

**EUROPEAN
INVESTMENT BANK**

ANNUAL REPORT 1962

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For its accounts and balance sheet the European Investment Bank uses the unit of account as defined in Article 4 of its Statutes. The value of this unit of account is 0.88867088 gramme of fine gold.

In this report, conversions into units of account are made at the following par values :

1 unit of account =	{	50 Belgian francs
		4.00 Deutsche Mark
		4.93706 New French francs
		625 Italian lire
		50 Luxembourg francs
		3.62 Netherlands guilders
		1 United States dollar
		4.37282 Swiss francs

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BOARD OF GOVERNORS

- Belgium :* ANDRÉ DEQUAE, Minister of Finance, Brussels;
- Germany :* HEINZ STARKE, Minister of Finance, Bonn,
until 13th December, 1962;
- ROLF DAHLGRÜN, Minister of Finance, Bonn,
from 14th December, 1962;
- France :* WILFRID BAUMGARTNER, Minister of Finance and
Economic Affairs, Paris,
until 17th January, 1962;
- VALÉRY GISCARD D'ESTAING, Minister of Finance
and Economic Affairs, Paris,
from 18th January, 1962;
- Italy :* PAOLO EMILIO TAVIANI, Minister of the Treasury,
Rome,
until 20th February, 1962.
- ROBERTO TREMELLONI, Minister of the Treasury,
Rome,
from 21st February, 1962;
- Luxembourg :* PIERRE WERNER, Minister of State, President of
the Government, Minister of Finance, Luxembourg;
Chairman until 7th May, 1962;
- Netherlands :* JELLE ZIJLSTRA, Minister of Finance, The Hague;
Chairman from 8th May, 1962.
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BOARD OF DIRECTORS

Chairman : PARIDE FORMENTINI

Directors :

FRANCO BOBBA, Director-General of Economic and Financial Affairs at the Commission of the European Economic Community, Brussels;

SJOERD BOOMSTRA, Director of Exterior Finance at the Ministry of Finance, The Hague;

RAYMOND DENUCÉ, Financial Adviser to the Crédit Communal de Belgique, Brussels;

ROBERTO DUCCI, Ambassador, Ministry of Foreign Affairs, Rome;

Alternates :

PIERRE MILLET, Director at the Commission of the European Economic Community, Brussels;

succeeded
on 28th February, 1962 by :

ALAIN PRATE, Director at the Commission of the European Economic Community, Brussels;

OTTO WILLEM VOS, Director at the Ministry of Finance, The Hague;

PIERRE GUILL, Government Adviser with the Ministry of Finance, Luxembourg;

MARIO PENNACHIO, Counsellor of the Banca d'Italia; Financial Adviser to the Embassy of Italy in the Swiss Confederation, Paris;

FRITZ FECHNER, Ministerialdirektor at the Federal Ministry of Finance, Bonn;

HERBERT MARTINI, Member of the Board of Management, Kreditanstalt für Wiederaufbau, Frankfurt-on-Main;

ALFRED MÜLLER - ARMACK, Secretary of State at the Federal Ministry of Economic Affairs, Bonn-Duisdorf;

MAURICE PÉROUSE, Director of the Treasury Division at the Ministry of Finance and Economic Affairs, Paris;

JEAN R. SADRIN, Director of External Finance at the Ministry of Finance and Economic Affairs; Joint General Manager of the Comptoir National d'Escompte de Paris, Paris;

succeeded
on 8th May, 1962 by:

ANDRÉ DE LATTRE, Director of External Finance at the Ministry of Finance and Economic Affairs, Paris;

PASQUALE SARACENO, Central Manager of the Istituto per la Ricostruzione Industriale, Rome;

FRIEDRICH BERNARD, Ministerialrat at the Federal Ministry of Finance, Bonn;
from 8th May, 1962.

WALTER DUDEK, Formerly Senator for Finance, Hamburg-Harburg;

ERNST VOM HOFE, Ministerialdirigent at the Federal Ministry of Economic Affairs, Bonn-Duisdorf;

FRANÇOIS BLOCH-LAINÉ, General Manager of the Caisse des Dépôts et Consignations, Paris;

ROGER BOYER, Member of the Board of the Banque Française du Commerce Extérieur, Member of the Conseil National du Crédit, Paris;

ALBERTO CAPANNA, Condirettore Generale of Finsider, Rome;

PIERRE-PAUL SCHWEITZER,
Vice-Governor of the Banque de
France, Paris;

JEAN RIPERT, Deputy General
Commissioner of the Plan d'Équi-
pement et de la Productivité,
Paris;
from 14th January, 1963.

STEFANO SIGLIENTI, President
of the Istituto Mobiliare Italiano,
Chairman of the Associazione Ban-
caria Italiana, Rome;

GIUSEPPE DI NARDI, President
of Navalmeccanica, Rome.

MANAGEMENT COMMITTEE

PARIDE FORMENTINI, *President*
HANS KARL VON MANGOLDT-REIBOLDT, *Vice-President*
YVES LE PORTZ, *Vice-President* *

* Mr. CLAUDE TIXIER acted as Vice-President up to 15th July, 1962.

DEPARTMENTS

Secretary's Office

HENRI LENAERT, Manager **.
ARNOLD RIETZ, Deputy Manager,
Head of Personnel.

Loans in Member Countries

HANS WERNER VON LINDEINER-WILDAU,
Manager ***.
ROMEO DALLA CHIESA, Deputy Manager.
JEAN LEBUY, Deputy Manager.

Loans in Associated Countries

GUY TRANCART, Manager.
RUDOLF SPRUNG, Deputy Manager.

Finance and Treasury Department

GIANDOMENICO SERTOLI, Manager.

