

EUROPEAN
INVESTMENT BANK



ANNUAL REPORT 1969

EUROPEAN
INVESTMENT BANK

2, place de Metz
LUXEMBOURG

Office in Rome
Via Sardegna, 38
00187 - Rome

Representative Office in Brussels
Rue Royale, 60
1000 Brussels

For its accounts and balance sheet the European Investment Bank uses the unit of account as defined in Article 4, paragraph 1, of its Statute. The value of this unit of account is 0.88867088 gramme of fine gold.

On 31st December, 1969, the parities between this unit of account and the currencies of the principal countries in which the Bank effects its operations were as follows :

1 unit of account (u.a.) =	{	50 Belgian francs
		3.66 Deutsche Mark ⁽¹⁾
		5.55419 French francs ⁽²⁾
		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.

(1) Until 26th October, 1969 inclusive, the parity of the Deutsche Mark was : 1 unit of account = 4.00 Deutsche Mark.

(2) Until 10th August, 1969 inclusive, the parity of the French franc was : 1 unit of account = 4.93706 French francs.

EUROPEAN
INVESTMENT BANK



ANNUAL REPORT 1969

BOARD OF GOVERNORS

Chairman : Baron JEAN SNOY ET D'OPPUERS (*Belgium*)

Belgium : Baron JEAN SNOY ET D'OPPUERS, Minister of Finance, Brussels;

Germany : ALEX MÖLLER, Minister of Finance, Bonn; ⁽¹⁾

France : VALÉRY GISCARD D'ESTAING, Minister of Economy and Finance, Paris; ⁽²⁾

Italy : EMILIO COLOMBO, Minister of the Treasury, Rome;

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

Netherlands : HENDRIKUS JOHANNES WITTEVEEN, Minister of Finance, The Hague;
Chairman until 16th June, 1969.

(1) FRANZ-JOSEF STRAUSS, until October 1969.

(2) FRANÇOIS-XAVIER ORTOLI, until June 1969.

BOARD OF DIRECTORS

Chairman : PARIDE FORMENTINI

Vice Chairmen : YVES LE PORTZ

ULRICH MEYER-CORDING

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SALVATORE GUIDOTTI, General Manager of the Banco di Napoli, Naples;

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

UGO MOSCA, Director General of Economic and Financial Affairs of the Commission of the European Communities, Brussels;

Alternates :

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

JACQUES FRIEDMANN, Principal Private Secretary to the Secretary of State for Economy and Finance, Paris;

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

LIONELLO FRONZONI, Representative of the Banca d'Italia in Benelux, and Financial Counsellor to the Italian Embassies in Brussels, The Hague and Luxembourg, Brussels;

ALFRED KUBEL, Minister of Finance of the Land of Lower Saxony, Hanover;

N ; (1)

(1) MICHEL ALBERT, until June 1969.

Directors :

ALFRED MÜLLER - ARMACK, former State Secretary, Cologne;

LUDOVICO NUVOLONI, Director General of the Treasury, Principal Private Secretary to the Minister of the Treasury, Rome;

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

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

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

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

Alternates ;

WILHELM HANEMANN, Director of the International Bank for Reconstruction and Development, Washington;

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

PIERRE ESTÉVA, Director of the Secretariat of the Minister of Industrial Development and Scientific Research, Paris;

JEAN-PIERRE METTAS, Assistant Director, Directorate of the Treasury, Ministry of Economy and Finance, Paris;

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

UGO MORABITO, Minister Plenipotentiary, Ministry of Foreign Affairs, Rome. (1)

(1) GIROLAMO TROTTA, until May 1969.

AVEC LES COMPLIMENTS
DE LA
BANQUE EUROPÉENNE D'INVESTISSEMENT
2. PLACE DE METZ. LUXEMBOURG

LE PRÉSENT ENVOI NE NÉCESSITE PAS D'ACCUSÉ DE RÉCEPTION

MANAGEMENT COMMITTEE

PARIDE FORMENTINI, *President*
YVES LE PORTZ, *Vice President*
ULRICH MEYER-CORDING, *Vice President*

AUDIT COMMITTEE

Chairman

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

Members

EMILE RAUS, Counsellor of State, Honorary Director-General
of the Postal and Telecommunications Department,
Luxembourg; ⁽¹⁾

ROGER LÉONARD, Honorary First President of the Cour des
Comptes, Paris. ⁽²⁾

(1) ADRIAAN M. DE JONG, until 16th June, 1969.

(2) RENÉ BRESSON, until 28th May, 1969.

DEPARTMENTS

General Affairs Department: HENRI LENAERT, Manager
HANS HITZLBERGER, Deputy Manager,
Head of Personnel

*Loans in Member
Countries :* GUY TRANCART, Manager
ROMEO DALLA CHIESA, Deputy Manager,
Manager of the Rome Office
HELMUTH CRAMER, Deputy Manager

*Loans in Associated
Countries :* KARL-HEINZ DRECHSLER, Manager
EUGENIO GREPPI, Deputy Manager
JACQUES SILVAIN, Deputy Manager

*Finance and Treasury
Department :* LUCIANO MIURIN, Manager

Research Department : HORST-OTTO STEFFE, Manager
LOUIS CASSAGNES, Deputy Manager

Legal Department : J. NICOLAAS VAN DEN HOUTEN, Manager

Technical Advisers ; HENRI JEANDET
HELLMUTH BERGMANN
EUGENIO COMBONI
JACQUES FAUDON
MARCELLO GOFFI
ROBERT VERMEERSCH

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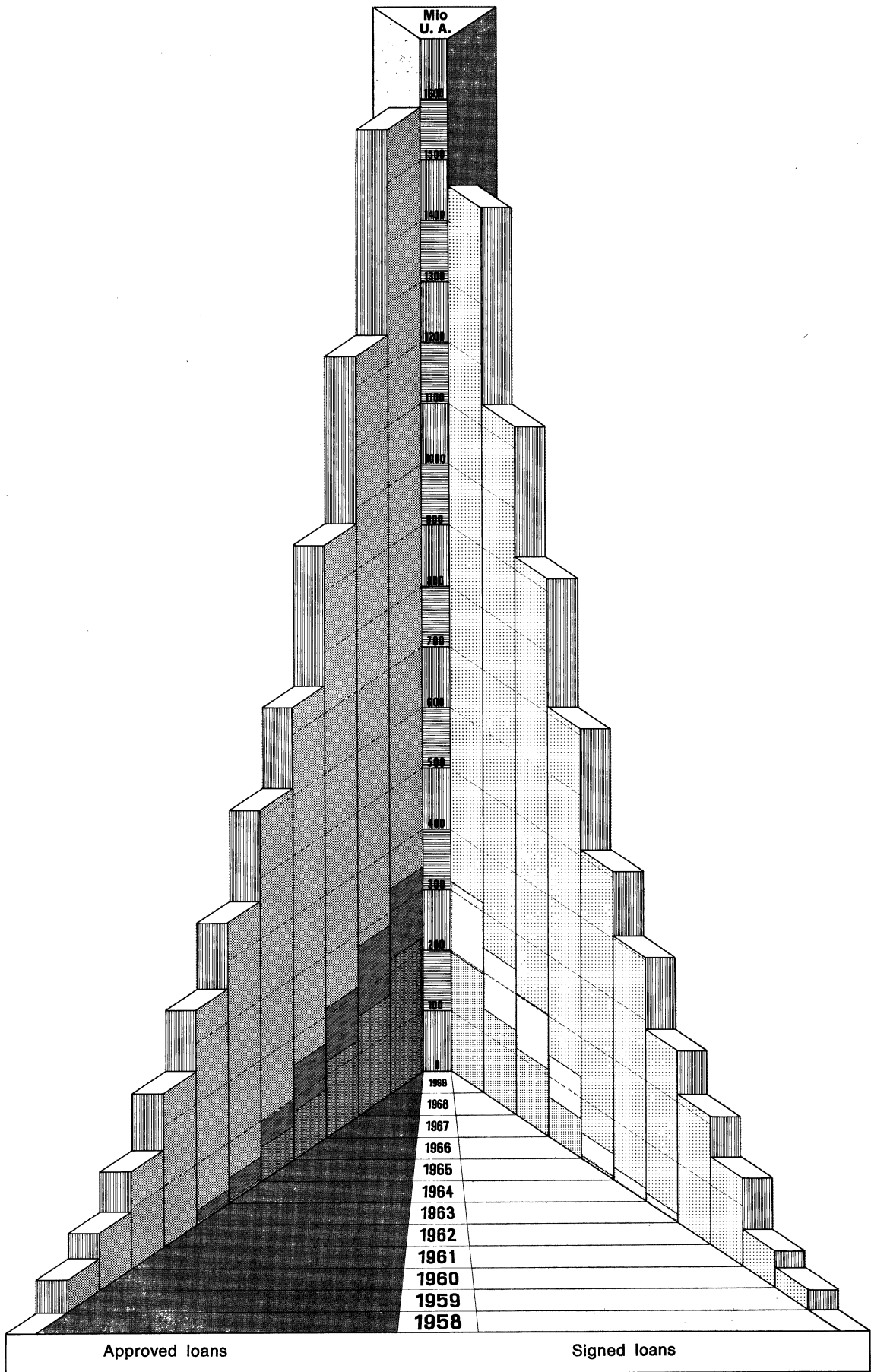
The first part of the Annual Report gives an overall picture, for 1969, of the general economic evolution in the Community – with particular reference to investments and their financing – as well as in the associated States.

The second part deals with the Bank's activities, the loans and borrowings in the past financial year, and recapitulates the operations performed since its foundation.

The third part contains an analysis of the principal items of the balance sheet and the profit and loss account.

The report concludes with a chapter on the role and experience of the Bank in the framework of its activity in certain categories of frontier regions of the Community.

DEVELOPMENT OF THE ACTIVITIES OF THE BANK



<p>▨ Normal loans Member countries</p>	<p>■ Normal loans Special loans } Associated countries</p>	<p>▨ Normal loans Member countries</p>	<p>▨ Normal loans Special loans } Associated countries</p>
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ANNUAL REPORT 1969

I

THE ECONOMIC EVOLUTION IN THE COMMUNITY AND THE ASSOCIATED COUNTRIES

COMMUNITY.

The year 1969 was characterised in the Community by an extremely rapid development of economic activity. Investments in particular experienced a very brisk expansion. At the same time, however, some disequilibria arose : capital became scarcer, rates of interest increased steeply, considerable uptrends occurred in prices, and external disequilibria led to upheavals on the capital markets which were sometimes very acute and which made readjustments of monetary parities necessary. This evolution was bound to influence the operations of the Bank and to guide its policy.

All the industrial countries of the Western world experienced in 1969, although with certain time-lags, a *boom* period. The economic evolution in the Community, the countries of the European Free Trade Association, except for the United Kingdom, and in North America, where the boom phase continued longer than in the previous business cycles, was characterised by a very notable parallelism, which was indeed one of the striking features of the year. Because of this, the movements arising in the different countries, far from offsetting each other, were mutually amplified and the disequilibria greatly increased thereby.

Nowhere was *supply* able to keep pace with demand, even when the growth of production was accelerated, as was the case in the Community where the increase in the gross national product in real terms reached 7.5% in 1969, while it had already been 5.8% in 1968, and where the advances in industrial production amounted to 11.7%, against 8.8% the previous year.

The expansion of imports corresponded to that of domestic supply : the single item of imports of goods into the Community increased in volume by about 14%.

The growth in the gross national product attained 8.5% in France, 8% in the Federal Republic of Germany, 7% in Luxembourg, 6.5% in Belgium and 5% in Italy and the Netherlands. The expansion was particularly vigorous during the second half of 1968 and the first half of 1969. On the contrary, the last six months of 1969 showed almost everywhere a certain slackening due much less to the evolution of nominal demand than to increasingly substantial physical obstacles : saturation of production capacities, exhaustion of manpower reserves, slowdown in productivity gains. Such factors, characteristics of this cyclical phase, affected the economic growth in the Netherlands relatively soon; they emerged later in Italy, where the social conflicts were particularly violent. It was only towards the end of the year that the very first symptoms of a relaxation of the pressure of demand were perceptible, but without any considerable attenuation of the disequilibria between supply and demand.

In the field of *demand*, the progress in foreign purchases remained pronounced – exports of goods from the Community to non-Community countries again increased in value by some 11%. But it was above all the investment expenditure which increased. The pace of these investments has been stepped up to such an extent that a veritable boom has occurred, moreover particularly manifest in the case of investments by enterprises. At the same time, consumer expenditure increased, also considerably faster than in the previous year by reason of the accentuated rises in wages and, in certain countries, a decrease in the *rate of private savings*

under the effect of the apparent security due to the overemployment which has persisted for some time and, above all, of the uptrend in prices.

As a result of the rising cost, *corporate profits* increased a little less than in 1968, except in France; they even fell slightly in Germany. Enterprises have therefore had to make increasing calls on external resources for financing investments, which showed a marked development. The public sector also continued its calls on the capital markets at a high level in the Community as a whole, although the volume of its borrowings diminished in some member countries. In the presence of this increased demand for financing, the slowdown in private savings, the credit restriction policies and, sometimes, the reduction of calls by the public Treasury on monetary financing means have gradually checked the expansion of liquidities available for the economy.

The growing tensions on the *monetary and financial markets* provoked by this twofold evolution led everywhere to steep rises in interest rates. In Europe, the uptrend was amplified by increased calls by borrowers from the United States – where the level of interest rates continued to rise markedly – and from certain other countries of the European national and international markets. In the final analysis, owing mainly to the outflows of capital from the Federal Republic of Germany and from Italy, the net long-term capital exports of the Community were much more considerable than in the previous year. Furthermore, the deficit on the balance of current operations was probably aggravated; at any rate the trade balance was in equilibrium, after having shown a surplus of some 1,700 million units of account in 1968. The Community's *balance of payments* thus exerted a restrictive action on internal liquidities, or quite the contrary of what happened in 1968.

This basic trend was, however, in certain periods of the year, counteracted by the effect of disequilibria on the balance of payments which, in certain countries, were further accentuated by comparison with recent years as the result, mainly, of a divergent evolution of cost and prices.

The growing deficits of France and the ever greater surpluses of the Federal Republic of Germany have, with the constantly renewed discussions about the opportuneness of a change in parities and the hopes they triggered off, again led, in 1969, to considerable movements of *short-term capital*. Originating from various countries of the Community and even from France, despite the existing exchange restrictions, and still more from outside the Community, these movements accentuated the tensions on the markets of countries which recorded outflows of capital; they delayed the rise in interest rates in Germany and limited its scope until November.

The *adjustments in exchange parities* – devaluation of the French franc by 11.11% on 11th August and revaluation of the Deutsche Mark by 9.29% on 27th October – caused a reflux of the liquidities which had accumulated in Germany. The net outflows of capital reached nearly 20,000 million Deutsche Mark in the closing weeks of the year. The reduction of liquidities, the ever brisker expansion of the economy, the maintenance of the credit restrictions and, lastly, the disappearance of the discount on the interest rates for deposits in Deutsche Mark, accepted in the hope of a revaluation, caused interest rates to rise in Germany : they tended to align themselves rapidly on the high levels reached on the majority of the markets in other countries and, on the European market, for dollar issues. In the other countries, the reflux of capital invested in Germany had the effect, at most, of stabilising the interest rates without thereby eliminating the tensions maintained on the markets both by the briskness of the economic expansion and by the restrictive credit policies.

The increase in interest rates was provoked or maintained not only by the mechanical effect of supply and demand, but also by taking account of actual or expected price rises : in the United States, the price rise in fact attained 5 to 6% for the second year in succession; considerable for some years already in France, it was further aggravated there; the other countries were also affected, even Germany, although the deterioration in purchasing power was less pronounced there.

In the Community as a whole, the *rise in prices* measured by the gap between the evolution of the gross national product in value and in

volume was 4.7% in 1969, whereas it had already reached 2.7% in 1968. The rise was 4.2% against 2.8% in 1968, for private consumption, with a growth rate of 6.8% in the Netherlands, 6.5% in France, 4.3% in Belgium, 2.9% in Italy and 2.4% in the Federal Republic of Germany.

The *employment market* reflected the general expansion of the economy : the number of wage-earners rose, in the Community, by 2% and that of the unemployed again declined, this year, by some 15%. The majority of the member countries suffered from an increasingly acute shortage of labour. Even Italy, where however the rate of unemployment remained slightly above 3% for the whole of the country, felt this shortage strongly in the Northern regions. The migrations of workers from the less developed regions of the Community towards the industrial regions and particularly from Italy to Germany, were further accentuated, in the same way as the immigration of workers from outside the Community. The absolute increase in the number of wage-earners was thus greater than if it had been due solely to the decline in unemployment and the normal migration of non-wage-earners of an essentially agricultural origin to wage-earning jobs.

This evolution in employment has by no means exerted only favourable effects on *regional development*. In the backward regions, the reduction of unemployment and latent underemployment has indeed been accelerated and investment has increased there; but in certain cases, the pace of emigration has been excessive and has contributed to aggravating the social unrest in certain major industrial centres.

The concern for a balanced development is thus one of the manifold considerations which make it necessary to combat the overheating of the economy. The others are well known : maintenance of international competitiveness, safeguarding the purchasing power, formation of savings which are substantial enough to nourish a balanced growth. In 1969, practically all the member countries have endeavoured, with varying degrees of success, to fight against the runaway movement of the business cycle.

However, the *public budgets* have not always taken sufficiently strict account of the requirements of this struggle. The measures taken by Germany to curtail the growth of expenditure have in fact improved the public finances, all the more easily, moreover, since – thanks to the overheating – the receipts increased less rapidly than expected. However, the reduction of the deficit on the public budgets and the cessation of recourse to monetary means to finance the latter have not sufficed to ensure the required slowdown, despite a concomitant credit squeeze policy. The inflow of foreign capital and the further increase in the surplus on the balance of goods and services has limited the possibilities of action, it is true, but much more in respect of monetary policy than in respect of budgetary policy.

In France, the public finances continued to record a rather unsatisfactory evolution during the first quarter and the Treasury again had to proceed during this period to substantial calls on monetary means of financing. But the measures taken as far back as the end of 1968 with a view to reducing the budgetary deficit for 1969 from 11,500 to 6,500 million francs and further reinforced after the devaluation of the franc so as to reduce the deficit to less than 4,000 million, have gradually exerted their effects. The surpluses obtained in the closing months of the year were very substantial and have made it possible, finally, for the targets which the Government had set itself to be reached.

The budgetary policy of the other member countries has not yet been exactly adapted to the cyclical conditions.

In Belgium, the deficit of the government budget was indeed a little smaller than the previous year, but its growth had been particularly marked from 1967 to 1968. The slight reduction in the deficit observed in 1969 moreover stems from a decrease of the charges financed in the framework of the extraordinary budget, motivated by the scarceness of borrowing resources capable of ensuring its financing, rather than by a deliberate desire to check expenditure in general. The proof of this is

that public consumption increased at a slightly faster pace than in 1968, during which year, however, it had already grown excessively. Furthermore, the deficit was financed to an even greater extent than in the previous year by monetary means.

The latter remark could hardly apply to the Netherlands, where the share of monetary means in the financing of the budget seems to have been reduced, although the government deficit in this country has been largely maintained at the already very high level of the previous year. Public consumer expenditure has increased in particular, and at a still more rapid pace than in 1968. The situation in Luxembourg was comparable, and it was only towards the end of the year that a stabilisation plan comprising slowdown measures was developed there.

In Italy as well, public finances continued to exert highly expansive effects on the economy. Here too, it is mainly the consumer expenditure which has greatly increased. Public investments and investment subsidies have been financed by calls on monetary means to an even greater extent than in 1968. It is true that, in the case of Italy, the thesis could be upheld that the presence, generally speaking, of reserves of manpower and production capacities which were still substantial, justified the maintenance of an economic expansion policy for as long as possible. And indeed the symptoms of cyclical overheating were observable only relatively late in the day in this country.

As regards *monetary policy*, the central banks adopted an increasingly restrictive policy in the course of 1969. The discount rates were raised, by stages, from 3.5% to 6% in Germany, from 6% to 8% in France, from 4.5% to 7% in Belgium, from 5% to 6% in the Netherlands and, in Italy, from 3.5% to 5%, when the banks exceeded certain discount ceilings and to 4% below this ceiling. Furthermore, the compulsory reserve rates were raised in the course of the year, especially in Germany; a discount quota system was introduced in Belgium where it did not yet exist and, above all, the limitation of credit has been extended or implemented in France, the Netherlands and Belgium.

All these measures, however, have not been able to prevent the expansion of credit from remaining considerable and even from markedly accelerating in Germany where, until the revaluation of the Deutsche Mark, the inflow of short-term speculative capital from abroad added to the liquidity of the banks. In Belgium and the Netherlands, the limitation measures have not always been perfectly respected. In France too, certain cases in which the limits were exceeded continued to be observed in the first half-year, but from end-June to December, the tightening-up of the system made it possible to achieve a very substantial slowdown in the annual rate of expansion of credit, which thus remained within the authorised limits for several months.

The steps taken by the member countries of the Community in the monetary and credit fields were not always motivated solely by reasons of cyclical policy. They were sometimes also dictated by balance of payments considerations. This was especially the case in France but also in Italy where, in order to maintain moderate interest rates, the central bank had to intervene more and more frequently; this contributed to provoking substantial net outflows of capital which, in turn, were the main cause of the deficit on the Italian balance of payments in 1969. The Italian monetary authorities were thus obliged to admit a gradual adjustment of the interest rates practised on the national capital market in the light of the levels reached on the international markets. Similar considerations also intervened in the interest rates policy in Belgium and the Netherlands.

Nearly all the member countries indeed also endeavoured, either before applying this interest rates policy, or in correlation with it, to check the capital outflows by a more direct action aimed mainly at the banks. Conceived on a purely national level and counteracting each other to some extent from one country to another, these efforts may hardly be said to have been successful : the uptrend in interest rates thus became generalised.

For the *European Bank*, the cyclical evolution outlined above resulted in a relatively considerable increase in the applications for loans addressed

to it. The requests for credit emanating from France and the Netherlands, where the tensions on the financial market were most acute and the interest rates were the highest, were appreciably greater than in previous years. The applications from German borrowers, relatively small in the course of the first three quarters owing to the abundance of liquidities in Deutsche Mark, increased towards the end of the year.

Calls on the part of public and semi-public institutions and enterprises were particularly brisk throughout the year; in certain cases, moreover, balance of payments considerations were not unconnected with these calls on the Bank. On the other hand, the uncertainties concerning exchange rates policy hampered for a certain time the development of the demand for loans from private enterprises, which were aware of the exchange risk they took by contracting loans in foreign exchange. The Bank endeavoured to meet, to the fullest possible extent, the requirements of borrowers, taking account of its resources, the needs of cyclical policy, the evolution of the balance of payments of the member countries and the limits set on its activities by its Statute.

In all, the amount of the loans approved annually by the Bank in the Community continued to progress, although at a slower pace: it amounted in 1969 ⁽¹⁾ to 245 million units of account, against 236 million units of account in 1968 and 159 million in 1967.

The expansion of the Bank's loans in 1969 was rendered possible thanks to the liquidities it had assembled in previous years when savings were abundant and interest rates moderate.

In view of the rise in the cost of money and guided by the concern for taking into account the situation on the capital markets of the member countries, the Bank limited its issues in 1969. Whereas in 1968 it had issued

(1) On the basis of the equivalents in units of account, calculated on the basis of the parity in force on the date of signature for loan contracts signed, and on the basis of the parity in force at the time of approval by the Board of Directors, for contracts not yet signed.

bonds on all these markets, except in France and Luxembourg, and had collected 187.5 million units of account there, in 1969 its borrowings in the Community were confined to Germany, where it collected 121 million units of account ⁽¹⁾. To these loans was added, in 1968 as well as in 1969, a bond loan of 25 million units of account placed on the international market.

* * *

The changes in monetary parities which occurred in 1969 were largely due to the inadequacy of the *coordination of economic policies in the Community*. In 1969, the economic policies were still by no means in conformity everywhere with the requirements of a balanced expansion.

In a memorandum adopted on 9th July, 1969, the Commission of the European Communities stressed the need for a policy capable of checking the inflationary tendencies that reappear, and indicated the broad lines of such a policy. The Council of the Community approved the conclusions of this memorandum on 17th July, 1969.

In the course of the same meeting, the Council discussed the improvement of the coordination procedures. Then, on the basis of the proposals made by the Commission in a memorandum of 12th February, 1969, it adopted the principle of consultations to be held prior to any important national measures of short-term economic policy which have a notable effect on the economies of the other member countries, or threaten to provoke an appreciable gap between the evolution of the economy of a country and the medium-term economic targets defined in common. The terms and conditions for these consultations were fixed and put into force by the session of the Council on 26th January, 1970.

(1) In units of account on the basis of the parity at the time of the operation.

Furthermore, the Council agreed on the principle of a short-term monetary support system within the Community, proposed by the memorandum of the Commission in order to cope with sudden disequilibria in the balance of payments. It invited the Governors of the central banks to continue the work they had undertaken to define the terms and conditions of such a system. The work of the Governors took concrete shape at the end of the year in a draft agreement among the central banks, by the terms of which a country which is suddenly confronted with a cyclical balance of payments deficit receives from the central banks of its partners a loan in foreign exchange corresponding to its quota ⁽¹⁾. This loan is subordinated to no particular obligation with respect to economic policy, provided that the beneficiary has respected the procedures for coordination of economic policies. Immediately upon utilisation of this financial assistance, consultations must take place within the Monetary Committee. The term of the loan is three months; it may be renewed for three further months. In particular cases, the Governors may decide to increase the amount of the credit beyond the quota of the central bank which is the beneficiary (extensions). However, the total of these extensions may not exceed the total of the quotas. The maximum amount of the system is therefore 2,000 million units of account. The possibilities offered by other international aid mechanisms are taken into consideration at the time of recourse to the Community system, which does not exclude a priority call on this system. After the decision taken by the Council on 26th January, 1970, on prior consultations concerning short-term economic policy measures, the new support system was put into force from the beginning of February 1970 onwards.

This system is designed essentially as a short-term buffer device intended above all to prevent the appearance of speculative capital movements. It has to be supplemented by another system rendering possible the granting of medium-term credits which are to form, as it were, a screen behind which the necessary reorganisation policy could be carried

(1) Germany and France : 300 million units of account each, Italy : 200 million, Belgium and the Netherlands : 100 million each; the contributions to the financing of possible loans are also based on these quotas.

out. The restoration of equilibrium, which always requires a certain lapse of time, would thus be feasible, without having recourse to direct restrictions on trade which would involve the risk of jeopardising the Common Market. These medium-term credits would be accompanied by conditions concerning the economic policy to be applied by the country in question.

The Council, to which an interim report had been submitted at the end of the year by the Monetary Committee which it had instructed to examine the terms and conditions of the supplementary system, engaged in an exchange of views on this report at its session of 26th January, 1970. It then requested the Monetary Committee to submit to it, before the end of March, a final text on the terms and conditions of application.

The Commission of the Communities intends to supplement these intermediate provisions between the short-term economic policy and the *medium-term economic policy* by a more specific arrangement. It intends to fix the outlines for a medium-term evolution harmonised for the whole of the Community economy by laying down, on the basis of statistical indicators, general orientations and targets to be reached. It submitted a memorandum to this effect to the Council. At the end of January, the latter debated thoroughly the theses submitted to it and decided to fix in the new medium-term economic policy programme (1971 - 1975) the statistical targets which the Commission has in view.

Furthermore, on 15th October, the Commission made some proposals, also extremely important, for medium-term policy aiming at *regional policy*. It is a question of promoting on a vaster scale the development of national regional plans and of intensifying, from a Community point of view, the coordination of these plans and of the regional policy measures of the member countries. The Community's proposals also involve regular examinations of the amount of financial resources which the member countries intend to make available for regional policy measures over a period of several years. Furthermore, they invite the Council to create financial resources enabling the Commission to intervene in the form of interest subsidies and grants of guarantees for loans by the European

Investment Bank or other financial institutes. The Commission's proposals had not yet been examined by the Council at the time of writing the present report.

* * *

In the field of *Community aid to development*, the period of application of the first Yaoundé Convention came to an end on 31st May, 1969. The negotiations for the conclusion of a new association convention between the European Economic Community and the *Associated African States and Madagascar (A.A.S.M.)* culminated in the signature of this Convention at Yaoundé on 29th July, 1969.

By decision of the Council of Ministers of the Communities on 22nd July, 1969, provisions similar to those contained in Yaoundé Convention II were also adopted with respect to the *Overseas Countries and Territories (O.C.T.)* associated with the European Economic Community.

As regards financial and technical cooperation, the essential change by comparison with the agreements in force from 1964 to 1969 is the increase in the overall amount of the Community's financial aid which is increased, for the period of five years covered by the agreements, to 1,000 million units of account, compared to 800 million for the previous five-year period; 918 million are reserved for the A.A.S.M. and 82 million for the O.C.T. Community aid in the form of grants made by the Commission of the European Communities, from funds supplied by the budgets of member countries, grouped in the European Development Fund, is reduced, by comparison with the previous agreements, from 85% to 81%, but nevertheless shows a substantial rise in absolute value, since it is increased from 680 to 810 million.

The Community contribution provided in the form of repayable aid is 190 million units of account, against 120 million previously : of this total, a sum of 90 million units of account, originating from the European

Development Fund, may be appropriated to the granting of loans with special conditions and to contributions to the formation of risk capital. The balance, 100 million units of account, represents the maximum amount of the loans which the European Investment Bank is authorised to make in the framework of its ordinary operations, pursuant to and for the duration of the new agreements, by virtue of a decision by the Board of Governors on 17th July, 1969; this figure shows a progress of nearly 43% by comparison with the maximum amount provided for in the previous agreements. The member countries have undertaken to guarantee the Bank's interventions in the form of loans on its own resources granted in application of the new agreements; however, this undertaking will come into force only when the total amount of the loans granted by the Bank, in application of these new Agreements, exceeds 70 million units of account in principal; it will be limited to the amount equal to the difference between the total of the loans actually granted by the Bank in application of the agreements and 70 million units of account.

