

Thirtieth Anniversary Celebration for
Employees of the Bank of Italy and the Italian Foreign Exchange Office
Pontificia Università San Tommaso d'Aquino

**Welcoming address by Antonio Fazio
Governor of the Bank of Italy**

Rome, 25 November 2004

We are honoured to have with us today the President of the Constitutional Court.

The Bank of Italy, its Directorate, its Board of Directors and Board of Auditors, its managers and the employees celebrating thirty years of service join with the Italian Foreign Exchange Office in thanking you for your presence at this event.

Today's ceremony is the occasion on which those who have devoted many years of work to the Bank of Italy and the Italian Foreign Exchange Office can renew their commitment to performing their institutional tasks with increasing efficiency and dedication to the interests of the country.

1. The 150th anniversary of the birth of Bonaldo Stringher, who led the Bank of Italy from 1900 to 1930, is in just a few days, on 18 December.

Stringher created a tradition within the Bank whereby its technical expertise, moral integrity and the public import of its tasks become an instrument for the common good. He confronted resolutely the problems associated with the various political and economic situations that arose in the course of his thirty-year mandate; he created an institution that was also influential in its relations with the market.

Recognition of Stringher's achievements in the field of foreign exchange policy came in 1917 with his appointment as President of the newly-created National Foreign Exchange Institute.

During his time at the head of the Bank of Italy, in the 1920s, its role evolved in a new direction with the recognition of powers of banking supervision and the exclusive right to issue banknotes.

With the 1936 Banking Law the Bank of Italy became a public-law institution. The need for a reorganization of the banking system, which had been caught up in the

Great Depression, and for efficient tools with which to conduct supervision led to some important innovations, designed to foster a more solid system and effective protection of the savings entrusted to banks.

Vincenzo Azzolini, who succeeded Stringher as Governor of the Bank in 1930, reaffirmed the view that “within the State and with respect to the State ... independence is ... essential if the central bank is to perform its mandate to the full”.

The strengthening of the Bank’s capacity for research and analysis, on which a start had already been made before the Second World War, was also a crucial means of safeguarding the central bank’s autonomy and increasing its reputation within Italy and in international fora.

2. In the post-war period the central bank worked alongside the country to tackle the profound changes under way, helping to lay the foundations for economic development based on non-inflationary growth.

In 1945 the National Foreign Exchange Institute was abolished; the task of foreign exchange management was entrusted to the Italian Foreign Exchange Office. The provisions of 1947 definitively attributed responsibility for monetary policy and banking supervision to the Bank of Italy.

Article 47 of the Italian Constitution affirms the principle that savings should be protected; this is further underlined by Article 117. The principle underpins the mandate performed by the Bank through its supervision of banking and finance.

The stabilization of the lira, which was advocated by Luigi Einaudi and carried out by Donato Menichella, allowed the country to enter a long period of growth.

In the 1960s, the drive and planning skills of Guido Carli, together with his understanding of international affairs, contributed to economic and social development. Italy became one of the main industrialized countries.

For more than twenty years, from 1948 to 1971, the lira was pegged at an exchange rate of 625 to the dollar. Inflation remained extremely low, both in absolute terms and in comparison with the other industrial countries.

After the collapse of the Bretton Woods system and the subsequent oil crisis, a period of monetary and financial instability began. In Italy, as the problems became more serious with the explosion of wages, the widening of the external deficit and the rise in the public debt, it became necessary to take firm action to tighten credit and curb the public finances under a plan agreed with the International Monetary Fund.

Carli stimulated economic research at the Bank using the most advanced methods. Starting in the early 1960s he encouraged large-scale use of computers and the widespread use of information technology throughout the banking system. He worked for the introduction of modern inspection practices and banking supervisory methods upon which our action is still founded.

Monetary policy innovations and strengthened supervision were possible thanks to Carli's attention to the training of staff and new recruits.

The accomplishments of the Bank under the leadership of Paolo Baffi after the gravest moments of the crisis of 1976 – slower inflation, the return to balance-of-payments equilibrium and the reconstitution of the foreign exchange reserves – were decisive in maintaining Italy's international financial standing.

With the start of the 1980s the central bank's efforts to enhance the effectiveness of monetary control achieved new successes. The end of the Bank's commitment to take

up any government securities not sold in Treasury auctions was a major advance in strengthening the independence of the central bank.

