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Hearing:

**Effects and measures of
surveillance for public finance
flows as affected by the debt trend
with particular reference to the
non-State component
(Update of July 21, 2004)**

Senate of the Republic
Commission on
Economic Planning, Budget

Rome, July 21, 2004

**“Fact-finding investigation on the effects and measures of surveillance for public finance flows
as affected by the debt trend with particular reference to the non-State component”
(Update of July 21, 2004)**

1. Introduction

As you will recall, the hearing of March 24 of this year on the surveillance of the flows and stock of the debt of local authorities concluded with a commitment to provide an update on the progress of the related process of data-collection and furnishing of information, with a territorial breakdown of the debt. The normative framework, too, required completion, and this has now been accomplished with the promulgation of the explanatory circular pertaining to Regulation no. 389 of 2003, as it was deemed necessary to provide support to authorities on how to readily acquaint themselves with the multiplicity of proposals made possible by today's level of sophistication in financial instruments.

The present meeting is a welcome occasion for me to confirm, today, in my new capacity as Minister of the Republic, the commitment of the whole of my ministry – and of the Department of the Treasury in particular – to provide all the support possible for the development of an evolved and autonomous local branch of finance, whose aim is to respect the general objectives of prudent financial management. No less, I might add, is the commitment to contribute to a greater transparency in public finance in general, by way of a detailed and complete database of the debt situation of local authorities.

Over the course of the past four months, the realization of how important it is to commit to these goals has represented, if possible, yet a further stimulus to the activity of the offices responsible. In addition to continuing the work of developing and bettering the database, attention has been focused on establishing a closer dialogue with the authorities themselves, with the financial institutions most active in the specific segment of the market, and with the other parties capable of providing informational support and/or institutional collaboration (Bank of Italy, ICCS and others).

The progress made so far, and possible further improvements, are the topics of the present report.

2. Update on the status of implementation of the norm concerning capital-market access by local authorities: the explanatory circular of May 27, 2004.

On the occasion of the first hearing this past March 24 on the topic of surveillance of public finance flows and the debt of local authorities, a fundamental issue was also addressed, namely access to the capital market and the use of derivatives as a means for local authorities to manage borrowing.

Regarding this issue, as mentioned, Decree no. 389 of December 1, 2003, was promulgated and today it constitutes the fundamental norm to which all local authorities and Regions not having produced an autonomous regulation must refer for transactions in the derivatives market. Considering the particular complexity of the issue, it was necessary to design an interpretative circular for the regulation (promulgated on May 27 and published on June 3 in the O.G.) that could provide all the operators involved – local authorities, banks and financial intermediaries – with an interpretative instrument for the norms contained in the regulation itself and for the rationale on which said norms are based.

The background work leading up to the production of the circular was very complex and occupied much of the period from the publication of the regulation (February 4) and the publication of the circular itself (June 3). The topic requiring the most time and attention was that of derivatives transactions, which demanded an especially careful examination, so as to provide users with answers that would be valid in the long term on an issue that refers, rather, to a market reality in constant evolution. The circular, in fact, had to balance the demands for certainty in the indications provided and the demands of elasticity characteristic of a dynamic financial market, dictating thereby general criteria that could constitute guidelines for the application of the basic principles and still be valid in the future, even for new structures.

In substance, the background work for the circular consisted in the organization of a series of meetings with the principal representative bodies for the various recipients of the regulation (ANCI for the Municipalities, ABI for the Italian banks, the main foreign banks and the primary legal firms specializing in the financial sector) aimed at a dual objective:

- To give interested parties the chance to raise doubts and to put forward operational concerns, both those encountered in past activity (which however remains excluded from applicability of the regulation), and those resulting from the implementation of the new normative system;
- To clarify the goal of prudent management of the risks connected with transactions in derivatives, a goal that permeates the discipline outlined by the regulation and that considers its fundamental principle to be that of preserving public interest.

The text of the circular as it was published is, therefore, fruit of the collaboration with the recipients designated to receive the circular, and it was developed according to the structural arrangement of the regulation itself. Let us proceed to a detailed examination of its contents.

Point 1) of the circular indicates telephone numbers and e-mail addresses to which surveillance data can be sent and it explains the dispositions regarding the terms of silence-assent stipulated in Art. 1, section 2 of the regulation, in order to allow for an efficient and timely management of information relevant both for authorization to market access (preventive information) and for subsequent surveillance.

Point 2) supplies details on the criteria of selection of intermediaries for the concluding of contracts related to management of the sinking fund or to the swap traded to amortize debt provided for in Art. 2 of the regulation and on the identification of parties issuing bonds conferred to the fund.

In this regard, it is opportune to highlight a critical element that emerged precisely as a result of the consultations with the interested parties. It was pointed out that, according to the current norm that regulates relationships between local authorities in the strict sense and

their treasurers (Law 720 of 1984, D.M. 26/7/1985 and Art. 221 of the T.U.E.L.), it is not possible for the authorities to establish sinking funds with institutes or intermediaries different from their treasurer banks.

