

**EUROPEAN  
INVESTMENT BANK**



**ANNUAL REPORT 1963**

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For its accounts and balance sheet the European Investment Bank uses the unit of account as defined in Article 4 § 1 of its Statute. 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 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;  
Chairman from 28th May, 1963;

*Germany* : ROLF DAHLGRÜN, Minister of Finance, Bonn;

*France* : VALÉRY GISCARD D'ESTAING, Minister of Finance  
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*Italy* : ROBERTO TREMELLONI, Minister of the Treasury,  
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until 7th August, 1963;  
Chairman until 27th May, 1963;

HENDRIKUS-JOHANNES WITTEVEEN, Minister of  
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## BOARD OF DIRECTORS

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*Directors* :

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

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

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

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

*Alternates* :

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

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

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

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



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

MARIO PENNACHIO, Counsellor  
of the Banca d'Italia, Financial  
Adviser to the Embassy of Italy  
in the Swiss Confederation, Paris;  
succeeded  
on 28th May, 1963 by  
ALBERTO CAPANNA, Condiret-  
tore Generale of Finsider, Rome;

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

FRIEDRICH BERNARD, Govern-  
ment Adviser with the Federal  
Ministry of Finance, Bonn;

HERBERT MARTINI, Member of  
the Board of Management, Kredit-  
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Harburg;

ALFRED MÜLLER-ARMACK, for-  
merly State Secretary, Köln-Lin-  
denthal;

ERNST VOM HOFE, Manager at  
the Federal Ministry of Economic  
Affairs, Bonn-Duisburg;

MAURICE PÉROUSE, Director of  
the Treasury Division at the Minis-  
try of Finance and Economic  
Affairs, Paris;

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

PASQUALE SARACENO, Central  
Manager of the Istituto per la  
Ricostruzione Industriale, Rome;  
succeeded  
on 28th May, 1963 by  
GIUSEPPE DI NARDI, President  
of Navalmeccanica, Rome;

PIERRE-PAUL SCHWEITZER,  
Vice-Governor of the Banque de  
France, Paris;  
succeeded  
on 11th February, 1964 by :  
JEAN SALTES, Chairman and  
Director-General of the Crédit  
National, Paris;

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

ALBERTO CAPANNA, Condiret-  
tore Generale of Finsider, Rome;  
succeeded  
on 28th May, 1963 by  
LIONELLO FRONZONI, Repre-  
sentative of the Bank of Italy  
in Benelux, Financial Adviser to  
the Italian Embassies in Brussels,  
The Hague and Luxembourg,  
Brussels;

JEAN RIPERT, Deputy Commis-  
sioner-General of the Plan d'Équi-  
pement et de la Productivité,  
Paris;

GIUSEPPE DI NARDI, President  
of Navalmeccanica, Rome;  
succeeded  
on 28th May, 1963 by  
ALDO BALDARI, Inspector-Gen-  
eral of the Treasury, Inspectorate-  
General for External Finance, Mi-  
nistry of the Treasury, Rome.



## MANAGEMENT COMMITTEE

PARIDE FORMENTINI, *President*

HANS KARL VON MANGOLDT-REIBOLDT, *Vice-President*

YVES LE PORTZ, *Vice-President*

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### DEPARTMENTS

<i>General Affairs Office</i>	HENRI LENAERT, Manager. ARNOLD RIETZ, Deputy-Manager, Head of Personnel.
<i>Loans in Member Countries</i>	HANS WERNER VON LINDEINER, Manager. ROMEO DALLA CHIESA, Deputy-Manager. MICHEL ALBERT, Deputy-Manager (1).
<i>Loans in Associated Countries</i>	GUY TRANCART, Manager. KARL-HEINZ DRECHSLER, Deputy-Manager (2). GUIDO MARTELLI, Deputy-Manager (3).
<i>Finance and Treasury Department</i>	GIANDOMENICO SERTOLI, Manager.
<i>Research Department</i>	ALBERTO CAMPOLONGO, Manager. PIERRE BARRE, Deputy-Manager.
<i>Legal Department</i>	J. NICOLAAS VAN DEN HOUTEN, Manager.
<i>Technical Advisers</i>	HENRI JEANDET. HELLMUTH BERGMANN (4). MARCELLO GOFFI (5).

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(1) Mr. JEAN LEBUY was Deputy-Manager until 31st August, 1963.

(2) Mr. RUDOLF SPRUNG was Deputy-Manager until 30th June, 1963.

(3) From 1st January, 1964.

(4) From 1st April, 1963.

(5) From 1st July, 1963.



## AUDIT COMMITTEE

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**KARL BERNARD**      A former Chairman of the Central Board of the Bank Deutscher Länder, Frankfurt-on-Main;

### *Members*

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

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

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# ANNUAL REPORT 1963

## I

### ECONOMIC DEVELOPMENT OF THE COMMUNITY IN 1963

The economic expansion of the Community continued in 1963 and the gross national product rose by 4%. It is a lower rate than in the two previous years (5.0% in 1962 and 5.3% in 1961). This slackening off can hardly be attributed to a weakening in the long-term trends of economic expansion in the Community, but rather to such exceptional factors as the particularly bad weather conditions experienced during the early months of the year. In effect, the tendency for business activity to slow down at the end of 1962 and during the early months of 1963 — especially investment by enterprises — was followed by a fairly marked recovery during the year.

The gross national product of the Community, calculated at current prices, amounted to 246 milliard units of account in 1963, i.e. an increase in value of 9% compared with the previous year (226 milliards). The average product per head rose from 1290 to 1390 units of account.

The increase in total demand during 1963 was about the same as in the previous year; however, the increase of internal supply was slower, chiefly because of the continued shortage of labour, which has become even more acute in certain regions. Thus, the increase in demand led to a marked rise in prices and at the same time to a deterioration in the Community's current balance of payments. The average level of prices rose by nearly 5%; as for the balance of current accounts, they



probably showed a slight deficit for 1963 as against the 1.2 milliard dollar surplus in 1962, this deterioration is mainly due to the development of the trade balance, the trade deficit having increased from 1.6 milliard dollars in 1962 to 3 milliards in 1963.

The inflationary pressure experienced in several countries of the Community as shown by the widening gap between the rates of growth of the national product at current prices and in real terms has become, during the last few months, the major problem in relation to the existing economic policy.

External demand contributed more to the expansion of total demand in 1963 than in the previous year. Exports to non-member countries increased by about 5% in value as against about 1% the previous year. This appears to be due to the recent economic recovery in certain industrial countries, in particular the United States and Great Britain, and also to the increase in exports to the developing countries.

On the whole, the expansion of internal demand has continued unabated but on a slightly lower scale than in the previous year, mainly owing to the slowing-down of the development of gross investment. Investment goods were particularly affected by the unwillingness shown by enterprises to invest during the first half of the year and although there was a marked improvement during the last six months, recovery was not complete. Furthermore, the building sector was unable to maintain the earlier rate of expansion because of the backlog which had accumulated during the winter months.

Public and private consumption continued to increase considerably although there was a slight fall in the rate of increase. But this general development covers trends which often vary greatly from one country to another, i.e. the slower expansion in private consumption may be attributed mainly to Germany, where wage increases were no longer so rapid and where the saving ratio increased, whereas, in France and Italy, consumption expenditure actually accelerated its increase.

Internal supply increased somewhat less compared with the previous year. Industrial output only showed an increase of about 5% as against 6% in 1962. The expansion of agricultural production was much lower than in 1962. In the public service sector, however, the vigorous expansion of 1962 seems to have been maintained.

The tightening of the margins of capacity available within the Community has provoked a more rapid increase in imports from non-members countries : about 10% in value as against 8% in 1962.

The increase in intra-Community trade was even greater, reaching 17% in value, as against 14% in 1962. The further lowering of customs tariffs and other measures, intended to implement the common market, as well as the general expansion of demand were responsible for a certain gap — more pronounced in some countries of the Community than in others — between the rates of expansion of internal demand and supply.

The difference between supply and demand in each country exerted a marked influence on prices and on the trade balance. Prices which remained relatively stable in Germany and, during the first half of the year, in Belgium and the Netherlands, rose sharply in Italy and France. In these two countries the trade balance showed a sharp deterioration which, to a certain extent, found its counter-part in the large increase of the German trade surplus. The increased supply due to imports from other Community countries has probably moderated the increase of prices in the countries exposed to inflationary pressure. But it is to be feared that, if these differences persist, such pressures may reach, through the channel of intra-Community trade, those member countries whose prices have so far remained relatively stable.

While for the Community, as a whole, there was no longer a surplus on current account, the overall balance of payments remained in surplus owing, among other factors, to the continuing important inflow of private capital. The gold and foreign exchange reserves of the Community continued to rise, increasing from 16.8 milliard dollars at the end of 1962 to 18.3 milliards at the end of 1963. However, it

should be noted that, in certain member countries, this development has been accompanied by a marked deterioration in the external position of commercial banks and that, in Italy in particular, the increased foreign indebtedness of commercial banks helped to mitigate the impact of the current deficit of the balance of payments on the gold and foreign exchange reserves of the country.

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## INVESTMENT

Gross fixed capital formation in the Community, according to provisional estimates, amounted to about 56 milliard units of account in 1963. Investment outlays exceeded by about 9% those of the previous year (51.7 milliards). In real terms, the increase may be estimated at about 4%. The growth rate of investment has continued to fall in both value and volume, as is shown in the following table :

INCREASE IN FIXED INVESTMENT IN THE COMMUNITY  
(percentages as compared with the previous year)

	<i>Value</i>			<i>Volume</i>		
	1961	1962	1963	1961	1962	1963
Germany	14.3	11.3	4.9	9.4	5.4	1.8
France	13.8	11.3	11.0	10.5	7.4	5.9
Italy	14.8	14.6	11.8	12.3	8.9	5.5
The Netherlands	7.7	6.9	10.5	6.1	4.2	4.3
Belgium	4.7	6.9	10.0	2.8	1.6	4.5
Luxembourg	16.0	..	..	..	..	..
The Community	13.0	11.0	9.0	9.5	6.3	4.0

It is the first time since 1958 that the growth rate of investment has not exceeded that of the national product for the Community as a whole.

As already pointed out, strongly divergent trends have influenced investment continually throughout the year. During the first months, unfavourable weather conditions affected in particular building activity and at times brought outside work to a complete halt in certain regions of the Community. In addition to this particular factor there was also a certain slackening off of activity which had already affected the investment by enterprises during the previous year.

In most countries, the building trade was able to make up the time lost during the winter; but for the Community as a whole, the previous year's rate of increase could not be attained. In the other sectors there was a fairly general recovery of investment activity, especially investment in equipment.

In the first place, investment decisions by enterprises were favourably influenced by the continued expansion of consumption in the Community, as were those of the export industries by the recovery of external demand. The financial situation of business firms also seems to have improved in certain countries, where the previous decrease in profit margins came to an end. Investment was also favourably influenced by the decisions of enterprises to undertake important rationalization investments which aimed at making up for the shortage of labour and the increase of wages.