From a technical point of view, the new texts contain two innovations which deserve to be mentioned. First of all, the interest subsidies financed from the resources of the European Development Fund, which may accompany the Bank's loans, may be granted, in the majority of cases at fixed rates, in the light of criteria of an economic nature defined in the agreements, which should enable the system to work more effectively and should permit the borrowers to make a wider use of these facilities. This will be the case for projects coming under the industrial sector and that of tourist equipment. In the second place, the Community can contribute to the formation of corporate risk capital, in particular in the form of participations in the capital; these operations, which will have a temporary character, will be undertaken and managed by the European Investment Bank, acting as mandatary of the Community.

In the framework of their collaboration and so as to ensure efficacy, the Commission of the European Communities and the Bank will share the main responsibility for investigation of the cases likely to form the object of a financing scheme by the grant of repayable aid financed from the resources of the European Development Fund; for its part, the Bank

has been entrusted with the main responsibility for investigation of applications for interest subsidies, industrial projects likely to form the object of a financing scheme by a loan under special conditions, as well as applications for contributions to the formation of risk capital.

Until such time as the new Convention is ratified by all the countries concerned and can enter into force at a date which should normally be situated towards the end of 1970, the opening of a “transitional period” was decided by the E.E.C.-A.A.S.M. Council of Association on 29th May, 1969. During this period, certain of the operations provided for in the framework of agreements which have expired may still be undertaken by the European Development Fund. By a decision of its Board of Governors on 16th June, 1969, the Bank for its part was authorised to pursue its activities based on its own resources until 30th June, 1970, within the maximum limit of the ceiling fixed at 70 million in the former agreements and which had not yet been reached at their expiration. In the framework of the transitional provisions, it was also decided that the applications for financing of projects or programmes possibly to be set off against the financial aids provided for by the new texts could be submitted immediately to the competent Community institutions which would start the investigation thereof; however, no decision or definitive commitment may be taken prior to the date of entry into force of the new Convention.

The Financial Protocol appended to the Association Agreement between the European Economic Community and *Turkey*, which came into force on 1st December, 1964, expired on 30th November, 1969. The negotiations within the Council of Association have not yet made it possible to arrive at an overall agreement, either as regards the transition to the second stage of the Association Agreement or as regards the renewal of the aid in the framework of a new Financial Protocol.

ASSOCIATED COUNTRIES

In *Greece*, economic expansion continued and even accelerated in 1969. According to the (provisional) official data, the gross national

product in real terms progressed just over 8%, compared to 4.5% the previous year.

Two factors have contributed to this advance. On the one hand, industrial production (building included) was stepped up by 12% (against 7% in 1968); on the other, agricultural production which, affected by unfavourable weather conditions in 1968, had remained slightly below that of 1967, increased by about 8% in 1969.

This increase in domestic supply was accompanied by a brisk expansion in purchases abroad. Imports of goods advanced by nearly 14% in value by comparison with the previous year, reaching 1,400 million units of account.

In the field of demand, the gross formation of fixed capital showed a particularly pronounced growth (approximately 18% in volume), under the influence, inter alia, of the rapid and continuous expansion of residential building. Consumption, on the other hand, recorded a less rapid growth than that of the gross national product: in volume, public consumption increased by 3% and private consumption by 7%.

The growth of external demand also accelerated. Indeed, exports of goods exceeded by 15% the previous year's level and reached 554 million. At the same time, net receipts originating from services (in particular, tourism and remittances from Greek workers employed abroad) increased by nearly 9% by comparison with 1968, reaching 570 million.

As regards external equilibrium, the deficit on the balance of current operations (320 million) was higher than in 1968 (260 million), despite the marked progress in exports of goods and net receipts from services. This evolution is obviously ascribable to the simultaneous increase in imports of goods, which in turn was linked not only with the upsurge of the domestic business cycle, but also with the fact that the net influx of public and private capital originating from abroad showed a considerable growth in the course of recent years; in 1969, it amounted to nearly 310 million units of account.

The deficit on the balance of current operations and the surplus on the capital account resulted in a slight deficit on the balance of payments. This evolution is reflected in a decrease by 10 million in the official gold and exchange reserves, after an increase by 39 million in 1968.

By reason of the pronounced cyclical expansion in demand the repercussions of the uptrend in import prices, domestic equilibrium was no longer as stable as in 1967 and 1968. According to the official indices, wholesale prices were, on an annual average, 4% higher than their 1968 levels and consumer prices about 2%.

In *Turkey*, 1969 was characterised by a vigorous expansion of economic activity, at a slightly faster pace even than that of previous years. At the same time, the signs of a growing disequilibrium between monetary demand and real supply were further amplified.

The growth in the national product in volume is estimated at 7%, against 6.7% in 1968 and 6.1% in 1967. The acceleration in economic expansion recorded between 1968 and 1969 must be ascribed essentially to the more rapid progress of value-added in industry – 12%, against 10% in 1968 – brought about mainly by the commissioning of a series of new production plants for basic products (cement, fertilisers), equipment goods (machinery, electric motors, lorries) and certain durable consumer goods (e.g., refrigerators). The expansion of industrial production could have been still more pronounced had it not been for the bottlenecks which affected Turkish steel production and which could only partly be overcome with the help of imports in the framework of special quotas. In the building and services sectors, expansion was also remarkable in 1969. The development of value-added in agriculture, on the contrary, was far from attaining the expected pace: the growth amounted in volume to barely 1%, compared to 1.9% in the previous year. Harvests on the plateau of Anatolia, in particular, suffered from unfavourable weather conditions; furthermore, the utilisation of new, more productive varieties of wheat was well below the targets of the Plan. The wheat crop thus decreased by nearly one tenth by comparison with that of 1968 and, as had already been the case several times in the course of previous years, it proved necessary to cope with the supply difficulties by large-scale imports.

After a brisk expansion of 15.5% in volume, the growth of fixed investments showed, on the whole, a definite slowdown in 1969. According to estimates now available, the rate of growth in real terms does not seem to have been higher than 9%. But this overall slowdown conceals conflicting tendencies on the part of the fixed investments of the public sector and the investments of the private sector. Indeed, it is due exclusively to the slackening of the rate of growth of public investment expenditure (5.4%, against 19% the previous year) which was particularly marked in the case of those which are financed directly by budgetary funds. The public enterprises, on the other hand, seem still to have achieved, despite the financing difficulties with which they were also afflicted, a rate of growth in real terms of 9 to 10%. Far from slowing down, the expansion of private investments even accelerated. The progress is estimated to be nearly 14% in volume, against 11.4% in 1968. It is probably ascribable not only to the fiscal and financial encouragement measures which have certainly exerted, for some time now, a favourable influence on the propensity of enterprises to invest, but also, to an increasing extent, to the experience acquired in the course of recent years in the preparation and smooth implementation of investment projects.

Private consumer expenditure and, even more so, public consumer expenditure, continued their definite uptrend in 1969. Although the mediocre nature of the crops limited the growth in the purchasing power of the rural population, private consumer expenditure probably showed a more pronounced advance than in the previous year; however, this acceleration essentially reflects a more accentuated rise in prices: the rate of growth of consumption, in volume, seems to have remained at practically the same level: nearly 6%. Public consumption probably increased a little less in volume than in 1968 (+ 8%, against 8.6%), but it seems that the upswing in prices provoked a substantial acceleration in expenditure. Despite the intention expressed at the time of the adoption of the 1969-70 budget, to harmonise periodically the expenditure with the evolution of income, it was only in November that energetic retrenchments in public expenditure were decided so as to reduce, until the end of the budget year (February 1970), the size of the budgetary deficit already accumulated and, furthermore, financed to a large extent by monetary means, in the form of recourse by the Treasury to credits from the central bank.

The picture of the economic evolution, very satisfactory from the point of view of the expansion of the national product in real terms, of industrial production and investments, was overcast by more and more pronounced inflationary tendencies. The uptrend in prices, measured by the difference between the rate of growth in value and in volume of the national product, may be estimated at 6% for 1969, whereas a "relative" stability of prices had still been maintained in 1968 (prices had increased by barely 3%). The increase in certain indirect taxes, a further increase in stamp duty (from 15 to 25%) charged on imports of goods, as well as the raising of the cereals intervention prices, certainly contributed to accelerating the uptrend in prices. But the decisive factor was probably the pressure of nominal demand which, brought about by a big expansion in bank credit, inadequately checked by the central bank, as well as by the monetary financing of the already over-onerous budgetary deficit, finally by far exceeded the supply.

In these conditions, the inflationary tendencies were able to assert themselves all the more easily since the balance of payments situation remained very precarious, thus ruling out the possibility of checking the price rise by an appreciable increase in imports. Indeed, imports of goods increased by about 5.4% between 1968 and 1969, thus reaching some 805 million units of account, but this progress was mainly due to imports of cereals rendered necessary by the poor crops, as well as to increased imports of equipment goods which had already been financed earlier on by external credits in favour of Turkish projects. Current imports, for their part, did not reach the previous year's figures.

The persistent shortage of foreign exchange again led in 1969, on several occasions, to considerable delays in the central bank's transfers for trade payments abroad. These delays reached 8 to 9 months for imports of goods appearing on the list of decontrolled products and, at the beginning of November, the granting of licences for these goods had to be suspended for two months, as in previous years.

Exports, which had fallen by 5,2% in 1968, continued to show a tendency towards recession during the early months of 1969. However,

as the months went by, they resumed an upward trend. On an annual comparison basis, they increased by 8.3% in 1969, rising from 496 to 537 million, as a result, inter alia, of the progress in exports of hazelnuts, olive oil and sugar.

Whereas the deficit on the trade balance (268 million) remained almost the same as in the previous year, the net receipts of foreign exchange resulting from invisible transactions showed a certain improvement, although rather slight in absolute value. It was mainly the remittances of wages from Turkish workers abroad, the number of whom has considerably increased, which supplied additional receipts. The official receipts from tourism also continued to progress; at the same time, however, expenditure relating to travel by Turkish citizens abroad and to interest due on foreign debts also showed an upturn.

The overall deficit on the balance of current operations, which had been 231 million in 1968, was reduced to 203 million in 1969.

As in previous years, the deficit on current payments and the capital requirements for the amortisation of existing debts – considerably higher than in the previous year – were covered for the most part by foreign public credits and credits from multilateral financing institutions made available to Turkey in the framework of the O.E.C.D. Consortium.

In the *Associated African States and Madagascar (A.A.S.M.)*, the consequences of the 1968-69 harvests, which in general were poorer than those of the previous season, were offset on the whole by an international cyclical situation favourable to the countries producing raw materials. The economic overheating which prevailed in the majority of industrial countries and the speculative character which the international monetary fluctuations conferred on the market for certain products, contributed to stimulate demand and led to a more favourable evolution of the prices of numerous products. Other factors, including those of a climatic, political or budgetary nature, peculiar to each country, accentuated or attenuated this trend. The upswing in prices was particularly brisk for cocoa until the start of the new crop, and for copper. Iron ore exports

benefited from the expansion of world steel production. Prices of oilseeds, and in particular those of palm oil, showed a definite recovery. Coffee and wood prices maintained their position, on the whole. Phosphates, manganese and cotton, on the other hand, remain affected by a persistent downtrend in prices.

The public aid received by the A.A.S.M. seems to have shown a certain stagnation. In 1968, it had reached about 550 million units of account, or barely the 1967 level. Approximately 85% of this aid comes from the Community, including the cooperation granted in the form of bilateral aid by the member countries, on a non-repayable basis for the most part.

The A.A.S.M. belonging to the franc area devalued the CFA and Madagascar francs by the same amount as the French franc. Their competitive capacity outside the franc area was thereby increased. However, in this respect as in the case of the other effects of devaluation, the consequences are still difficult to evaluate and probably vary according to the countries, inter alia depending on the structure and orientation of their external trade and the peculiar characteristics of the markets for their principal export products.

On the whole, 1969 seems to have been characterised in the majority of the A.A.S.M. by a slightly smaller economic growth than in 1968, an improvement in the balances of payments, but also by a tendency for public expenditure to increase at a faster rate than the expansion of receipts would have permitted. These very general impressions obviously need to be modified or even corrected when one comes to consider the particular case of each of the A.A.S.M., including those for which loans have been granted up to the present in application of the first Yaoundé Convention : Mauritania, Senegal, Ivory Coast, Cameroon, Gaboon, Chad, Central African Republic, Congo (Brazzaville), Congo (Kinshasa) and Madagascar.

In the *Islamic Republic of Mauritania*, the expansion of the mining sector continues. Iron ore exports, stimulated by the recent increase in demand and the rise in steel prices, especially from June onwards, rose from 7.7 million tons in 1968 to some 8.5 million tons in 1969. It has been

decided to carry out dredging works so as to enable the port of Nouadhibou (formerly Port Etienne) to receive ore carriers of 150,000 t. The investments by the Société Minière de Mauritanie (SOMIMA) were continued and the first exports of copper concentrates should occur in 1970. The offshore oil drilling programme is going ahead.

The results of action undertaken in the other sectors remain more modest or more uncertain. At Nouadhibou, the fishing industry, after various setbacks, has made some notable progress which should continue in 1970 as a result of the commissioning of the Industrie Mauritanienne de la Pêche (IMAPEC) complex. The results of the 1968-69 gum arabic marketing campaign are some 15% higher than those of the previous campaign. The 1968 drought led to a livestock deficit in 1969, which could nevertheless be overcome thanks to international food aid, and caused livestock losses which are described as severe.

The traditional sectors were given attention by the Mauritanian Government and by various sources of external aid, so that several schemes are in progress aimed at diversifying and developing livestock farming and improving the communications infrastructure.

The economy of the *Republic of Senegal* was hard pressed by the three successive agricultural seasons which were very mediocre or even definitely poor, as was the case in 1968-69 when production marketed barely exceeded 623,000 t of groundnuts in shell, against over a million tons in 1965-66. The initial estimates concerning the current 1969-70 season mention some 750,000 t. In addition to this, since the 1967-68 season, there has been a fall of the order of 15% in the CIF export prices, resulting from the fact that France has ceased to purchase groundnuts at a preferential price following the reorganisation of the Community fats market. The appreciable rise in world prices for groundnuts and groundnut oil in 1969 provides only a very slight and probably temporary compensation.

The successes recorded in the development of cotton-growing (9,800 t in 1968-69 and some 12,000 t in 1969-70), the efforts in respect of sea fisheries and the increase, although slow, in industrial production are indeed encouraging signs but are still insufficient to stop the slowdown

of economic growth resulting from the difficulties encountered by groundnut production.

Owing to this fact too, the substantial deficits on the trade balance and the balance of payments further increased and the equilibrium of the operating budget now appears to be harder to attain, despite another increase in taxation.

The third four-year plan 1969 - 1973 aims to achieve an annual rate of growth of the gross domestic income of 5.5% at constant prices and gives absolute priority to the development of the rural sector in which nearly 30% of the total investments of 522 million units of account planned for the next few years are to be carried out. The two main goals in the agricultural field concern the increase of yields of the traditional crops (groundnuts and millet) and the development of rice-growing. A remarkable effort in favour of tourism is another innovation by comparison with the previous plans. Reasonable in its general orientation, the Plan seems very ambitious with respect to the total amount of investments to be carried out : their financing depends as to 65% on external cooperation and for the balance on domestic savings, mainly public, concerning which it is not certain that they will in fact be able to attain the amounts planned.

In the *Republic of Ivory Coast*, economic growth and an overall surplus on external payments continued to prevail in 1969, despite a certain slackening of the pace of activity due to a less favourable agricultural season. The particularly high prices which were maintained until almost the end of the year, mainly for cocoa, offset to a large extent the adverse effect on revenue exerted by the fall in agricultural production, increased the reserves of the Stabilisation Fund and made it possible to step up the producer's purchase price, for the 1969-70 season, for cocoa and coffee, the crop forecasts of which point to a definite increase.

In the course of the 1968-69 season, the marketed coffee production barely exceeded 210,000 t compared to nearly 288,000 t during the previous season. The marketed cocoa production was maintained at the level of approximately 142,000 t, against slightly less than 147,000 t in 1967-68.

Exports of wood in the rough – contrary to those of sawn wood – again show a definite increase this year. On the other hand, banana exports have fallen slightly and the cotton crop, after having exceeded 42,000 t in 1968-69, suffered from very unfavourable climatic conditions and will probably not exceed 30,000 t in 1969-70. The diversification programmes for agricultural production are continuing normally and relate not only to the oil palm, but also to pineapples, coconuts, rice, rubber and sea fisheries.

The expansion of the industrial sector (estimated at about 12% in 1969) continued despite a temporary slackening of demand, in particular for textiles.

The provisional statistics for 1969 reveal a growth in value by comparison with 1968 of the order of 6.8% for exports and 18.5% for imports; the trade balance surplus, estimated at 72 million units of account, was nearly 27% below that for 1968 and the coverage rate was 122%, against 135%.

In the course of the next few years, the successful conclusion of two major projects, the port of San Pedro and the development of the Southwest, on the one hand, and the Kossou hydro-electric barrage and the redeployment of the agricultural populations in the part of the Bandama valley upstream from the barrage, on the other, will be absorbing a considerable part of the energies and financial resources of the Republic of Ivory Coast.

In the *Federal Republic of Cameroon*, a cocoa production which exceeded 100,000 t for the first time in the course of the 1968-69 season, a cotton crop of the order of 68,000 t against 51,000 t in 1967-68 and the continued expansion of the industrial sector rendered possible a fairly brisk economic growth and a very definite reinforcement of the creditor position of external payments, despite a slight fall in coffee production. This evolution was favoured by the good performance of the prices of the principal export products, and especially by the rise in cocoa prices, which moreover made it possible to increase the producer's purchase price.

During the first ten months of 1969, exports increased by 18% in value by comparison with 1968 and imports progressed by 14%;

the trade balance surplus reached about 6.7 million units of account and the coverage rate was 104%.

The forestry production, which is making definite progress, will be stimulated by the recent opening of the first section of the Trans-Cameroon railway between Yaoundé and Belabo, subject to a corresponding development of the port installations. Work on the second section of this railway, from Belabo to Ngaoundéré, will be starting in the near future.

In about a year's time, the commissioning of the M'Bakaou barrage will ensure the regularisation and increase of electricity production and will contribute both to the development of the industrial centres of Douala and Yaoundé and to the increase of aluminium production, which has been stagnating for several years in the region of 46,000 t.

Private investors remain active in the industrial (textiles, breweries, fishing) and tourist sectors, and in the field of oil and mining prospecting.

One year before the end of the current Five-Year Plan, even if certain objectives will probably not be entirely reached, particularly in agriculture where the planned action is taking a long time to implement, the balance-sheet of the progress made is however very positive.

In the *Republic of Gaboon*, despite a certain stabilisation of mining production in the region of 1.2 million tons of manganese ore and 1,400 t of uranium-content concentrates, and despite the low current prices of manganese, economic growth is being maintained by the development of oil production which reached about 5 million tons in 1969, the recovery in forestry since 1968 after its slackening subsequent to the movement of operators into the second zone, further away from the coast, as well as by successive waves of considerable investments in the oil industry, roads and forestry, for the improvement of the urban and administrative infrastructure, the opening-up of the Owendo port building site and, in the very near future, of the sites intended for the hydro-electric equipment of Kinguélé.

The trade balance continues to show a large surplus (+ 53.5 million units of account in 1968, or a coverage rate of nearly 200 %) and the external assets, after a temporary fall in mid-1968, have since been reconstituted.

In the industrial sector, 1969 was marked by the commissioning of a textile printing factory, a flourmill and a clinker crushing plant.

In the *Republic of Chad*, the evolution of the economic situation presents several favourable aspects which contrast with the deterioration of public finances and the balance of payments and with a political situation overshadowed by the persistent unrest in the northern regions of the country. The investment targets of the Five-Year Development Plan 1966 - 1970 have had to be reduced by approximately 44 %.

Production of unginmed cotton for the first time reached nearly 149,000 t in 1968-69, against 102,000 t in the course of the previous season, but it definitely fell off in 1969-70.

Although exports of cattle on the hoof remain far below what they were before 1967, exports of meat, which still relate only to a small part of the livestock farming, have on the other hand advanced, reaching about 10,000 t in 1969. The creation of some new enterprises has made it possible to take the first steps towards industrial development in recent years.

The *Central African Republic* has experienced a number of internal political upheavals. Nevertheless, production of unginmed cotton attained nearly 58,000 t for the first time in 1968-69, against 49,000 t for the previous season. Diamond production reached a record level in 1968, with over 600,000 carats, but 1969 was marked by a conflict between the Government and various companies mining and marketing diamonds. Coffee production is stagnant at about 8 to 9,000 t, while wood production continues to be about 170,000 cubic metres for wood in the rough and 45 - 50,000 cubic metres for sawn wood.

The creation of the “ Compagnie des Mines d’Uranium de Bakouma ” opens up interesting long-term development prospects for the eastern region of the country.

In the *People’s Republic of Congo*, the year was marked by domestic political upheavals aimed at the consolidation of the socialist tendency, resulting inter alia in the transfer to a Congolese institution of the management of railway and port installations located on its territory, which had hitherto come under the “ Agence Transéquatoriale de Communication ”, an institution common to the People’s Republic of Congo, the Republic of Gaboon, the Central African Republic and the Republic of Chad. Despite facts which point to subsequent possibilities of improvement, such as the first potash exports and the encouraging results of the current offshore oil drillings, the country is still faced with serious economic and financial difficulties.

The *Democratic Republic of Congo* continued the recovery which had been under way since the monetary reform of June 1967. The normalisation of economic life, the restoration of security and a brisk expansion of marketed agricultural production had made possible in 1968 an advance of the gross domestic product at constant prices by nearly 8% by comparison with 1967. In 1969, despite less favourable climatic conditions, agricultural production was stabilised at the previous year’s high level; the growth of the gross domestic product, estimated at some 5% in real terms, results mainly from the progress of the mining industry and a certain recovery in the manufacturing industry. The improvement of transport, as regards both equipment and management, seems to form one of the conditions for the continuation of the current expansion.

The gross formation of fixed capital increased notably, thanks mainly to the investments made by the State, about half of which from budgetary resources. To a considerable extent, this relates to renewals deferred in the course of the seven years during which this country had almost ceased to invest, so that new investments still remain at a very modest level.

Two decisions were taken in 1969 which should encourage the development of private investment in future : the promulgation on 26th June, 1969, of an Investment Code and the creation of the “ Société Congolaise de Financement du Développement ”.

Since 1966, the balance of payments has continued to show a large surplus, despite the liberalisation of trade, the reduction of external assistance, the increase in outgoing private transfers and the fact that the growth in contributions of public and private capital has been partly offset by the repayments effected, inter alia, in respect of suppliers' credits. From June 1967 to June 1969, the overall external payments showed a surplus of approximately 155 million units of account, so that the net external assets of the National Bank on 30th June, 1969, were of the order of 200 million units of account, or the equivalent of about seven months' imports.

Copper plays an important role in this evolution : production reached 362,000 t in 1969, against 326,000 t in 1968, but in particular this product benefited from the exceptionally favourable prices, which showed a rise of about 40% over the whole of 1969. In 1968, copper had already accounted for nearly two thirds of the export receipts and more than half of the current budgetary receipts.

For the first time in 1968, the State budget showed a current surplus, which seems to have increased in 1969. However, the still more rapid rise in capital expenditure necessitated an increase in the Treasury's indebtedness vis-à-vis monetary institutions of the order of 14 million units of account in 1968 and 16 million units of account in the course of the first half of 1969. The latter amount, however, was on the point of being completely redeemed at the end of the year. The budget estimates for the 1970 financial year have been drawn up in equilibrium at 430 million units of account, 24% of which in capital or investment expenditure, although receipts were estimated on the basis of a copper price below the average prices observed in 1969.

Two and a half years after the monetary reform of June 1967, it may be said that the consolidation of the incipient recovery, especially in the possible case of a downturn in copper prices, still depends on an

improvement of the management of public finances, inter alia by a retrenchment in current expenditure, a stricter control and a more marked channelling of the available resources towards productive investments.

The *Malagasy Republic* ranks second among the A.A.S.M. as regards its population, of the order of 7 million, but only eighth as regards its area of 590,000 sq. kilometers and its gross domestic product per capita, which is only just over 100 units of account. At a distance of over 11,000 km from its principal European trading partners, Madagascar has experienced only a relatively slow economic growth up to the present.

The Malagasy Government has however made a point of speeding up this growth by elaborating a Programme of Major Projects (1968-69); after having followed a policy of very strict budgetary equilibrium until 1966, it has endeavoured, especially since 1968, to stimulate expansion by greatly stepping up its expenditure and principally the public investments. Bearing in mind the tensions which have resulted from this, both at the level of Treasury liquidity and at that of external assets, it seems that the maintenance of public investments at a high level will depend to a large extent on obtaining sufficient external cooperation.

The evolution of production has been greatly influenced by the climatic hazards; after record crops in 1967, agricultural production declined by 8 or 9% in 1968 and the 1969 crops were mediocre on the whole. The great diversity of resources is indeed a trump card, provided that it does not lead to a certain dispersal of efforts. The main export products are coffee (49,600 t in 1969) which totals about 28% of the total export receipts, rice, vanilla, cloves, sugar, meat and meat preserves, essential oils, sisal, raffia, tobacco, green peas, pepper, graphite and mica; the five main products account for less than 63% of the export receipts and it requires no less than seventeen products to total 85% of the export receipts. The chromite deposit at Andriamena has just entered the operational stage and exports of concentrates already amounted to some 33,000 t in 1969.

The provisional statistics for 1969 show, by comparison with the previous year, an increase in exports of less than 2%, against over 9.5%

for imports, a growth of nearly 27% in the trade balance deficit, which exceeds 61 million units of account, and a coverage rate of only 63%.

A new Five-Year Plan (1970 - 1974) is now being elaborated and quite a number of projects are under consideration or in course of execution in the agricultural, stockfarming, industrial, mining and infrastructure sectors.

INVESTMENTS IN THE COMMUNITY ⁽¹⁾

In 1969, the formation of investments in *the Community as a whole* was greatly influenced by the generally high cyclical level; already in expansion in the majority of the member countries in the previous year, it was further accelerated, and investment expenditure was even, from the point of view of the general economy, the most dynamic factor of domestic demand.

The overall gross formation of fixed capital, amounted in 1969, according to provisional estimates, to 102,000 million units of account ⁽¹⁾, against 88,600 million the previous year, thus showing an increase of 15%, compared to 10% from 1967 to 1968. The growth in volume amounted to nearly 10%, whereas it had been only 6.6% in 1968; such a rate of growth had never yet been attained since the establishment of the European Economic Community.

The *Netherlands* is the only member country where fixed investments showed a lower rate of growth in volume than in the previous year (7.8% instead of 12.6%) and, taking account of the definite acceleration in prices, they remained substantially unchanged in volume.

(1) The equivalent in units of account of the amounts of investments expressed in national currency is calculated, for 1969, as regards France and the Federal Republic of Germany, on the basis of weighted averages, calculated pro rata temporis, of the former and the new parities.

In *Germany*, investment expenditure showed an accelerated expansion in 1969, after a temporary slackening in 1966 and 1967 and a marked rise in 1968. This expansion amounted to approximately 18% in 1969, against 9% in the previous year. The growth in volume was approximately 13%, compared to 8% in 1968.

In *France*, the increase in investment expenditure more than doubled from one year to the next, attaining 16.5% in 1969, against 8% in the previous year. In volume, the upswing amounted to approximately 9.5% instead of 5.2% in 1968.

In *Italy*, the rate of expansion of investments was higher than in 1968, both in value (15% against 10.1%) and in volume (8.2% against 7.7%).

The acceleration was particularly pronounced in *Belgium* and the *Grand Duchy of Luxembourg*. In the former country, investments progressed in value by 17.5% instead of only 1.4% in the previous year;

Table 1 – VARIATION OF GROSS FIXED CAPITAL FORMATION
IN THE COMMUNITY (1)
(% by comparison with the previous year)

	Value				Volume			
	1966	1967	1968	1969	1966	1967	1968	1969
Germany	3.3	- 9.4	9.0	17.7	0.9	- 8.4	8.0	12.8
France	11.2	8.3	8.0	16.5	8.9	5.7	5.2	9.5
Italy	5.5	13.0	10.1	15.0	4.0	10.5	7.7	8.2
Netherlands	13.9	11.3	12.6	7.8	8.5	7.8	10.1	- 0.4
Belgium	10.4	5.4	1.4	17.5	6.5	1.1	- 1.3	10.5
Luxembourg	- 0.2	- 9.4	7.3	25.5	- 2.1	- 9.3	3.2	17.5
The Community	6.9	2.2	10.2	15.1	4.7	1.1	6.6	9.8

(1) For 1969, the percentages were calculated on the basis of estimated orders of magnitude; for the Community, the conversion of national currencies into units of account was effected in accordance with the principles mentioned on page 46.

the growth in volume was 10.5%, whereas a slight fall had been observed in 1968. In the Grand Duchy of Luxembourg, the rate of increase in 1969 even amounted, in terms of value, to 25.5%.

Table 2 – GROSS FIXED CAPITAL FORMATION IN THE COMMUNITY (1)

	<i>Milliards of units of account at current prices</i>				<i>% of total</i>			
	1966	1967	1968	1969	1966	1967	1968	1969
Investments by enterprises	46.0	47.4	52.2	61.2	58.5	58.9	58.9	60.0
Housing	20.5	20.8	22.8	25.8	26.0	25.9	25.7	25.3
Public investment	12.2	12.2	13.6	15.0	15.5	15.2	15.4	14.7
Total	78.7	80.4	88.6	102.0	100.0	100.0	100.0	100.0

(1) For 1969, the data are to be considered as estimated orders of magnitude; the conversion of national currencies into units of account has been effected in accordance with the principles mentioned on page 46.

Fixed investments by enterprises, excluding expenditure for housing, showed an increase in 1969, in the Community, of approximately 17% in value by comparison with 1968. Their growth was thus considerably more rapid than that of the overall fixed gross investments. Their share in the total of these same investments therefore rose from 58.9% in 1968 to 60% in 1969, whereas on the contrary that of expenditure for housing construction fell, under the influence of a relatively weak growth in Germany and the Netherlands, from 25.7% to 25.3%, and that of investments by public departments showed an even more pronounced downturn, from 15.4% in 1968 to 14.7%.