This prohibition, however, is in contradiction with the application of what is stipulated in Art. 2 of the regulation, regarding the establishment of sinking funds, in so far as the correct and prudent management of such funds requires an extremely high level of financial knowledge and managerial capacity on the part of the intermediaries, requirements that the banks conducting treasury functions do not always meet. What results, then, is a conflict between the principles inspiring the norm on sinking funds and the treasury obligations of the authorities that, in practice, impedes the establishment of such funds.

An appropriate legislative opportunity must be found, therefore, to introduce in the norms governing the Treasury, a specific exception for this particular case, which could resolve the conflict explained above.

Point 3) of the circular supplies clarification on the content of Article 3 of the regulation, concerning allowed transactions and the limits within which they must be carried out so as to be in compliance with the regulation. We decided to emphasize, on the one hand, the protection against market risks in a medium-long-term perspective, and on the other, the simplicity of the structures, in such a way as to avoid the dangers inherent in an excessive complexity of possible transactions.

We wanted to assure, in other words, the comprehensibility of derivatives transactions on the part of those responsible in the financial sector of the authorities, keeping in mind that complex structures require a level of familiarity in the subject that is sometimes difficult to acquire in the world of investment banking.

Therefore, the types of derivatives transactions that the local authorities can conduct were indicated, in the form of a list, and are limited to the following:

- An interest rate *swap*, which consists of a contract between two parties who assume the responsibility to regularly exchange interest flows, connected to the principal parameters of the financial market, according to means, timing, and conditions established in the contracts themselves;

- The purchase of an interest rate *cap*, which establishes a maximum for the variable rate beyond which the purchaser of the *cap* pays a predetermined fixed rate;
- The purchase of an interest rate *collar*, in which the purchaser is guaranteed a level of interest rate to pay, which varies within the limits of a predetermined minimum and maximum;
- The purchase of a *forward rate agreement*, contracts in which two parties agree on a rate of interest that the purchaser of the *forward* will pay on an established capital at a predetermined future date.

Such transactions must be conducted in so-called “*plain vanilla*” form, which is to say, in the most simple form and without any options that might expose the authority to ulterior financial risks resulting from shifts in interest rates. Likewise, derivatives are inadmissible if they contain incentives or multipliers of financial parameters, such as, for example, paying twice the Euribor rate when predetermined market conditions are met.

The use of the *cap* and *collar* instruments is limited to the purchase of the same, as it has been determined that these types of transactions must be solely for the purpose of protection against interest rate increases.

Regarding, then, the derivatives with which it is permissible to restructure existing liabilities, the circular confirmed the exclusion, stipulated by letter *f*) of Art. 3 of the regulation, of the possibility to transfer the financial burden of existing exposure to future exercises, thereby concentrating the burden closer to the deadline. In fact, apart from the improper management that such a transaction would represent, it is also not desirable that the use of derivatives could in any way increase the profile of risk, either market or credit, assumed in the management of the debt.

In the circular, additionally, the generic concept of “adequate *rating*” is explained, this latter being of fundamental importance for directing the choices of local authorities toward trustworthy counterparts.

The last part of the circular, then, addresses the issue of risk prevention, making explicit reference to the norms of the Regulation of enactment of the Legislative Decree of February 24, 1998, no. 58, adopted by the Consob with the relative deliberation and the “Document on general risks of investment in financial instruments” attached to said regulation, which stipulates the obligation that intermediaries be provided detailed information on the risks connected with derivatives transactions. This reiterates the prime necessity to make the assumption of these risks by the authority totally willful and transparent.

3. Evaluation of the role of the Interministerial Committee for Credit and Savings following the issuance of Decree no. 389 of December 1, 2003.

Concerning the surveillance activity on bond issues by the Regions, the Committee for Credit and Savings has performed, in recent years, a generic activity of authorization of such, according to stipulations of Art. 10 of the Law no. 281 of 1970, on the basis of which the conditions for bond issues must be deliberated on by the Regional Council, “subject to agreement by the Interministerial Committee for Credit and Savings”.

This initial prescription was never integrated, in the subsequent norm, in a guideline of the role of the ICCS, that it might determine in detail the content, modality, timing and procedures of intervention. Therefore, the Committee, in expressing an opinion performs its surveillance function by verifying the correspondence of the issues proposed by the Regions to the requisites of law. In the event, for timing demands related to the issues, it become necessary to take action urgently, the procedure in Art. 3 of the Consolidated Act on banking goes into effect, allowing the Minister of Economy and Finance to take the place of the ICCS, assuming the responsibility to inform the ICCS at the first opportunity possible of actions taken.

