0 8	7,781	0 8	8 035	0 8
Total non market services	107 223	12 0	108,197	11 7	109 281	11 6	110,298	11 6	111,112	11 5
Value added at market prices	883,043	98 6	910 030	98 7	930 273	98 8	941,431	98 8	953 090	99 0
GDP at market prices	895,367	100 0	921 714	100 0	941,387	100 0	953,181	100 0	962,037	100 0

Source Annual Report of the Bank of Italy (1992)

Real GDP Growth by Sector

	1988	1989	1990	1991	1992
		(annual % change)			
Agriculture, fishing and forestry	(3.2)	1.2	(2 9)	7.5	1.3
Industry					
Energy production	1 8	2.4	4.1	0.8	0.8
Non-energy production	7.4	3.7	1.9	(0 6)	(0.7)
Manufacturing	6.5	3.5	2.3	(0.4)	(0.5)
Construction	2.6	3 5	2.5	1.3	(0 9)
Total industry	5.8	3 5	2.3	(0.1)	(0 5)
Market Services					
Commerce, hotels and public works	4 3	2.1	2.0	1.3	0.4
Transport and communications	7.0	5.3	3.8	3.3	3.4
Financial services	5.2	5.7	4 7	0.9	11.9
Rent	3.0	3.5	2.3	1.7	2.3
Other	2 5	3 7	3.6	2.1	2.0
Total market services	4.1	3.4	2.9	1.8	2.7
Total goods and services for sale	4.4	3.4	2 4	1.2	1 3
Non-Market Services					
Public administration	1.3	0 9	0.8	0.7	0.5
Other	1.6	1.5	4.1	4.3	3.3
Total non-market services	1.4	0 9	1 0	0.9	0.7
Value added at market prices	4.0	3 1	2 2	1.2	1.2
GDP at market prices	4.1	2 9	2.1	1.3	0.9

Source: Annual Report of the Bank of Italy (1992)

Role of the Government in the Economy

Government-owned enterprises play a significant role in the Italian economy. The state participates in energy, banking, insurance, shipping, transportation and communications, among others, through its ownership of Istituto per la Ricostruzione Industriale S.p.A. ("IRI"), Ente Nazionale Idrocarburi S.p.A. ("ENI"), Ente Partecipazioni e Finanziamento Industria Manifatturiera ("EFIM"), Ente Nazionale Energia Elettrica S.p.A. ("ENEL"), Istituto Nazionale delle Assicurazioni S.p.A. ("INA") and various other entities. See "Monetary System — Structure of the Banking Industry" and "Public Finance — Government Enterprises". In 1992, the revenues of Government-controlled enterprises constituted more than 15% of Italy's GDP. In addition, the Government directly and indirectly owns shares in a number of publicly-traded companies.

The Government has announced plans to privatize various operating subsidiaries of the state holding companies. See "Public Finance — Privatization Program".

Services

In 1992, market services represented 48.5% of GDP and employed 61.5% of the economically active population. Among the most important services are commerce, hotels and public works, transport and communications and financial services, accounting for 18.9%, 6.2% and 5.8% of GDP, respectively, in 1992.

Transport. In 1990, there were 304,271 km (188,647 miles) of surfaced roads in Italy. The road network includes, among others, municipal roads that are managed and maintained by the respective local authorities, roads outside municipal areas that are managed and maintained by the National Bureau for Ways and Speedways ("ANAS") and a system of toll highways that are managed and maintained by Costruzioni e Concessioni Autostrade S.p.A., a subsidiary of IRI. In 1991, road transport accounted for approximately 61% of land freight and 86% of passenger traffic, both high in relation to other EC countries. There was one car for every 2.2 inhabitants at the end of 1989.

In 1991, there were 16,066 km (9,960 miles) of railroad track, of which 82% was controlled by state-owned railways and the rest by private firms operating under concessions from the Government. In 1992, the railways carried 21.7 billion ton-km of freight and 46.4 billion passenger-km. The market share of rail transport declined from over 18% in 1970 to 12% in 1990 for passenger traffic, and from 20% to 12% for freight. The Government provides substantial operating subsidies to the state-owned railroads, making passenger tickets less expensive than for most European railroads.

Over the last few years, the Italian state railway company *(Ferrovie dello Stato,* or "FS") has become progressively less subject to direct state control. In 1992, the Government transformed FS into a joint stock company owned by the Ministry of the Treasury and gave it greater autonomy over investment decision-making and management. FS has reduced employment by almost 35,000 between 1984 and 1991 and achieved productivity growth of 7% in 1990 and 14% in 1991. A project for a new high-speed train system *(Treno ad alta velocità)* has been prepared and is awaiting final Government approval. It is estimated that the project will require Lit. 30,000 billion of investment, which is expected to come from public and private sources, and reach completion in approximately 2000.

In 1990, 109 million tons were loaded at Italian ports, of which 42 million tons were for foreign destinations. In the same year 296 million tons were unloaded, of which 228 million tons were from abroad.

The national airline is Alitalia, which is publicly traded but controlled by IRI. In 1992, Alitalia and its subsidiaries operated 52,099 international flights to and from Italian airports. Domestic flight arrivals and departures for Alitalia and its subsidiaries in 1992 totalled 114,516. The only other airline with a significant share of the market for domestic services is Meridiana S.p.A., which flies principally between Sardinia and major Italian and other European cities. Since January 1993, carriers based in other EC countries are permitted to serve Italian domestic routes under certain circumstances.

Communications. Italy's telecommunications system is currently undergoing a program of modernization. In the past, telecommunications services were split between ASST *(Azienda di Stato per i Servizi Telefonici),* which was directly owned by the Government, and STET *(Società Finanziaria Telefonica)* and its subsidiaries, which were controlled by IRI. In 1992, the assets and businesses of ASST were transferred to a newly-formed subsidiary of IRI called Iritel, which is now managed by, and is expected to become a subsidiary of, STET. STET and Iritel are now the principal suppliers of telecommunications services in Italy. STET is engaged in the sale of domestic and international telephone, telex and telegraph services, domestic and international satellite transmission, publishing and data transmission and the installation and sale of telecommunications equipment, systems and networking. STET has become increasingly active in international markets and has entered into cooperation agreements with several other major telecommunications operators, including two joint ventures with AT&T that market telecommunications products in Europe.

The Government has announced plans to streamline the corporate structure of STET and its subsidiaries in order to reduce operating costs. The Government has also begun to implement its plans to increase tariff rates for local calls and reduce rates for long distance and international calls in order to limit the subsidization of local telephone services by long distance and international services. The Government is also permitting competition in the sale of telephones and other terminal equipment.

Tourism. Tourism is an important sector of the Italian economy and makes a significant and positive contribution to the balance of payments. Revenues from foreign tourism grew by 2.3%, 1.8% and 43.9%, respectively, in 1988, 1989 and 1990, with part of the increase in 1990 being attributable to the World Cup soccer finals held in Italy in that year. After the sharp rise in 1990, revenues from foreign tourism fell by 3.4% in 1991, due in part to a decrease in tourism resulting from the Gulf War. Tourism recovered in 1992, and revenues from foreign tourism increased by 15.7%. Over the five-year period 1988-1992, tourism on a net basis contributed an average of Lit. 7,410 billion per year to Italy's balance of payments.

Financial Services. A significant portion of Italy's domestic funds available for investment has in recent years gone to fund the public debt, most of which has been financed in the domestic market. However, the high rate of household savings has left sufficient funds available for bank lending to, and other investment in, the private sector.

For a description of the Italian banking system, see "Monetary System — The Banking System" and "— Structure of the Banking Industry".

The bond market is dominated by the public sector. Treasury securities constitute approximately 86% of the market value of bonds traded in the Italian public bond markets, and most of the remainder consists of bonds issued by public sector entities and state-controlled enterprises. The bond markets have become increasingly liquid over the past three years, largely as the result of the introduction of seven- and ten-year fixed-rate Treasury securities. In early 1991, the Government established a derivatives market in Treasury securities, regulated by CONSOB, the Italian government authority regulating securities markets in Italy, as well as the Bank of Italy. Futures contracts on Italian Treasury securities are also traded in the London futures market. A screen-based secondary market for Treasury securities was introduced in 1987. Average daily turnover in the screen-based market in 1992 exceeded Lit. 6,500 billion, up from Lit. 4,900 billion in 1991.

There are ten stock exchanges in Italy, but the vast majority of trading volume takes place on the Milan Stock Exchange. The exchanges operate under the control of CONSOB. Because most Italian private-sector companies are closely held, the stock market has not been a significant source of capital, and the ratio of stock market capitalization to GDP is the lowest of any EC country. Although increasing numbers of Italian companies have issued securities in the public markets in recent years, the overall role of the public securities markets relative to credit financing for private sector companies has declined. The Milan Stock Exchange has been moving towards an electronic trading system, and most of the largest listed companies are now traded through the electronic system. Since January 1, 1991, the monthly values of the Comit index, an index of stock prices of major listed companies, have ranged from a high of 619.38 in June 1991 to a low of 363.10 in October 1992. On July 19, 1993 the Comit index closed at 555.13, an increase of 24.4% for the year to date.

Stock market participants include securities dealing firms or SIMs, authorized banks and certain types of finance companies. Beginning in January 1993, non-Italian EC banks are also permitted to operate in the Italian securities market under certain circumstances. The operations of the stock market are regulated by CONSOB. CONSOB specifies the information required from listed companies and regulates all public offering transactions. The SIM legislation (Law no. 1 of January 2, 1991) (the "SIM Law") regulates, among other things, securities brokerage and dealing, underwriting, asset management and investment advisory services. The SIM Law prohibits the provision of such services to the public by any person or entity that is not registered as a SIM, subject to certain grandfathering provisions. Banking institutions may be permitted by the Bank of Italy to continue securities trading activity in Treasury securities and Government-guaranteed securities (but not in other securities). SIMs are regulated by CONSOB and the Bank of Italy and are required to trade listed securities only in the markets where they are listed (with certain limited exceptions). In addition, the SIM Law, among other things, requires certain operating procedures, imposes disclosure requirements and places limitations on the ownership of the share capital of SIMs.

Manufacturing

In 1992, manufacturing represented 29.0% of GDP and employed 28.7% of the economically active population, in each case second only to the services sector. Energy production and other manufacturing activities accounted for 4.6% and 24.4%, respectively, of GDP in 1992.

Non-energy production. Italy has compensated for a relative lack of raw material natural resources by specializing in transformational and processing industries. Italy's principal manufacturing industries include metal products, precision instruments and machinery, textiles, leather products and clothing, wood and wood products, paper and paper products, food and tobacco, chemical and pharmaceutical products and transport equipment (including motor vehicles).

State-owned enterprises play a substantial role in the manufacturing sector and accounted for approximately 25% of manufacturing output in 1992. IRI holds shares in companies engaged in the manufacture of electronics, steel and shipbuilding, among others, while ENI is a substantial participant in the chemicals industry.

The number of large private companies in Italy is relatively small in comparison to other EC countries. The most significant are Fiat (automobiles and other transportation equipment), Olivetti (computers and telecommunications), Pirelli (tires, cables and industrial rubber products), Fininvest (media and publishing), Ferruzzi (agribusiness), Ferruzzi's partially-owned subsidiary Montedison (chemicals) and Benetton (clothing). These companies export a significant share of their output and have significant market shares in their respective product markets in Europe. However, much of Italy's industrial output is produced by small- and medium-sized firms, which also account for much of the economic growth over the past 20 years. They are active especially in light industry (including the manufacture of textiles, clothing, food, shoes and paper), but they have been innovators in these sectors and export a significant share of their production. Various Government programs for providing financing to small firms were reorganized pursuant to a law enacted in 1991. Such law coordinates previous programs and provides, among other things, for loans, grants, tax allowances and support to venture capital entities. The total amount of funding provided under the law for the period 1991-1993 is Lit. 1,500 billion.

Manufacturing output fell in real terms by 0.4% in 1991 and by almost 0.5% in 1992. In 1992, output growth was strongest in the precision instruments and machinery and paper and paper products industries and weakest in the agricultural and industrial machinery and transport equipment industries. The industrial production index published by the Istituto Centrale di Statistica ("Istat"), which measures the real output of companies with more than 20 employees, fell by 0.6% in 1992 after declining by 2.0% in 1991, in each case a greater decline than that of overall manufacturing output. Thus, the downturn has affected large- and medium-sized firms more than smaller firms. Italian industry's capacity utilization at the end of 1992 was 91% compared with 92.1% at the end of 1991 and 94.5% at the end of 1990.

The following table shows industrial production by sector for the years indicated.

Industrial Production by Sector
(Index: 1985 = 100)

	1988	1989	1990	1991	1992
Energy production	116.2	119.4	123.8	125.2	127.3
Ferrous and non-ferrous ores and metals	109.4	111.6	110.6	115.1	116.0
Non-metallic minerals	110.2	116.1	120.3	117.6	114.0
Chemical and pharmaceutical products	112.5	114.7	116.5	113.2	112.2
Metal products	116.1	118.9	116.5	110.3	109.1
Agricultural and industrial machinery	110.8	119.1	113.7	100.4	92.6
Precision instruments and machinery	132.4	124.2	126.3	117.5	126.2
Electrical material	116.2	122.9	123.4	120.8	115.0
Transport equipment	136.3	139.7	141.2	134.6	127.6
Food and tobacco	112.4	113.0	114.4	115.5	118.5
Textiles, leather products and clothing	100.1	102.7	101.6	100.1	101.1
Wood and wood products	121.7	124.1	124.0	127.9	132.4
Paper and paper products	121.0	128.0	130.4	133.1	139.3
Rubber and plastic materials	119.7	121.7	121.6	123.9	121.1
Other industrial products	93.1	98.5	84.0	85.8	93.4
AGGREGATE INDEX	114.1	117.6	117.8	115.4	114.7

Source: Annual Report of the Bank of Italy (1992)

Energy production. Italy depends on imported oil and other fossil fuels for a significant proportion of its energy needs. Overall, Italy imported approximately 82% of its energy requirements in 1992. In 1992, oil accounted for 56.1% of primary energy consumption, and 95.3% of Italy's oil needs were imported. The largest domestic source of energy is natural gas. Natural gas provided approximately 25% of primary energy consumption in 1992, of which approximately two-thirds was imported. ENI's natural gas transmission subsidiary, SNAM, has entered into long-term supply agreements with Russia, Algeria and the Netherlands for the purchase and transport of natural gas into Italy via pipelines. These contracts are typically renegotiated every 3-4 years. SNAM, which is Italy's only natural gas transmission company, is one of the world's largest purchasers of natural gas. Hydroelectric and geothermal energy each account for about 5% of primary energy consumption. A referendum in 1987 rejected the plans of the state to develop nuclear power in Italy. The other significant imported energy source is coal.

The domestic energy industry consists primarily of ENI and ENEL. ENI is engaged through its Agip subsidiary in oil and gas exploration and production in Italy and abroad, and through Agip Petroli in refining and distribution of petroleum products. Other wholly- and partly-owned subsidiaries are engaged in the purchase, sale and production of natural gas, pipeline construction, production of equipment for the oil and gas industry and coal mining. ENEL is engaged principally in the generation, importation, transmission and sale of electricity. Its domestic capacity is insufficient to meet current demand, and Italy imports approximately 14.4% of its electricity requirements.

Construction

In 1992, construction represented 5.8% of GDP and employed 7.3% of the economically active population. Residential construction, commercial construction and public works accounted for 52.8%, 27.0% and 20.2%, respectively, of the 1992 output of the construction sector. In 1992, Italian enterprises were awarded contracts abroad valued at Lit. 4,503 billion, approximately 2.2% lower than in 1991. Following a four-year period of moderate growth, the construction sector entered a recession in the second half of 1992.

Of a total expenditure of Lit. 13,795 billion on public works in 1991, 45.4%, 16.3% and 38.3% represented projects in the North, the Center and the South, respectively.

Agriculture, Forestry and Fisheries

Agriculture, forestry and fisheries accounted for 4.1% of GDP in 1992 and employed approximately 9.2% of the economically active population. Agriculture's share of Italian GDP has declined steadily with the growth of industrial output since the 1960's. Italy's average farm size, at 19.0 acres, remains less than half the EC average of 40.8 acres. Italy is a net importer of all categories of food except fruits and vegetables. The principal crops are wheat (including the durum wheat used to make pasta), maize, olives, grapes and tomatoes. Cereals are grown principally in the Po valley in the north and in the southeast plains, and olives are grown principally in central and southern Italy, whereas grapes are grown throughout the country. Italy is the largest wine producer in the world.

The marketable output of the agricultural sector increased by 4.7% in 1991, helped by favorable weather conditions, and decreased by 2.9% in 1992 on a volume increase of 0.5% and an average price decrease of 3.0%. The decrease in average prices is attributable in part to reforms in the EC's Common Agricultural Policy ("CAP"). The CAP provides price supports but also provides production ceilings and financial incentives to take land out of production. Recently adopted reforms of the CAP are intended to reduce the level of price supports, which will be compensated in part by payments to farmers that will not be linked to production.

One of the referenda described under "Republic of Italy — Government and Political Parties" abolished the Ministry of Agriculture, thus giving the regions a greater degree of control over agricultural policy.

Employment and Labor

The size of the total workforce in Italy grew steadily during the 1980's as a result of two factors. In the first half of the decade, the working-age population (age group 15-64) increased at an average rate of approximately 1.0% per year. Although the rate of population growth decreased significantly during the second half of the decade, with the working-age population increasing at an average rate of only 0.2% per year, women entered the workforce in increasing numbers throughout the decade, and the total size of the economically active population continued to increase.

Job creation in Italy during the 1980's was significantly above the EC average. Between 1980 and 1991, total employment (as measured by standard labor units) rose by more than one million, with a yearly rate of growth that averaged 0.6%, compared with 0.4% in the EC as a whole. The rate of employment growth was nevertheless insufficient to keep pace with the growth of the workforce. The unemployment rate, which was 9.1% in 1982, peaked at 12.0% in 1987-89 and then decreased to 10.9% in 1991, as the rate of growth of the workforce began to decline while employment continued to increase. In 1992, however, total employment declined by 0.9%, reflecting both the slowdown in the economy and the delayed effect of wage increases over the prior three years. Much of the decrease occurred during the second half of the year. Employment losses were concentrated in manufacturing and construction, while employment in the service sector remained approximately constant. The unemployment rate rose to 11.5% in 1992.

