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ROOM C-130

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March 18, 1987

To: Members of the Executive Board
From: The Secretary
Subject: Italy - Recent Monetary Measures

The Secretary has received the following memorandum dated March 16, 1987 from Mr. Zecchini:

Please inform the Executive Board about the following measures which have been taken by my authorities:

- as of March 14, the official discount rate as well as the rate on advances have been lowered from 12 percent to 11.5 percent;

- a 25 percent reserve requirement is being established on increases of holdings of foreign exchange borrowed by banks, net of funds reinvested abroad or placed with other Italian banks.

The official discount and advances rates have been lowered following the improvement in international monetary conditions and the recent reductions of official rates by other industrialized countries.

The reserve requirement is being established in order to curb the excessive expansion in short-term bank borrowing abroad, following the massive short-term capital inflows induced by the growing confidence in the Italian lira and by the favorable interest rate differentials. The 25 percent coefficient will be flexibly managed and even reduced to zero depending on changes in external and domestic monetary conditions. The new reserve requirement replaces the previous administrative technique of imposing quantitative limits to short-term foreign borrowing by banks. It is, therefore, a new step in the direction of managing the Italian economy in a way that is consistent with an increased liberalization of capital movements.

Other Distribution:
Department Heads

