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ROOM C-120

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March 27, 1986

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

The Secretary has received the following memorandum dated March 26, 1986 from Mr. Zecchini:

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

- As of March 22 the base rates for rediscounts and advances by the Bank of Italy have been lowered from 15 percent to 14 percent. The discount rate applicable to special lending to the agricultural sector has also been reduced as of the same date by one half of a percentage point, from 8 percent to 7.5 percent.
- The trend value of the inflation rate, as measured by the changes in the cost of living index for the last 12 months, declined to around 7.5 percent, after having been equal to 8.6 percent at the end of last year. Following the forecasts made by economic research institutes inside and outside Italy, the trend in inflation rate, measured by the rises in the consumer price index, is expected to decrease considerably in the course of the year, dropping to 5 percent by the end of the year. The reduction will be more marked for the wholesale price index, as production costs are not expected to exert upward pressures on these prices.
- International developments favorable to the Italian economy concur with the above positive domestic developments, giving rise to the expectation that the current account of the balance of payments will show a surplus in 1986. The favorable prospects on the price and balance of payments fronts, together with the recent improvements in Italy's foreign exchange position, have now allowed my authorities to join the major industrial countries which reduced their official discount rates or the interest rates on central bank advances earlier this month.

Other Distribution:
Department Heads