For the Community as a whole, the growth rate of investment by enterprises continued to slow down : the total increase of investment outlay was only about 7%, as against nearly 11% a year before.

The development, however, differed widely from country to country. In Germany, investment by enterprises was only slightly higher than that of the previous year, whereas in 1962 the increase had still been as much as 10%. Investments by industrial undertakings were probably down in value, and certainly in volume, on those made in 1962; the decrease in important sectors, particularly in the basic industries and many branches of the capital goods industry, was not balanced by the expansion in others which still benefited from favourable market conditions or from structural advantages, as for example the

chemical and the oil refining industries. In agriculture, investment decreased. Investment in trade and services continued to progress at an above average rate.

In France there was a marked slackening off of investment by private enterprises : on the whole, the volume of productive investments in this sector has hardly reached that of 1962. In previous years, an exceptional activity had been shown in this field, with gross investment increasing in volume by more than 30% in three years; but now these enterprises seem to be holding back, chiefly on account of fears of creating excess capacities. On the other hand, the problems of financing seem hardly to have slowed down investment decisions, as profits have on the whole developed favourably.

While investment activity in the private sector was weak, public enterprises showed a relatively strong expansion : the rate of growth, some 8% in volume, was more than twice as high as that of the previous year.

Total investment outlay for private as well as public enterprises increased by about 8.5% in 1963, considerably less than in 1962. At constant prices, the slowing-down of expansion appears from the difference between the rate of 7.4% in 1962 and the much lower rate of 4.4% in 1963.

In Italy, investment by enterprises increased in real terms by 5% as against nearly 10% in 1962; taking into account the considerable rise in prices, investment outlay increased by 10% as against 14% in the previous year. In this country too the State-owned enterprises account for the highest share in investment expansion. As in 1962, this increase is mainly due to the continuation of very important iron and steel projects. In the private sector the increase was rather limited. In many branches, rationalization investments have been made aiming at making up for the growing shortage of labour and the recent heavy increase in labour costs. These investments have therefore retained the important place which they already had in the total investment of enterprises. Generally speaking, there seems to have been little progress of investment in those branches where large enterprises predominate.

Among the sectors where investment increased the most rapidly may be mentioned the paper and pulp industry, where investment more than doubled during the year.

In the Netherlands the previous slackening off in the growth rate of investment by enterprises was halted in 1963. Expenditure on plant and other capital goods and on industrial building increased more rapidly. In value, investment by enterprises probably rose by 10% in 1963 as against 6% in 1962, while in volume the increase appears to have been 6.5% in 1963 as against 4.5% in 1962.

In Belgium, investment by enterprises increased rapidly : in volume it probably advanced some 5 to 6% against only 2% in 1962 and at current prices about 9% as against 4%. Rational investments seem to be still predominant while investments for capacity extensions are being held back. The setting-up of foreign-owned establishments in Belgium continued in 1963, and it seems to have exerted a considerable influence on investment.

In the Grand Duchy of Luxembourg, investment has also benefited from higher outlays by foreign firms, but their influence on investment as a whole has been fairly limited because of the stagnation of investment in the iron and steel industries.

In most Community countries the growth rate of public investment was above the average, particularly in France and Germany. Italy was an exception : here outlay on public works decreased slightly, as it had done in 1962. For the Community as a whole, public investment increased by about 13% at current prices or from 8 to 9% in real terms.

Residential construction developed very differently from one country to another, owing not only to different weather conditions during the winter but also to certain specific national factors. In France for example, residential construction increased in volume by about 7%, against 4.3% the previous year, because state-subsidized housing was stepped up to meet the needs of persons repatriated from North Africa.

In the Netherlands, where residential building had fallen by about 5-6% in the previous year, the growth rate was almost as high as in France : despite a general labour shortage, it was possible to increase the manpower employed in the building sector. In Italy, the growth rate, about 8% in volume, was very high, too, but far from reaching the exceptional 14% of the previous year. The labour shortage in the industrial areas of Northern Italy, the growing difficulty of obtaining finance, and fears about State property controls, were the main impediments to a quicker growth. In Germany and Belgium, the volume of residential building seems hardly to have exceeded that of the previous year, and in Luxembourg it may well have diminished appreciably : time lost during the winter was never made good because of the labour shortage.

For the Community as a whole, the volume of residential building thus increased by only about 3% as against 5% in 1962, which corresponds to some 10% in value.

GROSS FIXED CAPITAL FORMATION IN THE COMMUNITY, 1959-1963

<i>Sectors</i>	<i>In milliards of units of account at current prices</i>			<i>in % of total</i>				
	1961	1962	1963	1959	1960	1961	1962	1963
Agriculture, forestry and fishing	3.1	3.3	3.5	7.2	7.0	6.6	6.4	6.3
Extractive industries	1.0	1.0	1.0	2.6	2.4	2.1	2.0	1.8
Manufacturing and construction	13.2	14.8	15.4	24.6	26.9	28.6	28.6	27.5
Electricity, gas, water	2.7	2.9	3.1	7.0	6.2	5.8	5.6	5.5
Transport and communications	7.3	8.0	9.0	15.5	15.8	15.7	15.5	16.0
Residential building	10.7	12.0	13.3	25.0	23.7	23.2	23.2	23.5
Public administration	3.0	3.4	3.8	6.6	6.4	6.5	6.6	6.8
Trade and other services	5.3	6.3	7.1	11.5	11.7	11.5	12.1	12.6
Gross fixed capital formation	46.3	51.7	56.3	100	100	100	100	100
of which : Investment by enterprises	29.6	32.7	35.2	61.8	63.6	63.8	63.3	62.5
Residential building	10.7	12.0	13.3	25.0	23.7	23.2	23.2	23.5
Public Investment	6.1	6.9	7.8	13.2	12.8	13.0	13.4	14.0

The preceding table shows the progress of investment in the Community by main economic sectors. Although the quotas of the different sectors in the total change only slightly from year to year, certain trends seem to have appeared in the last few years : for example, public investment in infrastructure as well as investment in the public services sector has increased fairly steadily in importance, whereas investment in agriculture, mines and public utility companies has decreased. As far as enterprises in general are concerned, and manufacturing industries in particular the figures show the high level of investment during the years 1960-1961 and also the slackening off which followed.

Judging from the trend at the end of the year, it is to be expected that the growth of gross fixed capital formation will be higher in 1964 than in 1963. Since the middle of 1963 enterprises have shown more willingness to invest, and this should lead to increased investments, especially in the equipment sector. The continued increase in demand for consumer goods, the growth of external demand and the tendency to undertake rationalization due to the situation of the labour market are factors likely to stimulate investment. In the building sector, the absence of the very bad weather conditions which hampered activity in 1963 should have a favourable influence on the activity of this sector in 1964. The restrictive measures taken by certain countries may slow down the growth of public investment in the building sector, but the volume of investment in this sector seems to depend less on the level of demand than on the means of production available.

## THE FINANCING OF INVESTMENTS AND THE FINANCIAL MARKETS

The gross fixed capital formation — mentioned previously as 56 milliard units of account in 1963 — includes approximately 39% for depreciation. The net investment of 34 milliards is financed mainly from three sources : self-financing, funds provided by the banking system and the public issue of securities on the financial markets.



Self-financing is hardly recognized at its true value : it probably continued to be the principal source of financing in 1963, accounting for over one third of the net investment.

The table below shows the trend, over the last three years, of the medium and long term credits granted to enterprises and individuals within the Community by banks and specialized loan institutions. On the other hand there is not yet sufficient information about direct loans granted by insurance companies, pension and savings funds etc., though at first sight it would appear that the figures involved, at least in certain countries, are very high.

MEDIUM AND LONG TERM CREDITS (1) GRANTED BY BANKS  
AND SPECIALIZED LOAN INSTITUTIONS

	<i>Increase, in milliard units of account</i>			<i>Percentage Increase</i>		
	1961	1962	1963	1961	1962	1963
Germany	3.34	3.96	3.91	17.6	17.8	14.9
Belgium (2)	0.08	0.07	0.11	14.7	11.4	16.2
France	2.47	2.78	3.02	18.5	17.3	16.1
Italy	1.23	1.81	1.62	21.9	26.4	18.7
Luxembourg	—	—	—	—	—	—
The Netherlands (2)	0.05	0.11	0.04	35.2	61.8	12.8

(1) Based on national ratings.

(2) Statistics are incomplete.

The volume of medium and long term credits has again increased in the Community as a whole; however the growth rate decreased in most of the countries. After allowing for the amounts taken up by the specialized loan institutions through the issue of bonds, the total amount of new funds thus made available to economy in 1963 may be estimated at a figure near to that reached in 1962, i.e. about 8.5 milliard units of account; against an increase of nearly 20% in the previous year.

Some of the investment in the six countries has certainly been financed, too, by short term credits; however, the increase in these credits during 1963 would seem to be due essentially to the current needs of enterprises.

Net calls made on the Community's capital markets by the issue of securities again increased in volume.

NET SECURITY ISSUES IN THE COMMUNITY, 1958 TO 1963

*(in milliard units of account)*

	1958	1959	1960	1961	1962	1963
Shares	1.29	1.55	2.16	2.34	2.66	1.78
Public loans (State and local authorities)	1.43	1.70	1.11	1.14	1.12	1.89
Borrowing by enterprises and specialized loan institutions	2.76	2.89	2.57	3.53	4.30	5.00
Total	5.50	6.15	5.84	7.01	8.08	8.67

The issue of shares decreased greatly during 1963; this decline was more than offset by the increase in borrowing by enterprises and specialized loan institutions and above all in borrowing by the public authorities. In all, the amounts obtained exceeded those of the previous year by 7.3% (as against + 15% in 1962). The share of the markets in the financing of investment thus appears to have been relatively maintained.

The regression was fairly general : in Italy it was due to the weakness of the stock market (the index fell by 18% in 1963); in other countries, where the stock exchange prices developed more favourably (Germany : + 9%, Belgium : + 10%, The Netherlands : + 8%), it seems to be explained by a less rapid growth of private investment.

In France, however, despite a fall of 15% in stock exchange prices, French companies called on the market at a slightly higher rate than in 1962.

SHARES ISSUED IN THE COMMUNITY, 1961 TO 1963

*(in milliard units of account)*

	1961	1962	1963
Germany	0.82	0.55	0.33
Belgium	0.12	0.15	0.10
France	0.66	0.81	0.84
Italy	0.67	0.96	0.40
Luxembourg	0.03	0.06	0.09
The Netherlands	0.04	0.13	0.02
<b>The Community as a whole</b>	<b>2.34</b>	<b>2.66</b>	<b>1.78</b>

NET SECURITY ISSUES IN THE COMMUNITY, 1961 TO 1963

*(in milliard units of account)*

	1961	1962	1963
Germany	1.96	2.35	2.99
Belgium	0.44	0.60	0.43
France	0.72	0.68	1.45
Italy	1.42	1.66	1.75
Luxembourg	—	0.02	—
The Netherlands	0.13	0.11	0.27
<b>The Community as a whole</b>	<b>4.67</b>	<b>5.42</b>	<b>6.89</b>

Offers for sale on the markets in the form of public loans and of bonds issued by enterprises and specialized loan institutions showed a further increase for the Community as a whole, mainly as a result of increased Treasury activity in this field, particularly in France and the Netherlands.

