

Medium- and Long-term Credit in Italy

1. General Features

A feature of the Italian credit system today is the separation of short-term from medium- and long-term operations, an arrangement dating from the thirties, following the "great depression" that had led to the crisis of the "mixed banks" then in existence.

As a general rule it is the banks (and savings banks) which handle the raising and investment of short-term savings, while the work of channelling medium- and long-term funds is entrusted to the so-called special credit institutes.

The distinction between short-, medium- and long-term applies to both the raising and the investment of funds: short-term resources are regarded as those having a maturity of up to 18 months, medium-term as those with one of 18 months to five years, and long-term as those of longer duration. As regards the financing, while short-term credits have a fixed limit (before 1972 up to one year and recently up to 18 months), the demarcation between medium- and long-term loans is not so clearly defined in the legislation. Neither are uniform criteria followed in practice: some take into consideration the purpose of the financing, others the duration of the loan.¹

Modifications of the principle of separation between short-term and medium- and long-term credit activities are found both in the pertinent legislation and in the method of operating the system. In fact, on the one hand, some types of ordinary banks are allowed,

¹ In the Bank of Italy's statistics, the line of demarcation between the medium- and the long-term was fixed towards the end of the forties at five years. Under a decision of the interministerial Committee for credit and saving of March 12, 1953, financing with a duration of one to 10 years was defined as medium-term. In certain circumstances loans having a longer duration (15 years in the case of financing for the industrialization of Southern Italy) also come within this category.

within determined limits and for special types of transactions, to grant medium- and long-term loans,² while on the other hand a quota of short-term loans is only nominally of this character, given the practice — fairly widespread — of periodically renewing the loan at its maturity. Besides, in view of the close links existing between the banks and the special credit institutes, a noteworthy amount of short-term funds is transferred to the medium- and long-term credit system, mainly by means of subscriptions to bonds issued by the special institutes, and to a less extent through current account financing and participations in the capital of the institutes themselves. At the end of December 1971 the funds thus transferred by the banks represented 15.7 per cent of bank deposits and about one third of the special institutes' resources (excluding bonds issued on behalf of the Treasury).

In course of time, therefore, extensive changes have occurred which have greatly diminished the rigidity of action that the legislator of the thirties apparently wished to impose upon the banks. In effect, the system has proved to be very flexible and ready to accept those structural rectifications arising from the need to further the process of growth.

The special credit system consists of three types of institutes. The industrial and public works credit institutes, commonly described as *istituti mobiliari*, grant mainly medium-term financing for the construction of new industrial plants and the restructuring or enlargement of existing plants, and, on a more reduced scale, long-term loans for the carrying out of public works and utilities. The mortgage and building credit institutes grant loans mainly for residential constructions. The agricultural credit institutes provide funds for the improvement of agricultural properties and for the equipment and running of agricultural enterprises and the marketing of their produce. Over the years, however, this specialization has become less rigid; in fact, the industrial credit institutes make loans also to public bodies and commercial, hotel and tourist enterprises, while some mortgage and building credit institutes operate also in the fields of credit for agricultural improvements and for tourist enterprises.

² Most of the operations of this type are carried out by the savings banks and mainly relate to financing in favour of housing and public bodies. Ordinary credit banks were allowed — with a decision on March 23, 1972 — to grant medium-term loans (up to five years) within the limit of 8 per cent of their own deposits.

Since the end of the Second World War the industrial credit system has undergone a marked structural and functional evolution, consequent upon greater need for capital determined by the growth of the Italian economy. The burgeoning of new industrial ventures and the introduction of modern technologies have changed the technico-financial requirements of firms and made necessary the provision of new financing channels.

This evolutionary process has been marked by two distinct phases: the first had a sectoral character, and into it was merged the second phase, which had a geographical orientation. During the first phase new institutions were set up by the different categories of banks (banks of national interest, public law institutes, people's banks, and so on). During the second phase numerous regional institutes were created, on the initiative of the State and with the participation of the local banks. Because, too, of the limited amount of autonomous resources at the disposal of these new bodies, a financing institute (*Mediocredito Centrale*) was set up in 1952, the task of which was to refinance those bodies and reduce the cost of financing the medium-size and small firms and, subsequently, of the export credits. At the same time the *Artigiancassa* was given tasks similar to those set for the *Mediocredito Centrale* relating to transactions effected in favour of artisan enterprises by the banks empowered to do so.³

