

EUROPEAN
INVESTMENT BANK



ANNUAL REPORT 1967

EUROPEAN
INVESTMENT BANK

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 (u.a.) =	{	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
		30.00 Greek drachmae
		9.00 Turkish pounds.

EUROPEAN
INVESTMENT BANK



ANNUAL REPORT 1967

BOARD OF GOVERNORS

Chairman : PIERRE WERNER (*Luxembourg*)

Belgium : ROBERT HENRION, Minister of Finance, Brussels;

Germany : FRANZ-JOSEF STRAUS, Minister of Finance, Bonn;

France : MICHEL DEBRÉ, Minister of Economy and Finance, Paris;

Italy : EMILIO COLOMBO, Minister of the Treasury, Rome;
Chairman until 5th June, 1967;

Luxembourg : PIERRE WERNER, Minister of State, President of the
Government, Minister of the Treasury, Luxembourg;

Netherlands : HENDRIKUS JOHANNES WITTEVEEN (1), Minister of Finance,
The Hague.

(1) JELLE ZIJLSTRA, until 5th April, 1967.

BOARD OF DIRECTORS

Chairman : PARIDE FORMENTINI

Vice Chairmen : YVES LE PORTZ

ULRICH MEYER-CORDING

Directors :

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

DANIEL DEGUEN, Deputy Director of the Treasury, Ministry of Economy and Finance, Paris; (1)

RAYMOND DENUCÉ, Honorary Managing Director, Crédit Communal de Belgique, Brussels;

GIUSEPPE DI NARDI, Chairman, S.p.A. Navalmeccanica, Rome;

ROBERTO DUCCI, Ambassador;

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

Alternates :

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

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

PIERRE GUILL, General Manager, Caisse d'Épargne de l'État, Luxembourg;

LIONELLO FRONZONI, Representative of the Bank of Italy in Benelux and Financial Counsellor to the Italian Embassies in Brussels, The Hague and Luxembourg, Brussels;

ALBERTO CAPANNA, General Manager, Finsider, Rome;

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

(1) FRANÇOIS BLOCH-LAINÉ, until 18th September, 1967.

UGO MOSCA, Director General of Economic and Financial Affairs of the Commission of the European Communities; (1)

ALFRED MÜLLER - ARMACK, former State Secretary, Cologne;

MAURICE PÉROUSE, General Manager, Caisse des Dépôts et Consignations, Paris;

HANS RANNOU, Ministerialdirektor, Federal Ministry of Finance, Bonn;

JEAN SALTES, Chairman and General Manager, Crédit National, Paris;

STEFANO SIGLIENTI, President, Istituto Mobiliare Italiano, and Chairman, Associazione Bancaria Italiana, Rome;

MICHEL ALBERT, Director of Structure and Economic Development, General Department of Economic and Financial Affairs of the European Communities;

WILHELM HANEMANN, Ministerialdirigent, Federal Ministry of Finance, Bonn; (2)

ANDRÉ POSTEL-VINAY, General Manager, Caisse Centrale de Coopération Économique, Paris;

FRIEDRICH BERNARD, Ministerialrat, Federal Ministry of Finance, Bonn;

JACQUES FRIEDMANN, Head of the Financing Department of the Commissariat Général du Plan d'Équipement et de la Productivité, Paris; (2)

ALDO BALDARI, Inspector General of the Treasury, Inspectorate General for External Finance, Ministry of the Treasury, Rome.

(1) FRANCO BOBBA, until 15th February, 1967.

(2) ERNST VOM HOFE, until 11th January, 1967.

(3) JEAN RIPERT, until 15th March, 1967.

MANAGEMENT COMMITTEE

PARIDE FORMENTINI, *President*

YVES LE PORTZ, *Vice President*

ULRICH MEYER-CORDING, *Vice President*

DEPARTMENTS

General Affairs Office : HENRI LENAERT, Manager.

ARNOLD RIETZ, Deputy Manager,
Head of Personnel.

Loans in Member

Countries :

HANS WERNER VON LINDEINER-WILDAU,
Manager.

ROMEO DALLA CHIESA, Deputy Manager.

ARMEL BELLEC, Deputy Manager.

Loans in Associated

Countries :

GUY TRANCART, Manager.

KARL-HEINZ DRECHSLER, Deputy Manager.

PIETRO BEMBINA, Deputy Manager.

Finance and Treasury

Department :

GIANDOMENICO SERTOLI, Manager.

Research Department : HORT-OTTO STEFFE, Manager. (1)

LOUIS CASSAGNES, Deputy Manager.

Legal Department :

J. NICOLAAS VAN DEN HOUTEN, Manager.

Technical Advisers :

HENRI JEANDET.

HELLMUTH BERGMANN.

EUGENIO COMBONI.

JACQUES FAUDON.

MARCELLO GOFFI.

(1) PIERRE BARRE, until 17th September, 1967.

AUDIT COMMITTEE

Chairman

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

Members

RENÉ BRESSON Président de Chambre Honoraire à la Cour des
Comptes; former Chairman of the Commission
de Vérification des Comptes des Entreprises
Publiques, Paris;

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

CONTENTS

	<i>Page</i>
I. THE BANK : THE FIRST TEN YEARS	17
II. THE ECONOMIC EVOLUTION IN THE COMMUNITY AND THE ASSOCIATED COUNTRIES	43
<i>Investments in the Community</i>	57
<i>Investment financing</i>	63
The market for public issues of securities	67
Other external resources available for financing the economy	81
<i>Capital movements within the Community and between the Community and non-Member Countries</i>	86
III. ACTIVITIES OF THE BANK	91
<i>Loans</i>	91
Contracts signed	91
Loans approved	91
<i>Ordinary loans</i>	91
<i>Special loans</i>	97
<i>Origin and employment of resources</i>	101
IV. BALANCE SHEET AND PROFIT AND LOSS ACCOUNT	105
V. ADMINISTRATION OF THE BANK	115

The first part of the Annual Report of the Bank, which is celebrating its tenth anniversary this year, gives a historical survey of its creation, the development of its activity and the orientation of its policy.

The second part is an overall picture, for 1967, of the economic situation in the Community – with particular reference to investments and their financing – as well as in the associated countries.

The third part deals with loans and borrowings by the Bank in the past financial year.

The report concludes with an analysis of the main items of the balance sheet and the profit and loss account for the year 1967.

ANNUAL REPORT 1967

I

THE BANK : THE FIRST TEN YEARS

The first meeting of the Bank's Board of Governors was held in Brussels on 25th January, 1958. One year later, on 22nd March, 1959, the President of the Bank signed the first loan agreements.

At the end of 1967, the Bank had approved 187 loans for an amount of 978.4 million units of account. The investments relating to these loans may be estimated at some 4.5 milliard units of account.

What lessons is it possible to derive from an evolution extending over the first ten years of the Bank's existence? In this respect, three aspects merit examination: the development of resources, the general orientation of activities and the economic incidence of the loans.

1. THE DEVELOPMENT OF RESOURCES

The capital of the Bank subscribed by the Member Countries was fixed by the Statute at one milliard units of account. A quarter of this amount, 250 millions, was paid up in the thirty months elapsing after the entry into force of the Treaty of Rome, i.e., before the end of June 1961. By the terms of the Statute, the capital subscribed but not yet paid up – 750 millions – constitutes the guarantee for loans to be floated on the capital markets.

It was in 1961 that the Bank proceeded to its first bond issues. At the time of its foundation, the idea had been put forward that it would endeavour to collect, to a large extent, the necessary resources on markets outside the Community. Two very important factors upset this plan. In the first place, from the end of 1958-1959, several European countries

restored the external convertibility of their currencies and embarked upon a widespread move towards liberalisation of exchange and capital controls. In the second place, a few years later, the world witnessed an unexpected reversal of the United States' balance of payments which was to lead, in 1963, to the establishment of a tax on certain capital exports, the interest equalization tax, intended to make American residents refrain from subscribing to foreign securities.

Thus, despite circumstances which were by no means favourable for the collection of long-term savings in Europe, the evolution of events led the Bank to orient its borrowing policy essentially in the light of the availabilities existing on the markets of the Six. This policy, formulated with the necessary caution, was based on the need for gradually assuming a position as a new first-class institutional borrower, while endeavouring to adjust the calls on the market to the requirements of the cyclical situation and the balance of payments position of each of the Member Countries, and to the situation of the capital market.

On 31st December, 1967, the total amount of loans issued directly on the national markets of the Community reached 372 million units of account, or about two thirds of the resources collected by the Bank on the financial markets as a whole. All the Member Countries participated : in Italy, 120 million units of account were collected, in France, 93 million, in Germany, 68 million, in the Netherlands, 47 million, in Belgium, 43 million and in Luxembourg, 1 million. Italy occupied the first place both as borrower (523 million) and as lender (120 million), thus demonstrating the contribution of the most favoured regions of that country to the Bank's financing schemes and, more particularly, to those concerning the promotion of the less-favoured regions of Southern Italy and the Islands.

In addition to this mobilisation of savings on the national markets of the Member Countries, the development of the international capital market offered the Bank another opportunity to make calls on savings resources, mainly European, by issuing in New York and Luxembourg bonds denominated in dollars intended for subscribers not residing in the United States. The dollar issues amounted to 180 million units of account. Their placing, effected by international consortia composed of European

and American financial institutions, contributed towards opening the way to close forms of collaboration between the United States' investment banks and the European banks.

Table 1 – BORROWINGS BY THE BANK

<i>Financial year</i>	<i>Number</i>	<i>Amount (million u.a.)</i>
1961	3	21.4
1962	2	32.3
1963	3	35.2
1964	5	66.8
1965	4	65.0
1966	6	138.5
1967	8	194.5
1961-1967	31	553.7

Table 1, which summarises the evolution of the Bank's borrowings, shows – after a period devoted to the preparation of administrative and fiscal arrangements – a rapid growth, which is particularly clearcut for the two most recent years. The Bank has taken advantage of the first ten years of its existence to establish and develop its credit, an essential condition for the expansion of its activity.

2. GENERAL ORIENTATION OF ACTIVITIES

Since its creation, the Bank has approved just under 200 loans for an amount of the order of one milliard units of account – that is, an amount appreciably equal to that of its subscribed capital.

The total annual amount of loans approved (Table 2) bears witness to a growing activity; indeed, it more than doubled from the first three

years to the four subsequent years and has again almost doubled between the latter period and 1967.

Table 2 – LOANS BY THE BANK

<i>Periods</i>	<i>Average annual amount of loans approved (million u.a.)</i>		
	<i>ordinary</i>	<i>of the Special Section</i>	<i>totals</i>
1959-1961	53.4	—	53.4
1962-1963	99.0	—	99.0
1964-1965	101.7	27.1	128.8
1966	118.7	13.5	132.2
1967	177.3	55.5	232.8

Tables 3 and 4 show the breakdown of the loans from a threefold point of view : nature of loans; countries in which the projects gave rise to financing schemes on the part of the Bank; sectors financed.

As regards the nature of the loans, a fundamental distinction separates the ordinary operations from loans coming under the Special Section. The latter was created in 1963 by decision of the Board of Governors, so as to enable the Bank to have at its disposal an appropriate instrument for intervening in the Community's interest whenever the nature of the projects to be financed, or a disequilibrium in the balance of payments of an associated country, might justify the granting of financial assistance in the form of loans under preferential conditions : low rates of interest, lengthy term and long period of exemption from repayment, in particular. The Special Section is not legally distinct from the Bank, but the operations which the Bank effects through it are financed by means of special resources managed separately. These operations are indeed carried out on the basis of mandates granted to the Bank by the Community or the Member Countries at the exclusive risk of the principals.

Table 3 – LOANS BY THE BANK (1)
 Breakdown by type of loans and by country on 31st December, 1967
 (Ordinary and special operations)

<i>Countries</i>	<i>Number of projects</i>	<i>Amount (million u.a.)</i>	<i>Share of each country in relation to the whole (%)</i>
I. Ordinary operations			
<i>Member countries :</i>			
Belgium	2	20.8	2
Germany	16	78.6	8
France	20	138.4	14
Italy	98	523.6	53
Luxembourg	1	4.0	—
	137	765.5	77
<i>Associated countries :</i>			
Greece	15	68.9	8
Ivory Coast	1	1.0	—
Cameroon	4	8.3	1
Congo-Brazzaville	1	9.0	1
Senegal	1	2.4	—
	22	89.6	10
Total	159	855.1	87
II. Special operations			
Turkey	22	103.3	11
A.A.S.M. - O.C.T. (2)	6	20.0	2
Grand total	187	978.4	100

(1) Loans approved, minus two loans cancelled after approval and, as regards the amounts, the cancelled part of approved loans.

(2) Loans on E.D.F. resources having formed the object of a favourable opinion by the E.I.B. and for which the financing decision of the Commission of the European Communities has been taken.

The first case of application of the Special Section was the financing of assistance to Turkey, for which the procedures came into force on 1st December, 1964. The second case consisted in the fact that, according to a decision taken by the Board of Governors in February 1964, the loan operations under special conditions on the resources of the second European Development Fund are dealt with through the Special Section. In these

Table 4 — LOANS BY THE BANK (1)
Breakdown by sector on 31st December, 1967
(Ordinary and special operations)

Sector	Number of projects	Amount (million u.a.)	Share of each sector in relation to the whole (%)
AGRICULTURAL DEVELOPMENT	12	131.8	13
ENERGY	18	149.3	15
TRANSPORT	21	273.7	28
of which :			
— Railways	8	113.2	
— Roads	11	139.3	
— Gas pipe-lines	2	21.2	
PORT EQUIPMENT	1	1.0	—
TELECOMMUNICATIONS	3	40.1	4
INDUSTRY	132	382.5	40
of which :			
— Extractive industries	3	11.0	
— Iron and steel	3	48.9	
— Non-ferrous metals	4	14.2	
— Construction materials	15	23.6	
— Glass and ceramics	7	10.4	
— Pulp - paper	8	43.7	
— Engineering industry	28	66.4	
— Chemical industry	28	121.1	
— Textiles and clothing	13	12.0	
— Food industry	17	27.1	
— Other industries	6	4.1	
Total	187	978.4	100

(1) See footnotes, Table 3.

operations in favour of the Associated African States and Madagascar and the Overseas Countries and Territories (1), the Bank performs, jointly with the Commission of the European Economic Communities, the

(1) The eighteen States which were signatories of the Yaoundé Convention of 20th July, 1963, and the thirteen overseas countries and territories associated with the European Economic Community.

preliminary investigation of the project and manages the loan on the basis of mandates from the Community.

Indeed, it should be recalled that the Bank acts both in the Member Countries, by the terms of the Treaty of Rome, and in the Associated Countries, subject to a prior decision, adopted by the Board of Governors in application of Article 18 of the Statute. Thus, in respect of loans on the ordinary resources, an initial decision was taken on 10th December, 1960, for the Bank's intervention in Greece (the amount of 50 million dollars initially provided was increased to 125 million dollars in July 1966), and in May 1963, the Board of Governors decided to authorise the Bank to grant normal credits on its own resources in the seventeen African States and Madagascar and in the Associated Countries and Territories, the total amount of loans being limited to 70 million units of account.

For the first ten years, Table 3 shows that 87% of the activity concerned ordinary operations, with a definite predominance of loans for projects located in the Member Countries. It is true that this statistical breakdown is influenced, in favour of the Member Countries, by the fact that the financing schemes in the Associated Countries and the creation of the Special Section are of relatively recent date. In 1967, the amount of the ordinary operations represented 76% of the total operations, the greater part of which in favour of Member Countries.

Table 3 also brings out the preponderant share of Italy – more than half – in the total amount of loans granted by the Bank. This share is respectively four and seven times greater than that of the next two Member Countries, France and Germany. This situation reflects both the provisions of the Protocol on Italy, appended to the Treaty, and the *de facto* situation with respect to regional development in the Community. The absence of loans for projects located in the Netherlands is explained, *inter alia*, by the relatively low level of interest rates practised in that country until recently.

Table 4 reveals a certain equilibrium between the loans in favour of infrastructures (agricultural development, energy, transport, telecommunications), on the one hand, and industry, on the other. This breakdown brings out an original feature of the Bank's action which, by the terms

of its Statute, has the power to finance both of these very different types of projects. If we now consider the breakdown of loans by industrial branches, a slight predominance is noted in favour of the chemical, engineering and iron and steel industries which, generally requiring unit loans of fairly high amounts, have received two thirds of the amounts granted in favour of industrial projects.

Loans in the Member Countries.

From 1958 to 1967, the Bank concentrated its main effort on financing schemes in favour of regional development. A Directive from the Board of Governors in December 1958 invited it “to devote a large part of its resources to the financing of projects likely to contribute to the furtherance of less developed regions; this already represents one of the major objectives of the European Economic Community”. This action has essentially taken the form of loans for the creation or development of collective basic equipments and industrial loans for projects located in the least favoured regions of the Community. It has also extended to certain regions in difficulty and to financing schemes relating to the conversion of enterprises by modernisation or creation of new activities. In addition to these actions – provided for by paragraphs a) and b) of Article 130 of the Treaty – the Bank has intervened in the financing of projects of common interest to several countries (Article 130 c), especially in respect of infrastructures facilitating the approximation of markets and industrial projects which favour European integration by means of inter-penetration.

Regional development (less favoured regions).

The Bank's contribution to regional development has been marked by the concentration of interventions in Southern Italy and the Islands. These regions, which have in common a per capita income which is greatly inferior to the Community average, an unquestionably high rate of emigration and employment possibilities which are still rather limited, in particular in industry, have benefited from over half of the Bank's loans

in the Member Countries, representing more than 400 million units of account.

As regards infrastructures, the projects financed have consisted in improving either the energy potential (7 financing schemes for power stations), or the links from South to North by railway (2 loans) or by motorway (Messina-Catania), or again telecommunications (Sardinia, Sicily and Calabria), or lastly, thanks to irrigation (Metaponto in Basilicata and Ogliastro in Sicily), in fundamentally changing agricultural operating techniques. The location of the industrial projects shows a predominance of Sicily, Campania, Puglia and Sardinia, regions which come 13th, 14th, 15th and 17th, as regards per capita income, among the 20 Italian regions. Several loans have been granted in favour of projects located in Latium, Marche and Abruzzi, so as to help in the development of zones intended to stem the excessive flow of emigration towards the North.

By its continuous and coherent action in Italy, the Bank has certainly contributed to progress in the solution – which is still imperfect and gradual – of the problems of regional development in that country. Large-scale infrastructures have been created or reinforced; in some places, dynamic industrial complexes have been set up while in others the initial elements of a network of medium-sized industrial enterprises have been established. The influence on employment, regional value-added and even the balance of payments (regional or national) has been far from negligible (1). The actions undertaken have had the result of reducing the local emigration rate to fairer proportions and improving the standard of living.

In France, the Bank's regional action has related to infrastructure projects and, to a lesser degree, industrial projects. The projects in question are located in the regions of the Lower Rhône-Languedoc, Brittany, up-country Provence, Lower Normandy and the South-West, which have an income below the Community average, and certain of which are characterised by the importance of rural structures, despite the agricultural exodus, due to the attraction exerted by Paris. In its action, the Bank has

(1) As illustration, see the following section of this chapter.

taken account of the need for modernising French agriculture and improving, in the provinces, the links towards the centres; parallel with this, it has contributed towards reducing leeways in respect of modern equipment, e.g., telephone systems and rural electrification. In the industrial field, the Bank has had the opportunity to intervene only to an accessory extent in favour of the less-developed areas : chemical complexes in Aquitaine, light metallurgy in Brittany.

In Belgium, the Bank has granted one loan for an industrial initiative likely to promote the development of less-favoured regions.

In the Federal Republic of Germany, the Bank has financed, in respect of less-developed areas, an infrastructure project in the North of Lower Saxony and several industrial projects in Schleswig-Holstein, Lower Saxony, Bavaria and Rheinland-Palatinate. The Bank's procedure then consists – as also in certain cases for projects located in Latium or certain zones of France – of examining, instead of the state of development of the region as a whole, that of a more localised zone where particular development problems arise. Furthermore, the Bank intervened in the financing of projects located in Berlin, as it was authorised to do by a supplement, dated 1st April, 1960, to the General Credit Directives of the Board of Governors of 1958 (1).

Industrial conversions.