In Germany, mortgage societies and local government bodies again attracted most of the funds available for investment in fixed interest securities; the percentage however was slightly lower (50% as against 58% in 1962) even though there was no decrease in absolute value; the loan societies and public authorities increased their calls on the market; on the other hand there was a marked reduction in borrowing by industrial concerns; some, continuing the practice adopted in 1962, limited their activities to substituting new bonds for more expensive loans previously contracted; others procured funds at lower cost either on the German market by issuing private loans in the form of *Schuld-scheindarlehen*, or on the Swiss market.

Throughout 1963, the interest rate offered to subscribers was maintained around 6%, which is a relatively high level in view of the remarkable stability of prices in Germany and the very favourable position of the Deutsche Mark; it was therefore not only very attractive to German investors but also to subscribers from abroad. The balance of stock exchange transactions with other countries shows foreign purchases of German securities totalling DM 2.8 milliards in 1963, of which bond purchases alone attained DM 2 milliards, almost one fifth of the inflow of fresh capital to the market and more than half of the amount obtained by the public authorities, whose issues are the most popular with foreign investors. It was only towards the end of the year that this situation led to a slight fall in rates.

In Belgium, the public seems to have reacted to the income tax reform, which took place at the end of 1962, either by preferring investments which were not subject to tax deduction before settlement « *Précompte* » or which enjoyed certain basic exemptions, or even by participating more actively in loan issues abroad.

The amounts brought in by public loans were lower than in the previous year and were only obtainable at the cost of a substantial increase in the interest offered to subscribers : from 5.25% at the end of 1962 it rose to 6% at the end of 1963, and it has continued to rise during the early months of 1964. Industry was also affected by the situation and only one important issue was floated during the year.

In France, for the first time since 1958, the State offered bonds for sale on the market at relatively low rates of interest but accompanied by special fiscal advantages; as the market was expanding, this operation was effected without any reduction in the flow of fresh funds which were shared between the loan societies, nationalized enterprises and the private sector, in about the same proportions as in 1962.

Thanks to the control exercised over the volume of securities issued, it was possible to keep the interest rate at about 5.7%, i.e. at the standard maintained during the last three years. The yields obtained on the basis of stock exchange quotations for securities issued in earlier years differed little from those obtained at the end of 1962 : 5.4% as against 5.3% for classic public and semi-public bonds and 6.4% as against 6.2% for private issues.

In Italy the financial market was seriously affected throughout the year by a decrease in the saving ratio, a marked liquidity preference, and by political instability which led to export of capital.

These factors together reduced the flow of funds to the market and produced an appreciable rise in the return on these funds. The average yield on public bonds, worked out on the basis of stock exchange quotations, rose to 6% at the end of the year, as against 5.25% at the end of 1962, and that on private bonds to 6.4%, as against 6%.

Private company issues grew even scarcer and specialized loan institutions, public and semi-public enterprises were practically the only ones to issue loans. The rates offered to subscribers were around 6% or even higher.

In the Netherlands there was a favourable response to government issues, even though the amount was three times as large as in 1962; loans issued by local bodies, mainly through the Bank voor Nederlandse Gemeenten, were on much the same scale as in the previous year; on the other hand, issues by private companies, which had been fairly considerable the year before, were negligible in 1963.

The rates which increased by half a point to about 5%, are nevertheless still nearly one point below those in use on the other markets of the Community.

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The squeeze felt on certain markets, the priority given on others to fixed rate issues by the public authorities, left little room for issues by community or international institutions and for foreign loans.

Italy accepted an issue of the European Coal and Steel Community for 15 milliard liras, the yield offered to subscribers being 5.85%.

Germany, Belgium and France for the first time opened their markets to bonds of the European Investment Bank for amounts of DM 60 millions, BF 400 millions and FF 60 millions, at yields of 5.7%, 6.1% and 5.66% respectively.

In March 1963, Germany also agreed to the issue of a Japanese loan of DM 100 millions, offering a yield of slightly over 6.5%, as against 7% for a similar loan the previous year.

In addition, active co-operation developed between London and various centres in the Community, especially Luxembourg, to ensure the placing of quite a number of foreign loans with a total nominal value of nearly \$ 120 millions; some, for a nominal amount of about \$ 55 millions, were expressed in this currency; others, for an amount equivalent to about \$ 48 millions, were made payable in units of account; and lastly one, for an amount of about \$ 14 millions, was issued in Swiss francs.

Because of this inter-penetration of the markets, itself due to liberalization of capital movements, it is not possible — in the absence of appropriate statistics — to determine the amounts which each financial centre made available to borrowers from non-member countries; it seems however that the Community participated to a large extent towards the providing of this capital.

Community borrowers were able to raise new loans to the extent of about \$ 115 millions on the American market — before the interest equalization tax was proposed — and on the Swiss market. An appreciable part of the corresponding securities seems to have been subscribed for with capital of Community origin.

#### REGIONAL ECONOMIC DEVELOPMENTS AND POLICY IN THE EUROPEAN ECONOMIC COMMUNITY IN 1963

Under article 130 of the Treaty of Rome the first task of the European Investment Bank is to contribute to the development of the less advanced regions within the Community. It therefore seems fitting to include in this Report some data concerning both recent regional economic development and the regional policies in the Community.

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The economic development of the regions may be examined from the viewpoints of income, migration and investment.

Despite the absence of — or the delays in providing — regional accounts and other statistics, it is possible to obtain a general idea of the geographical impact of the overall economic evolution. Available data tends to show that in 1963 most regions participated in the general expansion of the Community, although the rate of expansion may have varied from one region to another. In Italy the less favourable develop-

ment of income from agriculture compared with other categories of income, considerably influenced the general development; hence, the increase in gross national product, both total and per head, was greater in the Centre-North than in the Mezzogiorno. In France, the traditional lack of balance between the East and the West of the country scarcely changed. In Belgium, coal-mines no longer shut down on a large scale. In Luxembourg, though some sectors met with local difficulties, the geographical expansion was fairly well balanced. In the Netherlands and the Federal Republic, economic development was fairly uniform throughout each country, except for certain special adjustment problems.

The dominant feature of regional employment and migration continued to be the relative scarcity of labour in the regions being developed and the persisting emigration from the other less fortunate areas.

In this general evolution certain points deserve notice. In the border regions of the European Community, new conditions are gradually appearing and leading to a progressive transformation of their traditional relations. Regions already industrialized have to face the problem of conversion of employment, a problem which is likely to increase in importance, not only because of the implementation of the Common Market, but also as a result of more rapid technical and economic developments. It was, in general, this last factor which was mainly responsible for the recent difficulties experienced in certain large sectors : in the coal-mines, the shipyards, in some older branches of the iron and steel industry, in the iron and sulphur mines and in certain textile industries.

Lastly, in regions where the economy is mainly rural, one important trend is developing rapidly : occupational mobility — due to the shrinkage of employment in the agricultural sector — tends to go hand in hand with geographical mobility, itself speeded up by urban development. Agricultural employment in France has decreased by 25% in the last eight years; in the Federal Republic, about 200,000 persons left the farms in 1960 and 60,000 in 1963. In Italy, the most important feature was the movement of the population, mainly rural, from certain less developed areas — Basilicata, or Calabria for example — to the



industrial centres of the North; it is estimated that 280,000 persons moved North in 1963 (190,000 in 1962). The working population of the Mezzogiorno now increases but slowly, while a marked reduction in male labour is being offset by the increase in female labour. Italy has also ceased to be the main source of labour for the Community which is now calling mainly on Spain, Algeria, Greece and Turkey.

The Community's capacity to absorb labour — in its present stage of expansion — which had already been shown in the case of the Federal Republic, was again evidenced in France during 1962-1963, when jobs had to be found for 860,000 repatriates from Algeria, representing a labour force of 360,000 persons. On 1st January, 1964, less than 30,000 applications for work were still outstanding.

The trend of new investment is, along with the analysis of employment and migrations, one of the best means by which to evaluate regional economic developments. In Italy, the endeavour to achieve a better balance in the regional distribution of investment continued during 1963. The large investments effected by the State-owned companies and some large private groups are helping to establish industrial centres in the South and in the islands. The regional deficits in basic products, transport equipment, chemical products, paper and paper-board etc, are slowly being reduced. But the results have not yet come up to official expectations. An official report published in July, 1963, stated that industrial investment in Sicily had slackened off. In the Mezzogiorno, the decisions to introduce State-controlled industrial companies have not always been followed up or led to private investment by medium or small enterprises.

In France, the industrial belt which stretches from 100 to 300 kilometres around Paris was again enlarged. In addition, there were signs that industry is developing on a more regular pattern. Urban areas such as Brest and Bordeaux, where a relative industrial stagnation had been experienced, managed in 1963 to attract new enterprises which created many new jobs. The change has admittedly only just begun, but it provides the basis for a policy directed towards the better geographical distribution of industry.

In Belgium, new investments were made in the Hainaut where, since 1962, several thousand jobs have been created, a number of which were in the Borinage. It has been decided to introduce industry on a large scale in the North of the country, particularly in Antwerp, Ghent and the province of Limburg and also at Liège, where the construction of the Chertal steelworks has been completed. It is possible that there is already an evolution in the previous traditional tendency for heavy industry to be located in the South of the country and light industry in the North.

The Grand Duchy of Luxembourg, where efforts are being made to diversify the iron and steel industry, benefited from new establishments which have been evenly distributed over the territory. Since 1959, about thirty new enterprises with investment programmes exceeding 60 million units of account have been set up. In 1963 plans for new industries were again announced.

In the Netherlands, several important industrial firms decided to set up in the South and the South-East. From 1964, the distribution of investment will also be influenced by the exploitation and distribution of natural gas from Groningen, which should foster the realization of a certain number of industrial projects.

Lastly, in the Federal Republic of Germany, a tendency towards industrial decentralisation in favour of less developed or remote areas has been noticeable since the beginning of the sixties. Among the many factors responsible for this development one may emphasize the advantage of setting up in regions where labour is still relatively plentiful and the fact that proximity to coal has ceased to be an important factor in industrial location.

Thus the year 1963 showed a mixture of different tendencies in regional expansion some of which are working towards a reduction of disparities, while others are doing the opposite. Inevitably, temporary factors (such as the volume of crops or cyclical phenomena affecting various sectors) and structural factors combine their influence. If

regional lack of balance is often cumulative, there are, at least, extenuating factors. As the general expansion proceeds it is likely to affect ever widening areas; natural discoveries may change the outlook in particular regions; technical progress may promote local expansion, as recently shown, for instance, by the impact of petrochemicals and steel industries on the economic position of various ports. Finally regional policy itself begins to be effective, as can be illustrated by a few selected examples : creation and development of a number of « poles » in Southern Italy; recovery of certain depressed areas in the Federal Republic; the start of recovery in Brittany and Bordeaux; the revival of the Borinage (although as yet indecisive but certainly within reach); all these examples bear witness to the fact that the complex problems of regional development can, by sustained action, be gradually solved.