Research Department

ALBERTO CAMPOLONGO, Manager.
PIERRE BARRE, Deputy Manager.

Legal Department

J. NICOLAAS VAN DEN HOUTEN, Manager.

Technical Adviser

HENRI JEANDET.

** Mr. JEAN FRÈRE occupied the post of Secretary General until 5th June, 1962.

*** Mr. GÜNTHER BERGAN occupied the post of Manager until 31st October, 1962.

AUDIT COMMITTEE

Chairman

RENÉ BRESSON **Président de Chambre Honoraire à la Cour des Comptes, Former President of the Commission de Vérification des Comptes des Entreprises Publiques, Paris.**

Members

KARL BERNARD **Former Chairman of the Central Board of the Bank Deutscher Länder, Frankfurt-on-Main.**

ADRIAAN M. DE JONG **Former Executive Governor and Vice-President of De Nederlandsche Bank, Amsterdam.**

ANNUAL REPORT 1962

I

The economic expansion of the Community continued in 1962 but at a slightly reduced rate. Gross national product increased in real terms by about 4.9% as against 5.2% in 1961 and 7.1% in 1960. Owing to the increase in prices, gross product at current prices increased by 9% as against the previous year (201 milliards of units of account), reaching 219 milliards, corresponding to 1,270 units of account per head.

The highest increase in the gross national product occurred in France and in Italy: approximately 6% in real terms in each of the two countries. This figure represents in France an increase over the figure of 4.1% in 1961 and in Italy a decrease over the previous year's figure of 7.9%. In Germany the rate of growth was 4.1% as against 5.5% the previous year, in Belgium 3.5% as against 3% and in the Netherlands 2.9% as against 2.5%. The gross national product in Luxembourg appears not to have risen which is explained by the unfavourable conditions obtaining in its principal export markets.

As in the previous year the shortage of labour retarded the expansion of production in several countries. Immigration of foreign labour from outside the Community and transfers of labour within the Community reduced the effects of the shortage. The increase in employment was often offset by new reductions in the hours of work so that the increase in production was essentially linked with progress in productivity.

Various factors on the demand side have contributed to the slowing down of the expansion. The falling off in internal demand was particularly felt in respect of investment goods; the rates of growth in investments declined in all member countries. On the other hand, private consumption owing to wage increases remained considerable and public consumption continued to increase. Total internal consumption was therefore more and more the chief stimulant of the expansion.

Intra Community trade continued to progress: it increased by 14% in value (15% in 1961) which represents an increase of 87% over 1957, the last year before the Treaty of Rome came into operation.

As in the previous year, external demand had very little effect on the economic expansion of the Community. Exports towards non-member countries increased only by 1% in value as against 5% in 1961. Most affected in this respect are the countries exporting mainly investment goods, who have suffered from the slowing down in investment in non-member countries.

On the other hand, imports of the Community from non-member countries increased by 9% in value as against 5% in 1961. The balance of payments of the Community which showed a surplus in 1960 and which more or less balanced in 1961, continued to deteriorate in 1962 showing a deficit of approximately 1.5 milliard units of account.

* * *

In so far as regional policy is concerned, the main problem of the Community continues to be the improvement in the standard of living in the South of Italy. In this region of 19 million inhabitants (37% of the population of Italy and 11% of the population of the Community) the product per head of population is only one third of the average product per head of the Community. The economic integration of the South of Italy into the developed regions of the Community particularly by investments in the infrastructure, industry and agriculture remains one of the principal priorities not only of the

Italian State but also of European institutions. It is for this reason that the Bank has continued to devote particular attention to this region during the last year.

Interventions to foster the economic development of the region have produced an increase in investments as compared with the total volume of investments in Italy. It seemed, a few years ago, that development in the South was falling behind development in the North. This tendency has been stopped as is shown by higher rates of growth in the South of Italy than in the North and the Centre. More and more new enterprises are opening up, attracted by measures to foster development taken by the public authorities and also by the availability of labour and the prospects in a wide and growing new market. Nevertheless, to achieve any outstanding results, the development of the Mezzogiorno calls for a sustained effort over a period of several years particularly in so far as the training of workers is concerned.

Other regions of the Community do not present problems of the same kind except perhaps certain parts of the West, Centre and South of France. Steps have been taken by the French authorities to improve the standard of living and to develop employment in these regions; a considerable investment effort has already been made in which the Bank is assisting, particularly in Brittany and the South of France.

In the less developed regions of the other Community countries where the product per head has already, on the whole, reached a higher level, it is more a question of making good structural deficiencies and giving a new orientation to the economic activity than of solving grave problems of chronic unemployment or under-employment.

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According to provisional estimates, gross fixed capital formation of the Community amounted to 49 milliards of units of account in 1962, which represented an increase of about 11% as compared with 44 milliards for the previous year. In real terms, investments increased only by 6.2% as prices increased considerably, particularly in the building

industry. In value as in volume, fixed investments increased more quickly than the national product; the rates of increase of the latter, as already mentioned, were 9% in value and 4.9% in real terms. The share of investments in the national product therefore increased from 22 to 22.3%.

The following table shows for each of the countries of the Community the percentage of real increase in gross investment in 1962 as compared with the previous year :

	1961	1962
Germany	9.7	4.5
France	10	7.5
Italy	11.5	8.9
The Netherlands	6.7	5.1
Belgium	10	6
Luxembourg
Community	9.7	6.2

It will be seen that the rate of investment expansion has decreased in all member countries.

This decrease is due in the first place to the slowing down in investments in enterprises which increased only by 10% as compared with 15% for the previous year; in real terms the increase can be estimated at 7% as against 12% in 1961.