Money is a public good. It needs to be regulated in the public interest. The Governor's Concluding Remarks in 1981 underscored the necessity that the power to create money be exercised in total independence from the institutions where public expenditure is decided. This is the practical form taken by what Professor Onida called in 1988 the "difficult balance between political involvement and neutrality".

The credibility of the central bank in respecting this balance is the prerequisite for consistent action in pursuit of the monetary and financial conditions that orderly economic life requires. In the words of my illustrious predecessor, "The condition for credibility is that the central bank be independent of financial and non-financial agents and of the Government".

In the first half of the 1990s the Bank of Italy attained complete formal independence as well, acquiring the exclusive power to set the official discount rate and to control the expansion of the money supply.

In the second half of the decade a process that would lead to the profound restructuring of the credit system was initiated. The central bank made defeating inflation its priority objective and it was fully achieved.

3. Work at the Bank of Italy has changed enormously since you joined it thirty years ago.

The developments in the external environment and the impulses of technological progress have been accompanied by extensive organizational changes in parallel with the evolution of the Bank's functions. Staff rules and regulations, management methods, job descriptions and training programmes have all evolved.

A number of areas of activity were computerized, from the payment system to the treasury and accounting services performed for the State. With participation in the Eurosystem, the Bank's organization and operations were further modified and reinforced.

In 1998 the legislation governing the Italian Foreign Exchange Office was amended, transforming it into an instrumental entity of the Bank of Italy. The law assigned the Office operational tasks in the management of the foreign reserves and the production of balance-of-payments statistics. The Office was given direct responsibility in the sphere of combating money laundering and usury.

The tasks and functions of the Bank's branches have grown.

The production of economic analyses and statistics and the whole set of informational activities on the economy at local level are evolving in parallel with the process of institutional and territorial decentralization.

It is necessary, in the decentralization that is emerging at the legislative level, to maintain cohesion between the various areas of the country, in observance of national unity and to ensure consistency between general political representation and local, territorial representation. Decentralization may appropriately broaden local powers and responsibilities for revenue and expenditure, but it must not give rise to duplications or to an increase in administrative costs. It must entail the transfer of staff and structures from central to local government.

Subsidiarity postulates that there be no improper fracture between the fundamental functions of the State and no segmentation of the national market. The central responsibility for functions of national relevance must be confirmed. There must be no reduction in competition. A harmonious equilibrium must be achieved in the functioning of the various representative institutions. A broadly applicable "supremacy clause" along the lines of the one that has been proposed is indispensable.

In such conditions the new institutional arrangements can be an opportunity to increase the efficiency of the public administration, to respond better to the needs of citizens and to strengthen national unity.

4. The functioning of the European System of Central Banks is based on the joint efforts of the European Central Bank and the individual national central banks, and on the latter's credibility deriving from their long history and their solid roots in civil and political society.

The Bank of Italy participates in making Eurosystem policy and implementing it at national level. In the production of banknotes we are cooperating to improve their quality and security. Together with the Deutsche Bundesbank and Banque de France, we are creating the platform of the new gross settlement system, Target 2, which will be based on the most advanced components of national procedures and launched in 2007.

In Italy, as in other countries, supervision is rooted in the national legal system. The Bank's powers enable it to monitor closely the evolving situation of the entities subject to its control.

The measures aimed at directly or indirectly ensuring the sound and prudent management of the entities subject to supervision fall within the scope of the unitary responsibility for the credit function, which the Constitutional Court has upheld on more than one occasion.

The exercise of supervisory powers consists in technical and prudential verification of the activity of intermediaries and the transparency of transactions. Stability, efficiency and competition, both at individual bank level and in the banking system as a whole, ensure that savings are protected and used to the benefit of the economy.

The safety of the funds that firms raise directly on the financial market depends on the efficiency of that market and the stability of non-financial firms.

It is in this part of the system that rules, transparency and powers of control need to be strengthened.

Developing a climate of confidence between banks, firms and investors is essential in order to ensure the necessary support for economic activity and investment, and to assist the most valid and innovative projects. In an environment open to competition in the domestic and international markets, the ethic of work and responsibility, the constant assurance of professionalism, are the foundations of banking business.