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Recent legislative changes in the various member countries concerning regional policy appear to have been somewhat at variance. Yet one can also detect more uniform tendencies with regard to the overall trends of policy : in some cases this applies to only a few of the six countries concerned, but in other cases it applies to the Community as a whole.

In the three Benelux countries, legislation on regional policy underwent only minor changes in 1963. In Federal Germany, the programme for regional recovery (Regionales Förderungsprogramm) — under way since 1951 — has been adapted to the new circumstances. In July, 1963, the Interministerial Committee for regional problems (IMNOS) fixed new boundaries for the « Sanierungsgebiete » which from now on are to be called « Bundesausbaugebiete ». The aim of the regional policy with regard to this group of regions is to reduce disparities which exist between them and the regions of industrial concentration, and to create jobs as an offset to the reduction in farm employment. These regions « to be developed » are therefore to benefit from the strengthening of infrastructure and more intensive encouragement to industry. German regional policy is also based on the promotion of « Zentral-Orte » (« growth points ») — towns of small or medium impor-

tance with rural characteristics in which industrialization has to be encouraged; and on measures designed to improve the situation in regions bordering on the Eastern zone. In Italy, while the policy of « development zones » (« aree ») and « development points » (« nuclei ») was being clarified, the Special Committee of Ministers for the South, in July, 1963, revised the criteria for the application of assistance measures : firms are henceforth classified on the basis of their geographical position, the branch of industry to which they belong and certain economic criteria (size of the firm, capital, investment per head, etc.).

In France, numerous changes were made in the institutional set-up. New bodies were established, among them the « Délégation générale à l'Aménagement du Territoire », the « Fonds d'Intervention pour l'Aménagement du Territoire » and the « Commission nationale à l'Aménagement du Territoire ». The first, responsible directly to the Prime Minister, was established to strengthen and co-ordinate the various measures taken by the public authorities with respect to regional policy. The second is a Fund designed to make complementary financing available and the third is to assist the Commissariat général du Plan in its regional studies and long and medium-term programmes. Regional policy in France remains based on the distinction which is made between the development zones (« régions à entraîner »), for which public intervention should have a stimulating and selective influence (both in the distribution of public investments and with regard to the granting of special incentive to private initiatives) and the remaining regions (« régions d'accompagnement »). From 1964 the practice will be to designate, in advance, the areas which are to benefit from the special measures which will be offered on a contractual basis.

In addition to these changes in the legislative machinery affecting the regions, 1963 saw the consolidation in France — and to a lesser degree in Italy and Belgium — of a tendency to work out new techniques of regional action more or less linked to the national programmes. In France, this led to the preparation of « tranches opératoires » within the IVth Plan and to the « regionalization » of the budget. The « tranches opératoires » (which both the national and regional authorities

jointly drew up) establish the main public equipment programmes for each of the 21 « programme regions ». Investments are then distributed according to a system which takes into account the priorities of each region but also the requirements of the National Plan. This new procedure has made possible the « regionalization of the budget », by allowing the Ministries to determine in detail how their main equipment credits are to be allocated between the various regions.

In Belgium the « First Expansion Programme » (1962-1965) was drawn up for the country as a whole but regional programming based on this plan has already been the subject of various studies. In Italy, the coming into force (1962) of the Development Plan for Sardinia (« Plan for the recovery of Sardinia ») marked an important stage in the application of regional programming techniques. The Plan provides a consistent set of objectives, a 13-year investment programme and a first implementation programme for the budgetary years 1962-1963 and 1963-1964. The creation in 1963 of an Office for the Plan in the Ministry of the Budget is a first step towards national programming. It is to be noted that the Report of the Vice-President of the National Commission for Economic Programming mentions, among other objectives of the national Plan, the need to reduce the disparities between the North and the South of the country.

Whatever differences may exist between the policies of the member countries of the Community with regard to regional planning, it is certain that there is a general tendency to enlarge their scope. Financial aids still remain an important policy instrument; in 1963, budgetary aid and special bank credits were fairly widely used : for example credits made available by the Italian agencies, Isveimer in particular, increased considerably, while in France, in 1963, the Regional Development Companies floated twelve new loans for a total nominal value of 241 million francs. But beside this traditional means of action, the extension and modernisation of collective equipment is gaining in importance. The less developed regions are now beginning to insist on the establishment of an appropriate infrastructure, including the creation of industrial zones. Attention is also being given to the need

to intensify professional training and readaptation so as to increase job mobility. Finally the problem of regional development tends to incorporate other broad issues, such as that of town development and planning, as the tendency is now for responsible regional authorities to reappraise existing patterns of living. This implies new, clearly defined standards relating to occupational structure, migrations, housing, town-planning, and social and cultural equipment which often prove to be different to those traditionally recognized.

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The economic problems of the regions thus continued to occupy an important place in the overall economic policies of the member countries of the EEC. The Community itself pursued its research and co-ordinating action : committees of experts have examined certain particularly important and concrete problems affecting the balanced expansion of regions.

Everything points to a continuation in 1964 of the interest shown in regional problems. But in each country, regional problems are inevitably affected by changes in the general situation of which they form a part. In this regard it will be important to detect the early appearance of conversion problems which rapid changes in the situation in each sector of the economy may entail; and to ensure that general policy measures intended to mitigate national disequilibria do not harm inconsiderately the less developed regions of the Community where difficulties can only be solved by dynamic treatment.

#### THE DEVELOPMENT OF THE MEZZOGIORNO

The Bank has so far devoted the greater part of its resources to financing investments in the Italian Mezzogiorno. With an area of 128,000 square kilometers (42% of Italy) and a population of 19 million inhabitants (38% of the population of the country), the Mezzogiorno is comparable to the three Benelux countries put together.

The origins of the Mezzogiorno problem go back, at least, to the unification of Italy a century ago. The annexation of territories belonging to the former Kingdom of the Two Sicilies, so different from the other regions not only in its history, its culture and its traditions, but also in its economic structure, gave rise to a set of political, economic and social problems which have only been partially solved so far.

Towards the end of the last century the existence of a « problem of the South » was recognized, in other words of a break between the North of Italy, abreast of economic and technical progress, and the Mezzogiorno, grappling with the difficulties stemming from lack of resources, over-population, emigration and social stagnation, and marked almost everywhere by poverty.

At the beginning of this century, measures were taken to encourage the establishment of industries in certain areas and large towns in the South (Naples especially) by the classical means of public works, tax reliefs and subsidies.

After the first World War and the crisis, economic policy in Italy aimed at national autarky. In the agricultural field, it endeavoured to increase employment. The « wheat campaign », which encouraged extensive farming, did little to solve the economic problems of the South; one positive contribution, however, was the reclaiming of the Pontine Marshes, south of Rome, where tens of thousands of hectares were prepared for cultivation.

In the industrial field, autarky helped to strengthen certain sectors of big industry, but it was only of marginal interest to the Mezzogiorno. While the North, protected by high customs barriers, intensified its industrialization, the potential of the South actually decreased : from 1861 to 1936 the number of workers employed in industry and commerce dropped from 1.7 to 1.6 millions, although the population had increased from 9.8 to 15.4 millions.

Thus the gap between the North and the South widened and the situation was made still worse during the war when 35% of the industrial enterprises and 55% of the power stations in the Mezzogiorno were destroyed.

In 1950 the Mezzogiorno presented all the features of structural under-development.

Agriculture, the chief activity, employed more than half of the active population; but its productivity was far below the national average, owing to the poor fertility of the soil, lack of water and the old-fashioned methods employed.

Industry accounted for 24% of the active population : the industrial establishments of the Mezzogiorno represented only 10% of Italian industry and more than half of them were only small artisanal enterprises. Productivity in industry and trade was distinctly lower than the national average; commercial activity in particular was spread out amongst too many small enterprises.

The inadequacy of the infrastructures was apparent everywhere : roads and railways were less developed and less efficient than in the rest of the country, telecommunications and aqueducts were inadequate and the hospitals and schools over-crowded.

The seriousness of under-development in the Mezzogiorno was shown by the average income per head (194 dollars), less by half than in the rest of Italy and only 59% of the average for the whole country. The few opportunities of employment, the high birth-rate, exceptionally widespread illiteracy, serious unemployment (12% of the active population), under-employment and emigration to other regions of the country or abroad were manifest symptoms of the economic stagnation which went with social backwardness.

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In 1950, a development policy for the whole Mezzogiorno was inaugurated. Its aims, methods and instruments were uncertain at the outset, and it evolved pragmatically after experience; it is still today one of the principal elements of Italy's economic policy. At the beginning it was aimed at two targets : transformation and improvement of agricultural structures through agrarian reform, and the carrying out of a programme of extraordinary works through the newly created Cassa per il Mezzogiorno.



The agrarian reform (laws Nos. 230 and 841 and the Sicilian regional law No. 104 of 1950), which concerned mainly the Mezzogiorno, included, on the one hand, expropriation and redistribution of holdings after land improvement, and on the other, yield increasing investment in rural estates.

Expropriation was mainly applied to extensive and low productivity estates. Landowners were indemnified with 25-year Government bonds; the lands thus acquired were improved and transferred by the State to new owners against payment spread over 30 years. In all, 681,000 hectares were transferred to 113,000 beneficiaries, almost all agricultural labourers.

The second part of the agrarian reform consisted of a series of productive investments aiming at increasing agricultural returns and launching a plan for rural settlement and technical assistance. This is the essential part of the reform; global investment amounted to 520 milliard lire at 30th June, 1962, against a value of expropriations of 75 milliards. The results on the whole have been positive : more modern infrastructure, improvement of farmers technical knowledge, more rational structures of production, improved methods and higher output.

This action is still continuing. It has been aided by the activity of the Cassa as well as by a series of subsequent measures, and in particular by law No. 949 of 1952 which instituted a « 12-year revolving fund for the development of agriculture » and by law No. 454 of 1961, called the « Green Plan », which provides for new investments in the period 1960-1965 to promote agricultural development.

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The second political decision of 1950 was that of putting through a programme for the economic and social development of Southern Italy : law No. 646 of 1950 lays down an organic plan for extraordinary measures by the State to reinforce the public capital, a necessary prerequisite of any development policy. It charged a Committee of Ministers with the political responsibility for carrying out the plan and established,

as executive instrument, the Cassa per il Mezzogiorno (*« Cassa per opere straordinarie di pubblico interesse nell'Italia meridionale »*), which receives the necessary financial means.

The Cassa is an agency, established under public law, with its own legal personality; it has been set up exclusively to carry out a programme, and thus its duration is limited to the period necessary for the accomplishment of the task entrusted to it. The Cassa is financially independent, although its resources are mainly drawn from annual budget allocations; it is also authorized to procure its own financial resources by issuing securities and floating loans, even abroad.

