

BANCA D'ITALIA

Reopening of the renovated Lecce Branch Office

Address by the Governor, Antonio Fazio

Lecce, 25 September 2004

1. I am glad to be back in Lecce, where in 2000 I was awarded an honorary degree in information science by your university in a ceremony that I remember with pleasure.

I wish to thank the civil, military and religious authorities who are here with us. Their presence is the best testimony to the cooperation between the country's institutions and the Bank at local as well as national level.

A branch of Banca Nazionale nel Regno, the Bank of Italy's progenitor, began to serve Lecce in 1864. For a time the branch used premises made available by the Deputation of the Province of Terra d'Otranto. Subsequently it moved to other offices.

In 1903, ten years after the birth of the Bank of Italy, work began on the construction of this building in the centre of the city. The edifice is eclectically inspired by the Renaissance style, in harmony with the urban setting.

At the time the branch was headed by Niccolò Introna, one of the men who embody an important part of the history of the Bank of Italy. Introna was appointed Deputy Director General in 1928, serving in that capacity under Governor Bonaldo Stringher and Governor Vincenzo Azzolini, and was then named Director General when Luigi Einaudi became Governor. In exceedingly difficult times, Introna, collaborating with the governors, was a staunch defender of the Bank's autonomy.

Once it was established in this building early in the last century, the branch had more suitable premises in which to carry on its activities, aimed especially at serving the needs of the local economy. Up to 1913, and again from 1934 to 1942, the Brindisi sub-branch was combined with the Lecce branch.

The tasks of the branch have increased in recent years, in part with the need to follow the rationalization and reorganization of the banking system.

The branch is staffed by forty employees. It is set in an economic environment that has been evolving over the last decades, with a slow but steady transformation of local productive activities. Recently, the development of economic initiatives, the expansion of services and the attention paid to

foreign markets, especially outlets in Central and Eastern Europe, reflect local economic actors' spirit of enterprise in facing the difficulties of the business cycle.

However, the structural problems that spell economic weakness for many parts of the South of Italy are still present.

2. The archeological discoveries that were made during the construction of this building and the more recent finds during the 1998 excavations have helped to bring the branch even closer to the city and its history, rich in culture, art and civilization.

The origins of Lecce date back across the millennia. They are attributed to the ancient Messapii, who settled in nearby Rudiae; known also as Iapyges, the Messapii were thought to have come from Illyria or were traced back to mythical descendants of the Greek world.

The historic Porta Rudiae, rebuilt at the beginning of the eighteenth century, recalls the figures of the heroes who founded Lecce – Malennius, Daunus and Idomeneus – and opened the way to the Messapian settlements.

In ancient times three languages were spoken in these parts: Oscan, Greek and Latin. The poet Ennius stated with pride that he spoke all three. After becoming a Roman citizen, in his old age he wrote in the *Annales*: "*Nos sumus Romani qui fuimus ante Rudini. Sicut fortis equus, ... qui ... vicit Olimpia, nunc senio confectus quiescit*".

Lecce, called Lupiae by the Romans, Lycium by the Normans, is a city with ancient Eastern traits. The construction of the port of San Cataldo, under Hadrian, led to intense exchanges with the Balkans and Byzantium, bringing rites, languages, monastic orders and cultural influences. The past lives on in the industry, sensibility and sagacity of the city's inhabitants and in local customs.

The archeological discoveries dating back to the earliest eras, the churches and convents, the decorations and monuments, still affirm the values of a city that is a centre of spiritual and cultural life.

The renovation work at the Lecce branch is part of the Bank's traditional commitment to conserving its historical buildings. I myself promoted an initial restoration feasibility study when as Deputy Director General I chaired the Bank's Committee for Buildings.

The edifice, restored to its original beauty, has been enriched by technological systems and excellent architectural solutions. The work was carried out with skill and diligence by the Castelli company, working on plans prepared by Lucio Passarelli and under the direction of Paolo Sticchi. The premises have been made more functional, accessible and secure for dealings with the public, among other uses. The structure has been fitted back into the urban context.

With the collaboration of the competent local authorities, the monumental part of the building has been safeguarded; the tempera paintings on the ceilings and the decorations have been preserved.

It gives us satisfaction to have contributed to the exceptional discoveries that further enhance the city's cultural assets. In 2000, together with the Office of the Superintendent for the Archeological Heritage of Apulia and the University of Lecce, the Bank took part in organizing the show at the Provincial Museum on the archeological discoveries and the history of the urban area.

3. In the European System of Central Banks, the Bank of Italy contributes to formulating euro-area monetary policy, which it implements autonomously at national level. In parallel with the other central banks of the Eurosystem, it performs the function of issuing euro banknotes. It carries out oversight of the payment system.

