

EUROPEAN INVESTMENT BANK



ANNUAL REPORT 1970

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Office in Rome
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00187 - Rome

Representative Office in Brussels
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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, 1970, 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.) =	}	3.66	Deutsche Mark
		5.55419	French francs
		625	Italian lire
		3.62	Netherlands guilders
		50	Belgian francs
		50	Luxembourg francs
		1	United States dollar
		4.37282	Swiss francs
		30	Greek drachmae
		15	Turkish pounds ⁽¹⁾

(1) Until 9th August, 1970, inclusive, the parity of the Turkish pound was : 1 unit of account = 9 Turkish pounds.

BOARD OF GOVERNORS

Chairman : Karl SCHILLER (*Germany*) ⁽¹⁾

Belgium : Baron Jean SNOY et d'OPPUERS, Minister of Finance, Brussels;
Chairman until 9th September, 1970;

Germany : Karl SCHILLER, Minister of Economy and Finance, Bonn; ⁽¹⁾

France : Valéry GISCARD d'ESTAING, Minister of Economy and Finance, Paris;

Italy : Mario FERRARI AGGRADI, Minister of the Treasury, Rome; ⁽²⁾

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

Netherlands : Hendrikus Johannes WITTEVEEN, Minister of Finance, The Hague.

(1) Alex MÖLLER, until 13th May, 1971.

(2) Emilio COLOMBO, until August 1970.

BOARD OF DIRECTORS

Chairman : Yves LE PORTZ (*)

Vice Chairmen : Ulrich MEYER-CORDING

Sjoerd BOOMSTRA

Luca ROSANIA ⁽¹⁾

(*) Mr. Paride FORMENTINI exercised the functions of Chairman until 9th September, 1970, and was appointed Honorary President. ⁽¹⁾

Directors :

Daniel DEGUEN, Head of Department, Directorate of the Treasury, Ministry of Economy and Finance, Paris;

Raymond DENUCÉ, Honorary General Manager, Crédit Communal de Belgique, Brussels;

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

Anthony IJ. A. LOOIJEN, Director of External Finance, Ministry of Finance, The Hague; ⁽³⁾

Herbert MARTINI, Vice Chairman of the Board of Directors of the Kreditanstalt für Wiederaufbau, Frankfurt-on-Main;

Gastone MICONI, Director General of the Treasury, Ministry of the Treasury, Rome; ⁽⁵⁾

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

Alternates :

Jacques FRIEDMANN, Inspector of Finance, Principal Private Secretary to the Minister delegated to the Prime Minister, Paris;

Paul GAUDY, Counsellor in the Ministry of Finance, Financial Counsellor, Permanent Delegation of Belgium to the European Communities, Brussels; ⁽²⁾

Lionello FRONZONI, Director, Bank of Italy, Perugia;

Pierre GUILL, General Manager, Caisse d'Épargne de l'État, Luxembourg; ⁽⁴⁾

Alfred KUBEL, Prime Minister of the Land of Lower Saxony, Hanover;

Aldo BALDARI, Inspector General of the Treasury, Ispettorato Generale per i Rapporti Finanziari con l'Estero, Ministry of the Treasury, Rome;

Frédéric BOYER de la GIRODAY, Director, Directorate General of Economic and Financial Affairs, Commission of the European Communities, Brussels;

(1) Cf. chapter IV : Administration of the Bank, page 119.

(2) Pierre GUILL, until September, when he became alternate to Mr. Vos, then to Mr. Looijen.

(3) Sjoerd BOOMSTRA, until September 1970, then Otto Willem VOS, until December 1970.

(4) Otto Willem VOS, until September 1970.

(5) Ludovico NUVOLONI, until October 1970.

Directors :

Alfred MÜLLER - ARMACK, Former State Secretary, Cologne;

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

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

N (4);

Hans-Herbert WEBER, Ministerialdirektor, Federal Ministry of Economy and Finance, Bonn; (5)

Alternates :

Waldemar MÜLLER-ENDERS, Ministerialdirigent, Federal Ministry of Economy and Finance, Bonn; (1)

Antoine DUPONT-FAUVILLE, Manager of Crédit National, Paris; (2)

N (3);

Ugo MORABITO, Minister Plenipotentiary, Ministry of Foreign Affairs, Rome;

Friedrich BERNARD, Ministerialrat, Federal Ministry of Economy and Finance, Bonn.

MANAGEMENT COMMITTEE

Yves LE PORTZ, *President* (*)

Ulrich MEYER-CORDING, *Vice President*

Sjoerd BOOMSTRA, *Vice President*

Luca ROSANIA, *Vice President* (6)

(*) Mr. Paride FORMENTINI exercised the functions of President until 9th September, 1970, and was appointed Honorary President. (6)

AUDIT COMMITTEE

Chairman

Emile RAUS, Counsellor of State, Honorary Director General of the Postal and Telecommunications Department, Luxembourg;

Members

Roger LÉONARD, First Honorary President of the Cour des Comptes, Paris;

Hans-Georg DAHLGRÜN, Professor, Former President of the Landeszentralbank in Rhineland-Palatinate (7)

(1) Wilhelm HANEMANN, until June 1970.

(2) Pierre ESTEVA, until April 1971.

(3) Jean-Pierre METTAS, until January 1971.

(4) Stefano SIGLIENTI, deceased 5th April, 1971.

(5) Hans RANNOU, until September 1970.

(6) Cf. chapter IV : Administration of the Bank, page 119.

(7) Karl BERNARD, until September 1970.

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

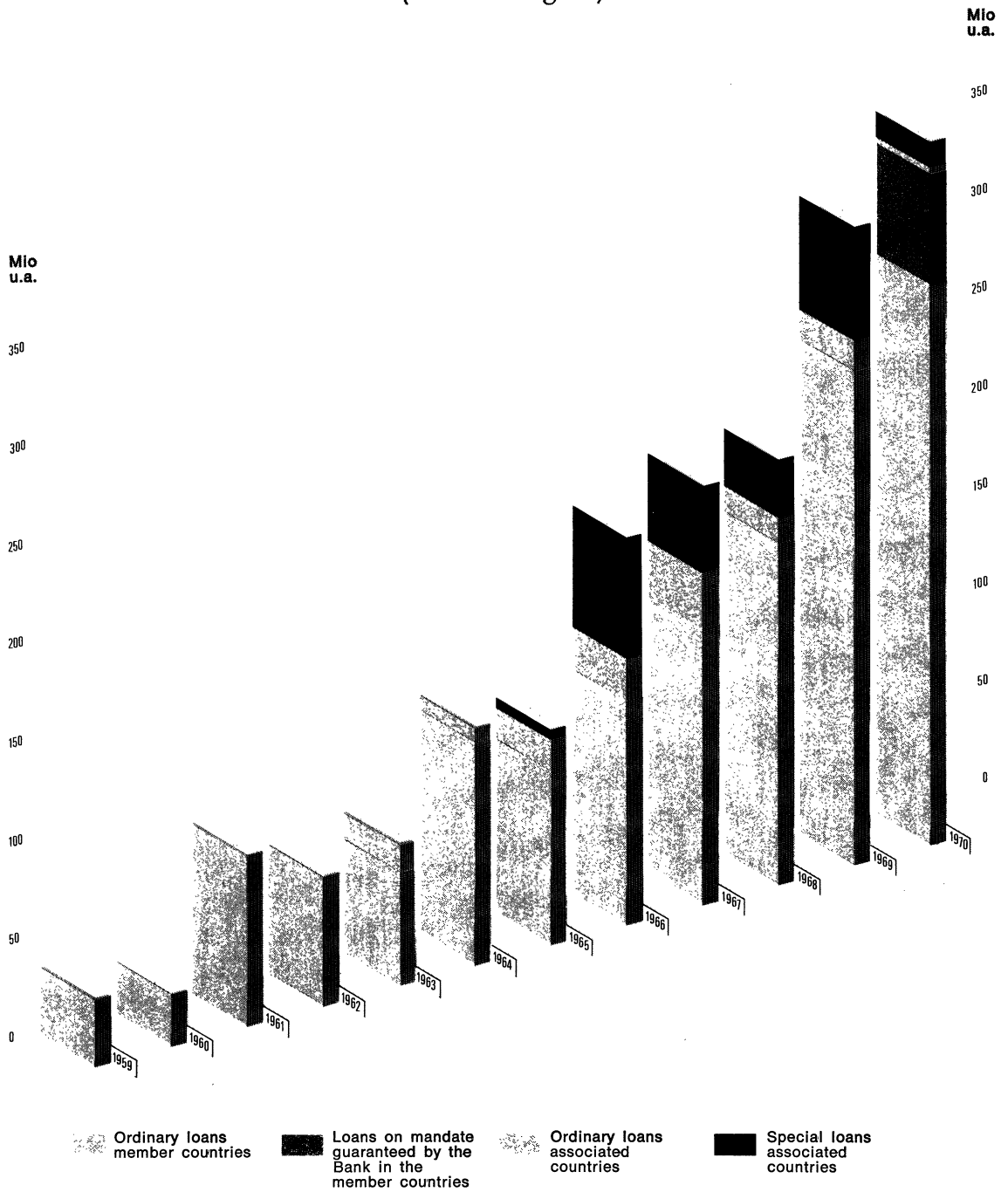
Technical Advisers : Marcello GOFFI (1)
Hellmuth BERGMANN
Eugenio COMBONI
Jacques FAUDON
Robert LECLERCQ
Ernst-Helmut LINDER
Robert VERMEERSCH

(1) Henri JEANDET, until May 1970.

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ANNUAL ACTIVITY OF THE BANK (contracts signed)



I

THE ECONOMIC EVOLUTION IN THE COMMUNITY AND THE ASSOCIATED COUNTRIES

BUSINESS CYCLE AND ECONOMIC POLICY

COMMUNITY

The cyclical evolution which prevailed in 1970 exerted a profound influence on the activity of the European Investment Bank, as well as on that of the other long-term financing institutions. On the one hand, it made the resources available on the capital markets scarcer and more expensive until the autumn. On the other, it had the effect, throughout the year, of increasing and even accelerating the investment credit requirements of the public sector and private enterprise.

The orientation of the business cycles and economic policies in Europe was clearly influenced by the economic and financial situation of the *United States*, where there was a consolidation of the movement that had commenced in the previous year, whereby the cyclical upsurge of the former period had been halted by the marked curtailment in certain Government expenditure and the braking effect exerted by monetary policy. Thus, 1970 was characterised in the United States by a stagnation in gross production. Housing construction fell off considerably in 1970. Heads of enterprises became more cautious as regards the formation of stocks. The growth of the gross formation of fixed capital showed a net weakening tendency. In a number of sectors, sales slowed down notably. The financing requirements continued to expand until towards mid-1970 and began to revert to a more normal level in summer. In order to prevent a veritable economic recession, while still moderating the evolution of prices, the monetary authorities switched, in the course of the first four months of the year, from a restrictive policy to a policy which was at first moderately expansive but which then became frankly so after the first half-year. Although the rapid rise in prices was barely checked because of the pressure exerted by the persistent increase in costs, the rate of private savings, which had

contracted during the previous phase of cyclical upsurge, again increased, as is usually observable when economic stagnation tends to be accompanied by an extension of unemployment. Correlatively, private consumer expenditure slowed down.

In the course of the year, all these factors contributed to the widening of bank liquidity and the downturn in interest rates, which had become extremely high. The partial suspension of the provisions of the United States regulation known as "regulation Q", preventing the banks, by imposing a ceiling on credit interest rates, from attracting freely time deposits, further reinforced the movement. The relaxation was first of all felt on the long-term capital markets. The fall in rates favoured, from September onwards, a very considerable reflux of capital towards the Eurodollar market, on which the U.S. enterprises, and more particularly the banks, via their European affiliates, had made ample calls in the course of the previous period. This large-scale disinvestment was in its turn to trigger off a downturn in interest rates on this market. Substantial inflows of short-term capital were then recorded on the monetary markets of the European countries where, during the summer, the interest rates had again increased or, at least, had remained appreciably higher than those on the Eurodollar market.

In the meantime, however, the cyclical expansion began to slow down *in the majority of the European countries*, where it had also attained runaway proportions. This about-turn began in Great Britain and France, subsequently spreading to the Benelux countries and then, later on, to the Federal Republic of Germany. It was still to remain limited in scope in 1970. The United Kingdom is the only country to have experienced temporarily recession trends accompanied by a persistent cost inflation. In France, these trends were felt only in limited sectors, and to a much less marked degree. At the end of 1970, the majority of the other European countries were still midway between the demand inflation and the cost inflation stages. They had however in the course of the year seen the first signs, more or less definitely, of a slackening in the propensity to invest and a falling demand in certain cases, *inter alia* in the investments sector, in the form of a reduction of the formation of stocks, and in the building sector. Private consumption, on the contrary, increased greatly as a result of the exceptionally large rise in nominal wages and also the diminution in the rate of private savings observed until the middle of the year in the majority of the European countries. Only France formed an exception in this respect : the demand for consumer goods, and in particular durable consumer goods, weakened greatly there over several months under the influence, *inter alia*, of credit policy measures taken in the framework of the reorganisation programme following on the devaluation of the franc. In the course of the last four months of the year, a fairly definite recovery was however perceptible. In the majority of the other countries, the acceleration in the expansion of consumption hardly slackened before the end

of the year although, as a result of the growing uncertainty of the cyclical situation as well as a slight tendency towards relaxation on the employment markets, there was a certain recovery in savings in the course of the second half-year.

In actual fact, as is observable in the final stage of boom periods, the *real economic growth* in the Community, while remaining very strong, started to slow down in the course of the year. This evolution is due to the saturation of production capacities and a shortage of skilled labour as well as to a number of other factors such as social unrest and strikes, especially in Italy, and to the partial slowdown in domestic demand observed in France and, later on, in the other Community countries.

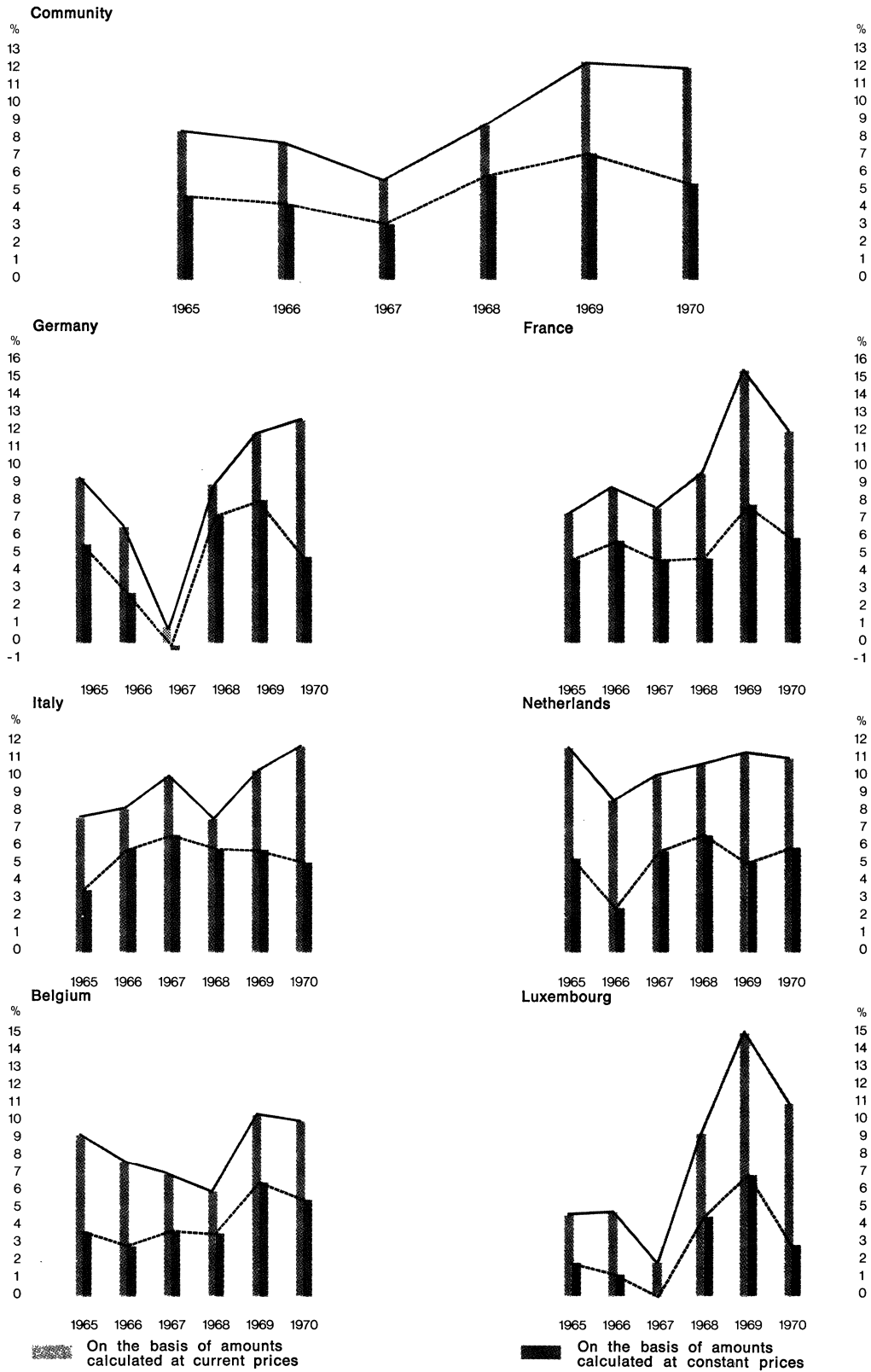
The annual rate of progress of the *gross national product* in real terms in the Community, which had been 7.1% from 1968 to 1969, fell to 5.5%. It showed the biggest downturn in Luxembourg, where it was only 3%, compared to 7% in the previous year. The increase was 4.9% against 8.1% in Germany, 6% against 7.9% in France, 5.5% against 6.5% in Belgium and, in Italy, 5.1% against 5.9%. In the Netherlands, on the contrary, the annual growth not only continued but even slightly accelerated: the increase in the gross national product in real terms was 6% against 5.1%. This acceleration seems to have resulted from the steep climb in production in the course of the last quarter of 1969. At the beginning of the year, the production level was thus considerably above the average for 1969. The Netherlands nonetheless also felt, from the second quarter of 1970 onwards, a weakening of the growth of production.

Despite the slowdown in cyclical expansion, *prices* continued to increase rapidly in the Community. In some member countries, the annual rises were even accelerated. Thus, from 1969 to 1970, private consumer prices⁽¹⁾ went up by 5% in Luxembourg and Italy whereas, from 1968 to 1969, they had increased by only 2.3% and 2.9% respectively. For Belgium and Germany, the corresponding rates stood at 3.8% compared to 2.1% and 2.5% respectively. In France, the annual increase in private consumer prices reached 5.5%. It was thus a little weaker than in 1969, year of the franc devaluation, when it amounted to 6.6%. Nevertheless, it is the highest ever recorded in the Community. In 1970, in the Netherlands, the slowdown in the growth of private consumer prices was more definite, but the rise still amounted to 4%, against 6.3% from 1968 to 1969.

The uptrend in prices was even more appreciable in the field of investments and residential construction than in that of consumption. The price rises which

(1) Aggregate prices index (according to national accounts).

GROSS NATIONAL PRODUCT IN THE COMMUNITY (% variation by comparison with previous year)



affected, from 1969 to 1970, the gross formation of fixed capital ⁽¹⁾ in the different countries of the Community, reached percentages ranging from 11% in Germany to 6% in Belgium, whereas from 1968 to 1969 the range had been from 4% in Belgium to 9% in Luxembourg.

The rise in prices observed in the Community in 1970 is not ascribable solely to causes of a cyclical character, such as pressure from demand or cost. Extraordinary factors also contributed thereto, among which were the introduction and increase of the value-added tax, the influence of which would probably have been much less pronounced in a quieter cyclical period.

The upward tendencies developed despite the reinforcement given to domestic supply by a big increase in imports of goods and services. These imports, on the other hand, contributed to deteriorating the *trade balance*, which – unlike the previous year when it was practically in equilibrium – finally showed a deficit of approximately 0.4 milliard units of account, despite a further progress in exports. According to estimates which are still provisional, the surplus on the *current balance of payments* of the Community is thought to have dipped to the extent of the trade deficit. The reduction of the balance of the external account by comparison with the previous year however scarcely had a moderating effect on the price trends within the Community, either because the evolution of prices in some important non-Community countries was even more unfavourable, thus increasing the value of the manufactured products ⁽²⁾ imported from those countries, or because the domestic price rise factors were so powerful that they could not be appreciably checked by a moderate variation vis-à-vis the total domestic supply in the balance of exchanges of goods and services with non-Community countries. Signs of a change in this connection appeared only in the closing months of the year, under the influence of an accentuation in international competition.

The *balance of payments*, considered as a whole, taking account of the balance of capital movements, moreover contributed to a marked increase in the liquidity of the economy. On the one hand, the net outflows of long-term capital in 1970 were considerably below those of 1969, in particular because of large borrowings by Italian enterprises and public and semi-public institutions on the Eurodollar market. On the other hand, the net inflows of short-term capital due to the disparity in credit policies and the margins in rates of interest as between different countries, greatly increased. The outflows of capital recorded in Italy thus showed a notable fall, whereas

(1) Aggregate prices index (according to national accounts).

(2) The prices of certain raw materials have, on the contrary, diminished.

the other member countries were faced with an influx of funds which assumed vast proportions for certain of them, and more particularly for the Federal Republic of Germany. In all, the gold and exchange reserves of the monetary authorities of the member countries, excluding the special drawing rights granted by the International Monetary Fund, advanced by 8.7 milliard units of account from the end of 1969 to the end of 1970, whereas they had shown a fall of 1.7 milliard from the end of 1968 to the end of 1969.

The persistent expansion of short-term *bank credits* to the economy also added to liquidity. Although the pace of progress slowed down a little, it remained sufficiently rapid for the monetary volume in the Community to show a steep increase from 1969 to 1970.

In all the member countries, the monetary authorities continued to apply a credit squeeze until the middle of the year. This policy found expression in the maintenance of quantitative limitations on the distribution of credit in France, the Netherlands and Belgium, the increase in compulsory reserves, in Germany and France, as well as a further increase in the discount rate in Italy and Germany. But its effects were counteracted by the influx of liquidities from abroad. Steps to check the increase in the external indebtedness of the banks were therefore taken or reinforced in some countries. The narrowness of the credit markets and the uptrend in interest rates within the Community itself nevertheless continued to attract external capital, especially under the influence of operations by enterprises of the member countries. This influx grew especially when the rates of interest in the United States and on the Eurodollar market accelerated their downturn, thus encouraging, within the Community, a gradual reversal in the trend in interest rates. In the course of the second half-year, the monetary authorities of all the member countries therefore lowered their discount rates, in certain countries on several occasions, without thereby yet reaching the lowest level attained in the second quarter of 1968. So as to check the tendencies towards slowdown or even stagnation of the economy and to give certain impetuses to the business cycle, other measures relaxing the credit policy were sometimes taken. This was the case, for instance, in France where the credit containment scheme was abandoned. This policy was however only practised very cautiously, owing to the persistent upward trends in costs and prices. In Germany, the authorities even continued to check the progress of liquidities and credit by the instrument of the compulsory reserves, although this meant renouncing the goal of completely absorbing the influx of liquidities from abroad.

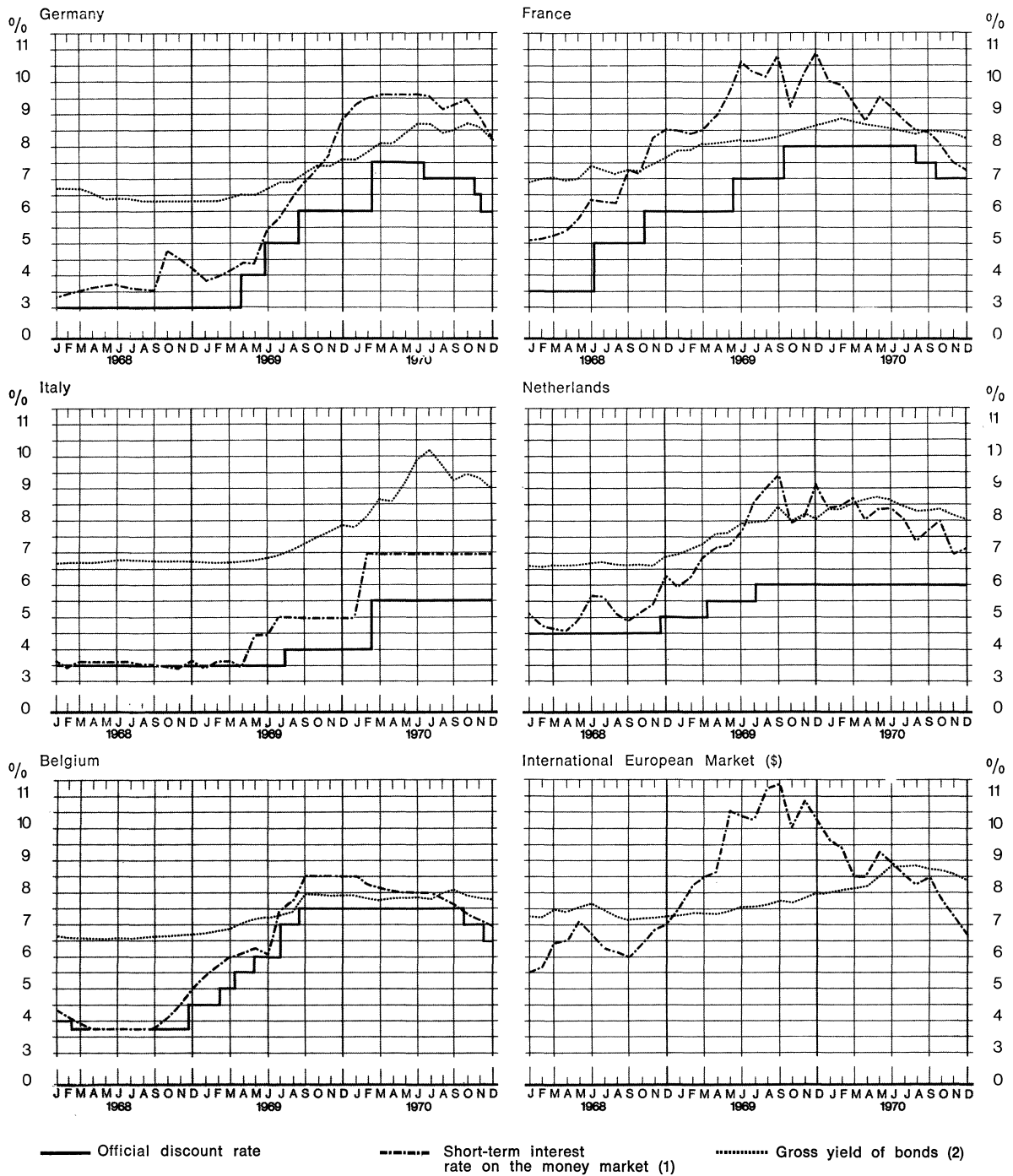
In general, the *public budgets* also played a more reduced role in the increased liquidity of the economy than in the previous year, when they had exerted a very

great influence in the direction of expansion, thus lending support to the cyclical movement. First of all, the tax receipts were higher than expected in 1970 in France and the Benelux countries. Next, undeniable efforts were made in the course of the year to moderate the runaway cyclical conditions by a stricter discipline in public expenditure, the constitution of liquid reserves intended to be re-used later on to sustain the business cycle, and by increases in rates and taxes. Italy was the only Community country to have recorded, by comparison with 1969, on the one hand, a big increase in the deficit on the State budget, due inter alia to very marked rises in current expenditure, and on the other, increased calls on financing schemes of a monetary character owing to the considerable contraction of the resources which could be collected on the capital market. At the end of the year, the new government was thus led to take steps, including fiscal measures, with a view to improving the budgetary situation, checking the expansion of consumer expenditure and encouraging investment expenditure.