The following table shows the change in total employment and the official unemployment rate for each of the last five years, as well as the unemployment rate increased to include workers paid by the *Cassa Integrazioni Guadagni* ("CIG") or Wage Supplementation Fund, which guarantees part of the wages of workers in the industrial sector who are temporarily laid off or have had reduced working hours.

Employment

	1988	1989	1990	1991	1992
			(average over the year)		
Employment in standard labor units (% change on prior year)	0.9	0.1	0.8	0.8	(0.9)
Unemployment rate (%) (*)					
Unadjusted for CIG	12.0	12.0	11.4	10.9	11.5
Adjusted for CIG	13.0	12.8	12.2	11.9	12.6

(*) Beginning in 1990, the official unemployment rate is calculated using different methods of extrapolating sample data to the entire population. The years 1988 and 1989 in the table have not been adjusted to reflect these new methods of estimation. Beginning in October 1992, the method of calculation was revised by applying a narrower definition of the population actively seeking employment, which produces a lower unemployment figure than the prior definition As a consequence, the data for 1992 are not fully comparable to those for prior years. The official unemployment rate in January 1993, calculated under the new methodology, was 9.5%.

Source: Annual Reports of the Bank of Italy, various years, Istat

Although aimed at temporary layoffs, the CIG has been subject to some abuse resulting in long-term unemployed workers receiving compensation through the CIG. In 1991, however, the Government began applying a stricter eligibility test for the CIG and introduced a new scheme for workers laid off permanently as a consequence of restructuring or other collective redundancies (*lista di mobilitá*). The *lista di mobilitá* provides for unemployment compensation for a period of 18 months extendible up to three years for workers close to retirement age. In response to deteriorating labor market conditions in 1992, the Government temporarily rebroadened the scope of the CIG, although the current scope remains more restrictive than before the 1991 reform.

Unemployment in southern Italy has been persistently higher than in the North, and is currently near 20%. The differential has narrowed slightly in the last two years, principally because unemployment in northern and central Italy is more sensitive to the business cycle than is unemployment in the South. Unemployment is also substantially higher among younger workers and women. The Government has responded by providing money for jobs training, particularly in the South, and has provided certain incentives to firms that hire women and young workers.

Of the total employed workforce, the largest proportion, over 60%, are employed in the services sector. Approximately 25% of service sector employees work in the public sector. Approximately 30% of the employed workforce are employed in industry, of whom approximately one quarter are employed in the construction sector, which partly depends on public-works spending. Agriculture occupies approximately 10% of the employed workforce.

During the 1970's, the bargaining power of Italy's industrial unions, together with the creation of a comprehensive regulatory framework governing employment that, among other things, made dismissal of workers very difficult, resulted in a labor market that was slow to respond to cyclical trends, contributing to the high unemployment rate. More recently, however, the persistence of high unemployment has contributed to a less confrontational stance on the part of the unions and to a relaxation of the regulatory framework governing employment. Although there were a series of short strikes in 1992 protesting certain aspects of the Government's program to reduce the budget deficit, including the Incomes Policy Accord discussed under "Prices and Wages" below, the disruption to the economy from labor disputes has decreased significantly since the 1970's and early 1980's. In 1991 and 1992, 20.9 million and 19.2 million man-hours of labor, respectively, were lost as a consequence of labor disputes. By comparison, the average number of man-hours lost per year as a consequence of labor disputes was 116 6 million over the period 1978-1982 and 43 6 million over the period 1983-1990

Prices and Wages

Prior to July 1992, Italy had a system known as the *scala mobile* under which wages set pursuant to collective bargaining agreements were indexed to the inflation rate Subsequent changes in the system through the 1970's made it significantly inflationary. During the 1970's, the combination of oil price shocks, aggressive wage demands by the industrial unions and a growing budget deficit left Italy with an inflation rate that was high compared with most other EC countries. Beginning in 1979, however, the Bank of Italy pursued an aggressively anti-inflationary monetary policy as part of Italy's entry into the EMS In addition, beginning in 1984, the Government carried out successive reforms of the *scala mobile* to provide compensation for less than the full inflation rate Inflation, as measured by the consumer price index, declined from 21 2% in 1980 to 4 7% in 1987 before rising to 5 0% in 1988

During the period 1988-91, no further progress in reducing inflation was made. Hourly wages continued to rise during this period at a rate significantly higher than the rate of inflation while the rate of productivity growth declined The Government, the unions and the industrial employers' association subsequently reached the Incomes Policy Accord of July 1992, which abolished the *scala mobile* and froze firm-wide wage increases until the end of 1993 As a consequence of the Incomes Policy Accord and the effects of the economic downturn, hourly wages rose by 4 9% in 1992 and at an annual rate of only 3 0% through the first quarter of 1993 At the same time, Italian firms began to experience productivity increases, resulting in an increase of only 3 5% in unit labor costs in manufacturing in 1992 In June 1993, the principal unions and the industrial employers' association reached a four-year wage agreement covering all public and private sector industrial employees The agreement bases wage increases on the Government's inflation targets rather than the actual rate of inflation

The deceleration of labor cost increases, the decline in oil prices and other raw materials prices during 1992 and the weakness of domestic demand caused the consumer price index to increase by 5 3% in 1992 after rising by 6 4% in 1991 The downward trend continued even following the devaluation of the lira in September 1992 In May 1993, the rate of inflation per annum had slowed to 4 0% To date, the pass-through of exchange rate changes to domestic prices has been small, but it is possible that higher prices for imported goods and raw materials will put upward pressure on the prices of goods in 1993 Nevertheless, the end of wage indexation should continue to have a positive effect on inflation and on the management of the public sector deficit

The following table illustrates trends in prices and wages for the periods indicated:

Prices and Wages

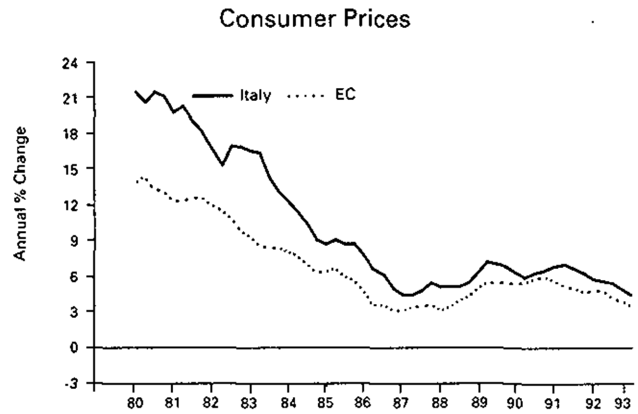
	1988	1989	1990	1991	1992
			(annual % change)		
Cost of Living Index (1)	5 0	6 6	6 1	6 4	5 4
Consumer Price Index	5 0	6 3	6 5	6 4	5 3
Wholesale Price Index	4 7	6 4	7 4	5 2	2 1
Per capita hourly wages (entire economy)	8 5	7 1	10 9	8 8	4 9
Unit Labor Costs (entire economy) (2)	5 2	5 6	9 6	8 2	3 5
Deflator of private consumption	5 7	6 3	6.2	6 8	5 4

(1) Reflects the change in price of a basket of goods typically purchased by moderate income non farm families It differs from the Consumer Price Index in that the basket of goods is smaller in number and scope

(2) Per capita hourly wages reduced by productivity gains

Source Istat

The graph below shows the quarterly percentage change, on an annualized basis, in consumer prices in Italy (as measured by the cost of living index) and the EC for the period 1980-1993.



Quarterly % change in consumer prices (annualized)

Italy

1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
21.5	19.7	16 7	16.4	12.2	8.6	7.6	4.3	4.9	6.1	6.2	6.6	5 7	4.3
20.5	20.3	15.3	16.3	11.3	8 8	6.4	4.2	4.9	6.9	5 7	6.8	5.6	
21.5	19.0	16.7	14.2	10.2	8.5	5 9	4 6	4 9	6 8	6.1	6.4	5 3	
21 0	18.2	16.7	13 0	8.8	8.5	4.7	5.2	5 2	6.6	6 3	6 1	4.9	

EC

1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
13.9	12.3	12.0	9.2	8.0	6.3	4.8	3 1	3.1	4 9	5.3	5.6	4.7	3 4
14.4	12.3	11.4	8 5	7.6	6.6	3.6	3.3	3.3	5.4	5.4	5.1	4.7	
13.4	12.4	10.7	8.4	6.9	6 0	3.5	3 4	3.8	5.3	5.8	4.9	4.1	
13.1	12.6	9.7	8.4	6 3	5.6	3.1	3.5	4.2	5 4	6.0	4.6	3 8	

MONETARY SYSTEM

The Italian financial system consists of banking institutions such as commercial banks, leasing companies, factoring companies and household finance companies, as well as non-bank financial intermediaries such as investment funds, portfolio management companies, securities investment firms, insurance companies and pension funds. The financial system has undergone a number of substantial changes in recent years, most recently as a result of the EC's Second Banking Directive. See "Banking Regulation".

Monetary Policy

The Bank of Italy, founded in 1893, is Italy's central bank and the lender of last resort for Italian banks, banker to the Italian Treasury and the entity generally in charge of implementing monetary policy. It supervises and regulates the Italian banking industry, as discussed below, and operates services for the banking industry as a whole, including a central information office on credit risks. It also supervises and regulates non-bank financial intermediaries. The Bank of Italy had assets at December 31, 1992 of Lit. 2,095,470 billion ($1,302 billion).

The Bank of Italy has long been a non-political entity and has enjoyed an increasing degree of independence in recent years. Since 1981, the Bank of Italy has ceased to act as a residual buyer of Treasury bonds at issuance. More recently, through laws enacted in May 1991 and January 1992, Parliament gave the Bank of Italy total autonomy in setting the discount rate and the short-term interest rate on funds advanced to commercial banks (*anticipazioni a scadenza fissa* or the rate on fixed term advances), both previously set by the Minister of the Treasury acting on a proposal from the Governor of the Bank of Italy. The Government has also proposed a bill, currently awaiting enactment by Parliament, that will eliminate the Treasury's ability to run an overdraft with the Bank of Italy, thereby severing the link between public sector borrowing and the sources of money creation. The proposed law, which meets the standards for central bank independence contained in the Maastricht Treaty, provides for conversion of presently-existing overdrafts on the Treasury's current account into Treasury securities, although those securities will pay a below-market interest rate. The Treasury will then open an interest-bearing account at the Bank of Italy with its own resources.

Italy has been a member of the EMS since its founding in 1979, and in January 1990 brought the lira into the "narrow band" of the ERM. In the ERM, each currency has a central parity established in terms of European Currency Units ("ECU"), a weighted basket of the participating currencies. The central bank of a member state within the ERM (to which all of the EMS countries except Greece belonged at the beginning of 1992) is required to intervene to prevent the market value of its currency from moving outside a specified range in relation to other member states' currencies. The "narrow band" currencies previously operated within a 2¼% range around the central parity and the "wide band" currencies operated within a 6% range. On August 2, 1993, in response to strong downward pressure against the French franc and other ERM currencies, the EC member states agreed to replace the two bands with a single 15% band, which will permit substantially greater fluctuation in currency values.

During the past decade the Bank of Italy pursued an increasingly anti-inflationary stance based on maintenance of a stable exchange rate within the EMS. However, the Bank of Italy's defense of the lira's parity within the ERM during 1992 led to sharp declines in official reserves and required high real interest rates. In September 1992, Italy devalued the lira within the ERM and on September 17, 1992 suspended the lira from the ERM, relieving the drain on official currency reserves. The United Kingdom also suspended the pound sterling from the ERM in September 1992. After the lira's suspension from the ERM, the Bank of Italy reduced interest rates gradually, avoiding sharp drops that could increase inflationary pressures. Although the Bank of Italy no longer has an explicit exchange rate target, it seeks to sustain an anti-inflationary monetary policy by adhering to a target growth rate for the M2 monetary aggregate as described below.

In its role of implementing monetary policy, the Bank of Italy both monitors and influences conditions in the Italian money and credit markets, which affect interest rates, the growth in lending, the distribution of lending between various industry sectors and the growth of deposits. The Bank of Italy principally uses open-market operations in Government securities, the discount rate and the rate on fixed term advances to control the money supply. By injecting or absorbing funds through purchases and sales, respectively, of Treasury securities, providing Italian banks with ordinary and extraordinary advances and setting the rates at which such advances are available, the Bank of Italy may increase or decrease liquidity in the banking system.

Discount rates have varied substantially in the recent past, partly as a result of pressure on the lira in the foreign exchange markets and the decline in official reserves associated with the attempt by the Bank of Italy to keep the lira within the narrow band of the ERM. The Bank of Italy raised the discount rate in December 1991 in line with other ERM countries and twice again in July 1992, to 13.75% as pressure on the lira increased. Following a slight decrease in August 1992, the Bank of Italy again raised the discount rate to 15% in early September 1992 to counter continued losses in foreign exchange reserves. Following the suspension on September 17, 1992 of the lira from the ERM, the Bank of Italy gradually lowered the discount rate in eight steps, most recently to 9.0% in July 1993. The rate on fixed term advances moved similarly, from 12.5% at the beginning of June 1992 to 16.5% in early September 1992 and back down to 10.0% in July 1993.

Each Italian bank must maintain on deposit with the Bank of Italy an obligatory interest-bearing reserve based on deposits, in both lire and foreign currencies, made by residents and lire deposits made by non-bank non-residents. These compulsory reserves are adjusted monthly based on the increase or decrease of the relevant deposits, net of changes in capital accounts, up to a ceiling represented by a specified ratio between reserves and total reservable deposits. Recently, the reserve requirements were reformed by reducing by approximately one-quarter the amount of cash reserves that must be maintained against reservable deposits, with the intention or improving the competitive position of Italian banks in the single European market. The current reserve ratios are 17.5% for checking and savings accounts and short-term certificates of deposit, and 10% on long-term certificates of deposit. The proposed law eliminating the ability of the Treasury to run an overdraft at the Bank of Italy also gives the Bank of Italy full control over reserve requirements, which at present may be modified by the Government.

The following table shows the basic money supply (M1) of Italy during each of the past five years:

Money Supply

	1988	1989	1990	1991	1992
	(end of period figures in billions of lire)				
Notes and coins	57,167	67,644	69,449	76,354	85,617
Demand deposits					
in domestic currency	321,607	353,724	384,657	430,552	425,861
in foreign currency	1,712	2,349	3,359	4,181	8,150
Total demand deposits	323,319	356,073	388,016	434,733	434,011
Other items*	19,895	28,070	25,402	26,976	24,458
Total: M1	400,381	451,787	482,867	538,063	544,086

*Postal sight deposits, bankers' drafts issued by the Bank of Italy and other banking institutions and deposits with the Treasury.

Source: Bank of Italy Economic Bulletin (February 1993);
Annual Report of the Bank of Italy (1992)

Prior to 1992, M1 was defined as notes and coins in circulation, demand deposit accounts and postal sight deposits. The broader monetary aggregate, M2, was defined as M1 plus time deposits, certificates of deposit, postal savings accounts (excluding postal sight deposits but including postal certificates) and repurchase agreements between banks and their customers. In the fall of 1991, the Bank of Italy announced revised definitions of the monetary aggregates consistent with agreements within the EC. It redefined M1 to include bankers' drafts, and it redefined M2, most notably to exclude postal certificates and repurchase agreements between banks and their customers. Each of the years in the above table has been adjusted to reflect the effect of these revised definitions.

The target range for growth in M2 for 1991 set by the Bank of Italy was 5 to 8%, and growth during 1991 exceeded the target range by 1 percentage point, primarily because the public sector borrowing requirement during the fourth quarter was well above its target level. The target range for 1992 was 5 to 7%, and M2 growth during 1992 was 5.9%. The M2 target range for 1993 is unchanged from 1992. During the first six months of 1993, M2 grew at an annualized rate of approximately 9%.

Banking Regulation

Italy's banking industry is regulated under the Banking Act of 1936, as amended (the "Banking Act"), a law that sets out the structure of the banking industry and regulates the different types of institutions in the market. The Banking Act has been modified by recent legislation, primarily Law no. 218 of July 30, 1990 (the "Amato Law"), discussed below under "Amato Law and Other Developments", and the statutes implementing the EC's Second Banking Directive. The result of these modifications is a shift in the regulatory framework of Italian banks. The prior system required specific advance authorizations for structural changes such as establishing subsidiaries, opening branches, expanding geographically and operating in foreign currencies. By contrast, the current system permits banks to engage in such activities without prior authorization, subject to compliance with asset and capital tests. The framework of the Italian banking model now substantially mirrors the Second Banking Directive.

Pursuant to the Banking Act, regulation of Italian banks is conducted by the Interministerial Committee for Credit and Savings (the "CICR") and the Bank of Italy. The principal objectives of regulation are the protection of depositors and the orderly distribution of credit. The CICR is composed of the Minister of the Treasury, who acts as chairman, and the other principal economics ministers. Although not a member of the CICR, the Governor of the Bank of Italy also participates in all meetings of the CICR. The CICR has wide-ranging powers relating to the overall supervision of the Italian banking system. It issues guidelines and regulations relating to banking activities and renders opinions to the Minister of the Treasury, who is required to consult with the CICR on all matters relating to bank credit.

The Bank of Italy implements the policies and regulations of the CICR and supervises the banking institutions through its own auditing body, by granting authorizations and by examining the reports that banks are required to file with the Bank of Italy on a regular basis. The main supervisory and regulatory powers of the Bank of Italy include review of bank financial statements and other statistical data, bank examinations, capital ratios, implementation of reserve requirements and establishment of exposure limits for individual banks.

The Bank of Italy carries out audits of all credit institutions through its supervisory staff of bank examiners. Audits may be ordinary or special (which are directed toward specific aspects of banking activity). Matters covered by an examination include the accuracy of reported data, compliance with banking laws and regulations and conformity with the bank's own by-laws. Specific areas of inquiry include compliance with exposure limits.