The Cassa draws up annual programmes of works to be carried out in the territory for which it is responsible (Southern Italy plus several areas in Central Italy), it finances them and assures their execution. Not only does it carry out public works in the strictest sense, but it also participates, by granting subsidies and providing finance, in connected works of a private nature; in this way it encourages private enterprise to participate in the economic development of the Mezzogiorno.

The financial means of the Cassa, the duration of which had initially been fixed at 10 years, originally consisted of an annual allocation of 100 milliard lire from the State budget. The duration of the Cassa was later extended to 12 years (law No. 949 of 1952) and then to 15 years (law No. 634 of 1957) and the annual allocation was progressively increased until, in 1959, it reached approximately 200 milliards, to which must be added loans contracted abroad.

In its original form, the programme of extraordinary works for the Mezzogiorno was not strictly speaking a development plan. It was concerned chiefly with agriculture and was intended to improve the structure of production and to increase productivity. Three quarters of the allocations to the Cassa went to this sector; so the Cassa continued the agrarian reform and helped to ensure a better standard of living for the farmers of the South — the majority of the active population — and strengthen the basic substructures, solving the most urgent problems and, at the same time, laying the foundations indispensable for future development.

Since it came into being, the Cassa has constantly devoted considerable sums to infrastructure, particularly in the agricultural sector : improvement of the soil, consolidation of hill areas, river control, construction of roads, railroads, aqueducts and drains, the building of schools and vocational training centres. Entire regions have been completely transformed, often remedying — at least in part — long years of neglect and providing, over hundreds of thousands of hectares, the basic conditions for the improvement of agricultural productivity. Moreover, the financial aid granted by the Cassa to private farmers, in the form of capital grants (from 38 to 50%) for land improvement, has, despite certain uncertainties of direction, produced a marked progress in the output of the farms.

After some years' experience it was felt necessary to shift the emphasis of interventions in the Mezzogiorno. Law No. 298 of 1953 authorized the Cassa to participate in the financing of industrial credit agencies acting in the South. The « Vanoni Plan » of 1954, which was the introduction to a general development policy, contributed to transforming the policy for the Mezzogiorno into a real regional development programme with progressively defined objectives. At the same time, the need to extend interventions to more directly productive sectors, particularly such as industry, was becoming evident. Law No. 634 of 1957 (expanded later by law No. 555 of 1959 and by law No. 1462 of 1962) introduced the second phase of the policy for the development of the Mezzogiorno, centred on industrial development : the Cassa was authorized to give non-repayable grants to new industrial establishments, rebates of interest for industrial loans and subsidies to assist industrial development areas.

During the years that followed, the rapid expansion of the Italian economy made it possible to devote larger means to the development of the Mezzogiorno and, in particular, to increase the resources and activities of the Cassa. For the first 13 financial years (up to 1962-1963) the aggregate amounts that were available to the Cassa amounted to 2,035 milliard lire (3,260 million dollars), of which 1,737 milliards came from budget allocations and 298 milliards from foreign loans.

The extension of the activities of the Cassa to the industrial sector occurred concurrently with the development of the activity of the industrial credit agencies acting in the Mezzogiorno : the Isveimer (*Istituto per lo sviluppo economico dell'Italia meridionale*) founded in 1938 and responsible for the mainland South, the Irfis (*Istituto regionale per il finanziamento delle industrie in Sicilia*) founded in 1950 and responsible for Sicily, and the CIS (*Credito Industriale Sardo*) founded in 1953 and responsible for Sardinia. These agencies finance industrial projects and their resources are made up of the funds provided by the Cassa — in particular out of the amounts borrowed abroad — and by the issue of bonds on the Italian market.

The tables which follow give a brief idea of the investments made by the Cassa and the three agencies for industrial credit.

AMOUNTS AND DISTRIBUTION OF FOREIGN LOANS OBTAINED  
BY THE CASSA, AT 30th JUNE, 1963

Loans	Amount		Utilization (milliard lire)		
	Million dollars	Milliard lire	Irrigation	Electric Power	Industry
IBRD (1951-58)	238	148.7	39.8	59.0	49.9
IBRD-EIB (1959)	40	25.0	—	11.2	13.8
Morgan (1959)	30	18.8	—	—	18.8
IBRD (1959)	40	25.0	—	25.0	—
EIB (1960-61)	41	25.6	—	7.5	18.1
Switzerland (1961)	11.4	7.1	—	—	7.1
EIB (1961-62)	3.8	2.4	—	—	2.4
EIB (1962-63)	72.5	45.3	—	—	45.3
<b>Total</b>	<b>476.7</b>	<b>297.9</b>	<b>39.8</b>	<b>102.7</b>	<b>155.4</b>

Investments made by the Cassa and those to which it contributed indirectly totalled 2,611 milliard lire (4,177 million dollars), distributed as follows :

<i>Sectors</i>	<i>Milliard lire</i>	<i>Million dollars</i>	<i>% of total</i>
<i>Infrastructure</i>	1,283.7	2,054	49.2
— agriculture	773.3	1,237	29.6
— general services	510.4	817	19.6
<i>Promotion of private enterprise</i>	1,235.1	1,976	47.3
— agriculture	406.2	650	15.5
— industry	778.3	1,245	29.9
— handicraft and fishing	50.6	81	1.9
<i>Other</i>	92.0	147	3.5
<b>Total</b>	<b>2,610.8</b>	<b>4,177</b>	<b>100.0</b>

On 30th June, 1963, the loans granted by the three industrial credit agencies amounted to a total of 665.4 milliard lire and were distributed as follows :

<i>Branches of industry</i>	<i>Milliard lire</i>	<i>Million dollars</i>	<i>%</i>
Food processing, etc.	88.8	142	13.4
Leather, textiles, clothing	56.6	91	8.5
Paper and printing	50.8	81	7.6
Metallurgy	21.2	34	3.2
Mechanical Engineering	70.2	112	10.5
Cement, bricks, etc.	88.4	141	13.3
Chemicals	236.8	379	35.6
Other industries	52.6	84	7.9
<b>Total</b>	<b>665.4</b>	<b>1,065</b>	<b>100.0</b>

Mention must also be made of the financing of industry in the Mezzogiorno by the credit agencies whose field of operations covers the whole country (in particular the IMI or *Istituto Mobiliare Italiano*), which, on 31st December, 1963, amounted to 916 milliard lire (1,466 million dollars).

Other provisions also served to promote industrial investment in the Mezzogiorno. As early as 1947 (decree No. 1598), industries in the Mezzogiorno have been granted certain tax reliefs in connection with customs duties, trading tax (IGE) and income tax. The purpose of these tax reliefs was to stimulate the establishment of small and medium enterprises by offsetting the locational disadvantages; they were widened and prolonged by law in 1957. To public fund investments was thus added a considerable volume of private investments which contributed greatly to the increase in employment and income.

But the Italian authorities did not consider that the financial and fiscal advantages offered to private enterprises were sufficient. The law of 1957 also provides for a form of direct intervention, through State-controlled enterprises, i.e. the large group of companies belonging to the IRI (*Istituto per la Ricostruzione Industriale*) and to the ENI (*Ente Nazionale Idrocarburi*) and now to the ENEL (*Ente Nazionale per l'Energia Elettrica*) : of the investments made by these enterprises in Italy 40% at least had to be in the Mezzogiorno. From 1957 to 1963 their investments in the Mezzogiorno increased considerably, rising from 46 milliard lire to 300 milliards per year, i.e. more than the total annual investment by the Cassa; these investments by State-controlled groups, together with certain private investments, have constituted the basis for the recent industrialization of the Mezzogiorno.

The development policy for the Mezzogiorno recently provided for the constitution of areas and nuclei of industrial development (the afore-mentioned laws of 1957, 1959 and 1962). The areas which must have a population of 200,000 inhabitants or more and provide favourable conditions for the setting-up of industries, are destined to become highly concentrated centres for attracting industrial activities. Nuclei can be

created where one or more industries are already established or are definitely planned. On 31st December, 1963, 12 areas and 26 nuclei of industrial development had been legally recognized.

This « second phase » of the development policy for the Mezzogiorno deserves special mention, not only because of the increasing means made available but also because of the methods used. Interventions are concentrated on industrialization, which gives quicker returns, and are realized by capital subsidies and by long term loans to industry at low rates. Public investment for infrastructures is concentrated on the development areas and nuclei, and an important role is given to direct investments by State-controlled enterprises. Finally, a regional development programme was initiated with the Plan for Sardinia.

As has been seen, these various elements were introduced progressively and combined in the light of experience. Recent declarations by the Italian government show that it intends to continue on the lines already adopted.

The duration of the Cassa — which is at present until 1965 — will be prolonged to 1980 and the funds allocated to it will be increased to 280 milliard lire per year (450 million dollars). The shift from investment on infrastructure to more directly productive investments will be accelerated; the system of granting credit to enterprises is to be extended with the assistance of the Cassa; subsidies will be increased and institutional and administrative obstacles which prevent the efficient use of these facilities will be eliminated. The creation of preparatory works for the setting-up of industry in the development areas is still too slow and will be intensified. The Cassa will be required — and given the means necessary — to back up the activity of the development consortiums which are still handicapped by technical, bureaucratic and financial difficulties. In the agricultural sector, the competence of the Cassa will be extended to the networks which distribute irrigation water to farmers and to the promotion of essential alterations which will ensure better use of the public works already accomplished. Deficiencies in

the structure of agriculture itself and marketing will be remedied; the formation of producer-associations and modern distribution chains will be encouraged so as to strengthen the position of producers on the market.

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The policy for the development of the Mezzogiorno has so far resulted in clear signs of progress. Unemployment, formerly a symptom of the stagnation of the South, now affects only 3% of the active population as a result of the increased demand for labour on the local market and that of the country as a whole, and of Europe; the chronic underemployment in agriculture has fallen sharply, especially during the last few years, largely as a result of the flight from the land and of emigration, which have fundamentally transformed the demographic structure of the South.

From 1950 to 1962, additional employment for 800,000 people was created in sectors other than agriculture; the growth rate of employment was lower than that of production firstly because of the development of high investment in capital intensive industrial branches such as iron and steel and chemicals, and secondly, because of the concentration in other branches (mining, foodstuff processing, clothing, wood and building materials) which has resulted in a reduction in the numbers employed. The increase in employment has absorbed only half the natural increase in active population; the rest joined the flood of migrants moving to the North or to other countries, estimated at at least 1,900,000.

A major change has occurred in the structure of economic activity in the Mezzogiorno : the agricultural output, despite the increase in average productivity, has developed less rapidly than the total output, while the share of industry and services in total output rose from 54 to 66%.

During the period 1950-1962, total investment in the Mezzogiorno increased at the average rate of 11% per year at constant prices, a rate higher than that for Italy as a whole (9%) and that of the Community (8%). This increase concerns both agriculture and industry,



investment by individuals and that of private and public enterprises, as well as the action of the State through the public authorities and the Cassa per il Mezzogiorno.