In some member countries, the absolute or relative decrease in the net financing requirements of public budgets by comparison with 1969 was obtained partly by a limitation of investment expenditure, whether in the form of direct investments by the government or subsidies intended for the investments of other promoters, in the majority of cases public or semi-public. The latter therefore intensified their calls on the domestic or foreign capital markets. This evolution was felt not only in Italy but also in France, to a fairly large extent. Certain local communities, in particular, again increased their indebtedness rather markedly.

Calls by *private enterprises* on external financing resources continued to progress at the same time. The weakening in their propensity to invest, observed in the course of the year, has not had time to make its effects felt at the level of the execution of equipment programmes. Experience shows, in fact, that the latter are most often only revised in a downward direction with some delay, and only after the financing conditions and the outlook for demand have definitely changed. The financing of these programmes, generally in marked expansion, was hampered by fairly big difficulties. One of the essential causes of these difficulties is linked with the fact that the cash-flow of the enterprises did not reach – and in very many cases fell far short of – the amounts initially forecast. This evolution is due essentially to that of wages which, in the majority of the member countries, recorded very big increases, which the enterprises were unable to absorb without narrowing their profit margins, in view of the very pronounced slowdown in the progress of their productivity and the obstacles they encountered when it came to increasing their prices. The factors which contributed to this expansion of wages, sometimes explosive, were numerous : excess tension on the employment markets, persistently adverse

SHORT-TERM AND LONG-TERM INTEREST RATES



(1) The short-term interest rates are, according to the countries concerned, the following:
 Germany: rate for 3-month interbank loans
 France: rate for 3-month interbank loans against private bonds
 Italy: rate for 12-month Treasury bonds subscribed by the banks by tender
 Netherlands: rate for 3-month cash loans by banks to local authorities

Belgium: rate for transfer to banks of 3-month cash certificates
 European International Market: rate for 3-month U.S. dollar deposits with London banks

(2) The gross yield rates for bonds are those of bonds quoted on the stock exchange in the different financial markets in the Community, the characteristics of which at issue come closest to those of the Bank's bonds.

orientation of the wages policy, based on the past evolution of profits rather than on forecasts, social movements and political agitation. According to the results of research effected by the Commission of the European Communities, the wages charges per unit produced in industry progressed, from 1969 to 1970, by 14% in Italy, 13.8% in Germany, 5.5% in France and 5% in the Netherlands and Belgium.

Whereas the borrowing requirements of the public and semi-public sector, as well as of enterprises, showed a wide expansion owing to the reduction of their self-financing possibilities, *private savings* showed a relatively reduced activity during the first half of the year. Although felt to a differing extent by the member countries, this evolution was altogether obvious for the Community as a whole. The rate of private savings began to recover only when more or less definite tendencies or prospects of relaxation on the employment markets emerged, relatively early in France and only in the second half of the year elsewhere.

The disequilibrium between calls on the markets and the resources available led, in the first half-year, to *further considerable rises in interest rates* within the Community. On the loans market, these rates generally reached their maximum at the beginning of the summer. In France, however, the reflux of capital after the devaluation of the franc, the reorganisation efforts of the authorities, the growth of private savings and, lastly, the maintenance of the limitations imposed on exports of capital led to a halt in the uptrends in rates on the bond market in March already. The financing of investments nevertheless remained rather difficult there throughout the year. In Belgium, the downturn in rates began only in September. However, it was in Italy that, within the Community, the long-term financing conditions became by far the most difficult. As the result of a long crisis largely motivated by outflows of capital, the supply of available funds was manifestly exhausted there and the yields of outstanding bonds exceeded 10% in the third quarter. A long pause in issues and the reorganisation programme carried out by the new government subsequently made possible a gradual improvement in the situation.

During the second half-year, and more particularly in the course of the last three months of the year, the rates of interest showed a slight tendency to fall in all the Community countries, while remaining relatively high on the whole until December. It was only at the beginning of 1971 that the reversal in trend made itself fully felt.

The shortage of financing resources by comparison with the requirements, which was much more intense than in 1969, was reflected in a big increase of calls

on the *European Investment Bank*, emanating from all the member countries of the Community. The requests from Italy were particularly copious, as the unforeseen financing difficulties there threatened to slow down considerably or to interrupt for a certain time the execution of important equipment projects, inter alia in the infrastructure sector. But the investors of the other member countries also showed concern in seeking the Bank's assistance for the financing of projects the execution of which was meeting with difficulties owing to the additional expense of investment costs and the shortage of financing resources available on the domestic markets.

By endeavouring to meet these needs as fully as possible, the Bank was merely fulfilling one of the essential missions conferred on it by Article 130 of the Treaty of Rome. When the means existing in the member countries do not suffice to cover entirely the financing of projects aimed at the modernisation or conversion of enterprises or the creation of new activities, or projects of common interest for several member countries, it is up to the Bank to intervene as much as it can. Likewise, it goes without saying that the less developed regions of the Community, where the Bank is required to intervene even if other means of financing are available, are entitled to reinforced aid from the Bank when unforeseen difficulties of financing complicate the execution of projects. The Bank has therefore done everything it could to meet the surfeit of requests addressed to it, when the projects were in conformity with the conditions laid down by its Statute. The normal loan and guarantee contracts signed by it in 1970 related to an amount of 338.5 million units of account, for projects to be executed in the member countries and 2.3 million for projects to be executed in the associated countries. The amount of financing schemes effected in the member countries was therefore 90.7 million higher than in 1969. The approvals of loans and guarantees by the Board of Directors progressed in a parallel way : they related, as regards projects located in the member countries, to an amount of 338.6 million units of account, or an advance of 93.4 million by comparison with the previous year.

The Bank particularly developed its loan operations in Italy, where they totalled 205.2 million units of account in 1970, compared to 119.6 million in 1969, thus showing a progress of 85.6 million. In this way, it has indeed contributed to meeting the special financing requirements of Italian regional development, which have again showed a big increase for some time, especially in the Mezzogiorno. But it has doubtless also relieved the balance of payments by contributing, in the framework of its activities, to increasing the transfers of capital to Italy. Whereas the number of operations carried out in France was maintained more or less at the same level as in 1969, which itself was a considerable advance by comparison with 1968, there was a net increase in the projects financed in Germany and Belgium. In the course of

the preceding years, the German promoters had not had to seek the Bank's aid for large amounts, owing to the abundance of domestic liquidities.

In view of the tightness of the capital markets, the expansion of the Bank's credit operations proves rather remarkable. The Bank which, as far back as 1969, had made a point of curtailing its issues by comparison with 1968 so as to ensure that the average cost of its *borrowed resources* did not increase too steeply owing to the tensions on the capital markets of each of the member countries, continued in 1970, in the period of increased tightness of the markets, to restrict its issue operations by limiting them to the German market. In order to pursue its active operations at a rapid pace, in the course of the first half-year, the Bank continued to utilise, as in the previous year, the liquidities which it had accumulated at a time when savings funds were still abundant and the rates of interest not very high, without thereby reducing these liquidities beyond the point of equilibrium determined by the payments to be effected on loans already granted. Furthermore, the Bank started to execute part of its active operations in accordance with new terms and conditions enabling the beneficiaries to have at their disposal immediately the proceeds of their borrowings. Indeed, it intervened by giving its *guarantee* to loans granted on mandate by and for the account of German financial institutions operating in the field of municipal credit, for projects investigated by it in Italy and France. The loans thus granted with the Bank's guarantee and which could not have been effected in the absence of this assistance, related in the course of the year to a total of 56 million units of account.

As soon as the trend in interest rates began to improve, in the closing months of the year, the Bank again intensified its direct calls on the capital markets, on the one hand, by having recourse quite widely to international savings on the Eurobond market, and on the other, by calling on the French and Belgian markets, which it had abandoned for a certain time.

The volume of resources collected by the Bank in the course of the year on the national markets of member countries was however only 62 million units of account, whereas it had reached 121 million units of account in 1969. But this decline was more than offset by the big progress in resources collected on the European international market, which rose from 25 million units of account to 107 million units of account. In all, the *volume of funds borrowed* by the Bank was finally more considerable than in the previous year, totalling 169 million units of account, against 146 million units of account. The reinforcement of issues, which continued over the opening weeks of 1971, shows the Bank's desire to pursue the expansion of its

operations so as to be able to give adequate support to the priority investments in the member countries, in a period when the financing conditions remain difficult.

In order to fulfil its task, the Bank had to continue mobilising resources in 1970, despite the increase in the cost of borrowings. Its Statute provides, furthermore, that it shall adjust its *rates of interest* to the conditions prevailing on the capital markets. It was thus inevitable that its interest rates should be raised on several occasions. In cases where the term of the loan does not exceed 12 years, they were raised from 7.5% to 8% on 3rd March, 1970, then to 8.25% on 28th April, and 8.50% on 1st July. On 3rd March and 1st July, the rates applicable to loans with a term exceeding 12 years but not exceeding 20 years, were raised from 8% to 8.50%, then to 8.75%. Lastly, on 4th November, 1970, the nominal rate of loans, whatever their term, was fixed uniformly at 8.75% and this rate was accompanied by disbursement conditions offering the Bank a yield equal to that of a loan subject to a nominal rate of 9%, disbursable at par and calculated on the usual bases. As soon as the relaxation on the capital markets was confirmed at the beginning of 1971, the Bank however took advantage of this situation to lower its interest rate by 0.5%, fixing it at 8.5% per annum, whatever the term of the loans.

* * *

Within the Community, the economic policies of the member countries were, on the whole, better co-ordinated in 1970 than in previous years. After the modifications in exchange rates that had occurred in 1969, adequate action indeed made it possible to reduce or even to abolish the disequilibria between the member countries in 1970. In France, external equilibrium was restored; large redemptions of short- and medium-term debts contracted during the balance of payments crisis were carried out and substantial gold and exchange reserves were reconstructed. In Germany, the balance of payments, which had previously shown too great a surplus, reverted to normal, leaving out of account inflows of short-term capital originating essentially from non-Community countries. The Benelux countries, on the whole, experienced the same trend. In Italy, the cyclical evolution continued, however, over a large part of the year, not always to be favourable to balanced expansion; this situation is due essentially to the strikes and their consequences: runaway costs and expenditure, on the one hand, and obstacles to production, on the other; the current balance of payments deteriorated considerably, partly due to the increase in imports of goods. It was not until after the formation of the new government that, as we have already mentioned, the authorities succeeded in again getting a better grip on the situation and in influencing it with a view to the restoration of external equilibrium.

The search for the *co-ordination of cyclical policies* in the Community continued to form the object of work by the Medium-Term Economic Policy Committee and the Budgetary Policy Committee, the Monetary Committee and the Committee of Governors of central banks. It also formed the object of special memoranda ⁽¹⁾ by the Commission of the European Communities, the conclusions of which were accepted by the Council. On two points, however, the results have been disappointing : in the first place, the improved harmonisation of business cycles within the Community has been obtained only at the price of acceptance of a rate of growth of prices even higher on the average than in 1969; in the second place, the stabilisation policy has continued to operate mainly via monetary and credit policy and sufficient importance has still not been given to the budgetary policy actions.

The recognition of the inadequately effective character of the present co-ordination mechanisms of medium-term economic policy, so as to avoid the emergence in future of further serious disequilibria within the Community or to ensure that the latter becomes the “ bloc of monetary stability and optimum economic growth ” which many hope for, contributed, at the same time as the unpleasant experiences of 1968 and 1969, to reinforcing the efforts made to transform the Community into a veritable *Economic and Monetary Union*. It is not possible to go here into the details of the work, projects and debates which characterised 1970 in this respect : the “ Barre Plan ” ⁽²⁾ , “ Conference of Heads of State and Heads of Government at The Hague ”, work of the “ Werner Committee ”, concrete proposals by the Commission of the European Communities. The debates on this subject within the Council of the Community culminated, on 9th February, 1971, in a Council resolution ⁽³⁾, expressing first of all the political will of member countries to set up, at the end of a 10-year period, according to a plan by stages commencing on 1st January, 1971, the economic and monetary union and thus to arrive at a Community of stability and growth. It then goes on to describe the characteristics of the final stage of this union and, lastly, fixes more or less precisely the objectives to be attained or the steps to be taken during the first stage which will cover three years, stressing the need for parallel measures in economic and monetary matters. It is mainly a question of reducing gradually the fluctuation margins of exchange rates among the currencies of the member countries, possibly creating a European Monetary Co-operation Fund, adopting, vis-à-vis the outside world, single positions in the field of international monetary policy, gradually abolishing the obstacles which still stand in the way of capital movements within the Community, co-ordinating the policies

(1) Memoranda on the medium-term economic policy of the Community, December 1969 and July 1970.

(2) As set forth in the memorandum which the Commission submitted to the Council on 12th February, 1969.

(3) “ Official Gazette of the European Communities ” of 27th March, 1971 - No. C 28.

with respect to financial markets, taking the necessary fiscal harmonisation measures, especially in the field of the value-added tax and certain taxes which may exert a direct influence on movements of capital within the Common Market (tax system applied to interest on loans and dividends). At the same time, two first implementing decisions were taken aimed, on the one hand, at developing the co-ordination of current cyclical policies and especially the budgetary policies of member countries and on the other, reinforcing the collaboration among central banks in the field of credit policy. In this context, the establishment of a Community system for medium-term monetary credits was also approved. Furthermore, the *third programme of medium-term economic policy* (1971-1975), also adopted by the Council on 9th February, 1971, contains for the first time statistical orientations which the member countries undertake to respect.

The Bank's last annual report already analysed briefly the new *system of medium-term monetary credits*, which is to supplement the Community system of short-term monetary support already put into force previously. The new system provides, in substance, that a member country, in case of difficulties or serious threat of difficulties in its balance of payments, may receive credits from other member countries "in the framework of the mutual assistance", as defined in Article 108 of the E.E.C. Treaty; these credits, of a term of 2 to 5 years, are granted by qualified majority decision of the Council, on recommendation from the Commission and after consultation of the Monetary Committee. The obligation of member countries to contribute to such credits is, as in the case of the short-term credit system, limited by ceilings : Germany and France, 600 million units of account each; Italy, 400 million; Belgium-Luxembourg, 200 million and the Netherlands, 200 million, or a total of 2 billion units of account. The contribution to the credits will be made in proportion to the ceilings. The essential difference from the system of short-term assistance is that the Council, in deciding on medium-term aid, has arranged for it to be accompanied by conditions in the field of economic policy. The system of medium-term aid has been decided for a five-year period, calculated from the beginning of the first stage, but will probably be able to come into force only on 1st January, 1972, owing to the fact that, in at least one member country, an amendment to the law relating to the Central Bank is necessary; its actual duration would therefore be initially four years. Certain other monetary provisions of the resolution will be valid for five years, in particular those which concern the policy of the central banks aimed at reducing the fluctuation margins of exchange rates among the currencies of the member countries or those relating to the European Monetary Co-operation Fund, should the latter already be created in the meantime. All these provisions will however remain in force after agreement on the transition to the second stage of the plan concerning the implementation of the economic and monetary union. Before the end of the first stage, the steps leading, after transition

to the second stage, to the full implementation of economic and monetary union will have to be laid down. The decision will be taken on the basis of reports and proposals by the Commission indicating, in particular, the necessary apportionment of powers and responsibilities between the institutions of the Community and the member countries.

All these decisions should have at least an indirect effect on the European Investment Bank. In particular, the decisions to be taken with a view to the gradual *abolition of the remaining obstacles to the free circulation of capital* within the Community may be of great importance for the Bank. Each member country must, indeed, within the limits of ceilings to be fixed and which will be gradually raised, grant without discrimination free access to its capital market for security issues by borrowers of other member countries. It would be logical and highly desirable that security issues by Community institutions should be the first to benefit from this liberalisation. This should be the case, inter alia, for issues by the Bank for which the Statute already provides, in principle, for an agreement ipso jure by the national authorities of the member countries on the markets of which they occur, unless serious perturbations are to be feared in their functioning.

As regards *regional policy*, the Commission of the European Communities submitted on 17th October, 1969, a memorandum to which was appended a proposed Council decision. The latter aims, inter alia, at implementing a procedure intended to enable the establishment of regional development plans, when such do not yet exist but are necessary, and to co-ordinate those already existing from a Community point of view. The Commission also proposes the creation of a fund for interest rate subsidies, supplied by budgetary resources, and a system of guarantees, intended respectively to make less expensive and to guarantee the loans by the European Investment Bank or other financing institutes. Lastly, the setting-up of a permanent committee for regional development, within which representatives of the member countries and of the Commission would have to collaborate, is suggested; a representative of the Bank would be called on to attend in the capacity of observer the meetings of this committee. In its memorandum, the Commission particularly stressed the importance of the role which the Bank has to assume in respect of regional policy, and recalled that the Bank is the most suitable Community institution to maintain, and if possible intensify the flow of necessary capital towards the regions to be developed. The deliberations relating to the memorandum of the Commission and its proposals are not yet complete. They should lead to results based largely on the guide-lines laid down by the Commission: moreover, the Council has allotted a significant place to structural policy, in particular to regional policy, in its resolution on the implementation of economic and monetary union.

The need for arriving at an improved harmonisation and, partly even, at a veritable common action in the field of *industrial policy* was also emphasised in the decision concerning economic and monetary union. The Council's resolution has confirmed this need.

As far back as last spring, the Commission submitted a detailed memorandum ⁽¹⁾ attaching, inter alia, much importance to the development of common action in favour of a mutual rapprochement of the enterprises of the different member countries, as well as in favour of research and technological development, and stressing the role of the European Investment Bank in the financing of industrial development.

The Commission's memorandum was passed on by the Council, for examination, to a Group of High Officials of the member countries and of the Commission. This Group has just communicated its conclusions to the Council. It is in favour of an expansion of the operations of the European Investment Bank and considers it desirable that the latter – within the framework of its overall action and without neglecting its priority tasks of financing in the regional development sector – should accentuate its interventions in favour of the modernisation of the Community's industrial apparatus, particularly in the case of projects resulting from common initiatives originating from enterprises of different member countries or a thorough co-operation among enterprises of different member countries.

Through the intermediary of its representatives in the different committees and working groups, the Bank participated in the discussions relating to the expansion of its role. Confining itself to the strictly technical and financial field for which it is competent, it has made known, in different commentaries and notes, its opinion on the possible solutions. Ample account has been taken of this opinion.

The Community and the member countries also expect the Bank to pursue its efforts in the field of *Community financial aid to the associated countries*. The second *Yaoundé Convention* concerning the *Association of the 18 African and Malagasy States* and the texts relating to the *Overseas Countries and Territories* of the member states were ratified in the course of 1970 by all the countries concerned and came into force on 1st January, 1971. These texts provide, under the heading of repayable aid, that a sum of 90 million units of account, from the European Development Fund, may be appropriated to the grant of loans with special conditions and contributions to the formation of risk capital, in the examination and manage-

(1) "The industrial policy of the Community" ("Colonna" Report).

ment of which the Bank is called upon to play an important role. Furthermore, the Bank is authorised to grant from its own resources, by application of the new agreements, loans to a maximum amount of 100 million units of account. These loans will be guaranteed by the member countries, the guarantee being liable to be applied to all the loans thus granted, but the total amount of this commitment is limited to the difference between 70 million units of account and the total. The loans which the Bank grants from its own funds may be accompanied, under certain conditions, by interest subsidies financed by means of resources from the European Development Fund.

As regards *Turkey*, 1970 was characterised by the negotiations concerning the additional protocol on the entry of the Treaty of Association into the transitional period and the *second Financial Protocol*. The new financial protocol was signed on 23rd November, 1970, and is now in process of ratification by the member countries and Turkey. It provides, for the period until 23rd May, 1976, for financial aid amounting to 195 million units of account, to be granted by the European Investment Bank from the resources of member countries, in the form of special loans. The conditions have further been slightly relaxed by comparison with those of the loans granted in the framework of the first financial protocol. Furthermore, as soon as the economic and financial situation of Turkey permits, ordinary loans by the Bank will be added thereto, by a special decision of the Community, up to an amount of 25 million units of account.

ASSOCIATED COUNTRIES

The economy of *Greece* – where the Bank continues to administer the loans granted until 1967 – was again characterised in 1970 by a vigorous growth. The gross national product in real terms increased, according to the initial estimates, by some 8%, as in the previous year.

Whereas the growth of agricultural production was definitely more rapid than in the previous year (8% against 5%), thanks to favourable weather conditions, that of industry slowed down a little. The rate of growth of the aggregate of industrial production (including building) is evaluated at 9.5% for 1970 against some 10% in the previous year. This slowdown must be ascribed above all to a less marked expansion in building : in the manufacturing industry, on the other hand, it seems that the increase in production was just as marked as in the previous year (9%).

After the big expansion of the gross formation of fixed capital in 1968 and 1969 (19% for each of these years), 1970 was marked by a very considerable fall. According to the initial estimates, the rate of real growth would total only 7%. The slowdown was especially marked in the private sector, inter alia for real estate investments.

The volume of private consumption progressed, still according to the initial estimates, by 7%, i.e., a little more rapidly than in 1969 (6%); on the other hand, real public consumption progressed by 5.5%, which is definitely less than in 1969 (9.9%).

The general level of prices moved up a little more vigorously in 1970 than in the course of the two previous years, partly under the effect of the upswing in import prices and in the prices of public services. According to the official indices, the uptrend in consumer prices – averaging 3.2% per annum – was definitely more rapid than in 1969 (2.5%). On the other hand, that of wholesale prices was the same : 3.9%.

The deficit on the trade balance again increased; indeed, it reached 1.1 milliard units of account against 0.9 milliard in 1969. Whereas imports increased at the rate of 19%, i.e., more rapidly than the previous year (15%), reaching 1.7 milliard, exports rose by only 15% (0.6 milliard), against 14% in 1969. We should stress the particularly steep rise in exports of industrial and handicraft products, the share of which in total exports reached 37%.

Remittances of funds by Greek workers employed abroad and the net receipts resulting from tourism and marine transport increased markedly, and the surplus of invisible transactions thereby went up considerably. However, this did not suffice to offset the deficit on the trade balance, and the balance of current payments deficit was further swollen by comparison with the previous year.

Despite the growth of net inflows of public and private capital from abroad, the deficit on the total balance of payments was slightly higher than that of 1969, which was reflected by a decrease in the official gold and exchange reserves by approximately 16 million.

In *Turkey*, several important factors exerted a great influence on the economic evolution in 1970 : the government crisis in spring, the increased cost and price inflation and the devaluation of the Turkish pound in August.

The government crisis resulted in the belated adoption of the budget (in May) and hence a delay in public expenditure. As the budget year begins in March, the government had to remain content with monthly budgets for the first three months.

The Turkish pound was devalued with effect from 10th August, 1970. The parity, which had until then been 9 Turkish pounds for 1 U.S. dollar, was fixed at 15 Turkish pounds for 1 U.S. dollar. The devaluation was accompanied by a stabilisation programme intended to guarantee and supplement its effects.

An ever more critical economic and financial situation had rendered these measures inevitable : the marked expansion of the Turkish economy in the course of the preceding years had been acquired at the cost of considerable rises in prices and costs which had weakened Turkey's competitive position and deteriorated the balance of current operations. This resulted in a serious shortage of foreign exchange imposing on the importers very long waiting periods for obtaining their foreign exchange allowances.

The devaluation and the stabilisation measures therefore had as prime objective, with the improvement of Turkish competitiveness on the world markets, the increase of exports and the decrease of the deficit on the balance of current payments. In order for devaluation to bear full fruit, it needed above all to be able to rely on an effective anti-inflationary policy, consisting essentially of checking the expansion of nominal domestic demand. Although the measures in question were actually implemented as a whole only in the course of the second half-year, their effect on the behaviour of enterprises made itself felt, directly or otherwise, in the course of the first half-year already. On the one hand, indeed, the authorities had embarked since the beginning of the year on a more restrictive credit policy as a prelude to the measures they were preparing. On the other hand, the climate of uncertainty created by the persistent devaluation rumours led the enterprises to adopt an ever more cautious attitude. Furthermore, the lack of foreign exchange weighed more and more heavily on imports until August / September, slowing down economic growth still further. According to the initial estimates, the rate of growth of the national product in real terms was approximately 5.6% in 1970, against 6.3% in 1969 and 6.7% in 1968. Neither agricultural production nor industrial production came up to expectations.

As a result of unfavourable climatic conditions, agricultural production was practically stagnant on the whole. Although the wheat harvest could be stepped up somewhat, Turkey remained largely dependent on imports of cereals; as for livestock production, it recorded no notable progress in 1970.

The increase in industrial production, of the order of 4% according to initial estimates, was definitely below the rates of growth for the previous years (10% on an average). This slowdown is ascribable, essentially, to the factors which have just been mentioned. But certain bottlenecks in steel production, which could only partly be remedied by special imports, proved to be additional factors, as in the previous year. A definite downturn in the growth of production was observable in the metal manufacturing industries as well as in the paper, textile and tyre industries. On the other hand, petrochemicals, the mining industry, cement, fertilisers, plastics and glass continued their rapid expansion in 1970.

Compared to the disappointing results in agriculture and industry, expansion remained vigorous in the other sectors of the economy, and particularly the services.

As regards demand, i.e., the employment side of the resources of the national accounts, the pace of expansion of the gross formation of fixed capital considerably slowed down under the influence of the factors already sketched above. According to provisional estimates, the growth in real terms totalled only some 6%, against 11.1% in 1969 and 15.5% in 1968. It would seem that the increase of investments in real terms was only slightly above 4% in the public sector (1969 : 9%) and 8% in the private sector (1969 : 13.6%). It is possible that, in the private sector, the suspension of certain measures to stimulate investments also contributed to this weakening.

The increase in the volume of private consumption would have been reduced by comparison with that of the previous year (3.8% against 5.3%) with a more pronounced increase in consumption in the towns than in the country areas. On the other hand, it seems that the development of public consumption in real terms again increased slightly; the rate of growth is said to have attained 11.4%, against 9.8% in the previous year.

Despite the retrenchments in expenditure made in the course of the year, and the creation of new taxes, or the increase of existing taxes, the Government did not succeed in implementing, before the end of the year, its plan to reduce its debts to its suppliers and, above all, to the Central Bank. On the contrary, it had to postpone the increase in civil servants' salaries decided on in the course of the year and to make further calls, on a wider scale even than in the previous year, on short-term credits with the Central Bank.

The uptrend in prices continued : measured by the difference between the nominal growth and the growth in real terms of the national product, it may be

estimated at 8% for 1970. The wholesale prices index increased by a yearly average of 5.6% and the cost of living index at Ankara itself by 14%. The uptrend in prices was provoked not only by the pressure of domestic demand and costs, but also by devaluation, especially in the course of the second half-year. The rise in prices by 10%, which had initially been expected as a consequence of devaluation, was however limited to a lower level, at least until the end of the year, by the application of certain administrative measures.

The deficit on the Turkish trade balance is said to have increased, according to initial estimates, and attains some 360 million units of account (1969 : 268 million). Imports were approximately 948 million units of account, or 18% more than the previous year when the increase had been definitely less great (5%). The reduction of the waiting time which had begun in the course of devaluation would have accounted for a great deal. Owing to the shortage of foreign exchange, the arrears in exchange allowances for imports had accumulated to reach 300 million units of account before devaluation and the waiting periods were extended to 11 months. The arrears were absorbed by the end of the year, and the periods reverted to normal. According to information now available, exports progressed by approximately 10% in 1970, reaching 588 million units of account. This is a very satisfactory result if it is borne in mind that not only did exports develop only very slowly in the course of the first half of the year, owing to the weakening of Turkey's competitive position and speculation on an imminent devaluation, but also that towards the end of the year exports were temporarily checked by the appearance of cholera. Although the improved competitiveness of the Turkish economy thanks to devaluation has already made its effects felt in different branches, it is hardly probable that the results for the whole of 1970 have already been much influenced thereby. In 1970, approximately 75% of the total exports were still represented by agricultural commodities. The first estimates show, in particular, that exports of cotton, processed agricultural products and textiles were appreciably stepped up.

The credit balance of invisible transactions was considerably higher than in 1969. This is due essentially to the fact that the remittances from Turkish workers abroad – inter alia, by reason of the devaluation of the Turkish pound – almost doubled, rising from 140 million units of account, in round figures, in 1969, to nearly 270 million units of account in 1970. Contrary to the previous year, the tourist balance showed a slight surplus for the first time.