Two main reasons explain why the financing schemes of the Bank in the field of sectoral conversions have remained relatively limited in the course of the first ten years, as moreover was provided for by the Directives of the Board of Governors in December 1958. On the one hand, two important branches – coal and steel – had special institutional machinery at their disposal. The Bank has however performed some financing operations in collaboration with the High Authority of the E.C.S.C.;

(1) The Treaty of Rome contains, in annex, a Common Declaration in which the six Member Countries “having regard to the particular situation of Berlin and the necessity for giving it the support of the free world, anxious to confirm the solidarity which links them to the population of Berlin”, declare that they will “use their good offices within the Community in order that all necessary measures may be taken to ease the economic and social situation of Berlin, to promote its development and to ensure its economic stability”.

one, for example, concerns the creation of a relay activity in Germany so as to permit the redeployment of some hundreds of workers, while others (for example, the Franco-German projects in Lorraine and the Saar) participate both in conversion properly speaking and in the policy of financing operations in favour of the reorganisation of enterprises at the European level. On the other hand, the Bank has taken into account the fact that the structural difficulties which might exist in certain industries of the six countries were only exceptionally due to the opening-up of the frontiers; moreover, the majority of the industrial branches have benefited from a generalised expansion since 1958, which seems to indicate that the sectoral difficulties in fact stem, or at least have done so up to the present, from the general problem of a better adjustment to the increased demands of the world market and new technology.

It is mainly in shipbuilding that the Bank's action in favour of industrial conversions has been most significant. The aim was to contribute to the reorganisation of this branch, either by the creation of new activities (Costruzioni Metalliche Finsider and Société de Mécanique de Précision de l'Atlantique projects), or by the redevelopment of the shipyards in accordance with the principles of specialisation (large-sized ships) and modernisation of equipment and plants (AG Weser and Monfalcone projects).

The Bank also contributed to the conversion of the Sicilian sulphur industry by granting a loan for a project located in Sicily (Industria Siciliana Acido Sali Fosforico S.p.A. project).

Approximation of the economies of Member Countries and European interpenetration of enterprises.

With respect to major transport networks, the Bank – basing itself on Community policies – has helped to finance several motorways and railways, the characteristic feature of which was to improve the links between the different Member Countries. In general, this contribution was of a sufficiently large amount to make it possible to speed up the progress of the work by giving it a more effective rhythm. In this field,

mention may be made, inter alia, of the Brenner and Val d'Aoste motorways, the Brussels-Paris, Roquebrune-Menton and "Flowers" motorways, as well as the Genoa-Modane, Modane-Chambéry and Bolzano-Brenner railway lines, and the North-South link in the Federal Republic of Germany.

The Bank has also taken an interest in the development of new methods of transport, as witness the two loans granted recently for natural gas mains (Gaz de France and Energieversorgung Weser-Ems).

The other projects of common interest to several Member Countries belong to several categories. One of the first projects financed by the Bank was the construction at Vianden (Luxembourg) of a hydro-electric power station, operated on the principle of accumulation by pumping, which facilitates power exchanges among the Grand-Duchy of Luxembourg, the Federal Republic of Germany and France, and thus corresponds, from the European point of view, to an improved utilisation of resources in a multinational context. Other projects are aimed at the same goal, by means of financial, commercial or technical interpenetration concerning several Member Countries. In certain cases, the financing schemes in which the Bank has participated have formed the basis for the conclusion of financial and commercial agreements in a multinational framework. Thus, with the Alfa Romeo projects, technical cooperation was established and then reinforced between the Italian company and the Régie Nationale des Usines Renault, and with the PBU (Progil-Bayer-Ugine) project, cooperation was brought about among several major European enterprises.

The Bank's contribution to this effort at approximation and interpenetration has become more definite with the passage of time : in 1967, four operations of this kind were approved by the Board of Directors. For one of them, the Hoesch project, the Bank's aid facilitated the establishment, between two large steel mills (one located in the Netherlands and the other in Germany), of cooperation of a lasting type relating to the long-term planning and harmonisation of investments, manufactures, marketing and research. The PEC-Rhin project (ammonia, fertilisers) concerns an industrial complex created jointly by two large French and German enterprises, which will be managed by a joint subsidiary within which technical and commercial exchanges will be able to develop between the two large firms which created the complex. The two Saarlör projects

(ammonia, urea) correspond to a series of complementary investments which relate, in particular, to the collieries of the Lorraine basin and the Saar coalfields. They contribute to the redeployment of miners who have lost their jobs by structural changes which have affected the energy market, while creating a new industrial platform in the Saar-Luxembourg-Lorraine triangle.

Such projects form part of a European approach based on interdependence and technico-financial cooperation; at the same time, they aim at a higher productivity, thanks to optimum dimensions. The Bank has also endeavoured to encourage certain initiatives which, in the same spirit, are to renew the industrial structures, in particular by speeding up the introduction of up-to-date technologies. A first step in this direction was a loan to a company having the status of "joint enterprise" as recognised by the Council of Ministers of Euratom, in favour of a nuclear power station project at Darme (Landkreis Lingen), in Germany.

The Bank's action in the Member Countries has thus followed several major lines of force :

- general support for regional development, particularly in Southern Italy;
- selective action in respect of industrial conversions;
- efforts aimed at speeding up the implementation of important European infrastructures;
- support given to some initiatives of wide scope in the direction of an approximation among European enterprises or culminating in the creation of a network of particularly dynamic industries.

Loans in the Associated Countries.

The geographical widening of the Bank's activities was not unaccompanied by certain problems. Whereas the action in the Member Countries offered a fairly homogeneous picture, it was found that the financing operations in the Associated Countries could not be reduced to a uniform model, and this led to a number of consequences at the level of resources and terms and conditions for loans. Moreover, the diversity

of the situations was recognised by the association agreements which took into consideration, inter alia, the level of economic development and the balance of payments situation of the different Associated Countries.

In the case of Greece, the Bank has performed its operations on mandate from the Member Countries and with their guarantee, but from its own resources. For Turkey, the Bank's loans are granted from resources of the Member Countries, in the framework of the Special Section; the conditions, and in particular the rate of interest, are especially adapted to the particular payments situation of this country. For the Associated African States and Madagascar and the Overseas Countries and Territories, the Bank intervenes, from its own resources, as regards the strictly banking operations, up to an amount of 70 million units of account; it also intervenes in the preliminary investigation and management of loans from the resources of the second European Development Fund, for an amount of 50 million units of account; the operations performed under the latter heading come under the Special Section (1).

The Bank's activity in the Associated Countries has been closely linked with the guide-lines and provisions contained in the different treaties. Infrastructure has accounted for a considerable share – more than two thirds – in the financing schemes; inter alia, it was a question of major agricultural developments and energy, and then – to a lesser degree – transport.

The industrial financing schemes raised some difficult problems for the Bank. Although it is necessary to make a clear distinction between Greece and Turkey, which already have a certain industrial basis, and on the other hand the African States and Madagascar, which in the majority of cases are entering upon the very first phase of industrialisation, certain common features emerged in respect of bank financing schemes for industry. Generally speaking, the range of industrial projects in these countries seems incomplete and is characterised by the presence of very large-scale projects : exploitation of mining resources, petrochemical or steel complexes,

(1) For a general description of the procedures for the Bank's intervention in the African States and Madagascar and the Overseas Countries and Territories, as well as in Turkey, cf. the Annual Reports for 1963 (p. 63) and 1964 (pp. 51 and seq.).

etc., and – altogether at the opposite end of the scale – projects of modest dimensions relating mainly to the traditional industries. Between these two categories, in the area which, in the industrial countries, contains numerous industries for materials, semi-finished goods or mass-produced finished goods, the initial or intermediate stage of industrialisation seems to offer only relatively few opportunities for investment.

The Bank has endeavoured to give its assistance to the whole of the range referred to above. As regards large-scale projects, it intervened in financing schemes relating to a big alumina and aluminium works in Greece (total investment estimated at 133 million units of account), the exploitation of potash in the Congo (total investment estimated at 82 million units of account), the manufacture of paper in Turkey (total investments for two projects estimated at over 50 million units of account). In these four projects, the essential aim was to develop natural resources and improve the balance of payments.

For the medium-scale projects, the Bank has contributed to the financing of sugar refineries, cement works, fertiliser works, medium-sized textile industries, tyre factories, etc. These projects – of a dimension ranging from a few million to some fifteen million units of account – are in general intended to meet the basic requirements, inter alia for agriculture, building and certain aspects of consumption.

Lastly, the Bank has intervened in projects which are less vast, more diversified or traditional (food industries, building materials, small-scale chemical industry, etc.). For the projects of this nature, the Bank has endeavoured to develop procedures intended to facilitate the financing and has thus concluded (or, in the case of Greece, negotiated) cooperation agreements, in the form of outline contracts, with especially competent institutions, in particular development banks.

Greece.

At the end of 1967, the Bank had approved 15 loans for 68.9 million dollars. By the terms of Protocol 19 of the Association Agreement, the Bank's financing operations could attain 125 million dollars over a period

of 5 years up to the end of October 1967. As the Financial Protocol expired on 31st October, 1967, the Bank has for the moment ceased its activity in Greece.

By the terms of this protocol, two thirds of the planned activity could relate to infrastructure projects liable to benefit from interest subsidies. This guide-line has in fact been respected. In view of the inadequacy of the road system, the Bank gave a certain priority to this sector, in which four financing schemes were approved in favour of the National Road Fund. As regards irrigation, three financing operations (Salonica, Karditsa and Pinios plains) have been approved, and in the energy field one loan was approved in favour of the Public Electricity Board. In the manufacturing industry sector, seven loans were approved for an amount of 16 million dollars.

Turkey.

At the end of 1967, the Bank had approved 22 loans totalling 103.3 million units of account for projects located in Turkey.

Three quarters of the amount of these loans relate to infrastructure projects, mainly energy, with one very large-scale project (the Keban project – constituted by the construction of a dam and an electricity plant, but also by a long-distance transmission network) and two other projects of a more modest scope : Gökçekaya and Kovada. In the irrigation field, the Bank participated in the financing of the Gediz project.

For the industrial projects, the Bank made a fairly considerable contribution to the paper industry. Indeed, the projects financed (SEKA-Çayçuma and SEKA-Dalaman) are of especially great interest for the balance of payments and can contribute to a better exploitation of the Turkish forestry resources. In the sector of intermediate products, it has also participated actively in the financing of the cement and fertiliser industries.

The amounts engaged in the other branches were less considerable, relating to rather diversified projects in the engineering industry (tubes,

extruded products), textiles (cotton and synthetic fibres) and the tyre, window-glass and domestic appliances industries. The loans for projects in the private sector were granted through the intermediary of the Industrial Development Bank in accordance with an original procedure, by means of which different credit conditions are applied to the final borrower and to the Turkish State; the credit conditions for the latter are more liberal, taking into account the special situation of the country's balance of payments.

The Bank is prepared to undertake interventions throughout the whole of the Turkish territory; however, its action has been broadly concentrated, as regards the industrial sector, on the Istanbul-Marmara regions which, benefiting from a higher degree of industrialisation, naturally lend themselves to the development of more numerous industrial initiatives.

Associated African States and Madagascar and Associated Overseas Countries and Territories.

The Bank's action for the Associated African States and Madagascar and the Associated Overseas Countries and Territories should be seen in the context of the aggregate of financing programmes foreseen by the association agreements which, for the period 1964-1969, provide for an overall Community financing of 800 million units of account, 70 million of which in respect of normal bank loans.

It is under the latter heading that seven loans were approved for 21 million units of account at the end of 1967 : an energy project (Enelcam) and a joint agricultural and industrial project (Société Sucrière du Cameroun) in Cameroon, a mining project in Congo-Brazzaville (Compagnie des Potasses du Congo) and four industrial projects in the Ivory Coast, Senegal and Cameroon (banana packaging factory, fertilisers, aluminium, textiles).

The Bank's action, bearing in mind the extent of the sums available as donations and the necessity for taking into consideration the capacity for indebtedness, has so far been concentrated on a few countries such as

Cameroon, Senegal and the Ivory Coast. In other countries, the Bank may also intervene if the project is likely to improve the balance of payments situation considerably, as is shown by the project financed in Congo-Brazzaville.

Despite their small number, the Bank's loans for Africa have rather significant effects in certain cases. The cost of the four Cameroon projects represents one quarter of the industrial investments (including energy and mines) recorded in the 1966-1971 five-year plan and their implementation should result in an increase of some 15% in the value-added of the Cameroon industrial sector. In the case of the Congo-Brazzaville potash, the effect will be equivalent to an increase of more than 10% in the total receipts of the current balance of payments in recent years.

3. ECONOMIC INCIDENCE OF THE LOANS

By contributing to the financing of industrial projects or infrastructure projects, the Bank endeavours to keep its action in line with the major overall guide-lines which have just been mentioned, but the Bank's loans also have a more direct and localised economic incidence.

It would be difficult, both for practical and for methodological reasons, to estimate the cumulative economic effect of all the Bank's loans. Furthermore, such an approach would scarcely be adapted to the Bank's action, which is rather limited in the field of the general economy and the complementary and selective character of which is stressed in the Treaty and the Statute. Moreover, the period behind us is too short to enable a thorough judgment to be passed on the evolution of the enterprises which benefited from the loans.

It is thus advisable to evaluate the economic results of the loans by confining oneself, for example, to the regional framework. Indeed, it is possible to observe that the Bank's action has been significant in cases where a certain concentration of the financing operations could be achieved. From the outset until 1966, the Bank's contribution thus represented one

fifth of the loans granted during this period by the CIS in Sardinia, one fifth of the loans granted by the IRFIS in Sicily and one twelfth of the loans granted by the ISVEIMER in mainland Southern Italy. For the whole of Southern Italy and the Islands, the proportion is 10% of the credits granted by the specialised institutes for the eight years 1959 to 1966. Likewise, the financing contributed by the Bank in the Associated Countries can play a significant supplementary role. The full utilisation of the loan availabilities provided for by the association agreements would correspond to annual disbursements of the order of 10% of the annual imports of public capital in Turkey, of the order of 20% as regards Greece and of the order of 5% for the A.A.S.M., also taking into account the loans under special conditions financed from the resources of the second European Development Fund.

The need for evaluating, at the regional level, the loans' effect on the economy leads us to examine the Bank's experience by taking a concrete case. This has been done below for a zone of the Italian administrative region of Campania.

The zone examined forms the coastal fringe of South-Western Campania. The whole region comprises five provinces : Naples, Caserta, Salerno, Benevento and Avellino; the zone studied includes the first-named (excluding the city of Naples) and the greater part of the provinces of Caserta and Salerno; it covers an area of 2,900 square kilometres and has a population of 3.5 million.

The economic problem of this region presents, with certain features that are common to the whole of Southern Italy, some very specific characteristics. Employment vacancies are inadequate, unemployment (5 to 6% of the active population in 1967) and underemployment, particularly in agriculture, handicrafts and the services, are high and the average income is very much below the income of the North and Centre ⁽¹⁾. The economy there is however strongly influenced by the economic role

(1) In 1966, the average per capita income was 84% of the Italian average for the province of Naples, 63% for the province of Salerno and 56% for the province of Caserta.

of Naples, a densely-populated city with very numerous craft activities (1), and by geography which makes it possible to distinguish three quite different zones, from the coast towards the interior.

The guiding line of the economic programmes for the region is to bring about the accelerated economic development of an “active intervention zone” (located outside the city of Naples and extending from Caserta to Salerno). This buffer-zone fulfils the twofold function of alleviating the pressure of urbanisation in Naples itself and absorbing the emigration flow from the zones situated further up-country. Certain encouraging results have already been obtained because, although from 1951 to 1961 the resident population of the province of Naples grew rapidly, the rate of growth has since definitely been reduced, whereas an evolution in the opposite direction was occurring precisely in the provinces of Salerno and Caserta. Furthermore, net emigration abroad in the whole of Campania, which had attained a maximum of 31,000 persons in 1961, subsequently fell, amounting to only 10,000 in 1965. Lastly, the rate of growth of the manufacturing value-added in Campania has been fairly high in recent years.

From 1958 to 1967, the Bank contributed to the financing of two energy infrastructure projects and nineteen industrial projects in the zone under examination (see Table 5). The loans amounted to 73.2 million units of account for investments the cost of which was estimated at about 340 million units of account. In ten years, the Bank thus contributed to investments which amount very appreciably to 100 units of account per inhabitant of the zone. The latter benefited from approximately 14% of the Bank's interventions in Italy and about 8% of its interventions from ordinary resources.

Apart from the two energy infrastructure projects (construction of two power stations with an installed capacity of 300 MW in one case and 103 MW, at peak power, in the other, which – after implementation – will correspond to a potential production of about two thirds of the

(1) The city of Naples had a population of 1.3 million in 1966. The population density of the coastal zone exceeds 1,000 inhabitants/sq.km. In Naples, the population employed in industry is 145 per sq.km, compared to 66 for the whole of Italy, which reflects the presence of numerous small craftsmen.

consumption of Campania in 1965), the nineteen industrial projects to which the Bank contributed may be grouped, by sector, as follows :

	<i>Number</i>	<i>Estimated cost of the investment (in million u.a.)</i>	<i>Loan by the E.I.B. (in million u.a.)</i>
– Engineering industry	8	45.3	14.9
– Basic industries (1)	5	203.0	31.7
<i>(excluding iron and steel)</i>	4	24.8	7.7
– Other industries (food industry, building materials (excluding cement), etc.)	6	17.6	5.6
Total	19	265.9	52.2
<i>(excluding iron and steel)</i>	18	87.7	28.2

(1) Iron and steel, glass, paper, intermediate chemicals, cement.

The Bank's action in the zone under consideration has therefore been characterised by a special effort in favour of the engineering industries and by a single intervention – although of a large amount – in the iron and steel sector. This action has been supplemented by some interventions in basic industry and other industries.

This breakdown is broadly in line with two essential preoccupations. In the first place, the Bank has endeavoured to encourage the development of activities which are rather traditional in the area where shipyards, building and food industries have always played an important role. In this connection, the case of the Italsider financing operation at Bagnoli was rather different from the other financing schemes aimed at the construction or expansion of small- or medium-scale units (dehydrated fruit and vegetable factory, cement works, ceramics, glass). The Bagnoli establishment, on the contrary, was one of the largest employers in the region (5,400 persons). The purpose of the project was the rationalised extension of capacities by replacing the former Thomas and Martin plants by an LD steel mill.

The Bank then encouraged by its financing operations the creation or expansion of some engineering enterprises with relatively elaborate types of production : measurement and control apparatus, thermostats, office machinery. In the same branch, it intervened simultaneously in favour of establishments with more traditional techniques : light metal frames, prefabricated building elements and, above all, Diesel engines.

It would be interesting to evaluate the incidence of the loans by examining for each project, taken separately, the evolution of the principal technical, economic and financial data, from the implantation of the enterprise onwards. However, a good many of the projects examined are still in the initial stages of operation. In view of the lack of perspective, we shall therefore have to remain content with evaluating their economic characteristics on the basis of estimates, taking into account, *inter alia*, the cyclical effects.

Thus, on the basis of estimates, and leaving on one side the Italsider project owing to its very peculiar features, we find that the projects financed by the Bank have a relatively high productivity. The value-added/investment ratio is in the region of 0.8. The capital intensity, *i.e.*, the amount of fixed investment per person employed, is 17,500 units of account on the average; the actual evolution has increased this amount somewhat. The projects financed by the Bank have shown a fairly wide divergence in this respect : a detailed analysis reveals that the projects contributing to the manufacture of products with a relatively elaborate technique were generally among those for which the capital intensity was comparatively low, whereas it was quite high for the basic industries, in particular cement and glass works.

In all, the Bank's financing operations in the zone have contributed to the creation of 4 to 5,000 direct jobs and the maintenance of approximately 6,000 jobs threatened by technological development. It has been found that in Italy during the past decade, the creation of a direct job has been associated in average periods with the creation of an indirect job in the secondary sector and an induced job in the secondary and tertiary sectors. As a result, the cumulative effect produced on employment by the projects financed by the Bank exceeds 15,000 jobs; to which should be added the maintenance of 6,000 jobs, which in turn has prevented the

loss of some ten thousand indirect and induced jobs. The productive basis thus created or maintained, and to which the Bank has given partial assistance by a complementary financing contribution, is certainly important, as it is equivalent in employment figures to the typical industrial basis of a semi-industrial conurbation of the order of one hundred thousand inhabitants (such as the town of Nîmes in France).

It is also interesting to note that, again according to the estimated figures, the gross value-added achieved by the nineteen enterprises easily exceeded 100 million units of account per annum, 50 million of which were allotted to wages and 25 million to financial charges and taxes. In addition to the primary incomes, there are also the indirect or induced incomes.