The Interbank Fund, established in 1987 by a group consisting of the principal Italian banks, protects depositors against the risk of insolvency of their bank and the loss of their deposited funds. The Interbank Fund assists banks that are insolvent or in financial difficulties and guarantees deposits of banking customers up to a predetermined percentage of each deposit account, which is up to 100 percent for small accounts.

Structure of the Banking Industry

Italy had more than 1,000 banks at the end of 1992, and state-controlled banks accounted for a substantial majority of total bank assets. The regulatory changes described above have also included changes to the basic structure of the Italian banking industry. Prior to 1992, the Banking Act divided the banking industry into two broad categories: "banks" on the one hand and "special credit institutions" on the other. Banks were essentially retail institutions, financed by the public's deposits and mainly providing short-term loans (with a maturity of up to 18 months). Special credit institutions were financed on the bond market and provided medium- and long-term and mortgage loans. In addition, the state-controlled banks and special credit institutions were divided into those directly owned by the Government and those in joint stock company form, the shares of which were owned in whole or in part by the Government or by state-owned companies such as IRI.

In January 1993, the distinction between banks and special credit institutions was abolished, although in practice it had been progressively disappearing before that time. In addition, pursuant to the provisions of the Amato Law, most of the state-owned banks have been transformed into joint stock companies. Consequently, most Italian banks are now either (a) joint stock banks owned directly or indirectly by the Government, the private sector or foundations, (b) cooperative banks, (c) rural cooperative banks or (d) central institutions, which provide centralized management services to other, usually small sized, banks.

At the end of 1992, joint stock banks accounted for 82.2% of total bank assets and for 81.1% of domestic customer lira deposits. Cooperative banks and rural cooperative banks owned 15.6% of total bank assets and held 18% of deposits. Italian branches of foreign banks accounted for 2.2% of total bank assets but, because they generally lack significant retail networks, only 0.1% of deposits.

The EC single market for financial services will affect the Italian banking system, but in many cases it is expected simply to speed pre-existing trends. Since the 1970s, no significant regulatory obstacles have existed to prevent foreign banks from establishing branches in Italy. Between 1980 and 1992, the number of foreign banks with branches in Italy grew from 28 to 40. Such foreign banks principally specialize in wholesale corporate operations rather than expanding into the retail market, and few have expanded their branch network. In recent years several foreign banks, particularly North American banks, have exited the Italian market. Therefore, the Government does not expect a substantial shift of market share in favor of foreign banks.

Nevertheless, Italian banks have two competitive disadvantages relative to banks in certain other EC countries. First, their operating costs are relatively high, principally as a result of high staff costs. Second, the contribution of services to their net income is relatively low, as Italian banks have not specialized in services to the same extent as banks in some other countries. Consequently, particularly in market segments in which sophisticated services are demanded, the liberalization of capital movements within the EC may provide an opportunity for foreign banks to increase their market share in Italy.

Commercial banks' bad debts as a share of total lire-denominated loans rose during the course of 1992 from 6.5% to 7.2%. Although this deterioration was less severe than in many other countries, Italian banks have made larger loan loss provisions than banks in most other countries, covering up to 60% of non-performing loans at the end of 1992. Italian banks are also strongly capitalized. The ratio of Tier 2 capital as defined by the Basle Accord to risk-adjusted assets rose from 7.5% at the end of 1990 to 8.2% and 9.5% at the end of 1991 and 1992, respectively. The ratio of non-performing loans to Tier 2 capital declined from 30% to 25% between 1989 and 1992.

Amato Law and Other Developments

The Amato Law was enacted in 1990 with the intent of strengthening the capital base of, creating incentives for consolidation of, and permitting greater private investment in, the Italian banking system. Historically, the Italian banking system was fragmented and largely shielded from foreign competition. The restructuring process under the Amato Law is intended to create larger and more efficient institutions that will be able to provide better services and to compete more effectively in Italy and abroad.

The Amato Law uses financial incentives to encourage conversion of directly state-owned banks into joint stock companies and consolidation of the banking industry through mergers. The law contains two principal provisions:

(1) *Conversion and Organization.* Directly state-owned banks are allowed to convert into, or to transfer their assets to, one or more joint stock companies. Private participation in the newly formed companies is permitted and encouraged, but the reduction of Government ownership below 51% is permitted only in exceptional circumstances with prior authorization by the Government and consultation with the Bank of Italy. The Amato Law also allows banks to be structured in "*gruppi polifunzionali*", which is similar to a holding company structure. Since the implementation by Italy of the Second Banking Directive, banks are also permitted to adopt a universal bank structure.

(2) *Tax Incentives.* The Amato Law allows merging entities to take advantage of favorable tax treatment in writing up their assets. The entities surviving reorganizations that were completed by December 31, 1991 are permitted to deduct from taxable income over a five-year period the equivalent of 1.2% of the difference between the sum of the loans and deposits of the merged institutions and the loans and deposits of the larger component bank. A reduced level of tax incentives applies to reorganizations completed within two years of the effective date of the Amato Law. This favorable tax treatment also applies to the spin-off of assets and to reorganizations, allowing such transactions and any resulting asset revaluation to be effected on a tax-deferred basis.

The tax incentives provided by the Amato Law for banking mergers has led to a number of large consolidations, including the creation of Banca di Roma, Italy's largest financial institution as measured by assets and gross revenues, by the merger of Banco di Roma, Cassa di Risparmio di Roma and Banco di Santo Spirito, as well as the acquisition of a substantial stake in the Treasury-controlled IMI group by Cassa di Risparmio delle Province Lombarde (Cariplo).

Markets for Treasury securities and interbank deposits have been reorganized for screen-based trading and immediate settlement on accounts with the Bank of Italy, a measure intended to strengthen the link between the Bank of Italy's open market operations and longer-term interest rates.

Credit Allocation

The Italian credit system has changed substantially during the past decade. Banking institutions have faced increased competition from other forms of intermediation, principally securities markets. Lending increased more rapidly than GDP over the last decade, and bank loans remained stable at around 56% of total financial liabilities (excluding equity capital of the private sector) during this period. On the other hand, bank deposits declined from roughly 67.2% to under 39% of the total financial assets of the banking sector (excluding equity investments in the private sector).

The industrial sector received approximately 36% of credit extended by commercial banks and special credit institutions during 1992. Agriculture, energy and public administration received in the aggregate approximately 13%. In order of importance, lending to financial businesses, service firms and the consumer sector accounted for the remaining 51% of loans granted by banks.

The following table illustrates the allocation of credit for the periods indicated:

Credit Allocation by Sector*

	1988		1989		1990		1991		1992	
	Billions of lire	**% of Total**	**Billions of lire**	**% of Total**	**Billions of lire**	**% of Total**	**Billions of lire**	**% of Total**	**Billions of lire**	**% of Total**
Industry	188,250	40.0	227,694	39.7	257,575	38.2	286,056	36.5	320,214	36.1
Public Administration	40,288	8.6	42,470	7.4	45,265	6.7	59,885	7.6	68,755	7.8
Agriculture	20,776	4.4	22,868	4.0	25,125	3.7	24,365	3.1	24,745	2.8
Energy	11,335	2.4	14,029	2.4	13,779	2.0	15,008	1.9	19,661	2.2
Others	210,413	44.6	266,661	46.5	331,923	49.4	398,446	50.9	453,356	51.1
Total	471,062	100.0	573,722	100.0	673,667	100.0	783,760	100.0	886,731	100.0

* Loans granted by commercial banks and special credit institutions; loans of less than 80 million lire are excluded.
Source: Bank of Italy — *Bollettino statistico* (Statistical Bulletin); data from Central Credit Register

Exchange Controls

There are no exchange controls as such in Italy. Residents may hold foreign currency and foreign securities of any kind, within and outside Italy. Non-residents may invest in Italian securities without restriction and may export cash, instruments of credit and securities, in both foreign currency and lire, representing interest, dividends, other asset distributions and the proceeds of disposals. Residents and non-residents of Italy may effect any investments, disinvestments and other transactions entailing any transfer of assets to and from Italy through any banking or other intermediary, including banks located outside Italy.

Authorized banks, financial and trust companies and other professional intermediaries are required to maintain records of transfers of cash and securities in excess of Lit. 20 million into and out of Italy made on behalf of individuals, non-profit making entities and business enterprises. Such records must be kept for five years and may be inspected at any time by tax and judicial authorities.

Residents of Italy effecting transfers without using intermediaries in excess of Lit. 20 million in one year must disclose them in their annual tax declarations. Residents must also give details in their tax declarations of financial assets held outside Italy at the end of the fiscal year and of transfers in excess of Lit. 20 million to, from, within and between foreign countries in connection with such assets during the fiscal year.

No declaration is required in respect of investments and income-earning assets that are exempt from income tax or subject to withholding tax in Italy and are deposited by residents with a resident bank.

THE EXTERNAL SECTOR OF THE ECONOMY

Foreign Trade

Italy is fully integrated into the European and world economies, with imports and exports each accounting for roughly 15% of Italian GDP. Italy has experienced a trade deficit of approximately 1% of GDP for each of the past six years, but recent data indicate an improved trade performance following the depreciation of the lira in September 1992. The Italian economy relies heavily on foreign sources for energy and other natural resources and is a net importer of chemical and pharmaceutical products, transport equipment and agricultural and food industry products. Of the major European economies, Italy's is the most heavily dependent on imports of energy. Approximately 82% of Italy's energy requirements are imported, accounting for approximately 10% of total imports in 1992. As a result, Italy's trade balance is vulnerable to a rise in oil prices.

The trade balance in the manufacturing sector generally is in surplus, and Italian companies are strong competitors in a wide range of industries, including industrial machinery, office machinery, automobiles, a variety of large-scale construction projects and high-quality clothing, shoes and textiles. The long-term challenge of Italian industries competing abroad is to produce the surpluses needed to fund the purchase of imported energy, raw materials and agricultural products. Italian companies are less strong in technology-intensive products than companies in the other leading industrial countries, whose exports have gradually shifted from traditional to technology-intensive industries. As a consequence, foreign manufacturers of electrical and electronic equipment and automobiles have achieved significant penetration of the Italian market.

The following table illustrates Italy's balance of trade for the years 1988 through 1992.

Foreign Trade
(cif-fob)

	1988	1989	1990	1991	1992
			(billions of lire)		
Exports (f.o.b.)					
Metal products and machinery	55,787	66,334	69,895	73,027	76,400
Textiles, leather products and clothing	31,324	34,971	37,654	37,370	38,989
Transport equipment	15,910	19,072	21,654	22,172	21,894
Chemical and pharmaceutical products	14,283	15,612	15,363	15,518	17,221
Food, beverage and tobacco products	6,970	7,779	8,144	9,065	10,437
Non-metallic minerals and mineral products	7,175	8,221	8,527	8,693	9,163
Ferrous and non-ferrous ores and metals	7,554	9,419	8,989	8,545	8,657
Rubber and plastic products	5,776	6,527	6,889	7,366	8,023
Wood products and furniture	5,310	6,071	6,411	6,580	6,898
Other manufactured products	5,170	6,152	5,974	6,274	6,673
Agriculture, forestry and fishing	4,497	5,005	5,343	5,988	5,770
Energy production	3,091	3,552	4,411	4,569	4,560
Paper and printing	3,417	3,883	4,104	4,403	4,545
Other	116	199	155	160	206
Total exports	166,380	192,797	203,516	209,731	219,436

	1988	1989	1990	1991	1992
			(billions of lire)		
Imports (c.i.f.)					
Metal products and machinery	42,203	46,786	50,118	52,467	53,393
Textiles, leather products and clothing	12,182	13,767	13,979	14,682	15,886
Transport equipment	18,572	22,866	25,865	28,821	32,667
Chemical and pharmaceutical products	23,360	26,460	27,323	27,810	29,414
Food, beverage and tobacco products	15,190	16,926	16,769	18,025	18,811
Non-metallic minerals and mineral products	3,435	3,912	4,206	4,396	4,507
Ferrous and non-ferrous ores and metals	17,607	22,965	20,609	19,483	19,628
Rubber and plastic products	3,646	4,124	4,376	4,691	5,045
Wood products and furniture	2,872	3,290	3,597	3,804	4,048
Other manufactured products	2,046	2,297	2,363	2,640	2,783
Agriculture, forestry and fishing	14,002	15,099	14,262	15,906	14,785
Energy production	18,348	23,413	26,498	25,848	23,813
Paper and Printing	5,039	6,076	5,940	5,585	5,858
Other	1,510	1,929	1,797	1,588	1,472
Total imports	180,013	209,910	217,704	225,748	232,110
Trade balance	(13,633)	(17,113)	(14,188)	(16,017)	(12,674)

Source: Annual Report of the Bank of Italy (1992)

During the 1980's, the relative strength of the lira and high unit labor costs had a persistently negative effect on the international competitive position of domestic producers. The trade deficit exceeded 2.5% and 2.3% of GDP in 1984 and 1985, respectively. Despite decreasing oil prices and the fall in the dollar (the currency of denomination of many of Italy's imports), which resulted in a slight surplus in 1986, the deficit continued to rise in the latter half of the decade as a result of deteriorating export performance and increased domestic demand for imports. Slackened economic growth in Italy led to a reduction in the rate of increase of imports in 1990, which, combined with lower raw materials prices resulting from the fall in the dollar, led to a reduced trade deficit. In 1991, the trade deficit rose again to a near-1989 level as import volume rose more sharply than export volume. The slowdown in export growth during 1991 involved every sector except agriculture, forestry and fishing, chemical and pharmaceutical products and food, beverage and tobacco products and it was most pronounced for transport equipment and textiles, leather products and clothing. During 1991, an acceleration in imports of textiles, leather products and clothing, food, beverage and tobacco products, agricultural products and transport equipment was offset by the slowdown in imports of energy products, non-metallic minerals and mineral products and metal products and machinery.

The differential between import growth and export growth persisted until the fourth quarter of 1992, when the devaluation of the lira made Italian exports more competitive and further reduced the demand for imported goods, which had already declined as a result of the economic downturn. The export sector grew in the second half, resulting in a mild recovery for the year. During the first four months of 1993, Italy's trade balance with the other eleven EC countries moved from a deficit of Lit. 6,092 billion in the corresponding period in 1992 to a surplus of Lit. 2,108 billion. In the same period, Italian exports to non-EC countries increased by 22.6% by comparison with the corresponding period in 1992.

Geographic Distribution of Trade

As a member of the EC, Italy from January 1, 1993 enjoys relatively free access to the markets of the 11 other member states. Italy applies the external tariff common to all EC countries. During the past several years, the EC countries have made significant progress in reducing non-tariff barriers to trade, such as technical standards and other administrative barriers. Italy has incorporated into national law most of the EC directives on trade and other matters; at the end of 1992, Italy was second only to Denmark with respect to the proportion of single market measures implemented.

The EC accounts for over half of Italian trade value. In 1992, countries within the EC purchased almost 58% of Italian exports and supplied approximately 59% of imports. Germany is Italy's single most important trading partner. It has frequently been the largest source of imports, as well as a key market for Italian exports. In 1992, Germany absorbed over 20% of Italian exports and supplied almost 22% of Italian imports.

The Italian market traditionally has been less open to exporters from outside Europe, particularly Asia, than to European exporters. Under the Multi-Fibre Arrangement, which has been in place since the mid-1970's and has recently been renewed until the end of 1993, special textiles and clothing quotas exist to limit imports. Subject to the outcome of the Uruguay round of GATT, Italy expects to phase out non-tariff barriers on imports of textiles and clothing products over the next decade. Since the 1960's, bilateral export restraint arrangements and national import quotas have limited exports of Japanese cars to EC countries. In July 1991, the EC and Japan agreed to an arrangement under which national quotas on Japanese exports would be eliminated by the EC countries in 1993 and voluntary export restraint agreements would be negotiated each year, to be phased out by 1999.

The following table shows the distribution of Italy's external trade for the periods indicated:

Distribution of Trade
(*cif-fob*)
(billions of lire)

	1988	1989	1990	1991	1992
Exports					
Belgium-Luxembourg	5,617	6,306	6,934	7,129	7,279
France	27,598	31,413	33,320	31,852	32,060
Germany	30,058	32,718	38,707	44,019	44,663
Netherlands	5,124	5,973	6,344	6,615	6,879
United Kingdom	13,371	15,205	14,402	13,969	14,392
Ireland	433	573	577	693	697
Denmark	1,298	1,455	1,556	1,628	1,717
Greece	2,687	3,525	3,678	3,831	3,977
Spain	6,752	9,150	10,060	10,707	11,252
Portugal	2,001	2,386	2,925	3,235	3,596
Total EC	94,937	108,703	118,503	123,677	126,510
Switzerland	7,838	8,617	9,206	8,811	8,717
United States	14,792	16,615	15,516	14,441	15,281
Other OECD	15,846	19,210	19,760	19,389	18,952
Total OECD	133,413	153,145	162,985	166,318	169,461
Eastern Europe, former USSR and China	6,426	7,747	7,218	7,595	9,938
OPEC Countries	7,797	*9,222*	*8,320*	*9,969*	*11,311*
Others	18,744	22,683	24,992	25,849	28,727
Total Non-OECD	32,967	39,652	40,530	43,413	49,976
Total	166,380	192,797	203,516	209,731	219,436
Imports					
Belgium-Luxembourg	8,801	10,391	11,084	11,009	11,239
France	26,722	30,842	30,980	31,982	33,550
Germany	39,203	44,492	46,203	47,223	50,047
Netherlands	10,306	11,532	12,483	12,976	13,713
United Kingdom	9,165	10,173	11,373	12,835	13,284
Ireland	1,068	1,363	1,467	1,477	1,662
Denmark	1,768	1,974	2,178	2,228	2,337
Greece	1,563	2,427	1,974	1,876	2,002
Spain	4,347	5,077	6,527	7,886	7,776
Portugal	582	805	766	826	850
Total EC	103,523	119,075	125,035	130,317	136,460
Switzerland	8,059	9,089	9,926	10,004	10,444
United States	10,091	11,444	11,100	12,618	12,141
Other OECD	16,944	19,702	20,037	19,952	20,282
Total OECD	138,616	159,310	166,099	172,891	179,327
Eastern Europe, former USSR and China	9,125	10,952	10,333	11,572	12,931
OPEC Countries	10,490	13,369	15,352	16,128	14,288
Others	21,782	26,279	25,920	25,157	25,565
Total Non-OECD	41,397	50,600	51,605	52,857	52,784
Total	180,013	209,910	217,704	225,748	232,110
Trade Balance	(13,633)	(17,113)	(14,188)	(16,017)	(12,674)

Source. Annual Report of the Bank of Italy (1992)

Balance of Payments

Current Account

Italy has experienced persistent, though generally small, current account deficits since the oil shock of 1973. The current account of the balance of payments was last in a surplus position in 1986, but beginning in 1987 the relative strength of Italian domestic demand and the decreased competitiveness of Italian industry led to increasingly large current account deficits. The deficit during 1987 was Lit. 1,940 billion, equivalent to just over 0.1% of GDP. The current account deficit during 1988 rose to roughly 0.7% of GDP, and then to 1.2%, 1.3% and 1.8% in 1989, 1990 and 1991, respectively, reaching Lit. 32,734 billion, or almost 2.2% of GDP, in 1992.