On the whole, it may be estimated that the deficit on the balance of current operations was slightly less in 1970 than that of the previous year. However, the repayments of foreign debts definitely increased. Thanks to the larger influx of

capital from abroad, linked with devaluation, the total balance of payments may finally show a notable surplus. The net gold and exchange reserves of the Central Bank increased by 75 million units of account from end-1969 to end-1970.

As in previous years, Turkey was able to cover the greater part of its capital needs thanks to the financial aid made available to it in the framework of the Turkey Consortium of the O.E.C.D., by the member countries of this Consortium and by multilateral financing institutions. In 1970, the support credits granted in connection with devaluation, inter alia by the International Monetary Fund and the European Fund, played a particularly important role.

The evolution of the economic situation of the *Associated African States and Madagascar (A.A.S.M.)* was particularly influenced in 1970 by that of the international environment. The slowdown in the expansion of the principal industrial countries and even, as regards the United States, the economic stagnation, contributed to checking slightly the increase in exports from the A.A.S.M. and weighed heavily on the prices of the main industrial commodities. The attenuation of the monetary tensions and the maintenance of interest rates at a high level put an end to the speculative purchases and led to a certain liquidation of stocks, thus contributing to slow down, by comparison with the previous year, the pace of growth in demand for numerous commodities and tropical products. Furthermore, the marked progress in freights and the rapid upturn in prices and wages in the industrial countries seem to have caused a certain acceleration in the increase of imports in value and maintained certain inflationary tensions.

The steep rise in commodity prices, which had started to take shape towards mid-1968 and had reached its peak in August 1969, ended in the course of the first quarter of 1970. The prices of tropical products were certainly not immune from the cyclical movements referred to above, but were above all influenced for each product by the effect of supply and demand on the markets for the different products. On the whole, downward trends prevailed, so that the "Financial Times" commodity prices index fell by more than 6% in the course of the year. The downturn was particularly marked for the principal non-ferrous metals, including copper, the fall in which was accelerated in the course of the last quarter, reaching 30 to 40% at the end of the year, by comparison with the exceptionally high prices of the first half-year. Among the other products which occupy an important place in the exports of the A.A.S.M., cocoa and wood recorded a marked fall by comparison with 1969, while on the contrary, the prices of sugar and oilseeds, upward in trend, reached record levels, whereas those of coffee and cotton remained relatively stable.

It is obvious that the evolution of world prices was of capital importance for economies the export income of which depends on two primary products, in all cases to the extent of more than 50%, and for half of them to the extent of over three quarters. However, purely local factors, including the influence of climatic hazards on the main crops obviously contributed to modify these trends in very diverse ways at the level of each of the countries. Inter alia, very unfavourable conditions prevailed in Senegal, Upper Volta, Niger and Northern Cameroon.

On the whole, although precise data on this subject are not yet available, it seems that the gross domestic product of the A.A.S.M. experienced in 1970 a slightly less brisk growth than in 1969, probably of the order of 4 to 5% in constant prices. The growth appears however to have been slightly more rapid in Ivory Coast, Congo-Kinshasa, Cameroon, Gaboon and Mauritania and probably definitely more slow in the majority of the other countries. The gross domestic product for the whole of the A.A.S.M. may be estimated, very provisionally, at some 9 milliard units of account at current prices, or, for a population of just under 75 million, an average per capita level in the region of 120 units of account.

The foreign trade statistics for 1970, available only for trade with the E.E.C., point to an approximate stabilisation of the positive foreign trade balance, despite a net slowdown in the expansion of exports, which progressed by 8.4% compared to 17% in the previous year, and despite the acceleration in imports, the increase in which attains a little over 13% against 9.6% in 1969.

According to the monetary statistics, the expansion of the volume of money was generally more brisk than in 1969. This expansion generally originated in a very rapid increase in the net external assets, except in the Democratic Republic of Congo where they fell slightly, and also in the credits to the economy which progressed by 13 to 54% according to the issuing zones, although the net position of the public Treasuries vis-à-vis the banking systems generally tended to improve, except in the Congo.

Here and there, general wage increases, sometimes substantial, were decided upon. The upturn in prices seems, furthermore, to have slightly accelerated in general, inter alia in those of the A.A.S.M. belonging to the franc area. This rise is partly one of the consequences of the devaluations of the CFA and Malagasy francs which occurred in August 1969 at the same time and at the same rate as that of the French franc.

Concerning public finances, the impression prevails on the whole that the expansion of current expenditure tends to precede that of revenue, so that the

financing of investments is ensured by public savings only to a decreasing extent. The countries whose budgetary situation has so far been fairly easy themselves remain at the mercy of an accentuated downturn in the prices of their principal products or of serious climatic hazards capable of reducing their main exportable products. In some countries, a current deficit even emerged in recent years, and is increasing alarmingly.

The net flows of public aid to the A.A.S.M. were estimated in 1969 at nearly 570 million units of account, of which just over 87% originated from the E.E.C., whether in the form of bilateral aid, approximately two thirds, or community aid, a little under 20%. These aids do not seem to have increased appreciably in 1970. Nevertheless, they probably represented the equivalent of approximately 6.3% of the overall gross domestic product of the 18 A.A.S.M. and some 7.8% of the latter if the net private contributions of capital are added to the public aid. Although this aid is granted essentially in the form of subsidies or loans under favourable conditions, the external debt is growing rapidly. At the end of 1968, it was estimated at about 1.85 milliard units of account in all, or the equivalent of over 22% of the gross domestic product of the A.A.S.M. and has since then grown more rapidly than the latter. The resulting charge was not however excessive : in half the countries, the service of the debt absorbed less than 3% of the export receipts for goods and services, and this ratio exceeded 6% for only two or three among them. Nevertheless, the service of the debt tends, in the majority of the cases, to grow more rapidly than the export receipts. Moreover, in many countries, it is at the level of the situation of public finances that tensions threaten to emerge in the first place a few years from now, should there be an excessive growth of the public debt.

INVESTMENTS IN THE COMMUNITY

The big expansion in investments continued in the Community in 1970. A certain weakening in the progress however emerged towards the end of the year under the influence of the steep rise in costs, the pressure exerted on profit margins and possibilities of self-financing, the difficulties in borrowing and the high interest rates, as well as the less favourable orientation of sales in certain sectors.

According to provisional estimates, the gross formation of fixed capital amounted in the Community to approximately 121 milliard units of account in value, against 102 milliard in the previous year, thus showing an increase of 19%, definitely more marked than in 1969 (14.5%). But owing to the increased uptrend in prices, the growth in volume (8.5%) was a little less than in the previous year (9.7%).

In *Germany*, investment expenditure continued its accelerated expansion. An increase by approximately 17% in 1969 was followed, in 1970, by a growth of some 23%. But a big rise in prices caused this rate to fall to 11% in real terms, which is below the figure for the previous year (12%).

In *France*, on the contrary, a slowdown in the growth in value of investments was observed on the whole. This downturn is probably due essentially to the restrictive cyclical policy of the previous year and its repercussions on the first half-year of 1970. Investment expenditure rose by 15.5%, against 17.1% from 1968 to 1969, and the volume of investments by 8%, against 10.1% in the previous year.

In *Italy*, the investment expenditure increased by 15.3% in 1970, against 14.7% in the previous year. But, as in Germany, the uptrend in prices was so extensive that this growth in fact masks a weakening of expansion in volume, which attained only 3.8% against 8% from 1968 to 1969.

In the *Netherlands*, after a slowdown in 1969, the acceleration of investments definitely resumed in 1970. The rate of growth of the gross formation of fixed capital rose, in value, from 7.9% to 15.5% and the volume of investments, which had remained practically unchanged in the previous year by comparison with 1968 (+ 0.6%), progressed by 7%.

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

	On the basis of amounts calculated at current prices				On the basis of amounts calculated at constant prices			
	1967	1968	1969	1970	1967	1968	1969	1970
Germany	-9.5	9.0	17.2	23.1	-8.4	7.9	12.1	10.7
France	8.6	9.2	17.1	15.5	6.1	6.6	10.1	8.0
Italy	14.3	12.0	14.7	15.3	11.8	9.7	8.0	3.8
Netherlands	10.2	13.4	7.9	15.5	8.1	11.6	0.6	7.0
Belgium	6.8	0.0	11.4	15.5	2.5	-2.2	7.1	9.0
Luxembourg	-9.4	0.9	24.7	28.0	-9.3	-5.7	16.0	16.0
Community	2.3	9.3	14.5	19.0	1.1	7.1	9.7	8.5

(1) For 1970, percentages were calculated on the basis of estimated orders of magnitude.

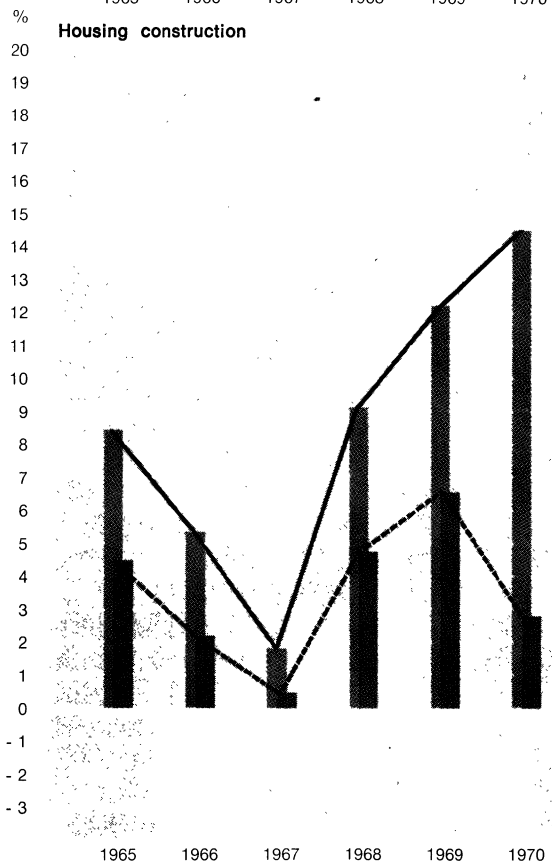
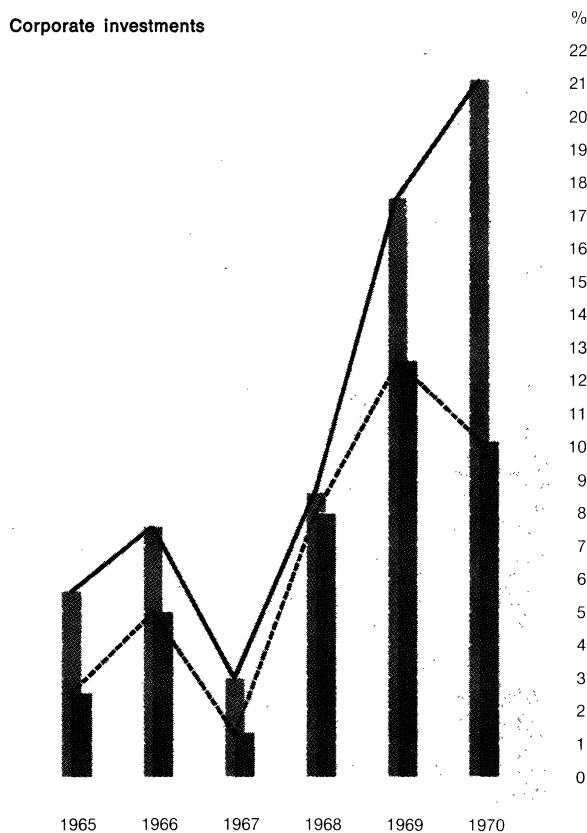
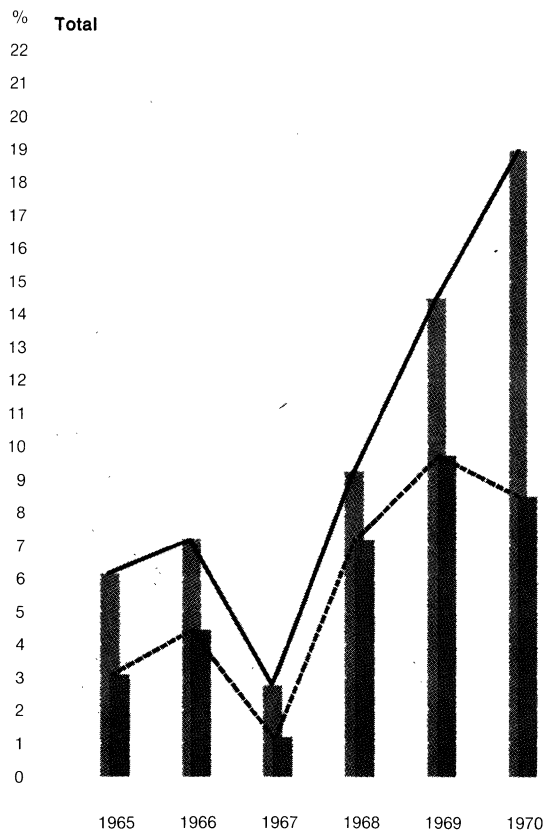
Whereas in *Belgium*, the investments increased a little more rapidly in 1970 than in 1969 (by 15.5% in value and by 9% in volume), in *Luxembourg* their expansion was even more marked in value than the previous year (28%), but it remained at the same level, moreover very high, in volume (16%).

The breakdown by sectors of the aggregate of the gross fixed investments of the Community shows that the share of the corporate investment expenditure (excluding housing construction) amounted to nearly 61% in 1970. On the contrary, that of investments in housing construction, in slight recession, was in the region of 25%, whereas public investments maintained their position at about 14%.

Investment expenditure by enterprises of the Community increased on the whole by about 21% in 1970, i.e., once again more rapidly than in the previous year (17.4%). Bearing in mind a steep rise in prices, the growth in real terms is nevertheless reduced to approximately 10%. As in the past, the propensity to invest, especially in equipment goods, was very great during the first half of the year, owing on the one hand to the development of sales and, on the other, the bottlenecks in production capacities. However, under the moderating influence of the factors already mentioned, investments showed in the second half-year the first signs of a return to a calmer evolution.

GROSS FORMATION OF FIXED CAPITAL IN THE COMMUNITY

(% variation by comparison with the previous year)



On the basis of amounts calculated at current prices

On the basis of amounts calculated at constant prices

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

	<i>In milliard units of account at current prices</i>				<i>% of total</i>			
	1967	1968	1969	1970	1967	1968	1969	1970
Corporate investments	47.7	51.8	60.8	73.7	58.5	58.2	59.6	60.7
Housing construction	21.8	23.8	26.7	30.6	26.8	26.7	26.2	25.2
Public investments	12.0	13.5	14.5	17.1	14.7	15.1	14.2	14.1
Total	81.5	89.1	102.0	121.4	100.0	100.0	100.0	100.0

(1) For 1970, the data are to be considered as estimated orders of magnitude.

The expansion of investments was especially pronounced in Germany. As in 1969 already, the enterprises there increased their investment expenditure by approximately 24% by comparison with the previous year. But owing to the uptrend in prices, the growth in real terms seems only to have been some 12%, a rate which is below that of 1969. Although the real estate investments progressed in value even a little more quickly than equipments, their rate of growth in real terms was well below that of the latter, because the rise in building prices was much steeper than that of equipment goods. The slight weakening in the expansion of investments which occurred during the second half of the year must be ascribed to the slowdown in orders; certain supplementary checking measures taken by the authorities towards the middle of the year (such as the abolition of degressive depreciations) also seem to have contributed thereto.

In France, the increase in corporate investment expenditure slightly slowed down in 1970; however, it remained considerable : of the order of 16% against 18% in 1969. The upturn in prices was considerable, to such an extent that the increase in the volume of investments would scarcely exceed about 7.5%. As in Germany, the corporate equipment investments increased in volume definitely more quickly than their real estate investments. Substantial impetuses were given by the export industries, thanks to rising turnovers. However, the development of investments still felt in general, in the course of the first half-year, the checking effects of the cyclical policy applied in 1969, after the devaluation of the franc and particularly, those of the credit policy which was only relaxed in the course of the second half of 1970.

In Italy, the development of corporate investment expenditure was characterised by a marked acceleration in the expansion of equipment investments. The corporate

Table 3 – GROSS FIXED CAPITAL FORMATION
IN THE COMMUNITY

		Gross national product (in current prices) in millards	Gross fixed capital formation ⁽¹⁾				
			In % of gross national product	broken down by sector, in %			Total
				Corporate investments	Housing	Public investments	
Germany	1969	602.8 DM	24	63	21	16	100
	1970	679.0 DM	27	63	21	16	100
France	1969	725.6 FF	25	59	28	13	100
	1970	812.7 FF	26	60	27	13	100
Italy	1969	52,149 Lire	21	54	35	11	100
	1970	58,244 Lire	21	56	33	11	100
Netherlands	1969	102.3 Fl.	25	59	21	20	100
	1970	113.6 Fl.	26	62	20	18	100
Belgium	1969	1,143.9 FB	21	59	25	16	100
	1970	1,258.3 FB	22	61	24	15	100
Community	1969	431.8 u.c.	24	60	26	14	100
	1970	483.6 u.c.	25	61	25	14	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 1970, they are based on estimated orders of magnitude.

investment expenditure progressed on the whole by approximately 20% against 11% in the previous year. The rate of growth from 1969 to 1970 may be evaluated at 11% in real terms. This expansion in corporate investments, despite an economic situation aggravated by frequent strikes, seems due, in part, to catching up on the delay incurred in the previous year, when investments had not shown proof of dynamism, whereas the nominal demand underwent an inflationary upsurge and labour costs increased steeply. The measures to encourage investments taken during the second half-year by the new government also contributed, to a certain extent, to favouring the growth.

In the Netherlands as well, the vigorous expansion of demand, the labour shortage and the increase in wages with the rationalisation and modernisation measures which they imposed, impelled the enterprises which still had a notable self-financing margin to step up greatly their investment expenditure. The braking effects of the credit policy were apparently offset to a large extent by a larger import of private capital. The increase in the value of corporate investments rose from 8% in 1969 to

20% in 1970. In real terms, the annual rate of growth in 1970 might have attained 10%, against only 2% in 1969. Corporate real estate investments, which were in slight recession from 1968 to 1969, again resumed vigorously from 1969 to 1970; however, their rate of growth remained definitely below that of equipments.

In Belgium, the expansion of corporate investment expenditure accelerated, from about 16% in 1969 to 19% in 1970. A growth in real terms of some 14% puts Belgium in the lead among the member countries. This evolution was influenced, as in the majority of the other Community countries, by sales in marked expansion at times and, in the production field, by the occurrence of more and more considerable bottlenecks. Furthermore, the investments by foreign enterprises increased as well in a very marked way. Lastly, the policy of the authorities in favour of improvement of the industrial structure was not without effect on investments.

In Luxembourg, the extraordinarily dynamic development of corporate investments, which had already been perceptible in the previous year, continued from 1969 to 1970 as well. The investments in the iron and steel industry as well as those of foreign enterprises showed an especially vigorous expansion.

The *construction of housing* in the Community increased in value a little more quickly in 1970, by about 15%, than in 1969 (12.2%); but as the upturn in prices was very marked in this sector, the expansion definitely slowed down in real terms. The shortage of labour, the upsurge in wages which was much greater than the increase in productivity, the higher cost of materials, high interest rates, and the difficulty of obtaining mortgage loans constituted such a braking influence that there were probably less dwellings completed than in the previous year.

The downturn was particularly pronounced in Italy, where an increase of only 14% followed the substantial growth in investment expenditure for housing construction which had occurred in 1969 (25%). In volume, the investments even considerably diminished (-6%). In addition to the slowing-down factors already mentioned, there was in Italy furthermore the very perceptible abolition of certain Government encouragement measures.

In Germany (+18%) and the Netherlands (+9%), the construction of housing increased in value more rapidly than in the previous year; but in volume, a stagnation was observable in Germany and even a slight recession in the Netherlands. The labour shortage seems to have exerted a particularly powerful braking effect in these two countries.

Whereas in France the expansion of housing construction definitely slowed down by comparison with 1969 (15%, in value, against 18%; 7% against 10%, in volume, the previous year), it accelerated in Belgium both in value and in volume (by 10% and 3% respectively, against 6% and 1% respectively from 1968 to 1969). It may be presumed that in this country, the execution of a large number of projects was advanced so as to forestall the entry into force of the value-added tax at the beginning of 1971, thus contributing to accentuate the growth of investments in housing construction.

The progress of *public investments* in the Community seems to have been 18% in value in 1970 – whereas it had amounted to only 7.4% in 1969. However, the growth in real terms remained definitely below 10%.

In Germany, the expansion of the investment expenditure by public departments was extremely pronounced: nearly 26%. But, taking account of the extent of the rise in building prices, the increase in real terms will have been only about 9% (against 5% in 1969). In Italy, public investments which, in the previous year, had even shown a recession, recovered appreciably and increased in value and in volume. In France, the Netherlands and Luxembourg, it would seem that, on the contrary, the increase of investments by public departments remained less in volume than that of the previous year. In France above all, the investment activity of the public departments remained, at least during the first half-year, definitely influenced by the restrictive budgetary measures taken in the framework of the reorganisation programme which had been decided on in connection with devaluation. In Belgium, lastly, the growth of public investments accelerated, reaching about 6% in real terms.

INVESTMENT FINANCING ⁽¹⁾

In 1970, investment financing again raised delicate problems for the enterprises of the Community. The capital needs, caused by the very rapid expansion of equipment expenditure, increased at a much faster pace than did the resources available

(1) All the statistical data published in the tables and the text of the part of the Report concerning "Investment Financing" have a provisional character for 1970 and often for 1969 as well.

Furthermore, the equivalent in units of account of the statistics published in this part of the Report 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.

on the markets to meet these needs; thus, interest rates reached new peaks in the course of the year.

The enterprises of the Community therefore sought to limit the drawbacks which resulted for them from the fact that the cost of long-term borrowings in Europe was rising by trying first of all to continue to increase their own resources. Whenever competitive conditions enabled them to do so, they endeavoured to pass on to their selling prices the rise in wages costs and in their other operating charges, as is witnessed moreover by the very rapid price increases. In several member countries, they further stepped up their profits in 1970. But this practice proved to be more and more difficult as the months went by, a considerable number of the enterprises were unable to benefit from it and, furthermore, the evolution was often perceptibly different according to the sectors. The gross self-financing rate therefore continued to increase slightly, or was maintained at its previous level in France and the Benelux countries. Some progress in this field also seems to have been made by the Italian private companies. A slight reduction in the self-financing rate, on the other hand, was observed in Germany.

Numerous enterprises of the Community, anxious to reinforce their own resources, also made calls on their shareholders; increases of capital in cash were even more frequent than in the previous year.

Nevertheless, the actual scope of the investments to be financed also justified large-scale recourse to borrowings. The fear that an indebtedness contracted at very high rates, for a long period, might weigh to an exaggerated extent on the financial structures, often already heavy by comparison with those of American enterprises, appreciably modified the borrowing policy of the enterprises of the Community. The bond issues effected by them directly on the markets rather lost in their importance in relative value to the benefit of those by financial institutions. The traditional recourse to the financial intermediaries, by means of medium- and long-term credits, while remaining predominant, also recorded a slowdown. Short-term prefinancing arrangements, effected in expectation of a possible downturn in rates, on the other hand, played an increased role. The same was true, and to an even greater extent, of the calls on foreign aid : less onerous for the enterprises by reason of the trend in rates, they related, *inter alia*, to the international market for medium-term credit, which experienced an exceptional development in 1970.

This analysis of investment financing doubtless 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 volumes 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 quite clearly increased, subsequently showed a very definite fall, due to the accelerated rise in unit costs. The latter indeed progressed for the whole of the economy by 10% in one year. Wages and social charges and the burden of indirect taxes, in particular, showed a rapid increase. Although part of these charges could be incorporated in the price rises, the corporate profit margins greatly narrowed during the last six months. The gross self-financing rate for the year finally fell from 68% to 67%, the lowest level recorded for a long time. So as to finance their greatly expanding investments, the enterprises had to increase by about 20% their calls on borrowings by comparison with the previous year. They therefore became more heavily indebted to the banks and financial institutions in the form of medium- and long-term credits and also proceeded to share and bond issues which were a little higher than in the previous year. However, it was mainly by means of a much wider recourse to foreign credits that they obtained the necessary capital, at more advantageous rates than on the domestic market.

In France, the enterprises had to continue to cope with a steep rise in their production cost. The increase in wages charges and, during the first part of the year, the rise in cost of raw materials and imported products as well as heavier financial charges due to the level of interest rates and the credit restrictions, weighed

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

– provisional –

(percentage)

	1966	1967	1968	1969	1970	Annual average 1966-1970
I. Depreciations	46.9	49.5	49.0	47.1	45.8	47.7
II. Long- and medium-term external resources collected on the national markets	28.2	31.7	33.2	34.1	31.4	31.7
– Shares	3.7	3.0	3.7	4.2	4.4	3.8
– Medium- and long-term borrowings	24.5	28.7	29.5	29.9	27.0	27.9
• Bonds	7.0	9.9	11.0	9.3	8.9	9.2
• Credits	17.5	18.8	18.5	20.6	18.1	18.7
III. Other external resources including short-term bank credits ⁽¹⁾ and net self-financing	24.9	18.8	17.8	18.8	22.8	20.6
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 for long-term financing is particularly current in these two countries. The differences from one national source to another and from country to country render comparisons difficult : according to the statistics published in 1967 by the O.E.C.D., based on the analysis of financial accounts or on samples of companies 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.

heavily on their operating account. As the pressure of demand in certain sectors only tailed off very gradually, they were however able, as in 1969, to pass on quite amply this expansion of cost to their prices. In the first half-year, the productivity gains remained very substantial. Despite a reduction in operating subsidies, the enterprises therefore still experienced a big increase in their profits, although a little less than in 1969. This growth obviously masks divergent evolutions according to categories of enterprises and it benefited above all the companies, which took full advantage of the expansion of their foreign sales. The industrial and commercial enterprises of an individual character, the public enterprises and the agricultural enterprises recorded only more limited advances. On the whole, nevertheless, the satisfactory profit trend enabled the non-financial enterprises to finance from their own resources a considerable share of their gross fixed capital formation : nearly 75 % according to the initial estimates. Despite the very marked expansion of equipments, the self-financing rate is thus thought to have been maintained at the same

level as in 1969 and might perhaps have exceeded it. The enterprises were thus able to limit in volume their calls on outside financing sources to an amount close to that of the previous year. They made wider calls on the financial market and engaged quite widely in short-term prefinancing, but limited their medium- and long-term borrowings with financial intermediaries, by comparison with the previous years.

In Italy, the big private companies were able, thanks to their strong position on the domestic market and the dynamic demand, to raise quite easily their selling prices and thus prevent the rises in manufacturing costs from weighing on their operating accounts. Their rate of self-financing, already high in 1969, further improved. On the other hand, the small and medium-sized enterprises, for which no statistical data are yet available, but which undergo the full weight of competition, have probably had much more difficulty in passing on to their prices the steep rise in unit production costs. Lastly, the public enterprises, which are above all those which greatly increased their investments, were unable to raise their tariffs in proportion to the increase in their charges and only solved their financing problems thanks to larger Government subsidies and a big expansion of their recourse to foreign credits. On the whole, the calls by the Italian economy on external financing sources therefore remained considerable, despite the results achieved in respect of self-financing by the large-scale private industry. Share issues again developed greatly. The demand for medium- and long-term credits was very marked, especially as regards loans with interest subsidies. Calls by public enterprises on international medium-term variable-rate bond loans were greatly intensified.

In the Netherlands, productivity showed further progress. At the same time, the self-financing possibilities remained fairly wide; increased by the refund of the turnover tax levied on existing stocks, they made it possible to limit recourse to borrowing. The enterprises increased their security issues on the financial market; on the other hand, the pace of their calls on banks and institutional investors slowed down : the expansion of medium-term bank credits, in particular, was less considerable than in 1969.