The investment expenditure by *enterprises* showed a vigorous expansion trend in 1969 in all the Community countries, despite certain differences from one country to another. The investment propensity was given sustained encouragement by the favourable sales prospects both on the domestic and export markets, as well as by the rapid decrease in reserves of technical capacities. In addition to these factors, there were the rationalisation efforts dictated, especially in Germany, by the shortage of labour and the steep rise in wages cost.

Table 3 – GROSS FIXED CAPITAL FORMATION IN THE COMMUNITY

		Gross national product (at current prices) in milliards	Gross fixed capital formation ⁽¹⁾				Total
			In % of gross national product	Investments by enterprises	Housing	Public investment	
Germany	1968	538,5 DM	23	62	22	16	100
	1969	601,0 DM	24	65	19	16	100
France	1968	625,1 FF	25	59	27	14	100
	1969	722,0 FF	25	60	27	13	100
Italy	1968	47,134 Lire	19	54	33	13	100
	1969	51,546 Lire	20	51	37	12	100
Netherlands	1968	91.3 Fl.	27	58	22	20	100
	1969	101.8 Fl.	26	58	22	20	100
Belgium	1968	1,035.8 FB	21	58	27	15	100
	1969	1,160.1 FB	22	59	26	15	100
Community ⁽²⁾	1968	383.4 u.c.	23	59	26	15	100
	1969	431.3 u.c.	24	60	25	15	100

(1) Owing to the differing definition and delimitation of gross fixed capital formation in the member countries, the figures in this table are not entirely comparable from one country to another. The percentages were calculated on the basis of the gross fixed capital formation at current prices. For 1969, they are based on estimated orders of magnitude.

(2) Cf. foot-note, page 46.

In Germany, investment expenditure by enterprises were approximately 25% higher than in 1968. The slight slackening in the expansion observed in the course of the second half-year was due solely to increasingly substantial physical obstacles (stagnation of production capacities at a high level, shortage of labour) and is not ascribable to a marked decline in the propensity to invest : orders for investment goods continued to come in and, at the end of the year, the order-books were better filled than ever before.

In France, the investment position was dominated by the rapid expansion of the fixed investments by private firms which, in value, were more than 20% higher than in the previous year; this expansion was particularly marked in the case of the large enterprises and in the consumer goods industry; it seems that it was encouraged, independently of the factors which played a role in the Community as a whole, by the tax relief granted until the beginning of September in favour of purchases of equipment goods and also to a large extent by the persistent uptrend

in prices. On an annual comparison basis, the investment expenditure by private enterprises was expanded by no less than one fifth. The expansion of the investments by public enterprises, on the other hand, was definitely weaker in 1969 than in 1968, owing in particular to the limitation of the subsidies granted by the authorities. The investment expenditure by the whole of the corporate sector should, definitely, have increased in France about 18% from 1968 to 1969, against 9% from 1967 to 1968.

In Italy, the evolution of investments by enterprises was characterised by the continued expansion of equipment investments and above all by an accelerated expansion of expenditure relating to industrial and commercial building. Investments by enterprises will probably have increased by 10%, against 8.4% the previous year. Those coming under the building sector were once again influenced by an exceptional factor: so as to escape the consequences of the implementation of new and stricter regulations in respect of town planning introduced in 1968, but intended for application only after twelve months, the enterprises hastened to start work on a large number of new building schemes. The progress in total investment expenditure in Italy would certainly have been even much more vigorous if it had not been slowed down in the closing months of the year by delays and losses in production due to strikes.

In the Netherlands, the expansion in investment expenditure by the enterprises fell from 13% in 1968 to about 8% in 1969. It even appears that, in volume, the previous year's level was only very slightly exceeded owing to the steep rise in prices. Indeed, in certain sectors, inter alia that of the petrochemical industry located in the port areas, investments still showed a notable expansion. But the rate of growth in expenditure relating to industrial and commercial building slackened and the equipment investments in the transport sector even showed a downturn. However, the overall results by no means signify that the Netherlands enterprises failed to seek, on a general level, to develop their investments markedly, in accordance with the trend observed throughout the Community. In fact, expansion was slowed down by physical bottlenecks which appeared relatively early, as well as by the restrictions made by the authorities on the granting of building permits and, in the transport sector, by certain exceptional factors.

In Belgium, the investment expenditure by enterprises increased by nearly 16% from 1968 to 1969, whereas it had shown a slight fall from 1967 to 1968. The resumption of expansion results mainly from the increase in demand, which necessitated a more rapid extension of production capacities; it was also facilitated by the steep increase in the profit margins of enterprises in 1968. Foreign firms, and in particular those of other E.E.C. countries, also seem to have stepped up their investments once again.

Lastly, Luxembourg also recorded an exceptionally rapid progress in investments, which expanded considerably in the iron and steel industry and in the industries newly set up in the Grand Duchy, in particular.

In the Community as a whole, and despite the big differences noted from one country to another, expenditure for *housing construction* progressed by some 13% from 1968 to 1969. Indeed, it seems that the rise in financing cost which occurred on the mortgage markets in 1969 has not yet had time appreciably to affect this expenditure, although the uptrend in interest rates and the credit restrictions in certain countries already started, in the course of the year, to cause a certain decrease in applications for building permits and a reduction in the number of building projects started.

Italy is the member country which, in 1969 as in 1968, recorded the steepest increase in expenditure for housing construction; on the whole, the progress from one year to the next should approach 30%, against 15% from 1967 to 1968; it is due, inter alia, to the expansion of demand for housing in the industrial centres of Northern Italy, the population of which is constantly growing, mainly by reason of immigration from the Mezzogiorno (Southern Italy and the islands).

In France, the increase – of the order of 16%, against 7.5% in 1968 – was also above the average for the Community; however, during the closing months of the year, the rate of progress in this expenditure showed a certain slackening, due to the restrictions imposed on building credit. In Belgium, where housing construction had remained stationary in the course of recent years and had even shown a certain decline at times, an appreciable recovery was perceptible in 1969 (12%). In Germany and the Netherlands, the progress in expenditure for housing construction was indeed relatively weak, being of the order of 5% and 6% respectively.

Investments by public departments, the growth in which had already slackened a little in the closing months of 1968, increased in value by only about 10% from 1968 to 1969, against 11.5% from 1967 to 1968.

In the Federal Republic of Germany, where public investment expenditure had increased by over one tenth in 1968, mainly under the influence of the federal government's special cyclical and structural programmes, expansion continued in 1969 at almost the same pace as the previous year. On the other hand, the rate of progress in this expenditure considerably slackened in France and particularly in Italy. In the former country, the formation of investments by public departments was influenced by budgetary restrictions aimed at checking the domestic business cycle, whereas in the latter, the expansion of effective investments was hampered, it seems, mainly by administrative delays in the signature of contracts. In the Benelux countries, the rate of growth in public investments also decreased, while remaining, expressed in terms of value, slightly above 10% for 1969; the growing financing difficulties, experienced in particular by the local authorities, explain why, in the course of the year, there was a more marked reluctance to engage in new investments, and the pace of expansion considerably slackened.

INVESTMENT FINANCING ⁽¹⁾

In 1969, investment financing within the enterprises of the Community was not always as easy as it had been in the previous year. The scope of the equipment expenditure incurred to increase the industrial production capacities, which had frequently become inadequate to cope with the extremely rapid development of demand, led to new and very considerable calls on medium- and long-term borrowing. The simultaneous

(1) The equivalent in units of account of the statistics published in the part of the Report relating to "Investment Financing" is calculated at the parities in force on the date when the operations in question were effected.

Through statistical necessity, the conversions applied to the figures for 1969 were effected :
— as regards operations in French francs, at the old parity for the data relating to the first seven months of the year, and at the new parity for the data of the last five months;
— as regards operations in Deutsche Marks, at the old parity for the data relating to the first ten months of the year, and at the new parity for the data concerning the last two months.

curtailment of the resources available on the capital and credit markets led to a rise in cost of borrowed funds; this cost indeed reached particularly high levels.

The enterprises of the Community nevertheless showed remarkable powers of adaptation in coping with the financial problems with which they were faced. Taking advantage of the very favourable cyclical situation, they often continued to pass on to their sales prices to a considerable extent the rise in wages cost and in their other operating charges. In several countries, they thus secured wider profit margins, although in certain of them they were unable to benefit from these advantages, and notable differences are observable according to the sectors of activity. New productivity gains were also achieved, thus contributing to the development of the corporate income. The gross self-financing rate definitely increased in France, and again improved in Belgium and the Netherlands. In Italy, progress continued until the autumn strikes, and the deterioration which occurred subsequently probably did not altogether cancel it out. Germany is the only member country where the gross self-financing rate showed a fairly definite fall, while maintaining itself at a higher level than that of the years prior to 1968.

The expansion in undistributed profits and the larger issues of shares for cash contributed to reinforcing the capital and reserves of numerous enterprises in the Community rather more quickly than their indebtedness, and to improving slightly a financial structure which for some years had been tending to become exaggeratedly heavy because of large-scale calls on credit. Progress however is still insufficient.

In the framework of their calls on external financing resources, the enterprises of the Community above all increased their borrowings from financial intermediaries. Issues of bonds, on the other hand, lost in importance by comparison with 1968; the rising interest rates recorded on the majority of the European financial markets and the difficulties in respect of inclusion in the issue timetables are to a large extent responsible for this state of affairs. As for calls on foreign capital for financing investment programmes, they were probably more limited, mainly in the course of the closing months of the year.

This analysis of investment financing necessarily entails a considerable amount of approximation owing to the absence of statistical data on certain categories of resources and the uncertain and provisional character of the information available. However, the application of the same method from year to year and for all the countries makes it possible to identify the most significant trends.

This holds true of the calculations which consist of placing alongside the amount of the investments effected in the economic sector in the course of recent years the large masses of capital having served to finance them : resources appropriated to depreciations, net proceeds of the issues of securities 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 calls on short-term bank credit and other external resources, of assets of private persons devoted directly to housing construction and of net profits appropriated to reserves by the enterprises.

It is certainly necessary to refrain from drawing overhasty conclusions from these different data, for the whole of the internal or external resources considered also includes those which are devoted to the financing of housing construction and which cannot be isolated.

Subject to this reservation, it is clear that in the Federal Republic of Germany, undistributed profits which, in the first half-year, had still definitely increased, subsequently showed a fall due to a slight slowdown in the progress of productivity and in particular to the accelerated rise in cost. Wages expenditure and the burden of indirect taxation showed a steep increase. Although part of these charges was incorporated in the price rises, the corporate profit margins were slightly narrowed. The gross self-financing rate thus fell from 81% to 71%, but this reduction merely marks a return to a normal situation, after the very big expansion recorded in 1968. So as to finance a greatly increased volume of investments, the enterprises had almost to double their borrowings. Furthermore, they were led, after the revaluation of the Deutsche Mark, to replace foreign resources which were suddenly no longer at their disposal by capital

Table 4 – METHODS OF FINANCING FIXED INVESTMENTS OF THE SECTOR
OF THE ECONOMY IN THE COMMUNITY

– Provisional –

(percentages)

	1965	1966	1967	1968	1969	Annual average 1965-1969
I. Depreciations	46.7	48.3	50.7	49.9	49.2	49.0
II. Long- and medium-term external resources	33.2	28.7	32.1	33.4	34.0	32.2
– Shares	4.7	3.7	3.0	3.6	4.3	3.8
– Medium- and long-term borrowings	28.5	25.0	29.1	29.8	29.7	28.4
• Bonds	(9.7)	(7.2)	(10.0)	(11.1)	(9.4)	(9.5)
• Credits	(18.8)	(17.8)	(19.1)	(18.7)	(20.3)	(18.9)
III. Other external resources including short-term bank credits ⁽¹⁾ and net self-financing	20.1	23.0	17.2	16.7	16.8	18.8
Total	100.0	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 appropriated 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 and 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 and updated for the period 1964-1967, the percentage of short-term bank credits in the aggregate of external resources collected in the course of the years 1964-1967 by the enterprises to finance the whole of their working capital, financial investments, stocks and fixed investments amounted to 40% in Italy, 35% in France and 20% in Germany.

borrowed in Germany. The enterprises tended to become heavily indebted mainly with the banks and financial institutions, not only in the form of medium- and long-term credit, but also short-term credit. Share issues were a little lower than the previous year, as were also bond issues. The growth of investments in housing construction, on the other hand, had as corollary the continuation of large calls on the bond market by mortgage banks.

In France, the enterprises had to cope with a very steep rise in their production cost; however, their profits also increased thanks to the rapid development of their sales at home and abroad, as well as to the price readjustments effected after the devaluation of the franc, despite the precautions taken by the authorities to hold them in check. The temporary tax relief granted for purchases of equipment goods, the premature abolition of which was however decided at the end of the summer, also contributed towards improving the operating results. The gross self-financing rate would thus have shown definite progress. But the enterprises, for financing their investments, also made more calls on the financial market and on bank assistance, although the extent of the latter was limited by the credit restrictions, the effects of which became more marked in the second half-year.

In the Benelux countries, as in France, calls on medium- and long-term external resources were definitely higher in amount than in 1968. However, the role of these resources declined slightly, according as self-financing showed progress. Furthermore, the enterprises again slowed down the pace of their issues on the financial market, procuring the majority of their long-term capital by means of bank credit or private loans with institutional investors.

In the Netherlands, productivity again advanced. The very high level of demand enabled the enterprises to pass on more easily to the prices the increase in wages and raw materials cost and the effects of the introduction of the value-added tax, and further to widen their profit margins at a time when the expansion of investments was losing in momentum.

In Belgium, after the marked acceleration in 1968, the expansion of corporate income remained considerable and made possible another reinforcement of the firms' own resources, the extent of which had previously been greatly impaired because of a certain narrowness in profits and an inadequate utilisation of production capacities.

Lastly, it seems that in Italy several factors still permitted the enterprises to improve their self-financing rate in the course of the first eight

months of the year. The advances in productivity in the economy as a whole then speeded up slightly, while the dynamic nature of demand made it possible to raise the selling prices quite easily, so as to cancel out the effect of the rises in production cost on the operating results. This situation was however reversed later on, when halts in production as a result of the strikes and the additional charges greatly encroached on the corporate profits. During the year, the enterprises maintained their calls on medium- and long-term borrowings at about the same level as in 1968, not by their own initiative, but because various factors contributed, especially at the end of the year, to limiting the interventions by industrial credit institutes. It is probable that, in these conditions, the enterprises made more use of the short-term bank facilities to assure the financing of their investments, especially when the exports of capital from Italy tended to show a definite acceleration.

* * *

In the majority of the Community countries, the accentuation of the inflationary trends contributed to making investors increasingly sensitive to the rate of interest and to making them demand remunerations for their capital making due allowance for monetary erosion. The borrowing conditions on the markets for public issues of fixed-income securities in the Community thus showed substantial rises everywhere. Likewise, private persons agreed to increase their liquid or short-term investments only in exchange for an increase in the rates offered them. All the institutions which participate in the financing of investments thus experienced an increase in the cost of their resources and themselves had to raise the interest rates for the credits they grant.

The next part of the present chapter analyses in a more detailed manner the evolution, in the Community, of the markets for public issues of securities and the economy's other external financing sources.

THE MARKET FOR PUBLIC ISSUES OF SECURITIES

Contrary to the situation in previous years, the funds collected in the Community on the occasion of public issues of securities ⁽¹⁾ did not show a notable increase in 1969 by comparison with the previous year. Progress from one year to the next was 2% instead of 26% in 1968 and about 21% in 1967.

The European international market yielded less resources than in the previous year. The overall contribution of the capital markets of the member countries was a little higher than in 1968. The increases recorded in France, the Netherlands and Italy were far from negligible but a particularly notable decline was observed in Germany. Very marked tensions everywhere affected the yield rates, which increased considerably during the year.

I. Issues of securities on the capital markets of member countries.

The rate of growth, from one year to the next, of public issues of national securities on the capital markets of the member countries showed a considerable slowdown in 1969. Issues of foreign securities, for their part, were definitely smaller in volume than in the previous year.

The growing scarcity of long-term capital available on the financial markets of the member countries raises a series of problems. It is inherent in the over-rapid cyclical expansion in Europe, but also in the outflows of capital from the Economic Community because of the differences in interest rates and considerations of a fiscal or speculative nature.

Not only does it raise the cost of investments within the Community but it also leads, in certain countries, to a wider financing thereof by the granting of bank credit, giving rise to a creation of additional monetary resources which tends to reinforce the inflationary tensions already provoked by the over-rapid progress of demand by comparison with the

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

increase in production. In the long run, it may hamper the action of the Community institutions created for the purpose of encouraging, within the Community, the desirable transfers of capital between the more favoured areas and those which encounter most development or conversion difficulties. Lastly, by curtailing the possibilities for the international development institutions of procuring capital on a certain number of markets which had been open to them until then, it threatens to lead to some hitches in the granting of financial aid to these countries, the regular increase in which is so necessary. The implementation of the longer-term expansion goals of these institutions depends in fact on rapidly surmounting the present difficulties in the procurement of resources.

Domestic security issues.

In net value, after deduction of repayments, the public issues of national securities effected in 1969 increased by only 6% by comparison with 1968; the rise had been 18% in 1968 and 17% in 1967.

Table 5 – NET DOMESTIC PUBLIC ISSUES OF SECURITIES
(milliards of units of account) ⁽¹⁾

<i>Type of securities</i>	1966	1967	1968	1969
Shares ⁽²⁾	2.59	2.18	3.10	4.33
Public loans (State and local authorities)	3.63	3.84	3.75	3.54
Borrowing by enterprises (including financial institutions)	4.76	6.83	8.30	8.17
Total Community	10.98	12.85	15.15	16.04

(1) Cf. foot-note page 52.

(2) In order to avoid duplications, it would be advisable to eliminate from this table all issues of shares by institutional investors the proceeds of which are reinvested in securities by subscription to stocks and shares. Unfortunately, this deduction proves to be statistically impossible, except as regards shares issued in France by investment companies with variable capital, which are therefore excluded from this table.

From one year to the next, the ratio between these issues and the gross national product in value of the Community has fallen from 3.9% to 3.7%.

The slowdown in the rate of growth of calls by the public sector on the financial market, already noted in 1968, was confirmed.

The non-financial enterprises and the credit institutions greatly increased their issues of variable-income securities, but their net borrowings, on the other hand, were a little less than in 1968.

1. *Share issues.*

Share issues had already greatly developed in 1968; they made further progress in 1969 in certain countries of the Community. The renewed rise in stock market prices of shares, due in particular to the increase in corporate profits in 1968, the continuing expansion of economic activity, the reinforcement of inflationary tensions, all played a role in this evolution. Speculations with respect to changes in monetary parities and the measures taken in certain countries to encourage the issue and placing of shares were also not unconnected with the movement in 1969.

Table 6 – SHARE ISSUES

(billiards of units of account) ⁽¹⁾

Country	1966	1967	1968	1969
Germany	0.68	0.48	0.79	0.71
France ⁽²⁾	0.74	0.70	1.13	2.05
Italy	0.75	0.63	0.76	1.09
Netherlands	0.04	0.02	0.02	0.04
Belgium	0.30	0.29	0.44	0.42
Luxembourg	0.13	0.12	0.35	0.61
Total Community	2.64	2.24	3.49	4.92

(1) Cf. foot-note page 52.

(2) Including issues of shares by investment companies with variable capital which attained 0.59 milliard units of account in 1969, against 0.39 milliard units of account in 1968, 0.06 milliard units of account in 1967 and 0.05 milliard units of account in 1966.

The interest shown by investors in shares was reinforced, particularly in *France*. Subscriptions by the public to the shares of investment companies with variable capital, which had already progressed very markedly in 1968, again increased by over 50%. The amount of the issues of shares of the classic type also doubled, under the influence of the persistent rise in stock market prices. This uptrend was intensified in the first five months of 1969 and rapidly reached 20%; the vigorous upsurge of the business cycle and the still-attractive level of share prices then stimulated investors who were prevented, on the other hand, by the exchange control from engaging freely in investment operations abroad. The steps taken in the spring to curb the development of nominal domestic demand and the trade balance deficit led in June and July to very considerable readjustments in the downward direction. However, the reflux of capital which followed the devaluation of the French franc and the renewed foreign interest in French shares led, in August already, to a resumption of the uptrend which was accentuated in the last quarter; the summer's losses were then cancelled out and the increase in prices, by comparison with the beginning of the year, again exceeded 20%.

In *Italy*, issues of shares made definite progress, thanks to the action taken by the authorities to encourage them and to the extreme firmness of the market. From February to April, the stock market prices increased by nearly 15%; the uptrend was particularly pronounced when the authorities announced their intention of suspending the grant of authorisation to the Italian banks to participate in underwriting and guarantee syndicates for foreign securities, but of agreeing to waive this principle for credit establishments and financial institutions at least half of whose portfolio consists of Italian securities; at the same time, the publication of the very favourable results obtained in 1968 by a number of companies and the announcement of several increased dividends also stimulated the demand for shares. Purchases of shares effected by foreign investment funds operating in Italy through the intermediary of the banks were particularly considerable. After a lull in the second quarter, the uptrend was resumed from August to October; the news of the submission to Parliament of two Bills – which moreover are not yet adopted – indeed temporarily favoured the stock market: one of these Bills aimed at authorising the creation of Italian mutual funds; the other provided

certain tax relief measures in favour of companies the shares of which are listed or are likely to be listed on the stock exchange and which might decide to proceed to increases of capital in cash. The decision to arrange for stock exchange listing in 1970 of the shares of the big banks (known as "banks of national interest") and to offer part of them to the public on the occasion of a forthcoming increase of capital also acted as a stimulus. Towards mid-November, the deterioration of the social climate however led to a rather considerable fall in prices, but the gains over the whole year remained higher than 12%.

In *Germany*, the increases of capital showed a certain slowdown during the first quarter. Under the influence of the big expansion in external financing requirements caused by the less favourable trend in corporate profits and the very rapid progress of investments, these operations were resumed at a fairly rapid pace in the spring already, but the leeway incurred at the beginning of the year was not entirely made up. In January and then again in May, the share prices showed an uptrend. After a slight fall in June and July, the upswing asserted itself from August onwards. For more than four months, the market's optimism remained unaffected by the uncertainties in respect of the elections in September, the temporary suspension of intervention margins for the Deutsche Mark and the subsequent revaluation. Only in December was the trend reversed as a result of the big reflux of foreign exchange to destinations abroad and the resulting tightening of liquidities. At the end of the year, however, the stock market prices still showed an increase of more than 10% by comparison with the situation twelve months earlier.

In *Luxembourg*, the index of industrial share prices moved up in 1969 by nearly 15%. Issues of variable-income securities recorded another very considerable advance over the year, thanks mainly to the attraction which the certificates of mutual funds established in the Grand Duchy continue to exert on the public.

In *Belgium*, the share prices, which at first showed an uptrend for five months, declined almost uninterruptedly until November, when they returned to their end-1968 level. This evolution did not favour the net

share issues, the amount of which seems to be slightly below that for 1968.

In *the Netherlands*, lastly, the volume of share issues, although relatively low, increased from 1968 to 1969. The very pronounced fall in prices from May to August cancelled out the gains made at the beginning of the year and could not be offset by the subsequent recovery, so that the index in December 1969 was slightly below its previous year's level.

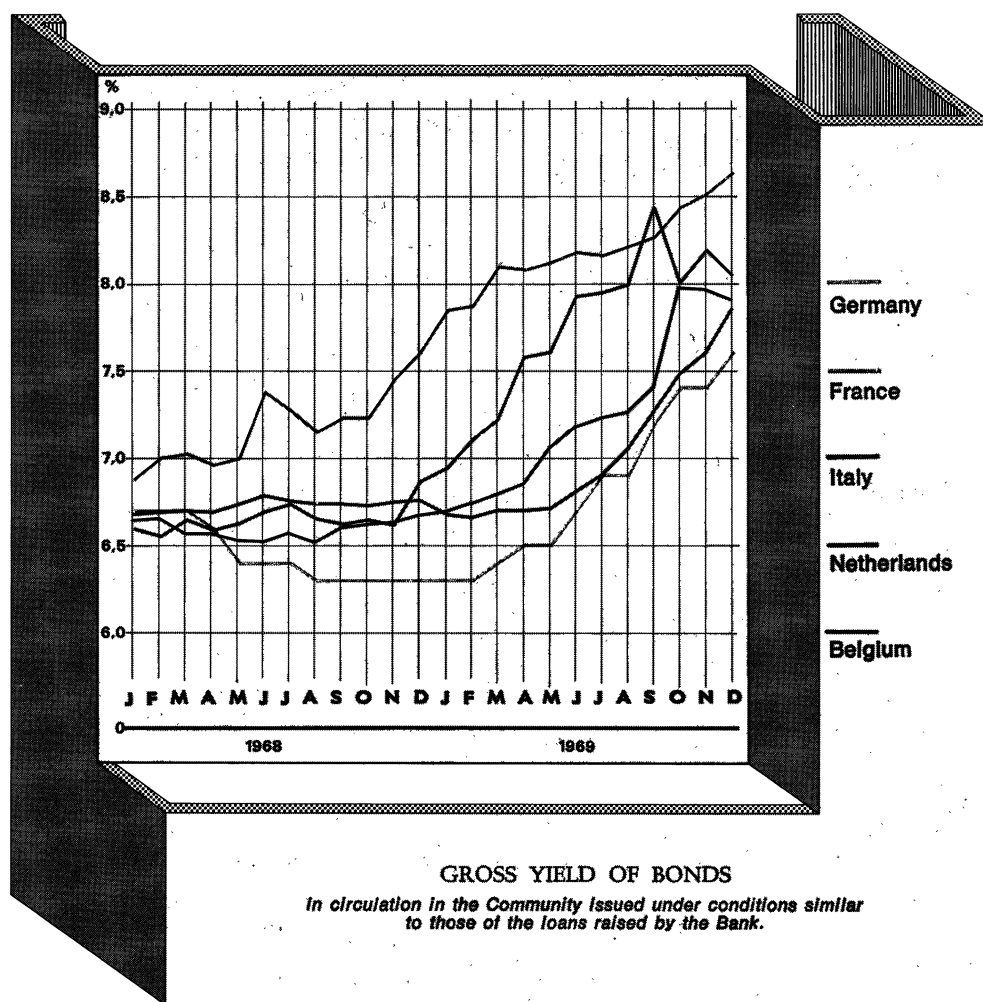
2. *Bond issues.*

Characteristic for 1969 was the general uptrend in the stock market yields of fixed-income securities on the stock exchanges of the Community. This rise was of the order of 1 point in Italy and France, and 1 1/4 point in Belgium, the Netherlands and Germany.

In France, the market situation was tense throughout the year, but more particularly in the first and last quarters. The uptrend was especially rapid in the Netherlands and Belgium until, in October, part of the capital which had been transferred to Germany in the expectation of a revaluation of the Deutsche Mark flowed back to these two countries; subsequently, a greater stability and even some slight falls in rates were recorded there. The uptrend made itself felt more belatedly in Germany and Italy, but from March onwards the cost of long-term capital continued to rise from month to month.

A rapid survey of the interest rates at the end of 1969 shows that the conditions offered on the different financial markets of the Community, which had been tending to diverge increasingly from each other ever since early 1968, – under the influence, inter alia, of currency speculation, – were again moving closer together. Whereas in May 1969, the difference between the yields of bonds of the public sector in Germany and France was still 1 3/4 point, this gap had narrowed to 1 point in December. France then continued to experience the highest yield rates in the Commu-

nity, exceeding 8.5% for bonds of the public sector; elsewhere, the rates for more or less comparable bonds were in the region of 8%, except in Germany where they were still, very provisionally, about 7.6%. These high levels were obviously a cause of concern for all borrowers of long-term capital, whose financing schemes thus became more and more costly-



Although the fundamental differences which still separate the different financial circuits of the member countries deprive this type of comparison of much of its interest, it should be noted that within the Community, Italy continued to head the field as regards the extent of the net issues of domestic public bonds : its share in the total of these issues reached 46% in 1969, against 40% in 1968; that of Germany, on the other hand, decreased from 35% to 29%.

Table 7 – NET DOMESTIC PUBLIC ISSUES OF BONDS IN THE COMMUNITY
(milliards of units of account) ⁽¹⁾

Country ⁽²⁾	1966	1967	1968	1969
Germany	1.15	3.67	4.24	3.39
Public sector	0.23	1.07	0.63	0.03
Economy	0.92	2.60	3.61	3.36
France	1.76	1.66	1.16	1.28
Public sector	0.26	0.14	– 0.12	– 0.11
Economy	1.50	1.52	1.28	1.39
Italy	4.40	3.85	4.88	5.34
Public sector	2.52	1.63	2.15	2.50
Economy	1.88	2.22	2.73	2.84
Netherlands	0.45	0.40	0.39	0.53
Public sector	0.18	0.30	0.27	0.41
Economy	0.27	0.10	0.12	0.12
Belgium	0.63	1.06	1.38	1.16
Public sector	0.44	0.67	0.82	0.70
Economy	0.19	0.39	0.56	0.46
Luxembourg	–	0.03	–	0.01
Public sector	–	0.03	–	0.01
Economy	–	–	–	–
Total Community	8.39	10.67	12.05	11.71
Public sector	3.63	3.84	3.75	3.54
Economy	4.76	6.83	8.30	8.17

(1) Cf. foot-note page 52.

(2) The issues entered under “Public sector” 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.

The issues entered under “Economy” include all the issues by non-financial enterprises, whether national or private, and all the issues by credit institutions whose main activity is the granting of credit to the economy.

In *Germany*, indeed, the net issues of domestic fixed-income securities were 20% below those of the previous year.

While remaining predominant, the participation by credit establishments in the subscriptions to these securities definitely fell off by comparison with 1968. The uncertainties concerning the bond market, the conviction that further rises in the yield rates would occur in the near future, the attraction of the conditions offered on the monetary market and the more restrictive policy of the central bank in respect of bank liquidity explain why these institutions reduced their applications for securities on several occasions during the year. On the other hand, private individuals, probably attracted each time by the higher conditions offered by the issuers, were the most active subscribers to domestic bonds, despite the interest they continued to show in issues of foreign securities bearing definitely more remunerative yields.

The Federal Government and the *Länder* made very few direct calls on the market, owing, on the one hand, to the improved situation of public finances and, on the other, to the possibilities they were offered of procuring capital by other channels. The same held true of the public enterprises, and, even more so, the industrial companies, whose calls on the credit institutes were the most current method for obtaining medium- and long-term resources.