Lastly, experience has shown – alongside some cases of more moderate growth than had been foreseen – the encouraging expansion of certain

Table 5 – PROJECTS FINANCED BY THE BANK IN THE ZONE UNDER EXAMINATION (1958-1967)

<i>Location of project and beneficiary of loan</i>	<i>Object</i>	<i>Sector</i>	<i>Amount of E.I.B. loans (million u.a.)</i>	<i>Amount of estimated cost of projects (million u.a.)</i>
A. INFRASTRUCTURE				
<i>Province of Caserta</i>				
Ente Nazionale per l'Energia Elettrica (Enel)	Hydro-electric power station	Energy	6.0	
<i>Province of Salerno</i>				
Ente Nazionale per l'Energia Elettrica (Enel)	Thermal power station	Energy	15.0	
Total Infrastructure			21.0	74.0
B. INDUSTRY				
<i>Province of Caserta</i>				
Texas Instruments Italia S.p.A.	Control apparatus	Engineering	0.6	
Soprefin S.p.A. - Società Prefabbricati Finsider	Light metal frames	Engineering	1.6	
I.R.C.O.M. S.p.A. - Industrie Riunite Costruzioni e Prodotti Modulari	Prefabricated building elements	Engineering	1.4	

Table 5 – PROJECTS FINANCED BY THE BANK IN THE ZONE UNDER EXAMINATION
(1958-1967) (continued)

<i>Location of project and beneficiary of loan</i>	<i>Object</i>	<i>Sector</i>	<i>Amount of E.I.B. loans (million u.a.)</i>	<i>Amount of estimated cost of projects (million u.a.)</i>
A.V.I.M. S.p.A. - Antibiotici e Vitamine per l'Industria Mangimistica	Antibiotics and vitamins (zootechnical use)	Chemistry	0.6	
Sibelco Italiana S.p.A.	Drying and crushing of siliceous sands	Building materials	0.2	
Fabbrica Pisana di Specchi e Lastre Colate di Vetro della Società Saint-Gobain	Plate-glass works (expansion)	Glass	2.9	
I.D.A.C. - Impianto Disidratazione Agro Campano	Powdered fruit and vegetables	Food industry	1.0	
Total			8.4	32.0
<i>Province of Naples</i>				
Ing. C. Olivetti & C., S.p.A.	Typewriters and calculating machines	Engineering	1.4	
Alfa Romeo S.p.A.	Diesel engines	Engineering	5.0	
Alfa Romeo S.p.A.	Diesel engines (expansion)	Engineering	2.2	
Italsider S.p.A.	Expansion and modernisation	Iron and steel	24.0	
C.I.S.A. Viscosa - Compagnia Industriale, Società per Azioni per le Produzioni Viscosa	Viscose (expansion)	Chemistry	0.8	
Italtubi S.p.A. - Società Riunite Gimfa-Italtubi	Asbestos cement (expansion)	Building materials	1.1	
Cementir - Cementerie del Tirreno S.p.A.	Cement works (expansion)	Building materials	1.0	
Private company	Cellophane	Paper	3.0	
Total			38.6	218.0
<i>Province of Salerno</i>				
Landis & Gyr Italiana S.p.A.	Thermostats	Engineering	1.6	
Landis & Gyr Italiana S.p.A.	Thermostats (expansion)	Engineering	1.0	
S.p.A. Ceramica Matteo d'Agostino & C.	Ceramic products (expansion)	Ceramics	0.6	
Ideal Standard S.p.A.	Sanitary porcelain	Ceramics	2.0	
Total			5.2	16.0
Total Industry			52.2	266.0
TOTAL			73.2	340.0

of the projects financed. This expansion has been reflected in high annual rates and in the need to increase the capacities after some years have elapsed. Technical links have sometimes become apparent between the different projects financed, thus revealing – on a scale which is still modest – the existence of an interlocking action.

* * *

The first ten years of the Bank have brought out clearly the role which it can play in the development of European integration. The Bank, basing itself on the provisions of the Treaty, has taken the following points as the main axes of its action : the improvement of less favoured zones, especially in Italy, the development of European infrastructures, especially in respect of the major links, and the reorganisation and modernisation of industrial structures. This action has been supplemented, upon mandate from the Member Countries, by a development activity in the Associated Countries.

Experience has shown that, while respecting its Statute, the Bank could act with flexibility as well as efficiency. The flexibility was observable above all in respect of financing schemes in the framework of the association agreements. The efficiency was most marked in cases where the Bank's action attained a certain dimension owing to the fact of the concentration of loans and their regular spacing-out over a fairly long period. The action in Southern Italy and the Islands, while remaining complementary to the main efforts, has certainly yielded encouraging results. Likewise, the loans in respect of European transport axes, sectoral conversion in the shipyards or again in certain Associated Countries, have constituted a contribution to the large-scale actions undertaken parallel to the Bank in these fields.

The need for attaining a minimum weight in order to be able to act effectively and for showing flexibility so as to cope with the changing situations and the complexity of the financing schemes, means that the Bank is faced with the twofold problem of dimension and style. It has constantly to seek equilibrium, between the new requirements to be met and the resources to be acquired, on the one hand; and on the other, between the imperatives of a management based on its banking personality

and the technical adjustments that may be authorised by its character of public community institute, in favour of priority financing schemes.

The evolution of the Bank is obviously linked to a large extent with the economic evolution of the Member Countries and the progress of European integration. If one or the other were to slow down, the Bank's action would become more difficult, although its importance would not diminish. Indeed, regional development, the reorganisation of industrial structures, the reinforcement of structures of common interest, and lastly underdevelopment, in particular in the Associated Countries, still demand too many efforts for the action of a financing institution created in support of these efforts to be able to halt its advance.

A fortiori, the development of common policies and of cooperation with non-Community countries, by facilitating the Bank's task, would give it even more momentum.

While continuing and even reinforcing its basic action aimed at ensuring a regular contribution of capital to the regions of the Community which are backward or in difficulties and providing for the execution of the financial mandates in the framework of the association agreements, the Bank is prepared to make its contribution to the solution of the major problems which will arise for the Community in future. It is thus bound to devote particular attention to the problems which are foreshadowed in the field of technological development.

The Bank now has behind it ten years' experience. On the threshold of the second decade of its history, its line of conduct is still inspired by the formula of the Treaty : "to contribute to the balanced and smooth development of the Common Market in the interest of the Community".

II

THE ECONOMIC EVOLUTION IN THE COMMUNITY AND THE ASSOCIATED COUNTRIES

Community.

As is the case each year, it is advisable to situate the Bank's activity against an overall background of the general economic activity in the Community. This is particularly important this year, not only because the Bank itself intervenes – if only to a modest degree – in this evolution and because the latter imposes an aggregate of conditions on its policy, but also because 1967, like the period 1964-1965, was characterised by a certain weakness of the economic situation in widespread areas of the Community.

The results of the economic evolution of the Community as a whole for 1967 reflect the influences of this cyclical situation : they were not very satisfactory as regards growth of production, investments and employment; on the other hand, the evolution of the internal purchasing power of the currency has finally shown a definite improvement, after a number of years in which prices and costs rose fairly rapidly.

The gross national product at constant prices increased by only approximately 2.8% from 1966 to 1967, against nearly 4% from 1965 to 1966, and 4.6% from 1964 to 1965. The moderate result recorded in 1967 is partly ascribable to a slackening-off in the world cyclical situation, but it is also – and mainly – explained by the effects of downtrends in the internal cyclical situation; these downtrends, which had already characterised the economic evolution of the Community in the course of the second half of 1966, were maintained until the spring of 1967. A recovery

indeed emerged thereafter – from the end of the summer onwards – but its influence was not sufficient to prevent the appreciable reduction of the rate of growth of the gross national product from one year to the next.

This cyclical weakness mainly characterised the Federal Republic of Germany, where a tendency towards cyclical recession was even observed until the spring of 1967. Corporate investments declined rather notably, as well as those of public departments, despite the efforts made at the level of cyclical policy in order to develop them. Likewise, consumer expenditure by households increased only slightly. Only public consumption and external demand continued to grow markedly. Although the resumption in expansion of production was quite appreciable from the end of the summer onwards, particularly as a result of the measures taken by the Federal Government to stimulate the business cycle, the gross national product at constant prices did not advance for 1967 as a whole, by comparison with 1966.

Owing to the repercussions of the cyclical weakening in Germany, but also under the effect of internal slackening-off factors, the expansion of industrial production showed a definite diminution in the Benelux countries and France. However, in these Member Countries as well, recovery trends – hesitant at first in Belgium and France – emerged towards the end of the year. Furthermore, the expansion in production observed in 1967 in other sectors of the economy in these countries (inter alia, agriculture and/or building) remained fairly brisk. On the whole, this was reflected either by a slight slowing-down in the real growth of the gross national product, in France, where the rate nevertheless attained 4%, or even by a certain acceleration – especially in the Netherlands, where the national product advanced by 5.5%, but also in the Grand-Duchy of Luxembourg, where the growth in the gross national product (2%) seems to have been a little less lively than in the previous year. It was only in Belgium that the rate of growth, already low in 1966, further slightly diminished in 1967 (2.5%). In Italy, on the contrary, the internal cyclical situation remained in constant expansion, even showing an accelerated advance in corporate investments and a slow but continuous resumption of residential building activity. Although tendencies towards a certain slowing-down in industrial production were observable in Italy during the first half of the year, they were ascribable exclusively to a

hesitant evolution of exports. Once the trend in external demand had improved during the second half-year, mainly under the influence of the gradual strengthening of the internal cyclical situation in the other countries of the Community and the United States, an immediate recovery in the expansion of production was noted. In all, the gross national product is reported to have increased by 5.9% in volume, by comparison with 1966, a rate which is practically as high as in 1965 and 1966.

The slowing-down in economic growth led to a fairly marked increase in the number of unemployed in the Community, except in Italy, where the trend has been towards a slight fall throughout the year. In several Member Countries, the increase in unemployment exceeded the degree of relaxation which was to be desired, after years of over-employment, in order to moderate the uptrend in costs. It should be pointed out, however, that difficulties of a structural nature, linked with conversion, have contributed to the increase in the number of unemployed; the effects of these difficulties had not made themselves felt on the employment market in previous years solely owing to the general surplus demand.

It was certainly not a question of serious and generalised under-employment in the Member Countries concerned; it was obvious, however, that it was necessary to react against unemployment both by cyclical policy measures and by increased recourse to structural measures.

The fact that the internal cyclical situation was, at least temporarily, overweak in large parts of the Community, was also reflected in the evolution of its external position. Although the expansion of the world cyclical situation and world trade was less marked than in the previous year, exports of goods from the Community to non-Member Countries increased in value by 8% by comparison with 1966, which is very little lower than the previous year. This trend has been determined by the fact that the deficit in internal demand has stimulated exports.

The weakness of internal demand, however, mainly had repercussions on imports; from 1966 to 1967, imports of goods from non-Member Countries almost stagnated, whereas they had advanced by 7.5% in the previous year.

As a result of the divergent evolution of exports and imports, the Community's trade balance, which was traditionally in deficit, came to show a marked surplus. In 1967, it may have recorded a surplus of the order of 900 million units of account, as against a deficit of 1.3 milliard in the previous year. In these conditions, it is estimated that the overall balance of current payments has recorded a surplus of more than 4 milliard units of account. The gold and exchange reserves of the Member Countries have however increased by only 1.060 milliard units of account between the end of 1966 and the end of 1967, which means that the difference between this increase and the balance of current payments surplus has been made available again to the non-Member Countries by net exports of capital and foreign exchange.

The development of intra-Community trade has also obviously been influenced by the weakness of the business cycle in the majority of the Member Countries. Exchanges of goods have however been more dynamic there than the Community's imports from non-Member Countries; as we have seen, the latter scarcely increased between 1966 and 1967, whereas trade among the Member Countries grew by 5.5%. Furthermore, intra-Community trade continued to exercise its offsetting effects on the cyclical differences in levels of activity : it is especially noteworthy that the business cycle in the Federal Republic of Germany was sustained by the increase in net exports to the other Member Countries.

Unlike economic expansion, employment and transactions with foreign countries, the annual results of which were somewhat disappointing – a more pronounced growth in the product, a higher level of employment and a lower credit balance would certainly have been desirable – prices and costs experienced a remarkable improvement. Indeed, between 1966 and 1967, the uptrend in prices (gross national product prices of the Community) was only 2.5%, against 3.4% in the previous year. In the majority of the Member Countries, the increase in wage costs per unit produced definitely slowed down, particularly in industry; a downtrend was even observable in Germany, especially during the second half-year, in the course of which the expansion of production revived and the rate of utilisation of capacities increased.

Furthermore, it will be noted that the annual rates of price rises observed in 1967 still stem partly from the evolution in the second half of 1966 and/or so-called "autonomous" factors (increase in controlled rents and tariffs of public enterprises, and higher indirect taxes, for example). The increase in prices due to cyclical factors came to an end (Federal Republic of Germany), definitely slowed down (Benelux) or at least was not accentuated (France, Italy).

The slowdown in the rise of prices however contributed to the deterioration of the public finances. The slackening expansion is even more marked for the Community's gross national product in nominal terms than for the gross national product in real terms: the product expressed in value increased by only 5%, compared to 7.2% between 1965 and 1966. The decline in rates of growth at current prices led, in the majority of the Member Countries, to a diminution, sometimes considerable, in the current receipts of public budgets by comparison with the estimates. This evolution and the fact that at the same time the increase in public expenditure is unabated – in certain Member Countries it has even speeded up as a result of additional expenditure intended to support the business situation – have led to a perceptible growth in the deficits of public budgets. Although the latter have been increasingly financed by monetary means, it has not been possible to prevent the growth in the requirements of the public departments from hampering the downtrend in interest rates on the capital markets as a result of the weakening of the business situation. As soon as the propensity to invest was more or less markedly reinforced in the Community, in the course of the second half-year, it was even possible to observe a further stiffening in the rate trends, owing to the convergence of an increased demand for funds on the part of the public departments and the resumption in demand by the private sector, despite a monetary policy by the central banks which was generally very flexible and an appreciable increase in the formation of savings with the banking system. It was all the more easy for this stiffer trend to gain ground since the rising rates outside the Community were then having repercussions on the internal markets.

The restoration of economic expansion that occurred in the Community over the second half-year is mainly due – independently of cyclical

factors – to the cyclical policy applied by the competent authorities and quite widely coordinated in the Community. In its recommendation of 22nd December, 1966, the Council had already suggested to certain Member Countries that they should take limited measures to sustain the business cycle, or specified that the measures already adopted were compatible with the goal of the stability of prices and unit costs, then particularly urgent. On 1st July, 1967, it went even further and recommended a definite policy aimed at giving a new impetus to the business situation. It recalled, however, the need for ensuring the stability of costs and prices and furthermore advocated a strict management of public finances : the deficits resulting from the weakening of the business cycle and the measures intended to sustain the latter certainly have to be accepted; but, with this exception, it is necessary, with a view to an adequate economic expansion which is balanced in the longer term, to increase the efforts to reform the budgets of public departments, the structures of which have considerably deteriorated, over recent years, in certain Member Countries to the detriment of the savings and investments of these departments.

As regards medium-term economic policy in the Community, the work of the Committee responsible for this has related particularly to the preliminary draft of the second programme. The main themes of the Committee's work were the structural adaptation of firms, the sectoral aspects of the structures' policy, scientific and technical research policy, agricultural policy, policy for encouraging savings, financing of investments and incomes policy. The Committee submitted to the Commission and the Council a report on " methods for promoting the structural adaptation of Community firms " and on " scientific and technical research policy ". The Council dealt with these questions at its meetings on 2nd, 3rd and 31st October, 1967. It recognised the problems and requirements imposed by the structural adaptation of firms, requesting the Committee to pursue its research in the former field and deciding to intensify the work which had already begun within the Council itself. As for the second field, it instructed the scientific and technical research policy working party of the Medium-term Economic Policy Committee to study more closely the conditions for cooperation in the following sectors : data processing and telecommunications, new means of transport, oceanography, metallurgy, air and water pollution, and meteorology.

In 1967, as in previous years, the activities of the European Investment Bank were in conformity with the requirements of the economic situation and of the common guide-lines of economic policy. Thus, the marked increase in the overall amount of the Bank's loans in the Member Countries – over and above the normal expansion of its activity – was perfectly adapted to the cyclical situation of the Community. Indeed, the amount of loans almost doubled by comparison with the previous year. The same is true of the total volume of investments to the financing of which the Bank contributed and the implementation of which it rendered possible, to a large extent; this amount may be estimated at 730 million units of account, as against 290 million in 1966. Moreover, this time the increase in the amount of the Bank's loans does not concern Italy, the only Member Country whose business situation showed definite expansion, but the remainder of the Community, where the business situation was rather weak.

The loans granted to Italy, mainly in favour of its less-developed regions, nevertheless still occupy by far the most important place in absolute value; they were scarcely less high in 1967 than in 1966. In this connection it may be recalled that in 1964-1965, when the economic situation of Italy was characterised by cyclical weakness, inadequate corporate investments and increased unemployment, the Bank likewise made an effort to intensify rapidly its action in that country.

The Bank's operations at the same time kept within the framework of the medium-term economic policy guide-lines which emerged from cooperation within the Community. This applies both to its traditional action in favour of the less-developed areas on the one hand, and, on the other, to its assistance in the execution of reconversion projects in regions or sectors suffering from a structural crisis, as well as to the financing of projects of common interest: those which concern the infrastructure sector (means of communication) and those which aim to strengthen the economic and financial cooperation and interpenetration of the enterprises beyond the frontiers of the Member Countries and, lastly, to the financing of modernisation projects and projects in line with technological development.

Associated Countries.

In Greece, where 1967 was marked both by the influence of the external crises in the Middle East and Cyprus and by important internal changes, the business cycle was characterised by a slowdown in expansion, which began at the end of 1966, parallel with the European economic evolution. The rate of growth of the gross national product in volume for the past year is estimated at about 3-4% (8% in 1966). Industrial production increased by approximately 3% by comparison with the previous year, while agricultural production was slightly above this figure.

Neither investment nor consumption recorded any notable expansion, in real terms. As regards investment, one of the main factors of the slowdown seems to have been a stagnation in residential building; industrial investment, which had increased considerably in previous years thanks to the major projects in progress, felt the repercussions of the gradual completion of work on these projects and was further affected by a decline in foreign investments. As regards consumption, it appears – according to data which are still provisional – that there might have been a fairly considerable increase in the volume of public consumption, while that of private consumption would have risen only slightly.

Prices were rather stable. This trend, which is widely explained by the cyclical movement, was moreover accentuated by governmental measures in favour of the reorganisation of certain sectors of the distributive trade, in particular in the food trade and private transport.

The balance of payments accounts show a reduction in the deficit on goods and services which has been cut from 264 million dollars in 1966 to some 220 million in 1967. This trend results, inter alia, from an increase in exports of merchandise (which rose by 43 million dollars, or 10%). Imports of merchandise remained stable, while the balance of invisibles, including private transfers, showed no change, a diminution in receipts from travel being offset by an increase in receipts from the merchant marine.

The current deficit has been financed by net inflows of capital, the composition of which was rather different from that in previous years.

Indeed, the amount of net inflows of long-term capital, both public and private, showed a definite drop, whereas that of short-term capital probably increased. The remainder of the deficit was covered by the official reserves. The amount of the latter nevertheless increased from the end of 1966 to the end of 1967 (from 248 to 261 million dollars), thanks to purchases of sovereigns by the Bank of Greece on the domestic gold market.

In *Turkey*, economic expansion continued in 1967. The growth of the national product in real terms is estimated at 6.6% from 1966 to 1967, against 10.1% from 1965 to 1966. This slowdown in expansion is exclusively ascribable to the fact that the value-added of agriculture exceeded by only a little more than 1% the result for 1966, which was moreover exceptional. On the other hand, the rate of growth of the value-added of industry speeded up (12.5% as against 10.6%) and in the services sector, the growth rate remained high (approximately 8%).

After the boom of the previous year – from 1965 to 1966, the fixed investments, both of the private and of the public sectors, had increased by over 20% in volume – the expansion of investments appreciably slowed down. The rate of growth would have reached only about one third of that of the previous year; according to the data now available, the slowdown appears to have been slightly more definite for the investments of public enterprises and the State than for those of private enterprises.

On the other hand, the evolution of consumer expenditure remained quite definitely on the upgrade. This applies in particular to public consumer expenditure which again rose, by nearly one fifth. As for private consumption, it was greatly stimulated once more at the beginning of the year by the favourable trend of farmers' incomes due to the exceptional harvest of the previous year and the governmental price support policy; but it seems that the pace subsequently slackened off somewhat, apart from the waves of speculation observed as a reaction to the Middle East political crises.

Whereas demand increased, in particular owing to final consumption, the growth in supply slowed down on the whole; it is for this reason, inter alia, that – contrary to the previous year, which was characterised

by a relative stability of prices, – 1967 again recorded a fairly marked rise in wholesale prices and the cost of living. These uptrends were further reinforced by price increases which, at the beginning of the year, affected numerous goods and services of the public enterprises, and by a rise in certain import duties.