In Belgium, the enterprises continued to increase their own resources in the first half-year. Further productivity gains were then acquired, making it possible to offset to a certain extent the effects of the rise in interest rates on the operating accounts and that of the increase in wages. Furthermore, the more favourable evolution of the business cycle in the steel and chemicals sector had a considerable influence on the rentability of the enterprises in these branches. In the closing months of the year, the outlook became definitely less bright and the calls on external financing sources, which has definitely diminished, resumed with some

strength. Issues of shares were probably less numerous in 1970 than in the previous year. Likewise, medium- and long-term borrowings from financial institutions showed a definite slowdown. On the other hand, bond loans were more numerous and, above all, the utilisation of short-term facilities for financing investments was probably quite considerable, in the hope of a subsequent downturn in long-term rates which would make possible a consolidation of the debt under more acceptable conditions.

* * *

In the majority of the Community countries, the continuous monetary erosion contributed to raising the conditions offered to investors, who are indeed increasingly aware that the remuneration of their capital must take account of the depreciation in real value of their fixed-income claims. The placing of public bond issues necessitated substantial increases in the yield rates. Demand and short-term investments also had to be better remunerated. All the institutions which participate in the financing of investments thus experienced an increase in the cost of their resources and, unless they slowed down their loans, had themselves to raise the interest rates for their credit operations.

The next part of the present chapter analyses in greater detail 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

The volume of funds collected in the Community on the occasion of *public issues of securities* ⁽¹⁾ increased by 7% in 1970 whereas it had fallen by just under 1% in the previous year. The progress from one financial year to the next nevertheless remained relatively slight by comparison with the rates of expansion recorded in 1968 (24%) and 1967 (22%).

Issues on the European international market, for their part, showed a further decline. The contribution of the capital markets of member countries considered as a whole, on the contrary, was larger than in 1969. Everywhere, the yield rates

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

however remained high throughout the year, although a fairly definite relaxation set in during the second half-year.

I. Issues on the markets of member countries

In 1970, public issues of securities recorded a notable expansion in Germany, France, the Netherlands and Belgium. Although, on the other hand, they formed the object of a particularly appreciable contraction in Italy, their rate of growth accelerated fairly well in the whole of the Community.

Progress was made in the second half-year, after rather marked tensions had still prevailed until the summer. The gradual reversal of the business cycle in Europe as well as the reflux of capital to the Community as a result of the change-round in trend of interest rates on both sides of the Atlantic, had the effect of increasing the volume of long-term capital available. This expansion occurred just in time to avoid a serious crisis in financing of investments in Europe, and a slowdown of the action by community institutions created for the purpose of encouraging, within the Community, the desirable transfers of capital among the most favoured zones and those which encounter most difficulties in respect of development or conversion.

The scope of the capital demands nevertheless limited the possibilities of a downturn in the yield rates which, after having reached new peaks in the first half-year, were subsequently maintained at high levels despite a certain relaxation. This evolution in long-term interest rates contributed, independently of that of prices, as in 1969 to raising further the cost of investments within the Community. Furthermore, it led in certain countries to big calls on short-term credits, intended to be consolidated subsequently, when circumstances become more favourable.

The conditions in which the financial markets reached equilibrium in 1970 thus remained difficult, despite the notable improvement recorded in the latter half of the year.

The regular pursuit of the activity of institutions which, like the Bank, derive almost the whole of their resources from their calls on these markets, implies in 1971 further advances in savings within the Community; this could only be expected from a more moderate evolution in consumption and prices.

Domestic securities

In net value, after deduction of repayments, the public issues of domestic securities effected in 1970 increased by 11% by comparison with 1969 : the progress had been only 2% one year earlier, but had amounted to 16% in 1968 and 18% in 1967.

From one year to the next, the ratio between these issues and the gross national product in value of the Community has been maintained at 3.5%.

The improvement of public finances in several member countries contributed to the fact that the pace of recourse by public departments to the financial markets again slowed down appreciably, in accordance with a trend observable over the past three years.

The non-financial enterprises and the credit institutions, on the other hand, stepped up their issues by 17% against 6% : they increased their net borrowings by 14% and widely developed their share placings.

Table 5 – NET DOMESTIC PUBLIC ISSUES OF SECURITIES

(billiards of units of account) (1)

Type of securities	1967	1968	1969	1970
Shares	2.07	2.80	3.71	4.61
Borrowing by public departments (State and local authorities)	3.84	3.75	3.40	3.01
Borrowing by enterprises (including financial institutions)	6.88	8.30	8.09	9.23
Total	12.79	14.85	15.20	16.85

(1) Cf. footnote page 39.

1. *Shares*

For the third consecutive year, issues of shares continued to record notable progress in 1970 in several countries of the Community. At the same time, however, the majority of the European stock markets experienced, from the second quarter onwards, a definitely unfavourable evolution, under the influence of the slowdown in economic activity and the narrowing of corporate profit margins, itself quite widely linked to the very rapid progress of wages.

Table 6 - SHARE ISSUES

(billiards of units of account) ⁽¹⁾

Country	1967	1968	1969	1970
Germany	0.48	0.79	0.71	0.98
France	0.64	0.74	1.45	1.56
Italy	0.63	0.76	1.09	1.62
Netherlands	0.03	0.07	0.06	0.06
Belgium	0.29	0.44	0.40	0.39
Luxembourg	n.d.	n.d.	—	—
Total Community	2.07	2.80	3.71	4.61

(1) Cf. footnote page 39.

Germany is the member country where the share prices suffered the biggest losses, which attained about 25% for the year. The rising costs, the narrowing profits, the competition from the long-term rates on the market for fixed-income securities, as well as, in the spring, the slump in prices on the American share market and the crisis experienced by certain investment funds the participations in which had been widely spread among the public, intervened to differing degrees to turn investors away from the stock market. The trend was only reversed in January 1971. Under the influence of the marked expansion of requirements for funds due to the less favourable profit trend and the very rapid progress of investments, the new security issues were however more numerous than in 1969, sometimes aggravating the pressures on the secondary market.

It was in *Italy*, however, that the share subscriptions showed the most marked increase. Until August 1970, increases of capital could be exempt there from all or part of the duties to which they are normally liable; the fear that this measure might not be renewed led the companies to hasten their variable-income security issues in the course of the first eight months. The increases of capital effected in the course of the year by public enterprises and private enterprises not listed on the stock exchange were relatively substantial. A large part of the shares thus issued were therefore placed with public institutions or family groups, both of which were little influenced in their subscription decisions by the unfavourable evolution of prices of shares quoted on the stock market. The downtrend in American securities in May and June, the domestic government crises, the prospects of reduction of profits with which the extension of social conflicts does not seem to have been unconnected, contributed indeed to push down stock market prices from April to December : the

losses for the year approached 20%. In the last quarter, the authorities decided to reinforce their efforts in favour of the development of share issues by postponing to 1st January, 1972, the time limit for exemption from or reduction of the duties charged on increases of capital. At the same time, they sought to encourage stock exchange listings by deciding, on the one hand, that increases of capital effected by listed companies would benefit from an exemption in respect of the fraction of company tax applicable to the assets and on the other, that the enterprises applying for listing of their shares would be granted a 10% abatement of company tax for five financial years.

In the *Netherlands*, the fall in prices was also steep. It occurred during part of the first half-year, then returned in strength in November and reached 14% for the whole year. Savings invested in variable-income securities remained rather small.

In *France*, share subscriptions were, on the contrary, more voluminous than in the previous year. At the very time when the execution of their investment programmes, in full expansion, threatened to weigh heavily on their financial structures and when the credit containment regulations were checking their recourse to borrowings, numerous enterprises indeed found it useful to reinforce their own funds. Their abundant calls on savings seem however to have weighed rather heavily on the stock market as well as a number of other factors, such as the reinforcement of the attraction for fixed-income investments, justified by the high level of yield rates. The prices of listed securities thus recorded from February to July a slow, but almost uninterrupted downturn and only became stabilised in the second half of the year; in December 1970, the index stood at 4% below its level for the preceding year.

In *Luxembourg*, this index also fell by 2% in 1970. No share issue was effected by the enterprises established in the Grand Duchy, but the volume of participations in mutual investment funds issued during the year remained very considerable.

In *Belgium*, lastly, the share prices continued until June the downturn which had started a year earlier. Recovering subsequently, they reverted in December to their end-1969 level, but this evolution did not encourage the net issues of shares, the amount of which seems to have shown once again a slight fall by comparison with that of the previous year.

2. *Bonds*

Several bond markets of the Community countries remained the object of pronounced tensions in the course of the opening months of 1970. The tightening

was particularly pronounced in Italy, but also occurred forcefully in Germany until July and, to a lesser extent, in the Netherlands until May. Subsequently, a greater relaxation prevailed : the long-term interest rates began to move down gradually during the second half-year and the issue activity at the same time recorded a considerable expansion in all the member countries except Italy.

Although, at the end of 1970, the latter country still experienced, for bonds of the public sector, yield rates of the order of 9%, a very definite rapprochement was observable everywhere else in the conditions offered on the different markets of the Community. The yield rate of these same bonds was practically equal in Germany and France, whereas one year earlier, the gap between the two countries was one point. Of the order of 8 1/4%, it exceeded only slightly the rates in force in the Netherlands (8%) and Belgium (7.8%).

On the whole, these levels nevertheless remained very high for borrowers of long-term capital, whose financing schemes they still rendered very onerous.

Although the fundamental differences which still separate the financial circuits of the member countries deprive this type of comparison of much of its interest, it should be noted that within the Community it is in Italy that the volume of net issues of domestic public bond loans remained the most considerable, despite the difficulties observed in this country. Its share in the total issues nevertheless definitely fell : from 46% to 34%; that of Germany, on the contrary, increased from 29% to 33%.

In *Germany*, the activity on the capital market, which had been definitely reduced in 1969, remained moderate over the first few months of the year. It was greatly amplified in the second half-year, to such an extent that finally the amount in Deutsche Marks of the net issues of fixed-income domestic securities increased by 12% in the year by comparison with 1969, without however reverting to its 1968 volume.

Private individuals were the most active subscribers for domestic bonds. The very unfavourable evolution in share prices, the offer of high rates on the bond market and the prospect, in the autumn, of an imminent downturn in these rates, contributed to channelling individual savings, in expansion owing to the gradual slowdown in consumer expenditure, towards investments in fixed-income domestic securities, at the cost moreover of savings deposits, the rate of growth of which slowed down, and of subscriptions or purchases of foreign securities which had enjoyed much favour with the public in the previous year. Furthermore, when the interest rates

GROSS YIELD OF BONDS

In circulation in the Community issued under conditions similar to those of the loans raised by the Bank.

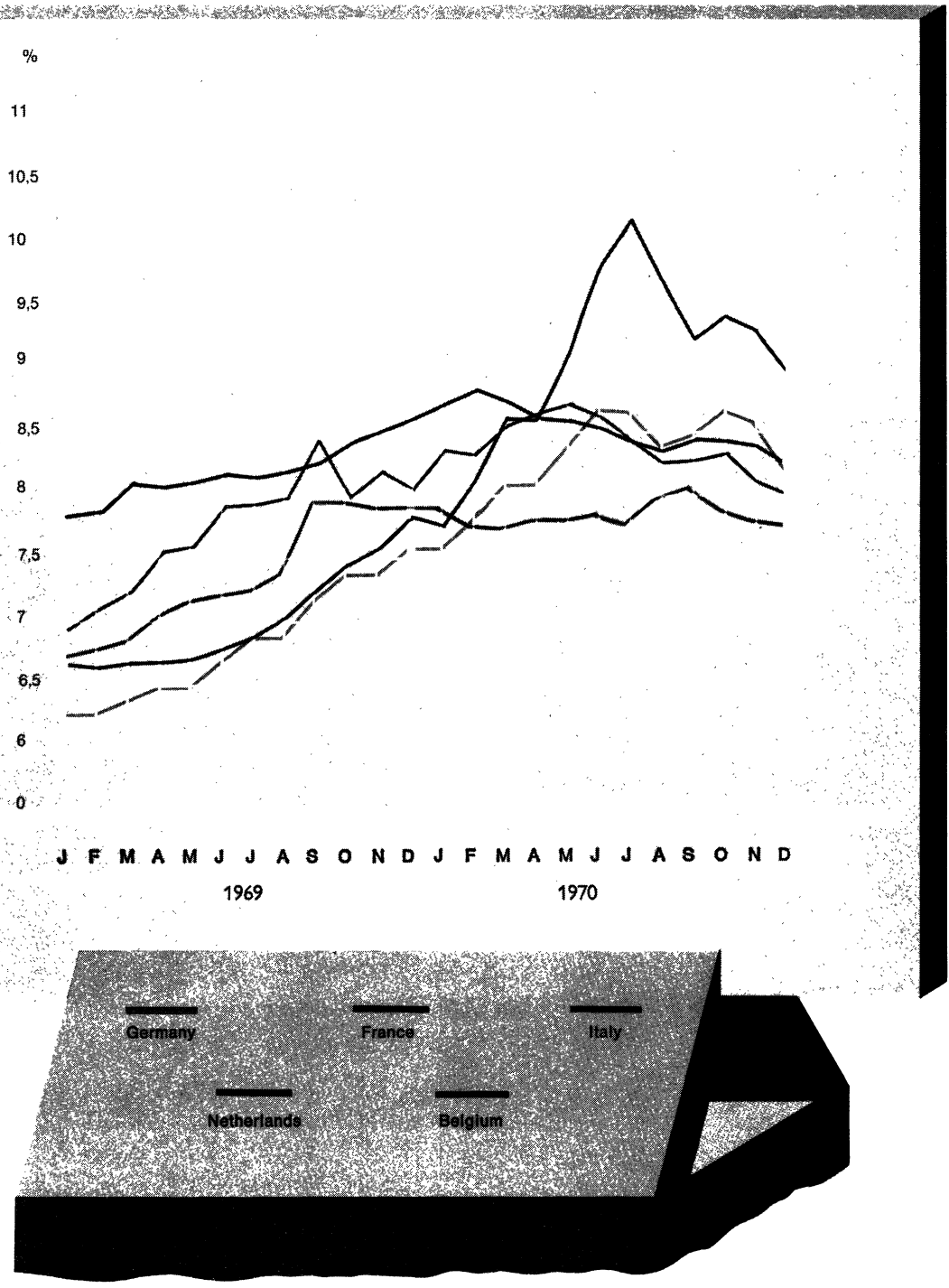


Table 7 – NET DOMESTIC PUBLIC ISSUES OF BONDS
IN THE COMMUNITY

(billiards of units of account) (1)

Country (2)	1967		1968		1969		1970	
Germany	3.73		4.24		3.30		4.03	
Public sector		1.07		0.63		- 0.05		0.14
Economy		2.66		3.61		3.35		3.89
France	1.66		1.16		1.25		1.88	
Public sector		0.15		- 0.12		- 0.14		- 0.05
Economy		1.51		1.28		1.39		1.93
Italy	3.84		4.88		5.33		4.16	
Public sector		1.62		2.15		2.48		1.74
Economy		2.22		2.73		2.85		2.42
Netherlands	0.40		0.39		0.53		0.68	
Public sector		0.30		0.27		0.41		0.36
Economy		0.10		0.12		0.12		0.32
Belgium	1.06		1.38		1.07		1.48	
Public sector		0.67		0.82		0.69		0.81
Economy		0.39		0.56		0.38		0.67
Luxembourg	0.03		—		0.01		0.01	
Public sector		0.03		—		0.01		0.01
Economy		—		—		—		—
Total Community	10.72		12.05		11.49		12.24	
Public sector		3.84		3.75		3.40		3.01
Economy		6.88		8.30		8.09		9.23

(1) Cf. footnote page 39.

(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.

began to move down on the monetary market in the course of the closing months of the year, institutional investors and more particularly the insurance companies which until then had made a point of accumulating large liquidities with a view to investing them on the financial market at a time when the investment conditions on the latter would be most favourable, again began to increase their portfolios of long-term securities. Lastly, the attraction exerted on foreign savings by German bonds was appreciably reinforced.

Participation by credit establishments in subscriptions to fixed-income domestic securities, which had been very substantial in the course of previous financial years, greatly dwindled, on the contrary, especially in the second quarter. The Central Bank's restrictive policy with regard to bank liquidity and the slowdown in the progress of customers' savings deposits on several occasions led these institutions to reduce their demand for securities to small amounts. This demand resumed only

in the fourth quarter, thanks to a widening of liquidities linked with the big inflows of foreign exchange due to the downturn in short-term interest rates in the United States and on the Eurodollar market.

Although they attained a slightly higher level than in the previous year, the calls on the market by the Federal Government and the Länder remained slight, absorbing barely 4% of the available resources. The renewed improvement in the situation of public finances was not altogether unconnected with this evolution. It is therefore the sector of the economy which benefited to a very great extent from the funds collected on the market. On the one hand, the public enterprises stepped up their direct calls on borrowings. On the other, the financial institutions siphoned off more than 85% of the available capital. Issues of municipal bonds thus recorded a fairly marked expansion in volume. On the contrary, the difficulties encountered by the mortgage banks, especially in the housing sector, in finding uses for their resources at the rates they would have had to demand from their customers by reason of the upturn in interest rates, contributed to limiting the mortgage bond issues by comparison with previous years.

The market, which had become stabilised a little in the first few days of 1970, under the influence of favourable seasonal circumstances such as payments of coupons and interest, again rapidly became strained when, in February, the public issues by series, which had been interrupted for three months, were resumed. The prices of listed bonds were dull and, in March, the nominal rate for bonds offered for subscription was raised from 7.5% to 8%. After a pause of a few weeks in April, due to large inflows of foreign exchange attracted by the remuneration conditions offered to short-term investments in the Federal Republic as a result of the increase in the discount rate by one and a half points on 9th March, 1970, the tightening trend resumed forcefully in May and June. It was accompanied by a temporary halt in public security issues. At the same time, the stock market yields, which had already increased in the first quarter from 7.6% to 8.1% for securities of the public sector, amounted to 8.7%.

The further expansion in inflows of capital during the summer, despite the lowering of the discount rate from 7.5% to 7% on 16th July, by bringing about a widening of liquidity despite the successive increases in the rates for compulsory reserves, then enabled a reversal in trend to get under way. The new security issues were resumed at the nominal rate of 8.5% against 8% previously and very big demands for capital emanating from national and foreign borrowers were then met. Precisely by reason of their scope, they again gave rise to tensions in October, weighing rather heavily on the stock market prices. However, the authorities had barely confirmed their

intention of checking the pace thereof and even of submitting to a rather strict supervision the private issues by public borrowers, when a new inflow of foreign capital, exceeding in scope all those which had already been recorded in the course of the year and linked also to further reductions in interest rates on the United States and Eurodollar markets, precipitated the relaxation in tension. The slowdown in cyclical activity within the country, the easing of the credit policy and the behaviour of private investors contributed, for their part, to encouraging the movement. The stock market yields then lost half a point, falling to 8.2% at the end of December. However, it was only in the closing weeks of the year that the nominal rates applicable to new security issues were themselves lowered from 8.5% to 8%.

In *France*, the amount in francs of net bond issues recorded in 1970 an increase of nearly 60%. After two difficult years, it reached and even exceeded its 1966 and 1967 level. The progress thus made is altogether remarkable.

In spring already, the relaxation in rates on the monetary market gradually led the institutional investors to abandon the short-term investments which they had greatly favoured in 1969 and to turn again towards bonds, the rates of which seemed to them to have reached a peak. The insurance companies thus again intervened actively in subscribing for first-class securities which their investment regulations require them to hold. For their part, the variable-capital investment companies, anxious to limit their investments in shares because of the unfavourable evolution of prices, seem to have given a fairly good reception to bonds issued by the private sector, at least during certain periods of the year. Lastly, some big companies invested their surplus liquidities for some months in bond loans approaching maturity and having very remunerative yields, thus contributing, by their purchases, to sustaining the stock market prices.

While showing a marked propensity to save, the majority of private individuals, on the contrary, continued to exhibit a certain reluctance towards bond issues. Although the traditional attachment of a faithful clientèle for lottery bond issues did not diminish, thus facilitating the placing operations by major financial institutions, the main body of investors continued to channel the essential part of their investments towards liquid forms, to such an extent that at certain periods the banks still had difficulties in placing their quotas of securities with the public. However, this situation improved in the closing weeks of the year, in the course of which the prospect of a downturn in the yields offered at issue led to a revival in private subscriptions. Convertible bonds also encountered an undeniable success both with private investors and with institutional investors, who appreciated the guarantees offered to subscribers.

During 1970, the Government and public authorities as a whole proceeded to security issues in an amount below that of the amortisations on borrowings which they had to meet. Although they stepped up somewhat their calls on the bond market, public enterprises and industrial corporations of the nationalised sector absorbed only 18% of the net available resources and continued to finance a large portion of their investments by large-scale recourse to sources of capital outside France, such as the European international market or international financial institutions, e.g., the European Investment Bank. As is the case each year, it was the credit establishments specialising in the grant of long-term loans which collected the greatest share of the net resources available on the market, by siphoning off nearly 50% of them, against 68% in 1969. The enterprises of the private sector were however the principal beneficiaries of the increase in the annual volume of security issues. Indeed, they collected 35% of the capital offered, against 25% in the previous year, partly thanks to the development in convertible bond issues the proceeds of which, almost nil in 1969, nearly attained 1 milliard francs in 1970.

The tensions stemming from the disequilibrium between capital supply and demand, very marked in 1969, persisted in 1970 until mid-March. The stock market yields then progressed from 8.6% to 8.8% for securities of the public sector and from 8.9% to 9.1% for securities of the private sector. In February, the terms and conditions for issues of bond loans were slightly modified. The nominal rates were raised from 8% to 8.5% for the public sector and from 8 1/4% to 8 3/4% for the private sector. But at the same time the issue prices were brought closer to par and the real rise in the remunerations offered was finally of the order of one quarter of a point.

The issue syndicates were able to maintain these conditions until the autumn, and then from September onwards they proceeded to a slight reduction of the yields by raising further the issue prices without changing the nominal rates. Indeed, the market gradually relaxed from March onwards and the issue activity thereafter continued to develop in a climate very propitious for placing securities. Despite the ever greater intensity of borrowings, the stock market yields of securities of the public sector fell by over half a point by comparison with the peak reached in February, reverting at the end of the year to 8 1/4%. On the other hand, the yields of bonds of the private sector, after a fairly considerable reduction during the summer, stiffened from the end of September to mid-November, owing to an excess of new issues by comparison with the possibilities of the market and became stabilised around 8.8%. As for the issues of convertible bonds, they were placed at effective rates ranging from 6.5% to 8%, according to the periods and to the status of the borrowers. The most important among them were effected, in September and October, at the yield rate of 7 1/4%.

The French financial market, which remained relatively sheltered from capital movements and their repercussions, precisely by reason of the existence of exchange restrictions, was finally characterised in 1970 by a fairly great stability of the yields offered. The uptrends and then the downtrends in rates there were both attenuated, by comparison with the situation that generally prevailed on the other markets. The importance attached by the authorities to the development of long-term savings moreover led them to opt for the stability of issue conditions rather than to yield to the temptation to encourage their decrease.

Italy is the Community country where the tensions on the financial market were keenest. The monetary authorities, anxious to check capital outflows which constantly swelled, decided at the beginning of the year to allow the domestic rates on the stock market to join and even to exceed the rates in force abroad. Deeming it to be inopportune, however, that the yields at issue should themselves be subject to over-pronounced rises and go above the 8.5% mark, they decided, from June onwards, to interrupt public issues by series. This interruption extended until January 1971. The net resources siphoned from the market therefore showed a considerable fall by comparison with the previous financial year : of the order of 22%.

The special credit institutes are the only borrowers to have been able to increase the volume of their borrowings : their share in the total calls on the market rose in 1970 from 39% to 57%; the continuous issues of mortgage certificates by land credit establishments developed more particularly. The borrowings made by the Treasury or for its account, despite their increase at the end of the year, reached less high levels than those of preceding years, and also lost in importance in relative value, falling to 42% of the total issues compared to 47% in 1969. The big public enterprises (ENEL, IRI, IRI Motorways, ENI), for which bond issues on the market had formed an important source of financing in previous years, were most affected by the halt in public security issues, and collected only 3% of the available capital, compared to 17% in 1969.

The financing of investments, to which the domestic financial market traditionally contributes to a substantial extent, could thus be ensured in 1970 only at the cost of intensive calls on foreign and international markets which, effected to a large degree in the form of private medium-term loans with variable rates, mainly by the public enterprises and special credit institutes, exceeded 1.7 billion dollars in the course of the year, whereas they had not reached 0.2 billion in 1969. They more than offset the reduction in bond issues on the domestic market.

By comparison with the previous year, the credit establishments reduced their participation in the financing of net issues from 33% to 30%. However, they greatly increased it at the end of the year, after having been authorised to include in their assets, under the heading of compulsory reserves, the bonds representing issues effected in the last quarter by certain special credit institutes in order to cope with the financing of industrial investment programmes. The capital allotted by private investors to bond investments also declined in absolute value. Although the exports of capital considerably slowed down and the amount of individual savings seems to have risen by comparison with the previous year under the influence of a further increase in incomes in real terms and the slowdown in private consumption, private individuals, still attracted by the rates of interest offered by the credit establishments to holders of demand accounts and rendered very sensitive by the downtrend in the prices of bonds held in portfolio by them, continued to step up their liquid assets instead of increasing their long-term investments.

In the framework of its policy aimed at harmonising the domestic and foreign rates, the Bank of Italy deliberately limited its interventions on the market from February to October, without thereby ceasing to make its presence felt thereon. In the course of the closing weeks of the year, it again allowed its securities portfolio to swell in considerable proportions so as to enable, directly or indirectly, the Treasury to procure the appropriate resources for the execution of its intervention plans : its participation in the financing of net issues, while remaining slightly smaller in volume than in 1969, thus increased, from one year to another, from 36% to 42%.

Several factors made possible this change of attitude on the part of the monetary authorities. As the very considerable widening of bank liquidity in the last few months of the year had enabled the credit establishments to reduce greatly their indebtedness with the Central Bank, the latter had no reason to fear that an increase of its assistance to the Treasury would lead to excessive creation of money. At the same time, the very definite improvement on the market for bonds listed on the stock exchange pointed to the hope that at the beginning of 1971 the public's savings would be able to take the place of action by the Bank of Italy. Indeed, the stock exchange dealings in fixed-income securities gradually strengthened uninterruptedly in the second half-year. The about-turn in the trend of rates in force on the external markets, the renewal of confidence in the national currency after the change of Government and the appreciable recovery in the balance of payments influenced this firmer trend, no less than did the maintenance of the suspension of series issues with the public in order to guide supplies of capital towards the purchase of securities in circulation, and the selective interventions by the Central Bank. After having advanced from 7.9% in December 1969 to 10.2% in July 1970, the stock market yields

of bonds of industrial credit institutes, which are especially representative of the state of the market, sagged to 9 1/4% in September and then after a slight recovery in October resumed their downturn, ending the year below 9%. The movement continued in 1971 and the public issues were then able to resume in January at yield rates of the order of 8 1/4%, or just over a quarter of a point higher than those which were practised from January to May 1970, before the halt of these operations.

In the *Netherlands*, the net amount of public issues of fixed-income securities, which had already progressed in 1969, further increased in 1970 by 28% by comparison with the previous year.

The shares collected by the Government and by the Bank voor Nederlandsche Gemeenten, while remaining preponderant, definitely decreased both in amount and in relative value : from 1969 to 1970, the former fell from 43% to 27% and the latter from 36% to approximately 27%.

The financial institutions, and more particularly the commercial banks, on the other hand, greatly benefited from the possibilities offered them by the market by placing thereon a fairly large number of loans, of a term generally ranging from 6 to 8 years. This enabled them to have at their disposal medium-term resources for financing equipment projects emanating from industry. The big enterprises themselves stepped up their recourse to the market, on which they had scarcely been in a position to call in previous years.