Public investment expenditure increased in all countries except in Italy where it decreased slightly. In the Community as a whole, the figure increased by 10%, i.e. about the same rate as last year. But as prices increased more than in 1961, the real rate of increase has decreased.

Residential construction has been influenced not only by the shortage of labour but also and particularly by reduction of activity owing to bad weather during the first months of the year. In almost

all countries of the Community, residential construction has increased less than in the previous year or has even decreased. An exception is Italy, however, where residential construction increased in real terms by 15% (against 5% in 1961). So the real rate of growth for the Community as a whole (5%) has exceeded that of the previous year (4%). Owing to new price increases, the investment outlay has increased by about 12%, a slightly higher rate than that of the previous year.

Investment outlay therefore, under the three sectors, private enterprise, public authorities and residential construction increased in 1962 at approximately the same rate. So the distribution of expenditure under these headings has hardly changed as compared with 1961: 68% for private enterprise, 23% for housing and 9% for public administration.

GROSS FIXED CAPITAL FORMATION BY SECTORS IN THE COMMUNITY,
1958-1962

Sectors	Milliards of units of account at current prices			% of total				
	1960	1961	1962	1958	1959	1960	1961	1962
Agriculture, forestry and fishing	2.8	3.0	3.2	7.6	7.4	7.4	6.9	6.6
Mining industries	0.9	1.0	1.0	3.0	2.8	2.5	2.3	2.1
Manufacturing and construction	9.9	12.2	13.7	24.4	24.2	25.9	27.8	27.9
Electricity, gas and water	2.5	2.6	3.0	7.2	7.1	6.4	6.0	6.0
Transports and communications	5.9	6.6	7.2	15.3	15.3	15.5	15.0	14.8
Commerce and other services	3.7	4.5	5.2	9.0	8.8	9.6	10.2	10.6
Gross fixed capital formation of enterprises	25.7	29.9	33.3	66.5	65.6	67.3	68.2	68.0
Housing	8.9	9.9	11.1	24.2	24.6	23.2	22.4	22.7
State	3.6	4.1	4.5	9.3	9.8	9.5	9.4	9.3
Gross fixed capital formation	38.2	43.9	48.9	100.0	100.0	100.0	100.0	100.0

Among the reasons for the decline in investment expansion it must be borne in mind that enterprises were able to do less self-financing. Considerable wage increases were granted whilst keener competition

from outside and inside the Community prevented enterprises from passing on these increases in the selling prices from which resulted a reduction in profit margins and therefore in self-financing.

This reduction in self-financing affects actually only a fraction of total investment : something in the region of 65% of fixed investments of the enterprises, that is approximately 45% of total investment; it essentially concerns investments in private enterprise sector. The investment decisions by public enterprise are not much influenced by self-financing, first because their investment programmes are prepared on a longer term basis, and, secondly, because they have easier access to the capital market, to credit facilities from specialized institutions and to direct budget credit. The financing of residential construction and public administration investments must be considered separately.

Apart from these changes in self-financing, other factors have influenced the investment programmes of enterprises. The expansion in productive capacity went on rapidly over the last few years; the slowing down of the increase in demand which made itself felt from 1961 has in some instances obliged enterprises to reconsider their sales forecasts and consequently their investment plans.

Moreover, the shortage of labour has slowed down in certain countries the creation of new productive capacity. But at the same time, it has obliged undertakings to effect rationalization investments, and the importance of such investments increases rapidly as compared with the total volume.

For the immediate future, it is estimated that for the Community as a whole, fixed investment should increase in 1963 at a slightly lower rate than in 1962 : the rate of growth of investment by enterprises should slow down somewhat whilst expansion should continue in residential construction industry and even more so in the public sector.

In the latter sector, investment possibilities remain of particular importance. Many regions of the Community, even outside the underdeveloped regions, have to catch up with considerable arrears in the economic and social infrastructure. In the heavily industrialized areas

the social infrastructure as well as public transport facilities, and roads have not always kept pace with economic and demographic development; as for the less developed regions, they are to a large extent without the infrastructure necessary to their development. An action in this field could alleviate to some extent the slowing down of investment in other sectors.

* * *

Financial flows in the countries of the Community are not sufficiently known to allow a table to be compiled showing the sources of financing of investments.

A considerable part of the financing of gross fixed investment comes from provision for depreciation which can be estimated for 1962 at 20 milliards of units of account i.e. approximately 40% of the 49 milliards of gross fixed investment.

Net investment amounts therefore to 29 milliards. Self-financing by retained profits has probably remained the main source of financing in 1962 and represented more than a third of net investment, in spite of the decline in profits, mentioned above.

The security issues on the financial markets of the Community provided amounts appreciably higher in 1962 than in previous years.

NET SECURITY ISSUES IN THE COMMUNITY 1958 TO 1962

In milliards of units of account

	1958	1959	1960	1961	1962
Shares	1.29	1.55	2.12	2.28	2.63
Public Loans	1.43	1.70	1.10	1.15	} 5.24
Bonds in the private sector	2.76	2.89	2.53	3.53	
Total	5.50	6.15	5.76	6.96	7.87

The net issues of public loans and of private bonds reached 5.24 milliards (against 4.68) and the issue of shares 2.63 milliards (against 2.28) that is a total of 7.87 milliards (against 6.96). Total issues thus increased by 13%, a rate of increase exceeding the rate of investment.

A similar amount has been financed by medium and long term bank credits. The increase of these credits, after deducting funds obtained by banks through the issue of their own bonds, can be estimated at 8.5 milliards in 1962 as against 7.1 milliards in 1961 that is an increase of 20%.

Short term credit has also increased considerably but it is not possible to estimate to what extent this has been devoted to the financing of investments.