It was thus the financial institutions which benefited, in the long run, from almost the entire volume of funds available on the issue market for fixed-income domestic securities. Issues of local authority bonds drained off more than half of this capital, and issues of mortgage bonds over one quarter of it; however, the calls on the market in these two forms were less considerable than the previous year, contrary to those by other financial institutions, which showed a fairly appreciable progress. Towards the end of the year, a fall in the borrowings by mortgage banks was observable, ascribable in particular to the difficulties they encountered, especially in the housing sector, in finding uses for their resources, whereas they could not easily pass on to their clients the rises in interest rates.

The market, which had become a little firmer at the end of 1968, continued to improve in January thanks to seasonal circumstances, such

as the settlement of coupons, but the trend was rapidly reversed under the influence of large capital exports and the acceleration of the cyclical expansion. The prices of listed bonds began to sag and on 22nd April, the authorities finally decided no longer to raise objections to loans by residents being offered at a nominal rate of 6.5% instead of 6%.

After a pause lasting some days, due to considerable entries of foreign exchange provoked by speculation on a possible revaluation of the Deutsche Mark, the squeeze trend resumed towards mid-May and continued to be reinforced until October. It was to result in a very definite slowdown in public issues by residents, and then, from mid-June onwards, in a complete halt of these issues; at the same time, the stock market yields, which in the first quarter had already risen from 6.30% to approximately 6.40%, amounted to 7.40% for securities of the public sector.

The slight relaxation brought about in the course of October by new inflows of funds from abroad was short-lived. The extensive outflows of capital after the revaluation and the maintenance of the policy of monetary restrictions, intended to limit the upsurge in domestic cost and prices, until such time as the readjustment of the national currency could exert a braking action on the cyclical evolution, rapidly obliged the banks to proceed, in the closing weeks of the year, to reduce their portfolios of fixed-income securities. In November, the nominal rate of bonds offered for issue by the public sector was raised by half a point, for the second time in the year, and fixed at 7%. The stock market yields of securities of the same nature reached 7.6% at the end of December. In order to contribute towards alleviating the tensions, the German banks decided, in the closing days of the year, to suspend temporarily their participation in issues of bonds by non-residents of the Federal Republic; the trend of these issues is described in a subsequent section of the report.

In *France*, the volume of net bond issues which had greatly declined in 1968 under the influence, inter alia, of exceptional circumstances such as the May events, showed an increase of over 10% in 1969, but is still definitely below the levels reached in 1966 and 1967.

As the progress in consumer expenditure was even more rapid than that of the income available to households, the rate of private savings again tended to fall, at least during the first part of the year; individual savers, lacking in confidence in the stability of the purchasing power of

the currency, not only actively reduced their cash hoardings, but also proved more reticent with regard to bond issues, showing their preference for realisable assets such as shares and, in the second half-year, for highly liquid investments. The institutional investors, for their part, showed a reluctance towards bond issues based, independently of the monetary incertainties, on a number of factors; first of all, for the part of the year, the monetary market offered them particularly advantageous very short-term investment possibilities for their available funds; secondly, the issue conditions for bond loans were not always to their liking : on several occasions, the immediate profit to be derived from the coupons was deemed by them to be too low by comparison with the profit to be derived from premiums collected on drawing or redemption; lastly, and above all, their forecasts concerning the trend in interest rates often encouraged them to postpone their subscriptions.

In the course of 1969, the Government and the public authorities, considered as a whole, proceeded to issues of an amount below that of the amortisations on bonds which they had to meet. The public enterprises and the industrial corporations of the nationalised sector, being invited to have wider recourse, for the financing of their investments, to sources of capital outside France, like the European international market or international financial institutions such as the Bank, substantially reduced – for the direct or indirect benefit of the private sector – their calls on the domestic bond market. About two thirds of the net resources available on the market were collected by credit establishments specialised in the granting of long-term loans; the industrial corporations of the competitive sector, for their part, drained off 25% of the capital offered : the corresponding percentage was only about 10% in 1967 and 1968.

The tensions resulting from the imbalance between capital supply and demand were specially acute at the beginning and end of the year, and led to an uptrend in the conditions offered to subscribers.

From the beginning of January onwards, the yields at issue advanced from 7.40% to 7.90% for securities of the public sector and from 7.75% to 8.20% for securities of the private sector; in March and April, a second uptrend brought these rates, on an average, to 8.20% and 8.50% respectively.

The issue syndicates were able to maintain these conditions until September, by suspending new issues from time to time so as to enable

the market to absorb the securities being placed. After a fairly long pause from mid-May to end-June, the month of July was even marked by a fairly brisk borrowing activity, and the devaluation of the French franc at the beginning of August did not have an immediate repercussion on the behaviour of the stock market prices of securities.

The steps taken in September to check the expansion of liquidity and, in October, the further increase in the short-term interest rates which followed the raising of the discount rate of the Banque de France to 8%, were accompanied by another tightening of the market. The resumption in the uptrend of stock market yields, slow at first, gained momentum during the last quarter; in the first few weeks of 1970, the yields at issue of securities of the public sector moved up to about 8.90%, and those of the private sector rose above 9%.

With one or two years' delay vis-à-vis several of its partners in the Community, and at almost the same time as the Federal Republic of Germany, *Italy* – whose financial market had for long been a remarkable example of stability – was unable to prevent the contagion of the world-wide uptrend in interest rates from affecting it in 1969.

The resources drawn from the market nevertheless showed further progress; the net issues of fixed-income securities offered for public subscription again increased by comparison with the previous year, when they had however reached an unequalled level. However, their increase from 1968 to 1969 (9%) is definitely below that which had been recorded in the previous financial year : 27%.

Once again, the drawings effected by the Treasury or for its account reached higher amounts than those of the previous year and gained in importance in relative value, attaining 47% of the total issues. The share of borrowings by special credit institutes in the total calls on the market, while remaining very significant, fell slightly to 38%; as for that of the major public enterprises (ENEL, IRI, IRI Motorway, ENI), it remained in the region of 17%. The direct issues by private enterprises, in net value, showed a more pronounced negative balance than in 1968.

By comparison with the previous year, the credit establishments, having to cope with curtailment of their liquidity, reduced their participation in the financing of net issues from 50% to 33%. Likewise, the private savings appropriated to bond investments again fell in relative

value; although exact statistics are not yet available, it is by no means excluded that the steep rise in incomes in real terms may have made it possible, despite the acceleration of private consumption, to maintain at practically the same level as the previous year the rate of formation of capital available for financing purposes. However, a renewed interest in share investments and above all the amplified flow of exports of long-term capital continued to reduce the volume of capital offered by the public on the new issues market. To the influence of these factors was added that of the steep rise in the interest rates offered by the credit establishments to holders of demand accounts : indeed, this measure not only led to considerable transfers from savings accounts to demand accounts, but also encouraged private individuals to increase their liquid assets to the detriment of their long-term investments.

In actual fact, the maintenance of a high level of borrowing activity was possible only at the cost of a very substantial increase in the participation of the Banca d'Italia in the financing of net issues, from approximately 7% in 1968 to over 35% in 1969. The purchases of the central bank related almost solely to securities issued by or for the account of the Treasury. The increase in its interventions would have been still more pronounced if, in order to limit exports of capital abroad, the monetary authorities had not decided to curb their purchases of securities on the market of bonds already in circulation, so as to enable the gap existing between the long-term rates in force in Italy and those prevailing abroad to be gradually reduced. This new strategy, which involved a rather radical change in the intervention policy applied until now by the central bank, was embarked upon with great flexibility, after several arrangements had been made in spring with a view to obliging the banks gradually to reduce their net creditor position towards foreign countries and to limit their participation in placing syndicates for foreign securities; however, provision was made for waivers in favour of Italian banks wishing to participate in issuing groups for the account of institutes or companies operating at the international level and the activity of which was linked, directly or indirectly, with interests on the national territory; the authorisation to participate in the activities of such groups was subordinated to the results achieved individually by the banks for the placing of Italian securities issued on the market.

The rise in long-term interest rates, which had been fairly moderate until July, proceeded at a more rapid pace from August onwards. The stock market yields of bonds of credit institutes, which are particularly representative of the state of the market, had remained in the region of 6.7% until the end of April; they were 6.93% at the end of July, 7.25% at the end of September and 7.90% at the end of December.

In *the Netherlands*, the net amount of public issues of fixed-income securities was nearly 36% higher in 1969 than in 1968, but the extent of these calls led, in the course of the year, to increasingly acute tensions which were reflected in very steep rises in the rates.

The expansion of the demand for capital on the bond market is not ascribable to the industrial and commercial enterprises, whose investments progressed less quickly than in the previous year and which, above all, continued to ensure the financing of their equipment projects by means of bank credit or private loans with institutional investors. Calls by these enterprises on long-term issues, which were already slight, diminished further.

On the other hand, the Government trebled, by comparison with 1968, the amounts of its borrowings on the market, absorbing more than 40% of the available resources, against slightly less than 20% in the previous year. Moreover, although the Bank voor Nederlandsche Gemeenten slightly reduced its issues, its share remained very considerable, amounting to some 35% of the total.

As the advance of private consumption is brisker than that of the available income, under the influence inter alia of the increase in prices, the rate of private savings fell off and the placing of new securities could be effected only by means of the constant revision of the issue conditions offered to subscribers. Thus, the Bank voor Nederlandsche Gemeenten raised its yield at issue in January 1969 from approximately 6.70% to 7%, subsequently increasing it in April to 7.50%, in July to 7.70%, in September to 8% and in December to 8.15%.

Influenced by the extent of the issues and the general uptrend in interest rates, the stock market securities, for their part, showed steep falls.

The yields of these securities therefore climbed rapidly until the beginning of October. The reflux of long-term capital after the revaluation of the Deutsche Mark then enabled the market to record a fairly pronounced relaxation, the effects of which continued to be felt until the beginning of January.

In *Belgium*, the net resources collected in 1969, on the occasion of public issues of fixed-income securities, were less than those in 1968, although the gross borrowings effected on the market "by large tranches" in fact attained an unequalled volume, 30% higher than in the previous year.

This fall in net issues thus stems not from a reduction in calls by borrowers on the financial market but from the brisk expansion of debt maturities which the Government had to meet, amounting to nearly 20% of the ordinary budgetary expenditure.

Over 60% of the available resources were absorbed by the Government, directly or indirectly, and by the local authorities. The share of the financial institutions and the enterprises, on the other hand, fell in relative value and in amount, despite the expansion of the financing requirements brought about by greatly increasing investments, and they often sought to procure the missing resources outside Belgium, as is witnessed by their growing indebtedness abroad.

The action of the monetary authorities to curb the expansion of liquidity and an inadequate development of private savings explain, to a large extent, the lack of elasticity in the supply of available capital by comparison with the demand. The very pronounced increase in individual investments abroad also contributed to the gradually growing scarcity of resources.

Tensions on the market became more pronounced very early in the year under the influence of the acceleration of the cyclical expansion, the growth in the volume of calls on the market and the tightening on the domestic monetary market; they persisted until the end of September and the falling prices caused the yields of securities listed on the stock exchange to show regular advances; for the bonds issued by the Government, cities and semi-official institutions, the yield rose from 6.7% at the beginning of 1969 to about 8% nine months later. Naturally, the issuing

bodies had to take account of the deterioration of the market and to readjust their conditions on several occasions in the light of the yield of the listed securities. However, a pause in the escalation of rates occurred in the last quarter, thanks – as in the Netherlands, – to inflows of foreign exchange recorded after the revaluation of the Deutsche Mark.

In *Luxembourg*, the Government – which had refrained from calling on the financial market in 1968 – proceeded in March 1969 to a fairly large public issue at the yield rate of 6.57%.

Issues of foreign securities.

Bond issues by international institutions and non-residents.

In 1969, the markets of the member countries, through the intermediary of strictly national placing syndicates, were not in a position to absorb such a large amount of public issues of foreign securities as in 1968 : these loans did not reach 200 million units of account, whereas they had exceeded 350 million in the previous year. This evolution is due to the tightening of the European markets, the causes and aspects of which have been described in the developments dealt with in the foregoing.

In contrast to the previous year, no public issue by an international institution took place in Belgium and the Netherlands.

In Italy, a single issue of foreign securities was floated, just before the financial market there was in turn affected by the general uptrend : the loan, in an amount of 24 million units of account, was effected by the Inter-American Development Bank.

All the other loans were placed in Germany. The International Bank for Reconstruction and Development and the European Investment Bank ⁽¹⁾ were the principal borrowers : their calls amounted to 62.5 million units of account and 57.3 million respectively. Latin America benefited from the balance of the funds collected, i.e., 52.3 million units of account : the Argentine Government called on the German market to the amount of 27.3 million and the Inter-American Development Bank for 25 million. In view of the very brisk expansion of their activities, the international

(1) Cf. page 115.

institutions furthermore had to continue contracting large private loans with banks and institutional investors in the Federal Republic. Their overall recourse to the German capital market was however less pronounced than in 1968. Their borrowings, which were still substantial in the first half-year, fell off markedly during the second part of the year, when the available resources became scarcer, especially in view of the capital outflows which accompanied the revaluation of the Deutsche Mark.

*Table 8 – GROSS ISSUES OF FOREIGN SECURITIES
ON THE MARKETS OF MEMBER COUNTRIES (1)
Bond issues by international institutions and non-residents
(million units of account) (2)*

<i>Country</i>	<i>1967</i>	<i>1968</i>	<i>1969</i>
Germany	10	225	172
France	41	—	—
Italy	24	72	24
Netherlands	14	30	—
Belgium	21	30	—
Luxembourg	—	—	—
Total	110	357	196
<i>of which</i> European Investment Bank	<i>80</i>	<i>75</i>	<i>57</i>
Commission of the European Communities (Coal and Steel Community)	—	63	—
Others	30	219	139

- (1) This table includes only foreign bond issues placed in a given country by a syndicate composed exclusively of national institutions. Foreign bond issues placed in several countries by international syndicates are entered under the issues floated on the "European international market", even if a part of their proceeds is subscribed by the investors of the country in whose currency they are issued.
- (2) Cf. foot-note, page 52.

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

In 1969, the European international market was, generally speaking, narrower than in the previous year. On the one hand, interest rates moved up continuously, and on the other, the overall volume of bond issues in the course of the year showed a fall of 10% by comparison with 1968 : indeed, it remained below 2,800 million units of account, whereas it had approached 3,100 million in the previous year.

The amount indicated above covers the whole of the bond loans offered through the intermediary of international placing syndicates, e.g. :

- bond loans issued in one or several countries by non-residents, but which are not denominated in the currency of that country;
- bond loans which, issued in a given country by residents and denominated in the currency of that country, are expressly reserved for subscription by non-residents;
- bond loans which, issued in a given country by non-residents and denominated in the currency of that country, are placed in several countries by syndicates;
- bond loans issued with special monetary clauses (units of account, multiple currency clause).

The international economic and monetary climate exerted a very direct influence on capital supply and demand, as well as on the form of calls on the market.

The acceleration of the cyclical upswing in numerous industrial countries gave rise to considerable borrowing requirements; although the American companies, faced with the downturn in the stock market prices of their securities and the prospect of a certain slowdown in the cyclical expansion in the United States, postponed or spaced out their issues from the spring onwards, more pressing calls came from other countries outside the European Economic Community in 1969.

At the same time, the volume of capital prepared to invest in Eurobonds tended to diminish. The fall in share prices on Wall Street caused investors to lose interest in subscribing to the convertible bonds which had enjoyed such great success in the previous year. The high levels reached by the short-term interest rates on the Eurodollar market resulting, inter alia, from the big calls made by American banks grappling with the situation caused by the tightness on the U.S. money market, led investors to space out or even to reduce their long-term investments and to increase their deposits in Eurodollars bearing a higher interest. By reason of the speculation in connection with the revaluation of the Deutsche Mark, the interest of holders of liquid assets however continued

*Table 9 – GROSS SECURITY ISSUES
ON THE EUROPEAN INTERNATIONAL MARKET*

(millions of units of account) (1)

	1967	1968	1969
CONVERTIBLE BONDS	227	1,712	825
Dollars	227	1,712	825
BONDS WITH GUARANTEES	33	83	284
Dollars	20	83	284
DM (*)	13	—	—
CLASSIC BONDS	1,542	1,277	1,672
Dollars	1,342	465	499
Units of account	19	57	60
Sterling / DM option	20	29	—
DM (*)	149	706	1,113
Florins	—	—	—
French francs	12	20	—
Total	1,802	3,072	2,781
<i>of which Borrowers : (2)</i>			
EUROPE	998	748	1,152
from the Community :	523	404	567
— <i>European Investment Bank</i>	(70)	(25)	(25)
— <i>Commission of the European Communities (Coal and Steel Community)</i>	(45)	(—)	(—)
— <i>Others</i>	(408)	(379)	(542)
E.F.T.A.	363	269	440
<i>Others</i>	112	75	145
AMERICAN CONTINENT	637	2,040	1,227
U.S.A.	527	1,898	954
<i>Others</i>	110	142	273
JAPAN	—	170	246
MISCELLANEOUS	167	114	156

(1) Cf. foot-note, page 52.

(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, subsidiaries of foreign parent companies : these companies are included under the line of Borrowers whose nationality corresponds to that of the parent companies.

(*) Cf. foot-note (1) of table 8.

to be focused for several months on investments in securities denominated in Deutsche Mark, which met with great success, but as soon as the revaluation had taken place, the funds available on this section of the market in turn became scarce.

This evolution was marked by four successive stages.

Issue activity on the market as a whole remained very intense in January and February, at one time giving the impression that the previous year's results would even be surpassed.

However, from March until the end of the third quarter, there was a steep decline in international dollar issues. Although the volume of bond loans denominated in Deutsche Mark then developed quite considerably, the capital collected during this period on the international market was 35% less than that for the corresponding period of the previous year.

In October, there were signs of a temporary relaxation. The first outflows of capital from Germany contributed to swelling the resources prepared to invest in dollar bond loans, without however any immediate slowdown in the pace of Deutsche Mark issues; the provisional recovery of share prices on the New York stock exchange also reinforced investors' interest in convertible bonds.

Numerous issuers then sought to profit from this situation to float large bond loans which had had to be postponed. More difficulties, however, cropped up in December, further aggravated by the fact that the persistently high interest rates in the United States again led to large transfers to that country of capital deposited in Europe, and especially in Germany.

In all, the amount of the convertible bonds issued in the course of the year barely exceeded 800 million units of account, against 1,700 million in 1968. There were 36 such issues. The year was however also characterised by seven issues of bonds with guarantees which made it possible to collect just over 280 million units of account, against 80 million in the previous year. As in 1968, the two different types of issue were based exclusively on the dollar. The resources thus collected represented only

40% of the contributions of the European international market, compared to about 60% in the previous year.

Classic bond issues, numbering 69, attained a volume of nearly 1,700 million instead of 1,300 million in 1968. Such an amount had never yet been reached on this market. Two thirds of these issues, instead of 55% in the previous year, had the Deutsche Mark as monetary basis; the share of classic loans denominated in U.S. dollars declined for the second consecutive year, falling from 36% to 30%. Five other operations were performed in units of account. In contrast to the previous year, no issue on the international market took place in florins, French francs or sterling with multiple currency clause. The operations related to average unit amounts of the same order as in 1968 : 25 million units of account.

Owing to the decreased interest in convertible bonds, the calls by private enterprises, while remaining predominant, showed a slight reduction. The borrowings by Governments and public departments exceeded the amounts reached in the previous year, representing one fifth of the total volume of issues.

The participation by European borrowers, excluding European-based subsidiaries of American parent companies, greatly increased, from 24% to 41%.

The countries of the European Economic Community, for their part, absorbed 20% of the available capital instead of 13% in the previous year. Issues of German origin, which had been nil in 1968, were the most significant, either directly or via subsidiary companies created in the Netherlands Antilles; those of French or Italian origin increased, whereas Dutch enterprises made less calls on the market than in 1968, probably because of the slowdown in the formation of private investments.

Simultaneously with this intensified call on the international European capital market by issuers from the member countries of the Community, British enterprises doubled their share, from 4% to 8%. Borrowers from the other E.F.T.A. countries, and more particularly the Scandinavian countries, stepped up their participation, which also reached 8%. Finland, Ireland and Spain obtained 5% of the capital available on this market.

Despite the fact that the European countries thus made a wider call on a market which is moreover very largely supplied by resources originating from Europe, the big Transatlantic companies still formed the main group of borrowers on this market, either directly, or indirectly through the intermediary of subsidiary holding companies. Nevertheless, the calls by American companies, while remaining predominant (34%), decreased in amount and especially in percentage. Canadian and Mexican issues (10% in all), on the other hand, were appreciably higher than in 1968.

The other calls (15%) came mainly from Japan where the interest rates remained at a level which made the conditions practised on the European international market still very attractive for borrowers. Then come Australia, New Zealand and South Africa. For the first time, the Asian Development Bank proceeded to an issue of Eurobonds.

The increase in the stock market yield of the classic dollar bond loans, which was almost continuous, became accentuated mainly in the second quarter, in September and finally in the course of the last two months of the year. Yields at issue followed a parallel trend : those of long-term bond loans of American corporations of the international class, which remained below 7.50% at the beginning of the year, exceeded 8 1/4% from June onwards and reached 9% in the first few days of January 1970.

The stock market yields of bond loans denominated in Deutsche Mark also rose steeply. From their February level of about 6.70%, they started to increase from March onwards, reaching 8.20% at the beginning of December.

The conditions applicable to convertible bond issues also underwent considerable increases. At the end of the year, bond loans of this category were generally offered at yields between 6 1/4% and 6 1/2%, whereas in the first quarter operations carried out by companies of major international standing could still be effected at the rate of 4.75%.

* * *

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

the extent of 16,700 million units of account, against 15,600 million in 1968.

As in previous years, they obtained the major part of these resources on their own markets.

However, their ever increasing difficulties in financing their requirements on the spot led them to intensify their calls on markets outside the Community. Thanks to the understanding attitude of the Swiss authorities, they collected on the Swiss market about one third of the resources offered to foreign borrowers, against 5% in 1968.

Table 10 – TOTAL CALLS BY COMMUNITY BORROWERS
ON PUBLIC ISSUES ON THE FINANCIAL MARKETS
(milliards of units of account)⁽¹⁾

	1968	1969
– Net issues on the domestic markets of member countries	15.15	16.04
– Issues on the European international market ⁽²⁾	0.40	0.57
– Issues on the other domestic markets	0.01	0.07
	15.56	16.68

(1) Cf. foot-note, page 52.

(2) Although these figures relate to gross amounts, they may be approximated to the net amount of issues effected on the national markets by reason of the very small present volume of amortisations on the Eurobonds in circulation. These amortizations, taking account of the deferment periods, acquire a certain importance only from 1970 onwards.

OTHER EXTERNAL RESOURCES AVAILABLE FOR FINANCING THE ECONOMY

As is the case each year, the public issues of securities procured for the private borrowers of the Community only a fraction of the external capital enabling them to cover the financing of their investments; the greater part of their resources was provided through the intermediary of financial institutions, in the form of medium- and long-term loans and also short-term credits.

I. *Medium- and long-term credits to the economy.* ⁽¹⁾

The table below shows the increase, in the course of the past four years, in the medium- and long-term credits granted to enterprises and private persons in the member countries by the banks and specialised credit institutions. The figures selected also take account of 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 to the credit enterprises and institutions, at a cost generally below that of a public issue of securities. In Belgium, the Caisse Générale d'Épargne et de Retraite plays an essential part in the financing of investments. The contribution of the insurance institutions is much smaller in France where the market predominance of the system of distribution over that of capitalisation limits the volume of capital available. Lastly, the public Treasuries also facilitate the execution of the economy's investments, by assuming the burden of financing a large share of the housing construction and by granting equipment loans to the enterprises themselves, either directly or through the intermediary of credit institutions.

Table 11 – MEDIUM- AND LONG-TERM CREDITS TO THE ECONOMY
(Variations by comparison with the previous year)
(milliards of units of account) ⁽¹⁾

Country	1966	1967	1968	1969
Germany	6.60	6.67	7.24	10.38
France	3.78	5.40	6.63	7.20
Italy	2.56	3.30	3.95	3.87
Netherlands	1.83	1.96	2.25	2.41
Belgium	0.92	0.93	1.02	1.13
Total Community	15.69	18.26	21.09	24.99

(1) Cf. foot-note, page 52.

(1) Although they contribute only very partially to the financing of investments, medium- and long-term export credits are included in the statistical data selected here, as it is impossible to isolate them in all the member countries.

In 1969, the very rapid expansion of investments in the Community led to a further increase in the calls by the economy on medium- and long-term credit.

In Germany, the annual increase of these credits was 40% higher than that recorded in 1968. The assistance granted in favour of housing construction however progressed a little less than in the previous year, and the investment expenditure in this sector increased by only a very small percentage. This makes the acceleration in the pace of granting equipment credits to the enterprises even more manifest. The intensification of calls by enterprises on the assistance of banks and financial institutions stems from the less favourable evolution of their profits and, to an even greater degree, from the substantial investments they have had to finance as a result of the accentuation of the cyclical upsurge. It is also explained by the reduction of certain of their sources of supply in liquidities owing to a greater caution, especially in the first half-year, in the policy of budgetary expenditure, and to the cessation, at the end of the year, of the influx of funds originating from abroad. Lastly, it results from the diminution in the direct calls by companies on the financial market, both in the form of increases of capital and in that of bond issues.

The demand for medium- and long-term credit, stimulated as well by the rapid development of investments, remained very strong in France. The annual rates of expansion in export credits and building loans remained high, of the order of 30% and 20% respectively. The increase in equipment credits was also substantial in 1969, since it attained a rate of nearly 15% in absolute value; the increase of the outstanding credits remained very steady throughout the first half-year. The pace of distribution of loans subsequently slowed down somewhat, after several long-term financing institutions had, on the recommendations of the central bank, taken certain steps aimed at moderating the overall expansion of medium-term credits mobilisable for equipment and construction, as well as that of mortgage credit, which escaped from the general system of limitation of bank credit. The effect of these measures could however not make itself felt immediately at the level of the outstanding credits, which reflect the evolution of the payments effected in respect of contracts signed in some cases several months or even several years previously. The same

held true for the decision of the *Crédit National* to halt, from September onwards, the grant of new long-term loans, and to reserve for the execution of its prior commitments the resources which the state of the capital market still enabled it to obtain.

In the Netherlands, medium- and long-term credits also showed an increase, expressed in amounts, which was higher than that of the previous year. In connection with the evolution of expenditure for housing construction, the rate of growth of mortgage loans seems to have slowed down very slightly. But the demand for capital emanating from enterprises remained substantial, although the latter's self-financing capacities appear to have improved further and although their investments increased less rapidly than in 1968. However, the private sector tended to reduce a little its calls on borrowings from institutional investors; on the other hand, it made much more use of medium-term bank credit.

The intensification of calls on medium- and long-term credit also made itself felt in Belgium, where, by reason of the revival in building activity, private individuals had to turn much more, for financing their housing purchases, to the private savings banks, the *Caisse Générale d'Épargne et de Retraite* and the other specialised institutions. Likewise, the enterprises were able to cope with the marked progress in their investments only by making greater use of credit from non-monetary financial institutions; their calls on bank credit, having as purpose – according to the official estimates – the financing of investments, on the other hand, showed a definite slowdown.

Although the implementation of the official industrialisation programme for the Mezzogiorno gave rise to substantial requirements in respect of corporate resources, Italy is the only country of the Community where the total annual increase in medium- and long-term credits was a little lower, in amount, in 1969 than in 1968. While the export credits have considerably increased from one year to the next, in respect mainly of commitments prior to 1969, the distribution of building loans and equipment credit notably slackened off, especially in the closing months of the year. The granting of housing loans was checked by the difficulties encountered by the real estate credit institutes in placing their mortgage bonds with the public, rather than by a fall in the demand for capital.

The higher rates of creditor interest offered by the banks to holders of demand deposits were not unconnected with this situation. The reduction in the rate of expansion of equipment credits is due to the limitation of the interventions by industrial credit institutes under the influence of two factors : the curtailment of their resources and the delay with which the authorities adjusted the system of interest subsidies applicable to investment loans granted more particularly in the developing regions, to the new situation created by the general increase in borrowing conditions on the domestic financial market.

Part of the medium- and long-term capital thus made available, in the Community, to the economy is derived from savings collected on the securities markets, the evolution of which has been analysed earlier in this 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.

*Table 12 – MEDIUM- AND LONG-TERM CREDITS TO THE ECONOMY
AFTER DEDUCTION OF RESOURCES DERIVED FROM THE CAPITAL MARKETS
(Variations by comparison with the previous year)
(milliards of units of account) (1)*

<i>Country</i>	1966	1967	1968	1969
Germany	5.55	4.43	3.91	7.10
France	2.81	4.51	5.67	5.88
Italy	1.18	1.72	2.05	1.82
Netherlands	1.58	1.71	2.00	2.14
Belgium	0.76	0.60	0.58	0.75
Total Community	11.88	12.97	14.21	17.69

(1) Cf. foot-note, page 52.

This considerable expansion in capital thus made available for investment financing, without passing via the public issues market, was possible only because the banks and institutional investors of the Community were able, on the whole, to continue collecting from their clientèle a substantial amount of demand and short-term savings, especially as the public in the majority of member States always choose this type of investment owing to an innate preference for liquidity.

In France, these investments showed, between 31st December, 1968 and 31st December, 1969, an increase of 17%, compared to 14% in the previous year; their formation was definitely accelerated in the second half-year as the result of increases in the interest rates on savings, which encouraged this development.

In Germany, the increase in savings and time deposits reached 13%, a percentage which is lower than that of the previous year (17%), but still comparable to those which are generally observed in the other countries of the Community.

In the Netherlands and Belgium, the increase was of the same order as the previous year, i.e., between 11% and 12%.

In Italy, on the other hand, the rate fell from 11% in 1968 to 7% in 1969, the main reason being that, as a result of the considerable rise in rates of interest for demand deposits with the banks, there were transfers of capital from savings accounts to demand deposits.

The reaction of the public in 1969 in several countries of the Community to changes in the interest rates for short-term investments shows the important effect of the manipulation of these rates on the formation of savings and the general conditions for financing of investments.