Decreased growth in Italy's total share of export markets, combined with increased import penetration, had a negative effect on the balance of payments during the 1980's, particularly at the end of the decade. However, improvements in Italy's terms of trade in recent years have brought merchandise trade closer to balance, actually resulting in a small surplus on an *fob-fob* basis in 1990. The terms of trade enjoyed by Italy improved by an average of over 3% annually in 1990 and 1991, considerably more than for other industrial countries. In 1991, however, despite this continued favorable movement in the terms of trade and an increase during the first six months of the year in German demand, the merchandise trade balance moved back into deficit. During 1992, despite the devaluation of the lira, Italy's terms of trade improved by 1.3%. Import volumes fell during 1992 because of weak domestic demand, while export volumes rose, particularly following the depreciation of the lira, resulting in a trade surplus of over Lit. 3,000 billion.

During the early 1980's, invisible transactions (services, investment income and wages) contributed positively to the current account. However, since 1988 invisibles have registered substantial deficits. The principal cause of the deficit is the net outflow of investment income. The balance on transactions in goods, services and labor shows a modest surplus in each of the years 1988, 1990, 1991 and 1992 and a nominal deficit in 1989. However, inflows of investment income in 1992 were Lit. 30,477 billion, while outflows were Lit. 56,115 billion. Unrequited transfers, such as pension payments abroad, emigrants' transfers and contributions to the EC and other multinational organizations, also negatively affect the current account balance.

The Government believes that the depreciation of the lira is likely to have a beneficial effect on the current account of the balance of payments. Preliminary data point to an improvement in the trade balance since September 1992. The Government believes that the September 1992 devaluation is not likely to have the same inflationary consequences as the devaluations of the 1970's. In the 1970's, wages were indexed, monetary and fiscal policies were loose, and domestic demand was permitted to rise rapidly, resulting in a quick dissipation of the benefits of devaluation through higher inflation. At the present time, the benefits of the depreciation for the current account should be enhanced by the end of wage indexation, which should help to preserve the improved competitive position of Italian industry, and by a restrictive fiscal policy which should help to divert resources from financing public sector deficits and toward financing private sector industries producing for export.

Capital Account

In recent years, Italy's financial markets have become increasingly integrated internationally, as exchange restrictions have been lifted and Italian companies have become more international in scope. Gross capital inflows and outflows in 1991 increased by approximately 55% over 1990, and in 1992 the increase over 1991 was 47%.

Following a period of considerable improvement in the late 1980's, the capital account of the balance of payments in recent years has deteriorated again, principally resulting from net outflows of portfolio investment. The lira's movement into the narrow band of the ERM in 1990 and the accompanying interest in Italian investment opportunities resulted in substantial increases in foreign loans, portfolio investment and bank capital in that year. In 1991, however, foreign portfolio investment increased only slightly while

Italian portfolio investment abroad increased strongly. Italian residents' increasing demand for foreign currency loans was met by Italian banks through their foreign branches and, after the abolition in 1991 of the reserve requirement on foreign currency deposits of foreign entities, through domestic branches. The resulting inflows of capital and contractions in foreign loans continued until 1992, when there were net outflows of bank capital. In the second half of 1992, the tensions that arose in the ERM produced a sudden shift in exchange rate expectations and an increase in capital outflows. As a consequence, the net inflow of bank capital decreased by 35.7% from 1991. Non-bank capital outflows increased during 1992 to Lit. 13,521 billion.

The following table illustrates the balance of payments for the periods indicated:

Balance of Payments

	1988	1989	1990	1991	1992
			(billions of lire)		
Current Account					
Credits					
Exports	165,817	192,149	202,785	208,905	218,801
Transport	10,508	12,211	12,903	13,388	13,730
Tourism	16,144	16,442	23,654	22,853	26,447
Investment income	9,662	14,536	19,485	25,187	30,477
Services	15,125	19,365	32,956	32,339	40,624
Transfers and other	16,068	17,660	16,069	16,989	16,620
Debits					
Imports	167,318	195,105	202,354	209,828	215,748
Transport	13,690	15,986	16,734	16,898	18,504
Tourism	7,795	9,291	16,571	14,451	20,380
Investment income	18,940	25,902	35,485	45,179	56,115
Services	17,060	21,222	35,618	35,792	44,887
Transfers and other	16,144	19,999	18,872	24,111	23,799
Current Account Balance	(7,623)	(15,142)	(17,782)	(26,598)	(32,734)
Capital Account (net)					
Long-term capital transactions					
Private loans	6,045	16,842	25,725	7,480	3,063
Private direct investment	1,729	63	(1,520)	(6,011)	(3,443)
Private portfolio investment	430	4,750	(337)	(7,561)	(11,364)
Public loans	2,869	1,303	5,691	(1,742)	131
Commercial credits	356	(3,760)	(392)	(2,760)	(1,908)
Bank capital	10,224	14,979	22,976	39,369	25,303
Capital account balance	21,653	34,177	52,143	28,775	11,782
Current account balance	(7,623)	(15,142)	(17,782)	(26,598)	(32,734)
Overall balance	14,030	19,035	34,361	2,177	(20,952)
Net errors and omission	(3,124)	(3,649)	(19,205)	(10,748)	(11,596)
Change in reserves	10,906	15,386	15,156	(8,571)	(32,548)

Source: Annual Report of the Bank of Italy (1992)

For the first five months of 1993, the provisional balance of payments data showed a surplus of Lit. 3,848 billion, consisting of a surplus on capital account, resulting from a substantial inflow of foreign portfolio investment, and a deficit on current account.

The following table shows total direct foreign investment by Italian entities and total direct foreign investment in Italy by foreign entities as of the dates indicated:

Foreign Direct Investment

	1988	1989	1990	1991	1992
			(billions of lire)		
Italian foreign direct investment					
Luxembourg	6,944	7,453	10,578	11,541	12,893
Netherlands	4,656	5,854	6,380	8,452	10,253
Switzerland	6,147	6,843	7,296	8,131	7,884
France	3,743	5,035	5,375	5,786	7,869
United Kingdom	2,791	3,553	3,717	5,405	5,485
Germany	2,733	3,780	4,598	4,915	5,080
Spain	2,242	2,579	3,831	4,161	4,610
United States	5,946	5,197	6,074	6,760	6,554
Other	12,990	14,057	15,558	17,025	18,141
Total	48,192	54,351	63,407	72,176	78,769
Direct foreign investment in Italy					
Luxembourg	4,445	4,220	3,462	4,584	5,195
Netherlands	5,683	7,873	7,221	7,558	7,813
Switzerland	9,700	13,551	16,195	16,282	16,247
France	5,298	6,657	8,684	9,509	10,535
United Kingdom	5,175	7,508	7,115	7,273	7,403
Germany	4,347	5,517	5,237	5,240	5,386
Sweden	1,345	1,776	1,937	1,941	2,051
United States	7,043	9,388	9,353	9,415	10,229
Other	5,126	6,261	6,328	6,882	7,711
Total	48,162	62,751	65,532	68,684	72,570

Source: Annual Report of the Bank of Italy (1992)

Reserves and Exchange Rates

The suspension of the lira from the ERM on September 17, 1992 marked an end to the role of the lira exchange rate as the cornerstone of Italian monetary policy. Following the last general realignment of the lira in 1987, the credibility of the exchange rate had been bolstered by the lira's entry into the narrow band of the ERM and the removal of the remaining exchange controls on capital transactions during 1990. This credibility had been reflected in a gradual reduction in the interest rate differential with interest rates in Germany. The spread of short-term Italian interest rates over short-term German interest rates had narrowed from over seven percentage points on average in 1987 to about three percentage points in 1991, and the position of the lira within the narrow band indicated full credibility of the fluctuation margins over the short term. In the first part of 1992, the differential was consistently below three percentage points, and the exchange rate was held at approximately 1.5 percentage points above its ERM intervention limit.

The initial Danish rejection of the Maastricht Treaty in a referendum held in June 1992 led to downward pressure on the lira. The Bank of Italy and other ERM central banks met this pressure with a series of lira purchases on the foreign exchange markets, and the Bank of Italy raised both the discount rate and the rate on fixed term advances to curb the outflow of capital. See "Monetary System — Monetary Policy". By early September 1992, the lira had fallen to the bottom of the narrow band, and, following ten days of heavy intervention by the ERM central banks, Italy was forced to realign the lira on September 13, resulting in a 7% devaluation of the central parity of the lira against the ECU. Continued market pressure forced Italy to suspend the lira from the ERM on September 17, 1992. This was followed by a depreciation of the lira against the ERM currencies which led to a fall in the lira at one stage to approximately 20% below the new central parity, although as of May 12, 1993 it had risen to approximately 12.8% below parity.

The following table sets forth the average of the daily rates for the lira against the U.S. dollar for the periods indicated, based on the noon buying rate for cable transfers, as reported by the Federal Reserve Bank of New York.

Exchange Rates

Period	Lire per U.S. dollar
1988	1,302
1989	1,372
1990	1,198
1991	1,241
1992	1,232

The non-gold reserves of Italy had been gradually rebuilt in the years following a reserves crisis in 1976, interrupted by a decline in reserves as a consequence of intervention to support the value of the lira in 1985 and 1986, and by the end of 1991 official reserves stood at Lit. 94,338 billion. The effect of the 1992 currency crisis on the official reserves of Italy was significant. By the end of September 1992, the total amount of the official reserves had dropped to Lit. 32,917 billion, a decrease of 65.1% over the corresponding amount at December 31, 1991. By year-end 1992, Italy's reserves had increased by Lit. 34,382 billion to reach Lit. 67,299 billion at December 31, 1992. However, part of this increase during the last quarter of 1992 reflects repurchase agreements entered into by the Bank of Italy with respect to foreign currency denominated instruments. Repurchase agreements are functionally similar to short-term collateralized borrowings and therefore do not represent a permanent increase of reserves.

The following table illustrates the foreign exchange reserves of Italy as of December 31 in each of the years 1988 through 1992.

Foreign Exchange Reserves

	1988	1989	1990	1991	1992
			(billions of lire)		
Gold	37,242	33,663	30,579	29,288	29,944
SDRs	1,239	1,268	1,172	1,067	350
Total position with IMF	1,653	1,834	1,936	2,595	3,588
ECUs	10,360	11,409	10,433	11,092	1,925
Net foreign exchange	32,136	44,847	57,578	41,229	36,642
Other net reserves	145	220	1,701	9,067	(5,150)
Total reserves	82,775	93,241	103,399	94,338	67,299

Source: Annual Report of the Bank of Italy (1992)

At June 30, 1993, Italy's total reserves were Lit. 74,928 billion.

PUBLIC FINANCE

The Budget Process

The Government's fiscal year is the calendar year. The budget process begins in March of each year, when the General Accounting Office (*Ragioneria Generale dello Stato*), a department of the Ministry of the Treasury (the "Treasury"), sends to each ministry and agency of the Government and each autonomous agency a directive to prepare a detailed budget for the following year and a summary forecasted budget for the following three years. In 1992, a directive of the Treasury established that such budgets should be prepared with a zero-based-budgeting approach under which expenditures must be detailed and justified item by item rather than using prior year expenditures as a baseline and requesting specified percentage increases in such expenditures. At the same time, the Treasury discusses with the remaining public sector entities their cash resources and needs for the following fiscal year.

The Treasury reviews these expenditure requests and presents to Parliament a draft budget in July of each year. In addition, the Minister of the Treasury, the Minister of the Budget and the Minister of Finance present to Parliament in May a three-year planning document called the *Documento di Programmazione Economica e Finanziaria* (Economic and Financial Program Document, or "Program Document") that shows two sets of forecasted revenues and expenditures, the first assuming no change from current policy and the second assuming the Government's proposed programmatic changes are adopted. The Government considers the Parliament's resolutions commenting on the Program Document in preparing the Government's final budgetary package, which is presented to Parliament by September 30. The budgetary package consists of the Annual Financial Law (*Legge Finanziaria*), which sets aggregate targets for revenues, expenditure and borrowing and a set of related laws that provide the necessary changes to specific programs to implement those targets. Unless the context otherwise requires, the term "Annual Financial Law" as used in this Prospectus includes these related laws.

Parliament approves the Annual Financial Law and thereafter approves the Budget Law (*Legge di Bilancio*), which under the Italian Constitution must be adopted by the end of the calendar year. The Budget Law provides detailed authorizations for incurring expenses during the relevant fiscal year. Under the Constitution no payment may be made by any ministry or agency unless it is included in the Budget Law.

In part as a consequence of the change in governments in May 1993, and in part to reduce the time period between the submission of the Program Document and the submission of the Annual Financial Law and thereby to reduce the likelihood of significant changes between the two, the Government delayed presentation of the 1994-96 Program Document until July 1993. The Government plans to accelerate the presentation of the Annual Financial Law for 1994 to September 15, 1993.

The management of the Government's expenditures is the responsibility of the Treasury, and, in particular, of the General Accounting Office. The Minister of the Treasury submits to the Government and to Parliament a quarterly cash-flow report (*Relazione Trimestrale di Cassa*) that indicates the year-to-date budgetary out-turn and its divergence from the budget. If this divergence is significant, the Government may submit to Parliament a supplemental budget which, if approved, amends the Budget Law for the then-current fiscal year.

In January 1993, Italy was granted a loan of up to ECU 8.0 billion by the EC (the "EC Loan") to help rebuild its foreign exchange reserves. The EC Loan may be drawn upon in four equal tranches — the first has already been drawn; the second is in the process of being approved and is expected to be disbursed before the end of 1993; and the third and fourth will not be released earlier than February 1, 1994 and February 1, 1995, respectively. Future installments are contingent on the Government adhering to a jointly-agreed medium-term program to stabilize the ratio of public debt to GDP. The existence of the loan increases the amount of monitoring of Italy's public finances. See "1993 Budgetary Program — Medium-Term Adjustment Program and the EC Loan".

Treatment of the Public Sector and State-owned Enterprises

The state budget includes the revenues and expenditures of the Government and certain agencies and entities whose budgets must be approved by Parliament. Other entities whose budgets are not subject to Parliamentary approval, including autonomous agencies, regional and local governments and authorities and the national social security agencies (which are referred to, collectively with the Government and the agencies included in the budget, as the "public sector"), are reflected in the budget only to the extent of the Government's receipts from and transfers to such entities.

The revenue and expenditure figures contained in this Prospectus are consolidated revenues and expenditures for the public sector as defined in the preceding paragraph, which is the broadest aggregate for which consolidated financial data are available.

Business enterprises in joint stock company form whose shares are owned in whole or in part by the Government, such as IRI or ENI, are not encompassed within the term "public sector". A number of entities that previously were autonomous agencies of the Government, such as the state railways (FS) and the state tobacco and other monopolies, were converted into joint stock companies in July 1992 and are no longer considered part of the public sector, although the Treasury is at present their sole shareholder.

Effective from the time of their conversion to joint stock company format, these enterprises are reflected in the Budget, and in the revenue and expenditure figures contained in this Prospectus, only to the extent that the Government, in its capacity as a shareholder, makes additional capital contributions to, or receives dividends from, such entities. In some instances, the borrowings of these enterprises are guaranteed, either by operation of law or specific contractual arrangement, by the Government. See "Public Debt".

Measures of Fiscal Balance

Italy reports the fiscal balance of the public sector using two principal measures:

— *Financial Balance*, which, when in deficit, is referred to as the Public Sector Borrowing Requirement ("PSBR"), is the consolidated revenues minus the consolidated expenditures of the public sector. This is the principal measure of fiscal balance, and is calculated according to the official statistical guidelines of the IMF. For most internal purposes, Italy uses the state sector borrowing requirement as its principal measure of financial balance. The state sector is narrower than the public sector, as it excludes local and regional governments and authorities and the national social security agencies. However, in the past the Government has been the principal source of funds for financing the deficits of the remainder of the public sector, and consequently in the past the state sector borrowing requirement and the PSBR have not been materially different.

— *Primary Balance*, which is the Financial Balance less interest payments and other borrowing costs of the Government. The primary balance is used to measure the effect of discretionary actions taken to control expenditures and increase revenues.

The table below shows selected public finance indicators for the period 1988-1992.