The funds of the refinancing institutes are provided by the Italian Treasury; owing to the paucity of its endowment fund, the intervention of the refinancing institute has mainly taken the form of interest subsidies, granted as an alternative to or in conjunction with rediscounting. In more recent years the *Mediocredito Centrale* has raised funds on the market by means of bond issues, the proceeds of which have been advanced to the regional institutes; it has thus become the financing centre of these institutes. The fact is that owing to the modest size of the majority of the regional institutes, it is not easy for them to have direct recourse to the capital market.⁴

The growth in the number of the special credit institutes has been accompanied by a continuous increase in the relative importance of the medium- and long-term credit flows.

³ Rediscounting at the Central Bank, limited to bills with a maturity not exceeding four months, is reserved to the banks.

⁴ The bonds of the *Mediocredito Centrale* in circulation at the end of December 1971 amounted to 322 billion lire.

This multiplication of the institutes has led to greater competition in their field, and has enabled the firms, in no matter which part of the country, to enjoy better assistance in financing their investment plans. At the end of 1971 the number of institutes had reached 80, of which 12 were dealing with agricultural credit, 21 with mortgage and building credit, 45 with industrial and public works credit,⁵ while two were acting as refinancing institutes.

The most intense development has taken place in the field of industrial credit, where the seven institutes (mainly public in character) existing before the enactment of the banking Law (1936) had increased to 18 at the end of 1950 and to 41 at the end of 1960. In the field of mortgage and building credit, too, in conjunction with the increase of urbanization and large domestic migration, there was a notable growth of activity favoured by the formation of new institutes (from the 13 at the end of 1956 to the present 21).

An idea of the size reached by the special institutes can be gained from the volume of loans outstanding: 19,882 billion lire at the end of 1971 (excluding 432 billions in transactions financing the stock-piling of agricultural produce and 6,350 billions for loans made to the Treasury for financing long-term programmes). Domestic loans were equivalent at the end of 1950 to 33.4 per cent of the banks' outstanding credits; they rose to 45.4 per cent and 62.1 per cent at the end of 1958 and of 1971 respectively. Over the entire period 1951-71 the average annual rate of increase (referring always only to domestic loans) was 17.9 per cent for the special institutes compared with 14.9 per cent for the banks.

The special credit system has therefore played an ever-increasing part in the channelling of savings from the surplus to the deficit sectors. The contribution made by the special institutes to the outside financing of the economy (firms and households) moved up from 20 per cent in the period 1951-58 to 27 per cent in the years 1959-71. Factors that contributed to the increased demand for financing were

⁵ Of these special credit institutes, those operating on a national scale are three public law institutes (IMI, CREDIOP, ICIPU), four joint-stock companies (Mediobanca, Efibanca, Interbanca, Centrobanca), and some of the eight autonomous sections set up by the public law banks — particularly by the Banca Nazionale del Lavoro — for financing specific activities (hotels and tourism, medium-size and small industries, the film industry, and so on). There follow the 11 regional institutes for financing medium-size and small industries of the Centre-North, three institutes for Southern Italy (ISVEIMER, IRFIS, CIS) and other 16 institutes mainly established to finance public works.

the growing importance of interest-rate subsidies, the more favourable fiscal treatment of bonds issued by financial intermediaries as compared with those issued directly by firms, and the insufficiency of risk capital.

2. Technical Forms of Government Intervention and Their Evolution

The growth of the special institutes' activity is mainly connected with the government policy, aimed at pursuing, through a multiplicity of instruments and incentives, economico-social ends, among them being a balanced growth for both sectors and territories.

The forms in which the State intervenes in order to direct credit flows are:

- (1) the establishment of credit bodies having a specific purpose (*Mediocrediti regionali*);
- (2) participation in the endowment funds of the refinancing institutes (*Mediocredito Centrale* and *Artigiancassa*);
- (3) the establishment of revolving funds;
- (4) the creation of "special funds" for particular aims;
- (5) the assumption of part of the financing risk;
- (6) capital grants;
- (7) interest subsidies on loans, at a fixed figure or varying according to the ruling market interest rates.

The choice of the form of intervention depends on the objectives in view, the state of the capital market, the intermediation capacity of the institutions chosen, and the more or less immediate pressure on the country's Budget.