With the entering into effect of the regulation on market access by local authorities, on the other hand, the activity of the ICCS was set in a procedural context that allows for the preventive intervention of the Department of the Treasury as a technical body with the legal right to express an opinion on the financial aspects of the issues by the Regions. In this

way the opinion that the ICCS currently grants the Regions regards not only the formal aspects, but also the substantial aspects of their operating in financial markets. Alongside and integrated with this surveillance is that conducted by the Bank of Italy, which, in accordance with Art. 129 of the Consolidated Act on banking, must consent to any issue in the amount greater than the old 100 billion lire.

It must be added, finally, that with the ulterior guideline provided for by Law no. 350 of December 24, 2003 (Financial Law 2004), relative to the borrowing by local authorities (sections 14 to 21 of Art. 3), surveillance of the legitimacy of transactions conducted by such authorities is further qualified, by the obtainment of a relative opinion from the General Accounting Office, which verifies the reason behind investment of expenses financed with the new debt.

4. Update on the Database

As already mentioned in the previous hearing, from as early as the second half of 2001 the Ministry began to design a system for the surveying of borrowing done by local authorities. This was experimental, in so far as there were no established methods for carrying out such surveillance, the regulation related to the previously cited Article 41 of the financial law for 2002 not yet having been enacted.

With the enactment of the Regulation and the approval of the tables related to data collection, formalized at the end of last April by the Joint Conference, we now have a completed legal basis. Recently the Ministry of the Interior has also recorded its approval of the directorial decree of approval of the aforementioned tables, which were published in the Official Gazette of July 20 of this year. All this has allowed the Offices of the Ministry to abandon the strictly experimental phase in favor of a more advanced phase that will see the project to completion.

Even the Local Authorities, on their part, have demonstrated a broader availability in their relationships with the General Government, which has translated into a greater collaboration both with regard to the submitting of data and to the acceptance of

observations from the Ministry on the correctness of such data. In other words, we have witnessed a significant increase in the regularity and punctuality of submission of updates, which, in accordance with the decree in question, must be communicated within the 15th day of the months of February, May, August and November of every year (see Table 1).

Upon publication of the regulation, the submission of updates relative to the raising of new loans and the emitting of new issues increased by about 50% compared to data sent at the beginning of the surveillance. In particular, regarding the first response by the authorities we see a notable increase from the Provinces. In fact, of 69 provinces that sent data, 56 sent the data after the publication of the Regulation; the same holds for municipalities that are not province capitals, of which 569 complied upon publication.

This led to the resulting increase in data input in the database once the series of checks for congruity was carried out. In the checking and inputting of data, which is still not entirely done automatically, emphasis has been placed on the correctness of data (with particular attention to the plans for the amortizing of loans, which are recalculated on the basis of the communications, and to the participation in the expense of other public authorities), and on the inputting of data relative to the Provinces and the Municipalities that are province capitals as compared to data of authorities less relevant economically. Consequently, the amount of the global debt assessed, estimated by comparing the data published by the Bank of Italy, saw an increase of about 10%, moving therefore from 70% to 80%.

Attached are tables 2 and 3, which also illustrate the debt of the local authorities, broken down by geographic region.

Regarding in particular the communication relative to the derivatives transactions (table no.1), from the start of the data collection 340 transactions were counted, conducted by 240 authorities. Since February of this year fourteen new transactions were communicated relative to eight local authorities for a total of 856,275,149.43 euros of notional capital. There is reason to believe that the not-so-elevated number of said contracts can be explained by the fact that the explanatory circular for Regulation no. 389/2003 was

published in the Official Gazette on June 3, 2004, provoking in practice a slow-down in transitions until that date, as operators awaited clarifications on a series of operational aspects. Furthermore, there is the sense that the same authorities that submitted in the past, on a voluntary basis, data relative to the different forms of borrowing were not so diligent in submitting data relative to derivatives. Further proof of that is the fact that since the approval of the Regulation we have begun to see submissions of data relative to past swap transactions as well.

It must be remembered that Article 41 and the relative regulation, according to what was agreed upon at the Joint Conference, do not provide for any penalty in cases of missing, untrue or incomplete communication from the Authorities, which is why we are currently studying some ways to carry out cross-checks, which would allow us to verify the amounts surveyed.

Regarding bond issues in particular, contact has been made with the UIC and Monte Titoli for a breakdown of the debt situation.

From the interviews begun with the Bank of Italy, in compliance with Art. 3, section 14 of the law 350/2003, it was discovered how a cross-reference with data possessed by the Institute reveals some problematic aspects, in light of the structure of the two databases (Credit Registry and Reporting Requirements) managed by the Bank of Italy.

In fact, the Credit Registry is an instrument designed to render a service to the financial intermediary, who can draw from it information on the debt exposure of the parties surveyed. The relative database, however, is supplied by monthly communications of the consistency of financing, grouped by type and characteristics, and not, therefore, by the communication of individual transactions.