The placing of these issues continued to be facilitated, especially from June onwards, by an influx of foreign capital for investment on the Dutch financial market. Despite the less favourable evolution of the trade balance and the steep rises in prices and wages, the florin indeed continued to enjoy a special prestige with foreign investors, who were all the more inclined to channel their available capital towards Dutch domestic securities since the latter are not liable to tax when held by non-residents, unlike German securities. The share of private savings which was channelled towards public bond subscription, on the contrary, seems to have recorded only limited progress by comparison with the previous year; however, in the second half-year, as in the majority of the other European countries, the slowdown in expansion of consumption continued, encouraging a more rapid formation of individual savings.

The rates in force on the Netherlands market kept in quite close step with those of the European international market in the course of the year. Influenced by the extent of the issues and the general uptrend in interest rates, they moved upwards

uninterruptedly until May. In the course of this entire period, the placing of long-term securities remained rather difficult, whereas investors showed a definite preference for subscriptions to securities of a term below 10 years. Several successive increases in issue conditions then proved necessary. The rates offered by the Bank voor Nederlandsche Gemeenten for bond issues of a term equal to or exceeding 15 years thus rose from 8.1% in December 1969 to 8.5% in April, then went up to 8 3/4% in June in the framework of a general overhaul of the conditions, intended to render possible the resumption of long-term security issues.

The reversal in the trend of interest rates in the Western world then spread to the Netherlands. The conditions offered by the borrowers constantly moved down in the course of the second half-year, while remaining attractive for foreign investors. The rates applied by the Bank voor Nederlandsche Gemeenten, quoted above, fell to 8.5% in August and then to 8 1/4% in December.

In *Belgium*, the net resources collected in 1970 by public issues of fixed-income securities increased by nearly 40% by comparison with the previous year and exceeded the already high volume reached in 1968.

The share of available capital collected by the public authorities, although still predominant, nevertheless fell from 64% in 1969 to 55% in 1970. While reducing its foreign indebtedness, the Government – whose financing requirements showed a further diminution as a result of the improvement of public finances – was able slightly to curtail its calls on the bond market. The borrowings by autonomous funds and local authorities, on the other hand, were particularly numerous, owing to the extent of the financing needs, stemming to a large extent from the expenditure incurred for the construction of motorways.

For their part, the financial institutions and enterprises increased their share in the calls on the market, in relative value and in amount, under the influence of the growth in the capital requirements resulting from greatly expanding investments. These requests for funds could be met without too much strain. Large balance of payments surpluses contributed to maintaining a wide liquidity over the major part of the year. Furthermore, the formation of individual savings made notable progress, apart from the closing weeks of the year, when anticipated purchases made with a view to the introduction of the value-added tax checked the movement. The high level of long-term interest rates seems to have greatly encouraged these savings to seek fairly long-term investments in domestic fixed-income securities.

Whereas the majority of the other European financial markets still recorded in the opening months of the year rather marked tensions, the Belgian market was

characterised by a very great stability until July, despite the extent of the security issues. The average stock market yields thus fell from 7.9% at the beginning of the year to 7.8% at the end of July. The concomitant uptrends in long-term interest rates on the majority of the other foreign markets however led the authorities, in September, to raise by a quarter of a point the yields at issue, which thus moved, for bond loans by the Government, the cities and the semi-official institutions, from an average of 8 1/2% to 8 3/4%. This decision enabled the issue activity to continue progressing. The stock market yields then tightened in the same proportions, but the market of listed bonds recovered in the course of October. It continued to improve until the end of the year under the influence of large inflows of foreign exchange which, by appreciably widening liquidity, led the authorities to reduce the discount rate, first of all on 22nd October and then on 10th December. The yields at issue thus reverted at the end of the year to the level at which they had stood a year previously, averaging 8.6%.

In *Luxembourg*, lastly, the Government called on the financial market, as in the previous year, by issuing a fairly large bond loan in April, accompanied by redemption premiums which brought its yield to 6.7% against 6.6% in March 1969.

Foreign securities

As in 1969, the markets of the member countries, through the intermediary of strictly national placing syndicates, absorbed in 1970 only a reduced volume of public issues of foreign securities : these loans reached 220 million units of account, against 350 million in 1968 and 200 million in 1969.

Calls on these markets were predominant on the part of international institutions which do not form an integral part of the European Economic Community. Indeed, they amounted to 140 million units of account against 112 million in 1969. The International Bank for Reconstruction and Development was the main borrower; its operations enabled it to collect 113 million units of account instead of 63 million in 1969 : 96 million in Germany and nearly 17 million in the Netherlands. The Inter-American Development Bank borrowed 27 million units of account on the German market, against 25 million in the previous year.

The calls by European international institutions on the markets of member countries, in the form of public issues, on the other hand, attained only 42 million units of account in 1970, against 57 million in 1969 and 138 million in 1968. Anxious to avoid aggravating the tensions to which the European national financial markets

were still subject, these institutions indeed channelled their issues mainly towards the international market, both in the case of the Commission of the European Communities, for the account of the European Coal and Steel Community, and the European Investment Bank.

The only two public bond loans effected by the E.I.B. on the national markets were placed in Germany (27 million units of account) and Belgium (15 million). Likewise, its calls on private borrowings from banks and institutional investors, which had been very considerable in Germany in the previous years, were limited this year to one intervention in France. The share of the Bank's public issues on the national markets of the Community is thus very small, as it does not reach one fifth of the resources collected by foreign borrowers and international institutions and as it does not exceed 1/2% of the total funds collected by the aggregate of borrowers. The rapid development of its activities, in the framework of the structural actions desired by the Council of Ministers of the European Communities, however seems likely to change this state of affairs by involving probably, in future, a much wider access by the Bank to the domestic markets of the member countries, at the same time as an intensification of its calls on the international market.

Table 8 – GROSS ISSUES OF FOREIGN SECURITIES
ON THE MARKETS OF MEMBER COUNTRIES (1)

Bond issues by international institutions and non-residents

(millions of units of account) (2)

Country	1968	1969	1970
Germany	225	172	191
France	—	—	—
Italy	72	24	—
Netherlands	30	—	17
Belgium	30	—	15
Luxembourg	—	—	—
Total	357	196	223
European Investment Bank	75	57	42
Commission of the European Communities (Coal and Steel Community)	63	—	—
Others	219	139	181

(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. footnote page 39.

II. *Issues on the European international market*

The evolution of the European international market went through rather divergent phases in 1970. After some months of quite sustained activity, it was greatly checked in its expansion, from May to September, and was only able to return to a rapid pace of development in the autumn. The overall volume of bonds placed in the course of the year, which had already fallen by 10% from 1968 to 1969, thus recorded a further diminution by 13% by comparison with the previous year, amounting to 2.4 milliard units of account in 1970, against 2.8 milliard in 1969 and 3.1 milliard in 1968.

These figures cover the whole of the bonds offered through the intermediary of international placing consortia, including, for example :

- bonds issued in one or more countries by non-residents, but which are not denominated in the currency of this country;
- bonds which, issued in a given country by residents and denominated in the currency of this country, are expressly reserved for subscription by non-residents;
- bonds which, issued in a given country by non-residents and denominated in the currency of this country, are placed in several countries by consortia;
- bonds accompanied by special monetary clauses (units of account, multiple currency clause).

The international economic and monetary situation exerted a decisive influence on capital supply and demand as well as on the form of calls on the markets.

The large American corporations no longer encountered the same difficulties as previously in obtaining on their domestic financial market the resources necessary, on the one hand, for financing their investment programmes – which were moreover considerably reduced – and on the other, for consolidating short-term debts contracted at the time when the economic upsurge had led them to develop their equipment on a large scale. They thus reduced quite substantially their calls on the international market on which, inter alia, they were unable to place convertible bonds from April to September owing more particularly to the unfavourable trend in the stock market prices of their shares.

Demands from European borrowers, on the other hand, greatly developed in connection with the obvious financing difficulties met with in the majority of the countries of Europe, the causes of which have already been analysed at length.

The evolution of the volume of capital prepared to meet these demands was not regular in the course of the year : it went through three phases.

Table 9 – GROSS ISSUES OF SECURITIES
ON THE “EUROPEAN” INTERNATIONAL MARKET

(millions of units of account) (1)

	1968	1969	1970
CONVERTIBLE BONDS	1,712	825	199
Dollars	1,712	825	172
DM (*)	—	—	27
BONDS WITH WARRANTS	83	284	50
Dollars	83	284	50
CLASSIC BONDS	1,277	1,672	2,175
Dollars	465	499	1,556
DM (*)	706	1,113	515
French francs	20	—	—
Florins	—	—	—
Sterling / DM option	29	—	—
Units of account	57	60	54
European monetary units	—	—	50
Total	3,072	2,781	2,424
BORROWERS OF EUROPE (2)	748	1,152	1,348
from the Community	404	567	794
— European Investment Bank	—	25	60
— Commission of the European Communities (Coal and Steel Community)	—	—	50
— Others	379	542	684
E.F.T.A.	269	440	463
Others	75	145	91
BORROWERS OF AMERICAN CONTINENT	2,040	1,227	794
U.S.A.	1,898	954	622
Others	142	273	172
BORROWERS OF JAPAN	170	246	108
MISCELLANEOUS BORROWERS	114	156	174

(1) Cf. footnote page 39.

(2) The criterion selected for appreciating the geographical origin of borrowers is that of the nationality — and hence the registered office — of the issuers, except as regards holding companies which are affiliates of foreign parent companies : these companies are included under the heading of borrowers whose nationality corresponds to that of the parent companies.

(*) See footnote 1 to table 8.

In the course of the first four months of 1970, the capital collected on the international market was relatively substantial. Issues in Deutsche Mark were however halted until April, by reason of the tensions prevailing in Germany. However, dollar bonds continued to be placed in fairly great abundance. The intensification of capital outflows from Italy contributed, inter alia, throughout this part of the year, to widening the supply of available capital and led the Italian authorities to

ensure the repatriation of part of these funds, by encouraging major national institutions to call on this market through the intermediary of Italian-managed banking syndicates, particularly well placed to ensure the success of these borrowing operations which the professionals christened "Italo-dollar" issues.

The situation was reversed in May. The overall activity of the market weakened notably until September, despite a definite recovery in bonds denominated in Deutsche Mark encouraged by new inflows of capital into Germany. The classic dollar issues indeed dried up in May and the first half of June, and remained scarce until August. The high levels reached by the short-term interest rates on the Euro-dollar market led investors to maintain their assets on this market in liquid forms for several weeks, until such time as the long-term interest rates would themselves reach their peak. This attitude was reinforced by a certain reserve vis-à-vis long-term investments in dollars, owing to the uncertainties of the U.S. currency, once again threatened by a resumption of capital outflows to Europe and particularly to Germany. The downturn in share prices on Wall Street, then the revelation of the difficulties encountered by certain major American corporations, made patent in June by the sensational bankruptcy of one of the best-known railroad companies, finally put investors off convertible bonds for several months.

The prospects of an about-turn in the trend of long-term rates on the international market and the abrupt fall in short-term rates changed the behaviour of investors in the autumn. Anxious to benefit still from the attractive remuneration conditions of dollar issues, they again showed keenness for the latter. At the same time, the issues in Deutsche Mark were stepped up, especially as the high rates still practised in Europe again led to a surfeit of capital transfers to that continent.

The results achieved in the last quarter finally enabled the classic bond issues floated during the year to reach nearly 2.2 milliard units of account in volume, instead of 1.7 milliard in 1969. Such an amount had never yet been attained. Ninety-three operations occurred, certain of which were distinguished by the novelty of the issue formulae attaching to them. Over 70% of these borrowings, instead of 30% in the previous year, had the dollar as monetary backing, but several international loans denominated in this currency were effected at a variable rate of interest, linked to the six-month Eurodollar rate, according to a formula which had for several years been reserved to the market for private investments: the corresponding securities were placed essentially with institutional investors and banks. The share of the classic bonds denominated in Deutsche Mark fell from 67% to 24%, owing to the limitations imposed on these operations by the monetary authorities for a great part of the year. The other operations were effected in units of account; four of them

were denominated in the unit of account of the former European Payments Union and accompanied by the conditions traditionally offered for such issues, with exchange guarantee into the most stable of the seventeen reference currencies taken to define the unit of account. The European Economic Commission furthermore issued, for the account of the E.C.S.C., a bond loan with exchange option, denominated in "European monetary units" of a value fixed invariably for the entire term of the loan, the redemption of which may be effected at the bearer's discretion in any one of the currencies of the six Community countries at the fixed parity defined at the time of issue. In all, these operations related to average unit amounts comparable to those of 1969 : of the order of 25 million units of account.

On the other hand, the amount of convertible bonds issued in the course of the year remained below 0.2 milliard units of account, against 0.8 milliard in 1969. Bond issues with warrants were also less numerous, making it possible to collect only 50 million units of account, against 280 million in the previous year. All these issues, except one, had the dollar as exclusive backing. The resources thus collected represented only 10% of the contributions of the European international market, compared to 40% in 1969 and nearly 60% in 1968.

In the aggregate of borrowing operations effected in the course of the year, the share of issues by governments and public departments was slightly reduced, falling from 20% in 1969 to about 15% in 1970. On the other hand, that of the private sector increased, despite the reduction of investment operations in convertible securities, for the mining companies and the major manufacturing industries, in particular, greatly intensified their classic bond issues.

Participation by European borrowers, excluding subsidiaries in Europe of American parent companies, again increased steeply, from 41% in 1969 to 56%.

For their part, the Community countries absorbed 33% of the available capital, against 20% in the previous year and 13% in 1968. Nearly half of these funds were collected by Italian borrowers, who were faced with the impossibility of calling on the domestic financial market. The borrowers of French origin also greatly increased their calls on the market. On the contrary, calls of German origin, either direct or via their financial companies, showed a big decrease by comparison with 1969, as did also the demand originating from the Netherlands.

While the calls by borrowers in the member countries of the Community were stepped up, the British enterprises increased their participation from 8% to 9% and

the borrowers from the Scandinavian countries raised their participation even more : from 8% to 12%. Irish borrowers, the only other Europeans to have called on the market, collected nearly 2% of the available capital. No calls came from Austria, Portugal and Spain, contrary to the previous year.

The large-scale borrowers from the New World who, either directly or indirectly through the intermediary of affiliated portfolio companies, had for some years consistently formed the main group of borrowers on the international market, lost this place in 1970. The calls by American corporations decreased both in amount and in relative value, falling from 34% to 26% in 1970. The calls emanating from the other countries of the American continent also fell from 10% to 7% owing to the abstention of Mexican borrowers and the reduction of Canadian loans.

Calls of Japanese (4%) or Australian and New Zealand (3%) origin were also less substantial than in previous years. The others came essentially from South Africa (4%).

The stock market yields of the classic dollar bonds increased by more than three quarters of a point in the first half-year and approached 9% for long-term first-class securities. The uptrend was mainly intensified in the second quarter, when it exceeded half a point in a few weeks. After having stagnated at a high level in July and August, the yields subsequently showed a downturn, losing half a point from September to December and falling below 8.4% at the end of the year.

The yields at issue followed a fairly parallel trend. After climbing to 9% at the beginning of January, the yields of 10 to 20-year bonds of U.S. companies of international class moved up to 9 3/4% in June, then fell again to 9% in September and 8 3/4% in December. The rates applied to the bonds issued until mid-spring through the intermediary of Italian-managed banking syndicates for the account of Italian borrowers, on the section of the market supplied to a large extent by capital of Italian origin, however remained at a lower level : after rising from 7.6% to 8.2% in January, they progressed to 8.3% at the end of February and then remained at this level until May, when they ceased to be offered on the market.

The stock market yields of bonds denominated in Deutsche Mark increased from 8.4% at the beginning of the year to 9.5% in the course of May. After falling to 8.4% at the end of July, they were more or less maintained at this level until the

end of the year. The yields at issue showed a greater stability, remaining in the region of 9% throughout the year.

As for the conditions applicable to convertible bond issues, they underwent appreciable increases several times. The yields offered, which ranged between 6% and 6 1/2% at the end of 1969, progressed to nearly 7 1/4% in April. The resumption of issues of this category occurred in October, after a pause lasting several months, at rates ranging from 7 1/4% to 8 1/4%. They fell below 7% as from November.

* * *

In all, the public and private borrowers of the Community covered their investments by public issues on the financial markets, to the amount of 17.7 milliard units of account, against 15.8 milliard in 1969.

As in previous years, they obtained the vast majority of these resources on their own domestic financial markets. But calls on the international market were also stepped up, mainly originating from Italy and France.

Public calls on the markets of countries outside the Community remained limited. They were concentrated in Switzerland, where they made it possible to collect approximately 15% of the resources offered to foreign borrowers.

Table 10 – TOTAL CALLS BY COMMUNITY BORROWERS
ON PUBLIC ISSUES ON THE FINANCIAL MARKETS

(milliards of units of account)⁽¹⁾

	1969	1970
– Net issues on the domestic markets of member countries	15.20	16.85
– Issues on the European international market ⁽²⁾	0.57	0.79
– Issues on the other national markets	0.07	0.03
	15.84	17.67

(1) Cf. footnote page 39.

(2) In view of the impossibility of evaluating the volume of amortisations effected on the Eurobonds in circulation, the figures given on this line relate to gross amounts which may be approximated to the net amount of issues effected on the domestic markets because of the still relatively slight importance of the amortisations by comparison with the gross amounts.

OTHER EXTERNAL RESOURCES AVAILABLE FOR FINANCING THE ECONOMY

As is the case every year, public issues of securities provided the enterprises of the Community with only a fraction of the outside capital enabling them to cover the financing of their investments. The greater part of their resources was supplied to them through the intermediary of national financial institutions, in the form of medium- and long-term loans, but also in the form of short-term credits. Furthermore, in 1970 there was an ample development in the use of international medium-term credits denominated in Eurodollars.

I. *Assistance by national financial institutions*

1. *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, in the national framework, to companies and individuals of the member countries by the banks and specialised credit institutions. The figures selected also take account of the 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 customarily grant enterprises and credit institutions private loans, at a cost which is generally below that of a public issue of securities. In Belgium, the Caisse Générale d'Épargne et de Retraite plays an essential role in the financing of investments. The contribution of insurance institutions is much smaller in France, where the marked predominance of the system of distribution over the system of capitalisation limits the volume of available capital. Lastly, the Treasury Departments also facilitate the execution of the economy's investments, first of all by assuming the burden of financing a large share of residential building, and then by granting equipment loans to the enterprises themselves, either directly or through the intermediary of credit institutions.

Although, in several countries, the high level of long-term interest rates checked the recourse by the economy to medium- and long-term credits, these credits showed a further expansion in the Community as a whole, under the influence of the still very rapid formation of investments.

(1) Although they contribute only very partially to the financing of investments, medium- and long-term export credits are, for certain countries, included in the figures given here, because it has not been possible to isolate them.

Table 11 – MEDIUM- AND LONG-TERM CREDITS TO THE ECONOMY

(Variations in amounts outstanding during the year)

(billiards of units of account) (1)

Country	1967	1968	1969	1970
Germany	6.67	7.09	10.32	13.21
France	5.46	6.62	7.32	5.85
Italy	3.31	3.98	3.79	4.42
Netherlands	1.95	2.23	2.47	2.55
Belgium	0.89	0.96	1.13	1.04
Total Community	18.28	20.88	25.03	27.07

(1) Cf. footnote page 39.

In *Germany*, the medium- and long-term credits again recorded an annual increase which was considerably greater than that of the previous year. The assistance granted in the course of the year in favour of housing construction showed only a rather slight progress by comparison with the previous financial year, despite a fairly appreciable increase in value of the investments made in this sector. The ordinary savings banks and the real estate credit establishments, indeed, had to put the brake on grants of mortgage credit, unlike the building societies which, as they are not directly subjected to the same obligations, took advantage of this fact in order to increase their assistance quite considerably, as they generally do in periods of credit restrictions and dearer credit. Above all, it was the advances by credit institutes to businesses which speeded up. In view of the narrowing of their profit margins and the need for financing big investments the programmes for which had been undertaken in the upward phase of the cyclical expansion, the German companies greatly stepped up their calls on medium-term equipment credits at less than four years. Indeed, the high level of interest rates led them to give preference to intermediate financing arrangements and to have a little less recourse than in the previous year to long-term loans properly speaking: for a large part of the year, certain specialised institutes, such as the Kreditanstalt für Wiederaufbau, moreover interrupted the granting of their credits, while awaiting a downturn in the interest rates.

In *Italy*, the medium- and long-term credits showed an annual increase which exceeded that of 1969 by 15%. The volume of building loans granted in 1970 first of all surpassed that of the previous year. The real estate credit institutes, authorised to raise by one point the nominal rates offered by them to the investor which, after

remaining unchanged for many years, were increased from 5% to 6%, proved able to place their mortgage certificates, the issue of which remained authorised, easily with the public. They thus had at their disposal appropriate resources for meeting large calls still emanating from their customers, although residential building began to slow down by comparison with the previous years when remarkable results had been achieved prior to the entry into force of certain town planning regulations, imposing stricter obligations on the promoters. For its part, the expansion of equipment credit to industry accelerated; the pace of recourse to unsubsidised loans, subject to steeply rising interest rates, rather slowed down by comparison with 1969. On the other hand, the demand for subsidised loans became more and more persistent according as the gap between the conditions attached to them and the market rates widened. The outstanding amount of these loans increased more particularly in the closing months of the year, after the Government had adopted a number of provisions with a view, *inter alia*, to encouraging the implementation of the industrialisation programme for the Mezzogiorno (Southern Italy). The interest subsidies system itself was first of all adjusted on two occasions so as to take account of the new situation created by the general uptrend in borrowing conditions on the domestic market, and the amount of budgetary funds intended to permit the grant of interest subsidies was appreciably boosted in the autumn. Various other steps were also taken to enable the financial institutions to have available the necessary resources to cope with the demand for capital. On the one hand, the new Government increased the appropriations to certain financial institutions with a view to facilitating their grants of medium-term loans to small and medium-sized firms. On the other hand, the access to the financial market by industrial credit establishments was also made easier by provisions of a technical character, such as the option conferred on the banks of including in their compulsory reserves debenture certificates of these institutes.

In the *Netherlands*, mortgage loans increased a little more markedly in volume than they had in the previous year, but the recourse by enterprises to equipment credits slowed down. Indeed, the private sector rather markedly reduced its calls on medium-term bank credit and maintained its borrowings from institutional investors at an amount fairly close to that of 1969. In all, the annual advance of medium- and long-term credits, considered as a whole, therefore only slightly exceeded that for 1969.

In the other countries of the Community, calls on medium- and long-term credit showed a rather notable reduction by comparison with the previous year.

In *Belgium*, as long as interest rates remained at a high level, many industrial enterprises apparently hesitated to contract long-term debts for financing their

investment programmes. The more liberal granting by the Government of capital subsidies also reduced the attraction of subsidised long-term loans. Building credits, on the contrary, increased more than in the previous year, but this growth was of benefit to the building firms and real estate corporations, and not to private persons, who made less calls on credit facilities for financing housing investments.

In *France* as well, the demand for medium- and long-term credit definitely slackened. The marked expansion in exports of capital goods was however accompanied by a further appreciable increase in credit for financing export sales. But the high level of interest rates contributed to the slowdown in demand for housing and, at the same time, to that of loans intended for house purchase; in this sector, the loans eligible for the mortgage market were the only ones still to have shown a notable increase, although definitely below the previous year's level. Lastly, the recourse by businesses to equipment loans increased much less rapidly than in 1969; the pace of granting of mobilisable medium-term credit showed a most marked downturn, although the quotas allotted were considerably extended in the course of the year, or even abolished at the end of June, for the financing of productive equipments; the rate of progress of non-mobilisable medium-term credits and long-term credits, while remaining much more rapid, also diminished. As in *Belgium*, it seems that the enterprises showed a certain reluctance to contract long-term loans at high interest rates; a far from negligible share of the investment programmes would therefore have been prefinanced by short-term credits contracted not only with the banks, but also with other enterprises or even with private individuals.

Part of the medium- and long-term capital thus made available to the economy, in the Community, is derived from savings collected on the securities markets, the evolution of which was analysed previously. 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 assembled by the financial intermediaries and redistributed in the form of medium- and long-term loans. The collection of savings in liquid form and at short term constitutes the main source for these available resources; however, the grant of medium-term equipment loans by the banks may also be based, apart from savings resources, on the creation of additional money.

After deduction of the resources derived from the capital markets, the increase in medium- and long-term credits distributed to the economy in the countries of the Community was only 5% higher than that of the previous year, whereas the growth had reached more than 28% from 1968 to 1969.

The slowdown in the expansion of capital permitting the financing of investments without passing via the public issues market is explained by the fairly general

Table 12 – MEDIUM- AND LONG-TERM CREDITS TO THE ECONOMY
AFTER DEDUCTION OF RESOURCES DERIVED FROM THE CAPITAL MARKETS

(Variations in amounts outstanding during the year)

(milliards of units of account) ⁽¹⁾

Country	1967	1968	1969	1970
Germany	4.43	3.76	7.04	9.72
France	4.58	5.66	6.17	4.42
Italy	1.73	2.08	1.74	2.05
Netherlands	1.70	1.97	2.20	2.18
Belgium	0.56	0.53	0.79	0.44
Total Community	13.00	14.00	17.94	18.81

(1) Cf. footnote page 39.

slackening in the Community of the rate of formation of demand and short-term deposits collected by the banks and the institutional investors. This trend was especially perceptible in the first half-year.

In *Italy*, the total amount of savings deposits in the credit establishments and the assets on deposit books or bonds subscribed with the post office showed a fall of over 2% between the end of 1969 and the end of 1970. For reasons of a fiscal nature, the banks indeed continued to steer their customers away from investments in savings accounts, and to encourage them to maintain their liquidities in current accounts for which the banks continued to offer attractive interest rates. The agreement concluded in August among the thirteen leading Italian banks rendered official the application, to deposits in current account exceeding 20 million lire, of rates which are more interesting than those for savings deposits in the same amount.

In *Belgium*, the savings deposits and term deposits increased by only 9% in 1970, against 13% in the previous year. This decline is due, essentially, to the slowdown of investments in the form of deposits in savings books or ordinary bank books, which had benefited only from a relatively slight increase in the rates of interest applicable to them.

In *Germany*, the growth in savings deposits and time accounts did not reach 12%, whereas it had exceeded 13% in 1969 and approached 17% in 1968. The attraction exercised on the public by the high rates offered by debenture certificates is, to a large extent, at the origin of this evolution.

In the *Netherlands*, the progress, while remaining at a high level, also slowed down a little, falling from 18% to 17%.

France is the only member country where the demand and short-term investments showed, between 31st December, 1969, and 31st December, 1970, an increase (of about 17%) which differed little from that of the previous year; their formation continued to speed up in the first half-year, owing both to a greater attraction for deposits in the savings banks and to an upsurge in the homebuilding-savings plans; savings managed by the banks also developed greatly throughout the year.

The slowdown in the formation of liquid savings in several member countries of the Community is explained not only by the reduction in the rate of private savings for a great part of the year, but also by the attraction exerted by the high rates of interest offered on the bond market. The year 1970 thus throws into sharp relief the growing importance exerted by the level of interest rates on the behaviour of investors throughout the Community. Whereas, for many years, the preference for the most liquid forms of investment predominated over all other considerations, at least in certain countries, the concern for yield also tends, nowadays doubtless to a greater extent than in the past, to influence the investor's motivations : monetary erosion is probably not unconnected with this trend.

2. *Short-term credits to the economy*

In 1970, short-term credits to the economy in the whole of the Community showed a steep increase. However, different evolutions are observable from one country to another; the expansion of these credits was particularly rapid in *France* and pronounced in *Belgium*, whereas in *Germany* a rather notable slowdown in pace was observed.