During the first phase, which covered from the end of the war to 1952, recourse was had mainly to special funds entrusted to the *Istituto Mobiliare Italiano*, their purpose being the reconversion of base industry with resources drawn largely from American loans and aid. During the second phase (1952-59) new institutions of first resort (regional institutes) and second resort (*Mediocredito Centrale* and *Artigiancassa*) were set up, and funds that came from reimburse-

ments of the loans granted in the first phase, supplemented by budget appropriations and foreign loans, were utilized.

Since 1960, with the expansion of the bond market, the distribution of interest subsidies began to grow; in the meantime, the State limited the supply of loanable funds and guarantees, the task of collecting funds on the market and its related credit risk being passed to the lending institutes.

In 1965, a time marked by stagnation in production and difficulties on the capital market, a series of contra-cyclical measures further extended the subsidized credit area, and re-established, for some sectors, advances of public funds and government guarantees; at the same time privileged credits were extended to the financing of residential building.⁶

Forms (1) and (2) of government interventions having been dealt with, the features of the other types can be briefly considered.

With the establishment of revolving funds the State places at the disposal of the special institutes resources for financing certain sectors at an interest rate that is generally very low compared with the market rate.⁷ A feature of these funds is that they make it possible to undertake new operations when the resources previously lent are reimbursed. The appraisal of the borrower's credit-standing and the lending risk are the responsibility of the credit institute, whose service is paid with a commission.

The purpose of establishing "special funds" is to reach specific ends, and these sometimes go beyond lending activity in its strict sense, as regards both the sector affected and the form in which the funds are used.⁸ With these special funds, which are generally entrusted to the *Istituto Mobiliare Italiano* (IMI), the institute operates as a technical organ and an intermediary between the borrower and the State, upon which falls the investment risk; in addition, contrary to what happens with revolving funds, in the majority of cases — in view of the exceptional nature of these interventions — repayments may not be used for new operations.

⁶ For a more complete account of the evolution of the forms of intervention, see BANCA D'ITALIA, *Relazione annuale* (Annual Report) on 1961, pp. 312-14 and *Relazione annuale* on 1965, pp. 275-78.

⁷ The revolving funds are primarily used for agricultural credit.

⁸ The ends aimed at run from the restructuring of minor firms to applied research; as regards the form, the acquisition of participations in the firms is sometimes allowed.

The limitation of investment risks in financing induced by the government intervention is ensured by fixing a ceiling so as to reduce the commitments that can fall upon the national Budget; in some cases particular guarantee funds are previously set aside, using resources drawn from the national Budget or provided by the institutes themselves or by the borrowers.⁹

The granting of interest subsidies has become of considerable importance in recent years; at the same time, the adoption of a varying in place of a fixed subsidy has become more generalized.¹⁰ Payment of a fixed subsidy has the advantage of maintaining a strict relationship between the trend of market rates and that of subsidized rates; it therefore does not necessitate continuous interventions by the authorities to adjust the rates allowed the institutes to the changes in the cost of money on the market.

The granting of variable interest subsidies, i.e. the determination in advance of the subsidized rate to be applied to the borrower, while it affords the firm the advantage of knowing beforehand the financial expenditure to be included in investment programmes, throws wholly upon the national Budget the changes in the cost of medium- and long-term money. The national Budget has to bear the difference between the quota of amortization calculated at the rate payable to the credit institute — the so-called basic rate — which is fixed according to the cost of fund-raising, and the quota of amortization calculated at the subsidized rate; the result is that the volume of credit promoted by a determined annual Budget appropriation varies in accordance with both the difference between the basic rate and the subsidized rate and (though to a minor extent) the duration of the loan.

Alternatively, or in conjunction with the interest subsidy, capital grants are given, equivalent to a determined proportion of the expenditure for a fixed investment; these grants (extended also to agriculture and to the hotel and tourist sector) have a certain importance in the case of industrial ventures located in Southern Italy.

⁹ An inter-bank guarantee fund was set up under Law 454/1961 (Green Plan) for financing the agricultural sector.

¹⁰ The fixed subsidy was applied to some sectors (exports, shipping credit, hotel credit, etc.).

3. The Borrowing Sectors and the Cost of Medium- and Long-term Credit

The industrial sector is primarily the one to which the State subsidies go. In this field credit facilities to medium-size and small industries, to investment for the industrialization of Southern Italy, and to help Italian firms to enter foreign markets are prevalent. Recently facilities have been added to enable enterprises damaged by natural disasters to resume their activities as well as measures to stimulate general economic activity.