The Reporting Requirements are born of the information needs of the Bank of Italy, with the goal to put into practice a surveillance of the banking system. The information contained in the Requirements are based, therefore, on the communications provided by financial intermediaries who, again, group the data according to the ISTAT classification of economic subjects (“Regions”, “Provinces”, “Municipalities”).

We will work, however, toward identifying solutions that will allow us to verify and improve the available information.

The realization of a new organizational model, following the end of the experimental phase, includes the construction of a Web interface between the Ministry and the Local Authorities. This further evolution would aim both to facilitate the transmission of data by Authorities, and to render the Local Authorities beneficiaries, to the extent the information pertains to the Authorities themselves, of the data collected in the database and the relative elaboration of such data. Consequently connections will be established with a sample group of Local Authorities, selected on an absolutely voluntary basis, through which flows of information will be transmitted so as to test the possible problem areas and to better thereby the system's informational set-up. This will allow, in the future, for the extension of connections to all the Local Authorities who request it, as long as they are in possession of the necessary informational support and with the resulting betterment of the entire system's efficiency. All the Authorities will in this way be able to evaluate with greater completeness their respective financial situations, in light of data elaborations conducted by the Ministry as well.

Further details can be found in the attached table on the debt situation as of June 30, 2004.

TABLE 1

DATA AND PERCENTAGES OF AUTHORITIES' RESPONSE TO SURVEILLANCE

Level of Government	Number of authorities	Those who sent data		(*) Those with loans exclusively with the Cassa DD.PP. or other General Govt. authorities		(*) Those who issued bonds (BOR/BOP/BOC)		(**) Those who conducted SWAP transactions		Those who sent data that needs to be verified		(*) Those present in the database
		Quantity	%	Quantity	%	Quantity	%	Quantity	%	Quantity	%	%
Region (1)	20	20	100	0	0	13	65	7	35	0	0	100
Province	103	69	67	13	19	27	39	19	28	0	0	100
Capital Municipality (2)	104	100	96	4	4	36	36	31	31	0	0	100
Non-capital Municipality	7,995	4,681	59	2,122	45	95	2	173	4	1,131	24	76
Total	8,222	4,870		2,139		171		230		1,129		

(*) The % is calculated on the number of authorities having sent data.

(**) The % of the authorities that conducted swap transactions is calculated on the number of authorities that communicated surveillance data. Prior to the publication of the Regulation, 124 authorities sent swap contracts, then another 105 authorities sent contracts; in only five months, there was an 85% increase in the communication of swap contracts, both underwritten before February 2004 and relative to new transactions. Derivatives transactions underwritten after the publication of the Regulation and communicated by 6 authorities are 11 in total, 3 of which are reconfigurations of existing swaps and 8 are new.

(1) The Regions that have not yet responded to surveillance are: Calabria and Liguria, however the database contains some, extremely incomplete, data dating to the year 2000 that are insufficient for any accurate calculation of debt.

(2) The Non-capital Municipalities that have not yet responded to surveillance are: Avellino, Caserta, Foggia, L'Aquila, Matera, Nuoro, Reggio Calabria, Rome, Salerno, Vicenza, Viterbo, Prato and Vercelli: for the first eleven, the database contains some extremely incomplete data dating to the year 2000 that is insufficient for any accurate calculation of debt, while for the Municipalities of Prato and Vercelli the database contains no data.

DEBT SITUATION BY REGION AS OF JUNE 30, 2004

TABLE 2

Bonds

Region	Nominal Capital	Residual Capital
ABRUZZO	758,028,419.27	684,059,255.97
BASILICATA		
CALABRIA		
CAMPANIA	75,837,884.30	44,331,912.22
EMILIA ROMAGNA	578,541,967.49	444,734,086.41
FRIULI VENEZIA GIULIA	583,305,000.00	510,356,922.67
LAZIO	1,540,129,323.85	1,084,251,932.20
LIGURIA	370,139,132.07	252,025,964.16
LOMBARDIA	1,073,374,563.98	1,004,099,430.16
MARCHE	1,568,330,594.58	1,404,738,854.81
MOLISE	8,915,060.80	5,490,852.36
PIEMONTE	1,434,544,830.94	792,117,007.96
PUGLIA	867,568,442.77	614,013,991.46
SARDEGNA	494,955,963.22	219,644,965.23
SICILIA	2,114,216,416.30	1,673,090,976.69
TOSCANA	995,946,195.63	789,712,227.15
TRENTINO ALTO ADIGE	24,418,000.00	21,851,343.96
UMBRIA	3,844,205,392.00	3,225,467,319.52
VALLE D'AOSTA	413,170,000.00	0.00
VENETO	652,096,258.41	500,208,937.75
Total:	17,397,723,445.61	13,270,195,980.68