Of the Community countries, *France* showed the highest annual rate of expansion of short-term credits in 1970 : of the order of 23% against 4% the previous year. Until the end of September, the annual pace of increase however remained less pronounced than during the first nine months of 1969, despite the relaxations made to the restrictions in force and the advances noted by way of infringement of the general credit containment scheme. Once these restrictions were lifted, on 23rd October, 1970, a marked acceleration took place; in November and December, it expanded in very substantial proportions which can be traced back to the regularisation of undervaluations prior to the suspension of the system of limitation of outstanding credits. It appears also that the lifting of the containment regulations provided the banks with the opportunity of incorporating in their accounts appre-

Table 13 — SHORT-TERM CREDITS TO THE ECONOMY

(Variations in amounts outstanding during the year)

(billiards of units of account)⁽¹⁾

Country	1967	1968	1969	1970
Germany	0.63	1.67	5.56	3.47
France	3.49	3.67	1.06	5.74
Italy	3.75	2.79	4.35	4.40
Netherlands	0.59	0.59	0.33	0.38
Belgium	0.40	0.33	0.15	0.45
Total Community	8.86	9.05	11.45	14.44

(1) Cf. footnote page 39.

ciable amounts of short-term credits, which the enterprises had become accustomed to granting each other in the previous months and which, to a large extent, were probably appropriated by them to the financing of investments.

In *Belgium*, the expansion of short-term credits was more rapid than in the previous year. The acceleration affected all categories of credit, except for instalment credit, the regulations for which were tightened up and in respect of which ceilings were imposed on the banks during certain periods of the year. It seems that, as in France, some of the assistance granted served to finance on a temporary basis fixed capital investments, while awaiting a relaxation in the long-term interest rates. Calls on the banks, which were limited at the beginning of the year, subsequently strengthened and, especially in the last quarter, were intensified. The credit containment system continued to exercise a moderating role but the more satisfactory trend in the supply of and demand for goods and services enabled it to be relaxed. The authorised rates of expansion were gradually increased in the course of the year and export credits were excluded from the limitation arrangements; the growth tolerated was thus fixed in September 1970 at 14% for the whole of the year, and the limits laid down were respected.

In the *Netherlands*, the annual increase in the overall short-term credit could be kept, as in the previous year, between 9% and 10% thanks to the maintenance of the credit containment measures, which limited to 9.5% in 1970, against 10% in 1969, the authorised advance in liabilities. After the seasonal slackening at the beginning of the year, calls on the banks were greatly stepped up in the first quarter and fairly considerable rises above the admitted ceilings were noted until August, involving a notable increase in the penalty deposits with the Central Bank. The slowdown in

demand for short-term credit, observed in the second half-year, which was not unconnected with rather large inflows of foreign exchange, however made it possible, at the end of the year, to return to respect of the norms established.

In *Italy*, the annual rate of increase in short-term credits outstanding, while remaining rapid, fell by comparison with 1969 from 15% to 13%. The slowdown from one year to the next was especially perceptible in the first half-year. A further acceleration occurred in December, however, under the influence of the window dressing operations and interest payments made by enterprises in favour of their bankers, which related to amounts much larger than in previous years, owing to the higher cost of credit.

The attenuation in demand for short-term credit was felt above all in *Germany*, where it was in full force almost throughout the year, except for the second quarter. The credit institutes, which were obliged to remunerate their resources at much higher rates and, at the same time, to increase their interest-free deposits with the Central Bank to meet the more restrictive regulations with respect to compulsory reserves, had to raise their credit conditions for customers very substantially. At the same time, the cost of credit on the foreign markets and on the Eurodollar market showed a persistent downturn. The German enterprises thus tended to finance their requirements outside the country to a large extent and, by stepping up their recourse to external resources, greatly contributed to accelerating the inflows of short-term capital.

II. *International medium-term credits*

In 1970, there was a marked intensification in the recourse by European enterprises to a relatively recent source of financing : international medium-term credit in Euro-currencies.

In the course of the first years of existence of the Eurodollar market, the banking institutions participating in it first of all limited themselves to credit operations at less than twelve months and then, from 1965 onwards, began to intervene in medium-term, fixed-interest operations. However, the steep climb in short-term interest rates in 1969 rapidly checked the latter type of operations. The market then saw the emergence of a new formula for medium-term credit, known as "roll over", the term of which generally varies between three and seven years and the rate of which, linked to that of inter-bank deposits, most often at six months, is periodically revisable. These credits therefore give the borrower the assurance of having funds at his disposal over a fairly long period, determined in advance, and offers the lender

an interest the rate of which is adjusted regularly in the light of the situation on the capital markets.

These credits, the notion of which is based on that of a conversion of short-term resources into medium-term borrowings, involve a risk for the lending banks, should the six-month resources with which they finance such operations not be renewed at their maturity. The participating institutions have considered so far that the likelihood of the continued development of the Eurodollar market outweighed the risks involved. However, they have inserted in the contracts clauses providing, inter alia, that in case of unavailability of capital in the currency lent, at the time of a loan review maturity, the borrower would be required to repay the credit in the currency lent, while, for his part, the lender gives an undertaking to renew his assistance in any other currency available.

The financial institutions which participate in these operations are, on the one hand, the big commercial banks of the industrial countries and on the other, the institutions specialising in the grant of international medium-term credit, which have been developing uninterruptedly for some years. The majority of them have their headquarters in Western Europe, mainly in London but also in Paris and Brussels.

Statistics on the credits distributed in this way are still lacking. Approximate estimates, however, put the overall figure for variable-rate loans granted since the end of 1969 at between 4 and 8 milliard dollars. The majority of these loans were made without advertising, in the framework of strictly private operations. The size of these figures shows the importance acquired nowadays by this form of credit, to which the Italian economy has had recourse more especially.

* * *

The development of these credits is merely an illustration of the ever closer interdependence which, among the sources of creation of liquidities in the economy, joins the distribution of credits by national institutions to the movements of capital towards foreign countries. The development of the Eurodollar market and the creation of a network of institutions increasingly specialised in international financial transactions are now greatly facilitating transfers of capital among countries for the financing of investments. Over the past year, the enterprises of the European Economic Community have made wide use of the borrowing opportunities thus offered to them.

The very amplitude of the medium- and short-term operations which are carried out via the Eurodollar market, outside the range of any supervision by national and international monetary authorities, nevertheless calls for attention. Indeed, it links to an ever greater extent the financing conditions for investments in Europe to the evolution of the economic situation in the United States, an evolution which closely conditions that of the Eurodollar market. It also enables investors to avoid having to submit to the technical conditions with which the institutions specialised in the financing of investments are accustomed to accompany their traditional assistance, and the utility of which has been demonstrated by experience. Lastly, by the creation of money to which it leads, it contributes to widening the liquidity of economies and attenuates the efficacy of internal credit policies. In these various respects, it justifies a special vigilance and, in future, could make necessary the adoption of concerned measures among countries with a view to supervising this market.

II

ACTIVITIES OF THE BANK

LOANS AND GUARANTEES ⁽¹⁾

In 1970, the Bank recorded a further increase in its operations.

On the one hand, *it approved 48 loans and 7 guarantee operations, for an overall amount of 357.9 million units of account*, compared to 39 loans totalling 305.5 million in 1969, or an increase of 52.4 million. The operations approved in the course of the 1970 financial year are broken down as follows :

- 47 ordinary loans, totalling 280.3 million;
- 7 guarantees for loans on mandate from and for the account of third parties, for a total amount of 76.5 million, and
- 1 loan coming under the Special Section, for 1.1 million.

On the other hand, *it signed 54 loan and guarantee contracts, for an equivalent of 354.4 million*, against 43 loan contracts, totalling 321.8 million in 1969, or an increase of 32.6 million.

This evolution should, however, be analysed more closely : indeed, according to the breakdown of the contracts signed in 1970 by type of financing, we note evolutions which are divergent and even partially in opposite directions (cf. tables 14 and 15) :

- the Bank's ordinary operations, i.e., those which it carries out at its own risk, increased considerably in 1970. Under the heading of ordinary operations, 50 contracts were signed for a total amount of 340.8 million, compared to 30 contracts totalling 263.4 million the previous year. Of this figure, 45 contracts totalling 284.8 million concerned loans the amount of which increased by 21.4 million by comparison with the previous year (30 loans, for a total of 263.4 million). To this were added, for the first time in 1970, 5 guarantee contracts for loans on mandate, relating to a total of 56.0 million. These guarantees, which were granted for loans on mandate from and for the account of German financial institutions operating

(1) Contrary to the practice in previous years, the Bank has deemed it preferable to devote the major part of the developments concerning its activities to the financing contracts signed instead of the operations approved. We should recall that, unless otherwise stated, all the amounts quoted are expressed in units of account (cf. definition, page 2). Furthermore, the differences which might be observed by comparing the totals indicated and those which are obtained by addition of the individual amounts are due to the effects of rounding-off of figures.

in the municipal credit field, to projects in France and Italy, and to which we shall revert in greater detail below, made a notable contribution to the increase in the Bank's operations in 1970, despite the very reduced activity of its Special Section over the past year;

- the number of loans under special conditions granted in the framework of the Special Section, on the budgetary funds of the member countries or of the Community, has in fact considerably diminished. Under this heading, the Bank granted only 4 loans totalling 13.6 million (against 13 contracts signed in 1969, for a total

Table 14 – LOANS AND GUARANTEES BY THE BANK
(contracts signed in 1970)
Breakdown by type of financing and by country

Country	Number of projects	Amount ⁽¹⁾ (million u.a.)	% of total
I. ORDINARY OPERATIONS			
<i>Member countries :</i>			
Germany	8	46.1	13.0
France	10	61.4	17.4
Italy	26	205.2	57.9
Netherlands	1	2.8	0.8
Belgium	2	22.0	6.2
Luxembourg	1	1.0	0.3
Total	48	338.5	95.6
<i>of which, guarantees ⁽²⁾</i>	5	56.0	15.8
<i>Associated countries :</i>			
<i>A.A.S.M. and O.C.T.</i>			
Cameroon	1	1.8	0.5
Upper Volta	1	0.5	0.1
Total	2	2.3	0.6
Total of ordinary operations	50	340.8	96.2
II. SPECIAL OPERATIONS			
<i>A.A.S.M. and O.C.T. ⁽³⁾</i>			
Congo-Kinshasa	1	9.0	2.5
Ivory Coast	2	2.7	0.8
Madagascar	1	1.9	0.5
Total	4	13.6	3.8
Grand total	54	354.4	100.0

(1) including the total amount of the following overall loans (not yet appropriated on 31st December, 1970) :

- *Germany* : IKB (Industriekreditbank AG), 10 million units of account;
- *France* : S.A.D.E. (Société Alsacienne de Développement et d'Expansion), 6.3 million units of account;
- *Italy* : CASSA-IRFIS, 5 million units of account.

(2) of which, *Italy* : 53.3 million units of account; *France* : 2.7 million units of account.

(3) Loans from the resources of the European Development Fund having formed the subject 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.

of 58.4 million). The reason for this is that the first Yaoundé Convention and the first financial protocol appended to the Association Agreement with Turkey, subject to the transitional provisions, had expired at the end of 1969 and the new agreements concluded in the meantime had not yet entered into force in 1970.

The total cost in fixed investments of the projects concerned by the loan or guarantee contracts signed in 1970 amounts to approx. 1.6 milliard. The Bank's average participation was in the region of 23% of the cost of the projects, which is appreciably the same as that for the previous years (1969 : 24%, 1968 : 23%).

Table 15 – LOANS AND GUARANTEES BY THE BANK
(contracts signed in 1970)
Breakdown by sectors

Sectors	Number of projects	Amount ⁽¹⁾ (million u.a.)	% of total
I. INFRASTRUCTURE WORKS	16	176.5	49.8
Agricultural development	1	1.7	0.5
Energy	4	48.4	13.7
Transport	6	73.9	20.8
– Roads and bridges	5	72.8	20.5
– Port installations	1	1.1	0.3
Telecommunications	2	34.4	9.7
Other	3	18.1	5.1
II. INDUSTRY, TRADE AND SERVICES	38	177.9	50.2
<i>Industry</i>		147.0	41.5
– Non-ferrous metals		10.9	3.1
– Construction materials		15.4	4.3
– Glass and ceramics		5.7	1.6
– Engineering industry		35.4	10.0
– Electrical engineering, electronics		4.2	1.2
– Chemical industry		51.6	14.6
– Rubber industry		10.9	3.1
– Textiles and clothing		9.4	2.7
– Food industry		2.6	0.7
– Other industries		0.9	0.2
<i>Trade and services</i>		9.6	2.7
– Hotel industry		6.8	1.9
– Research and Development		2.8	0.8
<i>Unappropriated part of overall loans</i>		21.3	6.0
Grand total	54	354.4	100.0

(1) Cf. footnotes to table 14.

ORDINARY OPERATIONS

(ordinary loans and guarantees)

The 50 contracts signed by the Bank under the heading of its ordinary operations, for an overall amount of 340.8 million, are broken down as follows :

- 43 ordinary loans in the member countries, for a total of 282.5 million, against 24 loans for a total of 247.9 million in the previous year;
- 5 guarantees for loans on mandate in the member countries, totalling 56.0 million, and
- 2 ordinary loans in the African States for a total amount of 2.3 million, against 6 loans totalling 15.5 million in 1969.

The average amount per operation was 6.8 million in 1970 (1969 : 8.8 million), 4.7 million (1969 : 4.8 million) for industrial projects and 13.6 million (1969 : 14.8 million) for infrastructure projects.

As in the previous year, the Bank proceeded to appropriations within overall loans of 10 and 3.6 million granted to the Cassa per il Mezzogiorno in 1968 and 1969, respectively in favour of the Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER) and the Credito Industriale Sardo (CIS). These appropriations concern 14 industrial initiatives of small and medium dimensions, which benefited from a total amount of 7 million. In accordance with the objectives which the Bank had set itself, the average amount of the appropriations on overall loans remained, at 0.5 million, well below the average assistance in favour of individual projects.

1. Loans and guarantees in the Community

In 1970, the Bank signed 43 loan contracts, totalling 282.5 million, and 5 guarantee contracts totalling 56.0 million, for projects carried out in the member countries of the Community.

In table 16, the projects financed by the Bank in the course of the past financial year are broken down according to the objectives of economic policy defined by Article 130 of the Treaty of Rome. As a number of projects come under several categories at the same time, the figures indicated for the different objectives cannot be grossed up.

The Bank always considers its essential mission to be that of contributing, by the financing of appropriate projects, to a balanced and harmonious development of the economically backward regions and the conversion zones of the Community. In 1970, it granted 256 million worth of loans and guarantees under this heading, 205 million

Table 16 — LOANS AND GUARANTEES BY THE BANK
(contracts signed in 1970)

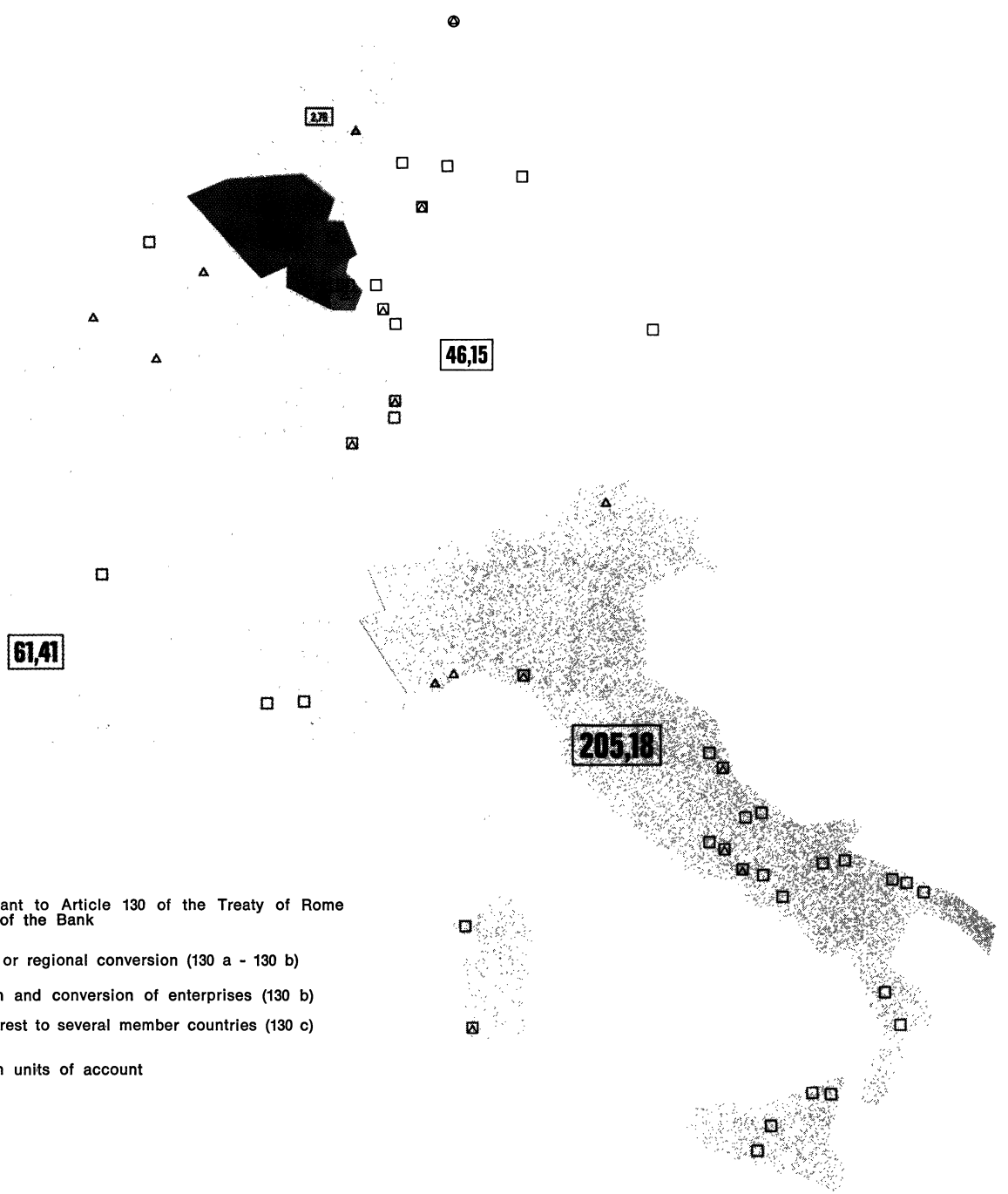
Breakdown according to the objectives of economic policy ⁽¹⁾

(amounts in million units of account)

Country	Number of projects	Loans and guarantees	of which :						
			Regional development			Modernisations and conversions of enterprises (creation of new activities and new technologies, etc.) (130 b)	Common interest to several member countries (130 c)		Associated countries
			Promotion of less developed regions (130 a)	Conversion (130 b)	Total		Industrial cooperation and research / development	Infrastructures of European interest	
I. ORDINARY OPERATIONS (Ordinary loans and guarantees)									
1. Member countries :									
Germany	8	46.1	23.2	12.0	35.2	10.9	17.7	—	—
France	10	61.4	24.7	14.2	38.9	—	10.6	18.0	—
Italy	26	205.2	156.9	3.2	160.1	—	34.6	70.0	—
Netherlands	1	2.8	—	—	—	—	2.8	2.8	—
Belgium	2	22.0	—	22.0	22.0	16.0	22.0	16.0	—
Luxembourg	1	1.0	—	—	—	—	—	1.0	—
Total	48	338.5	204.8	51.4	256.2	26.9	87.7	107.8	—
2. Associated countries :									
Total	2	2.3	—	—	—	—	—	—	2.3
Total ordinary operations	50	340.8	204.8	51.4	256.2	26.9	87.7	107.8	2.3
II. SPECIAL OPERATIONS (Associated countries)									
Total	4	13.6	—	—	—	—	—	—	13.6
GRAND TOTAL	54	354.4	204.8	51.4	256.2	26.9	87.7	107.8	15.9

(1) Breakdown of projects in the member countries according to the objectives of economic policy pursuant to Article 130 of the Treaty of Rome fixing the tasks of the Bank. Certain projects come under several objectives : they are listed, in each case with their total amount, under the different corresponding categories. The figures indicated for each of them cannot therefore be grossed up. For the associated countries, only the overall amounts have been listed, for in their case the objectives fixed by the financial agreements are different.

LOCATION OF PROJECTS TO THE FINANCING
OF WHICH THE BANK CONTRIBUTED IN 1970
(contracts signed)



Objectives pursuant to Article 130 of the Treaty of Rome
fixing the tasks of the Bank

- Development or regional conversion (130 a - 130 b)
- Modernisation and conversion of enterprises (130 b)
- △ Common interest to several member countries (130 c)

figures in million units of account

of which in the less developed regions and 51 million in the conversion zones. Italy's share in the total of the financing schemes intended for regional development was 160 million. In the course of recent years, the Bank has furthermore developed its assistance in favour of projects of common interest for several member countries. Thus in 1970 some 108 million were granted for projects of this type, in the infrastructure sector, and 88 million for projects of common interest concerning industrial cooperation and technological development (research/development).

Table 17 – LOANS AND GUARANTEES BY THE BANK
(contracts signed in 1970)

Breakdown according to their dominant objectives ⁽¹⁾

In million units of account

A. ORDINARY OPERATIONS (ordinary loans and guarantees)	340.8	
I. <i>Member countries</i>	338.5	
1. Regional development (130 a and 130 b)		231.2
2. Modernisations and conversions of enterprises (creation of new activities and new technologies, etc.) (130 b)		10.9
3. Common interest to several member countries (130 c)		96.4
• Industrial cooperation; research and development		7.3
• Infrastructure of European interest		89.1
II. <i>Associated countries</i>	2.3	
B. SPECIAL OPERATIONS (Associated countries)	13.6	
Total Ordinary operations and Special operations	354.4	

(1) Breakdown of projects in the member countries according to the objectives of economic policy pursuant to Article 130 of the Treaty of Rome fixing the tasks of the Bank and taking as criterion the *preponderant* objective; the total amount is therefore appropriated to the corresponding category and *to it alone*. Thus, for example, many of the projects classified under the heading "regional development" also correspond to other objectives. For the associated countries, only the overall amounts have been listed, for in their case the objectives fixed by the financial agreements are different.

A breakdown of the Bank's ordinary operations in the member countries, by type of financing (table 18), shows that over 80% of the assistance granted in 1970 in these countries consisted of ordinary loans, half of which in the form of direct loans. In Germany, France and the Benelux countries, all the loans were granted directly to the enterprises or communities responsible for the projects financed. The whole of the indirect assistance benefited Italy, where only two motorway concessionary enterprises received direct loans. Thirteen indirect loans were paid to the Cassa per il Mezzogiorno, which relents their amount to the final beneficiary, either directly, in one case, or through the intermediary of the Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER) in eight cases, the Istituto per il Finanziamento alle Industrie in Sicilia (IRFIS) in three cases and the Credito Industriale Sardo (CIS),

in one case. Furthermore, six indirect loans were effected through the intermediary of the Istituto Mobiliare Italiano (IMI).

*Table 18 – BREAKDOWN OF ORDINARY OPERATIONS
IN THE MEMBER COUNTRIES BY TYPE OF FINANCING*

	1969		1970	
	<i>Number of operations</i>	<i>Million u.a.</i>	<i>Number of operations</i>	<i>Million u.a.</i>
Direct loans	16	203.3	21	154.3
Indirect loans	7	41.0	19	106.9
Overall loans	1	3.6	3	21.3
Guarantees	—	—	5	56.0
Total	24	247.9	48	338.5

In accordance with the terms and conditions implemented in 1968 (ISVEIMER) and in 1969 (CIS), three new overall loans were granted in the course of the 1970 financial year for the financing of small and medium-sized industry, respectively in Alsace, to the Société Alsacienne de Développement et d'Expansion (SADE), in the Federal Republic of Germany, to the Industriekreditbank AG (IKB), and in Sicily to the Istituto Regionale per il Finanziamento alle Industrie in Sicilia (IRFIS). These overall loans are intended for the financing of valid industrial projects, which are too restricted in dimension to be financed directly by the Bank, and they thus contribute to the conversion or balanced development of the structures of certain regions.

With the execution of five guarantee operations, the Bank made use in 1970, for the first time since its creation, of a form of financing provided for from the outset by Article 130 of the Treaty of Rome and Article 18, paragraph 4 of its Statute. Pursuant to the “General Directives relating to the Bank’s credit policy” established in 1958 by the Board of Governors, the Bank had indeed confined itself at the beginning to granting loans; subsequently, no particular interest had been shown for guarantee operations. It was only with the serious tightening of the long-term capital markets, recorded in 1970, that it proved useful to exercise this possibility of intervention. By granting its guarantee, the Bank has enabled several German financial institutions operating in the field of municipal credit to make loans for five projects, four of which in Italy and one in France; these projects were examined by the Bank and meet the conditions of the Statute and of Article 130 of the Treaty of Rome. Pursuant to German legislation on refinancing applicable to the issue of municipal bonds, the German financial institutions would not have been able to grant loans for these projects without the guarantee of the European Investment Bank. For the issue of municipal bonds, the Bank’s guarantee is, indeed, equivalent to that of the German public bodies

corporate. By granting its guarantee, the Bank has therefore made it possible to mobilise, in favour of projects located in Italy and France, financing resources available in Germany, and has thus made an additional contribution to the transfers of funds among member countries, pursuant to the frequently reaffirmed objectives of the Community. For legal reasons and with a view to simplifying the administrative procedures, the loans are granted and managed by the Bank in its own name, on mandate from and for the account of the German financial institutions.

* * *

The economic leeway, which is still very considerable, of a number of Italian regions – in particular, Southern Italy, Sicily and Sardinia – and the cyclical difficulties which have affected Italy over the past financial year, have led the Bank to pursue and even to intensify by priority its interventions in this country which remains by far the largest beneficiary, within the Community, of the assistance granted. Thus, during the financial year under review, the Italian promoters received a total amount of 205.2 million (26 operations) against 119.6 million (12 loans) in the previous year, or more than 60% of the whole of the funds made available to member countries in 1970, in the framework of the Bank's activities.

About 51% (104.5 million) of the funds supplied to Italy served to finance five infrastructure projects contributing to the development of regions with a weak economic structure or to the improvement of intra-Community communications. A far from negligible share of these funds was mobilised in the framework of the guarantee operations which enabled 46.5 million to be made available for important infrastructure projects : reinforcement of the telephone equipment in Abruzzi and Molise, construction of a section of the "Flowers" Motorway (guarantee operation and ordinary loan), and construction of a section of the Brenner Motorway. The last two projects, the implementation of which is included among the urgent programmes, had already benefited previously from loans from the Bank. Furthermore, two ordinary loans were granted for the financing of two other major infrastructure projects : execution of two sections of the Liguria-Tuscany motorway, on the one hand, and reinforcement and modernisation of the telephone equipment of Puglia, on the other.

The Bank also intensified its activity in favour of Italian industry : 19 financing schemes were carried out, for a total of 93.9 million – against 7, totalling 40.6 million, in 1969 – to favour industrialisation in Southern Italy, Sicily and Sardinia. All these loans are justified principally by their contribution to regional development, but certain of them are also aimed at the development of industrial cooperation among companies of the member countries.

As in previous years, the Bank's interventions in the industrial sector were very diversified. The chemical industry heads the list, with 5 operations, among which we may mention in particular the construction at Cagliari of an establishment for the production of alumina on the basis of bauxite, by a company with multinational capital. Next comes mechanical engineering, for which special reference should be made to two loans intended for the financing of an industrial complex for the manufacture of components for motor vehicles and lift trucks, at Modugno (province of Bari), and a factory producing calculating machines at Marcianise (province of Caserta). These projects fit into a large-scale investment programme which two big Italian companies have undertaken to carry out in the course of the coming years in Southern Italy, in the framework of a plan in concert with the government. Then come construction materials, as well as textiles and clothing. Electrical engineering and the food industries also figure on the list, but for more moderate amounts.

Lastly, mention should be made of the financing, by a guarantee operation, of a number of hotel initiatives in Calabria, which may be considered as the logical sequel of a project financed in 1968 and aimed at the reinforcement of the infrastructure of tourist interest in the same zone.

