

*Mr. Turnbull*

*CDh*

GR250

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FM ROME 191715Z JUL 85

TO IMMEDIATE FCO

TELNO 678 OF 19 JUL 85

INFO PRIORITY WASHINGTON, EC POSTS, UKDEL OECD.

AND TO SAVING MILAN.

THE SUSPENSION OF THE LIRE.

1. THE TREASURY MINISTRY AND THE BANK OF ITALY HAVE ISSUED A JOINT STATEMENT THAT TRADING OF THE LIRA HAS BEEN SUSPENDED FOR 19 JULY ONLY. THE RAPID AND 'ABNORMAL' DEPRECIATION OF THE LIRA IS ASCRIBED TO THE PRESENCE ON THE MARKET OF A BUYER OF DOLLARS WHO WAS PREPARED TO PAY ANY PRICE. THE LIRA/DOLLAR RATE HAS BEEN FIXED AT 2,200 AND THE LIRA/MARK RATE AT 664.70. THE INTERVENTION WAS OCCASIONED BY THE NEED TO KEEP THE LIRA WITHIN THE LOWER LIMIT OF THE EMS.

2. RUMOURS ABOUD. THE STATE HYDRO CARBONS AGENCY, ENI, ACTING THROUGH THE BANK OF SAN PAOLO DI TORINO, IS THE VILLIAN FOR SOME PEOPLE. A CONTACT AT ENI HAS TOLD US THAT ALTHOUGH ENI WERE MAKING AN ANTICIPATED PAYMENT OF US DOLLARS 450 MILLION. THIS WAS SMALL BEER AND THE BANK OF ITALY HAD BEEN FOREWARNED OF WHAT WAS A NORMAL, IF ANTICIPATED, PAYMENT. FOR ENI IT IS THE EMPLOYERS' FEDERATION, CONFINDUSTRIA'S PRESSURE ON THE BANK OF ITALY TO DEVALUE THE LIRA AND THUS IMPROVE THE TERMS OF TRADE WHICH INHIBITED THE BANK FROM INTERVENING. ENI SAY IT WAS THIS WHICH CAUSED THE CRISIS. OTHER RUMOURS IMPLICATE ARABS, SOMETIMES SPECIFICALLY LIBYANS. ANOTHER RUMOUR SUGGEST A 5-10 PERCENT OFFICIAL DEVALUATION OF THE LIRA.

3. WE SHALL HAVE TO ALLOW THE DUST TO SETTLE BEFORE WE OBTAIN A CLEAR PICTURE OF WHAT HAS HAPPENED.

FCO ADVANCE TO  
 MATTHEWS, GRAHAM - IF2 TSY.  
 KIRBY, ALLEN - BANK OF ENGLAND.

BRIDGES  
 FINANCIAL  
 ERD.  
 WEB.

COPIES TO:

MR MATTHEWS } IF2 HM  
 MR GRAHAM } TREASURY

MR KIRBY } BANK OF  
 MR ALLEN } ENGLAND.

(ADVANCED AS REQUESTED)

( Repetition to ATHENS  
 referred for departmental decision,  
 repeated as requested to other posts. )

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