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

In 1969, the short-term credits to the economy greatly increased in the Community as a whole. However, there were differences in trend from one country to another; the expansion of these credits was particularly rapid in Germany and very pronounced in Italy, while in France,

the Netherlands and Belgium the checking measures applied led to a rather notable slowdown in the pace.

Table 13 – SHORT-TERM CREDITS TO THE ECONOMY
(Variations by comparison with the previous year)
(milliards of units of account)⁽¹⁾

<i>Country</i>	1966	1967	1968	1969
Germany	1.45	0.63	1.56	5.59
France	2.90	3.61	3.98	1.40
Italy	2.77	3.75	2.79	4.35
Netherlands	0.15	0.59	0.59	0.34
Belgium	0.26	0.35	0.28	0.11
Total Community	7.53	8.93	9.20	11.79

(1) Cf. foot-note, page 52.

Under the influence of the accentuation in the cyclical upsurge of the economy, the outstanding short-term credits increased in Germany by 25% in the course of the year, against barely 8% in 1968 and approximately 3% in 1967. The pace of increase of short-term credits was notably accelerated at the end of the year when, as a result of the normalisation of the international monetary situation which occurred after the change in parity of the Deutsche Mark, the German enterprises were deprived of a considerable amount of capital which they previously received from their foreign trading partners and which had contributed to increasing their liquidity to a very large extent. These enterprises then had to obtain from their bankers the funds necessary to offset their depleted liquidity position.

In Italy, the annual rate of increase in the outstanding short-term credits rose from 10.5% in 1968 to 15% in 1969. The tendency of enterprises and private individuals to develop their capital exports, particularly in the form of banknotes, the aggravation of the foreign trade deficit and the accelerated expansion of demand led, throughout the year, to an

extremely rapid increase in the calls on banking facilities, although the Treasury operations contributed, to an appreciable extent, to widening the liquidities of the economy. In the course of the last quarter, the strikes also led to additional requirements for short-term credits by checking the pace of sales and placing additional burdens on the enterprises.

In Belgium, the expansion of short-term credits continued at a very rapid pace in the first four months of the year. Subsequently, a definite slowdown occurred, under the influence of the restrictive measures introduced at the end of April and subsequently reinforced; the original aim of the measures was, *inter alia*, to limit to 14% for the whole year the increase in discount credits, advances and acceptance credits initially granted by the banks; in September, this percentage was lowered to 11.2%. Credit demand was held in check by two factors : on the one hand, the banks greatly increased the debtor interest rates applicable to their clientèle, often to an even larger extent than the rises in the official rate of the National Bank which went up, in five stages, from 4.5% to 7.5%, reaching the latter level in September; on the other hand, after the revaluation of the Deutsche Mark, the repatriation of certain assets formerly held abroad contributed towards improving the liquidity of the enterprises somewhat. On the whole, the increase in short-term credits in 1969 was definitely below that of 1968. The slowdown in expansion scarcely affected personal loans and hire purchase credit, which continued to increase almost as briskly as in 1968. Moreover, this led the monetary authorities to take further specific restrictive measures in November. On the other hand, the expansion of short-term banking credit to enterprises slackened off. The credits intended for financing working capital and stocks suffered the consequences of this. Despite the effects of the quantitative restriction of credit expansion, however, the possibility is not excluded that a certain number of enterprises, reluctant to contract long-term debts because of the rise in interest rates, may have had recourse to short-term credit to finance a part of their investments, until such time as more favourable circumstances enable them to consolidate their debts.

In the Netherlands, the annual increase in the aggregate short-term credits, which had been of the order of 20% in 1968, was reduced to about 9.5%. This slackening in the expansion rate is the result of the restriction

on credits granted by the banks and the agricultural credit institutions, which was re-imposed at the end of 1968. Credit demand remained very brisk and from July to October the expansion in short-term credits exceeded the ceilings fixed by the central bank, authorising a maximum annual growth rate of 10%. The slowdown which then ensued, not unconnected with quite substantial refluxes of foreign exchange, made it possible for the norms established for restricting the expansion of short-term credit to be respected again at the end of the year.

The annual rate of expansion of short-term credits in France was the lowest in the Community in 1969 : of the order of 5%, compared to 15.5% in 1968. Although comparisons from one year to another are partly distorted by a change in the accounting methods applied by certain big banks, which have been fit to classify in their medium-term credit portfolios credits which had previously been entered under short-term credit items, it is undeniable that the credit establishments have been obliged by the quantitative restrictions on credit expansion, introduced and constantly made more efficacious by the central bank, to apply an increasingly strong squeeze to the still very brisk demand for financing resources on the part of private individuals and enterprises. The regulations were intended to limit to 7%, from 30th September, 1968 to 31st December, 1969, the maximum increase in the outstanding credits subject to limitation. The growth in short-term credits, which was still very definite in the early months of the year and considerably more rapid than was permitted by the restriction measures, slowed down mainly in the course of the second half-year, in connection with the gradual improvement in the balance of payments. At the end of 1969, the limits imposed on the banks were more or less observed, on the whole.

In the majority of the countries of the Community, 1969 provides a new example of the relatively close links of interdependence which, among the sources of creation of liquidities in the economy, exist between the distribution of credit, and more especially short-term credit, and the movements of capital to and from foreign countries. It is probable that, without the reflux of foreign exchange to the Netherlands, Belgium and France which occurred after the revaluation of the Deutsche Mark, the banks of those countries would have had still greater difficulties in keeping the expansion of the volume of credit within the limits laid down.

II

ACTIVITIES OF THE BANK

LOANS

CONTRACTS SIGNED ⁽¹⁾

In the course of 1969, the Bank signed 43 loan contracts totalling 321.8 million units of account, compared with 41 loan contracts amounting to a total of 214.0 million in the previous year. The loan contracts signed in 1969 concerned :

- 30 loans in respect of ordinary operations, for 263.4 million;
- 13 loans coming under the Special Section, for 58.4 million.

The progress of the loan contracts signed by the Bank was particularly rapid by comparison with the amount recorded in 1968 : it amounts, indeed, to over 50%, and is 42% if the operations coming under the Special Section are excluded, so as to count only the Bank's ordinary operations.

Bearing in mind, however, the normal time-lag between the date on which the Bank approves its loans and the signature of the contracts, this increase is largely ascribable to approvals granted in the previous year.

LOANS APPROVED ⁽¹⁾

In 1969, the Bank approved (ordinary and special operations together) 39 loans amounting to 305.5 million units of account (tables 14 and 15), compared to 53 loans in 1968 (302 million).

These loans apply to projects the total cost of which in fixed investments is estimated at approximately 1,400 million. The Bank's average participation therefore amounted to 22% of the expenditure.

(1) The equivalent of the Bank's loans in units of account is calculated :
– as regards the loan contracts signed, at the parities in force on the date of signature;
– as regards the loans approved, at the parities in force on the date of signature for the loan contracts signed, and at the parities in force at the time of the approval by the Board of Directors for the contracts not yet signed.

The overall loans, for their total amount, are included in these statistics.

The figures indicated have been rounded off; this explains the differences occurring in some cases when comparison is made between the totals shown and the sums obtained by adding up the individual precise figures.

Table 14 — LOANS BY THE BANK IN 1969
Breakdown by type of loans and by country
(Ordinary and special operations)

Country	Number of projects	Amount (1) (million u.a.)	Share of each country in relation to the whole (%)
I. ORDINARY OPERATIONS			
<i>Member countries :</i>			
Belgium	1	6.0	2.0
Germany	3	10.0	3.3
France	5	66.1	21.6
Italy (2)	15	141.0	46.2
Luxembourg	—	—	—
Netherlands	2	22.1	7.2
Total	26	245.2	80.3
<i>Associated countries :</i>			
A.A.S.M. and O.C.T.			
Cameroon	1	1.0	0.3
Ivory Coast	1	0.5	0.2
New Caledonia	1	2.0	0.7
Total	3	3.6	1.2
Total of ordinary operations	29	248.8	81.5
II. SPECIAL OPERATIONS			
Turkey (3)	6	41.7	13.6
A.A.S.M. and O.C.T. (4)	4	15.0	4.9
Congo-Kinshasa	1	9.0	2.9
Ivory Coast	1	1.7	0.6
Gaboon	1	2.5	0.8
Madagascar	1	1.8	0.6
Total	10	56.7	18.5
Grand total	39	305.5	100.0

(1) Amount of loans approved on the basis of the equivalent in units of account calculated at the parities in force on the date of signature for the loan contracts signed, and at the parities in force at the time of approval by the Board of Directors for contracts not yet signed; cf. foot-note page 89.

(2) Including the overall loan CASSA - CIS (3.6 million u.a., not yet appropriated on 31st December, 1969).

(3) Including the increase in the overall loan T.S.K.B. (0.8 million u.a.).

(4) Loans on resources of the European Development Fund 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.

Table 15 — LOANS BY THE BANK IN 1969
Breakdown by sector
(Ordinary and special operations)

Sectors	Number of projects	Amount ⁽¹⁾ (million u.a.)	Share of each sector in relation to the whole (%)
AGRICULTURAL DEVELOPMENT	2	19.2	6.3
ENERGY	4	49.6	16.2
TRANSPORT	7	94.5	30.9
of which :			
— Roads	5	70.8	23.2
— Gas pipe-lines	2	23.7	7.7
TELECOMMUNICATIONS	1	25.0	8.2
INDUSTRY	25	117.2	38.4
of which :			
— Extractive industries		2.0	0.7
— Iron and steel		25.0	8.2
— Construction materials		9.2	3.0
— Engineering industry		3.1	1.0
— Electrical engineering		2.4	0.8
— Chemical industry		43.0	14.1
— Rubber industry		9.3	3.0
— Textiles and clothing		15.5	5.1
— Food industry		3.3	1.1
— Unappropriated part of overall loans		4.4	1.4
Total	39	305.5	100.0

(1) Compare foot-notes of table 14.

ORDINARY LOANS

Under this heading, the Bank approved 29 loans for an overall amount of 248.8 million : 26 loans for projects carried out in the countries of the Community (245.2 million) and 3 loans for projects in the Associated African States and the Overseas Countries and Territories (3.6 million). In the previous year, the Bank had approved 40 loans totalling 260.7 million.

By comparison with 1968, the average unit amount of each loan shows an appreciable progress, increasing from 6.5 million to 8.6 million; this evolution is due to a certain growth in the average unit amount for the infrastructure projects (1968 : 14.6 million; 1969 : 16.1 million) and to an even more marked increase in respect of industrial projects (1968 : 3.1 million; 1969 : 5.2 million).

However, in order to arrive at a fairer appreciation of the Bank's activity in the industrial sector, account should also be taken of the appropriations effected in 1969 within the framework of the overall loan of 10 million, granted in 1968 to the Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER) through the intermediary of the Cassa per il Mezzogiorno, relating to 20 industrial projects on a small and medium scale totalling 6.6 million. In accordance with their objective, these appropriations concerned loan operations of an average unit amount considerably below 0.33 million.

The projects financed within the framework of the Bank's ordinary operations were :

MEMBER COUNTRIES

<i>Italy :</i>	<i>Projects</i>	<i>Loans by the Bank (million u.a.)</i>
1.	Construction of the Sestri Levante - Leghorn motorway between Sestri Levante and Borghetto and between Carrara and Viareggio (Leghorn). Promoter : <i>Autostrada Ligure Toscana S.p.A.</i>	25.0
2.	Construction of the "Flowers" motorway between San Remo and Andora (Liguria). Promoter : <i>Autostrada dei Fiori S.p.A.</i>	15.0

<i>Projects</i>	<i>Loans by the Bank</i> (million u.a.)
3. Reinforcement and modernization of the telephone equipment in Venezia and Trentino - Alto Adige. Promoter : <i>S.I.P. - Società Italiana per l'Esercizio Telefonico p.A.</i>	25.0
4. Installation of a cold rolling mill at the Steel Centre, Tarento (Puglia). Promoter : <i>Italsider S.p.A.</i>	25.0
5. Construction of a cement works near Castrovillari (Calabria). Promoter : <i>Cementerie Calabro Lucane S.p.A.</i>	8.0
6. Enlargement of a factory for industrial valves, at Patti (Sicily). Promoter : <i>Walworth - Aloyco International S.p.A.</i>	0.9
7. Enlargement of a factory for batteries and cells, at Casalnuovo di Napoli (Campania). Promoter : <i>Fabbriche Accumulatori Riunite Partenope Hensemberger - F.A.R. S.p.A.</i>	2.4
8. Construction of an establishment for the production of alumina, at Portoscuso (Sardinia). Promoter : <i>Eurallumina S.p.A.</i>	25.0
9. Construction of an establishment for the production of liquid oxygen and nitrogen, at Caserta (Campania). Promoter : <i>S.I.O. - Società per l'Industria dell'Ossigeno e di Altri Gas S.p.A.</i>	1.6
10. Enlargement of a factory for chemicals for water processing, at Cisterna di Latina (Latium). Promoter : <i>Nalco Italiana S.p.A.</i>	0.8
11. Repairs to a textile factory damaged by the November 1968 flood, at Vercelli (Piedmont). Promoter : <i>Chatillon - Società Anonima Italiana per le Fibre Tessili Artificiali S.p.A.</i>	4.0

<i>Projects</i>	<i>Loans by the Bank (million u.a.)</i>
12. Construction of a factory for the production of knitwear articles and trousers, at Licata (Sicily). Promoter : <i>I.S.M.A. - Industria Siciliana Maglieria ed Affini S.p.A.</i>	3.2
13. Enlargement and modernization of a stocking factory, at Villafranca Tirrena (Sicily). Promoter : <i>SI. CAL. - Siciliana Calze S.p.A.</i>	0.6
14. Construction of an establishment for the production of semolina at Foggia (Puglia). Promoter : <i>Industrie Semolerie Giovanni Sacco e Figli S.r.l.</i>	0.9
15. Overall loan intended for the financing of small and medium-sized industries, granted through the intermediary of the Cassa per il Mezzogiorno to the Credito Industriale Sardo - CIS - (Sardinia).	3.6
 <i>France :</i>	
16. Second stage of the hydraulic equipment scheme for the irrigation and water supply of the Provence region (Provence - Côte d'Azur). Promoter : <i>Société du Canal de Provence et d'Aménagement de la Région Provençale (S.C.P.)</i>	17.5
17. Hydroelectric equipment scheme at Mallemort on the Lower Durance (Provence - Côte d'Azur). Promoter : <i>Électricité de France (E.D.F.), Service National.</i>	16.2
18. Hydroelectric equipment scheme at Sainte-Croix, on the Verdon (Provence - Côte d'Azur). Promoter : <i>Électricité de France (E.D.F.), Service National.</i>	14.4
19. Construction of natural gas transport systems (Alsace and Brittany). Promoter : <i>Gaz de France (G.D.F.), Service National.</i>	9.9

<i>Projects</i>	<i>Loans by the Bank (million u.a.)</i>
20. Construction of a factory for the production of polyethylene at Carling (Lorraine). Promoter : <i>Société Lorraine de Polyoléfines.</i>	8.1
 <i>Germany :</i>	
21. Enlargement and modernization of a mill for rerolling and processing steel coils at Trier (Rhineland-Palatinate) Promoter : <i>Trierer Walzwerk AG.</i>	2.2
22. Construction of a workshop producing enzymes for detergents at Nienburg/Weser (Lower Saxony). Promoter : <i>Kali-Chemie AG.</i>	1.5
23. Extension of synthetic fibre production plant at Neumünster (Schleswig-Holstein). Promoter : <i>Phrix-Werke AG.</i>	6.3
 <i>Netherlands :</i>	
24. Reinforcement of the Netherlands natural gas transport system in the provinces of Noord-Brabant and Limburg and construction of two compression stations in the Eastern Netherlands. Promoter : <i>N.V. Nederlandse Gasunie.</i>	13.8
25. Construction of a motorway between Maastricht and Heerlen (Limburg). Promoter : <i>Province of Limburg.</i>	8.3
 <i>Belgium :</i>	
26. Construction of a vinyl chloride factory at Tessenderloo (Limburg). Promoter : <i>Société Limbourgeoise du Vinyle (L.V.M.) S.A.</i>	6.0

ASSOCIATED AFRICAN STATES AND MADAGASCAR

Federal Republic of Cameroon :

27. Extension of a textile complex at Garoua and Douala.
Promoter : *Cotonnière Industrielle du Cameroun (CICAM)*. 1.0

Republic of Ivory Coast :

28. Creation of a fruit juice and essential oils factory at Sassandra.
Promoter : *Consortium des Agrumes et Plantes à Parfum de Côte-d'Ivoire (Consortium C.I.)*. 0.5

ASSOCIATED OVERSEAS COUNTRIES AND TERRITORIES

New Caledonia :

29. Increase of nickel production capacities.
Promoter : *Société Le Nickel (S.L.N.)*. 2.0

1. *Loans in the member countries.*

Loans approved by the Bank in the member countries reached 245.2 million units of account in 1969, compared to 236.4 million in the previous year, showing an increase of 3.7% from one year to another.

The Bank's contribution under Article 130 a) of the Treaty of Rome to the financing of the development of the less developed regions of the Community reached in 1969 a total of 200.9 million units of account. The other loans (44.3 million) had as their object the financing of projects of common interest to several member countries, within the framework of Article 130 c) of the Treaty of Rome.

However, in order to arrive at a fairer appreciation of the Bank's activity, it must be noted that a certain number of projects financed primarily to contribute to the development of the less developed regions of the Community had also as their object the conversion and modernization of industrial structures, so that the financing effected by the Bank under Article 130 b) and c) of the Treaty of Rome represented, directly or indirectly, actually more than half of the loans it had granted.

According to the intervention methods, the financing schemes show the following breakdown : 13 direct loans (155.4 million), 12 indirect loans distributed through the intermediary of relaying financial institutes (86.2 million) and one overall loan intended for the financing of small and medium-sized industrial enterprises, also granted via a financial intermediary (3.6 million).

All the projects financed by the Bank in Germany, Belgium and France, as well as one project in the Netherlands, formed the object of loans which were disbursed directly to the promoter. In Italy, on the other hand, only 3 loans out of a total of 15 formed the object of a direct grant; in each case, this related to infrastructure loans.

Loans granted in the indirect form all related to the financing of industrial projects. One in the Netherlands was granted through the intermediary of the Algemene Bank Nederland N.V., while the others, in Italy, were granted in the following conditions : on the one hand, 7 loans were made to the Cassa per il Mezzogiorno, which relents the amount to the final beneficiaries, once directly, three times through the intermediary of the Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER), and three times via the Istituto Regionale per il Finanziamento alle Industrie in Sicilia (IRFIS); on the other hand, 4 loans were made in favour of the Istituto Mobiliare Italiano (I.M.I.) for projects in Southern Italy and one for a project in Northern Italy.

As for the overall loan for the financing of small and medium-sized enterprises, made in accordance with the terms and conditions of intervention implemented for the first time in 1968, it was granted to the Credito Industriale Sardo (CIS) through the intermediary of the Cassa per il Mezzogiorno.

* * *

As in previous years, the Italian borrowers were the principal beneficiaries of the Bank's loans, receiving 141 million units of account (15 loans), against 132.5 million in 1968 (26 loans).

On the one hand, the Bank has continued to devote particular attention to the major infrastructure projects, either in zones which are economically at a disadvantage – reinforcement of telecommunications in Venezia and in Trentino - Alto Adige –, or within the framework of

intra-Community communications : extension of the "Flowers" Motorway, the first section of which, from the French border, had already formed the object of intervention by the Bank previously, and execution of two sections of the Liguria - Tuscany motorway.

On the other hand, the Bank has intensified and diversified its action in favour of industrialisation, and has also made a point of encouraging the operations involving co-operation between enterprises of several member countries. Ten loans representing about half of the financing schemes effected in this country by the Bank were devoted to the industrial development of the following regions : Southern Italy (mainland), Sicily and Sardinia. The Bank's other two interventions have contributed to alleviating the difficulties inherent in the consequences of a natural disaster and the conversion of a zone affected by the decline of the traditional sulphur mining.

The branches of activity financed, always very varied, concern primarily the chemical, textile and garment industries and, in the second place, steel, mechanical and electrical equipment, construction materials and food products. Among the most significant interventions as regards amount, we may note in particular the financing of the extension programme for the integral-cycle steel centre at Tarento and the aid given for the execution of an establishment for the processing of bauxite into alumina at Cagliari by a company with multinational capital. Furthermore, a loan was granted in order to facilitate the repair and modernisation of an establishment specialising in the fabrication of man-made textile fibres, very seriously damaged by the floods which devastated Northeastern Piedmont early in November 1968.

Special mention should be made of the financing operations carried out, within the overall loan contract (signed in 1968), through the intermediary of the Cassa per il Mezzogiorno and the ISVEIMER, and intended for the development of the small and medium-sized enterprises of the Southern Italian mainland; these interventions formed part of the active support policy applied by the Bank in favour of industrial initiatives which are too restricted to justify a direct loan, but which nevertheless present a genuine interest for the harmonious expansion of the regions in question. Twenty projects, for an overall amount of 6.6 million on a total credit line of 10 million, have already formed the object of appropriations for invest-

ments in the course of the past financial year. These appropriations, which concern enlargement and modernization operations to factories, in three quarters of the cases, and the setting-up of new establishments, in the remainder, relate to a wide diversity of branches of activity. In table 16, the amount appropriated in 1969 is broken down by region and by sector.

Table 16 – OVERALL LOAN (CASSA - ISVEIMER)
Breakdown of the amount appropriated in 1969 per region and sector

<i>Regions / Sectors</i>	<i>Number of investments</i>	<i>Amount of appropriations</i>	
		<i>in million u.a.</i>	<i>% of total appropriated</i>
I. REGIONS			
Latium	5	1.32	20.0
Marche	1	0.56	8.5
Abruzzi	2	0.84	12.7
Campania	9	2.76	41.8
Puglia	1	0.24	3.6
Basilicata	1	0.64	9.7
Calabria	1	0.24	3.6
Total	20	6.60	100.0
II. SECTORS			
Iron and steel	1	0.64	9.7
Non-ferrous metals	1	0.40	6.1
Construction materials	2	0.60	9.1
Paperpulp – paper	1	0.72	10.9
Engineering industry	4	0.92	13.9
Electrical engineering	1	0.16	2.4
Chemical industry	2	0.68	10.3
Textiles and garment	2	0.32	4.8
Food industry	2	0.44	6.7
Other industries	4	1.72	26.1
Total	20	6.60	100.0

In the other member countries, the loans granted by the Bank in 1969 represented 42% of its interventions in the Community.

In Germany, the loans effected in the course of 1969 totalled 10 million units of account. Three in number, they related to industrial projects in the chemical, iron and steel and textile sectors, located in development zones benefiting from special aids and encouragement measures on the part of the authorities.

In France and the Benelux countries, the Bank's important role in the financing of projects devoted to infrastructure works should be emphasised; indeed, 6 loans out of a total of 8, representing 85 % of the aggregate of the Bank's interventions in favour of these countries, were intended for the construction of a motorway (1), irrigation (1), natural gas transport (2) and the setting-up of hydroelectric plants (2).

Of the five loans concerning projects located in France (66.1 million units of account) and relating to large-scale regional development efforts involving development or reconversion problems, three were intended to reinforce and improve the energy equipment; on the one hand, it was a question of extending the network of gas pipe-lines for transporting natural gas from the Lacq and Groningen deposits, to Brittany and Alsace respectively, and on the other, two hydroelectric equipment schemes in the departments of Bouches-du-Rhône and Basses-Alpes. The latter works contribute as well to the improvement of the rational irrigation of agricultural areas, as does also another loan for the financing of the second stage of the execution of the Canal de Provence. The last loan, relating to the construction of a factory for the production of "high pressure" polyethylene in the department of Moselle, forms part of the petrochemical complex now being established in the Saar-Lorraine triangle and aims, inter alia, to favour the industrial changeover embarked upon in this region with a view to remedying the consequences of the coal crisis.

The three loans granted to the Benelux countries offer several common features; they are located in the same restructuring zone and they encourage the interpenetration of the economies within the Community : on the one hand, in Belgian Limburg, a vinyl chloride plant is to be set up, and on the other, in the Dutch province of Limburg, a motorway is to be constructed between Maastricht and Heerlen, and the natural gas trans-

port system is to be extended and reinforced in the Southern Netherlands. The latter project also facilitates the transport of gas from the Dutch territory to Germany, thanks to the creation of two compression stations.

2. *Loans in the Associated States.*

In the Associated African States and Overseas Countries and Territories, the Bank has granted three ordinary loans for industrial projects. As in previous years, these loans were granted directly to the promoters.

The project located in the Federal Republic of Cameroon is the first extension to a textile complex which had already benefited from a loan by the Bank in 1965; it appreciably improves the economic and financial features of the plant's operation and renders possible a better utilisation of the production capacities of the spinning and weaving mill in North Cameroon. The project implemented in the Republic of Ivory Coast participates in the diversification of agricultural production and the industrial up-grading of the latter, as well as in the economic development of the Southwest region in which substantial infrastructure equipment schemes have been embarked upon.

As for the project relating to the mining and metallurgy of the nickel located in New Caledonia, it ensures a 75% increase in the production, on which the entire economy of this French territory is based.

* * *

In 1969, the period of application of the first Yaoundé Convention came to an end.

In the course of this period, the Bank has participated in the financing of 16 projects with loans totalling 48.9 million units of account in six of the A.A.S.M. (Cameroon, Congo-Brazzaville, Ivory Coast, Gaboon, Mauritania and Senegal) and in the Overseas Territory of New Caledonia.

Two of these loans were granted for infrastructure projects, three others for mining projects and eleven for industrial projects :

- 45% of the total amount – i.e., 22 million units of account – contributed to the development of extractive industries : potash mines in Congo-Brazzaville, copper in Mauritania, nickel in New Caledonia;
- 42% – i.e., 20.5 million units of account – were appropriated to industrial projects, mainly for the agricultural and food industries (14.2 million units of account), but also for fertiliser, textile or metallurgical plants;
- the balance, or 13% – 6.4 million units of account – is intended for energy or road infrastructure projects.

The amount of these loans, nearly all of which were orientated towards the industrial sector in the wide sense of the term, obviously gives only a partial idea of their economic impact in countries where this sector is still little developed.

The loans granted by the Bank contribute to the execution of investments totalling about 270 million, which is more than five times the Bank's contribution. It may be estimated that these projects :

- will permit the creation of 8,850 jobs;
- will directly entail an annual supplement of added value in industry of the order of 67 million units of account;
- will ensure annual savings in foreign exchange, after deduction of the foreseeable outward transfers, of some forty million units of account;
- will procure an annual supplement of budgetary receipts which will probably attain nearly 30 million units of account immediately upon expiry of the initial periods of tax exemption.

SPECIAL OPERATIONS.

1. Operations in Turkey.

In the framework of its Special Section, the Bank approved in 1969 six operations totalling 41.7 million units of account for investment projects in Turkey.

These projects are as follows :

- 1 Construction of a dam and a hydroelectric power station at Keban on the Euphrates (East Anatolia), as well as lines making it possible to transport the power produced to Ankara and Istanbul.
Promoters : *D.S.I. - Devlet Su İşleri Genel Müdürlüğü (Directorate-General of the State Hydraulic Works) and ETIBANK.* 10.0 ⁽¹⁾
2. Execution at Istanbul of a road programme comprising the construction of a suspension bridge over the Bosphorus, a bridge over the Golden Horn and an urban motorway of 19 km via the two bridges.
Promoter : *Karayollari Genel Müdürlüğü (Directorate-General of Roads, Ministry of Public Works).* 20.0
3. Construction at Isparta (South Anatolia) of a factory for the production of chipboard panels and veneers.
Promoter : *ORMA - Orman Mahsulleri Integre Sanayi ve Ticaret A.Ş.* 1.2
4. Construction of a synthetic rubber plant at Yarimca, near İzmit.
Promoter : *PETKIM - PETROKIMYA A.Ş.* 9.3
5. Extension of a synthetic fibre factory at Bursa (North-west Anatolia).
Promoter : *SİFAŞ - Sentetik İplik Fabrikalara A.Ş.* 0.4
6. Increase from 3 to 3.8 million of the overall loan granted in 1968 ⁽²⁾ for the financing of industrial projects on a small and medium scale in the private sector.
Intermediary : *TSKB - Türkiye Sınai Kalkınma Bankası (Turkish Industrial Development Bank).* 0.8

(1) The Bank had already approved in 1965 a loan of 30 million for the execution of this project (see 1965 Annual Report, pp. 54 and 55). It decided to grant an additional loan this year in view of the cost increases which occurred in course of construction as a result of the unfavourable subsoil conditions encountered.

(2) See 1968 Annual Report, p. 90.

The projects mentioned above call for some special comments.

The execution of the Istanbul peripheral motorway comprising, inter alia, the Bridge over the Bosphorus, appears to be, technically and economically, an adequate solution to the problem of the Bosphorus crossing and meets the development necessities of the Istanbul region, in which a large part of the industrial and commercial activities of Turkey are concentrated. Its financing is ensured by the Turkish Government with the cooperation of an international syndicate, the co-ordination of which is provided by the Bank and in which the German, French, Italian, British and Japanese Governments also participate. Out of a total estimated cost of 185 million, the contribution of external credits mobilised in this way amounts to 76.8 million.

As regards the Keban project, the problems raised by the cost increases occurring in the civil engineering works on the dam and the power station were examined within the international financing syndicate set up for this project and, in addition to the Bank, the French and Italian Governments have also decided to grant an additional credit of 5 million units of account each.

Despite the cost increases, the project is still of fundamental interest for the Turkish economy and the price of the power to be produced remains satisfactory.

Among the industrial projects, the synthetic rubber plant belongs to the public sector. Its production (synthetic rubber of the styrene-butadiene type and of the polycisbutadiene type) interests a wide range of users, including the tyre industry which is bound to develop rapidly.

The other industrial projects belong to the private sector. The Bank has participated in their financing, as in the past, through the intermediary of the Türkiye Sinaî Kalkınma Bankası - T.S.K.B. (Turkish Industrial Development Bank).

The overall loan granted through the intermediary of this bank for the financing of small- and medium-scale industrial projects has formed the object, in the course of the financial year, of seven appropriations

totalling 2.99 million units of account, of which the breakdown per sector is shown in table 17.