As a result of successive extensions and recurrent appropriations, lending to assist medium-size and small industries is no longer temporary but has become continuous, partly compensating for the limitations that firms of modest size encounter when they go direct to the capital market.

Credit incentives for the industrialization of Southern Italy aim at neutralizing the "diseconomies" inherent in setting up new ventures in areas where the industrialization level is very low. The interest-rate subsidies and the capital grants have made it possible to channel a greater flow of saving towards Southern Italy, and are a decisive factor in investment decisions for that area. Their extent and the techniques adopted have naturally undergone a gradual evolution as a result of the changes in the socio-economic situation and the experience that has been gained.

More particularly, under the Law that extended the life of the *Cassa per il Mezzogiorno* (Southern Italy Development Fund)¹¹ both the interest subsidies and the capital grants had been graded in accordance with three parameters: locality, industrial sector and the size of the investment; projects to which priority was given were those in the foodstuffs, chemical and engineering sectors that should establish themselves in the so-called industrialization areas and nuclei. In practice, the parameters previously fixed have not been rigorously applied, for numerous exceptions have been made, especially in the case of big industrial plants established by public and private corporations. These have been accorded particularly advantageous treatment.¹²

¹¹ Law No. 717, June 26, 1965.

¹² Interest rate 4 per cent, financing quota 70 per cent, capital grant 12 per cent, extension of duration to 15 years also for enlargements.

The new Law on the financing of the *Cassa per il Mezzogiorno*¹³ has divided the industrial projects into three tiers, according to the amount of the fixed investments (from 0.1 to 1.5 billion lire, from 1.5 to 5 billions, and more than 5 billions), and has established for each tier determined maximum quotas of subsidized financing and capital grant. As regards financing, the maximum quota is 50 per cent of the investment expenditure, while the capital grant may reach 45 per cent for projects of minor size that are set up in the less populated areas. In the case of investments of greater size the capital grant cannot exceed 12 per cent. In every case entitlement to the special facilities is subordinated to a contribution from the recipient's own capital, equivalent to at least 30 per cent of the fixed investment expenditure.

Besides modifying the size of financial subsidies, the new Law centralizes in the Inter-ministerial Committee for Economic Planning (CIPE) the development policy for Southern Italy. In fact, the CIPE must be informed in advance of all investment plans of companies quoted on the Stock Exchange and of companies with capital exceeding 5 billion lire, and in any case of all investment plans exceeding 7 billion lire. The object of this is to discourage, by means of pecuniary penalties, those investments that conflict with the goals of economic planning as regards congestion in the chosen area and the availability of manpower.

A sector that has notably expanded in more recent years is that of export credits for goods and services on a deferred payment basis. The Italian system, introduced in 1953 for exports of special goods, subsequently underwent a gradual change. In 1961 the insurance guarantee was extended to any type of goods and to works carried out abroad; in addition, financial credits, tied or not tied to Italian exports, were authorized to the developing countries.¹⁴ Following the approval of Law No. 131 of February 28, 1967, the insurance cover for special risks was raised to 90 per cent (up to 100 per cent for financial credits); moreover, insurance of commercial risks and a larger intervention of *Mediocredito Centrale* was envisaged.¹⁵

¹³ Law No. 853, October 6, 1971.

¹⁴ Law No. 635 of July 5, 1961.

¹⁵ The *Mediocredito Centrale* intervention can reach 85 per cent of the credit granted to the importer; previously it amounted to 75 per cent of the financing granted by the primary institute. The commercial risks guarantee has not, however, yet been effected.

The system is based on three distinct but interdependent phases: the insurance guarantee, financing by a primary institute, and intervention of the refinancing institute that enables the borrower to pay an interest rate lower than the market rate.¹⁶ The Budget Law for each financial year fixes the maximum limit of the guarantees that the State can undertake, the object being to control the financial commitments that may fall upon the Budget;¹⁷ in fact, the State is committed to covering operating losses in cases where the premiums-fund is insufficient. The insurance guarantee is generally the condition necessary for obtaining finance; in the case of non-guaranteed exports with a payment exceeding five years, the *Mediocredito Centrale* is precluded from intervening: the insurance ceiling together with the liquidity position of *Mediocredito Centrale* and/or the appropriations of special funds for interest subsidies determine the amount of credit that can be mobilized.