Italy's legal order, based on the Constitution, assigns the Bank responsibility for supervising the banking and financial system.

The Bank works together with the other European institutions, the main multilateral organizations and other central banks, in the context of the growing international cooperation under way at international level.

In recent years the branches have been strengthened in connection with the more numerous and complex tasks assigned to the Bank of Italy. They constitute an essential part of the Bank's functional and organizational structure.

The geographical diversity of economic and financial conditions in Italy has led to the assignment of an increasingly broad range of tasks to local economic analysis, not least in order to respond to the expectations of local authorities, of firms, of research institutes.

The branches traditionally have duties in the field of monetary circulation, as terminals for the issue and withdrawal of banknotes, and in the payment system. Today, more than before, they are deeply involved in carrying out the various forms of banking and financial supervision.

The evolution of the branches' tasks of monitoring the banking and financial system, their analysis, observation and data collection leading to the publication of the Provincial Notes and Regional Reports, and the modernization of their operational functions assume greater importance in connection with the process of institutional and territorial decentralization under way in Italy. This process must unfold in a context of cohesion and solidarity. It can appropriately increase the responsibilities of local authorities in revenue and spending policies, but it must not give rise to duplications or increase administrative costs.

The full benefits of decentralization can be reaped and subsidiarity implemented only if these processes do not involve the improper fracturing of some fundamental functions of the State or the segmentation of the national market, nor must they cause diminished competition. In the design of decentralization, a formulation, like the one now being considered, founded upon a general "supremacy clause" is essential.

Greater regional autonomy can then be an opportunity to increase the efficiency of the public administration, to respond better to the needs of the population, to strengthening national unity.

4. Like other regions of Italy, especially in the South, Apulia has been a land of emigration. Its history is one of strenuous and tenacious effort by the people to improve their living conditions. Apulia has the capacity to make the most of its resources.

This region has been birthplace to illustrious statesmen and public servants. I should like to recall, in particular, Donato Menichella, Governor of the Bank of Italy from 1948 to 1960, who was a leading figure in Italy's economic history, with a decisive engagement in the "Southern question".

Following the reconstruction of the immediate postwar period, as Governor of the central bank Menichella acted effectively to guarantee Italy's monetary and financial stability, to guide the economy in a period of sustained, rapid development and to bring it into the international arena. He played a crucial role in the creation of the Southern Italy Development Fund, which was conceived with the intention of laying the institutional and structural foundations for economic growth.

Governor Menichella conducted banking supervisory policy with a view to the general interest, never bending to improper pressures or heeding self-interested criticism.

The problems posed by the recent unfavourable trend in growth have weighed on the economy of Lecce, which is now seeking to overcome the slowdown, especially in farming and traditional manufacturing activities.

The export prevalence of such industries as leather goods, the presence of a number of medium and high-tech firms, the constant expansion of commercial networks and the increasing popularity of the Salento area among tourists testify to the diversified nature of the local economy.

The University of Lecce's institution of degree courses in information science engineering a few years ago was a farsighted decision; it can enhance the area's power of attraction for high-technology enterprises.

Advanced training is a form of individual and collective investment that can foster the take-off of innovative industries and contribute to the development of traditional ones.

In increasingly open economies, the ability to compete depends significantly on advanced academic and vocational training and scientific research. Technological innovation can meet the competitive challenge from less developed countries with lower labour costs; information and telecommunications technology make it possible to operate in the global economy, even with modest investment in capital equipment.

The environmental and cultural heritage is an invaluable endowment that can help the province to recoup lost ground. In 2000 per capita value added here was less than 60 per cent of the national average. In 2003 the provincial unemployment rate fell below 18 per cent but remains the highest of all the provinces in Apulia.

In the early 1990s the credit system was dominated by local banks. In the second half of the decade it was restructured and rationalized by a series of mergers and acquisitions in the framework of the broader reorganization of banking at national level.

5. The economic gap between the South and the rest of Italy has not been closed. This historic dualism means that the problems of the South are still critical to the country as a whole.

During the long period of rapid economic growth in the 1950s and 1960s the gap was significantly narrowed; the disparity gradually worsened again in the 1980s.

On other occasions I have recalled that some disparities were heightened in the first half of the 1990s, following the termination of special development assistance in 1992, which led during a cyclical downturn to a fall in investment. The aggravation of economic problems, culminating in the recession of 1993, intensified the crisis in the South and caused the failure of many firms, with severe repercussions on local banking.