* * *

Funds obtained by companies on the capital markets of Member States by the issue of shares in 1962 have, on the whole, exceeded those of the previous year.

	1961	1962
	<i>(milliards of units of account)</i>	
Germany	0.82	0.55
Belgium	0.07	0.14
France	0.65	0.81
Italy	0.67	0.95
Luxembourg	0.03	0.05
The Netherlands	0.04	0.13
Total Community	2.28	2.63

The evolution of market prices of shares differs by countries : the general index shows a slight rise in France, stability in Belgium and a fairly pronounced fall in the Netherlands, Italy and Germany. It is particularly in this latter country that the unfavourable tendency has limited the possibilities of making calls on shareholders.

The net amount of funds raised by the issue of public loans as well as of private bonds has shown a further increase for the Community as a whole, resulting from an increase of issues in Germany, Belgium and Italy and a slight reduction in France and the Netherlands.

	1961	1962
	<i>(billiards of units of account)</i>	
Germany	1.96	2.36
Belgium	0.44	0.52
France	0.74	0.70
Italy	1.41	1.53
Luxembourg	—	0.01
The Netherlands	0.14	0.12
Total Community	4.69	5.24

In Germany once again the bulk of funds raised went to mortgage banks and to local financial organizations; public authorities and industrial companies have also increased their net calls on the market; industrial companies have, moreover, been able to replace more expensive loans contracted before 1958 by new issues, by making use of prepayment clauses.

The rates offered to subscribers, about 6% at the end of 1961, fell towards the end of the first quarter and then went up again to around 6%, keeping stable throughout the second half of 1962; at this rate, a substantial supply of capital was possible.

In Belgium, borrowers from the public sector appealed to the market for amounts considerably higher than those asked for during the previous year. For the first time since 1959 some bond issues came from industry.

The placing of these securities was easy : abundant liquidity, in spite of increased demands, allowed rates offered to subscribers to be reduced; at the end of 1962, these rates scarcely exceeded 5.25%, a reduction of 0.50% over the previous year.

In France, as in 1961, the Government and public bodies placed considerable net sums at the disposal of the market; the available resources thereby increased were shared between the banking system, the nationalised sector and the private sector, the share taken by the latter being slightly less than during the previous year.

A close control of the issue of securities resulted in a remarkable stability of rates offered to subscribers. These rates, around 5.70%, vary only slightly between the various classes of borrowers as opposed to market yields of existing securities (end of December 1962, 5.30% for bonds in the public and semi public sector and 6.20% for those in the private sector).

In Italy, the issue of fixed interest bearing securities showed an increase over the previous year. Partly owing to this increase in demand, a tightening up of rates was noticed as from the second quarter. At the end of the year, new issues were carrying a yield of 6% as against 5.70% a year previously; the quotations of older securities showed also an appreciable rise.

In Luxembourg, where no issues had been made in 1961, the market supplied some capital in 1962 to the public and private sectors. The yield offered to subscribers was slightly in excess of 4% in the former and of 4.50% in the latter.

In the Netherlands, new government issues fell seriously, and the repayment of government loans exceeded new issues. Local bodies, mainly through the Bank voor Nederlandse Gemeenten, had recourse to the market for sums approximating to those of the previous year, whilst private borrowing increased considerably.

The rates obtaining increased by about 0.25% towards the middle of the year and then stabilised at 4 1/2% for long term issues by the principal borrower, the Bank voor Nederlandse Gemeenten which enjoys special regulations.

In spite of this increase, the Dutch market remains the most advantageous for borrowers, followed by the Belgian market; the advantage is all the more marked in that charges in connection with new issues in both countries seem to be considerably less than in other member countries.

In addition to these operations which were strictly internal, several member countries authorized issues of foreign bonds in 1962.

In spite of a marked decrease as compared with 1961, the market in the Netherlands remained the most open to foreign securities : these issues reached a nominal figure of 230 million florins corresponding to a net withdrawal of money from the market of 142 million florins (536 and 432 million respectively for 1961). The yields offered to subscribers varied between 4.55 % and 5.25 % showing a certain rise during the period in which the market was open to foreign issues.

Two issues by international banks were made in Italy covering in all 30 milliard liras (as compared with 15 in 1961). The securities at a rate of 5% were offered at par; conditions prevailing at the end of the year would not have allowed such advantageous rates for the issuers.

In Germany, where the last foreign issues of any importance were made in 1959, a loan of 100 million DM was floated in February 1962, giving a yield for the subscriber of about 7%.

Moreover, the placing has been allowed of the 2nd issue of 5 million dollars of a Portuguese loan originally floated in May 1962 simultaneously in several financial centres of the Community. In December, an announcement was made concerning the issue in early 1963 of a Norwegian loan of 12 million dollars. Both issues were expressed

in units of account as defined by the former European Payments Union and interest and repayment will be effected at the choice of the bearer in any of the 17 currencies in question.

In the Community as a whole, therefore, the total amount of new foreign loans issued in 1962 amounted to almost 140 million of units of account of which 50 millions were issued by borrowers from other member states and about 90 by non-member borrowers. This latter figure may be compared with the amount of loans issued on the American and Swiss market by borrowers from the Community, and amounting to nearly 150 millions.

II

LOANS

The Bank's activity continued to increase in 1962: loans increased both in number and in amount. An important fraction of those loans concerned projects of medium importance; five loans in fact do not exceed one million units of account. For the first time the Bank assisted in a project for industrial reconversion.

The Board of Directors in 1962 approved fifteen loans totalling 94.1 million units of account as against ten loans in 1961 totalling 66.2 million u.a. These loans were distributed as follows: fourteen loans totalling 77.9 million u.a. in Italy and one loan of 16.2 million in France. They concern projects for a total cost of 237 million units of account.