Until the middle of the year, the monetary and financial policy applied by the Central Bank and the Treasury aimed at reducing the surplus liquidities of the economy, inter alia by increasing the cash deposit required to obtain certain import licences, squeezing the credit margin by the placement of a large public loan with the commercial banks and expanding only very slightly the rediscounting possibilities. In the second half-year, however, the Central Bank found it necessary to increase considerably its credit operations once again, on the one hand for the seasonal financing of the purchases by State marketing organisations operating in the agricultural produce sector and on the other, in order to sustain the commercial banks whose liquidity had again been reduced overmuch by large withdrawals of deposits during the periods of political uncertainty (Israeli-Arab war, Cyprus crisis).

On the whole, the balance of payments situation remained very tight in 1967. Exports of merchandise indeed increased by 7%, rising to 523 million dollars (1966 : 490 million), but at the same time, wage transfers by Turkish workers abroad fell to 93 million (after having reached 115 million in the previous year), and the evolution of net official receipts of foreign exchange derived from tourism remained unfavourable. With a total of 685 million, imports of merchandise remained slightly below their 1966 level (718 million) and far short of the target fixed by the 1967 Annual Programme (800 million). This evolution is explained mainly by the decline in imports of capital goods as a result of the slackened expansion of investments, by the abolition of PL 480 imports from the United States, thanks to the good crop in 1966 and, last but not least, by the persistent shortage of foreign exchange. The tightness in the latter field led, on several occasions in the course of the year, to considerable delays in transfers by the Central Bank in settlement of payments abroad; towards the end of the year, the granting of licences for products included on the liberalisation list was even temporarily suspended.

The overall deficit of the balance of current payments reached 106 million, as against 162 million in 1966.

As in previous years, the current payments deficit and the capital requirements for the amortisation of existing debts were to a large extent covered by foreign public credits and credits from multilateral financing institutions, made available to Turkey within the framework of the O.E.C.D. Consortium.

Taking into account the results for 1967, the average rate of growth of the national product in real terms is 6.7% per annum for the period of the first Five-Year Plan. Thus, the annual rate of 7% fixed by the Development Plan as expansion target for the economy is practically attained.

With an average gross domestic product of approximately 100 units of account per capita, the *Associated African States and Madagascar* rank on the whole among the poorest countries of the world. They benefit from a relatively large public assistance : 8 to 9% of their gross domestic product, or again 8 units of account per inhabitant, which represents about double the average aid per inhabitant granted to the developing countries as a whole.

The essential portion of the aid received by the A.A.S.M. is provided by the E.E.C. Member Countries. Thus, out of 528 million units of account of net public aid, i.e., after deduction of depreciation, received by the A.A.S.M. in 1966, 439 million (83%) came from the E.E.C. : 339 million in the form of bilateral aid from Member Countries, and 100 million in the form of Community aid in application of the Association Convention.

The political tensions and conflicts which affected the Middle East and Africa itself in the course of 1967 exerted a very unfavourable influence on the economic situation of certain of the A.A.S.M.. The closure of the Suez Canal was particularly felt by Somalia and Madagascar and – in addition to the atmosphere of insecurity which it creates beyond the borders – the civil war in Nigeria has considerably disturbed communications between this country and its neighbours.

Lastly, the economic difficulties of certain major industrial countries in Europe had unfavourable repercussions on the outlet possibilities for significant export goods of the A.A.S.M..

External influences, unfavourable for the greater part, have diversely affected the African countries to which loans have been granted so far in application of the Yaoundé Convention : Ivory Coast, Cameroon, Senegal, Congo (Brazzaville) and Chad.

In the *Ivory Coast*, economic growth has continued, but after the slowdown in 1965 and a certain revival in 1966, 1967 remained a year of moderate growth by comparison with the exceptional upswing in the period 1960-1964. The poor coffee season in 1966-1967, only partly offset by a good cocoa crop, had the effect of reducing the producers' incomes and slowing down the expansion in exports. On the other hand, the development continued in respect of exports of bananas and rough, sawn and peeled wood. The activities in favour of diversification of production progressed well : the implementation of the "palm-tree plan" promises an increase in production for the next decade. Very definite production increases have already been recorded for several products which until now had been secondary, such as pineapples, cotton, rice and rubber.

In the secondary sector, which accounts for more than 17.5% of the gross domestic production at market prices, the expansion continued, although at a slightly less rapid pace than in previous years.

The trade balance still showed an ample surplus. The satisfactory coffee crop in the 1967-1968 season should stimulate the evolution in the course of the coming months.

In the medium term, the Plan Law for 1967-1970 – while foreseeing some "difficult years" – adopts a growth target for the gross domestic product at constant prices of 7.7% per annum, compared to an actual rate of 8.1% from 1960 to 1965. The attainment – even partial – of such a target will call for a vigorous public savings effort and increased external aid.

The economic situation in the *Republic of Senegal* presents several positive aspects, despite the poor groundnut crop in 1966-1967 and the

less advantageous marketing prospects for the 1967-1968 crop, which however promises to be a good one. The efforts to diversify agricultural production by developing the cultivation of cotton and rice and other food crops have started to yield results. Apart from a few branches the export possibilities of which have been considerably restricted by the industrialisation of the other African countries : building materials, flour, beverages, industrial production is showing definite progress. On the other hand, no recovery is yet perceptible for building, transport, trade and other services.

The foreign trade statistics had shown for 1966 an increase of nearly 18% in exports and a slight fall in imports, so that the deficit on the trade balance had been notably reduced; in 1967, on the contrary, the situation again proved more difficult.

In the *Federal Republic of Cameroon* the resumption of economic expansion, which had started in the course of 1966 after the cyclical downturn in 1965, was confirmed in 1967, thanks mainly to the good harvests in respect of the two principal crops, coffee and cocoa, and a recovery in the cocoa prices. The 1966-1967 cotton crop remained more or less at the record level of the previous year, despite very bad atmospheric conditions in the North. On the other hand, the situation in the banana sector is still giving cause for concern. The existing secondary crops, such as tobacco, tea and rubber, have now been joined by the sugar cane, intended for the sugar refining industry which is just being started up.

In the secondary sector – which provides some 16.5% of the gross domestic production at market prices – investments have continued. Building activity is sustained by the major works in progress : road building and the first section of the trans-Cameroon railway. The political events in Nigeria, although upsetting transport from and to North Cameroon, have at the same time led to an intensification of activity in respect of domestic replacement transport.

For the achievement of a growth target of 5.8% per annum, the 1966-1971 Five-Year Plan foresees a very marked increase in investments by comparison with recent years. Although problems still exist – inter

alia, as regards the development of agriculture, the incidence of a possible deterioration in prices of export products and the financing of investment programmes – the medium-term prospects seem to be bright.

In the *Republic of Congo Brazzaville*, there are at present several subjects for concern : large trade balance deficit, slight fall in timber exports, stagnation of traditional agricultural production, precarious budgetary situation and the difficulties encountered by public enterprises. In the medium term, however, prospects of a definite improvement should result from the development of forestry and the timber industry and above all, from the forthcoming exploitation of the potash deposit.

Handicapped by the remoteness of sea ports and by difficult natural conditions, the *Republic of Chad*, whose industrial development possibilities are very limited, has to rely essentially on cattle rearing and the cotton crop to ensure its economic development. After a definite downturn in the course of the two previous seasons, the cotton crop was excellent in 1966-1967, thanks to increased efforts in respect of information and supervision and the improved climatic conditions. For the 1967-1968 season, a further increase in production is expected.

Studies now in progress concerning the development possibilities of the Lake Chad basin could open up, in the long term, new prospects for the diversification of the economy.

INVESTMENTS IN THE COMMUNITY

According to provisional estimates, *gross fixed capital formation* in the Community amounted to 74.7 milliard units of account in 1967, representing an increase of only about 2% by comparison with the previous year, when investment expenditure amounted to 73.4 milliard; in volume, the 1966 level was probably exceeded only slightly (+ 1.5%).

This increase is the lowest, in value as well as in volume, recorded since 1958. Whereas hitherto the increase of investments had attained at least about 3%, even in the years of lesser cyclical expansion, compared to an average rate of 6.5% in the period 1958-1966, and of over 10% during the boom years of 1960 and 1961, it was observable for the first time in 1967 that the development of investments had been halted for the Community taken as a whole.

As in previous years, however, this overall result masks some rather divergent evolutions in the different parts of the Community. Indeed, the level of investments in 1967 reflects broadly their trend in one of the Member Countries, the Federal Republic of Germany, where a decline which had already started in the second half of the previous year, both in the investments of enterprises and in those of public departments, continued well into 1967. It is true that, from the middle of the year onwards, the trend of orders in the capital goods industry and in the building industry seems to announce a gradual improvement of the propensity to invest and, with a certain time-lag, of the investments themselves. However this may be, investment expenditure fell by 9.8%, for the whole of the year, by comparison with 1966. In volume, however, the drop is estimated at only 7.7%, as the price of fixed investments decreased by some 2% as a result of the flagging demand.

Apart from the Grand Duchy of Luxembourg, where investment expenditure, already in decline over a period of two years, further diminished by approximately 13.5%, investments continued to progress in the other Member Countries, even at an accelerated pace in certain of them.

The acceleration was particularly pronounced in Italy. Indeed, investment expenditure there increased by 12.9% – against 5.3% in the previous year – which corresponds to a growth in volume of approximately 10% (compared to 3.8% in 1966). However, this advance does not yet seem to have been sufficient to offset completely the decline in volume observed in 1964 and 1965.

In France as well, investment expenditure should have increased a little more markedly than in the previous year : some 9.5% compared to 8.4% from 1965 to 1966. In the Netherlands, the rate of growth remained slightly below that of the previous year in value – 11% compared to 12.2% – but, taking into account a smaller rise in prices, this should still correspond, in volume, to a slight acceleration. In Belgium, the advance of investment expenditure very definitely slowed down : 5.5% against 9.2% from 1965 to 1966.

Table 6 – GROWTH OF FIXED INVESTMENTS IN THE COMMUNITY
(in % by comparison with previous year)

	<i>Value</i>				<i>Volume</i>			
	1964	1965	1966	1967	1964	1965	1966	1967
Germany	14.5	9.0	2.5	-9.8	12.0	6.6	0.2	-7.7
France	15.9	9.0	8.4	9.5	11.7	5.7	6.2	7.5
Italy	0.7	-6.8	5.3	12.9	-7.1	-8.9	3.4	10.1
Netherlands	25.0	10.0	12.2	11.0	17.6	5.6	6.2	6.8
Belgium	19.9	7.7	9.2	5.5	11.8	3.6	5.9	2.5
Luxembourg	28.0	-14.0	-1.5	-13.5	19.4	-16.0	-2.5	-15.0
The Community	12.9	5.9	5.6	2	8.3	3.2	3.3	1.5

As is shown by the table below, *investment expenditure by enterprises* (excluding housing construction) only slightly exceeded the level of the previous year for the Community as a whole. Its share in the gross

fixed capital formation should have been reduced to approximately 57%, compared to some 58% in the previous years.

Table 7 – GROSS FIXED CAPITAL FORMATION IN THE COMMUNITY

	<i>Milliards of units of account at current prices</i>				<i>% of total</i>			
	1964	1965	1966	1967	1964	1965	1966	1967
Investments by enterprises	38.1	40.2	42.5	42.7	58.0	57.8	57.9	57.2
Housing	17.4	18.5	19.1	19.5	26.6	26.7	26.0	26.0
Public investment	10.1	10.8	11.8	12.5	15.4	15.5	16.1	16.8
Total	65.6	69.5	73.4	74.7	100.0	100.0	100.0	100.0

Fixed investments by enterprises continued to make vigorous progress only in France and Italy. In France, the advance was particularly marked for capital investment, partly owing to deliveries of equipment and plants ordered prior to the end of 1966, so as to benefit from certain tax relief measures of limited duration. As regards investment expenditure by private enterprises, the increase would have been appreciably the same as in 1966, while for the public sector – the investment programmes of which were moreover further widened in the course of the year – the expansion was more marked than in the previous year. On the whole, the rationalisation efforts, in anticipation of the reinforced foreign competition within the framework of the Common Market and in connection with the Kennedy Round, remained the predominant motive for investment by the French enterprises.

In Italy, the capital expenditure by enterprises increased by over one fifth (1965 to 1966 : + 13%), and a brisk recovery was concurrently observed in respect of investments for industrial and commercial building, after several years' stagnation. As a result of this, the growth of investment expenditure by enterprises reached 18% in 1967, or more than double that for the previous year (+ 8.5%). Although rationalisation investments certainly continued to play a leading role in Italy as well, the increase in

the rate of utilisation of capacities, resulting from the brisk economic expansion of the past two years, again seems to have given rise to extension investments.

On the other hand, the rate of growth in fixed investments by enterprises definitely slackened off in the Netherlands and Belgium; in Germany and Luxembourg, investment activity even showed a considerable decline.

In the Netherlands, investment expenditure by enterprises increased by approximately 6.5% in 1967, compared to over 13% in 1966. This slowdown is probably due, in part, to the greater reserve shown by heads of enterprises after the marked expansion of their investments in the course of previous years, and to the diminished possibilities of self-financing as a consequence of the big rise in production costs. Furthermore, 1967 saw the completion of large-scale works by public enterprises (intended, *inter alia*, for the development of natural gas deposits), and the investment activity of these enterprises showed a slight fall, after an increase in expenditure by nearly 13% in the previous year. These factors more particularly slowed down capital investments, which barely exceeded their 1966 level in value, and probably showed a slight fall in volume. On the other hand, as regards investments by enterprises in building, the expansion slowed down only slightly – 17% increase, against 21.2% in 1966 – partly because the enterprises had not yet altogether made up the leeway accumulated at the time of the Government's restrictive policy. Enterprises in the commercial sector and transport, in particular, seem to have again greatly stepped up their building investments.

In Belgium, the rate of growth of investment expenditure by enterprises greatly slowed down – 3%, compared to 9% from 1965 to 1966 – despite the steps taken by the government to encourage investment, in particular in favour of the regions grappling with structural difficulties and conversion problems. In volume, capital investments should have attained their previous year's level, while for industrial and commercial building activities, the 1966 level was at the very most slightly exceeded. It is obvious that the hesitant cyclical evolution and, consequently, the fairly low utilisation of production capacities, together with the effects of the uptrend in costs on profits and self-financing possibilities, persistently acted as a brake on the investment propensities of Belgian businessmen;

furthermore, investments by foreign enterprises, which had been an important expansion factor in the course of recent years, ceased to increase from 1966 to 1967.

In Germany, the decline in investments was particularly marked in the sector of enterprises, whose capital investments were lower by 9.4%, and whose investments for industrial and commercial building were more than a tenth lower than those of the previous year. The cut in investment plans as a reaction to the slackening demand resulting from the cyclical slowdown, and to the deterioration in profit margins, was all the more marked as the diminution in self-financing resources was scarcely offset at the beginning of the year by increased recourse to borrowings, the cost of which remained relatively high. A number of factors sustaining the business cycle, favourable to the recovery of investment activities, then intervened gradually : influence on liquidity exerted by large balance of payments surpluses, credit policy turned towards expansion, slowdown in the uptrend in labour costs as a result of the relaxation on the employment market, repercussions of the cyclical and structural measures taken by the Federal Government and financed by monetary means, and lastly, recovery of the business cycle in important countries outside the Community, in particular the United States. In the course of the second half-year, the propensity to invest thus showed a certain revival, which first of all was only reflected in an increase of orders booked, but which should already have led as well to a slight increase of effective investments towards the end of the year.

Expenditure on *housing construction* increased at appreciably the same – very moderate – pace as the gross fixed capital formation, for the Community as a whole. Its share in the total investments reached about 26%, as in the previous year. In this field, too, the trend was different from one country to another.

In the Netherlands, the rate of expansion was even higher than that of 1966 (about 17%, compared to 14%). In France and Italy, a certain resumption of activity was recorded after the stagnation of the previous year, but the increase in expenditure would not have exceeded 5% in France and 7 - 8% in Italy. In these three countries, expansion was mainly ascribable to stronger activity in the social housing sector. In Belgium,

the high building and financing costs continued to weigh heavily on housing investments, which could scarcely have exceeded their 1966 level in value, and probably even recorded, as in the previous year, a slight fall in volume. In Germany, investments in housing construction were greatly restricted during the first half of the year, but it seems that a certain recovery in activity began subsequently, thanks in particular to a reinforcement of encouragement measures by the authorities.

Unlike the investments by enterprises, including housing construction, the *investments by public departments* showed a definite increase – approximately 6% – in the Community as a whole.

In Germany, however, they did not reach their previous year's level, diminishing by 5% despite the special investments effected in the framework of the Federal Government's cyclical and structural programmes. The improvement observed in the course of the closing months of the year was not sufficient to offset the fall in investment expenditure noted in the first half-year in the Länder and especially in the municipalities. On the other hand, a marked expansion in public investments was recorded in the other countries of the Community, except for Luxembourg. In France, the public investment programmes were implemented at an accelerated pace in order to sustain the business situation, then widened by way of anticipation on 1968; from 1966 to 1967, investments by public departments should have increased by some 12%. In Italy and the Netherlands, a definite acceleration in the pace of expenditure was even noted. The measures decided upon at the end of 1966 in order to repair the damage caused by the disastrous floods in the autumn of 1966 were one of the main reasons for the intensification of public works in Italy. In the Netherlands, where the financing capacities of the local communities have shown a definite improvement, investments were stepped up, particularly in the framework of a campaign to combat regional unemployment. The increase in public investments should have been of the order of 16% in Italy and nearly 20% in the Netherlands. In Belgium, apart from the investments by the Government and the Road Fund, the investments by the provincial and local authorities were again increased: without reaching the exceptional rate of the previous year (+ 35%), the investment expenditure by public departments must have increased by about one fifth.

INVESTMENT FINANCING

In 1967, the adjustment of savings to investments was carried out within the Community under conditions which were a little less difficult than in the previous year. In Germany, Belgium and the Netherlands, equilibrium between capital supply and demand was facilitated by the slowdown in gross fixed capital formation by enterprises and, to a certain extent, by the trend in savings.

In accordance with a tendency often observed in the past in the course of periods of recession or economic stagnation, the uncertainties on the employment market encouraged the wage-earners to increase temporarily their propensity to save, although the advance of incomes slowed down, generally speaking, in connection with the weakness of the business cycle.

An analysis of the financing of investments necessarily entails a large share of approximation owing to the absence of statistical data concerning certain categories of resources. However, the application of the same method from one year to another and for all the countries concerned makes it possible to discern some interesting trends.

This is the case with the calculations which consist of relating to the amount of investments effected in the sector of the economy in the course of recent years, the large masses of capital having served to finance them : resources appropriated to depreciations, net proceeds of security issues made on the market by enterprises and credit institutions, medium- and long-term contributions by financial intermediaries not derived from the issue of securities, and lastly – this figure being arrived at by difference – the overall amount of recourse to short-term bank credit and of other external resources, assets of private individuals devoted directly to housing construction, and profits appropriated to reserves by enterprises.

It is also possible to establish a comparison per country of the different sources of long- and medium-term external financing to which the sector of the economy had recourse, on the one hand, from 1961 to 1963 and on the other, from 1964 to 1967.

Table 8 — METHODS OF FINANCING FIXED INVESTMENTS OF THE SECTOR
OF THE ECONOMY IN THE COMMUNITY 1964-1967

(in %)

	1964	1965	1966	1967	Annual average 1967
I. Depreciations	45.9	47.7	49.3	53.6	49.2
II. Long- and medium-term external resources	34.4	34.0	31.7	33.8	33.4
— Shares	5.2	5.1	4.2	3.6	4.5
— Bonds	8.9	9.1	7.1	8.4	8.4
— Credits	20.3	19.8	20.4	21.8	20.5
III. Other external resources including short-term bank credits (1) and net self-financing	19.7	18.3	19.0	12.6	17.4
Total	100.0	100.0	100.0	100.0	100.0

- (1) In the present state of the statistics, it is impossible to isolate the share of short-term credits allotted to investment financing. The extent of the short-term bank indebtedness of enterprises in Italy and France however makes it possible to assert that the utilisation of overdraft facilities for long-term financing is particularly current in these two countries. The differences from one national source to another and from country to country render comparisons difficult: according to the statistics published in 1967 by the O.E.C.D., based on the analysis of financial accounts or on samples of companies, the percentage of short-term bank credits in the aggregate of the external resources collected in the course of the years 1960-1965 by enterprises to finance the whole of their working capital and their financial investments, stocks and fixed investments amounted to 40% in Italy, 25% in France and 20% in Germany.

It is probably necessary to refrain from drawing over-hasty conclusions from these different data, as the whole of the resources considered, internal or external, also include those which are devoted to the financing of housing construction and which cannot be isolated.