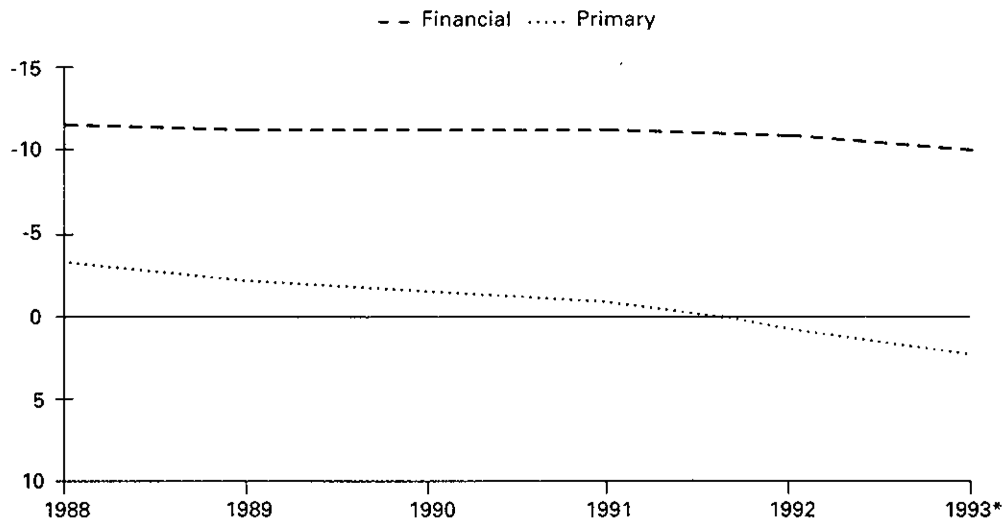
Selected Public Finance Indicators 1988-1992

	1988	1989	1990	1991	1992
		(billions of lire, except percentages)			
Public sector revenue	458,607	519,875	586,045	656,425	724,861
% of GDP	42.0%	43.6%	44.7%	46.0%	48.1%
Public sector expenditure	584,508	653,661	731,998	816,025	890,000
% of GDP	53.5%	54.8%	55.8%	57.2%	59.0%
Balance (Public Sector Borrowing Requirement)	(126,201)	(133,786)	(145,953)	(159,600)	(165,139)
% of GDP	(11.6%)	(11.2%)	(11.2%)	(11.2%)	(11.0%)
Primary balance	(36,238)	(25,352)	(17,522)	(12,092)	10,320
% of GDP	(3.3%)	(2.1%)	(1.3%)	(0.9%)	0.7%

Source. *Documento di Programmazione Economica e Finanziaria* (Economic and Financial Planning Report) (1993)

The table below shows the Financial and Primary Balances for the fiscal years 1988 through 1992 as a percentage of GDP for such fiscal year, as well as the budget estimates for 1993 as a percentage of forecast GDP.

Public Finance Indicators 1988-1993
(Percentage of GDP)



*Estimate

1993 Budgetary Program

Governmental Objectives

During the period 1980-1992, the PSBR exceeded 6% of GDP in each year, and the PSBR overshoot (the percentage by which the actual deficit exceeded the budgeted deficit) averaged approximately 6.4% between 1989 and 1992, reaching a peak of approximately 16.9% in 1991. During the first half of the 1980's, Italy experienced high primary deficits, averaging approximately 6.3% of GDP from 1981 to 1985. During the remainder of the decade, the primary deficit declined. The primary balance moved into a surplus of about 0.7% of GDP in 1992, the first primary surplus to be recorded since 1964. However, the large stock of outstanding debt, coupled with high real interest rates, meant that the ratio of the PSBR to GDP decreased only marginally due to the burden of debt service, and the ratio of public debt to GDP continued to rise steadily. In 1992, the PSBR was about 11.0% of GDP and the public debt was about 110.8% of GDP at year-end. This compares to the reference values of 3% and 60% of GDP defined as excessive government deficit and indebtedness, respectively, in the provisions of the Maastricht Treaty governing economic and monetary union.

Since 1992, the principal fiscal policy objective of the Government has been to reduce significantly the PSBR and to stabilize the ratio of debt to GDP. To that end, in the Program Document for 1993-95 submitted to the Parliament in connection with the 1993 budget, the Amato Government set forth the following overall goals:

— to halve the state sector borrowing requirement as a percentage of GDP over the period 1993-1995; and

— to stabilize the debt to GDP ratio before the end of 1995.

The Ciampi Government has publicly adopted the goals of the 1993-95 Program Document; however, the Program Document for 1994-96 aims to stabilize the debt to GDP ratio in late 1996. See "1994 Budgetary Program". The 1993-95 Program Document provided for approximately Lit. 35,400 billion of revenue increases, Lit. 50,710 billion of expenditure cuts and Lit. 7,000 billion of privatization proceeds. Unlike past stabilization programs, the Program Document relied principally on permanent, rather than one-time, revenue and expenditure adjustments. The Government requested and obtained from Parliament delegated power to enact major reforms in four areas: public sector employment, social security benefits, health care and local government spending.

The reduction in gross transfers to regional and local governments and authorities has been compensated by a grant of certain limited taxing powers. Similarly, the Government has given the social security agencies the authority to set the levels of employer and employee contributions to the social security programs. By granting such authority, the Government has relinquished the direct administration of the funds of regional and local governments and the social security agencies and provided them the power to manage their resources more effectively through the exercise of control over a substantial part of their revenues. This mechanism is intended to reduce the potential for cost overruns at the regional and local level and by the social security agencies to increase the budget deficit. Social security and local authority spending have in the past been a significant cause of budget overshoot.

Medium-Term Adjustment Program and the EC Loan

The 1993 Budget Law was passed by Parliament on December 23, 1992. The 1993 budget and the 1993-95 Program Document were based on certain assumptions, formulated in September 1992, regarding the macroeconomic climate during 1993. See "Supplemental Budget". The 1993-95 Program Document and the 1993 budget also reflected the requirements of the medium-term adjustment program agreed with the EC in connection with the EC Loan. See "The Budget Process". Disbursements of the EC Loan are contingent on the Government adhering to the medium-term adjustment program. This program, approved by the EC Council of Ministers on September 17, 1992, contains targets for the state sector primary surplus and the state sector borrowing requirement. The targets for the primary surplus are Lit. 50,000 billion in 1993, Lit. 76,800 billion in 1994 and Lit. 115,000 billion in 1995, which implies a state sector borrowing requirement of approximately Lit. 150,000 billion, Lit. 125,000 billion and Lit. 85,000 billion, respectively. The 1994 and 1995 targets, however, are subject to further discussion between Italy and the EC in light of economic factors in those years.

The EC conditions permit budgetary overshoots caused by slower economic growth or higher interest payments than expected, although lower than expected interest payments cannot be offset by a lower primary surplus. Since the program was formulated last September, the continuing economic downturn has made attainment of the GDP growth assumption for 1993 unlikely, and in March 1993 the Government's forecast for GDP growth in 1993 was revised downward to 0.5% rather than the 1.5% forecast last September. The Government estimated that this slower growth would reduce the state sector primary surplus from Lit. 50,000 billion to Lit. 37,500 billion this year. In addition, certain non-cyclical factors, including the cost of Italian participation in the military and humanitarian missions in Somalia and Mozambique, were expected to result in a further shortfall of Lit. 13,000 billion.

Supplemental Budget

In May 1993, the Government proposed to Parliament a supplemental budget designed to increase the primary surplus by Lit. 13,000 billion in order to make up the non-cyclical portion of the forecast budget overshoot, as required to obtain further disbursements of the EC Loan. Parliament approved the supplemental budget in July 1993. The supplemental budget provides for approximately Lit. 6,500 billion each of spending cuts and revenue increases. The spending cuts include reductions in transfers to local authorities and social security agencies and delays in discretionary spending. The revenue increases include an acceleration of estimated VAT payments and increased taxes on fuel production.

The supplemental budget is based on macroeconomic assumptions prepared by the Government in March 1993. The table below shows both the September 1992 assumptions on which the 1993 budget was based and the March 1993 assumptions on which the supplemental budget was based.

Macroeconomic Assumptions
Underlying 1993 Budget and Supplemental Budget
(Percentage changes from 1992)

	Budget Assumptions as of September 1992	Supplemental Budget Assumptions as of March 1993
Output and Demand (1):		
GDP	1.5	0.5
Household consumption	0.9	(0.4)
Gross capital formation	1.8	(2.6)
Exports of goods and services	6.5	6.3
Imports of goods and services	3.6	0.0
Inflation (2)	4.5	5.0
Unit labor costs	2.3	2.4
Total employment	0.3	0.5
World trade (1)	6.8	4.9

(1) In real terms

(2) Deflator of private consumption

Source: *Relazione previsionale e programmatica* (Forecast and Planning Report) (September 1992); *Relazione sull'andamento dell'economia nel 1992 e aggiornamento delle previsioni per il 1993* (Report on the State of the Economy in 1992 and Update of Forecasts for 1993) (March 1993); Ministry of the Budget

The 1993 budget estimates presented in this Prospectus are based on the 1994-96 Program Document, prepared in July 1993, and reflect the expected effects of the Supplemental budget. See "1994 Budgetary Program". These estimates show total expenditures of Lit. 915,031 billion, an increase of 2.8% from 1992. Transfers to households, including pensions and other social security payments and unemployment compensation, constitute the largest share of budgeted government spending, at 25.7%, followed by interest payments, public sector wages and purchases of goods and services. Interest costs are expected to increase as a percentage of total spending from 19.7% in 1992 to 20.4% in 1993 because of the increase in outstanding indebtedness which more than offsets lower interest rates.

The attainment of a primary surplus in 1992 resulted in part from a reduction in real employment costs in the public sector, which increased by 4.3% as compared to an inflation rate of 5.4%. The budget estimates for 1993 provide for additional savings in public sector wages, salaries and pensions, which in the aggregate are expected to fall by approximately 2.6% compared to 1992 and account for approximately 23.8% of total spending, compared to 25.2% in 1992. Part of those savings result from the fact that certain entities that were state agencies prior to July 1992 have now become joint stock companies and are no longer included in the public sector. See "Treatment of the Public Sector and State-owned Enterprises".

1994 Budgetary Program

The Government submitted its 1994-96 Program Document to Parliament on July 14, 1993. The Program Document calls for revenue increases of Lit. 3,000 billion and spending cuts of Lit. 28,000 billion in 1994 from the trend-line forecasts. The decreases in expenditure are to be achieved principally through reductions in state-sector employment and in defense spending. For 1994, the budgeted primary surplus for the state sector is Lit. 31,800 billion and the budgeted state sector borrowing requirement is Lit. 144,200 billion. Whereas the 1993-95 Program Document sought to stabilize Italy's debt to GDP ratio by the end of 1995, the 1994-96 Program Document forecasts stabilization in late 1996.

The Government expects to begin discussions promptly with the EC regarding the targets stated in the medium-term adjustment program in connection with the EC Loan, which call for a primary surplus of Lit. 76,800 billion in 1994. As described above under "1993 Budgetary Program — Medium-Term Adjustment Program and the EC Loan", the EC conditions for 1994 are tentative, and in any event permit budgetary overshoots resulting from slower economic growth.

The 1994-96 Program Document assumes increases in 1994 over 1993 of 1.6% in GDP, 0.6% in household consumption, 2.1% in gross capital formation, 6.8% in exports and 3.5% in consumer prices.

The 1994-96 Program Document also updates the 1993 budget estimates and in so doing reflects the supplemental budget. The Program Document assumes GDP growth of 0.4% in 1993, as compared with the 0.5% growth forecast in March 1993 when the supplemental budget was formulated. See "1993 Budgetary Program — Supplemental Budget". Offsetting the effect of lower than expected growth, however, is the fact that the Government also forecasts lower interest rates, and consequently lower borrowing costs, than were embodied in the March estimates. The March estimates also, however, assumed receipt in 1993 of Lit. 7,000 billion in privatization proceeds, while the Program Document assumes that such proceeds will not be received until 1994. Consequently, the Program Document forecasts a state sector primary surplus of Lit. 31,521 billion for 1993, compared to Lit. 37,500 forecast in March. In order to prevent future overshoots resulting from delays in the privatization program, the Government intends, beginning with the 1994 budget, not to include privatization revenues in the budget calculations, and they have not been included in the above figures for 1994. To the extent privatization proceeds are realized, they will be applied to the repayment of outstanding Government indebtedness.

Revenues and Expenditures

The followıng table sets forth publıc sector revenues and expendıtures and the PSBR for the fıve fıscal years ended 1992, and the current budget estımates for 1993

Public Sector Revenues and Expenditures

	1988	% of Total	1989	% of Total	1990	% of Total	1991	% of Total	1992	% of Total	Budget 1993*	% of Total
						(bıllıons of lıre)						
Revenues												
Net direct taxes	*143 011*	*31 2%*	*165 811*	*31 9%*	*182,986*	*31 2%*	*196,700*	*30 0%*	*238,619*	*32 9%*	*267,011*	*35 0%*
Net ındirect taxes	119,603	26 1%	135,875	26 1%	156,630	26 7%	181 706	27 7%	193,732	26 7%	197,963	26 0%
Total Taxes	262,614	57 3%	301,686	58 0%	339,616	58 0%	378,406	57 7%	432,351	59 6%	464,974	61 0%
Socıal securıty contrıbutıons	130,078	28 4%	145,319	28 0%	163,684	27 9%	184,589	28 1%	195 280	26 9%	212,318	27 9%
EC levıes	8,634	1 9%	8,829	1 7%	9,476	1 6%	10,549	1 6%	11 344	1 6%	13,200	1 7%
Sales of goods and servıces	30,683	6 7%	33,968	6 5%	38 233	6 5%	42,382	6 5%	45,330	6 3%	35,511	4 7%
Capıtal gaıns	5,427	1 2%	6 078	1 2%	6,792	1 2%	7,303	1 1%	8,692	1 2%	8,996	1 2%
Other current revenues	6,515	1 4%	9,285	1 8%	10,085	1 7%	12,179	1 9%	12,970	1 8%	13,282	1 7%
Dısbursement from												
Households	1,150	0 3%	1,225	0 2%	1 134	0 2%	1,664	0 3%	1,523	0 2%	1,106	0 2%
Enterprıses	1 027	0 2%	961	0 2%	1,087	0 2%	1 275	0 2%	2,182	0 3%	1,360	0 2%
Foreıgn	1,008	0 2%	382	0 1%	29	—	171	—	107	—	150	—
Total dısbursements	3,185	0 7%	2,568	0 5%	2 250	0 4%	3,110	0 5%	3,812	0 5%	2,616	0 3%
Capıtal revenues	7,785	1 7%	8,125	1 6%	9,196	1 6%	10,770	1 6%	11,645	1 6%	8 299	1 1%
Transfer revenues	3,686	0 8%	4,017	0 8%	6,713	1 2%	7,137	1 1%	3,437	0 5%	3,135	0 4%
Total revenues	458,607	100 0%	519,875	100 0%	586,045	100 0%	656,425	100 0%	724,861	100 0%	762,331	100 0%
Expendıtures												
Wages and salarıes	134 511	23 0%	144,193	22 1%	165,460	22 6%	182,984	22 4%	188,907	21 2%	184,179	20 1%
State sector pensıons	20,983	3 6%	23 547	3 6%	26,929	3 7%	30,133	3 7%	34,532	3 9%	33,505	3 7%
Purchases of goods and servıces	84,944	14 5%	93 683	14 3%	100 889	13 8%	118,949	14 6%	119,300	13 4%	117 973	12 9%
Interest payments (less reımbursement)	89 963	15 4%	108,434	16 6%	128,431	17 6%	147,508	18 1%	175 459	19 7%	186,790	20 4%
Investment Spendıng	63,358	10 8%	71,577	11 0%	74,078	10 1%	78 840	9 7%	83,752	9 4%	75 811	8 3%
Loans and shareholdıngs												
Fınancıal Instıtutıons	2,536	0 4%	2,730	0 4%	1,803	0 3%	2 103	0 3%	1 617	0 2%	1 680	0 2%
Publıc and other Enterprıses	4,965	0 9%	5,442	0 8%	6,982	1 0%	6,471	0 8%	6,764	0 8%	6 793	0 7%
Total loans and shareholdıngs	7,501	1 3%	8,172	1 3%	8,785	1 2%	8,574	1 1%	8,381	1 0%	8,473	0 9%
Other Fınancıal operatıons	1 483	0 3%	2,131	0 3%	5,252	0 7%	3,446	0 4%	3 402	0 4%	689	0 1%
Dısbursement to												
Local Authorıtıes	4,033	0 6%	5,897	0 9%	3 793	0 5%	4,069	0 5%	4 206	0 5%	5,182	0 6%
Enterprıses	12,706	2 2%	12,356	1 9%	12,177	1 7%	14,441	1 8%	16,400	1 8%	39,001	4 3%
Households	145,793	25 0%	161,678	24 7%	182,984	25 0%	199,175	24 4%	224,179	25 2%	234,787	25 7%
Foreıgn	4,996	0 9%	4 861	0 7%	4,372	0 6%	7,386	0 9%	7,320	0 8%	8,009	0 9%
Total dısbursements	167,528	28 6%	184 792	28 3%	203 326	27 8%	225,071	27 6%	252,105	28 3%	286,979	31 4%
Other expendıtures	14,537	2 5%	17,132	2 6%	18 848	2 6%	20,520	2 5%	24 162	2 7%	20 632	2 3%
Total Expendıtures	584,808	100 0%	653,661	100 0%	731 998	100 0%	816 025	100 0%	890,000	100 0%	915,031	100 0%
Defıcıt (Publıc Sector Borrowıng Requırement)	126 201		133 786		145,953		159,600		165,139		152 700	

* Budget estımates of the Government as of July 13, 1993 The 1993 budget does not ınclude the revenues and expendıtures of former state sector agencıes that have become joınt stock companıes See "Treatment of the Publıc Sector and State owned Enterprıses"

Source *Documento dı Programmazıone Economıca e Fınanzıarıa* (Economıc and Fınancıal Program Document) (1993)

Publıc sector expendıtures as a percentage of GDP have rısen steadıly from 53 5% ın 1988 to 59 0% ın 1992 Over the same perıod, ınterest on the publıc debt rose from 8 2% to 11.6% of GDP Under the current budget estimates, public sector expenditures in 1993 would represent approximately 58.4% of forecast GDP, while interest costs would represent approximately 11.9% of forecast GDP.