The latter played a decisive part in the efforts to shake the South out of its immobility. The 100 milliard lire per year which were initially placed at the disposal of the Cassa in 1951 represented 7% of the total receipts of the Italian budget and the 200 milliards today represent 4%; these percentages show how highly these investments rank in the general scale of priorities of the Italian State — the corresponding investment represents about one fifth of total public investment.

In the beginning the emphasis of investment was on agriculture and infrastructure — but in recent years the trend has been more towards industry. The need for quick results in terms of higher income would require the speeding up of this trend, but the needs in the two former sectors are far from having been met and this is often a prerequisite for the success of efforts aiming at economic and social advance. A rational development policy should spread its efforts over each sector to attain maximum results in the long run.

The policy for the development of the Mezzogiorno aimed at two essential targets : raising the standard of living, and reducing the gap separating the region from the rest of the nation and from the European Economic Community as a whole.

As shown by the progress accomplished since 1950, the first target has been reached : according to all evidence, output, employment and consumption rose rapidly in comparison with any other long term historical experience. However, the gap between the region and other more developed regions has not always been narrowed : the standard of living in the Mezzogiorno, as measured by the average consumption level per head, rose at an annual rate of about 5% at constant prices, equal to that for the rest of Italy and higher than that for the rest of the Community; but production, in spite of the rapid growth in investment, increased in the Mezzogiorno at a rate below that for the rest of Italy and hardly equal to the rate achieved in the six countries of the Community as a whole.

In absolute terms, the action for the development of the Mezzogiorno has clearly led to important progress; in relative terms, it has prevented or restricted the widening of the gap between the Mezzogiorno and the more developed regions which benefited from their own expansion factors.

When comparing the increase in income in the Mezzogiorno with that in other more advanced regions, the importance of the underdevelopment of the South should not be underestimated. An annual allocation of 100 milliard lire — or 160 million dollars — at the beginning of the period constituted a considerable financial effort on the part of the Italian State. Taking into account however the population concerned, it represented an investment of only 9 dollars per head to start with and a present day figure of 17 dollars. The increase in income depends on the amount of new investment : an increase corresponding for instance to the present gap between the Mezzogiorno and the rest of Italy would require maintaining the present investment effort for at least a dozen years.

If then the policy for the development of the Mezzogiorno has already produced notable results, it will none the less have to be maintained for a long period before the increase in income and saving will allow for investment and thus start a process of self-sustained development.

#### ECONOMIC DEVELOPMENTS IN GREECE IN 1963

In 1963 — the first year of the association of Greece with the European Economic Community — economic activity expanded while, at the same time, the difficulty of solving structural problems persisted.

Owing to better harvests, and also because industrial production rose after a period of uncertainty at the beginning of the year, gross domestic product increased by 11% at current prices and by 8% in volume over 1962. These rates compare favourably with those of the previous year, which were 4% at current prices and 3% at constant prices. Except

for investment by the public authorities, all sectors of demand progressed in 1963. In particular, private industry investment continued to expand, though the pace was a little below that of the previous year. It should however be noted that housing continued to absorb a significant part of total private investment.

In 1963, monetary stability was maintained and private savings remained at a relatively high level, however prices rose a little. The balance of current payments (including private transfers) showed a deficit of less than 100 million dollars, which represents an improvement on 1962. Greek exports increased, but solely owing to the higher sales of tobacco, which had been abnormally low in 1962; the export of fruit, cotton and manufactured goods made little or no progress. On the other hand, net invisible foreign exchange earnings from the merchant navy, the tourist trade and wage transfers exceeded 200 million dollars, showing a growth rate of more than 30% in comparison with the previous year. The deficit of the balance of payment was financed by a net inflow of capital, mostly private — net imports of public capital having decreased.

Structural improvement in Greece continues, though slowly. Industrial development, although it has begun, does not seem as yet to have experienced any decisive push. In 1963, some progress was made in this field owing to new investment decisions and to the construction of factories producing a wide range of products. Negotiations are continuing actively for the building of two important industrial complexes, one centred around a refinery near Salonika, the other based on the exploitation of the bauxite mines in Beotia. Shipyards, sugar factories, textile factories, the shoe industry, fertilizers and chemicals, the manufacture of building materials, factories for the production of telecommunications equipment and a considerable number of consumer goods were the sectors in which industrial initiatives proved to be the most dynamic in 1963. Many of these new projects are undertaken by companies founded partly with Greek, partly with foreign capital. The inflow of productive foreign capital in 1963 was nearly twice as high as in 1962, amounting to 21 million dollars during the first nine months of 1963.

The financing of private productive investment was effected by self-financing and bank loans in addition to foreign capital. The contribution of long-term credit granted by the commercial banks increased by about 25 million dollars in 1963; to this sum must be added that supplied by the O.H.O.A. (*Organisation for the Financing of Economic Development*) and the O.B.A. (*Office for Industrial Development*). In 1963, the capital market remained depressed. Among the measures likely to influence the financing of investment should be noted the reduction, in September, 1963, of rates of interest on loans to export enterprises and the creation of new investment banks with capital supplied by Greek and foreign sources.

Economic developments in Greece in 1963 conformed on the whole to the aims of the Development Plan; but the employment problem was solved only in part and then only because there was a much heavier migration than that foreseen in the Plan; industrial investment is still on a small scale, improvements in agriculture ought to be speeded up, and efforts to increase and diversify exports must be continued. Through the decisions taken in 1963 with regard to the financing of projects in transport and power, the Bank made a positive contribution to the important task of promoting the economic and social development of the country.





## II

### ACTIVITIES OF THE BANK

#### LOANS

The Bank's activity continued to expand in 1963 : 31 loans were approved last year against 14 loans in 1962, totalling 104.6 million units of account as against 93.5 millions in the previous year (1).

The total cost of the projects approved by the Bank in 1963 is estimated at 361.8 million units of account. The Bank's participation in the projects therefore averaged about 29%.

An appreciable part of the Bank's participation concerned projects of medium size : 9 loans did not exceed 1 million units of account.

#### LOANS IN MEMBER COUNTRIES

Loans in member countries represented 78% of the total of loans made by the Bank in 1963. During the year, the Bank approved 26 loans in member countries for a total of 81.6 million units of account, as against 14 loans in 1962 totalling 93.5 million units of account.

Of these loans, 23 went to Italy, for a total of 72.7 million units of account, 2 to France for a total of 3.9 million units of account and one to Germany for 5 million units of account. These loans concern projects for a total estimated cost of 288 million units of account.

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(1) One project (electric bulb factory) not having been carried out, the number of loans approved and their total amount were consequently reduced.

The projects are :

	Loan by the Bank (Million u.a.)
<i>Germany :</i>	
1. Extension of a thermal power station in West Berlin by the construction of a second 100 MW generator. Promoter : <i>Berliner Kraft- und Licht (BEWAG) - Aktiengesellschaft.</i>	5.0
<i>France :</i>	
2. Extension and modernization of a steel casting mill at Saint-Brieuc (Côtes-du-Nord, Brittany). Promoter : <i>Usines et Aciéries de Sambre et Meuse.</i>	0.9
3. Construction at Montoir-de-Bretagne (Loire-Atlantique) of a precision engineering works employing some of the manpower made available by the re-organization of the shipyards at Nantes. Promoter : <i>Société de Mécanique de Précision de l'Atlantique.</i>	3.0
<i>Northern Italy :</i>	
4. Converting the traction current of the railway line between Bolzano and Brenner, the main line of communication with Germany. Promoter : <i>Azienda Autonoma delle Ferrovie dello Stato.</i>	5.0
<i>Mainland Southern Italy :</i>	
5. Construction at Salerno (Campania) of a factory for the production of thermostats. Promoter : <i>Landis &amp; Gyr Italiana S.p.A.</i>	1.6
6. Construction at Cisterna di Latina (Latium) of a factory for deep-frozen vegetables. Promoter : <i>Findus S.p.A.</i>	0.5
7. Construction at Sessa Aurunca (Campania) of a factory for the production of light metal frames particularly for the construction of prefabricated school buildings. Promoter : <i>Soprefin S.p.A. - Società Prefabbricati Finsider.</i>	1.6

	Loan by the Bank (Million u.a.)
8. Construction at Bari (Apulia) of a factory making gear-boxes and Diesel engines. Promoter : <i>Fabbrica Automobili Isotta Fraschini e Motori Breda S.p.A.</i>	2.9
9. Construction at Salerno (Campania) of a factory for the production of porcelain sanitary-ware. Promoter : <i>Ideal Standard S.p.A.</i>	2.0
10. Extension of a plate-glass factory at Caserta (Campania). Promoter : <i>Fabbrica Pisana di Specchi e Lastre Colate di Vetro della Società Saint-Gobain</i> , the Italian Branch of the <i>Compagnie de Saint-Gobain</i> , Paris.	2.9
11. Construction at Pomezia (Latium) of a malt brewery. Promoter : <i>Malteria Tirrena S.p.A.</i>	0.8
12. Construction at Gallo (Campania) of a hydro-electric power station to provide current at the rate of 190 million kWh per year to be used during peak-load hours. Promoter : <i>Ente Nazionale per l'Energia Elettrica (ENEL)</i> .	6.0
13. Enlargement of a chemicals factory at Crotona (Calabria). Promoter : <i>MONTECATINI - Società Generale per l'Industria Mineraria e Chimica.</i>	2.5
14. Enlargement of a factory for asbestos-cement products at Torre Annunziata (Campania). Promoter : <i>ITALTUBI S.p.A. - Società Riunite Gimfa - Italtubi.</i>	1.1
15. Construction at Brindisi (Apulia) of a thermo-electric power station of 300 MW. Promoter : <i>Ente Nazionale per l'Energia Elettrica (ENEL)</i> .	15.0
16. Construction of a factory making cast-iron radiators at Chieti (Abruzzi). Promoter : <i>FA. RAD. Italiana S.p.A. Fabbrica Radiatori Italiana Società per Azioni.</i>	1.6



Loan by the Bank  
(Million u.a.)

17. Construction at Pomezia (Latium) of a factory for the production of commercial refrigerators. Promoter : *Apparecchiature Industriali Frigorifere Elettrodomestiche et Lattiere Sud « A.I.F.E.L. Sud » S.p.A.* 0.4
18. Construction at Salerno (Campania) of a factory making metal tubes and bicycles. Promoter : *Bianchisider S.p.A.* 0.7
19. Construction at Chieti (Abruzzi) of a porcelain factory. Promoter : *Società Ceramica Italiana S.p.A.* 1.0
20. Enlargement of a factory for asbestos-cement products at Bari (Apulia). Promoter : *Società Adriatica Prodotti in Cementamianto (S.A.P.I.C.)*. 0.8
21. Construction of a brewery at Frosinone (Latium). Promoter : *Birreria Henmed S.p.A.* 0.9
22. Construction of an olive oil refinery at Vasto (Abruzzi). Promoter : *S.V.O.A. - Società Vastese Oli Alimentari S.p.A.* 0.5
23. Doubling of some sections of the railway line Battipaglia-Reggio Calabria (Campania-Calabria). Promoter : *Azienda Autonoma delle Ferrovie dello Stato.* 20.0
24. Construction at Pastorano-Pignataro Maggiore (Campania) of a factory for the production of prefabricated construction elements. Promoter : *Industrie Riunite Costruzioni e Prodotti Modulari - I.R.C.O.M. S.p.A.* 1.4
- Sardinia :*
25. Construction at Siniscola of a spinning-mill for the production of carded yarns. Promoter : *Marfili - Filatura del Mare - S.p.A.* 2.2

Loan by the Bank  
(Million u.a.)