The system of export insurance and credit has contributed to increasing the ability of Italian firms to compete on foreign markets, and enabled firms producing capital goods — who more than other firms need a larger market than the domestic one — to keep abreast with technological progress. Nor must the support given to overall demand during periods of recession be overlooked.

However the current tendency to lengthen the duration of financing, besides increasing risks, adds to the pressure on the capital market, since it reduces the volume of repayments. This happens also because *Mediocredito Centrale* intervention, restricted to credits granted to exporters, has in recent years, owing to the paucity of funds at its disposal, mainly taken the form of interest subsidies, the alternative to rediscounting.

Moreover, financial credits, even though they derive from governmental agreements, are provided by the special institutes with funds raised on the market; the application of privileged rates is made possible through special appropriations charged to the Budget.¹⁸

¹⁶ The rate applied to export credits is currently equivalent to 6.50 per cent (5.90 per cent from 1964 to January 1970). The rates for financial credits vary.

¹⁷ The ceiling rose from the 30 billion lire of 1955 to 800 billions in 1969; for 1970 it was fixed at 700 billions. In the last year the ceiling was fixed at 500 billions.

¹⁸ Since these transactions began, altogether 201 billion lire have been appropriated (Law No. 1834, December 31, 1962; Law No. 1532, November 10, 1963; Law No. 442, June 11, 1967; and Law No. 594, August 4, 1971).

Financial credits also necessitate refinancing and consolidation measures, as they are often granted to countries heavily in debt and with balance-of-payments difficulties. Many of these credits can be compared to true and proper aid, and it would therefore be preferable to use Budget funds; the nature of the aid, its direction and importance, would then be seen more clearly.¹⁹

Furthermore the long periods that elapse between approval and payment of export credits and the consequent difficulty of estimating cash requirements make administration of the system as a contra-cyclical measure difficult, and introduce for the financing institutes and the country the risk that the transactions may take place at a moment when the state of the capital market and of the balance of payments is less favourable.

Action by the State, briefly reviewed above, has led to the adoption of differentiated credit facilities, as regards rates and duration, for sectors and geographical areas, and to the progressive broadening of the privileged credit area. The result is that, in the case of wide categories of borrowers, the medium- and long-term financing rate becomes isolated from the fluctuations of the cost of money on the market; the interest rate does not therefore fulfil its function of regulator of demand for funds. Moreover, the lack of automatic mechanisms for the adjustment of the basic rates recognised by the Government to the credit institutes to changes in the cost of fund-raising leads, in times of rising market rates, to a slowing down of the institutes' activity, with possible negative effects on the carrying out of investment decisions.

The rates for subsidized credit have remained unchanged for the majority of the subsidized sectors (Table 1). In the last seven years the changes, actually of modest size, found in the average weighted cost of subsidized credit arise from modifications in the importance of the various transactions; more particularly, the reduction by about one-third of a point in 1967 was due to the large volume of loans made to enterprises stricken by floods and to medium-size and small industries. Following the upturn of rates on the capital market from the second half of 1969 the gap between average subsidized rates and market rates notably widened, approaching in

¹⁹ Cf. "Concluding Remarks" in BANCA D'ITALIA, *Relazione annuale* (Annual Report) on the year 1966, pp. 360-362.

the last months of 1970 six percentage points. The same gap in the second half of 1971 has gradually declined following the downturn of market rates.

The gap between the average cost of subsidized credit to projects situated in Southern Italy and that of financing extended to enterprises in Central and Northern Italy (the year 1967 excepted) shows a tendency to widen that can partly be linked with the extension of more favourable conditions to the larger size investments made in Southern Italy within the framework of the so-called *contrattazione programmata* (negotiations to coordinate public and private investments in this area).

If account is taken of the effect of capital grants on the cost of financing projects in Southern Italy, the margin in favour of this area increases considerably. Taking into consideration the amount of the capital grants disbursed by the *Cassa per il Mezzogiorno*, the annual average cost of credit granted in that area falls over the years 1964-70 to 1.88 per cent for subsidized transactions and to 3.37 per cent for the ordinary and subsidized transactions as a whole.²⁰

4. Burden on the Italian Budget of Interest-rate Subsidies

With the object of evaluating the overall burden that weighs on each financial year, the interventions arranged since the fifties have been taken; every measure adopted for subsidized interest rates has, in fact, its effects on the Budget for quite a number of years.