The projects in question are:

France:

1. Modernization of the lines of the *Société Nationale des Chemins de Fer Français (S.N.C.F.)* in Brittany: electrification of the line Le Mans-Rennes and conversion to Diesel on other lines; loan by the Bank: 16.2 million units of account.

Central Italy:

2. The construction at Leghorn of a factory to manufacture 65,000 tons of metal frames per year by the *C.M.F. - Costruzioni Metalliche Finsider S.p.A.*; this factory will employ about one thousand

people released by the naval dockyards of Leghorn where employment will be considerably reduced as a result of the reorganization of the Italian naval dockyards; loan by the Bank : 4.8 million units of account.

Continental Mezzogiorno :

3. Construction of a brewery in the Apulia; loan by the Bank : 3 million units of account.

4. Enlargement in Barletta (Bari province) of a cement factory for the additional production of 250,000 tons per year by the *S.p.A. Cementeria di Barletta*; loan by the Bank : 2 million units of account.

5. The construction at Montesarchio (Benevento province) of a brick works with an output of 200,000 cubic metres per year by the *I.C.L.A.M. - Industria Campana Laterizi Affini Montesarchio*; loan by the Bank : 0.7 million units of account.

6. Enlargement of a tannery at Pescara by the *C.I.R. - Concerie Italiane Riunite S.p.A.*; loan by the Bank : 0.4 million units of account.

7. Construction at Mondragone (Caserta province) by the *I.D.A.C. - Impianto Disidratazione Agro Campano* of a dehydration factory with an evaporation capacity of 2,000 litres of water per hour for the production of powdered fruit and vegetables; loan by the Bank : 1 million units of account.

8. Construction in the province of Latina of an electric light bulb factory; loan by the Bank : 0.5 million units of account.

9. Transforming freezing installation and installing plant for deep-frozen fruits and vegetables at Porto d'Ascoli (province of Ascoli Piceno) by the *SURGELA - Industrie Frigorifere et Conserviere della Valle del Tronto*; loan by the Bank : 0.4 million units of account.

10. Construction in Naples of a cellophane factory; loan by the Bank : 3 million units of account.

11. Construction at Taranto, near to the iron and steel works centre of Italsider (to which the Bank made a loan in 1960) of a cement factory with an annual output of one million tons using in part the slag

from this centre; this project will be executed by the *CEMENTIR - Cementerie del Tirreno S.p.A.*; loan by the Bank : 6.4 million units of account.

Sardinia :

12. Construction at Sant'Antioco (Cagliari province) of a factory for the extraction of 50,000 tons per year of magnesium oxide from the magnesium salts contained in sea water; this project will be executed by the companies *Sardamag - Sarda Magnesite S.p.A.* and *Palmas Cave S.p.A.*; loan by the Bank : 4.6 million units of account.

13. Construction at Cagliari by the *Rumianca S.p.A.* and six other companies of the same group, of a chemical unit based on the electrolysis of sea salt and the cracking of light distillates of petrol of which the principal products will be chlorure of polyvinyle and polyethylene; loan by the Bank : 24 million units of account.

14. Establishment at Porto Torres (Sassari province) of a petrochemical unit by the *Sarda Industria Resine (S.I.R.)* and four other companies of the same group; loan by the Bank : 19.2 million units of account.

Sicily :

15. Construction at Fiumefreddo (Catania province) of a factory for the production of liner-board from Sicilian eucalyptus wood; this project will be executed by *S.I.A.C.E. - Società Industriale Agricola per la Produzione di Cellulosa da Eucalipto S.p.A.*; loan by Bank : 8 million units of account.

* * *

The two loans to the *Société Nationale des Chemins de Fer Français (S.N.C.F.)* and the *C.M.F. - Costruzioni Metalliche Finsider S.p.A.* are made direct to the companies. The loans concerning the other projects which come within the field of operations of the *Cassa per il Mezzogiorno* are, as in the past, granted to this organization which relends the amounts through the competent regional institutions which also participate in the financing of the projects.

These institutions are the following public bodies for granting credit to industry :

- Continental Mezzogiorno : *Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER)*;
- Sardinia : *Credito Industriale Sardo (C.I.S.)*;
- Sicily : *Istituto Regionale per il Finanziamento alle Industrie in Sicilia (IRFIS)*.

* * *

From the date of its establishment up to the end of 1962, the Bank has approved 37 loans totalling 254.3 million units of account, i.e. an average of 6.9 millions per loan. The investments in which the Bank has participated amount to 1,250 million units of account : the Bank's share has averaged about 20%, varying widely according to the nature and the importance of the project. The duration of the industrial loans spreads, on the whole, over a period of from 11 to 15 years, whilst the duration of loans for infrastructure (power and transport) and agricultural projects spreads over a period of from 16 to 20 years.

The geographical distribution of approved loans is as follows :

DISTRIBUTION OF LOANS BY COUNTRY
at 31st December, 1962

<i>Countries</i>	<i>Number of projects</i>	<i>E.I.B. loans (million u.a.)</i>	<i>Share of total</i>
Belgium	1	4.8	2%
Germany	2	27.4	11%
France	8	54.0	21%
Italy	25	164.1	64%
Luxembourg	1	4.0	2%
Total	37	254.3	100%

The loans are distributed amongst the economic sectors as follows :

DISTRIBUTION OF LOANS BY SECTOR
at 31st December, 1962

<i>Sector</i>	<i>Number of projects</i>	<i>E.I.B. loans (million u.a.)</i>	<i>Share of total</i>
Agriculture	2	10,5	4%
Transport	4	66.2	26%
Power	6	42.6	17%
Industry	25	135.0	53%
— Iron and steel	1	24.0	
— Building material	3	9.1	
— Paper	2	12.8	
— Mechanical industry	3	11.2	
— Chemical industry	9	71.9	
— Food stuffs	4	4.8	
— Other industries	3	1.2	
Total	37	254.3	100%

* * *

At 31st December, 1962, 26 loan agreements had been signed covering a total of 213.0 million units of account. At the end of March, 1963, 36 loan agreements covering 253.7 million units of account had been signed. The amount paid out on these loans, less repayments effected, amounted at the end of 1962 to 140.8 million units of account and at the end of March 1963 to 158.9 million units of account.

