

GRS 330
RESTRICTED
FROM ROME 290700Z MAY 81
TO PRIORITY FCO
TELNO 200 OF 29 MAY 81
INFO SAVING MILAN (ACTIONED), AND HOLY SEE (ACTIONED)

RESTRICTED

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WRJ 0142	
RECEIVED	NO 13
1 - JUN 1981	
DESK	
INDEX	

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(13)

MY TELNO 198: ITALIAN POLITICAL SITUATION

1. SIGNOR FORLANI ACCEPTED ON 28 MAY PRESIDENT PERTINI'S MANDATE TO ATTEMPT TO FORM A NEW GOVERNMENT. HE HAS TO SATISFY THE SOCIALISTS, WHO CAUSED THE CRISIS, OR EXCLUDE THEM. THE PCI CONTINUE TO CALL FOR A FUNDAMENTAL CHANGE. PRESIDENT PERTINI AND FINANCIAL CIRCLES WANT THE CRISIS RESOLVED QUICKLY BUT THE SOCIALISTS AND OTHERS MAY SEE ADVANTAGE IN SEEKING TO PROLONG IT UNTIL THE 21 JUNE ADMINISTRATIVE ELECTIONS.
2. TO DEFEND THE LIRA AGAINST THIS BACKGROUND, THE GOVERNMENT INTRODUCED ON 27 MAY AN IMPORTS DEPOSIT SCHEME UNDER WHICH UNTIL 30 ~~DECEMBER~~ ^{SEPTEMBER} IMPORTERS WILL BE REQUIRED TO DEPOSIT WITH THE BANK OF ITALY, WITHOUT INTEREST, FUNDS IN LIRE TO THE VALUE OF 30% OF THE COST OF IMPORTED GOODS FOR WHICH THEY SEEK FOREIGN EXCHANGE FOR PAYMENT. GRAINS AND CRUDE OIL WILL BE EXCLUDED FROM THE SCHEME WHICH IS SAID TO HAVE BEEN NOTIFIED TO THE EUROPEAN COMMISSION AND MEMBER STATES IN ACCORDANCE WITH ARTICLE 109 OF THE TREATY OF ROME.
3. THERE HAS BEEN NO RECENT SIGN OF PRESSURE ON THE LIRA AND THE BANK OF ITALY CLAIM THAT THEY HAVE NOT HAD TO INTERVENE "MORE THAN USUAL" IN ITS DEFENCE IN RECENT WEEKS. BUT THERE HAS BEEN A VERY LARGE TRADE DEFICIT DURING THE FIRST QUARTER, ITALIAN RESERVES FELL BY MORE THAN 4 BILLION US DOLLARS DURING MARCH, AND WITH THE PRESENT STRESSES IN THE INTERNATIONAL FOREIGN EXCHANGE MARKET, AND A GOVERNMENT CRISIS WHICH RULES OUT ANY EASY ATTEMPT TO TACKLE THE ECONOMIC CAUSES OF ITALIAN INFLATION, PROMPT ACTION WAS CLEARLY NEEDED.
4. MEANWHILE, THE POLITICAL SCANDAL OF THE P2 AFFAIR CONTINUES. SENIOR MILITARY AND SECRET SERVICE OFFICERS LISTED, INCLUDING THE CHIEF OF THE DEFENCE STAFF, ARE TAKING LEAVE WHILE INVESTIGATIONS CONTINUE. IMPLICATED DC POLITICIANS HAVE TEN DAYS IN WHICH TO PROVIDE THE PARTY WITH A FULL EXPLANATION. THE NEWSPAPERS CARRY FURTHER DETAILS AND FRESH DENIALS OF INVOLVEMENT DAILY. IT IS NOT AN EASY TASK FOR FORLANI TO COBBLE TOGETHER A NEW GOVERNMENT.

ARCULUS
STANDARD
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CABINET OFFICE

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Mr Osborne
p. 1/16
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MICHAEL PALLISER

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