As was the case last year, special reference should be made to the operations carried out within the overall loans granted through the intermediary of the Cassa per il Mezzogiorno to the ISVEIMER (1968) and to the CIS (1969). Although certainly of a low average unit amount, the individual aids granted in this framework nevertheless represent a genuine support for the balanced development of the zones concerned. After the 20 appropriations made in 1969, totalling 6.6 million, 7 new appropriations, for a total of 3.4 million, have made it possible to utilise entirely the amount of the overall loan made available to the ISVEIMER for investments in the south of mainland Italy. Parallel with this, the overall loan of 3.6 million granted to the CIS for the benefit of Sardinia could be fully appropriated in the course of the past financial year in favour of 7 industrial initiatives. The breakdown, by regions and by sectors of activity, of the 34 appropriations thus effected in 1969 and 1970, is given in table 19.

In 1970, the other member countries received 39% of the amounts distributed by the Bank in the Community. Unlike Italy, by far the leading position is occupied here by projects of conversion, modernisation and those which are of common interest for two or more member countries; however, the promotion of less developed regions, in Germany and France, has continued to benefit from a far from negligible fraction of the loans.

The interventions in favour of projects in Germany increased from 3, totalling 10 million, in 1969 to 8, for a total amount of 46.1 million, in the following year.

Table 19 – OVERALL LOANS
(Southern Mainland Italy and Sardinia)

Breakdown of the sums appropriated in 1969 and 1970 per regions and per sectors

<i>Regions / Sectors</i>	<i>Number of investments</i>	<i>Amount of appropriations</i>	
		<i>in million u.a.</i>	<i>% of the total amount appropriated</i>
I. REGIONS			
– <i>Mainland Italy</i>	27	10.00	73.5
– Latium	7	2.04	15.0
– Marche	1	0.56	4.1
– Abruzzi	3	1.44	10.6
– Campania	10	3.32	24.4
– Puglia	4	1.76	12.9
– Basilicata	1	0.64	4.7
– Calabria	1	0.24	1.8
– <i>Sardinia</i>	7	3.60	26.5
Total	34	13.60	100.0
II. SECTORS			
– Extractive industries	3	1.24	9.1
– Iron and steel	1	0.64	4.7
– Non-ferrous metals	1	0.40	2.9
– Construction materials	4	1.72	12.6
– Glass and ceramics	1	0.72	5.3
– Paperpulp - Paper	1	0.72	5.3
– Engineering industry	3	0.68	5.0
– Electrical engineering and electronics	1	0.16	1.2
– Chemical industry	3	0.96	7.1
– Textiles and clothing	2	0.32	2.4
– Food industry	5	2.16	15.9
– Other industries	9	3.88	28.5
Total	34	13.60	100.0

They concern entirely industrial achievements, coming chiefly under the following sectors : non-ferrous metals, glass, engineering industries and rubber. Among the most important operations by reason of their amount, we may note in particular the construction of two factories, one for the production of electrolytic zinc at Nordenham (Lower Saxony) and the other for the production of tyres at Wittlich (Rhineland-Palatinate). Mention should also be made of the overall loan of 10 million granted to the Industriekreditbank AG for the financing of industrial projects of small and medium dimensions in the regions of the Federal Republic of Germany faced with problems of regional development and economic restructuring.

In France, the Bank signed 9 loan contracts in 1970 for a total of 58.7 million and one guarantee contract for 2.7 million (against 6 loans totalling 86.1 million in 1969). Two thirds of the sums distributed concern the implementation of four infrastructure projects : hydro-electric development at Sainte-Croix on the Verdon (département of Basses-Alpes), development of the market for perishable agricultural produce at Rungis (Paris region), grant of a guarantee for financing the construction of the Combles - Hordain section of motorway A 2 (Paris - Bruxelles) and lastly, development of the river Rhône at Avignon. Apart from the overall loan of 6.3 million granted to the Société Alsacienne de Développement et d'Expansion – SADE – for the financing of small and medium enterprises located in Alsace, assistance has been granted for industrial projects in the following sectors : chemical industry, manufacture of components for motor vehicles and wood manufacture.

The four loans granted in the Benelux countries are characterised, inter alia, by the European interest attaching thereto : erection of the new buildings intended for the European School at Luxembourg, execution at Ede (province of Gelderland – Netherlands) of a model testing dock for shipbuilding which will place an advanced technology at the service of international shipbuilding, and, in Belgium, construction of a nuclear power station at Tihange (province of Liège) and a monomer vinyl chloride factory at Tessenderlo (Belgian Limburg). The two projects carried out in Belgium are the fruit of a close cooperation between Belgian and French promoters, for the first, and Belgian, French and Netherlands promoters, for the second.

The contracts signed in 1970 in the framework of the ordinary operations in the Community related to the following projects ⁽¹⁾ :

Italy :

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

(1) As this list is henceforth based on the contracts signed, and no longer, as in previous years, on the operations simply approved, certain projects which already figured in the 1969 annual report are mentioned again here, as the contracts relating to them were signed only in 1970.

The guarantee contracts are marked with an asterisk.

	(million u.a.)
3. Construction of the San Remo - Andora section of the "Flowers" motorway (Liguria) : guarantee. Promoter : <i>Autostrada dei Fiori S.p.A.</i>	13.7 *
4. Construction of the Verona - Brenner Pass section of the Brenner motorway (Venezia, Trentino - Alto-Adige). Promoter : <i>Autostrada del Brennero S.p.A.</i>	16.4 *
5. Reinforcement and modernisation of the telephone equipment in Puglia. Promoter : <i>S.I.P. - Società Italiana per l'Esercizio Telefonico p.A.</i>	18.0
6. Reinforcement and modernisation of the telephone equipment in Abruzzi and Molise. Promoter : <i>S.I.P. - Società Italiana per l'Esercizio Telefonico p.A.</i>	16.4 *
7. Construction of a cement works at Castrovillari (Calabria). Promoter : <i>Cementerie Calabro-Lucane S.p.A.</i>	8.0
8. Enlargement and modernisation of a cement works at Scala di Giocca (Sardinia). Promoter : <i>Cementerie di Sardegna S.p.A.</i>	1.8
9. Enlargement of an establishment for the manufacture of pipes and poles in prestressed concrete at Binetto (Puglia). Promoter : <i>Vianini S.p.A.</i>	2.0
10. Enlargement of a factory for the production of industrial valves at Patti (Sicily). Promoter : <i>Walworth - Aloyco International S.p.A.</i>	0.9
11. Construction of an industrial complex for the manufacture of components for motor vehicles and lift trucks at Modugno (Puglia). Promoter : <i>FIAT S.p.A.</i>	16.0
12. Construction of a factory producing calculating machines at Marcianise (Campania). Promoter : <i>Ing. C. Olivetti & Co S.p.A.</i>	9.6
13. Enlargement of a factory for batteries and cells at Casalnuovo di Napoli (Campania). Promoter : <i>Fabbriche Accumulatori Riunite Partenope Henssemberger - F.A.R. S.p.A.</i>	2.4

	(million u.a.)
14. 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 p.A.</i>	1.6
15. Construction of an establishment for the production of alumina at Portoscuso (Sardinia). Promoter : <i>Eurallumina S.p.A.</i>	25.0
16. Enlargement of a factory producing amorphous carbon electrodes at Ascoli Piceno (Marche). Promoter : <i>Elettrocarbonium S.p.A.</i>	4.0
17. Construction of a factory for pharmaceutical products at Ascoli Piceno (Marche).	4.0
18. Construction of a detergent and toilet soap factory at Ferentino (Latium). Promoter : <i>Henkel Sud S.p.A.</i>	4.0
19. Enlargement and modernisation of a ladies' stockings factory at Villafranca Tirrena (Sicily). Promoter : <i>SI.CAL - Siciliana Calze S.p.A.</i>	0.6
20. Construction of a factory for the production of knitwear and trousers at Licata (Sicily). Promoter : <i>I.S.M.A. - Industria Siciliana Maglierie ed Affini S.p.A.</i>	3.2
21. Construction of an establishment for the production of synthetic sewing yarns at Ascoli Satriano (Puglia). Promoter : <i>Filatura di Foggia S.p.A.</i>	1.4
22. Construction of an establishment for the production of traditional fabrics and jersey fabrics at Ceccano (Latium). Promoter : <i>Carrington-Tesit S.p.A.</i>	2.4
23. Construction of an establishment for the manufacture of semolina at Foggia (Puglia). Promoter : <i>Industrie Semolerie Giovanni Sacco e Figli S.r.l.</i>	0.9
24. Enlargement and modernisation of a factory producing macaroni, spaghetti, etc. at Fara San Martino (Abruzzi). Promoter : <i>S.n.c. Molino e Pastificio Fratelli De Cecco di Filippo</i>	1.2

	(million u.a.)
25. Implementation of a number of hotel initiatives in Calabria. Promoter : <i>Cassa per il Mezzogiorno</i>	6.8 *
26. Overall loan intended for the financing of small and medium-sized industries, granted through the intermediary of the Cassa per il Mezzogiorno to the Istituto Regionale per il Finanziamento alle Industrie in Sicilia - IRFIS (Sicily)	5.0
<i>France :</i>	
27. 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
28. Development of the Rhône at Avignon (Provence-Côte d'Azur). Promoter : <i>Compagnie Nationale du Rhône (C.N.R.)</i>	9.0
29. Construction of the Combles - Hordain section of Motorway A 2 (Combles - Belgian border). Promoter : <i>Société des Autoroutes du Nord et de l'Est de la France (SANEF)</i>	2.7 *
30. Equipment of an international trade centre at the market for perishable agricultural produce at Rungis (Paris region). Promoter : <i>Société d'Économie Mixte d'Aménagement et de Gestion du Marché d'Intérêt National de la Région Parisienne (SEMMARIS)</i>	15.3
31. Construction of a factory for the production of chipboard panels at Lure (Franche-Comté). Promoter : <i>Resogil S.A.</i>	3.6
32. Construction of a factory for the production of brake and clutch linings at Limoges (Limousin). Promoter : <i>Société Anonyme Française du Ferodo</i>	1.3
33. Construction of a factory producing electrical equipment intended for the motor industry at Étaples (Nord-Pas-de-Calais). Promoter : <i>Ducellier et Cie, S.n.c.</i>	1.8

	(million u.a.)
34. Extension of a fertiliser factory at Ottmarsheim (Alsace). Promoter : <i>Produits et Engrais Chimiques du Rhin - PEC-RHIN</i>	2.5
35. Construction of a "low pressure" polyethylene factory at Gonfreville (Upper Normandy). Promoter : <i>Société Industrielle de Polyoléfines</i>	4.5
36. Overall loan intended for the financing of industrial initiatives of small and medium dimensions in Alsace, granted to the Société Alsacienne de Développement et d'Expansion - S.A.D.E.	6.3
 <i>Germany :</i>	
37. Construction of a factory for the production of zinc by electrolysis at Nordenham (Lower Saxony). Promoter : <i>Preussag Aktiengesellschaft</i>	10.9
38. Modernisation and extension of a hollow glass factory at Zwiesel (Bavaria). Promoter : <i>Vereinigte Farbenglaswerke AG</i>	1.4
39. Enlargement of an establishment for the production and manufacture of textile glass filaments at Dortmund-Mengede (North Rhineland - Westphalia). Promoter : <i>Klöckner-Schott Glasfaser GmbH</i>	4.4
40. Restructuration and modernisation of a compressor factory at Saarbrücken (Saar). Promoter : <i>Ehrhardt & Sehmer Maschinenfabrik AG</i>	0.8
41. Enlargement of a factory producing cast iron tubes and mouldings at Brebach (Saar). Promoter : <i>Halbergerhütte GmbH</i>	6.8
42. Construction of a tyre factory at Wittlich (Rhineland-Palatinate). Promoter : <i>Dunlop AG</i>	10.9
43. Construction of a factory producing packaging articles in plastics at Röhrigshof / Werra (Hesse). Promoter : <i>Werra Plastic GmbH & Co. KG</i>	0.9

	(million u.a.)
44. Overall loan intended for the financing of industrial initiatives of small and medium dimensions in the Federal Republic of Germany, granted to the Industriekreditbank AG	10.0

Belgium :

45. Construction of a nuclear power station at Tihange (province of Liège). Promoter : <i>Société Belgo-Française d'Énergie Nucléaire Mosane - S.E.M.O.</i>	16.0
46. Construction of a monomer vinyl chloride factory at Tessenderlo (Limburg). Promoter : <i>Société Limbourgeoise du Vinyle (L.V.M.) S.A.</i>	6.0

Luxembourg :

47. First stage of the construction of the new buildings for the European School, Luxembourg. Promoter : <i>Administration du Grand-Duché de Luxembourg</i>	1.0
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Netherlands :

48. Construction of a model testing dock for shipbuilding at Ede (Gelderland). Promoter : <i>Nederlandsch Scheepsbouwkundig Proefstation</i>	2.8
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2. Loans in the Associated Countries

In the Associated African States, the Bank granted two ordinary loans for industrial projects in 1970. As in previous years, these loans were granted directly to the promoters :

Federal Republic of Cameroon :

	(million u.a.)
Second extension to a textile complex at Garoua. Promoter : <i>Cotonnière Industrielle du Cameroun (CICAM)</i>	1.8

Republic of Upper Volta :

Construction of a flourmill at Banfora. Promoter : <i>Les Grands Moulins Voltaïques (GMV)</i>	0.5
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In the Federal Republic of Cameroon, the Bank participated in the financing of the second extension of the CICAM textile complex which had already benefited from two of its aids, in 1965 and 1969 respectively. The project aims at increasing the capacity of the spinning / weaving mill located in the north of the country, with a view to stepping up the local contribution to the supply of the CICAM printing and finishing factory at Douala. Furthermore, it will make it possible to export unbleached fabrics intended for the manufacture of sheets. The spinning / weaving mill is already the most important industrial establishment in North Cameroon; its reinforcement will contribute to a better inter-regional equilibrium.

In the Republic of Upper Volta, the Bank has contributed to the financing of a flourmill which will help towards the creation of a new industrial centre in the west of the country. The execution of this project will have favourable effects on the trade balance, as flour, which had been imported until now, will henceforth be produced locally on the basis of imported wheat. Furthermore, the flourmill will also process locally produced cereals, and this will contribute towards developing their consumption, in particular in the urban centres, and to stabilising their prices.

These two operations have been carried out in the framework of the transitional measures which extended the period of application of the first Yaoundé Convention signed between the European Economic Community and the 17 Associated African States and Madagascar. They bring to 18 the number of loans granted by the Bank in the framework of the first Association Convention and of the provisions concerning the overseas countries and territories. These loans, totalling 51.1 million units of account, have contributed to the financing of projects in seven African countries (Cameroon, Congo-Brazzaville, Ivory Coast, Gaboon, Upper Volta, Mauritania and Senegal) and in the overseas territory of New Caledonia.

The second Yaoundé Convention and the provisions concerning the overseas countries and territories were ratified in the course of 1970 and came into force on 1st January, 1971. The details of the financial aid have already been outlined in the 1969 annual report and in the first chapter of the present report. It would therefore be pointless to revert to them here.

SPECIAL OPERATIONS

In 1970, the Bank's activity in *Turkey* was limited to the implementation of the loans granted in the framework of the first financial Protocol the amount of which (175 million units of account) had been entirely committed within the periods planned (1st December, 1964 - 30th November, 1969) ⁽¹⁾.

(1) The additional financing for the construction of the Keban barrage, amounting to 10 million units of account, was approved in 1969, but the contract was signed only in May 1971.

Of the overall loan of 3.77 million which the Bank granted through the intermediary of the Türkiye Sınai Kalkinma Bankasi - T.S.K.B. (Turkish Industrial Development Bank) for the financing of small and medium-scale private industry, 2.99 million had already been appropriated in 1969. At the beginning of 1970, the balance of 0.78 million formed the object of 3 appropriations concerning respectively the engineering industry (0.25 million), chemicals (0.17 million) and wood processing (0.36 million). Table 20 gives the breakdown per sector of the overall T.S.K.B. loan.

Table 20 — OVERALL LOAN (T.S.K.B.)
Breakdown of the appropriations by industrial sector

Sectors	Number of investments	Appropriations in million u.a.	in % of total amount
Non-ferrous metals	1	0.49	13.0
Engineering industry	2	0.67	17.7
Electrical engineering	1	0.30	8.0
Chemical industry	3	1.16	30.8
Food industry	1	0.44	11.7
Other industries	2	0.71	18.8
Total	10	3.77	100.0

As we have seen previously, the negotiations relating to the passage to the transitional stage of the Association of Turkey with the Community and the new financial protocol were completed on 23rd November, 1970, by the signature of the two protocols in question.

The decisions to grant loans on the new financial protocol can intervene only after its entry into force. However, so that the financial aid may take effect as soon as possible after ratification, the Bank started examining new financing applications immediately after signature of the financial protocol.

* * *

During the financial year under review, 4 contracts were signed for the grant of loans under special conditions, totalling 13.6 million, in the *Associated African States and Madagascar* (A.A.S.M.). These loans, effected on the resources of the E.D.F., were approved by the Commission of the European Communities, after favourable opinion by the Bank which has received a mandate to ensure the management of these loans.

The contracts signed in 1970 concerned the following projects :

Democratic Republic of Congo :

Construction of a supplementary high-tension grid for the Inga hydroelectric complex.	(million u.a.)
Promoter : <i>Democratic Republic of Congo</i>	9.0

Republic of Ivory Coast :

Development of cotton production	
Promoter : <i>Republic of Ivory Coast</i>	1.6
Equipment of Abidjan fishing port.	
Promoter : <i>Republic of Ivory Coast</i>	1.1

Malagasy Republic :

Construction of a refrigerated slaughterhouse at Tananarive.	
Promoter : <i>Malagasy Republic</i>	1.9

The two loans granted respectively in the Democratic Republic of Congo and the Malagasy Republic, as well as the loan intended for the development of cotton production in Ivory Coast, were already presented in the 1969 annual report (as loans approved by the Board of Directors). As the relevant contracts were signed only in 1970, they are listed in the present annual report for the reasons already referred to.

The loan of 1.1 million granted to the Republic of Ivory Coast concerns the construction and equipment of a quay at the fishing port of Abidjan. These new facilities are to meet the requirements of Ivory Coast shipping, in full development, and those of the foreign fleets based on Abidjan or calling there. This expansion of the fishing activities will involve that of the related enterprises : canning factories, fresh fish trade, ice factories, etc. This loan has been granted in the framework of the transitional measures decided by the Council of Association and the Council of the Communities for the extension of the period of application of the first Yaoundé Convention until the ratification of the second Convention.

* * *

In the framework of the first Yaoundé Convention, the Bank has thus participated in the investigation and management of 15 loans totalling 47.1 million, from the resources of the European Development Fund. These loans were granted for projects located in 6 African countries (Cameroon, Congo-Kinshasa, Ivory Coast, Gaboon, Mauritania and Chad), Madagascar, New Caledonia and Surinam.

CONTRACTS SIGNED FROM 1958 TO 1970

Since its creation until the end of 1970, the Bank has signed 317 contracts in all, for an overall amount of 1,813.0 million units of account, broken down as follows :

- 262 ordinary loans, totalling 1,544.9 million;
- 5 guarantees for loans on mandate, for a total amount of 56.0 million;
- 50 special operations, for a total amount of 212.1 million ⁽¹⁾.

On 31st December, 1970, the amount of effective loans ⁽²⁾ appearing in the Bank's balance sheet, taking account of redemptions, terminations and cancellations, was 1,449 million units of account, against 1,144.2 million in 1969, or an increase of 27%. The outstanding amount of loans signed by the Bank in the framework of the Special Section reached 211.9 million against 197.4 million, showing an increase of 7%.

The total cost in fixed investments of the projects to which the Bank thus lent its support amounts to approximately 7.8 milliard ⁽³⁾; the Bank's average participation is thus about 23%.

The graph and tables below show the breakdown of the loan and guarantee contracts signed by the Bank since its creation : by type of financing, by country, by sector, as well as by dominant objectives pursuant to Article 130 of the Treaty of Rome.

The projects located in the member countries benefited from 1,480.6 million (loan contracts : 1,425 million, guarantee contracts : 56 million) – or approximately 82% of the total amount of the financing means made available by the Bank during the period 1958-1970. Italy has received about 51% of this amount. This concentration of the Bank's operations reflects the provisions of the Protocol on Italy, appended to the Treaty of Rome, and the leeway, still considerable, of Southern Italy with respect to development. Then come France, with 17% of the total funds, Germany, with 9%, and the Benelux countries, with 5%. The overall loans, with 34.9 million – of which 13.6 are already committed – represented 2.3% of the total of the Bank's assistance in the member countries.

(1) Including the loans on the resources of the European Development Fund, amounting to 47.1 million, which have formed the object of a financing decision by the Commission, after a favourable opinion from the Bank.

(2) Including the loans on mandate from and for account of third parties.

(3) This is the total of investments for civil engineering works and installations of all the projects to which the Bank lent its aid, established in the light of data which served as basis for the financing plans of the promoters on the date of approval of the loan by the Board of Directors.

If the projects to which the Bank has granted its aid in the Community are broken down by their dominant justification pursuant to Article 130 of the Treaty of Rome, we find that about 74% of the total amount of the funds distributed in the Community served to finance projects coming under regional development or reconversion. In the second place, with 23%, come the projects of common interest for several member countries, at the rate of 21% for infrastructure projects, and 2% for industrial cooperation and research / development projects. The projects aimed chiefly at the modernisation or conversion of industrial enterprises have so far received only 3% of the total volume of the Bank's loans. It should be recalled, however, that numerous projects are classified here solely according to their principal destination, whereas in fact they come into several categories at once. Thus, many projects classified under the heading "regional development" also correspond to other objectives.

In the associated countries, the Bank had granted, by the end of 1970, 83 loans totalling 332.4 million (ordinary loans : 120.3 million; loans with special conditions : 212.1 million) ⁽¹⁾, or 18% of the total funds made available by the Bank during the period 1958-1970. The share of Turkey is 50%, that of the A.A.S.M.-O.C.T. is 30%, and that of Greece, 20%. In the associated countries, the Bank granted only one overall loan in Turkey, amounting to 3.77 million, which is already entirely appropriated.

Among the infrastructure projects, which have benefited from 60% of the total aid, transport is easily in the lead, with 28.6%, followed by energy, with 13.6%, agricultural development (8.3%) and telecommunications (6.6%).

The sectors of industry, trade and services together obtained some 40% of the total of the financing schemes. The chemical (10.8%), engineering (5.7%), iron and steel (4.1%) and food (3%) industries received definitely more than half of the overall share of these sectors.

(1) Including the loans on E.D.F. resources, of an amount of 47.1 million, having formed the object of a financing decision by the Commission of the European Communities, after a favourable opinion by the Bank.

Table 21 — LOANS AND GUARANTEES BY THE BANK
(contracts signed by 31st December, 1970)
Breakdown by type of financing and by country

Country	Number of projects	Amount ⁽¹⁾ (million u.a.)	% of total
I. ORDINARY OPERATIONS			
<i>Member countries :</i>			
Germany	28	161.3	8.9
France	37	301.1	16.6
Italy	157	921.5	50.8
Netherlands	4	34.9	1.9
Belgium	5	52.8	2.9
Luxembourg	3	9.0	0.5
Total	234	1,480.6	81.7
<i>of which, guarantees (2)</i>	5	56.0	3.1
<i>Associated countries :</i>			
Greece	15	69.2	3.8
A.A.S.M. and O.C.T.	18	51.1	2.8
Cameroon	6	11.3	
Congo-Brazzaville	1	9.0	
Ivory Coast	4	11.6	
Gaboon	3	3.2	
Upper Volta	1	0.4	
Mauritania	1	11.0	
Senegal	1	2.4	
New Caledonia	1	2.0	
Total	33	120.3	6.6
Total of ordinary operations	267	1,600.9	88.3
II. SPECIAL OPERATIONS			
Turkey	35	165.0 ⁽⁴⁾	9.1
A.A.S.M. and O.C.T. ⁽³⁾	15	47.1	
Cameroon	4	14.5	
Congo-Kinshasa	1	9.0	
Ivory Coast	4	12.4	
Gaboon	1	2.5	
Madagascar	1	1.9	
Mauritania	1	2.7	
Chad	1	1.2	
New Caledonia	1	1.0	
Surinam	1	1.9	
Total	50	212.1	11.7
Grand total	317	1,813.0	100.0

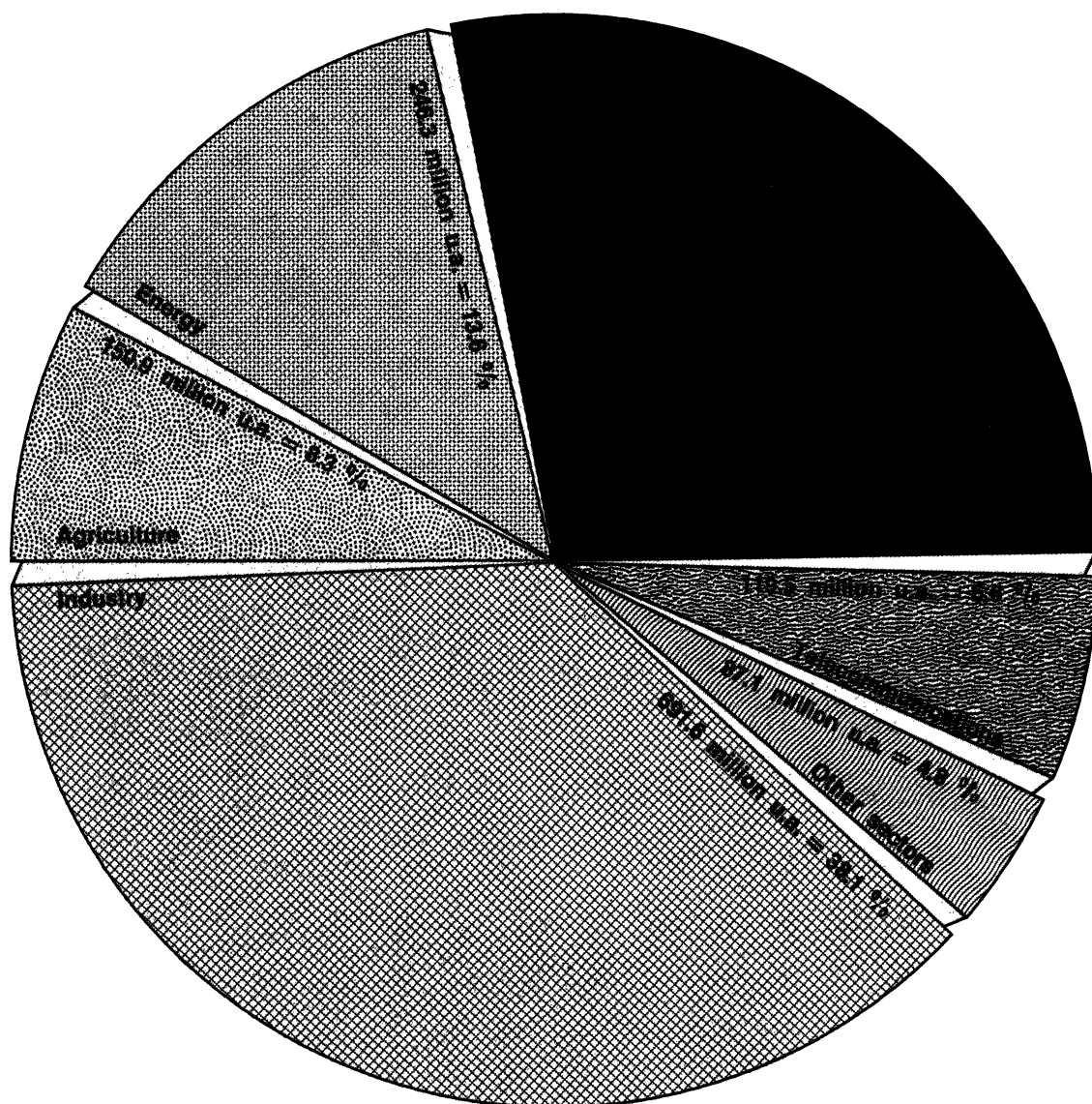
(1) including overall loans.

(2) of which, *Italy* : 53.3 million units of account; *France* : 2.7 million units of account.

(3) 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 by the Commission of the European Communities has been taken.

(4) Cf. footnote page 94.

BREAKDOWN OF LOANS AND GUARANTEES BY SECTOR
 (contracts signed by 31st December, 1970)



Note: Including the total amount of the overall loans and special operations on resources of the European Development Fund.