26. Construction at Olbia of a factory for carding  
equipment. Promoter : *SARDESPA - Manifattura di  
Venafiorita S.p.A.*

1.3

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The loans in Germany, France and to the Italian Railways are granted direct to the beneficiaries.

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 re-lends the respective amount either direct to the Ente Nazionale per l'Energia Elettrica (ENEL) as regards the projects for power stations, and for the industrial projects through the appropriate regional agency to the final debtor. These agencies also participate in the financing of the projects.

In these particular cases the agencies concerned with the granting of credit to industry were :

- In the Mainland Mezzogiorno : the *Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER)*;
- In Sardinia : the *Credito Industriale Sardo (C.I.S.)*.

## LOANS IN THE ASSOCIATED COUNTRIES

In 1963, the Bank for the first time granted loans in a country associated with the European Economic Community. The Bank intervened in Greece under the financial protocol annexed to the treaty signed with this country and as per the credit powers granted and covering guarantee of the member countries.

During the year 5 loans totalling 23 million units of account were granted to Greece for infrastructure projects of which the estimated total cost is 73.8 million units of account.

The projects are :

Loan by the Bank  
(Million u.a.)

1. The construction of a high tension cable 493 km long for the conveyance of the electricity produced by the Kremasta power station on the Acheloos river in the Greek mainland. Promoter : *The Public Power Corporation.* 6.0
2. Completion of a new road, 69 km long, between Athens and Corinth. Promoter : *The National Highway Fund.* 2.0
3. The construction of a new road, 135,4 km long, between Corinth and Patras. In conjunction with the Athens-Corinth road, this road will assure communication with the Peloponesus and Western Europe. Promoter : *The National Highway Fund.* 6.2
4. The modernization of the Antirrion-Agrinion road. This road is part of the Antirrion-Ioannina highway which constitutes the main connection with Italy via Igoumenitsa and Brindisi. There will be a dual carriageway for a distance of 71.8 km on this road. Promoter : *The National Highway Fund.* 2.6
5. Construction of a new road between Lamia and Larissa, forming part of the highway between Athens and Salonica, the rest of which has already been modernized. The new road will be 146.3 km long and will pass near the port of Volos. Promoter : *The National Highway Fund.* 6.2

The National Highway Fund is a public institution presided over by the Minister of Public Works. It is responsible for the expense of building and maintaining the national highways.

These operations will benefit from an interest premium of 3 % accorded by the Member States.

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## ACTIVITY OF THE BANK FROM 1958 TO 1963

Since being founded and until the end of 1963, the Bank has approved 67 loans totalling 358.3 million units of account, i.e. an average of approximately 5.3 millions per loan. The investments in which the Bank has participated amount to a total of 1.6 milliard units of account : the Bank's share in the financing of these projects has averaged 23%, varying considerably according to the nature and importance of the projects.

The geographical breakdown of loans approved is as follows :

**BREAKDOWN BY COUNTRY**  
at 31st December, 1963  
(Member Countries and Associated Countries)

<i>Country</i>	<i>Number of Projects</i>	<i>E.I.B. Loans (million u.a.)</i>	<i>Percentage share of each country in total</i>
<i>Member Countries</i>			
Belgium	1	4.8	1
Germany	3	32.4	9
France	10	58.0	16
Italy	47	236.1	66
Luxembourg	1	4.0	1
	62	335.3	93
<i>Associated Countries</i>			
Greece	5	23.0	7
<b>Total</b>	<b>67</b>	<b>358.3</b>	<b>100</b>

**BREAKDOWN BY ECONOMIC SECTOR**  
at 31st December, 1963  
*(Member Countries and Associated Countries)*

<i>Sector</i>	<i>Number of Projects</i>	<i>E.I.B. loans (million u.a.)</i>	<i>Percentage share of each sector in total</i>
AGRICULTURE	2	10.5	3
TRANSPORT	10	108.2	30
POWER	10	74.6	21
INDUSTRY	45	165.0	46
— Iron and Steel	2	24.9	
— Building materials	5	11.1	
— Glass and pottery	3	5.8	
— Paperpulp and paper	3	15.8	
— Mechanical engineering	12	25.7	
— Chemicals	9	71.4	
— Textiles and clothing	2	2.6	
— Foodstuffs	8	7.4	
— Other industries	1	0.3	
<b>Total</b>	<b>67</b>	<b>358.3</b>	<b>100</b>

On 31st December, 1963, 48 loan agreements for a total amount of 284.1 million units of account had been signed. By the end of March, 1964, this number had risen to 58, for a total amount of 324.4 million units of account.

#### NEW TASKS

The last report referring to the widening of the Bank's field of activity to include the countries associated with the Community explained what was being accomplished, to ratify the draft convention whereby the 17 African States and Madagascar is renewed for five years, and maintain the association of overseas countries and territories and of the French overseas departments.

In conjunction with the association and with a combined global limit of 730 million units of account in favour of the African States and Madagascar and 70 million units of account for the other overseas countries and territories, the Bank was authorized to lend, out of its own funds, up to 64 and 6 million units of account respectively, in the terms and conditions laid down in its Statutes.

During 1963, agreements were also reached within the Community between the European Development Fund, responsible for non repayable grants and the Bank, responsible for granting normal loans. The two institutions in close collaboration will undertake the joint management of any loans made to these States, overseas countries and territories by way of the Fund's resources and for amounts fixed respectively at 46 and 4 million units of account. This collaboration will become effective on the first day of the month after ratification by the signatory states, which will probably be about the middle of 1964.

The draft convention between the EEC and Turkey, signed at Ankara on 12th September, 1963, is also awaiting ratification and may come into force in 1964. Under the terms of this agreement and the annexed financial protocol, the Community will provide, through the Bank, 175 million units of account over five years. This will take the form of long term loans, designed to assure investment projects which will contribute to the growth of productivity in Turkey.

During the discussions on the terms of these interventions, it became evident that the resources of an institution which has to turn to the markets to obtain funds, as does the Bank, were hardly appropriate to come to the aid of countries in which the balance of payments was precarious and liable to remain so for a rather lengthy period. In order to be able, nevertheless, to grant aid through the Bank, the member countries decided to set up a « special section » to be administered separately and endowed with special resources. This special section, which will be called upon to operate as soon as the association with Turkey comes into force, was set up by a decision of the Board of Governors

on 27th May, 1963. Thus the Community will have a flexible instrument for use whenever the conditions of the aid to be granted have to be adapted to the special situation of the country receiving it.

## FINANCIAL ACTIVITIES

At the beginning of the financial year 1963, the Bank's combined resources amounted to approximately 337.3 million units of account, derived from paid-up capital, borrowings and accrued profit. At the same date effective loans amounted to a total of 212.4 million units of account, of which 140.8 millions had been disbursed.

The degree of liquidity — due partly to the time-lag between the signing of the loan agreement and the moment when the loan is actually paid out — which the Bank was still able to maintain last year, allowed it to keep to its policy of gradually introducing its securities, on the various capital markets, as the conditions on each make issues possible.

Thus it was able in December, 1963, to float three new loans, to a total value of 35.1 million units of account, which were its first issues in France, Belgium and Germany.

The loan, issued in France for a nominal amount of 60,000,000 French francs (approximately 12.1 million units of account) was offered through a group of French banks to insurance companies and similar organizations at the price of 94.5% if covered during December 1963 and at the price of 94.9% if covered during January 1964. Each bond, bearing interest at the rate of 5% per annum, will be redeemed at par, a quarter at a time, at the end of the 5th, 10th, 15th and 20th years, the average yield thus working out at 5.66%. The bond holders have, however, at the end of the 10th year, the option of advance redemption of the unredeemed part of each bond at a price which would give an average yield of 5.38%.

The Bank retains the right to reimburse the outstanding balance of the loan at par, at the end of the 10th and 15th year.

A loan of 400,000,000 Belgian francs (8 million units of account) floated on the Belgian capital market was taken up by a group of Belgian banks, to be placed with institutional investors at the price of 99%. Subscribers are allowed to pay for the bonds subscribed by 10th June, at the latest.

This loan has a duration of 24 years and bears interest at 6% per annum. The yield works out at 6.10%. It is repayable in 19 equal annuities as from the end of the sixth year. As from this date the Bank reserves the right to repay the loan, in part or in whole, at par.

The third loan, raised in Germany, for a nominal amount of 60,000,000 DM (15 million units of account) has been taken up by a consortium of German banks and offered to the public at the price of 99%.

The bonds will bear interest at the rate of 5½% per annum and will have a duration of 7 years. They are not repayable in advance. The yield works out at about 5.7%.

The total amount of the loans issued by the Bank was therefore 88.8 million units of account on 31st December, 1963. Taking into account repayments effected during the financial year, the funded debt amounted at this date to 88.4 million units of account.

New loan agreements signed during the financial year brought the total amount of loans granted to 283.6 million units of account; after deduction of repayments made, amounting to 3 million units of account of which 2.5 million units of account were repaid during the financial year under review, and taking into account exchange adjustments, total effective loans amounted to 281 million units of account, of which 200 million units of account had been disbursed. Disbursement made during the financial year 1963 amounted to 59.2 million units of account.



In view of the general trend on the financial markets, the rate of interest on the Bank's loans was raised to 5 7/8% per annum for contracts signed after 27th March, 1963, and remained at this rate.

The balance on the Profit and Loss account, before making the appropriation to the statutory reserve and provision for contingencies, amounted to 10.4 million units of account, as against 9.8 million units of account in the previous financial year. This amount was distributed as follows : 5 million units of account for contingencies and the remainder to the statutory reserve.

On 31st December, 1963, the total of reserves and provisions for contingencies was approximately 44 million units of account, of which 21 million units of account was in the statutory reserve.

At the end of the financial year, the Bank's total resources — paid-up capital, borrowings and accrued profit — amounted to approximately 382.4 million units of account.

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### 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, 1963, amounts to 466,525,227.85 u.a. On 31st December, 1962, this total was 411,248,568.32 u.a.

#### ASSETS

##### *Cash and banks, gold assets and investments.*

The total of these assets on 31st December, 1963, amounts to 174,642,550.36 u.a., as against 196,708,139.16 u.a., on 31st December, 1962, as follow.