The burden represented by the interest subsidies has gradually grown heavier with the greater use of this form of financing, moving up from 36 billion lire in the 10-year period 1950-1959 to 947 billions in the following decade and displaying a tendency to grow in more recent years. More particularly, it rose to 275 billions in 1971, equivalent to more than 2 per cent of the Budget receipts (Table 2).

The greatest impact on each individual financial year is made by loans to the industrial sector (Table 3). During the last five years more than four-fifths of the new medium- and long-term loans

²⁰ In the case of a 15-year loan at a rate of 4 per cent, covering 70 per cent of the investment expenditure, and of a 12 per cent capital grant, the real cost of the funds thus obtained is reduced to 1.82 per cent.

granted to industry have enjoyed subsidized interest rates; at the end of 1971 credit at privileged rates represented 75 per cent of industrial enterprises' total indebtedness to the special institutes. In the industrial sector a notable burden is constituted by the interventions to assist medium-size and small firms, and particularly the industrialization of Southern Italy (where public and private undertakings are planning large investments).

The burden that results does not take account of capital grants, the importance of which is bound to grow, following the enactment of the new Law for Southern Italy, nor of the cost of the resources provided by the Treasury to the special credit institutes through the formation of "revolving funds", participation in the capital of the institutes themselves, and the "special funds"; the appropriations for those forms of intervention amounted altogether, at the end of 1971, to 2,400 billion lire, three-fifths of which were for the setting up of "revolving funds" mainly benefiting agriculture.

At the end of 1970 about two-fifths of the special institutes' total loans were in the form of subsidized credits (Table 4). In the sector of industrial credit institutes 29 per cent of the lending operations at subsidized rates (equivalent to 49.3 per cent of the whole) were loans to medium-size and small industries, 20 per cent were credit granted under Laws for the industrialization of Southern Italy, and 26 per cent export credits; the remainder related to various sectors (shipping, commercial enterprises, hotels, depressed areas of Central and Northern Italy, etc.).

5. Some Remarks on Subsidized Credits

In examining the effects of incentives, we will consider their influence on financing activity separately from that on investment decisions.

As regards the first aspect, the criticisms most frequently levelled against incentives as a whole underline particularly the lack of an organic programme, due to the continuous accumulation of measures that extend the facilities to ever-wider sectors, territories and purposes. This leads to a complex structure, a plurality of decision-making centres and interference in the credit institutes' activity. The intervention of the authorities, instead of restricting itself to the issue of directives, extends to the examination of each individual transaction,

the result being that procedure is made more complicated and the time needed for granting loans is lengthened. Before a facility is granted, it sometimes has to be scrutinized by a number of administrative organs.

When market interest rates rise, the procedural delays are increased by those due to the necessity of legislative measures to augment the pertinent Budget appropriations, or of administrative measures to adjust the rates payable to the institutes to the increase in rates on the capital market.

When interest rates are increased the credit that can be set up by Budget appropriations²¹ is reduced, and just at a time when, given the stability of subsidized rates, borrowers find it more attractive. Examining the recent trend (1968-1971 first quarter: see Table 1), it is seen that the advantage for the recipients of such credit increased by about three percentage points as a result of the rise in market interest rates. The maintenance of the pre-existing subsidized rates, which adds to the cost which the Treasury shoulders, is justified by the current state of the Italian economy. The object of reducing these financial burdens is to stimulate investment expansion and to diminish pressure on the enterprises' costs.

Interest subsidies alone, however, do not assure the availability of the credit if at the same time there is no possibility of raising adequate funds on the market. This can be done only if the capital market's activity proceeds regularly. A prerequisite is that the public sector should measure its own demands upon the market to an extent consistent with the alternative demand which by itself it stimulates through interest subsidies.