Loans

Region	Nominal Capital	Residual Capital
ABRUZZO	49,088,843.53	14,764,838.68
BASILICATA	186,189,755.38	82,623,610.14
CALABRIA	1,091,218,404.24	58,591,852.94
CAMPANIA	2,861,587,087.76	2,375,666,308.56
EMILIA ROMAGNA	2,894,310,840.20	1,873,791,997.12
FRIULI VENEZIA GIULIA	850,163,374.31	624,373,229.83
LAZIO	4,227,408,163.72	558,351,343.90
LIGURIA	1,185,914,549.87	709,562,325.24
LOMBARDIA	5,633,621,727.26	3,205,420,165.87
MARCHE	1,272,667,965.61	1,036,975,226.36
MOLISE	127,032,946.27	91,102,644.83
PIEMONTE	2,456,089,919.49	1,686,523,785.39
PUGLIA	1,762,621,762.77	1,390,160,498.09
SARDEGNA	280,615,983.26	124,265,500.73
SICILIA	1,745,979,904.56	958,227,610.12
TOSCANA	1,501,169,157.35	918,255,628.11
TRENTINO ALTO ADIGE	478,514,767.21	330,787,170.95
UMBRIA	811,245,760.65	643,190,047.27
VALLE D'AOSTA	141,971,623.62	115,526,156.05
VENETO	2,290,635,545.32	774,142,284.62
Total:	31,848,048,082.38	17,572,302,224.80

There is a difference between the totals in the tables on the Debt Situation as of June 30, 2004 and the totals in this table "Debt Situation by Region as of June 30, 2004"; this is due to the fact that the totals of the "Monthly Situation" take into account even old data on debt that dates to 2000 for those authorities (2 Regions and 11 province-capital Municipalities) that have not yet responded to the Surveillance, while in the table Debt Situation by Region as of June 30, 2004 the data are those officially sent by the authorities and checked by the Office.

DEBT SITUATION AS OF JUNE 30, 2004 (AGGREGATE DATA BY REGION)

TABLE 2

ABRUZZO

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds	715,414,225.00	649,433,765.00	32,335,194.27	25,703,990.97	10,279,000.00	8,921,500.00	758,028,419.27	684,059,255.97
Loans			351,913.73	63,566.00	48,736,929.80	14,701,272.68	49,088,843.53	14,764,838.68
Total:	715,414,225.00	649,433,765.00	32,687,108.00	25,767,556.97	59,015,929.80	23,622,772.68	807,117,262.80	698,824,094.65

BASILICATA

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds								
Loans	150,257,167.99	66,857,310.05			35,932,587.39	15,766,300.09	186,189,755.38	82,623,610.14
Total:	150,257,167.99	66,857,310.05			35,932,587.39	15,766,300.09	186,189,755.38	82,623,610.14

CALABRIA

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds								
Loans	287,746,303.47	0.00	1,032,913.80	846,773.00	802,439,186.97	57,745,079.94	1,091,218,404.24	58,591,852.94
Total:	287,746,303.47	0.00	1,032,913.80	846,773.00	802,439,186.97	57,745,079.94	1,091,218,404.24	58,591,852.94

In cases where a value is shown for nominal capital but not for residual debt, the Authority has not yet communicated all the correct data needed to carry out debt calculations.

DEBT SITUATION AS OF JUNE 30, 2004 (AGGREGATE DATA BY REGION)

CAMPANIA

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds			56,438,103.55	39,519,078.00	19,399,780.75	4,812,834.22	75,837,884.30	44,331,912.22
Loans	2,499,844,918.84	2,174,269,793.18	3,973,898.67	2,858,444.30	357,768,270.25	198,538,071.08	2,861,587,087.76	2,375,666,308.56
Total:	2,499,844,918.84	2,174,269,793.18	60,412,002.22	42,377,522.30	377,168,051.00	203,350,905.30	2,937,424,972.06	2,419,998,220.78

EMILIA ROMAGNA

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds			83,515,688.45	65,477,118.03	495,026,279.04	379,256,968.38	578,541,967.49	444,734,086.41
Loans	1,842,531,880.40	1,297,613,997.00	122,804,536.62	86,650,759.84	928,974,423.18	489,527,240.28	2,894,310,840.20	1,873,791,997.12
Total:	1,842,531,880.40	1,297,613,997.00	206,320,225.07	152,127,877.87	1,424,000,702.22	868,784,208.66	3,472,852,807.69	2,318,526,083.53

FRIULI VENEZIA GIULIA

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds	547,862,000.00	476,431,122.68	20,398,000.00	19,782,433.33	15,045,000.00	14,143,366.66	583,305,000.00	510,356,922.67
Loans	678,700,586.10	539,945,727.77	27,186,683.20	14,642,157.62	144,276,105.01	69,785,344.44	850,163,374.31	624,373,229.83
Total:	1,226,562,586.10	1,016,376,850.45	47,584,683.20	34,424,590.95	159,321,105.01	83,928,711.10	1,433,468,374.31	1,134,730,152.50

LAZIO

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds	1,346,812,011.52	944,011,470.99			193,317,312.33	140,240,461.21	1,540,129,323.85	1,084,251,932.20
Loans	769,290,696.31	466,084,154.17	33,090,989.78	16,175,903.82	3,425,026,477.63	76,091,285.91	4,227,408,163.72	558,351,343.90
Total:	2,116,102,707.83	1,410,095,625.16	33,090,989.78	16,175,903.82	3,618,343,789.96	216,331,747.12	5,767,537,487.57	1,642,603,276.10

In cases where a value is shown for nominal capital but not for residual debt, the Authority has not yet communicated all the correct data needed to carry out debt calculations.