	On 31st December, 1962	On 31st December, 1963
Cash in hand and banks	156,504,062.63	147,358,713.12
Gold assets	8,520,897.32	8,562,954.50
Investments	31,683,179.21	18,720,882.74

The bonds and notes to the value of 11,134,890.26 u.a., have been valued at cost price or at market quotation as at 31st December, 1963, if the latter were below cost price, with a maximum of 100%.

The total of these three items was made up as follows :

Currencies of member countries	137,962,432.15 u.a.
Other currencies	28,117,163.71 u.a.
Gold	8,562,954.50 u.a.

The break-up by maturities was :

At call	25,628,474.10 u.a.
Not exceeding 3 months	70,325,351.43 u.a.
Exceeding 3 months but not exceeding 6 months	26,520,369.65 u.a.
Exceeding 6 months but not exceeding 1 year	45,871,014.92 u.a.
Exceeding 1 year	6,297,340.26 u.a.

*Receivable on bonds to be delivered.*

The amount under this heading, 8,210,230.98 u.a., represents the proceeds of loans in French francs and Belgian francs issued and subscribed in 1963 but not yet paid up at the end of the financial year.

*Effective loans.*

The amount of loans was 281,032,414.20 u.a. and represents the total amount of the loans for which agreements had been signed by 31st December, 1963, less repayments during the year amounting to 2,525,643.62 u.a. Of this total, the amount actually paid out to borrowers by that date was 200,024,239.76 u.a.

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

Currencies of member countries	139,881,742.32 u.a.
Currency of any Member State at the Bank's option	35,127,484.78 u.a.
Other currencies	25,015,012.66 u.a.

The undisbursed amounts viz. 81,008,174.44 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 :

	On 31st December, 1962	On 31st December, 1963
Amounts disbursed	140,784,650.48	200,024,239.76
Amounts undisbursed	71,601,933.70	81,008,174.44
Total of loans	<u>212,386,584.18</u>	<u>281,032,414.20</u>

*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, 1963; they amount to 2,581,549.03 u.a.

LIABILITIES

*Capital.*

Subscribed capital amounts to 1,000,000,000.00 u.a. of which 250,000,000.00 u.a. have been paid up and 750,000,000.00 u.a. are guarantee capital.

*Statutory Reserve.*

The statutory reserve amounted at the beginning of the year to 15,591,775.17 u.a. and was increased to 20,970,420.22 u.a. by the transfer to this reserve of the balance of the Profit and Loss account.

*Provisions.*

This provision for risks on loans and guarantees, which stood at 10,500,000.00 u.a. at the close of the previous financial year, was increased to 15,000,000.00 u.a.

This provision for equalization of interest on borrowings and for issuing charges was increased to 6,000,000.00 u.a.

Total provisions amount to 23,000,000.00 u.a., as against 18,000,000.00 u.a. at the close of the previous financial year.

*Amounts due under Article 7 para. 2 of the Statutes.*

The amount appearing under this heading is 461,072.22 u.a., as against 481,323.57 u.a. on 31st December, 1962.

*Medium and long term debt.*

The figure of 88,423,825.85 u.a. under this heading represents the Bank's current borrowings as at 31st December, 1963.

Details are as follows :

**Bonds :**

4 1/2 % seven year Bonds of 1961 in guilders	5,524,861.88 u.a.
4 1/2 % twenty year Bonds of 1961 in guilders	13,812,154.70 u.a.
5 % fifteen year Bonds of 1962 in italian lire	24,000,000.00 u.a.
4 3/4% twenty year Bonds of 1962 in guilders	8,287,292.82 u.a.
5 1/2% seven year Bonds of 1963 in Deutsche Mark	15,000,000.00 u.a.
6% twenty-four year Bonds of 1963 in Belgian francs	8,000,000.00 u.a.
5% twenty year Bonds of 1963 in French francs	12,152,981.73 u.a.

**Other borrowings :**

Bank credit — 6 years as from 1961, in Swiss francs	1,646,534.72 u.a.
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During the financial year the funded debt of the Bank developed as follows :

	<i>Principal outstanding at 31st December, 1962</i>	<i>Operations during the financial year</i>		<i>Principal outstanding at 31st December, 1963</i>
		<i>Borrowing</i>	<i>Repayments</i>	
in DM	—	15,000,000.00	—	15,000,000.00
in FF	—	12,152,981.73	—	12,152,981.73
in Lit.	24,000,000.00	—	—	24,000,000.00
in Bfrs.	—	8,000,000.00	—	8,000,000.00
in Fl.	27,624,309.40	—	—	27,624,309.40
in Sw. F	2,058,168.41	—	411,633.69	1,646,534.72
<b>Total</b>	<b>53,682,477.81</b>	<b>35,152,981.73</b>	<b>411,633.69</b>	<b>88,423,825.85</b>

The amount of funded debt due within the financial year 1964 is 1,516,606.06 u.a.

*Undisbursed balance of effective loans.*

The amount of 81,008,174.44 u.a. represents payments due by the Bank to its borrowers under contracts signed prior to 31st December, 1963.

*Accrued interest payable and interest received in advance.*

The amount of 981,302.37 u.a. appearing under this heading represents 959,522.64 u.a. accrued interest not yet paid and 21,779.73 u.a. interest received in advance for periods subsequent to 31st December, 1963.

*Miscellaneous.*

The amount of 1,680,432.75 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 1,902,651.44 u.a., as against 1,453,758.89 u.a. for the previous year.

They are made up as follows :

Staff expenses	1,157,950.12 u.a.
General expenses and provisions for other charges	744,701.32 u.a.

#### *Interest and charges on borrowings.*

This item, amounting to 3,939,513.99 u.a., represents interest on borrowings and sundry charges and expenses connected therewith.

#### *Financial expenses.*

The amount of 10,951.06 u.a. under this heading consists almost entirely of the differences in the valuation of investments at 31st December, 1963.

#### *Amortization of furniture and equipment.*

Expenditure on furniture and equipment, made during the year and fully amortized, was 40,762.26 u.a., as against 21,569.40 u.a. for the previous year.

## CREDIT

### *Interest and commission from loans.*

This item amounts to 9,627,777.83 u.a., as against 6,357,997.87 u.a. for the previous year. The increase is in proportion to the increase in amounts paid out.

### *Interest and commission from investments.*

The amount of interest from investments of available funds is 6,599,993.95 u.a., as against 7,637,437.16 u.a. for the previous year. The decrease is in proportion to the reduction of funds available for investment.

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## IV

At the Annual Session on 27th May, 1963, the Board of Governors renewed the powers of the Board of Directors for a period of five years. Mr. Pasquale SARACENO and Mr. Mario PENNACHIO not having sought re-appointment, Mr. Aldo BALDARI and Mr. Lionello FRONZONI were appointed as alternate Directors to Mr. Stefano SIGLIENTI and Mr. Giuseppe DI NARDI, the latter having been named a member of the Board.

Mr. Pierre-Paul SCHWEITZER withdrew from the Board of Directors on appointment as Managing Director of the International Monetary Fund; in his place the Board of Governors appointed Mr. Jean SALTES to be a Director with effect from 11th February, 1964.

We wish to thank Mr. SARACENO, Mr. PENNACHIO and Mr. SCHWEITZER for their valued and competent help since the Bank was first established.

\* \* \*

The staff of the Bank totalled 123 persons on 31st December, 1963.

Brussels, 14th April, 1964.

Chairman, 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, 1963 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.

**April 15, 1964.**

**PRICE WATERHOUSE & Co.**

## BALANCE SHEET AT

(in units of account of 0.88867088

The conversion rates used in the accounts

50 Belg. fr = 4.00 DM = 4.93706 FF =

### ASSETS

#### CASH AND BANKS

##### Member countries' currencies

At call or not exceeding one  
year . . . . . 122,697,801.95

##### Other currencies

At call or not exceeding one  
year . . . . . 24,660,911.17

147,358,713.12

GOLD ASSETS . . . . . 8,562,954.50

#### INVESTMENTS

##### Member countries' currencies

Not exceeding one year . . . . . 8,967,289.94  
Over one year . . . . . 6,297,340.26  
15,264,630.20

##### Other currencies

Not exceeding one year . . . . . 3,456,252.54

18,720,882.74

#### RECEIVABLE ON BONDS TO BE DELIVERED

Member countries' currencies . . . . . 8,210,230.98

#### EFFECTIVE LOANS

##### Of which :

##### Disbursed :

In member countries' currencies 175,009,227.10  
In other currencies . . . . . 25,015,012.66  
200,024,239.76

Undisbursed balance . . . . . 81,008,174.44

281,032,414.20

FURNITURE AND EQUIPMENT . . . . . 1.00

ACCRUED INTEREST AND COMMISSION . . . . . 2,581,549.03

MISCELLANEOUS . . . . . 58,482.28

*Total assets : u.a.*

466,525,227.85

DECEMBER 31, 1963

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 . . . . .	<u>1,000,000,000.00</u>	
of which paid up in accordance with Art. 5 (1) of the Statutes . . . . .		250,000,000.00
STATUTORY RESERVE . . . . .		20,970,420.22
PROVISIONS		
for risks on loans and guarantees . . . . .	15,000,000.00	
for equalization of interest on borrowings and for issuing charges . . . . .	6,000,000.00	
for monetary risks not covered under Art. 7 of the Statutes . . . . .	<u>2,000,000.00</u>	23,000,000.00
AMOUNTS DUE UNDER ART. 7 (2) OF THE STATUTES . . . . .		461,072.22
MEDIUM AND LONG TERM DEBT		
Member countries' currencies . . . . .	86,777,291.13	
Other currencies . . . . .	<u>1,646,534.72</u>	88,423,825.85
UNDISBURSED BALANCE OF EFFECTIVE LOANS . . . . .		81,008,174.44
ACCRUED INTEREST PAYABLE AND INTEREST RECEIVED IN ADVANCE . . . . .		981,302.37
MISCELLANEOUS . . . . .		1,680,432.75
		<u>466,525,227.85</u>
	<i>Total liabilities u.a.</i>	

## PROFIT AND LOSS ACCOUNT FOR THE

(in units of account of 0.88867088

### DEBIT

ADMINISTRATIVE EXPENSES . . . . .	1,902,651.44
INTEREST AND CHARGES ON BORROWINGS . . . . .	3,939,513.99
FINANCIAL EXPENSES . . . . .	10,951.06
AMORTIZATION OF FURNITURE AND EQUIPMENT . . . . .	40,762.26
PROVISION FOR RISKS ON LOANS AND GUARANTEES . . . . .	4,500,000.00
PROVISION FOR EQUALIZATION OF INTEREST ON BORROWINGS AND FOR ISSUING CHARGES . . . . .	500,000.00
BALANCE APPROPRIATED TO THE STATUTORY RESERVE . . . . .	5,378,645.05
<i>Total u.a.</i>	16,272,523.80







## 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 1963 annual report and the balance sheet of the Bank as at December 31, 1963 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 April 14, 1964,

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

hereby certifies :

that the Bank's operations during the 1963 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, 24th April, 1964.

*The Audit Committee,*

K. BERNARD

A. M. DE JONG

R. BRESSON