With this reservation, it seems indeed that, by comparison with the years 1961-1963, the German enterprises made slightly less calls, from 1964 to 1967, on the national long-term capital market for financing their productive investments. This evolution was mainly perceptible in 1966 and 1967; the slowdown in the business cycle led the companies, inter alia, to check the expansion of their indebtedness.

Table 9 — STRUCTURE OF MEDIUM- AND LONG-TERM FINANCING OF THE SECTOR OF THE ECONOMY IN THE COMMUNITY COUNTRIES

(in %)

Country	Shares	Bonds	Medium- and long-term credits	Total medium- and long-term resources	Long- and medium-term external resources — as a percentage of the total investments
<i>A. Annual average 1961-1963 :</i>					
Germany	9	20	71	100	34
France	22	24	54	100	28
Italy	25	44	31	100	40
Netherlands	6	3	91	100	38
Belgium/Luxembourg	26	20	54	100	34
The Community	16	25	59	100	34
<i>B. Annual average 1964-1967 :</i>					
Germany	9	18	73	100	31
France	16	25	59	100	30
Italy	17	47	36	100	44
Netherlands	2	7	91	100	41
Belgium/Luxembourg	30	14	56	100	37
The Community	13	25	62	100	34

In the other countries of the Community, the role played by medium- and long-term external resources has, on the contrary, increased.

The Belgian enterprises, no longer having available sufficient self-financing resources to cope with a very rapid growth in their investments, had increased recourse to share issues; they also made wider use of bank overdrafts, and then of long-term loans. While the institutions specialising in the granting of such assistance amplified their operations, the banks themselves were very active in this direction.

In the Netherlands, the companies offset the relative downturn in their own resources by a rapid development of their calls on bond issues. Their recourse to private loans with insurance and provident institutions remained very considerable.

In Italy and France, the increased recourse to the long-term loan corresponds to a heavier indebtedness on the part of enterprises, resulting also from a narrowing of the self-financing margins. This indebtedness is all the heavier since the companies frequently make use, in these two countries, of overdraft facilities to finance their investments.

On the whole, the evolution of the financial structure of the industrial enterprises of the Community has therefore rather deteriorated. Their debts, in relation to their assets, remain definitely larger – in relative value – than those of American enterprises. Although the Italian and French companies are still the most heavily indebted, the much more considerable recourse by Dutch and Belgian companies to external resources is also rendering the position of these companies less favourable.

In all the countries of the Common Market, in the course of the period under consideration, the rise in wages and social charges, more pronounced than that of selling prices, the uptrend of which has been checked in increasingly numerous sectors by the effect of international competition, has acted as a brake on profit possibilities and limited the share of profits appropriated to reserves.

Table 9 also makes it possible to compare, in the course of recent years, the place occupied by the different categories of long- and medium-term external resources in each of the Member Countries.

It is observable that, although the sources of financing vary fairly appreciably from country to country, they change only slowly in the course of the years.

Generally speaking, the credit institutions, thanks to the resources with which they have been provided by the collection of liquid savings, have played an increased role in investment financing. In the aggregate

of the long-term resources collected by the sector of the economy, the funds assembled on the financial markets in the form of bond issues have maintained their importance : their share remained particularly considerable in Italy. Except in Belgium, the enterprises have had less recourse to share issues owing to the unfavourable trend of the stock markets and sometimes because of certain fiscal provisions.

THE MARKET FOR PUBLIC ISSUES OF SECURITIES

In 1967, the funds collected in the Community on the occasion of public issues of securities (1) attained a larger volume than in the previous year. The resources assembled in Germany and Belgium showed marked progress, whereas in 1966 they had recorded a notable setback. At the same time, issues on the European international market experienced an unprecedented development.

I. *Issues of securities on the capital markets of Member Countries.*

Issues of national securities.

The amount of public issues of national securities, in net value, i.e., after deduction of depreciations, showed an increase of approximately 17% in 1967, compared to a fall of 6% in the previous year.

From 1966 to 1967, the ratio between the amount of these issues and the gross national product in value of the Community rose from 3.4% to 3.8%. However, it remains slightly below the level recorded in 1965 : 3.9%.

As in previous years, demand from the public sector on the financial market was considerable; placings of loans by this sector showed an

(1) Including issues of medium-term cash certificates in Germany and Belgium and issues of credit certificates and nine-year Treasury bonds in Italy.

Table 10 — NET SECURITY ISSUES

(billiards of units of account)

<i>Types of securities</i>	1964	1965	1966	1967
Shares	2.88	3.02	2.59	2.24
Public loans (State or local authorities)	2.53	3.34	4.02	5.41
Borrowing by the economy (enterprises and credit institutions)	4.95	5.31	4.37	5.16
Total Community	10.36	11.67	10.98	12.81

increase of 35%, after already having risen by over 20% in 1966 and 30% in 1965.

On the other hand, security issues by the economy, which were greatly reduced in 1966, advanced by only 6% in 1967; the net proceeds of bond issues by enterprises and credit institutions increased by 18%, but the placings of variable-income securities continued to decline.

1. *Share issues.*

Share issues slowed down in 1967 in the Community countries, except in the Netherlands, where they were maintained at a very low level and Belgium, where they increased very slightly.

In *France*, these operations continued to be affected by an unfavourable stock market situation; the marked recovery in prices, which occurred during the summer after seven months of almost uninterrupted down-trend, was cancelled out in the fourth quarter by another fall in quotations, to such an extent that the indices at the end of December were at a slightly lower level than at the beginning of the year.

Table 11 – SHARE ISSUES

(billiards of units of account)

Country	1964	1965	1966	1967
Germany	0.56	0.99	0.68	0.48
France	1.01	1.02	0.74	0.68
Italy	0.93	0.65	0.75	0.63
Netherlands	0.06	0.03	0.02	0.02
Belgium	0.23	0.22	0.27	0.31
Luxembourg	0.09	0.11	0.13	0.12
Total Community	2.88	3.02	2.59	2.24

In *Italy*, the decrease in issues of variable-income securities has its origin in the important reforms of the tax system for income from securities carried out in February and in the resulting fall in prices, although the evolution of the Italian business situation remained particularly favourable by comparison with that in neighbouring countries.

The cause of the fall in *Germany* is to be sought in the behaviour of enterprises. A cyclical atmosphere which was unfavourable for investment seems to have led many companies to postpone their plans for increases of capital, even though the German stock market was showing a remarkable recovery. Indeed, in Germany and the three Benelux countries, security prices recorded considerable advances in 1967, which contrast with the downturns of previous years: the rises amounted to 35% in Germany and the Netherlands, 16% in Belgium, 8% in Luxembourg. In certain of these countries, governmental measures aimed at improving the existing financial machinery contributed towards encouraging the reversal of the market trend, but the decisive factors were the expansion of the liquidity of the economy in the course of previous months and the belief of investors in a generalised recovery in economic activity in the near future.

2. Bond issues.

Although the calls on the Community markets for fixed-interest securities remained considerable, the yields of these securities were subjected to tensions which were less strong than in the previous year. In the course of the first six months, they showed a definite downturn in the Netherlands and Germany, and a slight fall in France. During the second half-year, they resumed their upward movement, but the intervention of the responsible authorities made it possible, in all countries, to limit the rises. These rates are now situated at levels which are closer to each other than in 1966. The diversity of the tax treatment for income from securities, as applied in each of the six countries, unfortunately constitutes a distortion factor, the elimination of which would be likely to facilitate the interpenetration of the European financial markets.

YIELDS OF PUBLIC BONDS LISTED ON THE STOCK EXCHANGE
ON THE DIFFERENT NATIONAL
FINANCIAL MARKETS IN THE COMMUNITY

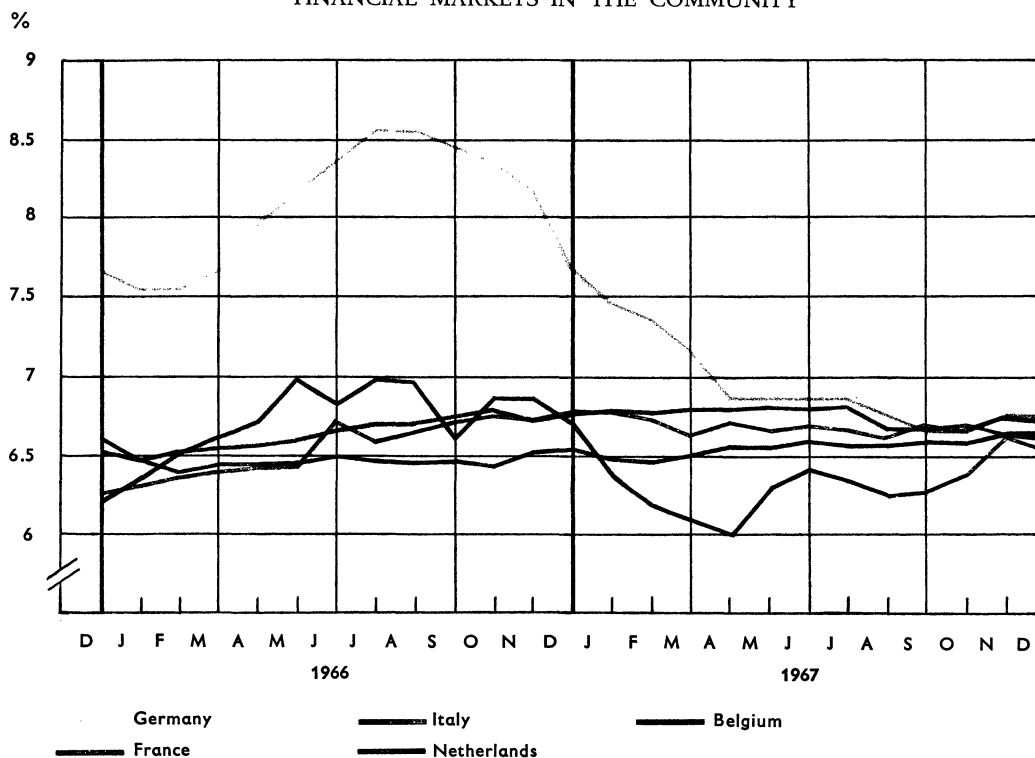


Table 12 — NET ISSUES OF BONDS IN THE COMMUNITY

(billiards of units of account)

Country (1)	1964	1965	1966	1967
Germany	3.32	3.01	1.26	3.72
Public sector	1.53	1.50	0.63	2.55
Economy	1.79	1.51	0.63	1.17
France	1.25	1.42	1.73	1.63
Public sector	0.17	0.11	0.23	0.13
Economy	1.08	1.31	1.50	1.50
Italy	2.32	3.13	4.40	3.83
Public sector	0.36	1.06	2.52	1.62
Economy	1.96	2.07	1.88	2.21
Netherlands	0.17	0.32	0.39	0.37
Public sector	0.13	0.15	0.18	0.30
Economy	0.04	0.17	0.21	0.07
Belgium	0.42	0.76	0.61	0.99
Public sector	0.34	0.51	0.46	0.78
Economy	0.08	0.25	0.15	0.21
Luxembourg	—	0.01	—	0.03
Public sector	—	0.01	—	0.03
Economy	—	—	—	—
Total for the Community	7.48	8.65	8.39	10.57
Public sector	2.53	3.34	4.02	5.41
Economy	4.95	5.31	4.37	5.16

(1) The issues entered under the "Public sector" line include all the issues by the Government and public institutions, although the proceeds of these issues may in part make it possible to grant loans to the economy.

In *Germany*, net issues of fixed-interest securities, which had declined steeply in 1966, nearly trebled in 1967; they thus exceeded the level reached in 1964 and 1965, before the very rapid expansion of the business situation led the responsible authorities to moderate the calls on the financial market. The development of household savings explains this evolution to a certain extent. As in previous years, the authorities also exerted a decisive influence on the conditions of equilibrium between supply and demand in respect of capital : the widening of bank liquidity, encouraged

as far back as 1966 by the return to an external payments surplus and the more flexible credit policy of the Deutsche Bundesbank, made possible a relaxation in interest rates not only in the sector of short-term securities but also in that of long-term securities. The slowdown in the demand for capital emanating from the public and private sectors also facilitated this relaxation. The prices of securities already issued became stabilised and then strengthened. Purchases of securities by the banks and institutional investors were encouraged thereby, while the downturn in long-term rates gradually attenuated the reluctance of enterprises in the private sector to invest.

This downtrend in the rates came to an end in the course of the summer under the influence of the upward movements which had occurred on certain foreign markets and, in particular, of increased calls by the public sector on the financial market. The tax depreciations, resulting from the economic evolution, and the investment programmes implemented by the Federal Government, the States and Municipalities so as to exert a counter-cyclical action, led to increased recourse to monetary financing and to the financial market. This recourse was all the more considerable because the local authorities showed little inclination to obtain financing on the monetary market by short- or medium-term resources.

In order to prevent over-large capital calls from again causing an uptrend in rates which would be prejudicial to the incipient recovery of private investments, the Deutsche Bundesbank first of all further facilitated the holding of securities by banks by means of several reductions in the rate of compulsory reserves and more particularly by a widening of its interventions on the market : in the first place, it decided to redeem the medium-term securities issued by public authorities in so far as they had only eighteen months at most to run prior to maturity; subsequently, it intervened for its account on the market for long-term federal bonds and no longer, as had been the case previously, solely for the account of the issuers. Lastly, a number of public loan issues, planned during the last quarter, were postponed.

Thanks to this policy, it was possible to keep within reasonable limits the rise in the cost of long-term money. The average yields offered to subscribers, after having fallen from 7.6% to 6.7% during the first half-year,

subsequently climbed again to between 6.8% and 6.9%. On 31st December, 1967, according to the market quotations, the average yield was 6.8% for bonds of the public sector and 7.1% for those of the private sector.

In *France*, the volume of net bond issues showed a very slight downturn after its relatively marked expansion in 1966. Although the amount of calls for capital made on the market by industrial companies, and more particularly by the national enterprises, increased, the calls by specialised credit establishments and by the Government slightly diminished.

This reduction in calls on the market and the greater interest shown in bond investments, both by the variable-capital investment companies and by the insurance companies, as a result of the measures to relax their rules of conduct decided on at the end of 1966, facilitated the achievement of a more satisfactory equilibrium between capital supply and demand.

The yields at issue, which had had to be raised in the previous year, inter alia so as to take into account the evolution which had occurred abroad, could be maintained around 6.8% for public loans and 7.1% for private loans. The yields of investments reserved for the insurance companies were even fixed with a very slight downturn.

The yields of securities listed on the stock exchange, which better reflect the state of the market, showed more pronounced variations. At the very beginning of the year, they experienced a relaxation and this movement, temporarily interrupted in August for securities of the public sector, continued until the devaluation of sterling. The market conditions then tended to deteriorate, under the influence of the tensions that emerged on the international financial market; the anticipations by certain institutional investors, upon observing the uptrend in the yields of Euro-bonds, tended to weigh on the prices of securities issued. However, on 31st December, 1967, the rise in yields of securities of the public sector did not exceed 0.10% by comparison with the end of the previous year.

In *Italy*, the market for fixed-interest securities was affected in the course of the second quarter by the fears aroused by the future tax system for bond income. The public sector then halted its issues, whereas the

calls by special credit institutions continued, but at a slower pace. The assurance given to investors that anonymity would be maintained in respect of bonds subsequently made possible a marked resumption of issues, which continued throughout the second half-year.

Despite the very favourable evolution thus recorded since July, net issues show a fall of nearly 13% for the year. It is true that in 1966 these calls – mainly under the influence of a large Treasury issue at the end of the year – had reached an especially high amount, showing a 40% increase by comparison with the previous year. In spite of their reduction, they still represented in 1967 36% of the aggregate of net issues made on the national markets of the Community. While continuing to play an essential role, the calls made by the Treasury or for its account assumed less importance than in 1966. On the other hand, the share of issues by special credit institutions greatly increased, while the demand by certain national enterprises (IRI, ENEL) remained very active and the share of direct issues by private enterprises was still insignificant.

Household savings allotted to bond investments were maintained at a very high level : the privileged tax system in fact enjoyed by fixed-interest securities, the persistent stability of their prices, and the confidence in the purchasing power of the lira once again reinforced the attraction of these investments, which are both remunerative and mobilisable, without immediate risks of depreciation.

By its appropriate interventions, the Banca d'Italia continued, with a great deal of flexibility, to maintain the equilibrium between supply and demand in respect of securities, while regularising the level of liquidity of the economy.

In the course of the year, the yields of listed securities showed a very slight uptrend, rising from 6.55 to 6.66% as regards bonds of credit establishments. The rates at issue were maintained between 6.50 and 6.60%.

In the *Netherlands*, the public issues market relaxed in the course of the early months of the year under the influence of the halt in capital demands emanating from the private sector. Whereas the slowdown of economic activity in certain sectors led enterprises to postpone their

investment projects, others preferred to have recourse to private loans rather than bond issues to cover their fund requirements. The N.V. Bank voor Nederlandsche Gemeenten and the Dutch Government were then able to proceed to large-scale issues at conditions which were definitely more advantageous than in the previous year.

The relaxation on the market came to an end early in the summer. The resumption of economic expansion and the evolution of public finances then gave rise to a development in capital demands, while the Middle East conflict and then the sterling crisis led institutional investors to adopt an aloof attitude, in the hope of a more pronounced upswing in rates.

All in all, the net volume of securities issued reached an amount almost equal to that for the previous year. The N.V. Bank voor Nederlandsche Gemeenten absorbed nearly 62% of the capital available on the bond market and the Government 24%; the share of the economy was very modest. After having fallen from 6.90% at the beginning of the year to 6.35% in June, the yields offered to subscribers by first-class borrowers resumed their upward movement, reaching 6.65% in December.

In *Belgium*, the cyclical slowdown contributed to widen the supply of capital by prompting households to increase their financial savings, in all forms. The surpluses recorded by the balance of current payments exerted an effect in the same direction, especially in the second half-year.

The Government, the semi-official credit institutions and the local authorities took advantage of this situation to develop their long-term calls in proportions which had hitherto never been attained. The volume of securities issued in the course of the year thus increased by 62% and the Government was able to cover its net financing requirements entirely by the resources it obtained on the market. Interest by investors in foreign securities was also reinforced.

The extent of the public loans prevented the yields at issue from relaxing in the course of the first half-year. A more favourable trend became apparent, on the other hand, during the second part of 1967. The

yield at issue of Government bonds and those of public institutions, of the order of 7.1% at the beginning of the year, fell to 6.9% during the last quarter.

In *Luxembourg*, the Government proceeded to two large-scale public issues, whereas it had refrained from long-term borrowings in 1966. The yield offered in December, at the time of the second of these issues, was fixed at a level one quarter of a point higher than that of February (6.25% instead of 6%).

Bond issues by international institutions and foreign borrowers on the markets of Member Countries.

Issues by the European Investment Bank on the markets of Member Countries in 1967 attained 41 million units of account in France, 24 million in Italy and 15 million in Belgium.

Table 13 — BOND ISSUES BY INTERNATIONAL INSTITUTIONS
AND FOREIGN LOANS ON THE MARKETS OF MEMBER COUNTRIES

(millions of units of account)

	1966	1967
Germany (1)	—	—
France	41	41
Italy	48	24
Netherlands	—	14
Belgium	10	21
Luxembourg	—	—
Total	99	100
of which European Investment Bank	75	80
European Coal and Steel Community	24	—
Others	—	20

(1) With a yield, in 1966 and almost the whole of 1967, below that of bonds issued by residents on the national market, the loans in Deutsche Mark floated in Germany by non-residents during this period were subscribed to a high percentage by non-residents : they therefore appear under the heading "European international market", page 77. This de facto situation changed in 1968.

Furthermore, the Inter-American Development Bank placed a loan of 6 million units of account in Belgium while the Netherlands Antilles placed a loan of 14 million in the Netherlands.

II. *Security issues on the "European" international market.*

In 1967, the European international market played an increased role among the financing sources for long-term investments. The overall volume of bonds issued in the course of the year indeed exceeded 1.8 milliard units of account compared to 1.1 milliard in 1966. As in previous years, the amount indicated above covers the whole of the loans :

- which are issued on a given market but which are not expressed in the currency of that market (e.g., dollar and French franc bonds in Luxembourg);
- which, issued on a given market and expressed in the currency of that market, are expressly reserved for non-resident subscribers (e.g., portions of loans issued in the Netherlands by Dutch enterprises, but for placement abroad);
- which, issued on a given market by non-residents and expressed in the currency of that market, are subscribed for the most part by non-residents owing to their lack of attraction for residents, either for fiscal reasons (e.g., non-American bond issues in dollars which are liable to the Interest Equalization Tax), or because the yields offered are in principle at a level below those of domestic securities (in 1966 and 1967, Deutsche Mark bonds issued by non-residents);
- which are issued with special monetary clauses (e.g., units of account, multiple currency clause).