During the course of the last year, the first repayments of loans previously granted were made amounting to 0.6 million units of account.

* * *

As from 1962, the European Investment Bank extended its field of operation to countries associated with the European Economic Community.

The association agreement between the Community and Greece of 9th July, 1961 mentioned in the last annual report, came into operation on the 1st of November, 1962. A financial protocol provides for financial assistance from the Community on investments to be effected in Greece to the extent of 125 million dollars over five years. The Bank which has been designated by the Community as the lending authority was allowed by the Board of Governors under art. 18 of its Statutes to engage, under a mandate from the member states, at terms and conditions laid down in its Statutes, a first amount of 50 million dollars in the course of the first two years. For a part of these loans, an interest subsidy may be granted, the subsidy being borne by member states.

A number of applications for loans for investment projects were presented by the Greek authorities at the end of 1962; they are being examined by the Bank.

The draft convention, signed but not yet ratified, whereby the association of eighteen African states is renewed for five years, provides for total aid from the Community amounting to 730 million units of account. Of this amount, the Bank may lend out of its own funds, up to a maximum of 64 millions, in the terms and conditions laid down in its Statutes.

Further texts now under consideration, foresee the Bank's intervention in similar conditions and within a limit of 6 million units of account within the framework of total assistance amounting to 70 million units of account in favour of dependent overseas countries and territories and of the French overseas departments.

This extension of the Bank's activity to countries where the economic and social development differs often from that in Western European countries has necessitated a revision of the internal organization of the Bank. A Department for loans in Associated Countries has been created whilst the Loans Department already existing has taken the name of Department for loans to Member Countries.

On the other hand, as shown by the experience of other international institutions, these financial interventions outside the Community sometimes necessitate a deep analysis before the investment is made; when the need arises the Bank will take the necessary steps.

* * *

Apart from its banking operations, the Bank has been associated in numerous study groups and with enquiries from different organisations within the Community in fields likely to influence its future activity.

It has also participated in working parties set up by O.E.C.D. to examine long-term development problems of Greece and Turkey, as well as in the Consortium to aid Greece.

* * *

RESOURCES

The Bank has continued its borrowing policy aiming at placing its securities on the different capital markets in order to collect on these markets the increasing volume of funds which it will need to fulfill its function.

The Bank was able in 1962 to enter the capital market in Italy and issued a new loan in the Netherlands.

The first Bank loan in Italy was raised in February 1962, the total amounted to 15 milliard lire (24 million u.a.) for a duration of 15 years. The bonds, bearing interest of 5% per annum, were offered to the public at par and are repayable at par at the end of the fifteenth year. The Bank reserves the right to repay the loan by anticipation in part or in whole without any premium as from the 6th year.

A second loan of 30 million florins (about 8.3 million u.a.) was offered for public subscription at par on the Dutch market in

December 1962. The loan has a duration of 20 years and bears interest at 4 3/4% per annum; it is repayable at par in 10 equal annuities as from December, 1973.

After these two issues, the long-term debt of the Bank amounts to 53.7 million units of account.

* * *

The year 1962 marked the end of a first phase in the life of the Bank in the course of which the means necessary to its lending operations were supplied by the paid up capital. The total amount committed by the Bank through approved loans, 254.3 millions, exceeds the paid up capital; it represents three quarters of its combined resources : paid up capital, borrowings and accrued profit. However, the liquidity of the Bank remains high for the time being because of the period intervening between the date of approval of loans, the signature of loan agreements and the payment of funds under the terms of finance plans.

III

The balance sheet and profit and loss account are enclosed with this Report. Their main items are analysed below :

BALANCE SHEET

The balance sheet total as at 31st December, 1962 amounts to 411,248,568.32 u.a. On 31st December, 1961 this total was 351,177,185.56 u.a.

ASSETS

Cash and banks, gold assets and investments

As at 31st December, 1962 the current assets of the Bank were made up as follows :

1. Cash and banks :	156,504,062.63 u.a.
Cash on hand	5,007.31 u.a.
Banks	156,499,055.32 u.a.
The corresponding total on 31st December, 1961 was	143,841,597.06 u.a.
2. Gold assets :	8,520,897.32 u.a.
Made up of metal deposits and sight deposits.	
3. Investments :	31,683,179.21 u.a.
The investments are made up of 7,373,941.17 u.a. in treasury bills, 10,561,476.60 u.a. in other money market paper and the balance of 13,747,761.44 u.a. in bonds and notes	

The bonds and notes have been valued at cost price or on stock exchange quotation at 31st December, 1962 if this latter were below cost price with a maximum of 100%.

The balance sheet as at 31st December, 1961 showed this item at 50,875,745.29 u.a.

The total of these three items, viz. 196,708,139.16 u.a. was made up as follows :

— Currencies of Member Countries	151,962,835.63 u.a.
— Other currencies	36,224,406.22 u.a.
— Gold	8,520,897.32 u.a.