Another effect of the growth of subsidized financing is the predominance in total new transactions not only of low interest rates but also of longer maturities. The proportion of loans granted by the industrial credit institutes with a maturity of from one to five years has declined from 17.9 per cent at the end of 1958 to 8.9 per cent at the end of 1971. The behaviour of the enterprises, due to their financial structure as well as to the erosion of the value of

²¹ Assuming a subsidized rate of 4 per cent and an average duration of the credits of 10 years, an increase in the market rate of two points reduces by about one-third the transactions that can be effected with a given appropriation for interest subsidies. To effect the same volume of financing entails a greater burden on the Budget, which can be estimated at about 14 billion lire for every 100 billions of lendings.

money, also exercises pressure in this direction. The higher degree of leverage drives the enterprises to request longer maturities so as to reduce the financial commitment entailed by the amortization of loans. This is in contrast with the trend that ought to characterize a period of growing technological development; actually, the more rapid amortization of plants due to obsolescence should be accompanied by a more rapid repayment of loans. Clearly, the lengthening of maturities increases the risks for the lending institutes.

As to the influence on investment decisions, it seems beyond doubt that financial subsidies have stimulated an additional flow of investment and helped to start a process of industrialization in underdeveloped areas. These incentives, however, even though they provide a noteworthy stimulus to the launching of projects,²² have, on the whole, had a modest influence in overcoming certain disequilibria. This is partly explained by the fact that the current structure of incentives has encouraged the setting up of highly capital-intensive enterprises which have only modest effects on employment.²³ In fact, although the flow of industrial investments in the last 20 years has been more brisk in Southern Italy than in the rest of the country, the growth rate of employment in that area has not differed from the national average. Again, in the case of the more modest size enterprises, the subsidies have shown a limited incidence on operating costs, for which reason not a few of these firms have encountered difficulties when they began to operate. The fact is that investment decisions ought to evaluate a priori the market situation and, in particular, the magnitude of the diseconomies connected with the location of investments in certain areas. But apart from the difficulty of quantifying the greater costs connected with the insufficiency of skilled or specialized manpower, with the infrastructure situation and with the inadequate functioning of the administrative

²² Inquiries made among businessmen show that the greatest stimulus to the localization of plants in Southern Italy was provided by the incentive factors. In particular, the General Confederation of Italian Industry survey shows that 92 per cent (455 out of 472) of productive units which replied stated that the factor which weighed most was subsidized financing, capital grants coming second (cf. CONFINDUSTRIA, *Per un rilancio della politica industriale nel Mezzogiorno*, Rome, 1971).

²³ This effect emerged from the studies made since the beginning of the sixties: see G. ACKLEY and L. DINI, "Tax and Credit Aids to Industrial Development in Southern Italy", *this Review*, December 1959; and G. COPPOLA D'ANNA, *Incentivi per lo sviluppo industriale del Mezzogiorno*, in "Moneta e Credito" (published quarterly by the Banca Nazionale del Lavoro), December 1960.

apparatus, consideration must be given to the fact that during the carrying out of the project or during its actual activity, the economic-environmental conditions may undergo changes unforeseeable at the time when the investment decision is made.

Indeed, in order to eliminate regional disequilibria it is necessary flexibility and quickness in the State intervention according to changes in the economic situation. Moreover, together with subsidized credits and capital grants, the use of Budget policy is a crucial instrument for overcoming external diseconomies due to the lack of adequate infrastructure.

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TABLE I
AVERAGE WEIGHTED COST OF LOANS AND YIELD
OF INDUSTRIAL CREDIT INSTITUTES' BONDS

(percentage values)

Period	Average weighted cost			Other loans	Yield of bonds
	Subsidized loans				
	North-Central	Southern Italy	Total		
1964	5.54	3.80	4.52	8.58	7.26
1965	5.56	3.89	4.65	8.51	6.86
1966	5.42	3.77	4.78	8.17	6.55
1967	4.86	3.65	4.34	7.92	6.66
1968	5.37	3.78	4.73	7.89	6.78
1969	5.37	3.60	4.70	8.17	7.06
1970	5.47	3.78	4.68	9.78	9.05
1971	5.52	3.86	4.61	9.87	8.17
1970 - 1st quarter	5.41	3.95	4.74	9.39	8.15
2nd quarter	5.50	3.62	4.69	9.51	9.13
3rd quarter	5.45	3.50	4.67	9.89	9.72
4th quarter	5.52	3.89	4.65	10.48	9.19
1971 - 1st quarter	5.74	3.82	4.63	10.60	8.23
2nd quarter	5.43	3.86	4.70	10.33	8.25
3rd quarter	5.64	3.71	4.44	9.53	8.22
4th quarter	5.43	3.97	4.61	9.56	7.92

TABLE 2

BURDEN ON THE GOVERNMENT FOR INTEREST-REDUCING SUBSIDIES¹
(in billions of lire)

Year	Industry, Commerce and Artisans	Building	Agriculture	Total
1950-59	7.6	10.9	17.3	35.8
1960-64	104.4	5.4	71.6	181.4
1965-69	491.0	48.9	226.2	766.1
1970	231.3	13.8	66.4	311.5
1971	185.3	23.8	65.9	275.0
Following years ²	2,343.0	1,100.3	1,134.9	4,578.2
Total	3,362.6	1,203.1	1,582.3	6,148.0

¹ Relates to amounts appropriated for the financial year; only in respect of the part charged against the *Cassa per il Mezzogiorno* do the figures refer to actual disbursements during the year.