The marked increase in issues, of the order of 65%, calls for a more thorough analysis of the salient features of the trend recorded in 1967.

In the course of the first ten months of the year, the market was incessantly very active. The supply of capital developed at a regular pace, thanks to the efforts made by the financial establishments participating in the placements with a view to widening their clientèle of institutional

Table 14 – “EUROPEAN” INTERNATIONAL MARKET

(millions of units of account)

	1966	1967
CONVERTIBLE BONDS	222	240
Dollars	197	227
DM / DM option	25 (1)	13
CLASSIC BONDS	874	1,572
Dollars	646	1,362
Units of account	74	19
DM / DM option	141	179
Florins	13	—
French francs	—	12
Total	1,096	1,812
<i>of which</i> Community borrowers (2)	350	529
— <i>European Investment Bank</i>	40	70
— <i>European Coal and Steel Community</i>	55	45
— <i>Others</i>	255	414
American borrowers	439	527
Scandinavian borrowers	100	204
Sterling area borrowers	120	198
Other borrowers	87	354

(1) These figures do not include two operations whereby American companies which already owned a participation in two German companies acquired almost the whole of the latter's capital by offering the other shareholders an exchange of their rights for convertible bonds issued or guaranteed by the parent companies, denominated in Deutsche Mark and for an overall amount of 182 million units of account.

(2) The criterion selected for appreciating the geographical origin of borrowers is that of the nationality — and hence of the registered office — of the issuers, except as regards holding companies of Luxembourg nationality, subsidiaries of parent companies of American nationality and benefiting from a total guarantee by the latter : these Luxembourg companies are included under the line “ American borrowers ”, to the exclusion of the other subsidiaries of American companies exercising their activities abroad.

investors interested in international securities. The surpluses on the Community balance of current payments, the credit policy adopted by the monetary authorities of all the Common Market countries, the liberalisation in certain countries of short-term capital movements abroad, contributed to swell the volume of available funds, the origin of which nevertheless remains difficult to discern.

On the contrary, a very definite decrease in issues of bonds of the classic type was recorded in November and December, since the supply of capital had become tighter as a result of the devaluation of sterling and the rapid uptrends which occurred on the gold market.

This slowdown did not affect the market for convertible bonds which, after the pause during the second half of 1966, again developed in 1967, especially in the fourth quarter and, all in all, made it possible to collect an amount of capital slightly above that of the previous year.

In the course of 1967, the dollar continued to be the monetary base in most current use : 88% of the issues were denominated in U.S. currency, compared to 77% in the previous year. The other operations were performed in Deutsche Mark or sterling with Deutsche Mark option, to the exclusion of three of them : two in units of account, and one in French francs. The latter loan, floated at the end of the year, was the first to have been carried out on the Euro-issues market.

The operations related to unit amounts which were much higher than in the past : an average of over 20 million dollars; at the end of the year, the Shell international group even proceeded to a loan of 50 million dollars, a figure which had never yet been attained for a classic bond issue on this market.

The private sector continued to make ample calls on the placing of Eurobonds to cover its fund requirements. However, in relative value, its calls were less considerable than in 1966, when they had been preponderant. The Governments and public institutions, on the other hand, greatly increased their capital demands.

The widening of the market was accompanied by a greater diversification in respect of the geographical origin of issuers.

While increasing in amount, the operations by American companies and their subsidiaries created in Luxembourg in the form of holding companies lost in importance by comparison with the aggregate of borrowings on the market : they represented less than 30% of the total issues compared to about 40% in 1966.

The participation by European borrowers – including American subsidiaries other than the holding companies referred to above – went up from 51% to 53%. For the first time, Spanish companies called on the market. The Scandinavian and Austrian borrowers doubled their issues. Those of the European Economic Community absorbed, as in 1966, approximately 30% of the available resources.: the German enterprises reduced their capital demands, while those in the Netherlands and especially in France definitely increased theirs.

Apart from the European continent and the United States, considerable calls were recorded originating from Mexico, South Africa, Argentina, Australia and New Zealand.

The evolution of the interest rates did not feel the effect of this inflow of borrowings immediately. During the first half-year, the yields at issue remained relatively low : of the order of 6.6% for first-class borrowers. However, from the summer onwards, issue conditions tended to become stricter and a moderate rise in rates was recorded until mid-November. The end-of-year monetary uncertainties then weighed on the prices of securities in circulation and led to an almost complete halt in classic bond issues. When the latter were resumed, at the beginning of 1968, the yields at issue – to maturity – amounted on the average to 7.2%, showing a rise of more than half a point by comparison with the previous situation. The improvement in conditions offered was also reflected by a decrease in the duration of amortization deferments and a lengthening of the period during which the issuer undertakes to refrain from proceeding to premature redemption.

The fluctuations recorded in the closing weeks of 1967 served to stress the extreme sensitivity of the market to international monetary events. The uncertainties inherent in its evolution, however, should not be allowed to obscure its utility from the point of view of financial relations between countries.

* * *

In all, the public and private borrowers of the Community covered their investments by recourse to public issues on the financial markets,

to the amount of over 13.4 milliard units of account, compared to 11.4 milliard in 1966.

As in 1966, they obtained 96% of these resources on their own markets.

Calls on markets in countries outside the Community again lost in significance. Indeed, they reached only 26 million units of account, against 59 million in 1966. As in the two previous years, the issues were concentrated on the Swiss market.

<i>Milliards of units of account</i>		
	1966	1967
– Net issues on the national markets of Member Countries	10.98	12.81
– Issues on the European international market (1)	0.35	0.53
– Issues on the other national markets	0.06	0.03
	11.39	13.37

(1) Although these figures relate to gross amounts, they can be approximated to the net amount of issues effected on the national markets by reason of the present very low volume of amortizations on the Eurobonds in circulation. Taking into account the deferment periods, these amortizations will assume a certain importance only in 1970.

OTHER EXTERNAL RESOURCES AVAILABLE FOR FINANCING THE ECONOMY

As is the case each year, the public issues of securities provided the private borrowers of the Community with only a fraction of the capital enabling them to cover the financing of their investments.

The largest part of their resources was supplied to them by means of medium- and long-term contributions from financial intermediaries. In certain cases, too, short-term credits made possible the launching of investment programmes, until such time as they are replaced by the granting of a long-term loan or by an issue on the financial markets.

I. *Medium- and long-term credits to the economy.*

The table below shows the increase, in the course of the last four years, in the medium- and long-term credits granted to the enterprises and private individuals of Member Countries by banks and specialised credit institutions. The figures selected also take into account loans granted directly by institutional investors. In Germany and the Netherlands, these credit operations play an essential role in the financing of the economy : the savings banks, retirement and provident funds and insurance companies usually grant private loans, inter alia to enterprises and credit institutions, at a cost which is generally lower than that of a public issue of securities. In Belgium, the Caisse Nationale d'Épargne et de Retraite takes an essential part in the financing of investments. The contribution by insurance institutions is much smaller in France, where the marked predominance of the system of distribution on capitalisation limits the volume of capital available.

Furthermore, the public Treasuries also facilitate the execution of the investments of the economy, first of all by assuming the burden of financing a large share of the housing construction, and also by granting equipment loans to the enterprises themselves, either directly or through the intermediary of the credit institutions.

Table 15 – MEDIUM- AND LONG-TERM CREDITS TO THE ECONOMY
(Variations by comparison with the previous year)

(in milliards of units of account)

Country	1964	1965	1966	1967
Germany	6.53	7.07	6.41	5.61
France	3.65	3.51	3.85	4.99
Italy	2.55	2.36	2.72	3.64
Netherlands	1.33	1.53	1.88	1.97
Belgium	0.72	0.64	0.92	0.94
Total Community	14.78	15.11	15.78	17.15

In 1967, the slowdown in the growth was reflected in Germany by a slight reduction of calls by the economy on medium- and long-term credits : their expansion was less than that which had been recorded in the course of the three previous years.

In France, on the contrary, despite the stagnation of economic activity in the course of the first half-year, recourse to these credits showed an annual expansion which was greater in amount than in the past. The enterprises benefited from a slight increase in medium-term equipment loans. The long-term credits granted by the banks in favour of housing construction also developed under the influence of the measures taken by the public authorities with a view to creating a market conferring upon mortgage claims the character of easily negotiable assets and thus offering the lenders wider possibilities of utilisation of liquid or short-term savings.

In Italy and the Netherlands, the rate of growth of medium- and long-term credits was also more rapid. In Belgium, the expansion continued at a pace which was very close to that of the previous year.

Part of the capital thus made available to the economy is derived from savings collected on the securities markets, the evolution of which was analysed in the previous chapter. It is advisable to eliminate the duplication resulting from the call made on these markets in order to determine the role of the other resources collected by the financial intermediaries and redistributed in the form of medium- and long-term loans. The collection of savings in a liquid and short-term form constitutes the main source of these availabilities; however, the granting of medium-term equipment loans by the banks may also be based on the creation of additional monetary units instead of on savings resources.

After deduction of the resources derived from the capital markets, the increase in the medium- and long-term credits distributed to the economy in the Community countries remains very significant. Even in Italy, where the special credit institutions make wide calls on the financial market and the banks intervene but little in long-term credit operations, the net contribution in 1967 was higher than the amount of resources collected by public bond issue.

*Table 16 – MEDIUM- AND LONG-TERM CREDITS TO THE ECONOMY
AFTER DEDUCTION OF RESOURCES DERIVED FROM THE CAPITAL MARKETS
(Variations by comparison with the previous year)*

(in milliards of units of account)

<i>Country</i>	1964	1965	1966	1967
Germany	4.82	5.65	5.78	4.66
France	3.07	2.78	2.92	4.17
Italy	1.41	1.33	1.34	2.07
Netherlands	1.24	1.37	1.68	1.74
Belgium	0.70	0.50	0.83	0.73
Total Community	11.24	11.63	12.55	13.37

The public's preference for liquidity increases from year to year the possibilities afforded the banks of proceeding thus to a conversion of liquid and short-term resources into long-term uses. Savings and time deposits further increased by 15% in Germany and 12% in Italy. Their advance in Belgium and the Netherlands attained 16% and 14% respectively. In France, the promotion measures taken by the public authorities with a view to encouraging the collection of savings by the banks made possible an even more pronounced expansion : the annual rate of growth amounted to 23%; in order to overcome the reluctance, based on long-held traditions, of the banking system to follow the path of "conversion", the authorities continued to attenuate the specialisation existing among the credit institutions and to render more flexible their utilisation rules; the results achieved may be considered encouraging.

II. *Short-term credits to the economy.*

In 1967, the pace of development of short-term credits to the economy in the Community remained as rapid as in 1966.

In Italy, the rate of growth – already high in 1966 – increased further, under the influence of the needs created by the expansion of economic

Table 17 – SHORT-TERM CREDITS TO THE ECONOMY
(Variations by comparison with the previous year)

(in milliards of units of account)

Country	1964	1965	1966	1967
Germany	1.24	1.83	1.28	0.48
France	1.72	2.07	2.90	3.59
Italy	0.20	1.12	2.77	3.52
Netherlands	0.21	0.18	0.15	0.61
Belgium	0.08	0.19	0.31	0.28
Total Community	3.45	5.39	7.41	8.48

activity, the evolution of stocks and probably also by that of fixed capital investments.

In the Netherlands, the distribution of short-term bank credits also accelerated, at least until the autumn; this development was favoured by the lifting of quantitative restrictions in June.

In France, the expansion of short-term credits granted by the banks to enterprises and private individuals continued at an increasingly rapid pace until November and greatly contributed to the growth of internal liquidities : a share of these resources was probably allotted to the financing of investments in the preliminary phase of the cyclical revival.

Germany and Belgium are the only two countries of the Community where the rate of growth of short-term credits flagged in 1967 by comparison with 1966 : markedly in the former country, and very slightly in the latter. This evolution occurred under the effect of the cyclical slowdown, despite a definitely expansive monetary policy.

CAPITAL MOVEMENTS WITHIN THE COMMUNITY AND BETWEEN THE COMMUNITY AND NON-MEMBER COUNTRIES

So as to be better able to appreciate the conditions for investment financing, it is also necessary to analyse the flow of capital among countries within the Community and the movements of funds between the Community and the rest of the world, paying special attention to operations in medium- and long-term capital. The available statistics do not make it possible to proceed to a thorough examination for 1967; on the other hand, they provide useful details about the trends which emerged in the course of the previous financial year. They show clearly the gradual development of investments made in the Member Countries by enterprises of foreign nationality but the registered office of which is located in the Common Market. At the same time, they point to the decline in contributions of long-term foreign capital in favour of the Community and the increasing share taken by the latter in financing operations outside the Member Countries.

I. *Long-term capital movements within the Community.*

The movements of long-term private capital among countries of the Community continued to increase, having been facilitated by the relaxations in internal exchange regulations, the current process of integration and the development of the Euro-bond market.

The majority of the Member Countries recorded exports of capital to their partners which were more considerable than in the past. Direct investments abroad – but within the limits of the Community – by France, the Netherlands and Italy, showed a notable development. Those made by German residents increased very steeply, although progressing at a slightly less rapid rate than in 1965. The expansion of loans granted by Dutch, Belgian and Italian residents quickened in pace. In addition to

these operations, there were security purchases, principally in the Netherlands, for German and Belgian account.

Funds transferred from one country to another were, to a large extent, allotted to direct investments in Germany and Italy. The loans granted to Italian enterprises also showed marked progress.

In the final analysis, these different capital movements left Italy with a surplus of resources available for investment. Net receipts derived from the Community showed a slight increase in the case of Germany, but fell greatly for France. In the Netherlands, imports and exports of intra-Community capital were in equilibrium, on the whole. The Belgo-Luxembourg Economic Union, on the other hand, continued to record net exports of private capital to the partner countries; these exports reached a higher amount than in the previous year.

II. *Long-term capital movements between the Community and non-Member Countries.*

In their relations with the rest of the world, the Community countries all qualify as net exporters of capital, owing to the public aid they extend to the developing countries and the guaranteed credits granted by them within the framework of operations in respect of export of goods and services. Furthermore, the movements of long-term private capital (direct and portfolio investments, loans other than commercial credits, real estate operations, etc.), which usually enabled them to benefit from a considerable net surplus, are now tending to procure them deminishing resources.

The volume of financial resources made available to the developing countries in 1966 by the public sector in the Member Countries reached, as in previous years, a net amount of approximately 1.5 milliard dollars. France, which heads the list of donor countries in the Community and ranks first in the world in respect of the ratio between aid and national income, slightly reduced its disbursements, but the contributions by Germany, Italy and especially the Netherlands, which had been advancing ever since 1964, continued to increase in absolute value.

This aid by the public sector was supplemented by the grant of private export credits. The advance in the net amount outstanding in respect of credits of this nature granted by banking establishments of the Community countries was particularly rapid in 1966, principally in Italy and France, reaching a total of 775 million dollars; credits guaranteed by the Governments and the national credit insurance institutions showed an increase of 430 million : among them, credits with terms of payment exceeding five years rose by 340 million. This expansion in export credits has, to a certain extent, offset the incidence, for the developing countries, of the decline in contributions of capital, more particularly of American origin.

As regards net private operations in respect of direct investment, other investment and loans, nearly all the countries of the Community collected less foreign capital in 1966 than in the previous years. Investments outside the Common Market made by residents of the Community furthermore increased appreciably. For its part, Italy recorded a substantial deficit, caused mainly by the fairly considerable difference existing between its own and foreign rates and by considerations of a fiscal nature.

Slowed down by the restrictive measures taken in the United States and by certain European countries, net exports of American capital to the Community fell off quite markedly, although Germany, France and Belgium still recorded large surpluses in respect of direct investments by American companies. The trend in rates of interest in the United States indeed acted as a brake on portfolio investments in Europe; sales of Dutch and German securities for American account were even observed again. The expansion of loans granted by the United States and destined for France slowed down, whereas the borrowers in Italy and Germany repaid a far from negligible portion of the loans which had been granted to them previously : this trend is ascribable, to a large extent, to the restrictions which the American banks have had to apply to their loan operations, within the framework of the programme limiting their exports of capital which was put into effect from February 1965 onwards. In 1966, moreover, substantial purchases of securities of American companies were made by Community residents, more especially in Germany and Belgium.

With the exception of Italy and Belgium, all the Member Countries of the Common Market continued to record net contributions of capital

originating from the United Kingdom, Switzerland and numerous other O.E.C.D. countries. These inflows were however less considerable than in the previous year, although in Germany, for example, the direct investments made by residents of the United Kingdom or Switzerland further developed or although, in the Netherlands, the sterling area developed its loan operations.

Lastly, Italy, France and the Netherlands were net exporters of long-term capital in respect of countries which are not members of the O.E.C.D.. These three countries, unlike Germany, slightly reduced the pace of their direct investments in this area but, on the other hand, stepped up their portfolio investments and loan operations there.

* * *

In 1967, the downturn in long-term rates which occurred in the course of the first six months in certain countries of the Community, and then the increase in yields on the European international market and the American market during the second half-year, further stimulated exports of long-term capital outside the Common Market. These operations were particularly considerable in Italy, where the fiscal measures adopted in February in respect of taxation on profits distributed by companies also contributed to the growth in the volume of investments abroad.

Table 18 — MOVEMENT OF LONG-TERM PRIVATE CAPITAL
CONCERNING THE MEMBER COUNTRIES IN 1966

(in millions of units of account)

I. Net foreign investments :					
Origin	Germany	France	Italy	Netherlands	B.L.E.U.
E.E.C.	239	114	327	138	18
Direct	203	59	91	25	30
Portfolio	13	25	35	73	2
Others	23	30	201	40	-14
U.S.A.	300	133	14	-53	98
Direct	359	119	80	28	70
Portfolio	-45	-2	1	-118	-
Others	-14	16	-67	37	28
Other O.E.C.D. countries	224	97	-109	199	10
Direct	218	64	115	6	10
Portfolio	-13	26	-95	108	-8
Others	19	7	-129	85	8
Other countries	108	26	-35	70	70
Direct	54	10	8	1	30
Portfolio	8	-	-19	33	2
Others	46	16	-24	36	38
Total	871	370	197	354	196
II. Net investments abroad by residents :					
Destination	Germany	France	Italy	Netherlands	B.L.E.U.
E.E.C.	174	99	157	136	108
Direct	104	66	68	66	14
Portfolio	54	34	12	6	48
Others	16	-1	77	64	46
U.S.A.	145	4	48	-25	22
Direct	17	1	-10	2	-10
Portfolio	125	16	15	-31	68
Others	3	-13	43	4	-36
Other O.E.C.D. countries	140	29	120	97	36
Direct	103	56	25	42	4
Portfolio	-1	-65	67	-25	4
Others	38	38	28	80	28
Other countries	84	82	243	77	18
Direct	68	18	15	26	-
Portfolio	21	42	53	-7	10
Others	-5	22	175	58	8
Total	543	214	568	285	184

NOTE : For Italy, foreign investments of Swiss origin were partially the counterpart of exports of Italian banknotes by residents. These banknote exports, which amounted to nearly 560 million units of account in 1966, showing a large increase by comparison with 1965, have not been included under the heading of Italian investments abroad in the above table.

Source : Statistical Office of the European Communities, National Accounts and Balances of Payments, Brussels 1967.

III

ACTIVITIES OF THE BANK

LOANS

CONTRACTS SIGNED

In 1967, the Bank signed 42 loan contracts, for a total amount of 212.6 million units of account (1), of which :

- 29 loans in respect of ordinary operations, for a total amount of 168.2 million, and
- 13 loans coming under the Special Section, for a total amount of 44.4 million.

LOANS APPROVED

In 1967, the Bank approved a total – ordinary and special operations together – of 41 loans for an overall amount of 232.8 million, compared to 132.2 million in the previous year.

These loans apply to projects the total cost of which in fixed investments is estimated at over one milliard. The Bank's average participation therefore amounted to 23% of the cost of the projects.

ORDINARY LOANS

Under this heading, the Bank approved 26 loans for a total of 177.3 million : 13 loans, totalling 65.1 million, for projects executed in Italy, 6 loans, totalling 53.7 million, for projects located in France, 5 loans,

(1) It is recalled that, unless otherwise stated, the figures given in this Report are expressed in units of account (see definition page 2).

for an amount of 27.5 million, for projects executed in Germany, 1 loan of 16.0 million for a project executed in Belgium and 1 loan of 15.0 million for a project executed in Greece.