Health, Education, Labor and other Social Welfare Expenditures. The Government currently administers almost all the country's social security and welfare programs. These programs are funded in part by contributions from employers and employees and in part from general tax revenues. The current budget estimate for 1993 includes expenditures for state sector pensions of Lit. 33,505 billion, a decrease of 3.0% from Lit. 34,532 billion in 1992, and for education of Lit. 62,000 billion, substantially the same as in 1992. The current budget estimate also calls for transfers to social security agencies, local health authorities and other local governmental bodies for disbursement to households of Lit. 234,787 billion, an increase of 4.7% from Lit. 224,179 billion in 1992.

The two principal social security agencies for private sector employees, the *Istituto Nazionale Previdenza Sociale* ("INPS") and the *Istituto Nazionale Assicurazione Infortuni sul Lavoro* ("INAIL"), provide old-age pensions and temporary and permanent disability compensation for all the employees of the private sector and their qualified dependents, and coverage for accidents in the workplace or permanent disability as a consequence of employment for workers of the industrial and agricultural sectors and for certain service sector employees. The social security entity for government employees, the *Istituto Nazionale di Previdenza per i Dipendenti dell'Amministrazione Pubblica* ("INPDAP") provides similar services.

Old-age pensions in Italy, as in much of the developed world, present a significant structural fiscal problem. Expenditure on pensions was approximately 13% of GDP in 1992, up from approximately 11% in 1988, and is projected to continue rising. At the same time, as the population ages, social security contributions are unlikely to rise enough to keep pace. As part of its 1992 fiscal reforms, the Government adopted several measures designed to control the growth of social security expenditures. First, it abolished the indexation of pensions to reflect wage increases and froze early retirement pensions until the end of 1993. The Constitutional Court, however, subsequently ruled that the abolition of pension indexation conflicts with the Italian Constitution. Second, it raised the retirement age from 60 to 65 for men and 55 to 60 for women and increased the minimum contribution period from 15 to 20 years. Third, the Government granted the social security agencies the authority to determine the amount of contributions to be paid by employers and employees, enabling them to adjust such contributions to meet their expenditures. See "1993 Budgetary Program — Governmental Objectives". Finally, it streamlined the social security system for public employees by merging various agencies to create INPDAP. More recently, in early 1993, the Government introduced fiscal incentives for employees to invest in private pension funds and created a regulatory framework for such funds.

Italy has a public health service run principally by regional governments with funds provided by the Government. Government expenditures on health care rose rapidly during the 1980's, leading the Government to impose charges for treatment and drugs beginning in 1988, subject to various exemptions for low-income patients and for life-preserving treatment. The 1993 budget and the 1993-95 Planning Report provided for cuts in non-hospital health care. All local health care authorities are required to convert to joint stock companies by the end of 1993.

Most children attend the state school system, and attendance is compulsory from ages six to fourteen. The Government has recently introduced programs to increase vocational and technical training.

Revenues and Taxation

In 1992, the PSBR was Lit. 165,139 billion, approximately 5.8% higher than the budgeted amount of Lit. 156,071 billion. The discrepancy resulted because the budget contained expected revenues of Lit. 7,000 billion from privatization that were not realized and, to a lesser extent, because of higher than expected expenditures. The out-turn in each of the other principal categories of revenues, direct taxes, indirect taxes and social security contributions, approximated their budgeted amount. Compared with

1991, revenues from direct taxes increased by 21.3%, from indirect taxes increased by 6.6% and from social security contributions increased by 5.8%.

The increase in revenues from direct taxes was principally the result of an increase of one percent in the marginal tax rate on personal incomes above Lit. 14.4 million. The increase in revenues from indirect taxes was the result of various factors, including taxes on bank accounts, additional fees earned from the state lottery, an increase of the VAT rate to 19% for many pharmaceutical products and increased stamp tax.

Italy receives certain grants and other transfers from the EC; however, in each of the past seven years its payments to the EC have exceeded its receipts from the EC. The net transfer to the EC was Lit. 2,610 billion in 1991 and Lit. 1,156 billion in 1992.

Taxation. Italy's tax structure includes taxes imposed at the Government and local level and provides for both direct taxation through income taxes and indirect taxation through a value added tax ("VAT") and other transaction-based taxes. Income taxes consist of an individual tax levied at progressive rates and a corporate tax levied at a flat rate. For 1993, the top individual tax rate is 51%, up from 50% in 1992, and the corporate tax rate is 36%, unchanged from 1992. However, corporations also pay certain local taxes, and the deductability of those taxes for income tax purposes has been gradually eliminated over the last few years. As a result, the effective corporate tax rate is approximately equal to the top rate for individuals.

VAT is imposed on the sale of goods and the rendering of services performed for consideration in connection with a business or profession, and on all imports of goods or services. Italy has already issued legislation to harmonize its VAT with applicable EC directives. The basic VAT rate is 19%, although certain goods and services qualify for an exemption from VAT or a reduced rate.

The following table sets forth the composition of tax revenues for the five fiscal years ended December 31, 1992.

Composition of Tax Revenues (1)

	1988	1989	1990	1991	1992
			(billions of lire)		
Direct taxes					
Personal income tax	90,774	99,469	111,384	122,797	135,855
Corporate income tax	13,841	17,366	17,507	17,326	17,914
Local income tax	16,780	20,146	21,745	20,121	18,254
Investment interest tax	18,741	21,890	30,129	32,059	36,749
Tax on dividends	1,790	2,139	2,403	2,425	2,279
Other (2)	1,584	2,035	1,122	2,463	27,577
Indirect taxes					
VAT	54,611	57,069	68,274	73,154	75,019
Other transaction-based taxes	22,218	24,071	25,927	33,691	37,360
Production taxes	27,564	30,112	35,984	42,035	47,113
Tax on State monopolies	5,723	6,103	6,386	6,662	6,630
State Lotteries	1,652	2,323	2,832	3,222	4,571
Total	255,278	282,723	323,693	355,955	409,321

(1) The data shown are prepared for the state sector budget and do not correspond precisely to the public sector budget figures contained in the table on page 43, primarily because the latter include indirect taxes levied by regional and local governments

(2) The taxes classified as "other" are non-recurring and accordingly this item is highly variable

Low tax compliance has been a longstanding concern for the Government, which has adopted measures to increase compliance. Some of these measures are aimed at identifying tax evasion, and include systems of cross-checks between the tax authorities and social security agencies, public utilities and others. One of the areas of greatest concern to the Government is under-reporting of income by self-employed persons and small enterprises. In response to this problem, Parliament has enacted a new form of minimum income tax for self-employed persons and small enterprises. The minimum tax is determined on a presumed minimum income for such a self-employed person or small enterprise, based on location, age, organization and type of activity. If the taxpayer does not declare the minimum income set forth, there will be an automatic intervention by the tax authorities to verify the accounts of such taxpayer. The Parliament has also enacted a new tax on enterprises' capital which may, in the case of medium and small enterprises, be levied based on assets.

Italy has negotiated bilateral treaties for the avoidance of double taxation with virtually all industrialized countries.

Government Enterprises

The following chart shows for each of the principal state-owned enterprises its principal business, the percentage of Government ownership, its total assets and liabilities at the latest fiscal year end and its net profit or loss for fiscal 1991 and 1992.

Principal Government Enterprises
as of December 31, 1992

Agency/ Enterprise	Principal Business	% of Government Ownership	Total Assets	Total Liabilities	Net profit (loss) 1991	Net profit (loss) 1992
					(billions of lire)	
IRI Group	Various	100%	203,237	158,142	(671)	(4,837)
ENI Group	Energy	100%	80,816	64,579	1,081	(815)
INA S.p.A.	Insurance	100%	25,447	21,601	92	202
ENEL S.p.A.....	Electricity	100%	121,425	59,061	229	234
Ferrovie dello Stato (FS) ...	Railroads	100%	152,049	66,874	(2,521)	(4,147)
Banca Nazionale del Lavoro ...	Banking	93%	163,341	130,464	82	96
Istituto Mobiliare Italiano (IMI)	Financial Services	88%	57,686	44,897	312	444
Total			804,001	545,618	(1,396)	(8,823)

Prior to July 1992, IRI, ENI, INA and ENEL were public enterprises; in July 1992 each was converted into a joint-stock company, and the Treasury is currently the sole shareholder of each. At the time of such conversion, the Government stated its intention to separate ownership and management of these companies. The Government currently controls each of these companies and elects its board of directors; however, the Government does not directly participate in the management of such companies.

In July 1992, the Government announced the liquidation of EFIM, which had announced losses of Lit. 374 billion in 1990 and Lit. 1,181 billion in 1991 and had indebtedness of approximately Lit. 8,500 billion. The Government issued a decree that stayed litigation against EFIM and its subsidiaries and provided that no payments on the outstanding debt of EFIM and its subsidiaries would be made while the company was being wound up. The Government has authorized the issuance of Lit. 9,000 billion of securities of the Deposits and Loans Fund (*Cassa Depositi e Prestiti*), the proceeds of which will be used in the liquidation process, including for the repayment of debts of subsidiaries directly or indirectly wholly owned by EFIM.

Privatization Program

In July 1992, the Government announced a program for the reorganization of its properties and privatization of some of its non-strategic assets, including various operating subsidiaries of its major holding companies, such as IRI and ENI. IRI and ENI, as well as ENEL, INA, FS, ASST and the state monopolies, have been transformed into joint stock companies owned by the Treasury, and EFIM is being liquidated as described under "Government Enterprises". The Government has indicated its intention to sell, among others, the Società Meridionale Finanziaria S.p.A. ("SME") group (food industry) owned by IRI, the shares of Credito Italiano (banking industry) held by IRI, the shares of Nuovo Pignone S.p.A. (manufacturing industry) held by ENI, portions of the Government's ownership in ENI and ENEL together with some of their operating subsidiaries such as AGIP S.p.A. (energy industry) and a portion of its ownership in INA (insurance industry). The creation of an administrative structure to manage the privatization process has taken longer than expected because initially several different governmental bodies had overlapping authority with respect to privatization. In June 1993, however, the Government appointed a five-person committee, headed by the Director General of the Ministry of the Treasury, to manage the privatization process. To date, none of the planned privatizations of the major state-owned companies has been completed, and no privatization proceeds have been received by the Government, although certain smaller subsidiaries of the state holding companies have been privatized. The delay is due in part to the economic downturn, in part to the administrative difficulties described above and, to a lesser extent, to early political resistance. However, the Government has recently stated its intention to proceed rapidly with the sale of SME, Nuovo Pignone and Credito Italiano and with a public offering of shares of INA. The EC has raised concerns that the reorganization of certain state-controlled companies in preparation for their privatization might constitute unfair state subsidies. The Government currently forecasts proceeds from privatization of Lit. 7,000 billion in 1994, Lit. 15,000 billion in 1995 and Lit. 12,000 billion in 1996.

The Government has presented draft legislation to the Parliament that would set up a sinking fund for the purpose of purchasing and retiring Treasury securities with the proceeds of privatization and other non-recurring revenues. The purpose of the fund will be to assure that current expenditures will not be financed from nonrecurring revenues.

PUBLIC DEBT

General

The legal authorizations for the incurrence of debt by the Government are set forth in the Annual Financial Law and in the Budget Law. See "Public Finance — The Budget Process". The Annual Financial Law sets a gross limit on issuances of Treasury securities other than BOTs (*Buoni Ordinari del Tesoro*), which are three, six and twelve month notes. The Budget Law sets a net limit on all issuances of Treasury securities, excluding issuances the proceeds of which will be used to repay outstanding Treasury securities.

The Treasury administers the public debt and the financial assets of Italy. The Bank of Italy provides technical assistance to the Treasury in connection with these functions and acts as issuing and paying agent for Treasury securities.

In addition to Treasury securities and borrowings, Italy's public debt includes debt incurred by the social security agencies and regional and local governments and authorities and debt incurred by autonomous agencies within the state sector.

In addition to its direct indebtedness, Italy is also a guarantor of certain third-party indebtedness, the guarantee of which may arise either by contract or by operation of law. Italy has issued formal contractual guarantees of certain indebtedness of partially state-owned entities. In addition, under Italian commercial law the sole shareholder of a joint stock company is liable for the indebtedness of such company incurred while wholly owned by such shareholder. Therefore, indebtedness of joint stock companies incurred during the period that such companies are or were wholly owned by Italy is guaranteed by Italy by operation of law. In this Prospectus, public debt does not include debt that is guaranteed by Italy, whether by contract or by operation of law. However, such guaranteed debt is summarized in the table entitled "Guaranteed Debt" on page 52.

Italy's public debt as a percentage of GDP, 110.8% at December 31, 1992, is the highest among G-7 countries and is continuing to increase. A central objective of the Government is to stabilize the debt-to-GDP ratio. Because of the substantial interest component in the annual budget, such stabilization will require significant reductions in expenditures. See "Public Finance — 1993 Budgetary Program — Governmental Objectives". The public debt of Italy as of December 31, 1992 was Lit. 1,670,000 billion. This figure represents an increase of approximately 12.5% over the corresponding amount at December 31, 1991.

In this section, "external debt" means debt initially incurred or issued outside Italy, regardless of the currency of denomination, and "internal debt" means debt initially incurred or issued in Italy, regardless of the currency of denomination. "Floating debt" means debt that had a maturity at issuance of less than one year. "Funded debt" means debt that had a maturity at issuance of one year or more.

The following table summarizes Italy's public debt as of December 31 in each of the years 1988 through 1992, as well as debt represented by Treasury securities, the Treasury's overdraft with the Bank of Italy and liabilities to holders of Postal Savings accounts at April 30, 1993.

Public Debt (1)

(billions of lire)

	As of December 31,					As of April 30,
	1988	1989	1990	1991	1992	1993 (2)
BOT	244,823	284,600	329,241	343,134	387,865	402,696
CCT						
Floating rate	351,314	372,614	428,135	437,449	499,562	509,862
Fixed rate	18,731	31,295	58,910	80,631	77,846	71,735
CTE (3)	24,405	31,379	39,281	40,608	47,143	50,071
Total CCT	394,450	435,288	526,326	558,688	624,551	631,668
BTP	146,188	174,057	162,825	250,992	287,114	330,507
BTE (3)	8,033	11,305	7,346	4,999	7,637	7,416
External bonds	12,323	12,045	17,216	22,421	25,459	33,962
Other Treasury borrowings	296	306	282	248	302	267
Total Treasury Issues	806,113	917,601	1,043,236	1,180,482	1,332,928	1,406,516
Treasury Overdraft (4)	66,313	68,155	71,063	73,074	80,780	84,790
Postal Savings Accounts (5)	94,873	110,237	122,719	134,749	145,699	146,000
FS bonds	24,255	27,467	35,298	37,899	44,153	
ANAS bonds	3,996	2,946	2,528	3,681	7,657	
Other State Sector Entities (6)	16,944	19,488	21,915	24,665	24,042	
Other Public Sector Entities (7)	22,769	21,917	21,597	29,563	34,741	
Total Public Debt	1,035,263	1,167,811	1,318,356	1,484,113	1,670,000	

(1) BOTs (*Buoni Ordinari del Tesoro*) are short-term, zero coupon notes with a maturity of three, six or twelve months and are sold at a discount from their face value CCTs (*Certificati di Credito del Tesoro*) are medium- and long-term notes that may have either a fixed or a variable interest rate, in either case usually with a semi-annual coupon CTEs (*Certificati del Tesoro* denominated in ECU) are CCTs issued in ECU BTPs (*Buoni del Tesoro Poliennali*) are medium- and long-term notes that pay a fixed rate of interest, usually with a semi-annual coupon BTEs (*Buoni del Tesoro* denominated in ECU) are medium-term notes denominated in ECU and issued within Italy FS bonds are securities issued by FS, the state railway entity ANAS bonds are securities issued by ANAS

(2) Official data on public debt other than Treasury securities, Treasury Overdraft and Postal Savings Accounts are available only at year end

(3) The lira amounts of CTEs and BTEs are calculated at the exchange rate published by the Bank of Italy on the last business day of the year For April 1993, the exchange rate is the rate at April 30, 1993 Since September 1990, CTEs and BTEs are repaid in ECU if the subscription price was paid in ECU, and in lire if the subscription price was paid in lire

(4) Represents the deficit in the Treasury's current account with the Bank of Italy Under a bill pending in Parliament, this deficit would be converted into Treasury securities bearing a below-market rate of interest, and the Treasury would no longer be permitted to run a deficit in its current account See "Monetary System — Monetary Policy".

(5) Postal Savings Accounts are demand deposit accounts, as well as short- or medium-term deposit accounts and certificates that may be withdrawn by the account owner prior to maturity with nominal penalties

(6) Includes loans and securities issued by the Deposits and Loans Fund (*Cassa Depositi e Prestiti*), the Bureau for the Mezzogiorno, the Institute of Credit for Public Works (*CREDIOP*) and certain other entities In 1992, the Bureau for the Mezzogiorno was abolished by a statute providing for the repayment of its outstanding debt by the Government All indebtedness included in this line item is net of Treasury securities owned by such entities All indebtedness included in this line item has been considered as funded internal debt in this section A small portion, however, may have had a maturity at issuance of less than one year or may have been incurred or issued abroad

(7) All indebtedness included in this line item has been considered as floating internal debt in this section A small portion, however, may have had a maturity at issuance of one year or more or may have been incurred or issued abroad

Source Ministry of the Treasury

Summary of Internal Debt

Total internal public debt at December 31, 1992 was Lit. 1,615,657 billion, an increase of approximately 12.6% over the corresponding amount at December 31, 1991. As of May 31, 1993, internal debt has been incurred or issued only in lire or ECU. However, no restrictions exist to prevent the incurrence or issuance of debt within Italy in other currencies or composite currencies. The following table summarizes the internal public debt as of December 31 in each of the years 1988 through 1992.