*Table 17 – OVERALL LOAN (T.S.K.B.)
Breakdown per sector of the amount appropriated in 1969*

<i>Sector</i>	<i>Number of investments</i>	<i>Amount of appropriations</i>	
		<i>in million u.a.</i>	<i>% of total appropriated</i>
Non-ferrous metals	1	0.49	16.4
Engineering industry	1	0.42	14.0
Electrical engineering	1	0.30	10.0
Chemical industry	2	0.99	33.1
Food industry	1	0.44	14.7
Other industries	1	0.35	11.7
Total	7	2.99	100.0

The Bank's operations in Turkey are carried out for the account of the E.E.C. member countries by virtue of the mandate conferred on it by the latter with a view to the application of the Financial Protocol appended to the Association Agreement between the E.E.C. and Turkey.

This Protocol, which came into force on 1st December, 1964, expired on 30th November, 1969. It provided for the grant to Turkey, through the intermediary of the Bank, in the course of a five-year period, of loans which could total the equivalent of 175 million units of account. This amount was reached in the periods planned. In all, 36 loans were granted, 8 of which for infrastructure projects and 28 for industrial projects (4 loans to the public sector and 24 to the private sector) :

- 61% of the total amount – or approximately 106 million units of account – were intended for infrastructure projects, among which the largest share goes to the energy sector, followed by that of transport and that of agricultural development;
- the balance, or 39% – approximately 69 million units of account –, is intended to industrial projects, of which 39 million to projects in the public sector and 30 million to projects in the private sector.

The industrial branches having benefited from these loans are, in decreasing order as regards the extent of the Bank's intervention : paper and paperpulp, chemistry, textiles, construction materials, metal processing, glass, wood processing and tyres.

For an appreciation of the Community action in favour of Turkey, it is important to note that the aggregate of the loans granted in the framework of the Protocol which has just expired have contributed to the execution of investments totalling 1,100 million units of account, entailing the direct creation of over 15,000 jobs.

2. *Operations in the Associated African States and Overseas Countries and Territories.*

The Bank continued in 1969 the study of several African projects for which the Commission of the European Communities had asked it to examine the possibility of financing by loans under special conditions from the resources of the European Development Fund. Four operations concerning which the Bank issued a favourable opinion were approved by the Commission; they total 15.0 million units of account. The Bank has received and accepted mandates from the European Economic Community for the management of two of these loans; mandates concerning the other operations will be conferred upon it in the near future.

The projects approved are as follows :

<i>Projects</i>	<i>Loans under special conditions (million u.a.)</i>
Associated African States	
<i>Democratic Republic of Congo :</i>	
Execution of a supplementary high-tension grid at the Inga hydroelectric complex.	
Promoter : <i>Democratic Republic of Congo.</i>	9.0
<i>Republic of Ivory Coast :</i>	
Development of cotton production.	
Promoter : <i>Republic of Ivory Coast.</i>	1.7

<i>Projects</i>	<i>Loans under special conditions (million u.a.)</i>
<i>Gaboon Republic :</i> Construction of a road linking the Lower Obiga (Mikongo) to the river Wagny. Promoter : <i>Gaboon Republic.</i>	2.5
<i>Malagasy Republic :</i> Construction of a refrigerated slaughterhouse at Tananarive. Promoter : <i>Malagasy Republic.</i>	1.8

The Ivory Coast cotton project is, for the Northern regions of the country, the main agricultural goal of the Ten-Year Prospects for economic and social development; it makes an essential contribution to the diversification of crops capable of attenuating the regional disequilibria. In the Democratic Republic of Congo the high-tension grid project which supplements the Inga hydroelectric equipment scheme constitutes the first stage of the operation of a source of cheap power which will make it possible to cope with the rapid growth of electricity consumption in Kinshasa and the Lower Congo region; it represents an important incentive to the establishment of new industries.

The road project in Gaboon has also benefited from an ordinary loan from the Bank, approved in 1968; its execution will make it possible to intensify the exploitation of the wealth of the up-country forests. As for the slaughterhouse project in Madagascar, its interest is mainly of a hygienic and social nature; it will also contribute to the regularisation of the meat market and, in the longer term, it could also be an important factor in the development of meat exports.

* * *

Almost the whole of the amounts provided for in respect of loans under special conditions from the resources of the European Development Fund (E.D.F.) in favour of the A.A.S.M. and the O.C.T., within the framework of the first Yaoundé Convention which expired in 1969, had been taken up at 31st December, 1969. At that date, 15 loans totalling about 46.3 million units of account had been approved by the Commission

of the European Communities after a favourable opinion had been given by the Bank. They concerned eight African and Malagasy States (Ivory Coast, Cameroon, Congo-Kinshasa, Gaboon, Madagascar, Mauritania, Central African Republic and Chad) and two Overseas Countries and Territories (New Caledonia and Surinam) :

- 7 loans totalling 44.3% of the overall amount – or approximately 20.5 million – were appropriated to railway, road or port infrastructures;
- 1 loan representing 19.5% of the total – or 9 million – contributed to the energy equipment;
- 5 loans totalling 30% of the overall amount – or approximately 13.9 million – made possible the execution of agro-industrial complexes such as refrigerated slaughterhouses, oil palm plantations, cotton storage and ginning plants;
- lastly, 2 loans representing 6.2% of the total – or approximately 2.9 million – contributed to the financing of manufacturing industries located in regions remote from access to the sea.

The total cost of the projects for the execution of which these fifteen loans were granted may be estimated at approximately 150 million units of account. The implementation of these projects will enable the direct creation of some 7,000 jobs.

* * *

LOANS APPROVED BY THE BANK FROM 1958 TO 1969

In the course of the period extending from its creation to the end of 1969, the Bank approved 280 loans (ordinary and special operations together) totalling 1,584.3 million units of account, of which : ⁽¹⁾

- 229 loans in respect of ordinary operations for a total amount of 1,363.0 million;
- 51 loans coming under the Special Section for a total amount of 221.3 million.

(1) Including the loans on European Development Fund resources (46.3 million) 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 total cost in fixed investments of the projects towards the financing of which the Bank contributed is estimated at 7,100 million. The Bank's participation averaged approximately 22%.

The graph and the two tables below show the breakdown of the loans approved by the Bank since its creation from a threefold point of view : by type of loans, by country and by sector financed.

The share of the loans effected in Italy remains the largest, both as regards the number of operations effected (50%) and as regards the amount of the operations financed (50%). This situation reflects at one and the same time the provisions of the Protocol on Italy appended to the Treaty and the development requirements of Southern Italy. Then come France (10% in loans, 16% in amount), Germany (7% in loans, 7% in amount) and Benelux (3% in loans, 5% in amount).

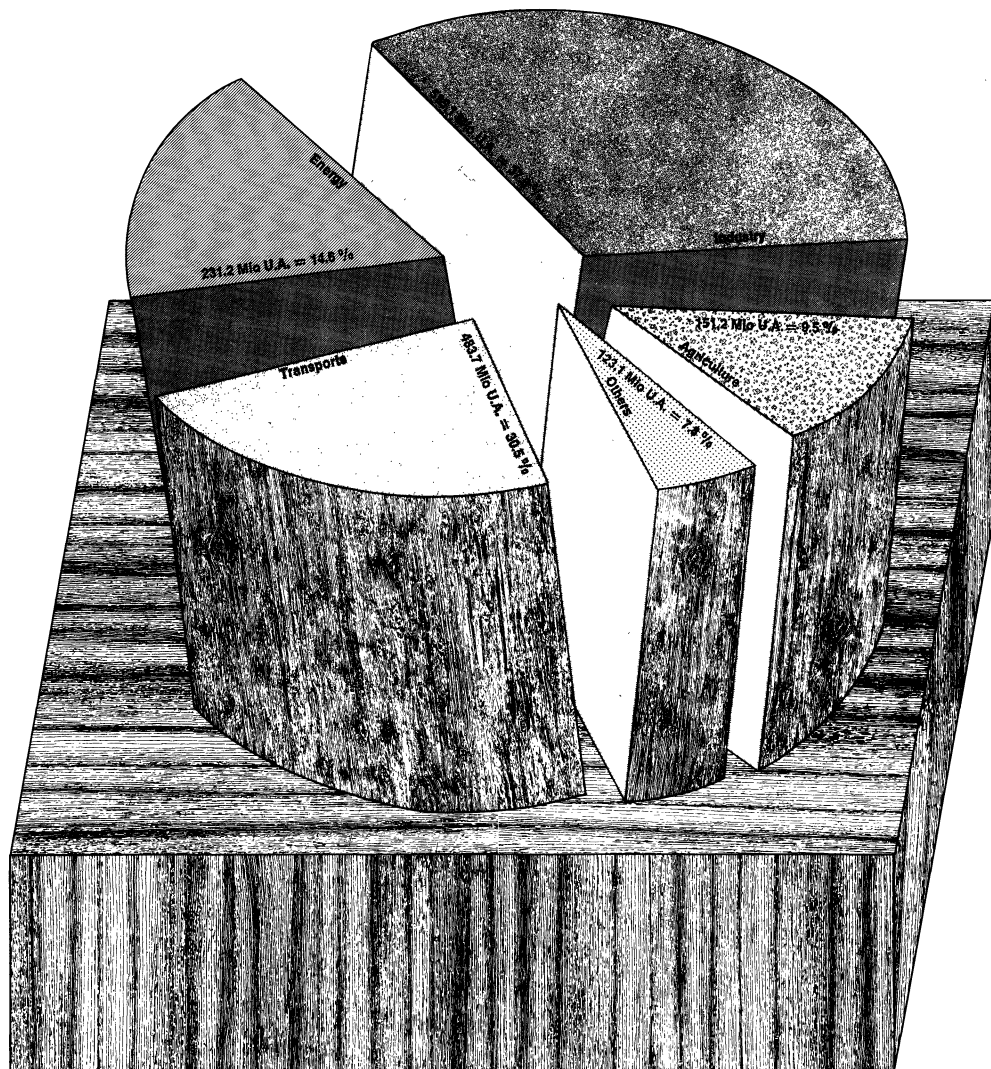
In the Associated Countries, 82 loans were approved by the Bank, for a total amount of 339.4 million units of account (21% of the total amount) ⁽¹⁾.

Among the infrastructure projects, which receive over 60% of the overall amount of the Bank's loans, transport is in the lead (30.5%), followed by energy (14.6%), agricultural development (9.5%) and telecommunications (5.4%). The Bank's activity has been particularly perceptible for some years in two sectors : energy and telecommunications.

The industrial sector has obtained about 38% of the Bank's loans. The chemical, engineering and steel industries, generally requiring loans the unit amount of which is quite high, have received more than half of the loans in favour of this sector.

(2) Cf. foot-note page 108.

DISTRIBUTION PER SECTOR OF APPROVED LOANS
OF THE BANK



Note : Loans in the member countries and associated countries, approved as at 31 December 1969, including the special loans from EDF resources.

Table 18 – LOANS BY THE BANK
Breakdown by type of loans and by country on 31st December, 1969
(Ordinary and special operations)

Country	Number of projects	Amount (1) (million u.a.)	Share of each country in relation to the whole (%)
I. ORDINARY OPERATIONS			
<i>Member Countries :</i>			
Belgium	4	36.8	2.3
Germany	20	115.1	7.3
France	28	254.0	16.0
Italy (2)	141	798.9	50.4
Luxembourg	2	8.0	0.5
Netherlands	3	32.1	2.0
Total	198	1,244.9	78.5
<i>Associated Countries :</i>			
Greece	15	69.2	4.4
A.A.S.M. and O.C.T.	16	48.9	3.0
Cameroon	5	9.5	0.6
Congo-Brazzaville	1	9.0	0.6
Ivory Coast	4	11.6	0.7
Gaboon	3	3.3	0.2
Mauritania	1	11.0	0.7
Senegal	1	2.4	0.1
New Caledonia	1	2.0	0.1
Total	31	118.1	7.4
Total of ordinary operations	229	1,363.0	86.0
II. SPECIAL OPERATIONS			
Turkey (3)	36	175.0	11.0
A.A.S.M. and O.C.T. (4)	15	46.3	3.0
Cameroon	4	14.5	0.9
Congo-Kinshasa	1	9.0	0.6
Ivory Coast	3	11.3	0.7
Gaboon	1	2.5	0.2
Madagascar	1	1.8	0.1
Mauritania	1	2.8	0.2
Central African Republic	1	0.2	—
Chad	1	1.2	0.1
New Caledonia	1	1.0	0.1
Surinam	1	1.9	0.1
Total	51	221.3	14.0
Grand total	280	1,584.3	100.0

(1) Amounts of loans approved :

- including the total amount of overall loans;
- after deduction of the loans – or parts of loans – cancelled before signature;
- on the basis of the equivalent in units of account calculated at the parities in force on the date of signature for the loan contracts signed, and at the parities in force at the time of approval by the Board of Directors for contracts not yet signed.

(2) Including the overall loans CASSA - ISVEIMER (10 million u.a. : appropriated to the amount of 6.6 million u.a. on 31st December, 1969) and CASSA - CIS (3.6 million u.a. : not yet appropriated on 31st December, 1969).

(3) Including the T.S.K.B. overall loan (3.77 million u.a. : appropriated to the amount of 2.99 million on 31st December, 1969).

(4) Loans on resources of the European Development Fund 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.

Table 19 — LOANS BY THE BANK
 Breakdown by sector on 31st December, 1969
 (Ordinary and special operations)

<i>Sectors</i>	<i>Number of projects</i>	<i>Amount (1) (million u.a.)</i>	<i>Share of each sector in relation to the whole (%)</i>
AGRICULTURAL DEVELOPMENT	15	151.2	9.5
ENERGY	25	231.2	14.6
TRANSPORT	40	483.7	30.5
of which :			
— Railways		130.6	8.2
— Roads and bridges		262.4	16.2
— Inland waterways		24.0	1.5
— Port installations		5.6	0.4
— Gas pipe-lines		61.1	3.8
TELECOMMUNICATIONS	5	85.1	5.4
WATER SUPPLY AND DISTRIBUTION	2	28.0	1.8
TOURIST INFRASTRUCTURE	1	10.0	0.6
INDUSTRY	192	595.1	37.6
of which :			
— Extractive industries		39.2	2.5
— Iron and steel		74.5	4.7
— Non-ferrous metals		15.1	1.0
— Construction materials		36.2	2.3
— Glass and ceramics		10.6	0.7
— Pulp - paper		45.8	2.9
— Engineering industry		69.5	4.4
— Electrical engineering, electronics		7.7	0.5
— Chemical industry		176.7	11.1
— Rubber industry		11.3	0.7
— Textiles and clothing		42.4	2.7
— Leather industry		1.8	0.1
— Food industry		52.8	3.3
— Other industries		3.7	0.2
— Unappropriated part of overall loans		7.8	0.5
Total	280	1,584.3	100.0

(1) Compare foot-notes of table 18.

ORIGIN AND EMPLOYMENT OF RESOURCES

ORIGIN OF RESOURCES

The Bank's combined resources, derived from paid-up capital, borrowings and accrued profits appropriated to reserve or provisions amounted to 1,235.9 million units of account on 31st December, 1969, against 1,075.1 million on 31st December, 1968, thus showing in the course of the year a growth of 160.8 million in absolute figures and 15% in relative value.

This progress in the Bank's resources has its origin, to the extent of 146.8 million, in the net growth of borrowed funds and for 14.0 million in the increase in reserves and provisions.

Borrowed funds.

In 1969, the Bank's calls on the financial markets were less numerous and more limited in volume than in the previous year. On the basis of the parities in force on the date when they occurred, they attained the gross equivalent of 146 million units of account, against 212.5 million in 1968.

Table 20 – BORROWINGS BY THE BANK

<i>Financial year</i>	<i>Number</i>	<i>Amount (1) (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
1968	13	212.5
1969	9	146.0
1961-1969	53	912.2 (2)

(1) In units of account calculated at the parities in force on the date of signature of the operation.

(2) The total amount of the Bank's borrowings, effected in the course of the period 1961-1969, is, after adjustment to the parities in force on 31st December, 1969, 928.3 million instead of 912.2 million units of account.

It is on the German financial market that the Bank has procured, in 1969, the greatest part of its resources, by placing six private loans totalling 250 million DM and by offering for public subscription two loans totalling 220 million DM. The first of these two operations took place at the beginning of March, before the intensification of calls of foreign origin on the German market led to the raising of the nominal rate for loans from 6% to 6 1/2%. The second of these issues was made early in November, when the outflows of capital which accompanied the revaluation of the Deutsche Mark had not yet acquired their full volume and when a slight relaxation in interest rates, of a very temporary character, was perceptible : the loan was placed at the nominal rate of 7%.

The execution of these various operations in such favourable conditions was rendered possible only thanks to the understanding attitude and close collaboration of the monetary authorities in the Federal Republic who, by opening wide their market to the Bank in a financial situation which had however become more difficult, permitted it to pursue the development of its lending activities.

Indeed, contrary to its practice in previous years, the Bank was unable to call on the other national financial markets of the Community, inter alia because, by reason of the tensions existing, the interest rates there reached levels that were too high for it.

On the other hand, towards the end of October and for the first time since February 1968, the Bank proceeded, benefiting from the temporary influx of liquidities recorded by the European international market for bonds denominated in dollars immediately after the change in parity of the German currency, to an issue of 25 million dollars, offering a nominal rate of 7 1/2%.

The details of the operations carried out in the course of the financial year are indicated in table 21.

Owing to these issues (146 million units of account) and taking account of the exchange adjustments linked with the changes in parity (7.4 million units of account), the overall amount of funds borrowed increased by 153.4 million in the year, rising from 774.9 million to

Table 21 — BONDS ISSUED IN 1969

<i>Date of issue</i>	<i>Place of issue</i>	<i>Nature of loan</i>	<i>Sub- scrip- tion cur- rency</i>	<i>Amount in national curren- cies (million)</i>	<i>Amount in u.a. (1) (million)</i>	<i>Term of loan (2)</i>	<i>Nomi- nal rate</i>	<i>Placing</i>
March 1969	Fed. Rep. Germany	public	DM	120	30	15 years	6 %	Underwritten by a syndicate of German banks under the management of the Deutsche Bank AG and the Dresdner Bank AG - Offered for public subscription at 98 %.
June 1969	Fed. Rep. Germany	private	DM	30	7.7	15 years	6.5 %	Placed with the Westdeutsche Landesbank Girozentrale, Düsseldorf.
June 1969	Fed. Rep. Germany	private	DM	20	5.0	15 years	6.5 %	Placed with an institutional investor.
June 1969	Fed. Rep. Germany	private	DM	25	6.25	15 years	6.75 %	Placed with the Rheinische Hypothekenbank, Mannheim.
June 1969	Fed. Rep. Germany	private	DM	25	6.25	15 years	6.75 %	Placed with the Frankfurter Hypothekenbank, Frankfurt.
June 1969	Fed. Rep. Germany	private	DM	100	25	12 years	6.5 %	Placed with the Westdeutsche Landesbank Girozentrale, Düsseldorf.
Oct. 1969	Luxembourg	public	US-\$	25	25	15 years	7.5 %	Underwritten by a syndicate composed of the Banca Commerciale Italiana, Kuhn, Loeb & Co., Crédit Suisse (Bahamas) Ltd. and the Banque Internationale à Luxembourg S.A. - Offered for public subscription at 98.5 %.
Oct. 1969	Fed. Rep. Germany	private	DM	50	13.66	15 years	7 %	Placed with an institutional investor.
Nov. 1969	Fed. Rep. Germany	public	DM	100	27.32	15 years	7 %	Underwritten by a syndicate of German banks under the management of the Deutsche Bank AG, Dresdner Bank AG, Commerzbank AG and Westdeutsche Landesbank Girozentrale - Offered for public subscription at 98.5 %.

(1) Evaluation on the basis of the parities in force on the date of signature of the operation.

(2) For the terms and conditions with respect to redemption, cf. pp. 124 - 126.

928.3 million from 31st December, 1968 to 31st December, 1969. After deduction of repayments made, the funded debt amounted to 876.7 million units of account at the latter date, compared with 729.9 million on 31st December, 1968; this is an increase of 146.8 million (cf. page 126).

Accrued profit.

In accordance with the rule adopted in previous financial years, the Bank fully amortised the charges and issue expenses of loans incurred in the course of the year by debiting them to the Profit and Loss Account. These amortisations amounted to 4.8 million. Taking account of these operations, the Balance of the Profit and Loss Account before appropriation to the statutory reserve and to provisions amounted in 1969 to 14.0 million against 9.7 million for the previous year. The progress noted from one year to another stems from factors of an exceptional character : the unusually high level of interest rates on all the national and international monetary markets gave the Bank the opportunity to derive steeply rising income from its available funds. Furthermore, the revaluation of the Deutsche Mark, which led to the revalorisation in units of account of the substantial liquidities held in that currency, made it possible to offset, even with a small surplus margin, the depreciations resulting from the readjustment of the assets in French francs as a result of the devaluation of August, 1969.

The balance of the Profit and Loss Account was appropriated in the amount of 9 million to provisions and, for the rest, to the statutory reserve.

On 31st December, 1969, the overall amount of reserves and provisions was 109.2 million, of which 51.2 million for the statutory reserve.

EMPLOYMENT OF RESOURCES

On 31st December, 1969, the amount of loans signed attained, on the basis of the parities in force on the date of their signature, the equivalent of 1,260.1 million units of account, against 996.7 million on

31st December, 1968. After deduction of exchange adjustments on the amounts not yet disbursed (3.8 million), and the unappropriated portion of the overall loans (7 million units of account), the total amount of credits opened was 1,249.3 million as against 986.7 million a year previously.

Taking account of terminations and cancellations at the end of 1969 on loans signed (3.3 million units of account), capital redemptions (109.8 million, of which 31.1 million for the financial year) and, conversely, of exchange adjustments on the amounts disbursed (8 million, of which 7.5 million for the financial year), the overall amount of effective loans was 1,144.2 million units of account at the end of 1969, against 905.2 million at the end of 1968, thus showing a progress of more than 26% (cf. page 120).

Disbursements made in 1969 amounted to 221.4 million, against 175.7 million in 1968. The outstanding amount of loans disbursed was thus 896.0 million on 31st December, 1969.

For its part, the amount still to be disbursed on effective loans increased from 207 million to 248.2 million.

* * *

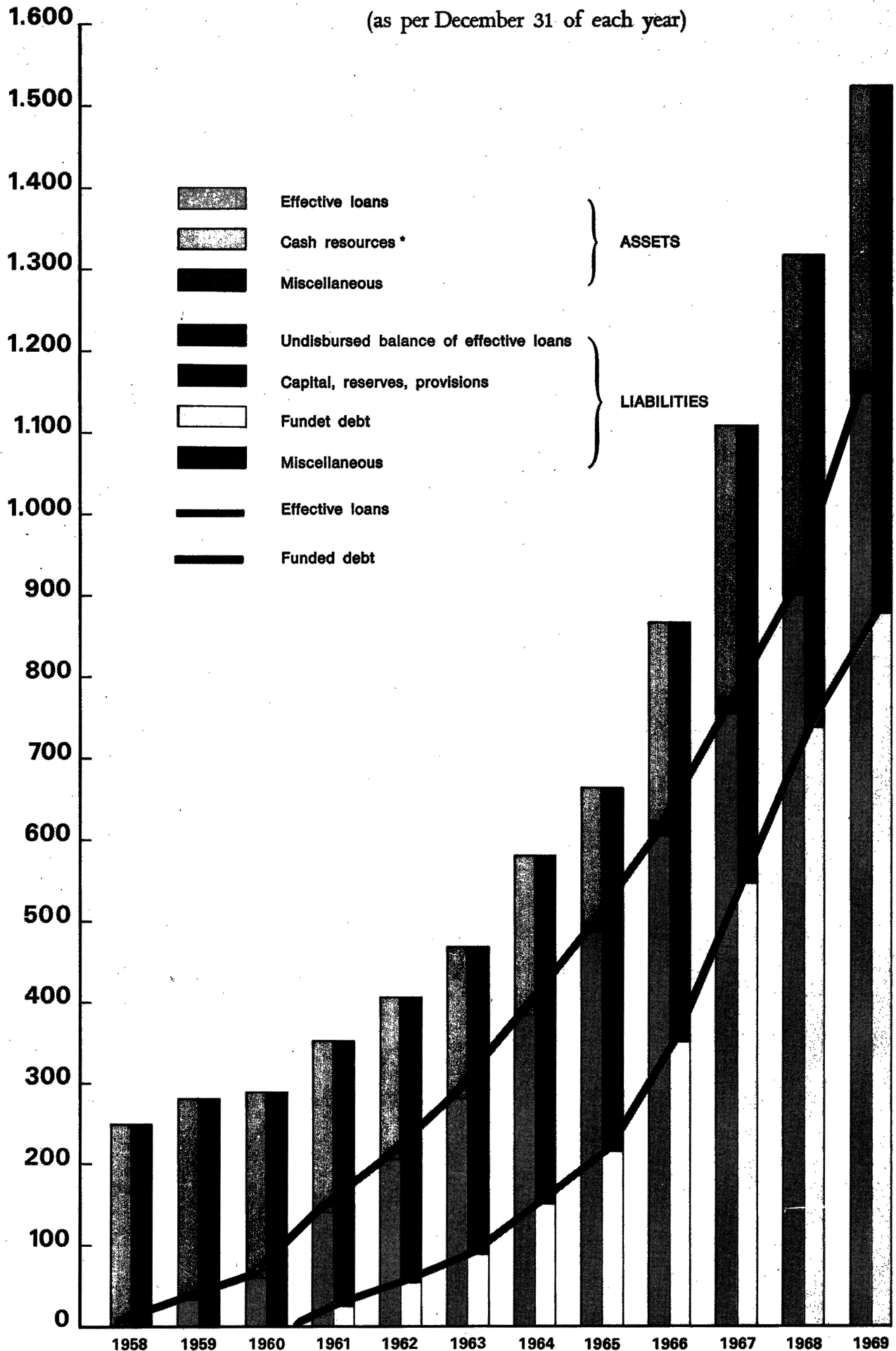
Precisely by reason of its mission as development bank, the Bank has made a point of ensuring that its clientèle have had to bear only at the latest possible juncture the consequences of the gradual rise in long-term interest rates on the capital markets. In view of the acceleration of this uptrend, however, it was obliged, in the course of the second half-year, to increase on two occasions the rate of interest which it applies to its ordinary loan operations.

First of all, on 9th July, it raised from 6.5 to 7% the rate for loans not exceeding 12 years and from 6 7/8 to 7.5% the rate applicable to loans exceeding that term.

On 18th December, it decided a further increase in the interest rates for its loans, i.e., from 7 to 7.5% when the term of the loan does not exceed 12 years and from 7.5 to 8% when the term of the loan is more than 12 years.

Mio U.A.

BALANCE OF THE BANK (as per December 31 of each year)



* « Cash and banks », « Gold assets and investments », « Receivable on proceeds of loans ».

III

COMMENTS ON THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT ⁽¹⁾

The balance sheet and profit and loss account are enclosed with this Report (cf. page 134 et seqq.).

Their main items are analysed below :

BALANCE SHEET

The balance sheet total as at 31st December, 1969, amounts to 1,525,561,470 u.a. On 31st December, 1968, this total was 1,318,808,320 u.a.

ASSETS

Cash and banks, gold assets and investments.

The total of these three items amounts to 346,150,490 u.a., as against 316,765,874 u.a. on 31st December, 1968, as can be seen from the detailed breakdown hereunder :

	on 31st December, 1968	on 31st December, 1969
– Cash in hand and banks	230,183,980	245,685,859
– Gold assets	8,669,918	8,686,750
– Investments	77,911,976	91,777,881

The treasury bonds, bonds and notes to the value of 61,636,739 u.a. forming part of the “Investments” item, have been valued at cost price or at market quotation as at 31st December, 1969, if the latter were below cost price, with a maximum of 100%.

⁽¹⁾ The Bank's balance sheet and profit and loss account are expressed in units of account and calculated on the basis of the par values in force on closing day (cf. page 2).

The “Investments” heading further includes the Bank’s own bonds which have been purchased by it at repurchase cost, viz. 2,609,113 u.a. (par value of 2,681,316 u.a.).

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

– Currencies of Member Countries	222,041,731 u.a.
– Other currencies	115,422,009 u.a.
– Gold	8,686,750 u.a.

The breakdown by maturities is :

– At call	33,146,257 u.a.
– Not exceeding 3 months	158,617,857 u.a.
– Exceeding 3 months but not exceeding 6 months	60,728,725 u.a.
– Exceeding 6 months but not exceeding 1 year	39,357,720 u.a.
– Exceeding 1 year	54,299,931 u.a.

Amounts receivable under article 7 § 1 of the Statutes.

Under this heading are listed the amounts receivable from the French Government as a result of the adjustment following the devaluation of the French Franc of the share of the capital paid up in the national currency of this State.

Effective loans.

The amount of 1,144,239,909 u.a. represents the total amount of the loans for which agreements had been signed by 31st December, 1969, less repayments, which totalled 31,066,366 u.a. during the year, and cancellations. Of this total, the amount actually paid out to borrowers by that date is 895,999,841 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	694,227,981 u.a.
– Currencies of any Member State at the Bank's option	24,478,742 u.a.
– Other currencies	177,293,118 u.a.

The undisbursed amounts, viz. 248,240,068 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, 1968	on 31st December, 1969
– Amounts disbursed	698,164,198	895,999,841
– Amounts undisbursed	207,041,418	248,240,068
Total of loans	905,205,616	1,144,239,909

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	19,730,387	10,000,000	29,730,387
Germany	102,436,013	3,961,748	106,397,761
France	173,528,309	41,680,245	215,208,554
Italy	498,156,029	142,640,001	640,796,030
Luxembourg	6,585,936	–	6,585,936
Netherlands	19,349,485	13,121,547	32,471,032
Greece	52,353,644	12,349,090	64,702,734
Ivory Coast	959,469	10,059,861	11,019,330
Cameroon	5,918,009	3,413,701	9,331,710
Senegal	2,446,623	–	2,446,623
Congo (Brazzaville)	9,163,398	–	9,163,398
Gaboon	853,632	2,388,875	3,242,507
Mauritania	4,518,907	6,600,000	11,118,907
New Caledonia	–	2,025,000	2,025,000
	895,999,841	248,240,068	1,144,239,909

The breakdown of effective loans according to the principal guarantee covering them shows that, of the total amount of 1,144,239,909 u.a., loans granted to Member States or benefiting from their guarantee amount to 903,749,267 u.a.; loans granted to governmental institutions of Member States or guaranteed by governmental institutions amount to 108,366,377 u.a.; loans assisted by the guarantee of Associated Countries amount to 26,040,171 u.a.; the balance of 106,084,094 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.