DEBT SITUATION AS OF JUNE 30, 2004 (AGGREGATE DATA BY REGION)

LIGURIA

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds	88,200,000.00	47,640,000.00	2,000,000.00	0.00	279,939,132.07	204,385,964.16	370,139,132.07	252,025,964.16
Loans	213,431,923.46	154,591,556.76	104,067,150.34	80,414,281.59	868,415,476.07	474,556,486.89	1,185,914,549.87	709,562,325.24
Total:	301,631,923.46	202,231,556.76	106,067,150.34	80,414,281.59	1,148,354,608.14	678,942,451.05	1,556,053,681.94	961,588,289.40

LOMBARDIA

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds	822,706,705.06	822,706,705.06	80,939,162.95	63,296,244.27	169,728,695.97	118,096,480.83	1,073,374,563.98	1,004,099,430.16
Loans	787,596,771.12	539,962,210.74	53,069,368.19	28,432,437.97	4,792,955,587.95	2,637,025,517.16	5,633,621,727.26	3,205,420,165.87
Total:	1,610,303,476.18	1,362,668,915.80	134,008,531.14	91,728,682.24	4,962,684,283.92	2,755,121,997.99	6,706,996,291.24	4,209,519,596.03

MARCHE

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds	1,478,819,791.76	1,329,135,202.15	56,738,776.93	48,755,886.27	32,772,025.89	26,847,766.39	1,568,330,594.58	1,404,738,854.81
Loans	902,867,447.33	757,242,595.14	117,198,545.20	101,027,886.27	252,601,973.08	178,704,744.95	1,272,667,965.61	1,036,975,226.36
Total:	2,381,687,239.09	2,086,377,797.29	173,937,322.13	149,783,772.54	285,373,998.97	205,552,511.34	2,840,998,560.19	2,441,714,081.17

MOLISE

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds					8,915,060.80	5,490,852.36	8,915,060.80	5,490,852.36
Loans	121,239,325.82	87,627,215.28			5,793,620.45	3,475,429.55	127,032,946.27	91,102,644.83
Total:	121,239,325.82	87,627,215.28			14,708,681.25	8,966,281.91	135,948,007.07	96,593,497.19

In cases where a value is shown for nominal capital but not for residual debt, the Authority has not yet communicated all the correct data needed to carry out debt calculations.

DEBT SITUATION AS OF JUNE 30, 2004 (AGGREGATE DATA BY REGION)

PIEMONTE

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds	444,455,515.56	6,109,685.11	36,461,632.89	26,704,145.86	953,627,682.49	759,303,176.99	1,434,544,830.94	792,117,007.96
Loans	1,150,349,229.99	734,072,364.68	118,351,998.75	69,290,271.50	1,187,388,690.75	883,161,149.21	2,456,089,919.49	1,686,523,785.39
Total:	1,594,804,745.55	740,182,049.79	154,813,631.64	95,994,417.36	2,141,016,373.24	1,642,464,326.20	3,890,634,750.43	2,478,640,793.35

PUGLIA

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds	600,000,000.00	600,000,000.00			267,568,442.77	14,013,991.46	867,568,442.77	614,013,991.46
Loans	1,667,605,499.64	1,354,766,715.51	173,756.76	8,265.00	94,842,506.37	35,385,517.58	1,762,621,762.77	1,390,160,498.09
Total:	2,267,605,499.64	1,954,766,715.51	173,756.76	8,265.00	362,410,949.14	49,399,509.04	2,630,190,205.54	2,004,174,489.55

SARDEGNA

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds	481,736,464.15	209,634,090.85	6,197,741.39	4,842,567.38	7,021,757.68	5,168,307.00	494,955,963.22	219,644,965.23
Loans	227,262,210.33	96,562,720.30	3,047,095.71	1,011,326.11	50,306,677.22	26,691,454.32	280,615,983.26	124,265,500.73
Total:	708,998,674.48	306,196,811.15	9,244,837.10	5,853,893.49	57,328,434.90	31,859,761.32	775,571,946.48	343,910,465.96

SICILIA

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds	2,041,000,000.00	1,639,500,000.00	34,983,000.00	2,481,500.00	38,233,416.30	31,109,476.69	2,114,216,416.30	1,673,090,976.69
Loans	1,452,048,241.15	810,077,865.89	184,465.49	41,018.60	293,747,197.92	148,108,725.63	1,745,979,904.56	958,227,610.12
Total:	3,493,048,241.15	2,449,577,865.89	35,167,465.49	2,522,518.60	331,980,614.22	179,218,202.32	3,860,196,320.86	2,631,318,586.81

In cases where a value is shown for nominal capital but not for residual debt, the Authority has not yet communicated all the correct data needed to carry out debt calculations.