² Up to 1996 for industry, commerce and artisans; to 1999 for building; and to 2005 for agriculture.

TABLE 3

BREAKDOWN BY OBJECTS OF THE BURDEN
OF INTEREST-REDUCING SUBSIDIES¹
(in billions of lire)

Objects and sectors	Average of financial years		1970	1971
	1950-59	1960-69		
Industry, Commerce and Artisans . . .	0.8	59.6	231.3	185.3
— medium-size and small industries	—	14.2	33.4	47.5
— industrialization of Southern Italy	0.2	19.8	136.3	56.4
— export credits	0.3	6.3	22.4	28.9
— commercial enterprises	—	1.0	2.0	3.2
— hotels and tourism	—	1.1	5.3	6.1
— shipping credit	—	2.5	7.2	9.2
— natural disasters	—	8.7	7.0	13.2
— handicrafts	0.3	4.9	12.1	18.6
— other	—	1.1	5.6	2.2
Building	1.1	5.4	13.8	23.8
Agriculture	1.7	29.8	66.4	65.9
— land improvement credit	1.1	8.3	21.7	24.7
— enlargement of crop units	0.4	5.1	7.1	7.3
— credit for working capital	0.1	5.0	10.0	12.0
— purchase of livestock and zoo-technical installations	—	3.1	1.8	1.8
— natural disasters	0.1	6.7	15.5	5.4
— other	—	1.6	10.3	14.7
Total	3.6	94.8	311.5	275.0

¹ Relates to amounts appropriated for the financial year; only in respect of the part charged against the *Cassa per il Mezzogiorno* do the figures refer to actual disbursements during the year.

TABLE 4

LOANS BY SPECIAL CREDIT INSTITUTES¹
(in billions of lire)

Institutes Sectors	Absolute values		Percentage composition	
	outstanding at end of 1970	increase in 1970	outstanding at end of 1970	increase in 1970
Total	16,544.8	1,987.2	100.0	100.0
— subsidized	5,987.3	762.7	36.2	38.4
— non-subsidized	10,557.5	1,224.5	63.8	61.6
by institutes:				
Industrial	10,185.6	1,179.6	100.0	100.0
— subsidized	5,025.3	667.7	49.3	56.6
— non-subsidized	5,160.3	511.9	50.7	43.4
Mortgage and building ²	5,297.6	732.3	100.0	100.0
— subsidized	272.0	45.0	5.1	6.1
— non-subsidized	5,025.6	687.3	94.9	93.9
Agricultural ²	1,061.6	75.3	100.0	100.0
— subsidized	690.0	50.0	65.0	66.4
— non-subsidized	371.6	25.3	35.0	33.6
by sectors:				
Industry	5,175.5	518.1	100.0	100.0
— subsidized	3,854.3	483.7	74.5	93.4
— non-subsidized	1,321.2	34.4	25.5	6.6
Building	5,259.4	727.6	100.0	100.0
— subsidized	210.5	35.3	4.0	4.9
— non-subsidized	5,048.9	692.3	96.0	95.1
Agriculture	1,209.4	83.6	100.0	100.0
— subsidized	753.4	52.7	62.3	63.0
— non-subsidized	456.0	30.9	37.7	37.0
Public works and services	4,025.0	503.8	100.0	100.0
— subsidized	553.3	70.0	13.7	13.9
— non-subsidized	3,471.7	433.8	86.3	86.1
Foreign transactions	875.5	154.1	100.0	100.0
— subsidized	615.8	121.0	70.3	78.5
— non-subsidized	259.7	33.1	29.7	21.5

¹ Excluding transactions on behalf of the Treasury and financing of stockpiling purchases.

² Data inferred from the institutes' balance sheets and/or partly estimated.