In the second half of the decade there was a recovery. Regional development policy and the instruments of public intervention were redesigned in the framework of subsidiarity between the various levels of government in Italy and Europe. Action to sustain credit structures in the South successfully preserved their function and maintained the flow of credit to firms and households, which is now definitely increasing.

Italy's industrial capacity is located overwhelmingly in the Centre and North. In the South, productivity suffers from the fragmentation of the productive fabric. Because of lower productivity, those industrial and service firms in the region that comply with tax and labour legislation have a differential in unit labour costs with the rest of the country that is not sufficient to compensate for the gap in competitiveness.

The business and social environment and the distance from the main European markets affect the South's competitiveness relative to that of the Centre and North.

The southern economy suffers from a lack of infrastructure. In transport, water supply and public works the region's endowment is far inferior to that of the rest of the country. In addition, we

find forms of social decay and crime that are at once cause and effect of backwardness. Bureaucratic constraints on the authorization of business start-ups remain excessive.

The programme of public works must be accelerated and action for law enforcement and security must be continued. The creation of infrastructure and increased investment in research and innovation may not be sufficient to ensure growth, but they are necessary conditions for it. Attention has to be focused again on measures to bring underground economic activity into the open.

It is essential that local authorities throughout the South proceed, with clear signals at least in some spheres, to increase efficiency and transparency, which are indispensable factors in fostering development.

Sound administration, law enforcement and infrastructure are required to sustain confidence.

Public action must concentrate even more than it has on protecting the environment and territory and turning it to account, especially in tourist areas, and on providing services to firms and sustaining their internationalization. With the prospect of significantly increased flows from Asia, tourism can be a strategic sector for the southern economy.

In recent testimony before Parliament I recalled the importance of ensuring that the rationalization of public incentives does not cut off the flow of investment resources to the South.

Now, after decades and decades of work on the southern question, there is a perceived need for a new vision of the region's problems that can mobilize the forces of culture, enterprise, technology and government in a new southern policy with specific, near-term and verifiable objectives. This is all the more important in view of globalization and the framework of international relations, now threatened by the effects, which are also economic, of global terrorism. Terrorism must be combated with resolute countermeasures but also with broad initiatives for peace and the easing of tensions.

6. In the framework of the overall reorganization of the credit system in the last ten years the restructuring of banking in the South has been especially radical. Between 1996 and 2001 there were 138 mergers or acquisitions. This involved the entry into the South of banks from other parts of the country, endowed with the capital resources and managerial skills needed for the relaunching of credit

institutions. Public support, in limited amounts, was made conditional upon drastic reductions of expenditure on personnel, to bring it down to levels comparable with the rest of the system.

The concentrations were accompanied by an increase in branching in line with nationwide trends.

Since the mid-1990s the southern banking system has steadily improved asset quality and increased return on equity. The range of products offered to customers has widened. The share of southern savings allocated to financing economic activity in the South has increased.

In 2003 bank lending continued to grow faster in the South than in the Centre and North. The differential in lending rates was marginal. Interest rates on deposits came into line with the rest of Italy.

There is no need for new intermediaries or new categories of credit institution. It is the present state and prospective development of the economy that determines the establishment of financial institutions, not the other way around. More efficient credit institutions, with better ability to assess creditworthiness and support business projects, combined with closer cooperation between banks, firms and the competent institutions, can improve the assistance provided to borrowers, help foster economic recovery and impart renewed impulse to the expansion of output and employment.

Nationwide, since the mid-1990s the banking industry has scored impressive gains in efficiency. In the last three years the system has successfully weathered the slowdown in economic growth and the failure of major industrial corporations.

Further progress is still needed in terms of efficiency, customer relations and the protection of savers.

In the present delicate economic situation containing the cost of services to customers can contribute to curbing inflation.

On other occasions I have noted that banks are now better able than in the past to offer significant support to the initiatives of the small and medium-sized enterprises that are so abundant in Italy; banks can capitalize on their wealth of knowledge to foster the modernization and expansion of those firms, including by means of mergers and acquisitions.

Given its demographic vitality, its cultural and environmental resources and the presence of a number of highly advanced initiatives, the South constitutes a reservoir of potential growth.

The region thus represents a great opportunity for growth for all of Italy.

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Our branch here in Lecce has always displayed the dedication and professionalism that mark the Bank of Italy's action everywhere. I am confident that in the future it will continue to bear witness to the Bank's mode of national service.

In closing, let me renew my thanks to all the authorities, the project designers, and the company, technicians and workers who actually carried out the project.

My special esteem and consideration go to Monsignor Ruppi, who I know has always been close to the Bank of Italy and followed its affairs.

To the directors, the branch manager and the entire staff of the Lecce branch go my sincere appreciation and my best wishes for fruitful and productive work.