The Italian financial system is regulated by the same laws as at the beginning of the century: a basic law on financial markets of 1913 and the banking law of 1936. During the period 1913–1936 the Italian financial system was controlled by a precise framework based upon two cornerstones: the universal bank and the confinement of all securities transactions in one of the official exchanges. Under this system, banks were allowed to make loans with arbitrary maturities and to own shares in other companies. No prudential controls were imposed. The system collapsed during the crisis of the early 1930s, when the severely undercapitalized Italian banks were overexposed in shares of industrial companies and indulged in buy-backs of their own shares. The unavoidable subsequent crisis was caused by insufficient capitalization and not by the universal banking structure.

By preventing commercial banks from granting long-term loans, the banking law of 1936, imposed a forced compliance of the golden rule of maturity matching between deposit and loans and introduced a series of administrative controls and many discretionary powers to the controlling agencies: the CICR (Comitato Interministeriale per il Credito ed il Risparmio) and the Ispettorato per la Difesa del Risparmio e l’Esercizio
del Credito. After World War II and the return of the country to democratic government, the functions of the Ispettorato were transferred to the Bank of Italy, while the CICR remained as a purely political body.

The actual system, in spite of some structural shortcomings, has worked remarkably well due to the outstanding capability of the governors of the Bank of Italy, who were able to weather many storms under different regimes and circumstances.

The major obstacle to a modernization of the financial intermediation system can be attributed to the very high (and increasing) government deficit that started in the 1970s. The service of this deficit, which takes place through very frequent issues of government notes and bonds, is greatly distorting the financial flows in the country.

This situation inflates interest rates, depresses the stock market, and places a heavy burden on the production system. The current system, like most of the Italian legal system, places a heavy emphasis on administrative controls rather than on objective rules. The recent introduction of risk-adjusted capital-adequacy controls may signal a change of trend, increase stability, and abolish or decrease the possibility of political intervention on the credit sector.

Despite the strict legal separation between banks (which must both collect deposits and distribute short-term credit), special credit institutions (which are involved in longer maturity operations), and the other financial intermediaries (i.e., everybody who "solicits public savings"), the distinction in practice between the different intermediaries, which are controlled by different bodies, is becoming more and more blurred. Also, in view of the forthcoming European financial integration, some new laws regulating in particular the relationships between banks and nonbank industries, between banks and insurance companies, and between commercial and investment banks are being discussed.¹

1. The Banking System

Since 1936, the Italian Banking System has been divided into two sectors: commercial banks, engaged in short-term credit, and special credit institutions, specializing in medium- and long-term operations. This distinction, however, does not imply rigid separation between short-term and long-term financial activity. First, Italian deposit banks may own shares of special credit institutions and thereby indirectly finance long-term credit activity, and some banks may operate in the medium-long term through special subsidiaries. Secondly, commercial banks may, within a limit