The break-up by maturities was as follows :

— At call	22,285,730.03 u.a.
— Not exceeding 3 months	59,436,986.29 u.a.
— Exceeding 3 months but not exceeding 6 months	39,317,861.85 u.a.
— Exceeding 6 months but not exceeding 1 year	69,135,674.55 u.a.
— Exceeding 1 year	6,531,886.44 u.a.

Effective loans.

The total amount of loans was 212,386,584.18 u.a. This amount represents loans for which contracts had been signed by 31st December, 1962, less repayment effected during the course of the year amounting to 570,480,70 u.a. Of this total the amount actually paid out to borrowers is 140,784,650.48 u.a.

Amounts due to the Bank as a result of these payments are made up as follows :

— Currencies of Member Countries	100,425,983.46 u.a.
— Currency of any Member State at the Bank's option	25,127,484.78 u.a.
— Other currencies	15,231,182.24 u.a.

The undisbursed amounts viz. 71,601,933.70 u.a. appear as a contra item in the liabilities under the heading « undisbursed balance of effective loans ».

The items concerning loans compare as follows with the previous year :

	31st December, 1961	31st December, 1962
Amounts disbursed	92,150,963.69	140,784,650.48
Amounts undisbursed	54,458,893.10	71,601,933.70
Total of loans	146,609,856.79	212,386,584.18

Furniture and equipment.

Furniture and equipment which have been fully amortized, are entered under this heading only pro memoria.

Accrued interest and commission.

Under this heading are shown interest and commissions accrued but not yet due for payment as at 31st December 1962; they amount to 2,128,053.51 u.a.

LIABILITIES

Capital.

Subscribed capital amounts to 1,000,000,000.— u.a. of which 250,000,000.— u.a. have been paid up and 750,000,000.— u.a. are guarantee capital.

Statutory Reserve.

The statutory reserve amounted at the beginning of the year to 10,256,538.26 u.a. and was increased to 15,591,775.17 u.a. by the transfer to this reserve of the balance of the Profit and Loss account.

Provision for risks on loans and guarantees.

This provision, which amounted to 6,000,000.— u.a. at the close of the preceding financial year has been increased to 10,500,000.— u.a.

Provision for equalization of interest on borrowings and for issuing charges.

This provision remains at the previous year's figure of 5,500,000.— u.a.

Provision for monetary risks not covered under Art. 7 of the Statutes.

This provision remains unchanged.

Amounts due under Art. para. 2 of the Statutes.

The amount appearing under this heading is 481,323.57 u.a. as against 481,682,37 at 31st December, 1961.

Medium and long term debt.

The figure of 53,682,477.81 u.a. under this heading represents the Bank's current borrowings as at 31st December, 1962.

Details are as follows :

— 4 1/2% seven year Bonds 1961 in guilders (Fl. 20,000,000)	5,524,861.88 u.a.
4 1/2% twenty year Bonds 1961 in guilders (Fl. 50,000,000)	13,812,154.70 u.a.
5% fifteen year Bonds 1962 in Italian lire (Lit. 15,000,000,000)	24,000,000.— u.a.
4 3/4% twenty year Bonds 1962 in guilders (Fl. 30,000,000)	8,287,292.82 u.a.
— Other borrowings	
Bank credit - 6 years as from 1961 in Swiss francs (Sw.Fr. 9,000,000)	2,058,168.41 u.a.
	<hr/>
Total :	53,682,477.81 u.a.

Undisbursed balance of effective loans.

The amount of 71,601,933.70 u.a. represents payments due by the Bank to its borrowers under contracts signed prior to 31st December, 1962.

Accrued interest payable and interest received in advance.

The amount of 908,174.70 u.a. appearing under this heading represents 870,735.42 u.a. accrued interest not yet paid and 37,439.28 u.a. interest received in advance for periods subsequent to 31st December, 1962.

Miscellaneous.

The amount of 982,883.37 u.a. under this heading includes various expenses and charges foreseen or incurred but not yet paid and also the amount earmarked for the staff provident fund.

PROFIT AND LOSS ACCOUNT

DEBIT

Administrative expenses.

These expenses amounted to 1,453,758.89 u.a. as against 1,124,720.82 u.a. for the previous year.

They are made up as follows :

Staff expenses	908,968.91 u.a.
General expenses and provisions for other charges	544,789.98 u.a.

Interest and charges on borrowings.

This item, amounting to 2,573,874.96 u.a., represents interest on borrowings and sundry charges and expenses connected therewith.

Financial expenses.

The amount of 116,072.19 under this heading includes a sum of 115,984.21 u.a. in respect of differences in the valuation of investments at 31st December, 1962.

Amortization of furniture and equipment.

Expenditure on furniture and equipment, made during the year and fully amortized, was 21,569.40 u.a. as against 40,282.62 for the previous year.

CREDIT

Interest and commission from loans.

This item amounts to 6,357,997.87 u.a. as against 3,283,355.90 u.a. for the previous year. The increase is in proportion with the appreciable increase in amounts paid out.

Interest and commission from investments.

The amount of interest from investments of available funds is 7,637,437.16 u.a. as against 8,266,453.54 u.a. for the previous year.

IV

On 15th July, 1962, M. Claude TIXIER, Vice President of the Bank, left the Management Committee to take over the presidency of an important bank in France.

We would ask M. TIXIER to accept the expression of our sincere gratitude for his highly important participation in the development of the Bank over the first years of its activity.

The Board of Governors has named M. Yves LE PORTZ, formerly Director General of Finance in Algeria, to succeed him.

* * *

The following changes took place in the Board of Directors :

On 8th May, 1962, the Board of Governors appointed M. André de LATTRE a Director in place of M. Jean SADRIN who resigned.