DEBT SITUATION AS OF JUNE 30, 2004 (AGGREGATE DATA BY REGION)

TOSCANA

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds	721,620,000.00	649,921,984.00	14,047,000.00	11,193,941.69	260,279,195.63	128,596,301.46	995,946,195.63	789,712,227.15
Loans	579,470,190.40	365,040,409.95	144,006,886.66	97,792,669.22	777,692,080.29	455,422,548.94	1,501,169,157.35	918,255,628.11
Total:	1,301,090,190.40	1,014,962,393.95	158,053,886.66	108,986,610.91	1,037,971,275.92	584,018,850.40	2,497,115,352.98	1,707,967,855.26

TRENTINO ALTO ADIGE

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds			24,418,000.00	21,851,343.96			24,418,000.00	21,851,343.96
Loans			15,406,467.07	13,904,910.50	463,108,300.14	316,882,260.45	478,514,767.21	330,787,170.95
Total:			39,824,467.07	35,756,254.46	463,108,300.14	316,882,260.45	502,932,767.21	352,638,514.91

UMBRIA

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds	3,822,499,392.00	3,205,148,752.85	12,038,000.00	11,732,366.67	9,668,000.00	8,586,200.00	3,844,205,392.00	3,225,467,319.52
Loans	657,240,960.20	544,527,069.15	15,580,517.35	7,769,164.41	138,424,283.10	90,893,813.71	811,245,760.65	643,190,047.27
Total:	4,479,740,352.20	3,749,675,822.00	27,618,517.35	19,501,531.08	148,092,283.10	99,480,013.71	4,655,451,152.65	3,868,657,366.79

VALLE D'AOSTA

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds	413,170,000.00	0.00					413,170,000.00	0.00
Loans	139,247,974.12	114,167,692.74			2,723,649.50	1,358,463.31	141,971,623.62	115,526,156.05
Total:	552,417,974.12	114,167,692.74			2,723,649.50	1,358,463.31	555,141,623.62	115,526,156.05

In cases where a value is shown for nominal capital but not for residual debt, the Authority has not yet communicated all the correct data needed to carry out debt calculations.

DEBT SITUATION AS OF JUNE 30, 2004 (AGGREGATE DATA BY REGION)

VENETO

Aggregation by Region	Region		Provinces		Municipalities		Regional Total	
	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt	Nominal Capital	Residual Debt
Bonds			145,870,288.33	78,382,829.65	506,225,970.08	421,826,108.10	652,096,258.41	500,208,937.75
Loans	1,762,594,280.10	443,654,899.95	23,568,865.90	8,984,702.89	504,472,399.32	321,502,681.78	2,290,635,545.32	774,142,284.62
Total:	1,762,594,280.10	443,654,899.95	169,439,154.23	87,367,532.54	1,010,698,369.40	743,328,789.88	2,942,731,803.73	1,274,351,222.37

In cases where a value is shown for nominal capital but not for residual debt, the Authority has not yet communicated all the correct data needed to carry out debt calculations.

TABLE 3

REGIONAL DEBT PER INHABITANT

REGIONS	Inhabitants (ISTAT demographic data as of 12/31/2002)	Total residual debt as of 6/30/2004	Residual debt per inhabitant (*)
Abruzzo	1,273,284	698,824,255.97	548.84
Basilicata	596,821	82,623,610.14	138.44
Calabria	2,007,392	58,591,852.94	29.19
Campania	5,725,098	2,419,998,220.78	422.70
Emilia Romagna	4,030,220	2,318,526,083.53	575.29
Friuli Venezia Giulia	1,191,588	1,134,730,152.50	952.28
Lazio	5,145,805	1,642,603,276.10	319.21
Liguria	1,572,197	961,588,289.40	611.62
Lombardia	9,108,645	4,209,519,596.03	462.15
Marche	1,484,601	2,441,714,081.17	1,644.69
Molise	321,047	96,593,497.19	300.87
Piemonte	4,231,334	2,478,640,793.35	585.78
Puglia	4,023,957	2,004,174,489.55	498.06
Sardegna	1,637,639	343,910,465.96	210.00
Sicilia	4,972,124	2,631,318,586.81	529.21
Toscana	3,516,296	1,707,967,855.26	485.73
Trentino Alto Adige	950,495	352,638,514.91	371.01
Umbria	834,210	3,868,657,366.79	4,637.51
Valle D'Aosta	120,909	115,526,156.05	955.48
Veneto	4,577,408	1,274,351,222.37	278.40
TOTAL	57,321,070	30,842,498,366.80	538.07

(*) Data should be considered very indicative as they are still incomplete. The regions of Marche and Umbria have issues/loans debts, the burden of which is born entirely by the State as a result of seismic events.