The projects are :

<i>Italy :</i>	<i>Loans by the Bank (million u.a.)</i>
1. Extension of a factory producing equipment intended for civil and commercial air and road transport, located at Pomigliano d'Arco (Campania). Promoter : <i>Alfa Romeo S.p.A.</i>	2.2
2. Construction of an establishment for the manufacture of diet products at Latina (Latium). Promoter : <i>I.D.A. - Industrie Dietetiche ed Alimentari S.p.A.</i>	2.6
3. Enlargement of a thermostat factory at Salerno (Campania). Promoter : <i>Landis & Gyr Italiana S.p.A.</i>	1.0
4. Construction of an industrial complex for the tanning of hides and the manufacture of footwear at Ascoli Piceno (Marche). Promoter : <i>SOFINMAR S.p.A.</i>	1.4
5. Construction of an establishment for the manufacture of welded steel tubes at Taranto (Puglia). Promoter : <i>DALMINE S.p.A.</i>	4.4
6. Construction of a dairy at Catania (Sicily). Promoter : <i>S.p.A. GALA.</i>	1.0
7. Construction of an establishment for processing and packaging wines at Catania (Sicily). Promoter : <i>SABEA - Società Alimentari Bevande ed Affini S.p.A.</i>	0.6
8. Reinforcement and modernisation of the telephone equipment of Sicily and Calabria. Promoter : <i>S.I.P. - Società Italiana per l'Esercizio Telefonico S.p.A.</i>	16.0

	<i>Loans by the Bank (million u.a.)</i>
9. Construction of a plant for anti-knock products at Bussi (Abruzzi). Promoter : <i>Società Italiana Additivi per Carburanti S.p.A.</i>	2.2
10. Construction of a factory for the production of phosphoric acid at Gela (Sicily). Promoter : <i>Industria Siciliana Acido Fosforico S.p.A.</i>	7.0
11. Redevelopment and modernisation of the Monfalcone shipyard, on the Gulf of Trieste. Promoter : <i>ITALCANTIERI S.p.A.</i>	10.0
12. Construction of the section of the "Flowers" Motorway between the Italo-French border and San Remo (Liguria). Promoter : <i>Autostrada dei Fiori S.p.A.</i>	16.0
13. Enlargement of a factory for the production of pipes and railway sleepers in prestressed concrete at Aprilia (Latium). Promoter : <i>Vianini S.p.A.</i>	0.6
 <i>France :</i>	
14. Construction of a nitrogenous and compound fertiliser factory at Ottmarsheim (Haut-Rhin). Promoter : <i>Produits & Engrais Chimiques du Rhin - PEC-RHIN.</i>	6.1
15. Construction of the first portion of the system of gas pipelines intended for the transport in France of Dutch natural gas. Promoter : <i>Gaz de France.</i>	16.2
16. Construction of the section of the Esterel-Côte d'Azur motorway between Roquebrune and the Franco-Italian border. Promoter : <i>Société de l'Autoroute Esterel-Côte d'Azur.</i>	10.1
17. Construction of a factory for ammonia production at Carling (Moselle). Promoter : <i>L'Ammoniac Sarro-Lorrain S.à.r.l.</i>	3.0

	<i>Loans by the Bank</i> (million u.a.)
18. Construction of the section linking Metz with Freyming (Moselle) of the Metz-Saarbrücken motorway. Promoter : <i>Société des Autoroutes du Nord de la France.</i>	10.1
19. Reinforcement and modernisation of the telephone equipment of South-Western France. Promoter : <i>Administration des Postes et Télécommunications.</i>	8.1
<i>Germany :</i>	
20. Construction of a urea factory at Perl (Saar). Promoter : <i>Harnstoff- und Düngemittelwerk Saar-Lothringen GmbH.</i>	5.0
21. Construction of a nuclear power station at Darmede (Lingen, Lower Saxony). Promoter : <i>Kernkraftwerk Lingen GmbH.</i>	6.3
22. Construction of a welded steel tube factory at Hamm (Westphalia). Promoter : <i>HOESCH Aktiengesellschaft.</i>	7.5
23. Redevelopment and modernisation of a shipyard at Bremen. Promoter : <i>Aktien-Gesellschaft "WESER".</i>	3.8
24. Extension of a thermal power station in West Berlin. Promoter : <i>Berliner Kraft- und Licht (BEWAG)-Aktiengesellschaft.</i>	5.0
<i>Belgium :</i>	
25. Construction of the section of the Brussels-Paris motorway between Houdeng and the French border. Promoter : <i>Fonds des Routes.</i>	16.0
<i>Greece :</i>	
26. Irrigation of the Pinios plain (Peloponnese). Promoters : <i>Ministry of Agriculture and Ministry of Public Works.</i>	15.0

The loans for the projects located in Germany and Belgium were granted directly to the promoters. It was the same for the loans in France, excepting two intended for infrastructure projects – road and telecommunications schemes – which passed via the Caisse Nationale des Autoroutes and the Caisse Nationale des Télécommunications.

The loans in favour of industrial projects in Southern Italy were granted – as in the past – to the Cassa per il Mezzogiorno which relends the amount thereof to the ultimate beneficiary through the intermediary of the competent regional financing institute: Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER) or Istituto Regionale per il Finanziamento alle Industrie in Sicilia (IRFIS). The loan for the reinforcement and modernisation of telephone equipment in Sicily and Calabria was also granted to the Cassa; the loans in favour of the two projects executed in Northern Italy were granted directly to the promoters.

* * *

As in previous years, the Bank's activity in Italy was essentially devoted to the development of the less-developed areas in the South, where a whole series of projects were financed in different industrial sectors (engine construction, foodstuffs, leather industry, railway sleepers, concrete and steel tubes, chemical products and thermostats); these projects benefited from 60% of the total amount of funds made available to Italy. Furthermore, the Bank participated in the financing of a large-scale shipyard conversion project, and a project of common interest in the transport sector (connection of the "Flowers" Motorway to the French motorway system).

In the other Member Countries, on the contrary, conversion or modernisation projects and projects of common interest for several Member Countries occupied the first place.

Of the 12 loans granted in France, Germany and Belgium, no less than 10 – concerning both industrial projects and infrastructure projects – came into these two categories. In France, apart from the motorway and telecommunications projects already mentioned, the Bank financed a project for setting up a distribution system for Dutch natural gas, as well

as two chemical industry projects, one of which, located in Lorraine, forms an economic whole with a German project financed jointly by the Bank and the E.C.S.C. in the Saar, and also benefits from financing by the E.C.S.C. Independently of this chemical sector project, which forms a counterpart to the Lorraine project, the loans granted in Germany concerned two conversion projects (shipyard and steel tube works) as well as the construction of a nuclear power station which, in addition to subsidies from the Federal Government, also benefited from an ERP credit and a loan from the Exim-bank. Lastly, the BEWAG - with which the Bank had already concluded two financing contracts in 1960 and 1964 respectively - received a further loan, for the construction of a thermal power station in Berlin. The loan granted in Belgium was intended for the partial financing of the Houdeng-French border section of the future Brussels-Paris motorway.

In 1967, conversion projects and projects of common interest accounted for about two thirds of the total amount of loans granted in the Member Countries, thus exceeding for the first time the loans granted in favour of development projects for the less-developed areas of the Community, without thereby having appreciably affected the latter.

The marked increase in the total amount of loans shows clearly that with the progress of economic integration in the Community, the Bank is endeavouring to make full and balanced use of the intervention possibilities conferred upon it by its Statute.

As was the case for the two other irrigation projects already financed by the Bank in Greece, the loan in this country was granted to the Government. The project which it is intended to finance consists of the irrigation, for the most part by sprinkling, of an area of over 20,000 hectares. The execution of this project will make it possible to develop greatly the production of forced fruit, citrus fruits, cotton and different vegetables, and will contribute to the rationalisation of stock-rearing.

As the Financial Protocol expired on 31st October, 1967, the Bank has for the time being ceased its activities in Greece. The Council of Ministers of the European Communities has reserved the right to take a decision subsequently in respect of the amount of aid still available at that date (55.775 million dollars, out of a total of 125 million).

Files in respect of ordinary loans concerning significant industrial projects located in the Associated African States are now under examination; the financing decisions might intervene in the course of 1968.

* * *

On 31st December, 1967, six contracts remained to be signed concerning normal loans already approved, for a total amount of 45.5 million units of account.

SPECIAL OPERATIONS

Within the framework of its Special Section, the Bank approved, in the course of the financial year, nine operations of a total amount of 35.5 million for investment projects in Turkey.

The projects selected were as follows :

	<i>Loans by the Bank (million u.a.)</i>
1. Extension and conversion of a factory for the production of black plate at Istanbul. Promoter : <i>Çelik Endüstrisi T.A.Ş.</i>	0.7
2. Construction of a dam and a hydro-electric power station on the Sakarya at Gökçekaya (North West Anatolia). Promoter : <i>D.S.I. - Devlet Su İşleri Genel Müdürlüğü (Directorate-General of State Hydraulic Works, Ministry of Energy and Natural Resources).</i>	7.3
3. Construction of a pulp, paper and board mill at Dalaman (South West Anatolia). Promoter : <i>SEKA - Dalaman Müessesesi, subsidiary of SEKA (Türkiye Selüloz ve Kâğıt Fabrikaları İşletmesi - Operation of Turkish Paper and Cellulose Factories), State Economic Enterprise.</i>	14.0
4. Extension of a cement works located at Kartal, near Istanbul. Promoter : <i>Anadolu Çimentolari T.A.Ş.</i>	2.3

	<i>Loans by the Bank</i> (million u.a.)
5. Construction of a corrugated board and packaging box factory at Gebze, near Istanbul. Promoter : <i>Mukavva Sanayii ve Ticaret A.Ş.</i>	0.7
6. Extension of a synthetic and artificial fibres spinning mill located at Bakirköy, near Istanbul. Promoter : <i>Aksu Iplik ve Dokuma Fabrikalari A.Ş.</i>	0.4
7. Execution of a workshop for the production of discontinuous nylon fibres at Bursa. Promoter : <i>Sentetik Iplik Fabrikalari A.Ş.</i>	2.0
8. Construction of a cement works at Hereke, on the Izmit Gulf. Promoter : <i>Nuh Çimento Sanayii A.Ş.</i>	2.5
9. Construction of an industrial complex for fertiliser production near Samsun, on the Black Sea. Promoter : <i>Azot Sanayii T.A.Ş.</i>	5.6
	35.5

The Bank's loans in Turkey were granted through the intermediary of the Turkish Government in accordance with the system described in the 1964 report. Of the nine loans approved in 1967, one concerns an infrastructure project and eight relate to industrial projects.

The infrastructure project consists of the construction of a 300 MW hydro-electric power station, intended to meet the peak energy demand on the territory covered by the connected network. Apart from the Bank's loan, credits have been granted by the Italian Government and the United States for the financing of the foreign exchange expenditure in respect of the project.

Two of the loans intended for industrial projects were granted to public enterprises. The Dalaman paper mill is, after SEKA - Çaycuma (cf. 1966 Annual Report, page 49), the second major paper project in Turkey towards the financing of which the Bank has contributed. The production of the new factory – for which bilateral credits were also

supplied by France and Italy – will make an important contribution towards meeting the rapidly increasing Turkish demand for paper; furthermore, the execution of the project will make it possible to process local raw materials which had hitherto remained unused and will lead to an intensification of forestry operations in South West Anatolia. The Samsun fertiliser works will have the effect of improving the phosphate fertiliser supplies for Turkish agriculture and – in the same way as the Dalaman project – will exert a favourable influence on the balance of payments, by making it possible to reduce imports.

Six loans were approved for industrial products of the private sector. These loans were granted through the intermediary of the T.S.K.B. (Türkiye Sinai Kalkınma Bankası - Turkish Industrial Development Bank) and in application of the outline contract between the Bank and the Turkish Government concerning such financing schemes. Taking into account the planned operations, the amount of the outline contract has been raised from 5 million (cf. 1966 Annual Report, page 50) to 15 million in the course of 1967.

All the private industrial projects for which loans were approved in 1967 are located in the Istanbul-Izmit-Bursa area, where the industrial development efforts of the private sector are at present concentrated. The two cement works will contribute towards eliminating, in this area, the present cement supply difficulties. The manufacture of corrugated board cases – a manufacturing industry in a stage beyond the paper mills financed by the Bank and now in course of execution – will facilitate, inter alia, the sale of numerous export products. Lastly, the Bank financed two projects contributing to the modernisation of the textile industry : manufacture of discontinuous synthetic fibres and spinning of artificial and synthetic fibres.

* * *

On the other hand, the Bank has studied, at the request of the Commission of the European Communities, different projects suitable for financing by loans under special conditions from the resources of the European Development Fund, in the Associated African States and the Associated Overseas Countries and Territories. Six operations totalling 20 million units of account, on which the Bank gave a favourable opinion,

were approved by the Commission. The Bank has received and accepted mandates from the European Communities for the management of these loans.

They concern the following projects :

Associated African States :

Federal Republic of Cameroon :

Loans under special conditions (million u.a.)

- | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| 1. Execution of 4,380 hectares of selected palm plantations and construction of an oil mill.
Promoter : <i>Cameroons' Development Corporation - CAMDEV.</i> | 6.5 |
| 2. Construction of a cement works at Figuil and a clinker crushing factory at Douala.
Promoter : <i>Société Cimenteries du Cameroun - CIMENCAM.</i> | 1.6 |

Ivory Coast :

- | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| 3. Partial execution of a programme relating to 32,000 hectares of selected palm plantations.
Promoter : <i>Société pour le Développement et l'Exploitation du Palmier à Huile - SODEPALM.</i> | 3.7 |
| 4. Modernisation of the railway line between Agboville and Dimbokro.
Promoter : <i>Régie du Chemin de Fer Abidjan-Niger - R.A.N.</i> | 6.0 |

Republic of Chad :

- | | |
|--------------------------------------------------------------------------------------------------------------|-----|
| 5. Creation of a textile complex at Fort-Archambault.
Promoter : <i>Société Textile du Tchad - S.T.T.</i> | 1.2 |
|--------------------------------------------------------------------------------------------------------------|-----|

Associated Overseas Territories :

New Caledonia :

- | | |
|------------------------------------------------------------------------------------------------------------------------|-----|
| 6. Construction of a deep-water berth at the port of Nouméa.
Promoter : <i>Territoire de la Nouvelle-Calédonie.</i> | 1.0 |
|------------------------------------------------------------------------------------------------------------------------|-----|

20.0

The agricultural and industrial projects will contribute to the diversification of the economies of the countries concerned. The infrastructure project will increase the capacity of a vital communications axis for two African countries.

The Community financing schemes will, *inter alia*, facilitate the execution of industrialisation projects in the poorly developed areas of Cameroon and Chad and encourage agricultural development in the Western part of Cameroon.

In New Caledonia, the commissioning of the berth will enable liners with a large draught to put into Nouméa, an essential condition for the development of tourism in the island.

Up to the present, three financing contracts have been concluded. The loans in favour of the Cameroon agricultural project and the Chad industrial project were granted to the States concerned which have re-lent the amount thereof to the promoters. The loan intended for the railway project was granted directly to the Régie du Chemin de Fer Abidjan-Niger.

ORIGIN AND EMPLOYMENT OF RESOURCES

On 31st December, 1966, the Bank's combined resources amounted to 677.3 million units of account, derived from paid-up capital, borrowings and accrued profit.

The considerable development of the international "European" capital market and the remarkable stability recorded on the majority of the financial markets of the Member Countries enabled the Bank to increase its borrowing operations substantially again. Indeed, the overall amount of funds borrowed in 1967 reached the figure of 194.5 million, compared to 138.5 million in 1966.

Nearly half this amount, *i.e.*, 95 million, is formed of bonds denominated in dollars. With three long-term loans for an overall amount of 75 million,

and medium-term bonds totalling 20 million, the Bank thus takes its place in the front rank of borrowers who came on to the international market in 1967.

Details on the borrowing operations concluded in the course of the financial year are given below :

In January, the Bank floated a public loan in Luxembourg for a nominal amount of U.S. \$ 25 million (25 million u.a.), at 6.5%. This loan was taken up by a consortium composed of the Banca Commerciale Italiana, Kuhn, Loeb & Co. and the Banque Internationale à Luxembourg. The bonds were offered to the public at 98%. They run for 15 years and are redeemable at par in 10 annual instalments from February 1973 onwards.

In May, the Bank floated a public loan in New York, for a nominal amount of U.S. \$ 25 million (25 million u.a.), at 6.5%. It was taken up by an international consortium of 81 banks (63 of them European), under the management of Kuhn, Loeb & Co., The First Boston Corporation, Lazard Frères & Co., the Amsterdam-Rotterdam Bank N.V., the Banca Commerciale Italiana, the Société Générale de Banque S.A., the Banque de Paris et des Pays-Bas, the Deutsche Bank AG and the Caisse d'Épargne de l'Etat, Luxembourg. Of this loan, bonds totalling U.S. \$ 20 million were offered to the public at 99.75%, although this rate was raised to 108.6% for United States' subscribers, by application of the Interest Equalization Tax. The remaining U.S. \$ 5 million were placed by the Bank with a European institutional investor. The bonds run for 20 years and are redeemable at par in 15 substantially equal annual instalments from June 1973 onwards.

In September, the Bank again floated a public loan in Luxembourg, for a nominal amount of U.S. \$ 25 million (25 million u.a.), at 6.5%. This loan was taken up by a consortium composed of the Banca Commerciale Italiana, The First Boston Corporation and the Banque Internationale à Luxembourg, and offered to the public at 98%. The bonds run for 15 years and are redeemable at par in 10 annual instalments from September 1973 onwards.

Towards the end of September, the Bank floated in France a new public loan for a nominal amount of FF 200 million (40.5 million u.a.),

at 6 1/4%. It was taken up by a consortium of French banks under the management of the Crédit Lyonnais, the Banque Nationale de Paris and the Banque de Paris et des Pays-Bas. The bonds, which run for 18 years, were offered to the public at 99.85%; they are redeemable in 6 substantially equal annual instalments at the following prices :

100% in October 1970,
104% in October 1973,
108% in October 1976,
112% in October 1979,
116% in October 1982,
120% in October 1985.

In October, a public loan of FB 750 million (15 million u.a.) was floated in Belgium, at 7%. It was taken up by a consortium of banks composed of the Société Générale de Banque, the Banque de Bruxelles, the Kredietbank, the Banque Lambert and the Banque de Paris et des Pays-Bas, and offered to the public at 99.50%. The bonds, which run for 15 years, are redeemable at par in 10 annual instalments from November 1973 onwards.

Lastly, in November, the Bank floated in Italy a bond loan of Lit. 15 milliard (24 million u.a.), at 6%. It was taken up by a consortium of Italian banks under the management of Mediobanca and offered to the public at 97%. The bonds, which run for 20 years, are redeemable at par in 17 equal annual instalments in capital and interest, from December 1971 onwards.

In the course of the second half of 1967, the Bank furthermore contracted two other loans.

The first, for an amount of U.S. \$ 20 million, is represented by five-year bonds, bearing interest at the rate of 6% per annum, which were placed directly by the Bank.

The second loan, concluded with the Federal Republic of Germany in connection with the latter country's contribution within the framework of the agreement of 9th July, 1961, on the Financial Protocol appended to the agreement creating an association between the European Economic Community and Greece, relates to an overall amount of DM 80 million (20 million u.a.); of this amount, DM 20 million have already been disbursed.

As a counterpart for each disbursement, the Bank has undertaken to hand over registered bonds redeemable 10 years after delivery and bearing interest at the rate of 6.5% per annum.

The overall amount of borrowed funds thus totalled 553.7 million units of account on 31st December 1967. After deduction of repayments made and taking into account the redemption premiums due on effective loans, the funded debt amounted at this date to 547.8 million.

* * *

New loan agreements signed during the financial year brought the overall amount of loans granted to 811.8 million as at 31st December, 1967. After deduction of repayments made, totalling 52.3 million, of which 20.6 million were repaid during the financial year, and taking into account exchange adjustments and cancellations, total effective loans amounted to 757.3 million, of which 548.9 million had been disbursed. Disbursements made during the 1967 financial year amounted to 138.6 million, compared to 79 million during the previous financial year. Disbursements still to be made on effective loans amounted to 208.4 million on 31st December, 1967, compared to 179.3 million at the end of the previous financial year.

* * *

In accordance with the rule adopted in previous financial years, the Bank fully amortized the charges and issue expenses of loans incurred in the course of the year by debiting them to the Profit and Loss Account. These amortizations amounted to 5.8 million. The balance of the Profit and Loss Account before appropriations to the statutory reserve and to provisions thus amounted to 10.5 million, as against 9.4 million in the previous year.

Of this amount, 5.5 million were appropriated to provisions and the balance to the statutory reserve.

On 31st December, 1967, the total of reserves and provisions amounted to 85.5 million, of which 41.5 million for the statutory reserve.