Unamortized redemption premiums.

The amount of 4,595,197 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.

LIABILITIES

Subscribed 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 of 46,239,513 u.a. at the beginning of the year has been increased to 51,255,655 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 41,000,000 u.a. at the end of the previous financial year, is increased to 47,000,000 u.a.

The provision for monetary risks not covered under article 7 of the Statutes, which amounted to 2,000,000 u.a., is increased to 5,000,000 u.a. whereas the provision for equalization of interest on borrowings and for issuing charges, amounting to 6,000,000 u.a. at the close of the previous year, remains unchanged.

Total provisions therefore amount to 58,000,000 u.a., as against 49,000,000 u.a. at the end of the previous financial year.

Staff pension fund.

The amount appearing under this heading is 1,734,362 u.a., as against 1,405,111 u.a. on 31st December, 1968.

Amounts due under Article 7 § 2 of the Statutes.

The amount appearing under this heading is 3,334,868 u.a., as against 243,328 u.a. at the close of the previous financial year. This increase represents the amount still due to the Federal Republic of Germany as a result of the adjustment of the share of the capital paid up in the national currency of this State following the revaluation of the Deutsche Mark during the financial year.

Medium and long term debt.

The figure of 882,602,510 u.a. under this heading represents the Bank's current borrowings as at 31st December, 1969, as well as the redemption premiums relating thereto.

The breakdown of the funded debt is as follows :

	<i>In local currency</i>	<i>In u.a.</i>	<i>Final matu- rity</i>	<i>Amortization</i>
<i>Deutsche Mark</i> (million)				
5 1/2% Bonds of 1963	60.0	16,393,443	1970	at maturity.
5 1/2% Bonds of 1964	80.0	21,857,924	1974	at maturity.
5-5 1/4% Bonds of 1964 (serial bonds)	16.8	4,590,165	1971	in 2 substantially equal annual instalments 1970-1971.
6 1/2% Bonds of 1967	20.0	5,464,481	1977	at maturity.
6 1/2% Private loan 1968	100.0	27,322,404	1980	in 10 equal annual instalments 1971-1980.
6 1/2% Bonds of 1968	100.0	27,322,404	1978	at maturity.
6 1/4% Private loan 1968	50.0	13,661,202	1974	at maturity.
6 1/2% Private loan 1968	50.0	13,661,202	1983	in 10 equal annual instalments 1974-1983.
6 3/4% Private loan 1968	50.0	13,661,202	1983	in 10 equal annual instalments 1974-1983.
6 1/4% Private loan 1968	25.0	6,830,601	1983	in 10 equal annual instalments 1974-1983.
6 1/4% Private loan 1968	50.0	13,661,202	1978	at maturity.
6 1/4% Private loan 1968	25.0	6,830,601	1984	in 6 annual instalments of DM 2 million, 1973-1978; 1 instalment of DM 3 million 1979 and 5 instalments of DM 2 million 1980-1984.
6 1/2% Private loan 1968	100.0	27,322,404	1984	in 10 equal annual instalments 1975-1984.
6% Bonds of 1969	120.0	32,786,886	1984	in 10 equal annual instalments 1975-1984.
6 3/4% Private loan 1969	25.0	6,830,601	1984	in 10 equal annual instalments 1975-1984.
6 3/4% Private loan 1969	25.0	6,830,601	1984	in 10 equal annual instalments 1975-1984.
6 1/2% Private loan 1969	30.0	8,196,721	1984	in 10 equal annual instalments 1975-1984.
6 1/2% Private loan 1969	20.0	5,464,481	1984	in 10 equal annual instalments 1975-1984.
6 1/2% Private loan 1969	100.0	27,322,404	1984	in 10 equal annual instalments 1972-1981.
7% Bonds of 1969	100.0	27,322,404	1984	in 10 equal annual instalments 1975-1984.
7% Private loan 1969	50.0	13,661,202	1984	in 10 equal annual instalments 1975-1984.
DM	1,196.8	326,994,535		
<i>French Francs</i> (million)				
5% Bonds of 1963	45.0	8,101,991	1983	1/3 of the nominal value of each bond at the end of the 10th, 15th and 20th years.
6 1/4% Bonds of 1966	160.0	28,807,081	1981	in 4 equal three-yearly instalments 1972-1981 with increasing redemption premium
6 1/4% Bonds of 1967	200.0	36,008,851	1985	in 6 substantially equal three-yearly instalments 1970-1985 at increasing redemption prices.
	FF 405.0	72,917,923		
Redemption premiums		5,905,488		
		78,823,411		

		<i>In local currency</i>	<i>In u.a.</i>	<i>Final maturity</i>	<i>Amortization</i>
<i>Italian Lire</i>		<i>(1.000 million)</i>			
5%	Bonds of 1962	15.0	24,000,000	1977	at maturity.
6%	Bonds of 1965	14.469	23,150,400	1985	in 16 annuities * 1970-1985.
6%	Bonds of 1966	15.0	24,000,000	1986	in 17 annuities * 1970-1986.
6%	Bonds of 1966	15.0	24,000,000	1986	in 15 equal annual instalments 1972-1986.
6%	Bonds of 1967	15.0	24,000,000	1987	in 17 annuities * 1971-1987.
6%	Bonds of 1968	15.0	24,000,000	1988	in 17 annuities * 1972-1988.
		<hr/>	<hr/>		
	Lit.	89.469	143,150,400		
<i>Belgian Francs</i>		<i>(million)</i>			
6%	Bonds of 1963	388.8	7,776,000	1987	in 18 annuities * 1970-1987.
6 1/2%	Bonds of 1965	457.5	9,150,000	1977	in 8 annuities * 1970-1977.
7%	Bonds of 1966	500.0	10,000,000	1978	in 6 annual instalments of Belg. fr. 30 million 1972-1977 and one instal- ment of Belg. fr. 320 million 1978.
7%	Bonds of 1967	750.0	15,000,000	1982	in 5 annual instalments of Belg. fr. 22.5 million 1973-1977, 4 annual instal- ments of Belg. fr. 37.5 million 1978- 1981 and one instalment of Belg. fr. 487.5 million at maturity.
6 3/4%	Bonds of 1968	750.0	15,000,000	1982	in 8 annual instalments of Belg. fr. 37.5 million 1974-1981 and one instal- ment of Belg. fr. 450 million 1982.
		<hr/>	<hr/>		
	Belg.fr.	2,846.3	56,926,000		
<i>Dutch Florins</i>		<i>(million)</i>			
4 1/2%	Bonds of 1961	39.95	11,035,911	1981	in 12 substantially equal annual instalments 1970-1981.
4 3/4%	Bonds of 1962	30.0	8,287,293	1982	in 10 equal annual instalments 1973-1982.
5 3/4%	Bonds of 1964	30.0	8,287,293	1984	in 10 equal annual instalments 1975-1984.
5 3/4%	Bonds of 1965	40.0	11,049,724	1990	in 15 substantially equal annual instalments.
6 3/4%	Bonds of 1968	40.0	11,049,724	1988	in 10 equal annual instalments.
		<hr/>	<hr/>		
	Fls.	179.95	49,709,945		
<i>Luxembourg Francs</i>		<i>(million)</i>			
5%	Bank credit 1964	Lux. fr. 37.41	748,219	1974	in 5 annuities * 1970-1974.

* in capital and interest.

	<i>In local currency</i>	<i>In u.a.</i>	<i>Final matu- rity</i>	<i>Amortization</i>
<i>US Dollars</i>	<i>(million)</i>			
5 1/2% Bonds of 1964	25.0	25,000,000	1984	in 15 substantially equal annual instalments 1970-1984.
6% Bonds of 1965	20.0	20,000,000	1985	in 15 substantially equal annual instalments 1971-1985.
6 1/2% Bonds of 1966	21.25	21,250,000	1976	in 7 increasing annual instalments 1970-1976.
6 1/2% Bonds of 1966	15.0	15,000,000	1986	in 15 equal annual instalments 1972-1986.
6 1/2% Bonds of 1967	25.0	25,000,000	1982	in 5 annual instalments of \$ 1.25 million 1973-1977 and 5 annual instalments of \$ 3.75 million 1978-1982.
6 1/2% Bonds of 1967	25.0	25,000,000	1987	in 15 substantially equal instalments 1973-1987.
6% Bonds of 1967	20.0	20,000,000	1972	at maturity.
6 1/2% Bonds of 1967	25.0	25,000,000	1982	in 5 annual instalments of \$ 1.25 million 1973-1977 and 5 annual instalments of \$ 3.75 million 1978-1982.
6 3/4% Bonds of 1968	25.0	25,000,000	1980	in 8 equal annual instalments of \$ 1 million 1971-1978 and 2 equal annual instalments of \$ 8.5 million 1979-1980.
7 1/2% Bonds of 1969	25.0	25,000,000	1984	in 8 equal annual instalments of 0.5 million 1972-1979 and 5 equal annual instalments of \$ 4.2 million 1980-1984.
	US \$ 226.25	226,250,000		
	<u>Grand total</u>	<u>882,602,510</u>		

During the financial year the funded debt of the Bank, broken down by currencies, developed as follows (in units of account) :

	<i>Principal outstanding at 31st Decem- ber, 1968</i>	<i>Operations during the financial year</i>			<i>Principal outstanding at 31st Decem- ber, 1969</i>
		<i>Borrowings</i>	<i>Repayments</i>	<i>Exchange rate adjustment</i>	
in DM	183,775,000	+ 128,415,299	- 2,075,000	+ 16,879,236	326,994,535
in FF	90,134,615	—	8,101,988	- 9,144,704	72,917,923
in Lit.	144,000,000	—	849,600	—	143,150,400
in Fls.	58,000,000	—	1,074,000	—	56,926,000
in Belg. fr.	50,635,359	—	925,414	—	49,709,945
in Lux. fr.	877,180	—	128,961	—	748,219
in US \$	202,500,000	25,000,000	1,250,000	—	226,250,000
Total	729,922,154	153,415,299	14,404,963	+ 7,764,532	876,697,022
Redemption premiums	6,886,730	—	243,060	- 738,182	5,905,488
	736,808,884	153,415,299	14,648,023	+ 7,026,350	882,602,510

Miscellaneous.

The amount of 4,409,837 u.a. under this heading includes 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, and sundry creditors.

MEMORANDUM ACCOUNTS

Receivable on bonds to be delivered.

The amount of 16.4 million u.a. represents the equivalent of nom. DM 60 million, 6 1/2% bonds of 1967 at 10 years to be issued in the framework of a loan of DM 80 million concluded with the Federal Republic of Germany in connection with the latter's contribution to the financial assistance to Greece.

Overall loans granted but not yet appropriated.

The amount represents the equivalent of the overall loans signed and intended for the financing of industrial initiatives on a small and medium scale in Italy. The amounts appropriated are deducted from this heading and listed in the balance sheet under the heading "Effective loans".

SPECIAL SECTION

The item of 197,423,592 u.a. represents the total amount of loan agreements signed by the Bank in the framework of its Special Section at 31st December, 1969 :

- | | |
|--|------------------|
| a) for the financing of projects located in Turkey, for the account and on mandate of the Member States | 163,890,476 u.a. |
| b) for the financing of projects located in the Associated African Countries and Madagascar and in the Overseas Countries and Territories (A.A.S.M./ O.C.T.) for the account and on mandate of the European Economic Community | 33,533,116 u.a. |

Of these amounts, respectively 93,962,241 u.a. and 3,159,091 u.a. had been disbursed.

The heading "part of overall loan granted but not yet appropriated", viz. 780,339 u.a., represents the part not yet appropriated of an overall loan intended for the financing of industrial initiatives on a small and medium scale in Turkey.

The detailed situation in respect of the Special Section appears on page 138 of the present Report.

PROFIT AND LOSS ACCOUNT

DEBIT

Administrative expenses and charges.

The administrative expenses and charges amounted to 3,764,630 u.a., as against 3,212,116 u.a. for the previous year.

They are made up as follows :

– Staff expenses	2,568,783 u.a.
– General expenses and provision for contingencies	1,195,847 u.a.

The increase in staff expenses is mainly due to the adaptation of salaries in 1969 in relation with the rise in the cost of living during the previous year, staff expansion and contractual salary increases.

The staff of the Bank totalled 183 persons on 31st December, 1969, 118 of whom were employed in the translation, administrative, equipment and maintenance services.

Interest and charges on borrowings.

This item, amounting to 54,517,828 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.

Financial charges.

The amount of 548,751 u.a. under this heading can almost entirely be accounted for by the differences resulting from valuation of the Portfolio.

Amortization of net purchases – furniture and equipment.

Net payments for furniture and equipment, made during the year and fully amortized, amounted to 62,125 u.a., as against 37,961 u.a. for the previous year.

CREDIT

Interest and commission from loans.

This item amounts to 48,172,338 u.a., as against 37,824,683 u.a. for the previous year. The increase is in proportion to the increase in amounts paid out on effective loans.

Interest and commission from investments.

The amount of income from investments of available funds is 24,078,209 u.a., as against 18,651,681 u.a. for the previous year.

Management commission.

This item amounting to 187,996 u.a., previously listed under the heading "Other income net", represents the remuneration for the management of the loans for the account and on mandate of the Member States and the E.E.C.

Net income resulting from the change in the par values of the Deutsche Mark and the French Franc.

The amount of 429,769 u.a. includes, on the one hand, the Bank's loss resulting from the devaluation of the French franc on 11th August, 1969, viz. 2,305,139 u.a., and, on the other hand, the profit resulting from the revaluation of the Deutsche Mark on 27th October, 1969, viz. 2,734,908 u.a.

IV

ADMINISTRATION OF THE BANK

Modifications have taken place in the composition of the Board of Directors following changes in functions of several of its members :

Messrs. GIROLAMO TROTTA and MICHEL ALBERT have resigned.

In replacement of Mr. TROTTA, the Board of Governors appointed Mr. UGO MORABITO in the capacity of Alternate of Mr. STEFANO SIGLIENTI.

We thank Messrs. TROTTA and ALBERT for their valuable and competent collaboration.

Two members of the Audit Committee deceased in 1969 : Mr. RENÉ BRESSON, Chairman in office, and Mr. ADRIAAN MARIE DE JONG.

The Bank has deeply mourned the loss of these two members, who had contributed to it, ever since its origin, their great experience and exceptional competence.

The Board of Governors appointed Messrs. ROGER LÉONARD and EMILE RAUS to replace them.

* * *

Luxembourg, 28th April, 1970

The Chairman, Board of Directors
PARIDE FORMENTINI

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

REPORT OF PRICE WATERHOUSE & Co.

Rue Ravenstein 60

B - 1000 Brussels

The President,

EUROPEAN INVESTMENT BANK

LUXEMBOURG

We have examined the Balance Sheet of the European Investment Bank at December 31, 1969 and the related Profit and Loss Account for the year. Our examination 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.

Investments include (a) Treasury bonds, cash certificates and bonds stated at the lowest of cost, nominal, redemption or market value : 61,636,739 u.a., (b) the bank's own repurchased bonds at repurchase price : 2,609,113 u.a., and (c) private or bank bills at nominal value : 27,532,029 u.a.

In our opinion, the accompanying financial statements, supplemented by the information contained in the preceding paragraph, present fairly the financial position of the European Investment Bank at December 31, 1969 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.

March 12, 1970

PRICE WATERHOUSE & Co

BALANCE SHEET A 7

(in units of account of 0.88867088

The conversion rates used in the account

50 Belg. fr. = 3.66 DM = 5.55419 FF = 625 Lit

ASSETS

CASH AND BANKS		
At call or not exceeding one year	237,298,618	
Over one year	8,387,241	
		245,685,85
GOLD ASSETS		8,686,75
INVESTMENTS		
Not exceeding one year	45,865,190	
Over one year	45,912,691	
		91,777,88
AMOUNTS RECEIVABLE UNDER ART. 7 §1 OF THE STATUTES		2,061,53
EFFECTIVE LOANS		
Of which :		
Disbursed	895,999,841	
Undisbursed balance	248,240,068	
		1,144,239,90
FURNITURE AND EQUIPMENT		
ACCRUED INTEREST AND COMMISSION		19,311,07
UNAMORTIZED REDEMPTION PREMIUMS		4,595,19
SPECIAL DEPOSITS FOR SERVICE OF LOANS.		8,674,19
MISCELLANEOUS		529,06
		1,525,561,47
	<i>Total Assets : u.a.</i>	1,525,561,47

MEMORANDUM

RECEIVABLE ON BONDS TO BE DELIVERED	16,393,44
OVERALL LOANS GRANTED BUT NOT YET APPROPRIATED	7,000,00

SPECIAL SECTION

Effective loans for the account of and on mandat
 (of which : disbursed :
 undisbursed balance :
 Part of overall loan granted but not yet appropriate

DECEMBER 31, 1969

(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

SUBSCRIBED CAPITAL	1,000,000,000	
of which paid up in accordance with Art. 5 § 1 of the Statutes		250,000,000
STATUTORY RESERVE		51,255,655
PROVISIONS		
- for risks on loans and guarantees	47,000,000	
- for equalization of interest on borrowings and for issuing charges	6,000,000	
- for monetary risks not covered under Art. 7 of the Statutes	5,000,000	
		58,000,000
STAFF PENSION FUND		1,734,362
AMOUNTS DUE UNDER ART. 7 § 2 OF THE STATUTES . . .		3,334,868
MEDIUM AND LONG TERM DEBT	876,697,023	
REDEMPTION PREMIUMS	5,905,487	
		882,602,510
UNDISBURSED BALANCE OF EFFECTIVE LOANS		248,240,068
ACCRUED INTEREST PAYABLE AND INTEREST RECEIVED IN ADVANCE		17,309,973
COUPONS AND BONDS DUE - NOT YET PAID		8,674,197
MISCELLANEOUS		4,409,837
		1,525,561,470
	<i>Total Liabilities : u.a.</i>	

ACCOUNTS

BONDS TO BE DELIVERED	16,393,443
COMMITMENTS ON OVERALL LOANS GRANTED BUT NOT YET APPROPRIATED	7,000,000
from third parties . u.a.	197,423,592
. . u.a. 97,121,332	
. . u.a. 100,302,260)	
. u.a.	780,339

PROFIT AND LOSS ACCOUNT FOR THE

(in units of account of 0.88867088)

DEBIT

ADMINISTRATIVE EXPENSES	3,764,63
INTEREST AND CHARGES ON BORROWINGS	54,517,82
FINANCIAL CHARGES	584,75
AMORTIZATION OF NET PURCHASES – FURNITURE AND EQUIPMENT	37,96
PROVISION FOR RISKS ON LOANS AND GUARANTEES	6,000,00
PROVISION FOR MONETARY RISKS NOT COVERED UNDER ART. 7 OF THE STATUTES.	3,000,00
BALANCE APPROPRIATED TO THE STATUTORY RESERVE	5,016,14
<i>Total : u.a.</i>	72,921,31

FINANCIAL YEAR ENDED DECEMBER 31, 1969

(fine gold – Art. 4 of the Statutes)

CREDIT

INTEREST AND COMMISSION FROM LOANS.	48,172,338
INTEREST AND COMMISSION FROM INVESTMENTS.	24,078,209
MANAGEMENT COMMISSION	187,996
EXCHANGE DIFFERENCES	53,000
NET INCOME RESULTING FROM THE CHANGE IN THE PAR VALUES OF THE DEUTSCHE MARK AND THE FRENCH FRANC.	429,769
<i>Total : u.a.</i>	<u>72,921,312</u>

SPECIAL
STATEMENT OF CONDITION

(in units of account o

ASSETS

(I) TURKEY		
RECEIVABLE FROM MEMBER COUNTRIES		
for effective loans		69,928,231
EFFECTIVE LOANS		
of which :		
disbursed	93,962,241	
undisbursed balance	69,928,235	
		163,890,476
RECEIVABLE FROM MEMBER COUNTRIES FOR OVERALL LOAN GRANTED BUT NOT YET APPROPRIATED		233,818,711
	Total Turkey	234,599,050
(II) ASSOCIATED AFRICAN AND MALAGASY STATES AND OVERSEAS COUNTRIES AND TERRITORIES		
RECEIVABLE FROM EUROPEAN ECONOMIC COMMUNITY		
for effective loans	30,374,025	
EFFECTIVE LOANS		
of which :		
disbursed	3,159,091	
undisbursed balance	30,374,025	
	33,533,116	
	Total AASM/OCT	63,907,141
	<i>Total Assets : u.a.</i>	298,506,191

SECTION

AT DECEMBER 31, 1969

).88867088 g fine gold)

LIABILITIES

(I) TURKEY

MEMBER COUNTRIES FOR EFFECTIVE LOANS	163,890,476
UNDISBURSED BALANCE OF EFFECTIVE LOANS	69,928,235
	<hr/>
	233,818,711
MEMBER COUNTRIES FOR OVERALL LOAN GRANTED BUT NOT YET APPROPRIATED	780,339
	<hr/>
Total Turkey	234,599,050

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

EUROPEAN ECONOMIC COMMUNITY FOR EFFECTIVE LOANS	33,533,116
UNDISBURSED BALANCE OF EFFECTIVE LOANS	30,374,025
	<hr/>
Total AASM/OCT	63,907,141

<i>Total Liabilities</i> : u.a.	<hr/> <hr/> 298,506,191
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STATEMENT BY THE AUDIT COMMITTEE

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

considering the 1969 Annual Report and the balance sheet of the Bank as at December 31, 1969 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 28, 1970.

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

hereby certifies :

that the Bank's operations during the 1969 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.

Luxembourg, 12th May, 1970

The Audit Committee,

K. BERNARD

E. RAUS

R. LÉONARD

THE EUROPEAN INVESTMENT BANK AND THE FRONTIER REGIONS ⁽¹⁾

The notion of frontier is one of the various regional division criteria which can be applied to the Europe of the Six. The map of the Community countries which is inserted in this chapter shows that indeed, with the exception of the central areas of France and, to a lesser extent, of the Federal Republic of Germany, the major administrative regions of the Common Market are bounded by frontiers : internal frontiers between member countries of the Community, external frontiers with non-Community countries (for which a distinction should be made between the traditional historical frontiers and those which were the consequence of World War II, resulting in the formation of the so-called “ eastern border regions ”), and lastly, maritime frontiers.

Among these four categories of frontier regions, the internal frontier regions and the eastern border regions present a peculiar character : their relations with the neighbouring regions or territories have been the object, immediately after the War or subsequent to the creation of the Common Market, of significant changes, resulting directly from decisions of an institutional order. In both cases, the factors governing movements of goods and decisions to locate economic units, as well as the circulation of persons and the capital flows, have been transformed.

For the internal frontier regions, the fact that the economies have been brought into direct communication has led to a rethinking of the problems in a new perspective defined, on the one hand, by the widening of the market, the increased competition and the greater mobility of production factors and, on the other, by the existence or emergence of difficulties linked with the lack of harmonisation or with the gaps still existing in the relations between adjacent regions.

(1) This study must be regarded as merely a stepping stone to deal more comprehensively with a subject of increasing interest within the Community. A more complete study will be made as soon as detailed statistical data are available for the regions or areas concerned, especially when the Bank's loans are more numerous and their effects may be evaluated once the investments have been carried through.

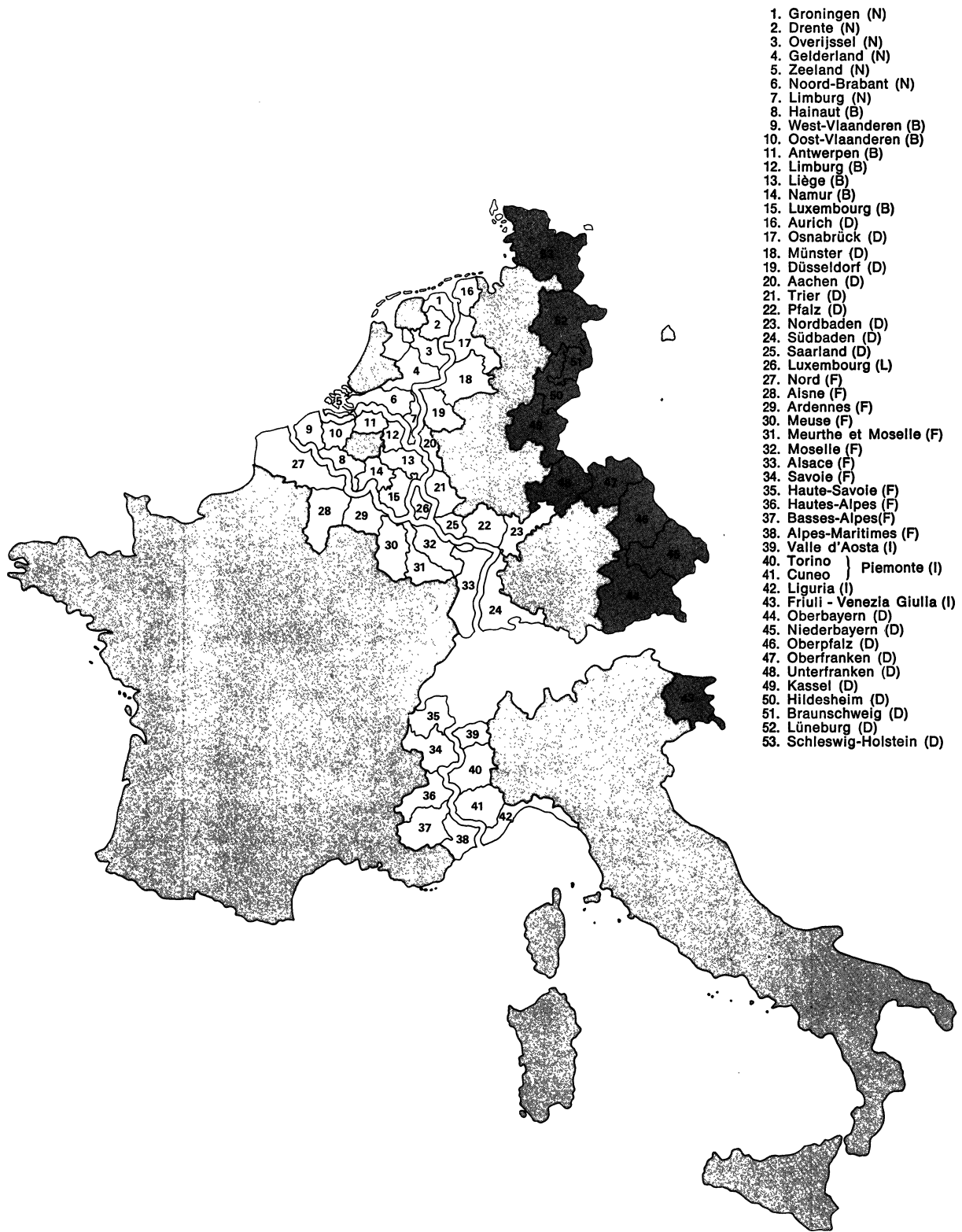
As for the eastern border regions, they have had to cope, on the contrary, with a brusque interruption of traditional economic relations and a great uncertainty about the future. Frequently, the advantage of a favourable geographical situation has suddenly been replaced by a peripheral position. The basic economic problem has become that of a fundamental readjustment in the light of the new political situation and a reorientation of production and trade.

The other two categories of frontier regions : on the one hand, the coastal areas, and on the other, those which adjoin Spain, Switzerland, Austria and Denmark, are also experiencing adjustment difficulties due to the creation of the Common Market. For the former, the maritime traffic may be influenced by a certain reorientation of trade, and the common transport policy may create new conditions. For the latter, the implementation of the Common Market is bound to affect one or another of them, traditionally linked with Spain or Switzerland, Austria or Denmark. The peripheral character of both is indeed accentuated in relation to the industrialised centres of the European Community.

This chapter is devoted to the internal frontier regions and the eastern border regions, i.e., those for which the decisions of an institutional nature have given or give rise to the most far-reaching transformations. The Bank has always been attentive to their situation and has at all times endeavoured to contribute to their economic development. In accordance with its Statutes, it has intervened to finance investment projects there, in a supplementary manner. Pursuant to Article 130 of the Treaty, its interventions have been based sometimes on the low level of the economic development of certain frontier regions, sometimes on the need for readjustment or modernisation, and in some cases on the common interest of the projects for several member countries.

The Bank's activities in the internal frontier regions and the eastern border regions form the kernel of this study, but it seemed opportune to situate it in the economic and Community context of the regions in question.

INTERNAL FRONTIER REGIONS AND EASTERN BORDER REGIONS
OF THE EUROPEAN ECONOMIC COMMUNITY



I. THE INTERNAL FRONTIER REGIONS

A. General situation and evolution.

On both sides of the frontiers separating the territories of two member countries there are often regions the economic structure of which has been strongly marked by the very existence of the frontier. Obviously a strict delimitation of these internal frontier regions is rather difficult, especially as regards the determination of the territorial depth or the degree of homogeneity which it would be advisable to select in the definition. For this reason, and also because statistics are scarcely available other than at the level of administrative units, it seemed opportune to confine our attention to these units, even if they are not altogether comparable from one country to another; these units are the "Regierungsbezirke" in the Federal Republic of Germany, the provinces in Belgium, Italy and the Netherlands, the "départements" in France and the whole of the Grand Duchy of Luxembourg.

