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August 15, 1994

To: Members of the Executive Board
From: The Secretary
Subject: Italy - Official Rate Increase

The Secretary has received the following memorandum dated August 12, 1994, from Mr. Martinez Oliva:

On behalf of Mr. Lanciotti, I would like to request that you inform the Executive Board of the following communication received yesterday from Mr. Antonio Fazio, Governor, Bank of Italy.

I wish to inform you that with effect from tomorrow, Friday, 12 August, the Bank of Italy has increased the official rates applied to discounts and ordinary advances by one half of one percentage point, from 7.00 to 7.50 percent. The penalty rate applied to fixed-term advances remains unchanged at 1 percent.

The increase is aimed at defending the lira and restoring expectations that are consistent with general economic conditions. Although the underlying trend in output and the balance of payments is positive, the exchange rate and long-term interest rates reflect increasing tensions. The rise in official rates is intended to counter speculative activity and enable the economic recovery to proceed without reigniting inflation.

Other Distribution:
Department Heads