TABLE 4



DEPARTMENT OF THE TREASURY - PUBLIC DEBT OFFICE IV

LOAN DEBT OF LOCAL AUTHORITIES TOWARD THE BANKING SYSTEM

AS OF 06/30/2004

LEVEL OF GOVERNMENT	NO. OF AUTHORITIES		NUMBER OF LOANS	NOMINAL CAPITAL	RESIDUAL CAPITAL
	TOTAL	IN DATABK.			
Region (*)	20	19	224	15,889,325,606.73	11,236,254,404.72
Province	103	56	832	781,199,795.09	542,752,826.69
Municipality (capital)	104	98	2,680	10,855,937,654.77	8,541,551,139.00
Municipality (non-capital)	7,995	1,429	7,019	4,197,024,128.22	2,093,636,153.64
TOTAL (**)	8,222	1,602	10,755	31,723,487,184.81	22,414,194,524.05

(*) The Trentino-Alto Adige region has no loan or issue debt. The Abruzzo region has all loans fallen due and has not yet communicated updated data.

(**) Up to today 2139 Authorities have communicated that they have only loans contracted with the Cassa DD.PP., therefore the total of authorities imported into the Databank is 3741.

TABLE 5



DEPARTMENT OF THE TREASURY - PUBLIC DEBT OFFICE IV

BOND ISSUE DEBT OF LOCAL AUTHORITIES TOWARD THE BANKING SYSTEM

AS OF 06/30/2004

LEVEL OF GOVERNMENT	NO. OF AUTHORITIES		NUMBER OF ISSUES	CURRENCY	NOMINAL CAPITAL	RESIDUAL DEBT	NOMINAL CAPITAL EURO	RESIDUAL DEBT EURO
	TOTAL	IN DATABK.						
Region	20	13	47	EURO	11,952,926,298.38	10,300,261,451.14	13,499,735,498.25	11,547,728,809.80
				USD	1,910,000,000.00	1,540,372,694.47		
Province	103	27	113	EURO	606,380,588.77	508,033,888.56	606,380,588.77	508,033,888.56
Municipality (non-capital)	7,995	95	236	EURO	446,529,536.16	347,822,657.63	446,529,536.16	347,822,657.63
Municipality (capital)	104	36	134	EURO	2,780,327,993.07	2,270,706,538.98	2,819,889,055.59	2,291,573,133.57
				USD	48,850,000.00	25,766,071.00		
TOTAL	8,222	171	530		-	-	17,372,534,678.77	14,695,158,489.56

NOTES:

1. The number of authorities in the databank refers only to those that have issued bonds.
2. The nominal capital and the residual debt of the issues in \$ are re-denominated in € at the rate of exchange on the day of surveillance of the monthly situation.

TABLE 6



DEPARTMENT OF THE TREASURY - PUBLIC DEBT OFFICE IV

SUMMARY OF RESIDUAL DEBT AS OF 06/30/2004

TYPE OF DEBT	Region	Province	Municipality (capital)	Municipality (non-cap.)	TOTAL
Loans with the banking system:	11,236,254,404.72	542,752,826.69	8,541,551,139.00	2,093,636,153.64	22,414,194,524.05
<i>loans with full reimbursmt at the expense of Public Entities not having underwritten the debt(*)</i>	<i>1,765,722,386.95</i>	<i>15,036,065.09</i>		<i>1,571,305.41</i>	<i>1,782,329,757.45</i>
Loans with the Cassa DD.PP. SPA (**)	2,262,000,000.00	2,988,000,000.00	6,099,000,000.00	12,536,000,000.00	23,885,000,000.00
Bonds	11,547,728,809.80	508,033,888.56	2,291,573,133.57	347,822,657.63	14,695,158,489.56
TOTAL	25,045,983,214.52	4,038,786,715.25	16,932,124,272.57	14,977,458,811.27	60,994,353,013.61

NOTES:

1. The files for surveillance of data were sent to all the regions, provinces, capital municipalities and non-capital municipalities. Further reminders were sent to 751 Municipalities with less than 20,000 inhabitants and more reminders are in the process of being sent.

(*) The data are those communicated by Authorities and imported to the databank, and the totals are included in the Loans with the banking system.

(**) The data communicated by the Cassa DD.PP. SPA represent the residual debt, updated in May 2004, of loans stipulated with local authorities. Mountain municipalities and other local authorities are included in the category "Municipality (non-capital)". *The residual debt relative to MEF loans managed by the Cassa DD.PP.SPA and not included in this prospectus is made up as follows: Regions €10.884.000.000; Provinces € 2.844.000.000; Capital Municipalities € 4.403.000.000 and Non-capital Municipalities €10.423.000.000 for a grand total of € 28.554.000.000.*