We thank M. SADRIN for his valued and competent help.

The following were appointed Alternate Directors :

28th February, 1962, Monsieur Alain PRATE, Alternate to Signor Bobba;
8th May, 1962, Herr Friedrich BERNARD, Alternate to Herr Fechner;
14th January, 1963, Monsieur Jean RIPERT, Alternate to Monsieur
Schweitzer.

* * *

The staff of the Bank amounted to 99 persons on 31st December 1962.

Brussels, 27th March, 1963.

The Chairman
of the Board of Directors

PARIDE FORMENTINI

**BALANCE SHEET
AND
PROFIT AND LOSS ACCOUNT**

REPORT OF PRICE WATERHOUSE & Co.

**60, Rue Ravenstein
Brussels.**

**The President,
EUROPEAN INVESTMENT BANK
BRUSSELS**

In our opinion, the accompanying statements present fairly the financial position of the European Investment Bank at December 31, 1962 and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

March 28, 1963.

PRICE WATERHOUSE & Co.

BALANCE SHEET AT

(in units of account of 0.8886708)

The conversion rates used in the account
50 Belg. fr = 4.00 DM = 4.93706 NFF =

ASSETS

CASH AND BANKS		
Member countries' currencies		
At call or not exceeding one year	126,799,926.47	
Over one year	750,000.00	
	<u>127,549,926.47</u>	
Other currencies		
At call or not exceeding one year		28,954,136.16
		<u>156,504,062.63</u>
GOLD ASSETS		8,520,897.32
INVESTMENTS		
Member countries' currencies		
Not exceeding one year	18,681,022.71	
Over one year	5,731,886.44	
	<u>24,412,909.15</u>	
Other currencies		
Not exceeding one year	7,220,270.06	
Over one year	50,000.00	
	<u>7,270,270.06</u>	31,683,179.21
EFFECTIVE LOANS		
Of which :		
Disbursed :		
In member countries' currencies	125,553,468.24	
In other currencies	15,231,182.24	
	<u>140,784,650.48</u>	
Undisbursed balance		71,601,933.70
		<u>212,386,584.18</u>
FURNITURE AND EQUIPMENT		1.00
ACCRUED INTEREST AND COMMISSION		2,128,053.51
MISCELLANEOUS		25,790.47
		<u>411,248,568.32</u>
	<i>Total assets u.a.</i>	<u>411,248,568.32</u>

DECEMBER 31, 1962

g. fine gold — Art. 4 of the Statutes)

of the Bank are : 1 unit of account =

625 Lit = 50 Lux. fr = 3.62 Fls = 1 US\$ = 4.37282 Sw. fr

LIABILITIES

SUBSCRIBED CAPITAL	1,000,000,000.00	
of which paid up in accordance with Art. 5 (1) of the Statutes		250,000,000.00
STATUTORY RESERVE		15,591,775.17
PROVISIONS		
for risks on loans and guarantees	10,500,000.00	
for equalization of interest on borrowings and for issuing charges	5,500,000.00	
for monetary risks not covered under Art. 7 of the Statutes	2,000,000.00	
	<hr/>	18,000,000.00
AMOUNTS DUE UNDER ART. 7 (2) OF THE STATUTES		481,323.57
MEDIUM AND LONG TERM DEBT		
Member countries' currencies	51,624,309.40	
Other currencies	2,058,168.41	
	<hr/>	53,682,477.81
UNDISBURSED BALANCE OF EFFECTIVE LOANS		71,601,933.70
ACCRUED INTEREST PAYABLE AND INTEREST RECEIVED IN ADVANCE		908,174.70
MISCELLANEOUS		982,883.37
		<hr/>
<i>Total liabilities u.a.</i>		<u>411,248,568.32</u>

PROFIT AND LOSS ACCOUNT FOR THE

(in units of account of 0.88867088

DEBIT

ADMINISTRATIVE EXPENSES	1,453,758.89
INTEREST AND CHARGES ON BORROWINGS	2,573,874.96
FINANCIAL EXPENSES	116,072.19
AMORTIZATION OF FURNITURE AND EQUIPMENT	21,569.40
PROVISION FOR RISKS ON LOANS AND GUARANTEES	4,500,000.00
BALANCE APPROPRIATED TO THE STATUTORY RESERVE	5,335,236.91
<i>Total</i> u.a.	14,000,512.35

FINANCIAL YEAR ENDED DECEMBER 31, 1962

g. fine gold — Art. 4 of the Statutes)

CREDIT

INTEREST AND COMMISSION FROM LOANS	6,357,997.87
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INTEREST AND COMMISSION FROM INVESTMENTS	7,637,437.16
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EXCHANGE DIFFERENCES	5,077.32
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<i>Total u.a.</i>	<u>14,000,512.35</u>
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STATEMENT BY THE AUDIT COMMITTEE

The Committee instituted in pursuance of article 14 of the Statutes and article 25 of the Rules of Procedure of the European Investment Bank in order to verify the regularity of its operations and of its books,

considering the 1962 annual report and the balance sheet of the Bank as at December 31, 1962 and the profit and loss account for financial year ending on that date, as drawn up by the Board of Directors at their meeting of March 27, 1963.

considering articles 22, 23 and 24 of the Rules of Procedure,

hereby certifies :

that the Bank's operations during the 1962 financial year were carried out in compliance with the formalities and the procedures laid down by the Statutes and the Rules of Procedure;

that the balance sheet and the profit and loss account correspond to the book entries and that they reflect exactly the situation of the Bank as regards both assets and liabilities.

Brussels, 3rd April, 1963.

The Audit Committee,

R. BRESSON

K. BERNARD

A. M. DE JONG

