The Italian Financial System Remodelled

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'Italy will be able to overcome this crisis . . . only if the fundamental rules governing its mixed economy are subjected to fresh, systematic scrutiny . . . if wisdom is exercised in both the economic and legal fields.'

—**Paolo Baffi**, The Governor's Concluding Remarks
to the Annual Meeting of the Bank of Italy,
Banca d'Italia, 31 May 1979

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Preface

The events and prospects associated with the banking and financial sector in Italy can be summed up in just a few propositions.

Towards the end of the twentieth century the financial system built by Alberto Beneduce and Donato Menichella – for almost half a century the undisputed heritage of the Great Depression and its repercussions on Italy's economy – was replaced by a profoundly different one. Apart from the underdevelopment of pension funds – a serious shortcoming – the new system is similar in structure to those prevailing on the international scene (Chapter 1).

Legislation, taxation, supervision, the promotion of competition – economic and institutional policy – fostered that change. They now constitute a fitting framework for the financial sector, certainly one that does not differ from those of the other advanced market economies (Chapters 2–6).

Both the scope of operations and the performance of the financial industry have improved. Banks have progressed in volume of business, productivity and service prices. There has also been progress in the structure, breadth and efficiency of the markets. The principal weakness is per capita labour costs, which are too high. Banking groups of world size and standard struggle to make headway. There is room for improvement in the quality and availability of certain services. External, 'environmental' costs continue to weigh on Italian banks, putting them at a disadvantage in the international arena (Chapter 7).

The stagnation of the economy in the 1990s – one of the most disappointing decades for income growth since 1861 – cannot be blamed on the banking and financial sector, which was overcoming its inadequacies. Its causes lie elsewhere, in the 'real' economy, and are buried much deeper. Rather, the economic stagnation had adverse consequences for financial development (Chapter 8).

The banking and financial sector contributes, and could contribute more, to overcoming the contradiction that has characterized the Italian economy in recent years: although it is now better governed it is not growing as it could. The value of that contribution will depend on further economic and institutional policy measures. Even more, perhaps, it will depend on market operators: above all on bankers and financiers, but also on the ability of households and businesses to fully exploit – as they have failed to do so far – the potential of the instruments offered now and in the future by the financial system, in competition with international finance (Chapters 9–10).

These propositions, or theses, are developed on the separate and joint levels of law and economics in the pages that follow. They are illustrated by drawing on institutional elements, data and calculations based on sources found in the Bank of Italy's publications, culled painstakingly by many colleagues at the Bank, to whom the author, who has been a manager at the Bank since 1979, gives more than merely formal thanks.[1] The opinions contained in the book, however, are those of the author alone. They do not necessarily reflect the official position of the Bank.

This book follows on from two others written some years earlier.[2] At the start of the transformation that has now been completed, *Interesse e Profitto* (Interest and Profit) retraced its historical roots, emphasized its necessity, and examined the course it would probably take. Half way through the process, *Banca, Finanza, Mercato* (Banking, Finance, the Market) took stock of what had been achieved, denounced the delays, and called for improvements with a view to the introduction of the single European currency.

The English version of this book is the translation of the Italian text of 2000 exactly as it was published. Readers should note that 'today' – and the latest statistics and institutional arrangements – refer to 1999–2000. In the last four years the structure of the Italian financial system has not changed significantly. The radical transformation accomplished between 1980 and 2000 described here created a new and stable order; the adaptations being made – with regard to taxation, for example – and those that are foreseeable amount to a gradual evolution at the margin, with one exception: supervision. In 2004 a discussion began on Italy's supervisory authorities that has also involved the country's political forces and Parliament. The debate is far from over and it is difficult to predict when or how it will end.

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