At the end of the financial year, the Bank's total resources – paid-up capital, borrowings and accrued profit – amounted to 876.4 million units of account.

IV

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

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, 1967, amounts to 1,110,334,698 u.a. On 31st December, 1966, this total was 873,005,176 u.a.

ASSETS

Cash and banks, gold assets and investments.

The total of these three items amounts to 317,151,271 u.a., as against 249,239,400 u.a. on 31st December, 1966, as can be seen from the detailed breakdown hereunder :

	on 31st December, 1966	on 31st December, 1967
– Cash in hand and banks	184,264,733	226,372,564
– Gold assets	8,636,301	8,653,086
– Investments	56,338,366	82,125,621

The treasury bonds, bonds and notes to the value of 50,608,049 u.a. forming part of the “ Investments ” item, have been valued at cost price or at market quotation as at 31st December, 1967, if the latter were below cost price, with a maximum of 100 %.

The “ Investments ” heading further includes 1,639,211 u.a. of the Bank's own bonds which have been purchased by it (par value of 1,655,099 u.a.).

The total of these three items, according to currencies, is made up as follows :

– Currencies of Member Countries	192,955,632 u.a.
– Other currencies	115,542,553 u.a.
– Gold	8,653,086 u.a.

The breakdown by maturities is :

– At call	37,374,406 u.a.
– Not exceeding 3 months	72,705,060 u.a.
– Exceeding 3 months but not exceeding 6 months	64,348,448 u.a.
– Exceeding 6 months but not exceeding 1 year	89,458,742 u.a.
– Exceeding 1 year	53,264,615 u.a.

Receivable on bonds to be delivered.

The amount under this heading – 15,000,000 u.a. – represents the proceeds of bonds in Deutsche Mark issued in 1967 but not yet paid up at the end of the financial year.

Effective loans.

The amount of 757,260,944 u.a. represents the total amount of the loans for which agreements had been signed by 31st December, 1967, less repayments, which totalled 20,593,884 u.a. during the year, and cancellations. Of this total, the amount actually paid out to borrowers by that date is 548,867,911 u.a.

Amounts owing to the Bank as a result of these payments are made up as follows, according to currencies :

– Currencies of Member States	398,280,276 u.a.
– Currency of any Member State at the Bank's option	28,384,156 u.a.
– Other currencies	122,203,479 u.a.

The undisbursed amounts viz. 208,393,033 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, 1966	on 31st December, 1967
– Amounts disbursed	430,857,243	548,867,911
– Amounts undisbursed	179,320,227	208,393,033
Total of loans	610,177,470	757,260,944

The breakdown by country of effective loans is as follows :

<i>Country</i>	<i>Amounts disbursed</i>	<i>Amounts undisbursed</i>	<i>Total</i>
Belgium	12,320,000	8,000,000	20,320,000
Germany	61,727,417	3,500,000	65,227,417
France	91,744,539	25,014,887	116,759,426
Italy	324,513,310	138,480,000	462,993,310
Luxembourg	3,105,269	–	3,105,269
Greece	48,163,045	20,072,050	68,235,095
Ivory Coast	685,427	–	685,427
Cameroon	4 315 369	4,189,631	8,505,000
Senegal	1,215,300	1,214,700	2,430,000
Congo-Brazzaville	1,078,235	7,921,765	9,000,000
	548,867,911	208,393,033	757,260,944

The breakdown of effective loans according to the principal guarantee covering them shows that, of the total amount of 757,260,944 u.a., loans granted to Member States or benefiting from their guarantee amount to

659,641,599 u.a.; loans granted to governmental institutions of Member States or guaranteed by governmental institutions amount to 50,517,738 u.a.; loans assisted by the guarantee of Associated Countries amount to 11,620,427 u.a.; the balance of 35,481,180 u.a. is composed of loans covered by usual long term financial security.

Part of the loans granted are covered by both guarantee and security.

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, 1967, amounting to 11,396,035 u.a.

Unamortized redemption premiums.

The amount of 6,571,563 u.a. represents the part not yet amortized of the redemption premiums due on bonds issued by the Bank. The amortization is effected annually over the entire life of the bonds.

Miscellaneous.

The total shown under this heading viz. 2,954,884 u.a., includes 2,744,742 u.a. representing deposits constituted to cover the payment of coupons due but not yet paid.

LIABILITIES

Capital.

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

Statutory reserve.

The statutory reserve which amounted to 36,545,180 u.a. at the beginning of the year has been increased to 41,529,913 u.a., by the transfer to this reserve of the balance of the Profit and Loss account.

Provisions.

The provision for risks on loans and guarantees, which stood at 30,500,000 u.a. at the close of the previous financial year, is increased to 36,000,000 u.a.

Total provisions therefore amount to 44,000,000 u.a., as against 38,500,000 u.a. at the close of the previous financial year.

Staff pension fund.

The amount appearing under this heading is 1,167,596 u.a., as against 945,996 u.a. on 31st December, 1966.

Amounts due under Article 7 (2) of the Statutes.

The amount appearing under this heading is 301,169 u.a., as against 344,642 u.a. at the close of the previous financial year.

Medium and long term debt.

The figure of 547,775,612 u.a. under this heading represents the Bank's current borrowings as at 31st December, 1967, as well as the redemption premiums relating thereto.

The breakdown of the funded debt is as follows :

		<i>Principal outstanding</i>		<i>Final</i>	<i>Amortization</i>	
		<i>in local currencies</i>	<i>in u.a.</i>	<i>matu- rity</i>		
4 1/2%	Bonds of 1961	Fls.	4.0 million	1,104,972	1968	at maturity.
4 1/2%	Bonds of 1961	Fls.	46.65 million	12,886,740	1981	in 14 substantially equal annual instalments 1968-1981.
5%	Bonds of 1962	Lit.	15,000.0 million	24,000,000	1977	at maturity.
4 3/4%	Bonds of 1962	Fls.	30.0 million	8,287,293	1982	in 10 equal annual instalments 1973-1982.
5 1/2%	Bonds of 1963	DM	60.0 million	15,000,000	1970	at maturity.
6%	Bonds of 1963	Belg. fr.	400.0 million	8,000,000	1987	in 19 annuities 1969-1987 (*).
5%	Bonds of 1963	FF	60.0 million	12,152,982	1983	1/4 of the nominal value of each bond at the end of the 5th, 10th, 15th, and 20th years.
5 1/2%	Bonds of 1964	DM	80.0 million	20,000,000	1974	at maturity.
5%	Bank loan of 1964	Lux. fr.	50.0 million	1,000,000	1974	in 7 annuities 1968-1974 (*).
5 3/4%	Bonds of 1964	Fls.	30.0 million	8,287,293	1984	in 10 equal annual instalments 1975-1984.
5-5 1/4%	Bonds of 1964 (Serial Bonds)	DM	33.4 million	8,350,000	1971	in 4 substantially equal annual instalments 1968-1971.
5 1/2%	Bonds of 1964	US \$	25.0 million	25,000,000	1984	in 15 substantially equal annual instalments 1970-1984.
5 3/4%	Bonds of 1965	Fls.	40.0 million	11,049,724	1990	in 15 substantially equal annual instalments 1976-1990.
6%	Bonds of 1965	US \$	20.0 million	20,000,000	1985	in 15 substantially equal annual instalments 1971-1985.
6%	Bonds of 1965	Lit.	15,000.0 million	24,000,000	1985	in 17 annuities 1969-1985 (*).
6 1/2%	Bonds of 1965	Belg. fr.	500.0 million	10,000,000	1977	in 9 annuities 1969-1977 (*).
6 1/2%	Bonds of 1966	US \$	23.75 million	23,750,000	1976	in 9 increasing annual instalments 1968-1976.
6%	Bonds of 1966	Lit.	15,000.0 million	24,000,000	1986	in 17 annuities 1970-1986 (*).
6 1/4%	Bonds of 1966	FF	200.0 million	40,509,939	1981	in 5 equal three-yearly instalments 1969-1981 with increasing redemption premium.
6 1/2%	Bonds of 1966	US \$	15.0 million	15,000,000	1986	in 15 equal annual instalments 1972-1986.
6%	Bonds of 1966	Lit.	15,000.0 million	24,000,000	1986	in 15 equal annual instalments 1972-1986.
7%	Bonds of 1966	Belg. fr.	500.0 million	10,000,000	1978	in 6 annual instalments of Belg. fr. 30,000,000 1972-1977 and one instalment of Belg. fr. 320,000,000 at maturity.
6 1/2%	Bonds of 1967	US \$	25.0 million	25,000,000	1982	in 5 annual instalments of \$ 1,250,000 1973-1977 and 5 annual instalments of 3,750,000 1978-1982.
6 1/2%	Bonds of 1967	US \$	25.0 million	25,000,000	1987	in 15 substantially equal annual instalments 1973-1987.
6%	Bonds of 1967	US \$	20.0 million	20,000,000	1972	at maturity.
6 1/2%	Bonds of 1967	US \$	25.0 million	25,000,000	1982	in 5 annual instalments of \$ 1,250,000 1973-1977 and 5 annual instalments of \$ 3,750,000 1978-1982.
6 1/2%	Bonds of 1967	DM	80.0 million	20,000,000	1979	in 1 instalment of DM 20,000,000 in 1977 and 2 instalments of DM 30,000,000 each in 1978 and 1979.
6 1/4%	Bonds of 1967	FF	200.0 million	40,509,939	1985	in 6 substantially equal three-yearly instalments 1970-1985 at increasing redemption prices.

		<i>Principal outstanding</i>		<i>Final</i>	<i>Amortization</i>
		<i>in local currencies</i>	<i>in u.a.</i>	<i>maturity</i>	
7%	Bonds of 1967	Belg. fr. 750.0 million	15,000,000	1982	in 5 annual instalments of Belg. fr. 22,500,000 1973-1977, 4 annual instalments of Belg. fr. 37,500,000 1978-1981 and 1 instalment of Belg. fr. 487,500,000 at maturity.
6%	Bonds of 1967	Lit. 15,000.0 million	24,000,000	1987	in 17 annuities 1971-1987 (*).
Redemption premiums			540,888,882		
			6,886,730		
			547,775,612		

(*) in capital and interest.

During the financial year the funded debt of the Bank, broken down by currencies, developed as follows :

	<i>Principal outstanding at 31st December, 1966</i>	<i>Operations during the financial year</i>		<i>Principal outstanding at 31st December, 1967</i>
		<i>Borrowings</i>	<i>Repayments</i>	
in DM	45,425,000	20,000,000	2,075,000	63,350,000
in FF	52,662,921	40,509,939	—	93,172,860
in Lit.	96,000,000	24,000,000	—	120,000,000
in Belg. fr.	28,000,000	15,000,000	—	43,000,000
in Fls.	43,646,409	—	2,030,387	41,616,022
in Lux. fr.	1,000,000	—	—	1,000,000
in Sw. fr.	411,633	—	411,633	—
in US \$	85,000,000	95,000,000	1,250,000	178,750,000
Total	352,145,963	194,509,939	5,767,020	540,888,882
Redemption premiums	2,835,696	4,051,034	—	6,886,730
	354,981,659	198,560,973	5,767,020	547,775,612

The amount of funded debt due within the financial year 1968, is 8,516,452 u.a.

Undisbursed balance of effective loans.

The amount of 208,393,033 u.a. entered under this heading represents the payment commitments still to be executed by the Bank in favour of its borrowers under contracts signed prior to 31st December, 1967.

Interest and commission payable and interest received in advance.

The amount of 11,195,469 u.a. appearing under this heading represents 11,111,413 u.a. accrued interest not yet paid and 84,056 u.a. interest received in advance for periods subsequent to 31st December, 1967.

Miscellaneous.

The amount of 5,971,906 u.a. under this heading includes 2,744,742 u.a. for coupons due but not yet paid and the balance represents various expenses remaining to be paid at the end of the financial year as well as other administrative charges incurred or foreseen for later payment.

MEMORANDUM ACCOUNTS

SPECIAL SECTION

The item of 110,949,435 u.a. represents the total amount of loan agreements signed by the Bank in the framework of its Special Section at 31st December, 1967 :

- | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| a) for the financing of projects located in Turkey, for the account and on mandate of the Member States | 103,250,000 u.a. |
| b) for the financing of projects located in the Associated African Countries and Madagascar (A.A.S.M.), for the account and on mandate of the European Economic Community | 7,699,435 u.a. |

Of these amounts, respectively 29,161,925 u.a. and 1,069,361 u.a. had been disbursed.

The detailed situation in respect of the Special Section appears on page 122 of the present Report.

PROFIT AND LOSS ACCOUNT

DEBIT

Administrative expenses and charges.

The administrative expenses and charges amounted to 2,604,190 u.a., as against 2,300,824 u.a. for the previous year.

They are made up as follows :

– Staff expenses	1,938,317 u.a.
– General expenses	665,873 u.a.

The increase in staff expenses is mainly due to the adaptation of salaries which took place in 1967 in relation with the rise in the cost of living the previous year, staff expansion and contractual salary increases.

The staff of the Bank totalled 155 persons on 31st December, 1967, 99 of whom were employed in the translation, administrative, equipment and maintenance services.

Interest and charges on borrowings.

This item, amounting to 30,680,231 u.a., represents interest on borrowings and other debit interests as well as sundry charges and expenses connected with borrowing operations, which have been amortized by debiting the profit and loss account.

Amortization of furniture and equipment.

Expenditure on furniture and equipment, made during the year and fully amortized, was 28,668 u.a., as against 32,881 u.a. for the previous year.

CREDIT

Interest and commission from loans.

This item amounts to 27,976,460 u.a., as against 22,933,512 u.a. for the previous year. The increase is in proportion to the increase in amounts paid out on current loans.

Interest and commission from investments.

The amount of income from investments of available funds is 15,347,055 u.a., as against 10,265,490 u.a. for the previous year.

Other income net.

This item represents the balance of other income and other expenses. In former years, the balance was negative and, therefore, appeared on the debit side of the profit and loss accounts under the heading "Financial expenses".

V

ADMINISTRATION OF THE BANK

Modifications have taken place in the composition of the Board of Directors following changes in the situations of several of its members.

In replacement of Messrs. FRANCO BOBBA, ERNST VOM HOFÉ and JEAN RIPERT, whose resignations were announced in the 1966 Annual Report, the Board of Governors named Mr. UGO MOSCA, Director, Mr. WILHELM HANEMANN, Alternate of Mr. MÜLLER-ARMACK, and Mr. JACQUES FRIEDMANN, Alternate of Mr. SALTES.

In September 1967, Mr. FRANÇOIS BLOCH-LAINÉ submitted his resignation. To replace him, the Board of Governors appointed Mr. DANIEL DEGUEN Director.

We wish to express our gratitude to Mr. BLOCH-LAINÉ for his valuable and competent collaboration since the establishment of the Bank.

* * *

Brussels, 24th April 1968.

The 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 Balance Sheet and related Profit and Loss Account, together with the information contained in Part IV of the « Annual Report 1967 » of the European Investment Bank, present fairly the financial position of the European Investment Bank at December 31, 1967 and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

March 20, 1968.

PRICE WATERHOUSE & Co.

BALANCE SHEET A

(in units of account of 0.88867088

The conversion rates used in the account

50 Belg. fr. = 4.00 DM = 4.93706 FF = 625 L

ASSETS

CASH AND BANKS		
At call or not exceeding one year	208,889,614	
Over one year	17,482,950	
		226,372,56
GOLD ASSETS		8,653,08
INVESTMENTS		
Not exceeding one year	46,343,957	
Over one year	35,781,664	
		82,125,62
RECEIVABLE ON BONDS TO BE DELIVERED		15,000,00
EFFECTIVE LOANS		
Of which :		
Disbursed	548,867,911	
Undisbursed balance	208,393,033	
		757,260,94
FURNITURE AND EQUIPMENT		
ACCRUED INTEREST AND COMMISSION		11,396,03
UNAMORTIZED REDEMPTION PREMIUMS		6,571,56
MISCELLANEOUS		2,954,88
		1,110,334,69
<i>Total Assets : u.a.</i>		1,110,334,69

MEMORANDUM

SPECIAL SECTION

Effective loans for the account of and on mandat

(of which : disbursed :

undisbursed balance :

DECEMBER 31, 1967

(in gold - Art. 4 of the Statutes)

of the Bank are : 1 unit of account :

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

LIABILITIES

UNSUBSCRIBED CAPITAL	1,000,000,000	
of which paid up in accordance with Art. 5 (1) of the Statutes		250,000,000
STATUTORY RESERVE.		41,529,913
PROVISIONS		
for risks on loans and guarantees	36,000,000	
for equalization of interest on borrowings and for issuing charges	6,000,000	
for monetary risks not covered under Art. 7 of the Statutes	2,000,000	
		44,000,000
STAFF PENSION FUND.		1,167,596
AMOUNTS DUE UNDER ART. 7 (2) OF THE STATUTES		301,169
MEDIUM AND LONG TERM DEBT	540,888,882	
REDEMPTION PREMIUMS	6,886,730	
		547,775,612
UNDISBURSED BALANCE OF EFFECTIVE LOANS		208,393,033
ACCRUED INTEREST PAYABLE AND INTEREST RECEIVED IN ADVANCE		11,195,469
MISCELLANEOUS		5,971,906
	<i>Total Liabilities : u.a.</i>	<u>1,110,334,698</u>

ACCOUNTS

from third parties . u.a. 110,949,435
 . . u.a. 30,231,286
 . . u.a. 80,718,149)

PROFIT AND LOSS ACCOUNT FOR TH

(in units of account of 0.88867088)

DEBIT

ADMINISTRATIVE EXPENSES	2,604,19
INTEREST AND CHARGES ON BORROWINGS	30,680,23
AMORTIZATION OF FURNITURE AND EQUIPMENT	28,66
PROVISION FOR RISKS ON LOANS AND GUARANTEES	5,500,00
BALANCE APPROPRIATED TO THE STATUTORY RESERVE	4,984,73
<i>Total : u.a.</i>	43,797,82

FINANCIAL YEAR ENDED DECEMBER 31, 1967

(fine gold – Art. 4 of the Statutes)

CREDIT

INTEREST AND COMMISSION FROM LOANS	27,976,460
INTEREST AND COMMISSION FROM INVESTMENTS	15,347,055
EXCHANGE DIFFERENCES	39,550
OTHER INCOME-NET	434,757
<i>Total : u.a.</i>	<u>43,797,822</u>

**SPECIAL
STATEMENT OF CONDITION**

(in units of account of

ASSETS

<p>(I) TURKEY</p> <p style="padding-left: 40px;">RECEIVABLE FROM MEMBER COUNTRIES for effective loans</p> <p style="padding-left: 40px;">EFFECTIVE LOANS of which :</p> <p style="padding-left: 80px;">disbursed 29,161,925</p> <p style="padding-left: 80px;">undisbursed balance 74,088,075</p>	<p>74,088,075</p> <p>103,250,000</p>
<p>(II) ASSOCIATED AFRICAN AND MALAGASY STATES AND OVERSEAS COUNTRIES AND TERRITORIES</p> <p style="padding-left: 40px;">RECEIVABLE FROM EUROPEAN ECONOMIC COMMUNITY for effective loans</p> <p style="padding-left: 40px;">EFFECTIVE LOANS of which :</p> <p style="padding-left: 80px;">disbursed 1,069,361</p> <p style="padding-left: 80px;">undisbursed balance 6,630,074</p>	<p>6,630,074</p> <p>7,699,435</p>
<p><i>Total Assets : u.a</i></p>	<p>191,667,584</p>

SECTION

AT DECEMBER 31, 1967

0.88867088 g fine gold)

LIABILITIES

(I) TURKEY

MEMBER COUNTRIES FOR EFFECTIVE LOANS 103,250,000

UNDISBURSED BALANCE OF EFFECTIVE LOANS 74,088,075

(II) ASSOCIATED AFRICAN AND MALAGASY STATES AND OVERSEAS COUNTRIES
AND TERRITORIES

EUROPEAN ECONOMIC COMMUNITY FOR EFFECTIVE LOANS 7,699,435

UNDISBURSED BALANCE OF EFFECTIVE LOANS 6,630,074

Total Liabilities : u.a. 191,667,584

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 1967 Annual Report and the balance sheet of the Bank as at December 31, 1967 and the profit and loss account for the financial year ending on that date, as drawn up by the Board of Directors at their meeting of April 24, 1968,

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

hereby certifies :

that the Bank's operations during the 1967 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, 30th April, 1968.

The Audit Committee,

A. M. DE JONG

R. BRESSON

K. BERNARD

WEISSENBRUCH Ltd, PRINTER TO THE KING, 40, RUE DE L'ORPHELINAT, BRUSSELS 7