Internal Public Debt
(billions of lire)

	As of December 31,				
	1988	1989	1990	1991	1992
BOT	244,823	284,600	329,241	343,134	387,865
CCT					
Floating rate	351,314	372,614	428,135	437,449	499,562
Fixed rate	18,731	31,295	58,910	80,631	77,846
CTE	20,469	21,601	23,625	24,892	31,709
Total CCT	390,514	425,510	510,670	542,972	609,117
BTP	146,188	174,057	162,825	250,992	287,114
BTE	8,033	11,305	7,346	4,999	7,637
Other Treasury borrowings	296	306	282	248	302
Total Treasury Issues	789,854	895,778	1,010,364	1,142,345	1,292,035
Treasury Overdraft	66,313	68,155	71,063	73,074	80,780
Postal Savings Accounts	94,873	110,237	122,719	134,749	145,699
FS bonds	15,245	18,574	25,240	27,698	31,520
ANAS bonds	1,750	1,409	1,498	2,870	6,840
Other State Sector Entities	16,944	19,488	21,915	24,665	24,042
Other Public Sector Entities	22,769	21,917	21,597	29,563	34,741
Total Internal Public Debt	1,007,748	1,135,558	1,274,396	1,434,964	1,615,657

The internal debt set forth in the table above is denominated in lire, with the exception of the CTEs and the BTEs, which are denominated in ECU. Therefore, internal debt denominated in ECU represents approximately 2.4% of total internal debt in 1992, and the remainder is denominated in lire.

The following table divides the total internal public debt into floating debt and funded debt as of December 31 in each of the years 1988 through 1992.

	As of December 31,				
	1988	1989	1990	1991	1992
			(year end) (billions of lire)		
Floating Internal Debt (*)	296,049	337,647	374,737	403,557	463,190
Funded Internal Debt	711,699	797,911	899,659	1,031,407	1,152,467
Total Internal Public Debt	1,007,748	1,135,558	1,274,396	1,434,964	1,615,657

(*) Includes BOTs with a maturity at issuance of three and six months, Treasury Overdraft, Postal Savings and indebtedness of public sector entities not included in the state sector.

Summary of External Debt

Total external public debt at December 31, 1992 was Lit. 54,343 billion, an increase of approximately 10.6% over the corresponding amount at December 31, 1991. The external debt set forth in the table below is denominated exclusively in foreign currencies, with the exception of some issuances by state agencies such as FS and ANAS. The Treasury estimates that external debt denominated in lire is approximately 7.3% of total external public debt. The following table summarizes the external public debt as of December 31 in each of the years 1988 through 1992.

External Public Debt
(billions of lire)

	As of December 31,				
	1988	1989	1990	1991	1992
CTE	3,936	9,778	15,656	15,716	15,434
External bonds	12,323	12,045	17,216	22,421	25,459
Total Treasury Issues	16,259	21,823	32,872	38,137	40,893
FS bonds	9,010	8,893	10,058	10,201	12,633
ANAS bonds	2,246	1,537	1,030	811	817
Total External Public Debt	27,515	32,253	43,960	49,149	54,343

The following table divides the external public debt into floating debt and funded debt as of December 31 in each of the years 1988 through 1992.

	1988	1989	1990	1991	1992
			(billions of lire)		
Funded External Debt of the Treasury	16,259	21,823	32,872	38,137	40,893
Other Funded External Debt	11,256	10,430	11,088	11,012	13,450
Total Funded External Debt	27,515	32,253	43,960	49,149	54,343
Floating External Debt	—	—	—	—	—
Total External Public Debt	27,515	32,253	43,960	49,149	54,343

The following table sets forth a breakdown of the external public debt by currency as of December 31 in each of the years 1988 through 1992.

	1988	1989	1990	1991	1992
			(millions)		
Lire	614,600	1,052,600	2,681,200	2,679,500	3,953,300
ECU	4,059	7,642	14,865	17,071	15,643
U.S. Dollars	7,702	9,779	12,509	13,528	12,421
Deutsche Marks	3,519	3,557	3,246	3,902	3,811
Swiss Francs	2,654	2,411	2,652	3,036	3,207
French Francs	195	189	1,223	1,216	1,208
Luxembourg Francs	500	316	316	216	216
Dutch Guilders	197	179	159	152	133
Japanese Yen	543	347	185	144	96
Others (in lire) (*)	518,100	378,100	123,400	56,500	26,200
Total in lire (*)	27,515,000	32,253,000	43,960,000	49,149,000	54,343,000

(*) The conversion into lire is calculated at the exchange rate published by the Bank of Italy on the last business day of the year.

Historically, Italy has not relied heavily on external debt. At December 31, 1992, external debt accounted for less than 3.3% of total public debt. In January 1993, the Government announced a borrowing program of $10 billion to $15 billion equivalent. Despite the significant increase in external borrowing, the Government does not intend to rely to a large extent on external debt as a means of financing the budget deficit. On May 12, 1993, the Treasury announced an exchange offer that provided for an issuance of up to $9,150,000,000 in debt securities in exchange for outstanding U.S. dollar-denominated indebtedness of Italy. In connection with such exchange offer, an additional $800,000,000 in debt securities was issued by Italy. Soon thereafter, Italy issued an additional $2,000,000,000 of floating-rate debt securities. In July 1993, Italy issued ¥150 billion of fixed-rate debt securities.

Guaranteed Debt

In addition to its direct indebtedness, Italy is also a guarantor of certain third-party indebtedness, the guarantees of which may arise either by contract or by operation of law. Italy has issued formal contractual guarantees of certain indebtedness of wholly or partially state-owned entities. By operation of Italian commercial law, indebtedness of joint stock companies incurred during the period that such companies are or were wholly owned directly by Italy is guaranteed by Italy. By a decree law adopted by the Government in June 1993, and not yet converted into a permanent law by Parliament, this provision has been extended to all of the preexisting indebtedness of the state holding companies that were converted to joint stock companies wholly owned directly by Italy. Indebtedness of subsidiaries of such companies is not considered to be guaranteed by operation of law.

The following table summarizes the debt guaranteed by Italy by contract or by operation of law as of December 31, 1992.

Guaranteed Debt
as of December 31, 1992
(billions of lire)

Guaranteed by operation of law	
IRI S.p.A.	27,186
ENI S.p.A.	7,928
INA S.p.A.	1
ENEL S.p.A.	59,061
FS S.p.A.	35,354*
Total debt guaranteed by operation of law	129,530
Debt guaranteed by contract	764
Total Guaranteed Debt	130,294

* *Excludes FS bonds, which are classified in this Prospectus as direct indebtedness of Italy.*

Debt Service

The aggregate amount of scheduled repayments in respect of principal and interest on Treasury securities constituting funded debt outstanding at April 30, 1993, was as follows:

Debt Service

	1993	1994	1995	1996	1997-2003	2004-
			(billions of lire)			
Funded Debt of the Treasury Denominated in:						
Lire	163,559	164,183	164,786	150,110	461,679	0
ECU	16,662	15,836	12,815	9,014	7,781	6,408
U.S. Dollars	1,478	2,218	1,478	222	8,836	927
Deutsche Marks	0	0	0	0	7,399	0
Swiss Francs	0	0	0	0	0	311
Total equivalent in lire at April 30, 1993 rate	181,699	182,237	179,079	159,346	485,695	7,646

Debt Record

Since its foundation in 1946, the Republic of Italy has never defaulted in the payment of principal or interest on any of its internal or external indebtedness.

DESCRIPTION OF DEBT SECURITIES

The following is a brief summary of the terms and conditions of the Debt Securities and the Fiscal Agency Agreement with respect thereto. Copies of the forms of Debt Securities and the form of Fiscal Agency Agreement are or will be filed as exhibits to the Registration Statements of which this Prospectus is a part. This summary does not purport to be complete and is qualified in its entirety by reference to such exhibits.

General

The Debt Securities may be issued in one or more series as may be authorized from time to time by Italy. Reference is made to the applicable Prospectus Supplement for the following terms of Debt Securities offered thereby; (i) the designation, aggregate principal amount, any limitation on such principal amount, currency or currencies of denomination and payment, and authorized denominations; (ii) the percentage of their principal amount at which such Debt Securities will be issued; (iii) the maturity date; (iv) the interest rate or rates, if any, and the manner in which such rate or rates will be determined; (v) the interest payment dates, if any, and the dates from which interest accrues; (vi) any index, price or formula to be used for determining the amount of any payment of principal, premium or interest; (vii) any optional or mandatory redemption terms or repurchase or sinking fund provisions; (viii) whether such Debt Securities will be in bearer form (which may or may not be registrable as to principal) with interest coupons, if any, or in fully registered form, or both, and restrictions on the exchange of one form for another; and (ix) other specific provisions. Any special United States federal income tax and other considerations applicable to any Debt Securities (i) issued with original issue discount, (ii) denominated in a currency other than the U.S. dollar or (iii) payments on which are determined by reference to any index also will be described in the Prospectus Supplement relating thereto.

There will be a fiscal agent (the "Fiscal Agent") or agents for Italy in connection with the Debt Securities whose duties will be governed by the Fiscal Agency Agreement. Italy will appoint a fiscal agent for each series of Debt Securities, which may or may not be the same fiscal agent. Italy may maintain deposit accounts and conduct other banking transactions in the ordinary course of business with the Fiscal Agent. The Fiscal Agent is the agent of Italy, is not a trustee for the holders of Debt Securities and does not have the same responsibilities or duties to act for such holders as would a trustee.

Debt Securities may be issued as discounted Debt Securities (bearing no interest or interest at a rate which at the time of issuance is below market rates) to be sold at a substantial discount below their stated principal amount. Special considerations applicable to any such discounted Debt Securities will be described in the Prospectus Supplement relating thereto.

Principal of (and premium, if any) and interest on the Debt Securities will be payable at such place or places and in such currency or currencies as are designated by Italy and set forth in the applicable Prospectus Supplement. Unless otherwise set forth in the applicable Prospectus Supplement, interest on fully registered Debt Securities will be paid by check mailed to the persons in whose names Debt Securities are registered at the close of business on the record dates designated in the applicable Prospectus Supplement at each such person's address appearing on the register of Debt Securities.

Nature of Obligation; Negative Pledge

The Debt Securities will constitute the direct, unconditional, general and (subject to the provisions below) unsecured obligations of Italy, and rank *pari passu*, without any preference among themselves, with all present and future unsecured and unsubordinated general obligations of Italy for money borrowed. The full faith and credit of Italy will be pledged for the due and punctual payment of the Debt Securities and for the due and timely performance of all obligations of Italy with respect thereto. Amounts payable in respect of principal of and interest on the Debt Securities will be charged upon and be payable out of the Treasury of Italy, into which are deposited the public revenues of Italy, equally and ratably with all other amounts so charged and amounts payable in respect of all other general loan obligations of Italy.

Italy will undertake that so long as any Debt Security remains outstanding it will not create any Encumbrance upon the whole or any part of its present or future revenues or assets to secure any present or future External Indebtedness without securing the outstanding Debt Securities equally and ratably therewith. "Encumbrance" means any mortgage, charge, pledge, lien or other arrangement creating security other than any security on goods or other assets provided to or acquired by Italy and securing a sum not greater than the purchase price (together with interest and other related charges) of such goods or assets and any related services. "External Indebtedness" means all indebtedness of Italy in respect of moneys borrowed by Italy and guarantees given by Italy for moneys borrowed by others which is expressed or denominated in a currency or currencies other than lire or which is, at the option of the person entitled thereto, payable in a currency or currencies other than lire.

Italian Taxation

Under existing Italian law, all payments of principal and interest in respect of the Debt Securities, which will in each case be issued outside Italy, will be exempt from any taxes, levies, imposts, duties, deductions, withholdings or other charges, of whatsoever nature, imposed, levied, collected, withheld or assessed by Italy or any political subdivision or taxing authority thereof or therein (all of which are referred to herein as "Italian Taxes") so long as the beneficial owner of the relevant Debt Security is not resident in Italy.

Without prejudice to the foregoing, if any payment of principal or interest is not exempt as aforesaid, Italy has agreed to pay, to the extent permitted by law, such additional amounts as are necessary in order that the net payment, after the imposition of any Italian Taxes in respect thereof, will not be less than the amount the holder would have received in the absence of such taxes, except that no such additional amounts shall be payable in respect of any Debt Security presented for payment:

(a) by or on behalf of a holder who is able to avoid such imposition, levy, collection, withholding or assessment by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or

(b) more than 30 days after the Relevant Date, except to the extent that the holder thereof would have been entitled to additional amounts on presenting the same for payment on the expiration of such period of 30 days.

As used herein, the "Relevant Date" means the date on which such payment first becomes due or, if the full amount of the money payable has not been received by the Fiscal Agent on or prior to such due date, it means the date on which, the full amount of such money having been so received, notice to that effect shall have been duly given in the manner provided in the Fiscal Agency Agreement.

Any reference herein to principal and/or interest shall be deemed also to refer to any additional amounts which may be payable hereunder.

United States Taxation

The Debt Securities and interest thereon will not be exempt from United States taxation generally.

In the opinion of Sullivan & Cromwell, special United States counsel for Italy, and subject to the discussion of "backup" withholding below, interest on the Debt Securities is currently exempt from United States federal income taxes, including withholding taxes, if paid to an individual who is not a citizen or resident of the United States or to a corporation organized under the laws of a country other than the United States (a "non-U.S. holder") whether or not such non-U.S. holder is engaged in trade or business in the United States, unless

(i) the corporation is an insurance company carrying on a United States insurance business to which the interest is attributable, within the meaning of the United States Internal Revenue Code, or

(ii) the individual or corporation has an office or other fixed place of business in the United States to which the interest is attributable, the interest is derived in the active conduct of a banking, financing or similar business within the United States or is received by a corporation the principal business of which is trading in stock or securities for its own account, and certain other conditions exist.

In addition, in the opinion of Sullivan & Cromwell, (a) subject to the discussion of back-up withholding below, a non-U.S. holder will not be subject to United States federal income tax on any gain realized on the sale or exchange of a Debt Security, provided that such gain is not effectively connected with the conduct by the holder of a U.S. trade or business and, in the case of a non-U.S. holder who is an individual, such holder is not present in the United States for a total of 183 days or more during the taxable year in which such gain is realized, (b) interest on the Debt Securities constitutes income from sources without the United States, but, with certain exceptions, is treated separately, together with other items of "passive income" or "financial services income", for purposes of computing the foreign tax credit allowable under the United States federal income tax laws, and (c) the Debt Securities are deemed to be situated outside the United States for purposes of the United States federal estate tax and are not includible in the gross estate for purposes of such tax in the case of a nonresident in the United States who was not a citizen of the United States at the time of death.

A 31 percent "backup" withholding tax and certain information reporting requirements may apply to payments of principal, premium, if any, and interest on the Debt Securities made to certain noncorporate holders if such payments are made or are considered made in the United States (including payments on Debt Securities made by wire transfer from outside the United States to an account maintained by the holder with the Fiscal Agent or paying agent in the United States). If the conditions relating to place of payment are satisfied, non-United States persons are generally exempt from these withholding and reporting requirements (assuming that the gain or income is otherwise exempt from United States federal income tax) but may be required to comply with certification and identification procedures in order to prove their exemption from the requirements. Similar rules requiring reporting and withholding with respect to gross sale proceeds will apply to a non-United States person who sells a Debt Security through a United States branch of a broker and information reporting (but not backup withholding) will apply to a non-United States person who sells a Debt Security through (a) a non-United States branch of a United States broker, or (b) a non-United States office of a broker that is a controlled foreign corporation for United States tax purposes or that is a person 50 percent or more of whose income is effectively connected with a United States trade or business for a specified period, in either case unless the holder proves an exemption from the requirement.

Limitations on sales to United States persons of Debt Securities in bearer form, if any, will be described in the Prospectus Supplement relating thereto.

Default; Acceleration of Maturity

With respect to any series of Debt Securities, upon the happening of any of the following events:

(a) default in any payment of principal of (and premium, if any, on) or interest on any of the Debt Securities of such series and the continuance of such default for a period of more than 30 days after the due date; or

(b) failure to perform or observe any other obligation under the Debt Securities of such series and the continuance of such default for a period of 60 days following written notice thereof to Italy at the office of the Fiscal Agent by any holder (except where such failure is not capable of remedy, in which event no notice shall be required); or

(c) if (i) any other present or future External Indebtedness becomes due and payable prior to the stated maturity thereof by reason of default, or any such External Indebtedness is not paid at the maturity thereof as extended by any grace period applicable thereto, or any such External Indebtedness in the form of a guarantee is not honored when due and called upon or within any grace period applicable thereto, or (ii) Italy shall declare a general moratorium on the payment of any External Indebtedness;

then in any case the principal of any Debt Security of such series (or, in the case of any Debt Security issued at a discount, an amount of principal determined as set forth in the applicable Prospectus Supplement) may be declared to be due and payable immediately by written demand given to Italy and the Fiscal Agent at the office of the Fiscal Agent by the holder thereof, unless prior to receipt of such demand by the Fiscal Agent, all such defaults shall have been cured. No periodic evidence is required to be furnished by Italy as to the absence of defaults. Because each series of Debt Securities shall be independent of each other series, a default with respect to one series of Debt Securities will not, in itself, constitute a default with respect to, or permit the acceleration of the maturity of, Debt Securities of a different series except as provided in clause (c) above.

Redemption

If the Debt Securities of a series provide for mandatory redemption by Italy, or redemption at the election of Italy, such redemption shall be on not more than 60 nor less than 30 days' notice and, in the event of redemption in part, the Debt Securities to be redeemed will be selected by lot by the Fiscal Agent. Unless all the Debt Securities of a series to be redeemed are registered Debt Securities or bearer Debt Securities registered as to principal, notice of redemption will be published at least twice prior to the redemption date in a newspaper printed in the English language and of general circulation in Europe and at such other places, if any, as are set forth in such Debt Securities. Additionally, notice of such redemption will be mailed to holders of registered Debt Securities of such series, and to those holders of bearer Debt Securities of such series who have registered the principal of their Debt Securities, to their last addresses as they appear on the register for the Debt Securities of such series. Under proposed United States income tax regulations, special rules will apply to Debt Securities that can be redeemed prior to maturity if the yield on the redeemed Debt Securities would be lower than the yield on the Debt Securities if outstanding to stated maturity.