The importance of the Bank of Italy's supervisory role has increased with the development of financial globalization. The professional ability, autonomy and independence with which the Bank performs the tasks of supervision and control are attested to by its past and present activity; they have been acknowledged in the most authoritative international fora.

5. On 29 October we witnessed a historic event when the European Constitutional Treaty was signed here in Rome, thus carrying forward the design of the founding fathers who launched the process of European unification in the aftermath of the Second World War.

Subsidiarity is among the fundamental principles on which Europe is based, giving new vitality to our love for our land, for our nation.

The philosophy of ancient Greece, the characteristics of the *polis*, Roman law and, above all, the Christian roots and the values based on the dignity of the person effectively provide the foundation of the European Constitution. Whether or not they

are formally enunciated, they are ineradicable; they must nourish constitutional developments in the future.

The path that remains to be traveled is not easy. It requires a balance between the Community approach on the one hand and intergovernmental and interinstitutional relations on the other; it requires imparting impetus to the ideals with concrete policies, thus answering the expectations of the citizenry; it calls for a difficult coming to grips with economic and social problems.

6. Labour, saving, entrepreneurial ability, skills in the field of scientific research are the resources which our country possesses in abundance. Consistent action by institutions, the social partners and firms is essential to give impetus to a recovery that is still struggling to gather pace.

Agreement on a course of action to make good the shortcomings of our economic system, exploit productive capacity and reduce the geographical disparities is necessary so as to restore the confidence of households and firms, and foster faster growth.

Progress in legislative and administrative simplification and a harmonization of information systems, organizational models and operating procedures can raise the efficiency of public bodies.

7. On the occasion of this ceremony honouring thirty years of service, we must not forget that in our society the right to work is one that is still in many instances denied.

Labour – all labour, whether spiritual, intellectual or material – is a fundamental human right, it is an essential component of personal dignity and of the orderly conduct of social life. As has been authoritatively reaffirmed, our Constitution “requires ... the creation of the conditions that will make the right to work effective”.

Unemployment engenders inequality and reduces the possibility for every individual to participate fully in the political life of the nation. No less serious is the high rate of irregular employment.

There is a need for agreement on the priority and attention to be given to the issues of employment and growth. It is economic growth that prevents employment flexibility, which is effective in reducing joblessness, from turning into precariousness. The variety of employment contracts requires careful management in order to take advantage of their positive effects and prevent their distorted application. Following a series of legislative changes, there is now a perceived need for an organic labour law.

On earlier occasions I have said that our social security system is “the pride of our generation”. Everywhere in Europe the aging of the population, slow economic growth and diminished competitiveness, and the problems of the public finances necessitate a revision of the welfare state model in order to maintain its fundamental characteristics in the interests of the new generations.

Firms are an indispensable factor for economic progress. For those in difficulty it is necessary to enact measures, in some cases as a matter of urgency, to reform Italian bankruptcy law.

At European level, the strategy laid out in the Lisbon Council of 2000 remains the key to achievement of the growth and employment objectives.

Investing in the future means tackling economic, social and institutional problems with a view to fostering faster growth, higher employment and social solidarity.

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We are engaged in preserving and making the most of the wealth of knowledge and experience of the central bank's personnel. Ability and merit underpin a way of utilizing human resources that is increasingly efficient and that motivates people. The Bank's internal relations must never neglect the general interest but must embody a far-sighted vision that can promptly grasp and not reject change and innovation in the external environment, which inevitably have an effect on internal operations.

Ethics and a culture of work are the most valuable heritage given us by our predecessors; they are fundamental assets for service to the nation.

We see the Constitutional Court – one of the supreme bodies of the State, the guarantor of the legal order and judge of the constitutionality of laws – as a bulwark, while Italy continues its progress in unity and cohesion, on the basis of rights, duties and values common to all citizens.

We renew our thanks to the President of the Court for his interest in the Bank and look forward to hearing his remarks.

Let me thank the Rector of the Angelicum, who has made it his custom each year to put this prestigious hall at our disposal for this ceremony, in a place of study and research dedicated to Saint Thomas Aquinas, and who offers us his own precious considerations.

To you employees who today celebrate thirty years of service with the Bank of Italy and the Italian Foreign Exchange Office, to your spouses and to all your relatives, my warmest best wishes on this happy anniversary.