There are about fifty of these administrative units which have the characteristics of "internal frontier regions". As the map shows, these regions are essentially concentrated along a zone which, in the South,

Table I – SOME CHARACTERISTIC DATA OF THE INTERNAL FRONTIER REGIONS OF THE EUROPEAN COMMUNITY (1)

	Area		Population (end 1966)		Density (end 1966)	
	1,000 sq. km.	% E.E.C.	million	% E.E.C.	Number/ sq. km.	Index E.E.C. = 100
Aggregate of internal frontier regions	208.3	17.8	43.7	23.8	214	136
Frontier regions of :						
– Fed. Rep. of Germany	53.0	4.5	16.7	9.1	314	200
– Belgium	27.0	2.3	7.5	4.0	275	176
– France	78.0	6.7	9.0	4.9	115	73
– Italy	22.3	1.9	4.0	2.2	183	116
– Luxembourg	2.6	0.2	0.3	0.2	128	73
– Netherlands	25.4	2.2	6.2	3.4	281	178

(1) For the delimitation of the frontier regions, please refer to the map; the figures utilised in the Table are derived from a study presented to the Colloquium mentioned in the text, subject to a certain number of adjustments made by reason of a slightly different delimitation of the regions concerned.

starts at the mountainous border between France and Italy, is interrupted at the Franco-Swiss frontier, continues towards the North/Northwest, forming beyond Strasbourg a kind of triangle the basis of which extends from the estuary of the Rhine to the Pas-de-Calais in France.

The general importance of the internal frontier regions in the European Communities has been spotlighted by the work of a recent Colloquium on "The frontier regions and the Common Market" (1). According to the studies submitted to this Colloquium, the frontier regions cover just under one fifth of the Community territory and are inhabited by a little less than one quarter of its total population. The density of the population (over 200 inhabitants per sq. km) is higher than the average for the Community as a whole.

From an economic point of view, it is striking to note that, for the whole of the internal frontier regions, the proportion of the population employed in the secondary sector is high (nearly 50% in 1967) and is even definitely more substantial than for the Community as a whole (44% that same year). The average, of course, conceals individual situations which are rather different; its relatively high level is explained by the fact that a fairly large proportion of these regions are located in the Northwest part of Europe where industrialisation is already long-established.

*Table II – BREAKDOWN OF THE ACTIVE POPULATION
BY MAJOR SECTORS OF ACTIVITY, IN 1967,
IN THE INTERNAL FRONTIER REGIONS OF THE COMMUNITY*

<i>Sectors of activity</i>	<i>Aggregate of internal frontier regions (% of total)</i>	<i>Whole of Community (% of total)</i>
Primary sector	11	16
Secondary sector	49	44
Tertiary sector	40	40

(1) Institut d'Études Européennes (Université Libre de Bruxelles), Brussels, 21st - 28th November, 1969.

However, the average gross domestic product per inhabitant in the internal frontier regions as a whole, seems to be at present at a level about 10% lower than the Community average. There are no overall official statistics to specify this phenomenon, but it is evidenced by some partial data : for example, the gross domestic product per inhabitant in these frontier regions of the Federal Republic was 1,725 units of account in 1966, or 14% less than the national average. A similar situation exists for Belgium and the Netherlands. In France, the internal frontier regions seem to be at the same level or even to be slightly more favoured than the national average. Only in Italy they are definitely above the national average, which is obviously weighed down by the low level of the gross domestic product in the South and the Islands.

Given that, on the whole, the internal frontier regions of the Community are a little behindhand in comparison with the respective national averages, the reason for this must mainly be sought for in the fact that they are still peripheral in relation to the countries to which they belong : in these countries, indeed, it is most often the central regions which benefit from the highest incomes. The main exception to this overall situation is obviously Italy.

A third characteristic of the economic evolution of these regions is that their recent rate of growth (from 1960 to 1967 or 1968) seems to have been less high than the average rate for the Community as a whole. This evolution holds true even for each group of internal frontier regions in relation to the country of which they form part.

A more detailed examination of the recent economic situation of the internal frontier regions brings out two factors which are of a nature to explain this evolution. In the first place, the type of industrial activity (collieries, iron and steel, textiles), on which the economy of certain of these regions is partly based has not benefited from the highest rates of growth in the Community; this may explain why the frontier regions with a high rate of growth represent – in terms of active population – only about one third of all the frontier regions. In the second place, it is

undeniable that a certain number of internal frontier regions, e.g. : Belgian Luxembourg, the French Ardennes, Eifel-Hunsrück in Germany, Belgian and Dutch Limburg, have to cope with problems of structural development due to the exiguity of their natural resources.

The recent evolution of the frontier regions thus raises a problem of growth for certain of them. For others, the major difficulty stems from the dissociation among adjacent and comparable regions, of unequal dynamism; it manifests itself by the emergence or reinforcement of disequilibria resulting from very different rates of growth. In principle, the disappearance of economic frontiers is bound to render possible a greater valorisation of the existing resources and an improved and better-coordinated utilisation of the infrastructures. Integration thus enables the production structures to be transformed, thanks to the greater mobility of production factors and the extension of the market, which in the normal way is bound to favour each pair of frontier regions concerned. But it may also happen that frontier regions, placed in different historical and structural situations at the outset, witness the development of disequilibria which threaten to become cumulative and would finally result in an exaggerated exodus of their skilled labour, an unsatisfactory allocation of resources and increased social pressure. In the long run, a juxtaposition of prosperous regions and less developed regions would thus be created.

The two problems which have just been stated clearly show the specific nature of the frontier regional situations. The Community institutions, and in the first place the Commission of the European Economic Community, have moreover stressed, ever since the Community's regional policies were first outlined, the need for making efforts to attenuate the readjustment problems which could arise in these regions. This awareness and this anxiety to formulate solutions are to be found, for example, in the first studies effected by the Commission at the time of the Conference on regional economies held in Brussels in December 1961. The Bank has contributed to this effort by participating in a certain number of financing schemes.

B. *The Bank's interventions.*

Since its creation in 1958, the Bank has intervened in the financing of a certain number of investment projects located in the frontier regions. The number of these financing schemes, approved by 31st December, 1969, is 28 for an amount of 267 million units of account (Table III), representing a little over one sixth of the total amount of loans relating to projects situated in the member countries, approved by the Bank at that date.

As the Table shows, the Bank intervened mainly in favour of infrastructure projects.

The lion's share of its action concerned transport projects : fourteen loans were signed for railway infrastructures, motorway projects and gas pipe-lines. These were cases either of projects favouring rapid and modern links between two countries of the Community (France - Italy, Belgium - Netherlands, Germany - France, France - Belgium), or of projects developing the energy resources of one member country while at the same time ensuring their distribution to the neighbouring countries.

The interest of the road or railway projects is obviously very great for the frontier regions which have often suffered from a peripheral situation : on the contrary, the new communications develop the potentialities of their geographical position by making them genuine links between the Community countries. In the case of the gas pipe-lines, the trans-border interest stems from the complementary nature of the resources and requirements.

Lastly, we should note, among the infrastructure projects, three projects relating to energy production, two of which, it is true, derive their frontier region character only from the location. The third, on the contrary, (Société Électrique de l'Our) which concerns the construction of a dam and a hydroelectric power station of the pumping-accumulation type in Luxembourg, presents a very considerable trans-border character : indeed, the power station is situated in the Grand Duchy, but is connected

Table III – LOANS APPROVED BY THE BANK FOR FINANCING PROJECTS
LOCATED IN THE FRONTIER REGIONS
(as at 31st December, 1969)

Sectors	Name of project	Location according to numbering on the map	Year of loan	Amount (1) of loan (million u.a.)
	INFRASTRUCTURE			203.8
Railways	Chambéry - Modane *	34	1961	4.0
	Genoa - Modane *	42 and 40	1961	21.0
Roads	Val d'Aoste *	39	1965	24.0
	Brussels - Paris *	8	1967	16.0
	Roquebrune - Menton *	38	1967	10.1
	Metz - Freyding *	25 and 32	1967	10.1
	"Flowers" Motorway I *	42	1968	16.0
	Antwerp - Breda *	10	1968	10.0
	"Flowers" Motorway II *	42	1969	15.0
	Maastricht - Heerlen *	7	1969	8.3
Gas pipe-lines	Energieversorgung Weser-Ems *	16 and 17	1965	5.0
	Gaz de France (North and East) *	27 to 32	1967	16.2
	Nederlandse Gasunie *	6 and 7	1969	13.8
	Gaz de France (Alsace - Brittany)	33	1969	9.9 (2)
Energy	Société Électrique de l'Our *	26	1959	4.0
	Électricité de France (Oraison)	37	1959	10.1
	Kernkraftwerk Lingen	17	1967	6.3
Water supply and distribution	Syndicat des Eaux du Barrage d'Esch-sur-Sûre	26	1968	4.0
	INDUSTRIAL PROJECTS			63.0
Extractive industry	Mines Domaniales de Potasse d'Alsace	33	1968	15.2
Engineering industry	Rheinmetall Schmiede- u. Presswerk	21	1966	2.5
	Trierer Walzwerk	21	1969	2.3
Chemical industry	PEC-Rhin	33	1967	6.1
	L'Ammoniac Sarro-Lorrain *	32	1967	3.0
	Harnstoff- und Düngemittelwerk Saar-Lothringen *	25	1967	5.0
	Koninklijke Nederlandsche Zoutindustrie	1	1968	10.0
	Société Lorraine de Polyoléfines	32	1969	8.1
	Société Limbourgeoise du Vinyle	12	1969	6.0
Pulp - paper	Cellulose des Ardennes *	15	1962	4.8
	Total			266.8

(1) On the basis of the equivalent in units of account calculated at the parities in force on the date of signature for the loan contracts signed, and at the parities in force at the time of approval by the Board of Directors for contracts not yet signed.

(2) This figure relates both to the part of the project concerning Alsace (internal frontier region) and that relating to Brittany. A breakdown of this figure between the two parts of the project gives rise to statistical difficulties.

* The asterisks denote a definite frontier interest.

with Rheinisch-Westfälisches Elektrizitätswerk AG (RWE) and Électricité de France (E.D.F.) for the purpose of exchanging electric energy.

In the field of industrial structures, the Bank intervened in the financing of ten projects for an amount of 63 million units of account. Three of these projects have a very pronounced trans-border interest, and the others less so. As regards the "Cellulose des Ardennes" enterprise, this interest results essentially from the supply of raw materials, across the frontier, to the factory situated in Belgian Luxembourg. As for "Ammoniac Sarro-Lorrain" and "Harnstoff- und Düngemittelwerk Saar-Lothringen", they form the basis of the vast Saarlör complex, the execution of which forms part of the decision to make the Saar-Lorraine region into a chemical platform. Their development has made necessary a vast technical, commercial and financial coordination between two big enterprises located on either side of the frontier : on the one hand, the Houillères du Bassin de Lorraine and on the other, the Saarbergwerke AG. Among other industrial projects, mention may also be made, for example, of the construction of the PEC-Rhin fertiliser plant, the promoter of which is the joint subsidiary of a French company and a German company. Although the market agreements concluded between the two parent companies do not specifically aim at a cooperation in the frontier regions of Alsace and South Baden, this project nevertheless has interesting repercussions on these regions.

Principal lessons of the Bank's experience.

In the Bank's financing activities in the frontier regions, it has been confirmed that the trans-border projects deserve special attention because of the important contribution they could make with a view to a realization of the Common Market; on the other hand it has emerged that the effective execution of these projects often calls for a big effort of coordination among the different parties concerned.

The trans-border projects contribute to the economic development of the regions concerned because they make it possible to utilise existing resources in mutually advantageous conditions. In the field of infra-

structures, they often bring out the existence of continuities and technically complementary aspects : thus, in the Chambéry - Modane and Modane - Genoa railway projects, the problem was not only to change the type of power supply, but also to reorganise jointly the transit frontier stations. In the case of the gas pipe-lines transporting Dutch gas to Germany, Belgium and France, one of the important factors is the possibility of supplying large volumes – which is a condition of good profitableness – while at the same time improving the energy balance of the receiving regions. There is no need to stress the mutual valorisation which a link beyond the frontiers confers upon motorways. Lastly, in certain cases, the project makes it possible to coordinate very different factors affecting several frontier regions : thus, in the project of the Société Électrique de l'Our, three frontier regions have derived advantage from an interpenetration of techniques, resources and requirements.

In industry, the considerations of “continuity” and “complementarity” also play a role, although the problem often arises in a different way. There may indeed be coal basins to be operated jointly, independently of the frontier; it may also happen that a region stands to benefit from the relative abundance of a production factor with this immediate neighbour. But in fact, for the industrial enterprise, the trans-border project most often forms part of a strategy for broadening the market; this is the reason why this project will often take the typical form of merger agreements, creations of joint subsidiaries or setting up joint sales networks. One of the important goals aimed at in this way is to reach an optimum dimension, thanks to new territorial conditions. This consideration applied, for example, in the two Saarlor projects.

Although the frontier projects present great economic advantages, their execution often depends on a proper coordination among the parties concerned. It may even be said that, for the regions concerned, coordination (public authorities and economic operators) constitutes the test of success. The need for it is clear at all levels : it will suffice here to select a few aspects which have a certain importance for the financing scheme. Stress should first of all be placed on those aspects which, themselves

economic, have institutional or legal repercussions. Thus, the economic and financial validity of a project may depend on the way in which its different components are interwoven : in the case of a transport infrastructure (road, waterway), the continuity of the network in both directions must be assured; in fact, it may quite well depend on budgetary commitments of the neighbouring region or country. In the Vianden power station project, a series of contracts between the Société Électrique de l'Our, on the one hand, and the RWE and the E.D.F., on the other, were necessary in order to specify the rights and obligations of each party concerned. In the Saarlör projects, a special legal construction was elaborated and two companies were created, each forming the object of cross-participations by the founding French and German companies. The governing bodies (supervisory board, management) are composed of persons of the two nationalities.

But over and above these questions which arise at the time of mounting the operation and the existence of which it is advisable not to overlook, the questions of the coordination of regional policies and those of the coordination (or rather the harmonisation) of investments, arise in general terms. If the economic theory of integration is applied to the frontier regions, it is indeed in the widening of the market, the greater mobility of production factors and the improved profitableness of investments that these regions can derive most profit from their approximation. Here again, we may quote the example of the Saarlör projects. The very close cooperation between the Saar and Lorraine coal basins, the culmination of which was marked by these projects, was reflected in particular by a harmonisation of the investment programmes on both sides of the frontier which made it possible to avoid the duplication, in a restricted radius, of expensive and uncoordinated schemes and, thanks to the specialisation of activities, to confer on each of the installations a more satisfactory dimension. Cooperation continued in the execution stage of the investments, both in the financial and in the technical fields. At the commercial level, the parent enterprises of the two operating companies will unite their efforts to ensure outlets for the production. It is by reason of these manifold links that the Saarlör chemical plants may be called "factories without frontiers". It thus appears that, for the trans-border industrial projects, the factors suitable for improving the rentability by

harmonisation of the investment programmes, search for optimum dimension, widening of the market, coordination of commercial policies, etc., take on a primary importance.

In fact, the experience acquired by the Bank in respect of financing schemes in the frontier regions has revealed that, although the projects there were not of a fundamentally different nature from the other investment projects financed by the Bank, they nevertheless present certain aspects which are peculiar to them.

More generally, it seems to be logical for a Community regional policy not to underestimate the problems which may be raised, for the frontier regions, not only by the absence of harmonisation in the various fields of economic policy, the persistence of certain obstacles to trade, the maintenance of certain inadequacies in respect of infrastructure, but also the emergence or aggravation of growth disequilibria among comparable adjacent regions. In this respect, the Bank considers that it can contribute to the reinforcement of the relatively less dynamic regions by loans justified by the common interest of the countries concerned. This overall orientation should enable it to intervene more actively in future in certain frontier regions.

II. THE EASTERN BORDER REGIONS IN THE COMMUNITY

The external frontier regions in the Community referred to in this chapter are those which, previously homogeneous in nature, have been the object of a political separation, as a result of the war, cutting them off from their traditional hinterland. They are the German "Zonenrandgebiet" and certain regions in Northeast Italy.

A. *General economic situation of the eastern border regions.*

1. "Zonenrandgebiet".

At the end of World War II, Germany was divided into four occupation zones. The three Western zones subsequently formed the Federal Republic

of Germany, while the Soviet zone in the East became the German Democratic Republic. Nearly all the links existing between these two parts of the country were broken off; the electricity and gas mains were cut and trade relations ceased almost entirely. This resulted in a considerable change in the actual basis of their economy, which led the Federal Government and the Bundestag to establish a system of aid in 1953.

A "Zonenrandgebiet" was defined : it includes the towns and districts (in German : Städte und Landkreise), more than half of the area or population of which are located at a distance of less than 40 km from the eastern frontiers of the Federal Republic of Germany. The "Zonenrandgebiet" thus covers, mainly, the territory adjacent to the German Democratic Republic from Lübeck to Hof. By assimilation, the east coast of the Land of Schleswig-Holstein and the regions having a frontier with Czechoslovakia, have been included. Finally, it thus amounts to a strip of territory some 40 km wide stretching from Flensburg in the North to Passau in the South. This zone includes 106 towns and districts in the Länder of Schleswig-Holstein, Lower Saxony, Hesse and Bavaria; it comprises an area of approximately 46,000 sq. km, or one fifth of that of the Federal Republic of Germany; its population was nearly 7 million in 1968, which corresponds to about 12% of the population of the Federal Republic.

The fact should be stressed that regions which are not included in the Zonenrandgebiet have also suffered the consequences of the division of Germany, for example Hamburg, the port activity of which has been directly affected by the loss of the hinterland in the east.

The economic structure of the whole of the Zonenrandgebiet is not uniform. On the one hand, it comprises – apart from large towns such as Lübeck and Kiel – industrial centres such as Wolfsburg, Brunswick, Salzgitter, Kassel and Schweinfurt. Before the War, certain of these centres maintained close connections with the areas now situated in the German Democratic Republic : this was the case, for example, for Brunswick and Magdeburg, North Hesse and Thuringia, Upper Franconia and Saxony. On the other hand, we find in the Zonenrandgebiet areas which are traditionally underdeveloped, the economy of which is characterised

by a low degree of industrialisation and by agriculture which is far from being productive (e.g., Bayerischer Wald), a situation which has scarcely been improved by the postwar political division.

The German system of aid has taken account of the difference between these regions : certain parts or places of the Zonenrandgebiet are also "Bundesausbaugebiete" (Federal development areas) and "Bundesausbauorte" (Federal development localities) or form part of the "Regionale Aktionsprogramme" (Regional Action Programmes), thus enabling them to benefit from additional aid. These centres are located mainly in the northeast and north of the Land of Bavaria (Bayerischer Wald, Lower Franconia) and in Schleswig-Holstein, but they also include some districts of Lower Saxony and Hesse.

In general, the Zonenrandgebiet is characterised by a population density which is considerably lower than the Federal average (149 compared to 242 inhabitants per sq. km), by a gross domestic product per inhabitant about 12% below the average in 1966, and by a contribution to the gross domestic product which is higher for agriculture than the Federal averages, and less for industry (Table IV). However, the situation is not altogether homogeneous. Indeed, we see that :

- nearly three quarters of the population of the Land of Schleswig-Holstein live in the Zonenrandgebiet, whereas for the other Länder, the proportion varies from one sixth to one third;

Table IV – AREA, POPULATION, GROSS DOMESTIC PRODUCT (GDP)
OF THE ZONENRANDGEBIET
(in %)

	Area	Population	GDP 1966	GDP per inhabitant 1966
Zonenrandgebiete total (Fed. Rep. of Germany = 100)	18.8	11.6	10.0	85.7
Zonenrandgebiete of the different Länder by comparison with the total of the Land in question (Land = 100)				
Schleswig-Holstein	67.7	72.8	73.1	100.2
Lower Saxony	26.5	30.7	32.7	105.3
Hesse	27.8	17.8	15.9	88.8
Bavaria	25.1	20.0	16.9	83.5

- the contribution of the Zonenrandgebiet to the gross domestic product of the Land is rather low in the case of the Länder of Hesse and Bavaria but it is higher in the case of Schleswig-Holstein;
- in two of the four Länder concerned, the gross domestic product per inhabitant of the Zonenrandgebiet is lower than the average for the Land in question. Moreover, it should be stressed that within the Länder (and particularly those of Lower Saxony and Hesse) there sometimes exist considerable variations from the average.

As regards the development of the Zonenrandgebiet by comparison with the whole of the Federal Republic in the course of recent years, we may note that, although the population of the Zonenrandgebiet has developed at a much less rapid pace than in the Federal Republic as a whole (it even decreased in the 1950s), the rate of growth of the gross domestic product, on the other hand, was only slightly below the average from 1961 to 1966. The gross domestic product per inhabitant therefore increased more steeply than for the country as a whole. The employment situation in industry has also improved. From 1961 to 1967, 530 new firms employing 33,000 people settled in the Zonenrandgebiet which, in 1967, had over 6,000 industrial firms employing about 800,000 people.

Table V – EVOLUTION OF THE POPULATION, THE GDP ⁽¹⁾
AND THE GDP PER INHABITANT FROM 1961 TO 1966
(in %)

	<i>Variation in population</i>	<i>Variation in GDP</i>	<i>Variation in GDP per inhabitant</i>
Zonenrandgebiet	+ 3.8	+ 45.4	+ 40.1
Fed. Rep. of Germany	+ 6.2	+ 47.4	+ 38.9

(1) GDP : gross domestic product.

It seems therefore that in the 1960s, the Zonenrandgebiet was on the whole more successful than in the previous decade in adapting itself to the new conditions and in following the evolution of the German

economy. Among the factors which have made this possible, we should mention, in addition to the decisions to settle there on the part of several large, dynamic firms, the success of the economic policy of the Federal Republic and the Länder. Inter alia, the aid policy in various forms which they have applied has in many cases facilitated the upsurge of production. Nevertheless, there still remain depressed areas in the Zonenrandgebiet where public aid and private initiative have not yet attained the hoped-for results. Moreover, it is precisely in such areas that the Bank has endeavoured, within the limits of its possibilities, to intervene in the past, and it is prepared to pursue or even to accentuate its efforts there in the future.

2. *Friuli - Venezia Giulia.*

In Italy, the region of Friuli - Venezia Giulia has been the object of territorial changes as a consequence of World War II. These changes have had considerable economic repercussions, in particular in the provinces of Gorizia and Trieste. The new economic problems of the Friuli - Venezia Giulia region were defined by a study group of the European Parliament in April 1968, as relating mainly to the political changes which occurred after World War II, requiring a complete recasting of the economic structure. Furthermore, the region retains aspects which are typical of a peripheral zone, particularly the situation in the agricultural sector of the provinces of Udine and Gorizia and a general fall in the population figures.

This region – which has an autonomous status – is composed, after the recent creation of the province of Pordenone (1968), of four provinces : Udine, Trieste, Gorizia and Pordenone.

The problems vary in nature. Friuli (Udine and Pordenone) suffers from relative underdevelopment (the domestic product per inhabitant in 1968 was 92% of the Italian average for the province of Udine and 87% for the province of Pordenone, while the Italian average itself represents only about 72% of that of the Community); but the rate of growth is quite satisfactory. On the contrary, Venezia Giulia (Gorizia and Trieste) has a domestic product per inhabitant which is well above the Italian average (22% in the case of Gorizia and 33% in the case of Trieste), but the develop-

ment there is slow : for the province of Trieste in particular, the recent growth of the domestic product has been one of the lowest in Italy : between 1951 and 1967, the rate of growth was only half that of the national average.

The territory of the province of Trieste is a corridor some 30 km long between the sea and Yugoslavia. Its area covers only 21,000 hectares; it is inhabited by some 300,000 people, grouped mainly in Trieste itself, so that the problems of the province are identical with those of the city.

In the past, the city's fate was closely linked with the activity of its port, the importance of which was enhanced by a series of allied industrial activities (ship-building and ship repairs) and tertiary enterprises (trade, banking and insurance). The activity was based on the transit traffic which still contributes to a considerable extent to the formation of the province's domestic product. Political events have led to the decline of the port which, after having been the turntable for traffic between Central and Eastern Europe and the Mediterranean, not only no longer benefits from the former hinterland, but has also been affected by the closure of the Suez Canal. Specific factors such as payments difficulties with the eastern countries, inadequacy of the land transport infrastructure, competition of Yugoslav and North European ports, etc., have accelerated the port's decline. In particular, the competition of Rijeka has made itself felt even more strongly because the Yugoslav harbour fees are very low. The North European ports, and in particular Hamburg, have benefited from the displacement of the traffic, thanks to the preferential railway tariffs which ensure them the traffic from Southern Germany.

Traffic at Trieste has thus remained relatively small (6 million tons in 1966). However, in the past few years a new activity has started up thanks to the development of oil transport as a result of the opening of the Trieste - Ingolstadt pipe-line. The overall traffic of the port of Trieste was thus 24 million tons in 1969, 20,5 million tons of which for oil.

Shipbuilding was previously an important activity, but it experienced a serious slump which led the Italian authorities to apply a reorganisation

plan for the shipyards. For Trieste, this meant, inter alia, the closing-down of the San Marco yard and the concomitant reduction of activity by allied enterprises (sub-contractors, etc.). However, certain projects of interest to shipbuilding are now in course of execution (Grandi Motori IRI-FIAT and a superdock for mammoth tankers); as regards shipbuilding itself, the Monfalcone shipyard, not far from Trieste, has been modernised and enlarged.

The problems concerning the evolution of traffic and shipbuilding show that the province of Trieste has to cope both with a far-reaching reorganisation and with new orientations, reinforcing in particular its links with the rest of Europe. Several initiatives are aimed in these two directions : on the one hand, industrial development of the Zaule region, extension of duty-free zones, reinforcement of the port installations, etc.; on the other hand, efforts to accelerate the execution of road links between Trieste and Northern Europe.

For all these questions, the Italian Government has asked the Commission of the Communities to undertake with the Italian authorities a regional study aimed at defining lines of action capable of ensuring the harmonious development of the region.

B. *The Bank's interventions in the eastern border regions of the Community.*

The Bank's loans in the eastern border regions have been five in number, for an amount of 22.3 million units of account.

The loan entailing the largest amount was signed in 1967, in favour of the "Cantieri Navali Italiani - Italcantieri S.p.A.", at Trieste. This loan was intended for financing a reorganisation and modernisation project for the Monfalcone shipyard. The modernisation and enlargement of this shipyard – so as to enable it, inter alia, to build large freighters – are considered as crucial points of the reconversion programme for the Italian shipyards approved by the authorities in 1966. The Monfalcone shipyard is intended to become one of the largest and most up-to-date in the

Table VI – LOANS APPROVED BY THE BANK FOR FINANCING PROJECTS
LOCATED IN THE EASTERN BORDER REGIONS (1)

<i>Name of project</i>	<i>Sector</i>	<i>Location according to numbering on the map</i>	<i>Year of loan</i>	<i>Amount of loan (million units of account)</i>
<i>A. Federal Republic of Germany (Zonenrandgebiet)</i>				
Phrix-Werke	Synthetic fibres	53	1965	2.5
Olympia-Werke	Calculating machines	51	1966	2.0
Para-Gummiwerke Arthur Brügger (2)	Rubber	51	1966	1.5
Phrix-Werke	Synthetic fibres	53	1969	6.3
<i>B. Italy (Friuli - Venezia Giulia)</i>				
Italcantieri (Monfalcone shipyard)	Shipyard	43	1967	10.0

(1) For the basis on which these statistics are established, please refer to the footnote to Table III.

(2) The promoting company was taken over on 1st January, 1967 by the Phoenix-Gummiwerke AG, Hamburg; from 1st January, 1970, the new company's title is Phoenix Gummiwerke Werk Para GmbH.

Community. Furthermore, the project, in the financing of which the Bank cooperated, made it possible to employ over 4,000 wage-earners and contributed to the development of numerous local sub-contracting activities.

In the Zonenrandgebiet, the Bank has financed four industrial loans for projects located respectively in Schleswig-Holstein and Lower Saxony. These loans were justified on the basis of Article 130 a). One of the four projects (Para-Gummiwerke) was also justified by Article 130 b) relating to the conversion of declining activities.

Apart from these loans specifically located in the Zonenrandgebiet, mention should be made of two loans intended for the infrastructure (electrification of the North-South railway line and construction of a part of the Rhine-Main-Danube-Canal between Bamberg and Nuremberg), the object of which is not directly linked with the Zonenrandgebiet but which are nevertheless likely to encourage its development. Indeed, the project of the Deutsche Bundesbahn (loan contract signed in 1961 for an

amount of 25 million units of account) concerns the regions of Lower Saxony and Hesse (for the Hanover - Flieden part); as for the project Rhine-Main-Danube (signed in 1968 for an amount of 24 million units of account), although it crosses only the Bamberg region, nevertheless contributes to the development of the Bavarian Zonenrandgebiet and will tend to become much more important as soon as the construction of the canal has been completed as far as Regensburg.

Although the Bank has thus had the opportunity to intervene several times in these border regions, the overall amount of its loans may seem rather modest. In the Italian case, this results in part from certain difficulties encountered in stimulating a large number of initiatives which are financeable under the Bank's conditions. Moreover, the Bank has primarily concentrated its essential effort on the development of Southern Italy and the Islands. In the case of the Zonenrandgebiet, two specific factors seem to have been involved : in the first place, the rather high capital formation in the Federal Republic by comparison with the other member countries, and secondly, the efficacy of the public aid system which enabled numerous initiatives to be financed in favourable conditions without recourse to the Bank. Obviously, however, these data are not immutable, and indeed they have already undergone a change. The Bank therefore needs to follow the course of events very closely, so as to be prepared to act, in the future, whenever circumstances permit.

* * *

By means of its interventions, the Bank has actively shown its interest in the Community frontier regions, both internal and "border". It is not the role of the Bank to act as the centre for financing schemes which are likely to contribute towards overcoming the difficulties of these regions : its resources are limited and its tasks are manifold. However, it may contribute, with selectivity, towards the solution of certain financing problems when projects either of infrastructure or of the production sector submitted to it are in conformity with its Statute. The Bank is prepared to examine concretely, within the limit of its competence, formulae adapted to new situations or requirements.

Moreover, it is obvious that the Bank does not confine its interest to the two categories of regions examined in the foregoing. It has also intervened on several occasions in the maritime regions and the mountainous frontier regions : for example, in favour of naval reconversion projects at Leghorn and Saint-Nazaire, a steel mill and a cement work at Taranto, and railway, road or telephone equipment projects in Trentino - Alto Adige.

In their diversity, these interventions have one point in common : they belong to the general mission of the Bank. According as the Common Market develops, a wide variety of problems come to the fore. In the light of this evolution, the Bank emerges as a useful institution, capable of adapting itself to new situations without thereby going beyond the limits laid down for it by the Treaty and its Statute.