Amendments

With the approval of holders of the Debt Securities of a series at a meeting duly called and held, upon the affirmative vote of the holders of not less than 66⅔ percent in aggregate principal amount of the Debt Securities of such series then outstanding or upon the written consent of the holders of not less than such percentage (or of such other percentage as may be set forth in the text of the Debt Securities of such series with respect to the action being taken), Italy and the Fiscal Agent may modify, amend or supplement the terms of the Debt Securities of such series or, insofar as it affects the Debt Securities of such series, the Fiscal Agency Agreement, in any way, and such holders may make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Fiscal Agency Agreement or the Debt Securities of such series to be made, given or taken by holders of Debt Securities; provided, however, that no such action may, without the consent of the holder of each Debt Security of such series affected thereby, (A) change the due date for the payment of the principal of (or premium, if any) or any installment of interest on any Debt Security of such series, (B) reduce the principal amount of any Debt Security of such series, the portion of such principal amount which is payable upon acceleration of the maturity of such Debt Security, the interest rate thereon or the premium payable upon redemption thereof, (C) change the coin or currency in which or the required places at which payment with respect to interest, premium or principal in respect of the Debt Securities of such series is payable, (D) shorten the period during which Italy is not permitted to redeem the Debt Securities of such series, or permit Italy to reduce the Debt Securities of such series if, prior to such action, Italy is not permitted to do so, (E) reduce the proportion of the principal amount of the Debt Securities of such series the vote or consent of the holders of which is necessary to modify, amend or supplement the Fiscal Agency Agreement or the terms and conditions of the Debt Securities of such series or to make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided thereby to be made, taken or given, or (F) change the obligation of Italy to pay additional amounts.

Italy and the Fiscal Agent may, without the vote or consent of any holder of Debt Securities, amend the Fiscal Agency Agreement or the Debt Securities of any series for the purpose of (a) adding to the covenants of Italy for the benefit of the holders of Debt Securities, (b) surrendering any right or power conferred upon Italy, (c) securing the Debt Securities pursuant to the requirements of the Debt Securities or otherwise, (d) curing any ambiguity or curing, correcting or supplementing any defective provision thereof or (e) amending the Fiscal Agency Agreement or the Debt Securities of such series in any manner which Italy and the Fiscal Agent may determine and which shall not be inconsistent with the Debt Securities of such series and shall not adversely affect the interest of any holder of Debt Securities.

Governing Law; Consent to Service

The Debt Securities will provide that they will be governed by and construed in accordance with the laws of the State of New York except with respect to their authorization and execution and any other matters required to be governed by the laws of the Republic of Italy, which will be governed by the laws of the Republic of Italy.

Italy will appoint the Honorable Boris Biancheri, its Ambassador to the United States, 1601 Fuller Street, N.W., Washington, D.C. 20009, and his successor as its authorized agent upon whom process may be served in any action arising out of or based on the Debt Securities which may be instituted in any State or Federal court in The City of New York by the holder of any Debt Security and will irrevocably submit to the jurisdiction of any such court in respect of any such action. Italy will irrevocably waive any immunity to such service of process and any objection to venue in any action which may be instituted in any such court or (except as to venue) in any competent court in the Republic of Italy. Such appointment will be irrevocable until all amounts in respect of the principal, premium, if any, and interest, if any, due and to become due on or in respect of all the Debt Securities have been provided to the Fiscal Agent, except that, if for any reason, the authorized agent ceases to be able to act as such authorized agent or ceases to have an address in the United States, Italy will appoint another person in Washington, D.C. or The City of New York as its authorized agent. Notwithstanding the foregoing, any action arising out of or based on the Debt Securities may be instituted by the holder of any Debt Security in any competent court in the Republic of Italy. Italy will waive irrevocably any immunity from jurisdiction (but not execution or attachment or process in the nature thereof) to which it might otherwise be entitled in any action arising out of or based on the Debt Securities which may be instituted by the holder of any Debt Security in any State or Federal court in The City of New York or in any competent court in the Republic of Italy. Neither such appointment nor such waiver of immunity includes actions brought under the United States Federal securities laws. In the absence of a waiver of immunity by Italy with respect to such actions it would not be possible to obtain a United States judgment in such an action against Italy unless a court were to determine that Italy is not entitled under the Immunities Act to sovereign immunity with respect to such action.

DESCRIPTION OF WARRANTS

The following is a brief summary of some of the provisions of the Warrants and of the Warrant Agreement relating thereto, copies of the forms of which are or will be filed as exhibits with the Registration Statement of which this Prospectus is a part. This summary does not purport to be complete and is qualified in its entirety by reference to such exhibits.

General

Italy may issue, together with any Debt Securities offered by any Prospectus Supplement or separately, Warrants for the purchase of other Debt Securities. Each series of Warrants will be issued under a warrant agreement to be entered into between Italy and a bank or trust company, as warrant agent (the "Warrant Agent"), all as set forth in the Prospectus Supplement relating to a particular issue of Warrants. The Prospectus Supplement relating to the series of Warrants offered thereby will set forth (i) the terms referred to above under "Description of Debt Securities — General" of the Debt Securities purchasable upon exercise of such Warrants; (ii) the principal amount of Debt Securities purchasable upon exercise of one Warrant, the exercise price and the procedures of, and conditions to, exercise for purchasing such Debt Securities; (iii) the dates on which the right to exercise the Warrants shall commence and expire, and whether and under what conditions the Warrants may be terminated or cancelled by Italy; (iv) the date, if any, on and after which such Warrants and the related Debt Securities will be separately transferable; (v) whether the Warrants represented by the Warrant Certificates will be issued in registered or bearer form, whether they will be exchangeable as between such forms, and, if registered, where they may be transferred and registered; and (vi) other specific provisions.

Governing Law; Consent to Service

The Warrants will provide that they will be governed by and construed in accordance with the laws of the State of New York except with respect to their authorization and execution and any other matters required to be governed by the laws of Italy. Italy will appoint the Warrant Agent as its authorized agent upon which process may be served in any action arising out of or based on the Warrants which may be instituted in any State or Federal court in The City of New York by the holder of any Warrant. Italy will irrevocably waive any immunity from jurisdiction (but not from execution or attachment or process in the nature thereof) to which it might otherwise be entitled in any action arising out of or based on the Warrants which may be instituted by the holder of any Warrant in any such court or in any competent court in the Republic of Italy. Neither such appointment nor such waiver of immunity includes actions brought under the United States Federal securities laws. In the absence of a waiver of immunity by Italy with respect to such actions it would not be possible to obtain a United States judgment in such an action against Italy unless a court were to determine that Italy is not entitled under the Immunities Act to sovereign immunity with respect to such action.

United States Taxation

Information with respect to the United States tax consequences of the issuance, purchase, exercise and expiration of Warrants, including possible original issue discount on Debt Securities issued with Warrants, will be set forth in the Prospectus Supplement relating to any particular issue of Warrants.

PLAN OF DISTRIBUTION

Italy may sell Securities to or through underwriters, and also may sell Securities directly to other purchasers or through agents. Such underwriters may include Goldman, Sachs & Co. or Salomon Brothers Inc or a group of underwriters represented by firms which may include one or more of such firms. Such firms may also act as agents. Only agents or underwriters named in the Prospectus Supplement are deemed to be agents or underwriters, as the case may be, in connection with the Securities offered thereby.

The distribution of the Securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, or at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices.

In connection with the sale of Securities, underwriters may receive compensation from Italy or from purchasers of Securities for whom they may act as agents in the form of discounts, concessions or commissions. Underwriters may sell Securities to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of Securities may be deemed to be underwriters, and any discount or commissions received by them from Italy and any profit on the resale of Securities by them may be deemed to be underwriting discounts and commissions under the Securities Act of 1933, as amended (the "Act"). Any such underwriter or agent will be identified, and any such compensation received from Italy will be described, in the Prospectus Supplement.

The Securities will be a new issue of Securities with no established trading market. Underwriters and agents to whom Securities are sold by Italy for public offering and sale may make a market in such Securities, but such underwriters and agents will not be obligated to do so and may discontinue any market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Securities.

Under agreements which may be entered into by Italy, underwriters, dealers and agents who participate in the distribution of Securities may be entitled to indemnification by Italy against certain liabilities, including liabilities under the Act.

If so indicated in the Prospectus Supplement, Italy will authorize underwriters or other persons acting as Italy's agents to solicit offers by certain institutions to purchase Securities from Italy pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by Italy. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of the Securities shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts.

OFFICIAL STATEMENTS

Information included herein which is identified as being derived from a publication of Italy or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of Italy. All other information herein and in the Registration Statement of which this Prospectus is a part is included as a public official statement made on the authority of Professor Mario Draghi, Director General of the Ministry of the Treasury.

VALIDITY OF THE SECURITIES

The validity of each series of Securities will be passed upon on behalf of Italy by Mario Paolillo, Esq., Director General of the Ministry of the Treasury, Republic of Italy, Rome, and on behalf of the underwriters or agents by Sullivan & Cromwell, New York, New York. As to all matters of Italian law, Sullivan & Cromwell may rely on the opinion of Mr. Paolillo. All statements with respect to matters of Italian law in this Prospectus have been passed upon by Mr. Paolillo and are made upon his authority.

AUTHORIZED REPRESENTATIVE

The Authorized Representative of the Republic of Italy in the United States of America is the Honorable Boris Biancheri, Italian Ambassador to the United States, whose address is 1601 Fuller Street, N.W., Washington, D.C. 20009.

FURTHER INFORMATION

A Registration Statement with respect to Italy and the Securities has been filed with the Securities and Exchange Commission, Washington, D.C., under the Act. Additional information concerning Italy and the Securities is to be found in such Registration Statement and any post-effective amendment thereto, including the various exhibits thereto, which may be inspected at the office of the Securities and Exchange Commission.

TABLES AND SUPPLEMENTARY INFORMATION

Floating Internal Debt of the Treasury
as of April 30, 1993
(payable in lire)
(billions of lire)

Title	Interest Rate (%)	Maturity date	Outstanding principal amount
BOT (3 months)	various	various	77,750
BOT (6 months)	various	various	133,000
Treasury Overdraft	various	various	84,790
Postal Savings	various	various	146,000
Floating Internal Debt of the Treasury			441,540

Funded Internal Debt of the Treasury
as of April 30, 1993
(payable in lire or ECU*)
(billions of lire)

Title	Interest Rate (%)	Maturity date	Outstanding principal amount
BOT (12 months)	various	various	191,946
CCT			
Floating rate	various	various	509,862
Fixed rate	various	various	71,735
CTE	various	various	34,674
Total CCT	various	various	616,271
BTP	various	various	330,507
BTE	various	various	7,416
Other Treasury Borrowings	various	various	267
Funded Internal Debt of the Treasury			1,146,407

*The lira amounts of CTE and BTE are calculated at the exchange rate on April 30, 1993. Since September 1990, CTEs and BTEs are repaid in ECU if the subscription price was paid in ECU, and in lire if the subscription price was paid in lire. See footnote (3) of the table entitled "Public Debt", page 49.

Floating External Debt of the Treasury
as of April 30, 1993

Title	Interest Rate (%)	Maturity date	Outstanding principal amount
Total Floating External Debt			-0-

External Bonds of the Treasury
as of April 30, 1993

Bond Issues

Title	Interest Rate (%)	Initial Public Offering Price	Date of Issue	Maturity Date	Original Principal Amount (in thousands)	Principal Amount Outstanding (in thousands)	Equivalent in billions of lire of outstanding portion at April 30, 1993 rate
U.S. Dollars							
$300,000,000 due July 1997	6 month LIBID	100 00%	July 25, 1985	July 25, 1997	300,000	100,000	148
$500,000,000 due Dec 2000..........	6 month LIMEAN	100.00%	Dec. 11, 1985	Dec 11, 2000	500,000	377,100	557
$150,000,000 due March 1996 (1)	9.125% fixed rate	99.625%	March 4, 1986	March 4, 1996	150,000	150,000	222
$1,000,000,000 due Nov. 1995 (1)..........	9 50% fixed rate	101 50%	Nov 14, 1988	Nov. 14, 1995	1,000,000	1,000,000	1,478
$1,000,000,000 due March 1999 (2).........	9.625% fixed rate	101 625%	March 1, 1989	March 1, 1999	1,000,000	1,000,000	1,478
$1,500,000,000 due Oct. 1994 (1)	8.50% fixed rate	99.875%	Oct. 26, 1989	Oct 26, 1994	1,500,000	1,500,000	2,218
$1,500,000,000 due April 1997 (1)	9.375% fixed rate	99.51%	April 3, 1990	April 3, 1997	1,500,000	1,500,000	2,218
$1,000,000,000 due March 1999 (2).........	9.625% fixed rate	99.85%	Oct 1, 1990	March 1, 1999	1,000,000	1,000,000	1,478
$2,000,000,000 due Feb. 2001 (2)	8.75% fixed rate	99.04% on 1,500,000,000 99.98% on 500,000,000	Feb. 8, 1991	Feb 8, 2001	2,000,000	2,000,000	2,957
$1,000,000,000 due July 1993 (1)	9.00% fixed rate	101 175%	July 28, 1988	July 28, 1993	1,000,000	1,000,000	1,478
European Currency Units							
CTEs	*various*	*various*	*various*	*various*	*8,410,000*	*8,410,000*	*15,397*
ECU 400,000,000 due May 1996	Zero Coupon	52.00%	May 12, 1986	May 12, 1996	400,000	24,170	44
ECU 1,000,000,000 due April 2000	10.75% fixed rate	100.15%	April 18, 1990	April 18, 2000	1,000,000	1,000,000	1,831
ECU 1,000,000,000 due July 1997	10.375% fixed rate	99 51%	July 9, 1990	July 9, 1997	1,000,000	1,000,000	1,831
ECU 1,000,000,000 due Oct. 2005...........	3 month LIBID	100.00%	Oct. 30, 1990	Oct. 30, 2005	1,000,000	1,000,000	1,831
ECU 2,500,000,000 due March 2011	9 25% fixed rate	98.16%	March 7, 1991	March 7, 2011	2,500,000	2,500,000	4,577
ECU 500,000,000 due March 1996 (3).......	7.875% fixed rate	100 00%	March 11, 1993	March 11, 1996	500,000	500,000	915
Swiss Francs							
Swiss Fr. 300,000,000 due Dec. 2005	Zero Coupon	30.873%	Dec. 11, 1985	Dec 11, 2005	300,000	300,000	311
Pounds Sterling							
£400,000,000 due 2014	10 50% fixed rate	100 875%	April 28, 1989	April 28, 2014	400,000	400,000(4)	927
Deutsche Marks							
DM 5,000,000,000 due 1998	7 25% fixed rate	102.00%	Feb. 10, 1993	Feb 10, 1998	5,000,000	5,000,000	4,683
DM 2,900,000,000 due 2000 (3)	6.50% fixed rate	100.00%	March 10, 1993	March 10, 2000	2,900,000	2,900,000	2,716
TOTAL EXTERNAL BONDS OF THE TREASURY....							49,295

(1) On May 12, 1993, Italy announced the issue of up to $5,650,000,000 5⅝ percent Notes due 1998 of which $500,000 as an initial tranche and up to $5,150,000,000 pursuant to an exchange offer for the issues indicated above.

(2) On May 12, 1993, Italy announced the issue of up to $4,000,000,000 6⅝ percent Notes due 2003 pursuant to an exchange offer for the issues indicated above.

(3) Also listed below in the table "Loans from Multilateral and Bilateral Organizations".

(4) Currency swap of the entire amount to $626,720,000 in November 1989

Loans from Multilateral and Bilateral Organizations
as of April 30, 1993

Title	Interest Rate (%)	Initial Public Offering Price	Date of Issue	Maturity Date	Original Principal Amount (in thousands)	Principal Amount Outstanding (in thousands)	Equivalent in billions of lire of outstanding portion at April 30, 1993 rate
Loans by the European Community							
European Currency Units							
ECU 500,000,000 due March 1996 (*).......	*7 875% fixed rate*	*100.00%*	*March 11, 1993*	*March 11, 1996*	*500,000*	*500,000*	*915*
Deutsche Marks							
DM 2,900,000,000 due 2000 (*)	6.50% fixed rate	100.00%	March 10, 1993	March 10, 2000	2,900,000	2,900,000	2,716

(*) Also listed above in the table "External Bonds of the Treasury".

ISSUER

Republic of Italy
Ministry of the Treasury
Via XX Settembre, 97
00187 Rome
Italy

LEGAL ADVISER TO THE REPUBLIC OF ITALY

Mario Paolillo, Esq.
Ministry of the Treasury
Via XX Settembre, 97
00187 Rome
Italy

LEGAL ADVISERS TO THE UNDERWRITERS

as to United States Law

Sullivan & Cromwell
125 Broad Street
New York, New York 10004
United States

as to Italian law

Chiomenti e Associati
Studio Legale
Via Bertoloni, 44/46
00197 Rome
Italy

LISTING SPONSOR

Goldman Sachs Equity Securities (U.K.)
Peterborough Court
133 Fleet Street
London EC4A 2BB
England

FISCAL AGENT

Morgan Guaranty Trust Company of New York
60 Wall Street
New York, New York 10005
United States

PAYING AGENTS

London
Morgan Guaranty Trust Company
of New York
60 Victoria Embankment
London EC4Y 0JP
England

Singapore
The Development Bank
of Singapore Limited
6 Shenton Way #30-01
Singapore 0106

Hong Kong
The Hongkong and Shanghai
Banking Corporation Limited
1 Queen's Road Central
Hong Kong

No person has been authorized to give any information or to make any representations other than those contained in this Prospectus Supplement or the Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized. This Prospectus Supplement and the Prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which they relate or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus Supplement and the Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Republic of Italy since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

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Until October 26, 1993, all dealers effecting transactions in the United States in the Notes, whether or not participating in this distribution, may be required to deliver a prospectus. This is in addition to the obligations of dealers to deliver a prospectus in the United States when acting as underwriters and with respect to their unsold allotments or subscriptions.

$5,500,000,000

Republic of Italy

$2,000,000,000 6% Notes due September 27, 2003

$3,500,000,000 6⅞% Debentures due September 27, 2023

Goldman, Sachs & Co.

Salomon Brothers Inc

Representatives of the Underwriters

Prospectus Supplement

Dated September 16, 1993