

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## CONSULTATION WITH ITALY

### (DEPOSIT REQUIREMENT FOR PURCHASES OF FOREIGN CURRENCY)

#### Statement submitted by Italy

As stated in document L/5162, dated 29 June 1981, the Government of Italy has decided on 27 May 1981 to introduce for a brief period a deposit requirement of 30 per cent in respect of purchases of foreign currency in Italy.

The measure was the subject of communications by the delegations of Italy, the EEC Commission and the International Monetary Fund during the meetings of the GATT Council in June and July 1981, in which the reasons, the purposes and the limits of the measure were explained.

The Delegation of Italy has now the honour to submit to the CONTRACTING PARTIES some additional considerations and data which may help clarify further the reasons for the decision of the Government of Italy.

In the first five months of this year the balance of payments recorded, according to provisional statistical data, an overall deficit of Lit. 4,903.8 billion, due to a trade account deficit of Lit. 9,367.8 billion, partly offset by other current account entries and net capital account transfers (Lit. 1,755.2 and 2,808.8 billion respectively). In the following months, also according to provisional estimates, the balance of payments showed an overall surplus of Lit. 2,314.2 billion in June, Lit. 1,978.1 billion in July and Lit. 642,7 in the first fifteen days of August.

From the 1st of January 1981 up to the 15th of August, the balance of payments has registered an overall deficit of Lit. 89 billion on the basis of monetary movements and a current account deficit of approximately Lit. 6,000 billion.

The following paragraphs summarize some of the considerations which led to the introduction of the payment deposit scheme for four months and which now justify its gradual abolition.

In 1980 the balance of payments registered a current account deficit of US\$ 10 billion, the equivalent of about four per cent of G.D.P. The trends in the trade account and in the index of industrial production seemed to indicate that the situation was improving and that Italy's cyclical trend was close to that of other industrialized countries. However, the index of industrial production which had increased

by 5,5 per cent from the third to the fourth quarter of 1980, showed a much more modest increase (0,6 per cent) in the first three months of 1981. At the same time the unforeseen rise in the exchange rate of the US dollar and its adverse impact on the terms of trade compelled the Italian authorities to adopt a set of legislative measures on 31 January and on 22 March, the so-called Phase I of the stabilization efforts.

With these measures the Italian authorities created strong monetary and credit restraints (by reducing the permissible rate of expansion of bank credit subject to ceilings; by increasing all reserve requirements on bank deposits; by raising the discount rate and finally by devaluing the central rate of the lira within the E.M.S. by six per cent.)

Due to the fact that it took some time for these measures to produce results, the Central Bank (Bank of Italy) had to intervene massively in the exchange market in May 1981, with important losses of reserves. This situation was exacerbated by political uncertainties connected with a change of government, so that the monetary authorities were compelled to introduce as a temporary shock measure the deposit scheme in question. It has to be underlined that among the most important objectives of this measure was the renewal of an anti-inflationary policy based on the 1981-1983 three-year plan. The introduction of the import deposit requirement was in effect aimed mainly at providing a temporary reinforcement of monetary restraint efforts by reducing the money supply so as to be able to have recourse as soon as possible not only to monetary measures but also to other policy instruments.

It has already been determined that the deposit requirement does not give rise to a multiple currency practice and protectionism; it raises the costs of imports only by about 1.8 per cent, a percentage that is so small that it cannot have a substantial impact on import flows.

It is important to note in this connexion that the deposit scheme indirectly raises the cost of exports due to the fact that the Italian industry is essentially engaged in processing imported materials and intermediate products. It should also be pointed out that the scheme is absolutely non-discriminatory, being applied to all countries and to most transactions requiring payments abroad.

From the month of July on, the Central Bank (Bank of Italy) has stopped acting as the residual buyer of Treasury bills not taken up by the private or banking sector at a minimum price at the auctions, thereby improving the possibilities of the Central Bank to control the expansion of the monetary base. In August, the local administration authorities were requested to deposit with the Treasury most of their liquid assets, which had formerly been held by the banking system.

The work now under way to prepare the 1982 budget is based on the aim of limiting as much as possible increases in public expenditures. This will be done in accordance with a programme of expenditures for

three years instead of one year, which will permit a better overall control of budget expenditures, especially of those which tend to increase almost automatically. At the same time an effort is being made, at the highest political level, to reverse the trend of increasing labour costs.

There are indications that Italy's economic situation is now changing. The differences in some economic trends between Italy and other industrialized countries are narrowing and the recent decline in internal demand has provoked a reduction of imports, has stimulated exports and has contributed to an easing of inflationary pressures. The balance of payments has recorded a net improvement in the current account due to the postponement of payments in connexion with the introduction of the deposit scheme and the usual seasonal factors, and in the capital account due to an increase of loans from abroad.

From the point of view both of economic policy and cyclical trends it now seems that some of the factors that played a role last May in the introduction of the import deposit requirement are now less compelling, and the Italian authorities recognize that such a deposit is not as important and urgent as before. Nevertheless, its dismantling has to be done gradually for the following reasons:

- The above-mentioned measures of economic policy have not yet produced their full effects;
- a sudden and simple dismantling of the deposit would lead to a concentration of payments in foreign exchange at a time of the year which is economically particularly active;
- liquidity would be returned to the financial system in a period in which the liquid assets generated by the Treasury are still particularly large;
- only a phased dismantling of the deposit scheme would avoid creating again excess liquidity and speculative transactions similar to those which prompted the introduction of the scheme. At the present stage of the Italian business cycle an injection of additional liquidity would undoubtedly have a serious multiplier effect.

The trading partners of Italy should not be adversely affected by a partial extension of the deposit scheme, in view of the fact that all available data show that imports have not been reduced in a tangible way by the original measure. The deposit scheme's main effect has been to influence the structure of payments and to reduce liquidity, which confirms the monetary nature of this policy instrument.

The Italian Government has restricted the field in which the measure is applied, accepting last July the recommendation of the EEC authorities to exempt from the deposit requirement all payments for iron and steel products.

The Italian authorities now envisage a reduction of the deposit from 30 per cent to 25 per cent on 1 October 1981, to 20 per cent on 1 January 1982 and to 15 per cent on 1 March 1982. The deposit scheme would be eliminated completely by the end of March 1982.