Table 22 — LOANS AND GUARANTEES BY THE BANK
(contracts signed by 31st December, 1970)
Breakdown by sector

Sectors	Number of projects	Amount ⁽¹⁾ (million u.a.)	% of total
I. INFRASTRUCTURE WORKS	97	1,090.5	60.1
Agricultural development	14	150.9	8.3
Energy	26	246.3	13.6
Water supply and distribution	2	28.0	1.5
Transport	44	517.6	28.6
— Railways	11	130.6	7.2
— Roads and bridges	23	295.2	16.3
— Waterways	1	24.0	1.3
— Port installations	4	6.7	0.4
— Gas pipelines	5	61.1	3.4
Telecommunications	7	119.5	6.6
Tourist infrastructure	1	10.0	0.5
Other	3	18.2	1.0
II. INDUSTRY, TRADE AND SERVICES	220	722.5	39.9
Industry		691.6	38.1
— Extractive industries		40.5	2.2
— Iron and steel		74.6	4.1
— Non-ferrous metals		26.0	1.4
— Construction materials		45.0	2.5
— Glass and ceramics		17.1	0.9
— Pulp - Paper		45.8	2.5
— Engineering industry		104.0	5.7
— Electrical engineering, electronics		9.5	0.5
— Chemical industry		196.2	10.8
— Rubber industry		22.2	1.2
— Textiles and clothing		48.2	2.7
— Leather industry		1.8	0.1
— Food industry		54.0	3.0
— Other industries		6.7	0.4
Trade and services		9.6	0.6
— Hotel industry		6.8	0.4
— Research and Development Institutions		2.8	0.2
Unappropriated part of overall loans		21.3	1.2
Grand total	317	1,813.0	100.0

(1) Including overall loans and special operations on resources of the European Development Fund.

Table 23 — LOANS AND GUARANTEES BY THE BANK
(contracts signed by 31st December, 1970)

Breakdown according to their dominant objectives (1)

In million units of account

A. ORDINARY OPERATIONS (ordinary loans and guarantees)	1,600.9		
I. Member countries	1,480.6		
1. Regional development (130 a and 130 b)		1,104.1	
2. Modernisations and conversions of enterprises (creation of new activities and new technologies, etc.) (130 b)		42.8	
3. Common interest to several member countries (130 c)		333.7	
• Industrial cooperation; research and development			30.9
• Infrastructure of European interest			302.8
II. Associated countries	120.3		
B. SPECIAL OPERATIONS (Associated countries)	212.1		
Total Ordinary operations and Special operations	1,813.0		

(1) Breakdown of projects in the member countries according to the objects of economic policy pursuant to Article 130 of the Treaty of Rome fixing the tasks of the Bank and taking as criterion the *preponderant* objective; the total amount is therefore appropriated to the corresponding category and *to it alone*. Thus, for example, many of the projects classified under the heading "regional development" also correspond to other objectives. For the associated countries, only the overall amounts have been listed, for in their case the objectives fixed by the financial agreements are different.

RESOURCES

The capital at the disposal of the Bank, other than that appropriated to the Special Section, has had a twofold origin :

- the Bank has first of all continued to expand its customary resources. The total funds derived from its paid-up capital (1), borrowings and accrued profits appropriated to reserve or provisions, amounted to 1,393.3 million units of account on 31st December, 1970, against 1,235.9 million units of account on 31st December, 1969, thus showing an increase in the course of the year by 157.4 million in absolute figures and 12.7% in relative value, resulting :
 - to the extent of 137.4 million from a net increase in borrowings;
 - to the extent of 20 million, from accrued profits for the year appropriated to reserve and provisions;
- as has been stressed in the account of previous developments, the Bank then intervened in loan operations on mandate, guaranteed by itself, the financing of which was provided, to the extent of 56 million units of account, by German financial institutions with the aid of savings collected by the latter on the German financial market in the form of issues of municipal bonds.

(1) At its meeting in Hamburg on 26th April, 1971, the Board of Governors of the European Investment Bank decided to increase the Bank's subscribed capital from 1 milliard to 1.5 milliard units of account by reason of the considerable expected development of its activities. After entering the necessary amounts in their budgets, the member countries will pay 10% of the increase decided upon, i.e., 50 million units of account, in two equal instalments in 1973 and 1974.

Borrowed funds

In 1970, the Bank's calls on the financial markets reached 168.9 million units of account, slightly exceeding in extent those of the previous year (146 million) without thereby attaining the figures for 1968 (212.5 million) or even for 1967 (194.5 million).

Table 24 — BORROWINGS BY THE BANK

<i>Financial year</i>	<i>Number</i>	<i>Amount</i> ⁽¹⁾ <i>(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
1970	7	168.9
1961-1970	60	1,081.1 ⁽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 1961-1970, is, after adjustment to the parities in force on 31st December, 1970, 1,097.2 million instead of 1,081.1 million units of account.

The tightness of the European and international financial markets indeed continued to reduce the Bank's possibilities of recourse to borrowings until the autumn.

The German financial market was the only one, in the Community, on which the Bank was able to procure resources over the first half-year, via a publicly-issued loan of 100 million DM; this operation occurred in April, at the very time when large inflows of capital from abroad contributed to moderate momentarily the uptrend in interest rates and even led to a temporary recovery in the stock exchange prices of bonds : the loan could thus be placed at the nominal rate of 8% and at an issue price of 98.75%.

Interrupted subsequently for six months because of the general escalation in long-term interest rates, the Bank's issues on the national markets of member countries were resumed in October, when the trend started to go into reverse as the result of a gradual widening in the supply of long-term capital, linked with the accentuated reflux of foreign exchange towards Europe and the reconstruction of

individual savings. The Bank then floated on the French market a private 18-year loan of 111 million FF with institutional investors, at the nominal rate of 8.5%, and, on the Belgian market, a public 12-year loan of 750 million BF, also at a nominal rate of 8.5% and at an issue price of 99%. The previous issues on the markets of these countries date back to September 1967 in the first case and November 1968 in the second.

The borrowings thus effected in Germany, France and Belgium, in a financial situation which however remained difficult, bear witness to the understanding interest shown by all the monetary authorities of the member countries of the Community in the development of the Bank's lending activities.

With an awareness, nevertheless, of the tensions to which the European domestic financial markets were still exposed, the Bank above all made a point of calling on the international market in the second half-year, placing on it four loans of a total equivalent to 106.6 million units of account.

Taking advantage first of all, during the summer, of the abundance on this market of florins held by Dutch non-residents, it issued in July a loan of 60 million florins, not accessible to domestic investors in the Netherlands, in the form of 5-year notes bearing interest at the rate of 8 1/4% and at an issue price of 99%.

At the beginning of the autumn, the fall by half a point in the rates applicable to fixed-rate dollar issues then led it to proceed to a public issue of 30 million dollars on the market, the term of which however it voluntarily limited to 5 years, and which could thus be issued at the nominal rate of 8 3/4% and at par. At the same time and still awaiting an accentuation of the downtrend in rates, it also had recourse to the formula of loans at variable rates linked to six-month Eurodollar deposits, which then proved a great success, enabling it to collect 30 million dollars from an institutional investor in the framework of a private 5-year issue.

The relaxation which occurred in the closing weeks of the year finally enabled it to float in December a public issue of 30 million dollars, for a term of 15 years, which it was able to place at the nominal rate of 8 3/4% and at par, i.e., in conditions that were a quarter of a point below those which had prevailed until then.

The details of the borrowing operations concluded in the course of the financial year are given in table 25.

Owing to these issues, the overall amount of funds borrowed increased from 928.3 million to 1,097.2 million from 31st December, 1969, to 31st December, 1970.

Table 25 — BONDS ISSUED IN 1970

<i>Date of issue</i>	<i>Place of issue</i>	<i>Nature of loan</i>	<i>Subscription currency</i>	<i>Amount in national currency (million)</i>	<i>Amount in u.a. (million)</i>	<i>Term of loan</i>	<i>Nominal rate</i>	<i>Placing</i>
April 1970	Fed. Rep. Germany	public	DM	100	27.3	10 years	8 %	Underwritten by a syndicate of German banks under the management of Deutsche Bank AG, and the co-management of Dresdner Bank AG, Commerzbank AG, and Westdeutsche Landesbank Girozentrale — Offered for public subscription at 98.75 %.
July 1970	Luxembourg	private	fl.	60	16.6	5 years	8 1/4 %	Placed at a rate of 99 % outside the Netherlands through the intermediary of a syndicate of Dutch banks under the management of the Amsterdam-Rotterdam Bank N.V.
Oct. 1970	France	private	FF	111	20	18 years	8 1/2 %	Private placing with institutional investors through the intermediary of a syndicate under the management of the Banque de Paris et des Pays-Bas and the Banque Nationale de Paris.
Oct. 1970	Luxembourg	private	US \$	30	30	5 years	variable	Placed with an institutional investor.
Oct. 1970	Belgium	public	BF	750	15	12 years	8 1/2 %	Underwritten by a syndicate of Belgian banks under the management of the Société Générale de Banque S.A. — Offered for public subscription at 99 %.
Oct. 1970	Luxembourg	public	US \$	30	30	5 years	8 3/4 %	Underwritten by a syndicate under the management of Kuhn, Loeb & Co., The First Boston Corporation, Lazard Frères & Co., Amsterdam-Rotterdam Bank N.V., Banca Commerciale Italiana, Banque de Paris et des Pays-Bas, Deutsche Bank AG, Société Générale de Banque S.A., Swiss Bank Corporation (Overseas) Limited, Banque Internationale à Luxembourg, S.A. — Offered for public subscription at 100 %.
Dec. 1970	Luxembourg	public	US \$	30	30	15 years	8 3/4 %	Underwritten by a syndicate composed of Banca Commerciale Italiana, The First Boston Corporation, Amsterdam-Rotterdam Bank N.V., Banque de Paris et des Pays-Bas, Deutsche Bank AG, Société Générale de Banque S.A., Union Bank of Switzerland (Underwriters) Limited, Banque Internationale à Luxembourg, S.A. — Offered for public subscription at 100 %.

After deduction of repayments already made, the net funded debt amounted to 1,014.1 million units of account at the latter date, against 876.7 million units of account at 31st December, 1969, thus showing an increase of 137.4 million units of account.

Capital appropriated to guaranteed loans on mandate

In the framework of loan operations which it guaranteed, the Bank has been entrusted by the German financial institutions with the task of managing for their account an amount of 205 million Deutsche Mark, corresponding to 56 million units of account, under the heading of loans on mandate granted to non-German borrowers.

The Bank's intervention has reinforced the relations which already existed between these institutions and itself, and has introduced new forms of close and fruitful collaboration with a particularly dynamic banking system.

The institutions having supplied the funds for the financing of the loans were :

	<i>In million</i>	
	<i>DM</i>	<i>u.a.</i>
– the Frankfurter Hypothekenbank, Frankfurt	67.5	18.4
– the Rheinische Hypothekenbank, Mannheim	67.5	18.4
– the Deutsche Girozentrale - Deutsche Kommunalbank, Frankfurt	60.0	16.4
– the Bayerische Hypotheken- und Wechsel-Bank, Munich	10.0	2.8
	205.0	56.0

Accrued profit

The maintenance, on all the money markets, of very high interest rates for nearly the whole of the year gave the Bank the opportunity to derive considerable income from its liquidities, despite the reduction of the latter. But the actual utilisation, for financing loan operations, of a fairly large portion of the liquidities previously placed on the monetary markets also contributed, taking account of the differences in rates between markets for short-term and long-term capital, to add to the accrued profit of the Bank in quite appreciable proportions. A number of other factors also exerted a favourable effect on the operating account such as, for example, the increase in

management commissions paid to the Bank in the framework of operations carried out under the Special Section, or the momentary reduction in the charges and bond issue expenses, amortized in the course of the year.

After depreciation of these charges and issue expenses, the balance of the profit and loss account amounted finally to 20 million units of account in 1970, against 14 million the previous year. An appropriation of 6 million was made to the statutory reserve, and, for the rest, to provisions.

On 31st December, 1970, the overall amount of reserves and provisions was thus 129.2 million units of account, of which 57.2 million for the statutory reserve.

BALANCE SHEET OF THE BANK (at 31st December of each year)

Mio
u.a.

2000

1900

1800

1700

1600

1500

1400

1300

1200

1100

1000

900

800

700

600

500

400

300

200

100

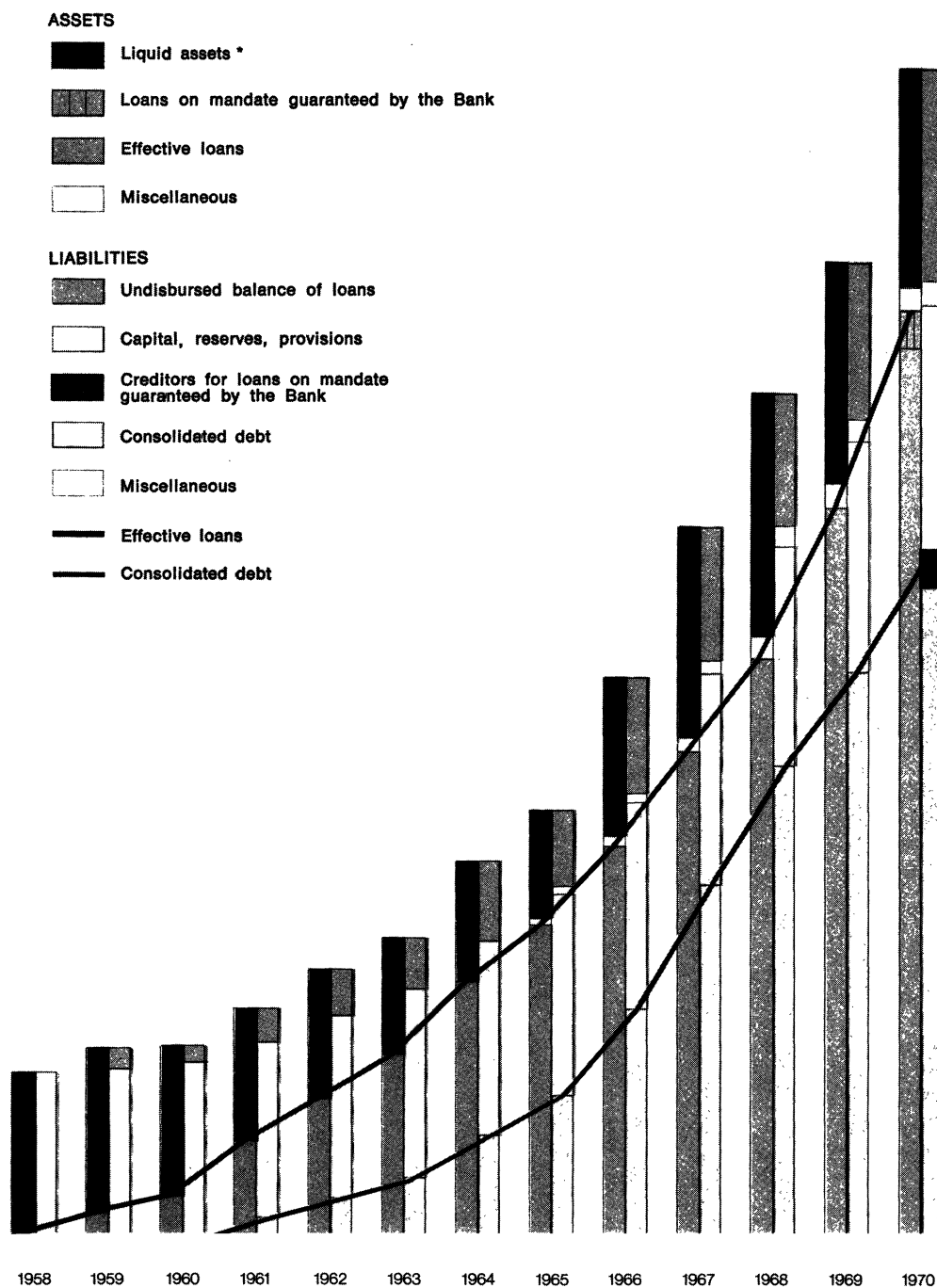
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ASSETS

- Liquid assets *
- Loans on mandate guaranteed by the Bank
- Effective loans
- Miscellaneous

LIABILITIES

- Undisbursed balance of loans
- Capital, reserves, provisions
- Creditors for loans on mandate guaranteed by the Bank
- Consolidated debt
- Miscellaneous
- Effective loans
- Consolidated debt



* « Cash and Banks », « Investments », « Receivable on bonds to be delivered ».

III

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

The Bank's activity at the end of the 1970 financial year appears from the Balance Sheet appended to the present report, the main items of which are analysed below.

Cash and Banks

The total of these assets amounts to 235,547,330 u.a., as against 245,685,859 u.a. on 31st December, 1969.

Investments

This item also includes this year the gold assets amounting to 8,688,993 u.a.

The treasury bonds, bonds and notes, which appear under this heading for an amount of 46,202,397 u.a., have been valued at cost price or at market quotation as at 31st December, 1970, if the latter was below cost price, with a maximum of 100%. The bank bills, amounting to 6,250,000 u.a., have been listed at their nominal value.

The "Investments" heading further includes the Bank's own bonds which have been purchased by it at repurchase price, i.e., 3,441,858 u.a. (nominal value of 3,645,796 u.a.).

The total of these two items, i.e., 300,130,578 u.a., is broken down, according to currencies, as follows :

– currencies of member countries	u.a.	184,551,158
– other currencies	u.a.	106,890,427
– gold	u.a.	8,688,993

The breakdown by maturities is :

– at call	u.a.	30,461,398
– not exceeding 3 months	u.a.	87,805,749
– exceeding 3 months but not exceeding 6 months	u.a.	121,300,112
– exceeding 6 months but not exceeding 1 year	u.a.	11,667,193
– exceeding 1 year	u.a.	48,896,126

Receivable on bonds to be delivered

The amount under this heading, i.e., 44,250,000 u.a., represents the proceeds of bonds in US dollars issued in 1970 but not yet paid up at the end of the financial year.

Receivable from member countries for adjustment of capital

Under this heading figure the amounts yet to be paid by France by reason of the adjustment following the devaluation of the French franc in 1969.

Effective loans

– *Ordinary loans*

On 31st December, 1970, the amount of ordinary loans signed reached, on the basis of the parities in force on the date of signature, the equivalent of		u.a.	1,544,849,564
minus exchange adjustments on the amounts not yet paid		– u.a.	3,791,187
			<hr/>
the amount of credits open was		u.a.	1,541,058,377
After deduction of terminations and cancellations	u.a.		3,283,393
and of capital redemptions	u.a.		152,821,434
		– u.a.	<hr/> 156,104,827
		u.a.	1,384,953,550
and taking account of the exchange adjustments on the amounts paid		+ u.a.	<hr/> 8,012,922
the amount of ordinary effective loans appearing in the balance sheet is		u.a.	<hr/> <hr/> 1,392,966,472

Of this total, the funds paid to the borrowers amounted, at the same date, to 1,058,841,753 u.a.

The claims resulting for the Bank from these payments are broken down as follows, by currencies :

– currencies of member countries	u.a.	801,439,409
– currency of any member country at the Bank's option	u.a.	22,437,285
– other currencies	u.a.	234,965,059

The undisbursed amount, i.e., 334,124,719 u.a., which also includes this year the overall loans granted in 1970 but not yet appropriated, appears as a contra item in the liabilities under the heading "undisbursed balance of ordinary loans".

The items concerning ordinary loans compare as follows :

	on 31st December, 1969	on 31st December, 1970
– amounts disbursed	895,999,841	1,058,841,753
– amounts undisbursed	248,240,068	334,124,719
	1,144,239,909	1,392,966,472

The breakdown by country of effective ordinary loans is as follows :

<i>Country</i>	<i>Amount disbursed</i>	<i>Amount undisbursed</i>	<i>Total</i>
Belgium	27,227,909	24,000,000	51,227,909
Germany	108,833,813	39,617,487	148,451,300
France	219,906,552	47,873,767	267,780,319
Italy	576,864,029	193,720,000	770,584,029
Luxembourg	7,371,253	–	7,371,253
Netherlands	29,708,601	5,524,862	35,233,463
Greece	53,167,992	9,031,620	62,199,612
Cameroon	8,343,865	2,594,254	10,938,119
Congo-Brazzaville	9,163,398	–	9,163,398
Ivory Coast	1,886,481	8,982,729	10,869,210
Gaboon	829,443	2,330,000	3,159,443
Upper Volta	–	450,000	450,000
Mauritania	11,118,907	–	11,118,907
Senegal	2,394,510	–	2,394,510
New Caledonia	2,025,000	–	2,025,000
	1,058,841,753	334,124,719	1,392,966,472

The breakdown of effective loans according to the principal guarantee covering them shows that, of the total amount of 1,392,966,472 u.a., loans granted to the member countries or benefiting from their guarantee amount to 1,036,155,226 u.a.; the loans granted to public institutions of member countries or guaranteed by these institutions amount to 169,073,335 u.a.; the loans assisted by the guarantee of associated countries amount to 27,811,281 u.a., the balance of 159,926,630 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.

– *Loans on mandate guaranteed by the Bank*

Under this heading appear, for the first time, the loans guaranteed by the Bank granted in 1970 on mandate from and for account of German credit institutions, the contracts of which were signed by 31st December, 1970.

The overall amount of 56,010,929 u.a. appears as a contra item in the liabilities under the heading “Creditors for loans on mandate guaranteed by the Bank”.

The breakdown of these loans by country is as follows :

<i>Country</i>	<i>Amount disbursed</i>	<i>Amount undisbursed</i>	<i>Total</i>
France	2,732,240	–	2,732,240
Italy	46,448,088	6,830,601	53,278,689
	<hr/>	<hr/>	<hr/>
	49,180,328	6,830,601	56,010,929

Real estate, furniture and equipment

On the real estate acquisitions effected in 1970, a depreciation of 110,000 u.a. has been made, thus leaving a balance of 300,000 u.a. in the balance sheet.

The furniture and equipment purchased in 1970, amounting to 83,702 u.a. net, have been fully amortized.

Unamortized redemption premiums

The amount of 4,028,274 u.a. represents the part not yet amortized of the redemption premiums due on bonds issued by the Bank. The amortizations are effected annually, over the entire life of the bonds.

Special deposits for service of loans

This item, which appears as a contra item in the liabilities under the heading “Matured coupons and bonds – not yet paid”, represents the amount of coupons and bonds due but not yet presented for collection. It amounts to 10,379,706 u.a.

Capital

The subscribed capital amounts to 1,000,000,000 u.a., of which 250,000,000 u.a. paid up and 750,000,000 u.a. not called.

Statutory reserve

The statutory reserve of 51,255,655 u.a., at the beginning of the financial year, was increased to 57,261,781 u.a. by the appropriation to this reserve of the balance of the profit and loss account.

Provisions

The provision for risks on loans and guarantees, which amounted to 47,000,000 u.a. at the end of the previous financial year, has been increased to 56,000,000 u.a.

The provision for monetary risks, which amounted to 5,000,000 u.a. at the end of the previous financial year, has remained unchanged.

The provision for equalization of interest on borrowings and for issuing charges, which amounted to 6,000,000 u.a. at the end of the previous financial year, was increased to 9,000,000 u.a.

A new provision for building is intended to make it possible to meet the charges foreseen for the construction of the Bank's new building. It amounts to 2,000,000 u.a.

The overall amount of the provisions thus reaches 72,000,000 u.a., as against 58,000,000 u.a. at the end of the previous financial year.

Staff pension fund

The amount entered under this heading amounts to 2,138,372 u.a., against 1,734,362 u.a. on 31st December, 1969.

Owing to member countries for adjustment of capital

The debts entered under this heading, amounting to 2,274,270 u.a., against 3,334,868 u.a. at the end of the previous financial year, represent the sums yet to be paid to the Federal Republic of Germany and to the Netherlands as a result of the revaluation of the Deutsche Mark and the florin.

Borrowings

The amount of 1,019,975,572 u.a. entered under this heading represents the borrowings contracted by the Bank and effective on 31st December, 1970, as well as the redemption premiums relating thereto.

Details of the current debt are given below :

I. BONDS AND NOTES

	<i>In national currency</i>	<i>In u.a.</i>	<i>Final maturity</i>	<i>Terms and conditions of redemption</i>
<i>Deutsche Mark</i> (million)				
5 1/2% bonds 1964	80.0	21,857,924	1974	at final maturity.
5-5 1/4% bonds 1964 (notes)	8.5	2,322,404	1971	at final maturity.
6 1/2% bonds 1967	20.0	5,464,481	1977	at final maturity.
6 1/2% bonds 1968	100.0	27,322,404	1978	at final maturity.
6% bonds 1969	120.0	32,786,886	1984	in 10 equal annual instalments 1975-1984.
7% bonds 1969	100.0	27,322,404	1984	in 10 equal annual instalments 1975-1984.
8% bonds 1970	100.0	27,322,404	1980	at final maturity.
DM	528.5	144,398,907		
<i>French francs</i> (million)				
5% bonds 1963	45.0	8,101,991	1983	1/3 of the nominal amount of each bond at the end of the 10th, 15th and 20th years.
6 1/4% bonds 1966	160.0	28,807,081	1981	in 4 equal triennial instalments 1972-1981 with increasing redemption premium.
6 1/4% bonds 1967	166.7	30,007,436	1985	in 5 practically equal triennial instalments 1973-1985 with increasing redemption premium.
8 1/2% bonds 1970	111.0	19,984,912	1988	in 18 constant annual instalments * 1971-1988 (R1).
FF	482.7	86,901,420		
<i>Italian lire</i> (milliard)				
5% bonds 1962	15.0	24,000,000	1977	at final maturity.
6% bonds 1965	13.905	22,248,000	1985	in 15 constant annual instalments * 1971-1985.
6% bonds 1966	14.5	23,200,000	1986	in 16 constant annual instalments * 1971-1986.
6% bonds 1966	15.0	24,000,000	1986	in 15 equal annual instalments 1972-1986.
6% bonds 1967	15.0	24,000,000	1987	in 17 constant annual instalments * 1971-1987.
6% bonds 1968	15.0	24,000,000	1988	in 17 constant annual instalments * 1972-1988 (R2).
Lit.	88.405	141,448,000		
<i>Belgian francs</i> (million)				
6% bonds 1963	376.0	7,520,000	1987	in 17 constant annual instalments * 1971-1987.
6 1/2% bonds 1965	412.0	8,240,000	1977	in 7 constant annual instalments * 1971-1977 (R2).
7% bonds 1966	500.0	10,000,000	1978	in 6 annual instalments of BF 30.0 million 1972-1977 (R2) and 1 instalment of BF 320.0 million in 1978.
7% bonds 1967	750.0	15,000,000	1982	in 5 annual instalments of BF 22.5 million 1973-1977 (R2), 4 annual instalments of BF 37.5 million 1978-1981 and 1 instalment of BF 487.5 million at final maturity.
6 3/4% bonds 1968	750.0	15,000,000	1982	in 8 annual instalments of BF 37.5 million 1974-1981 (R2) and 1 instalment of BF 450.0 million 1982.
8 1/2% bonds 1970	750.0	15,000,000	1982	in 8 annual instalments of BF 30.0 million 1974-1981 (R2) and 1 instalment of BF 510.0 million 1982.
BF	3,538.0	70,760,000		
<i>Dutch florins</i> (million)				
4 1/2% bonds 1961	36.6	10,110,497	1981	in 11 practically equal annual instalments 1971-1981.
4 3/4% bonds 1962	30.0	8,287,293	1982	in 10 equal annual instalments 1973-1982.
5 3/4% bonds 1964	30.0	8,287,293	1984	in 10 equal annual instalments 1975-1984.
5 3/4% bonds 1965	40.0	11,049,724	1990	in 15 practically equal annual instalments 1976-1990.
6 3/4% bonds 1968	40.0	11,049,724	1988	in 10 equal annual instalments 1979-1988.
8 1/4% bonds 1970 (notes)	60.0	16,574,585	1975	at final maturity.
Fl.	236.6	65,359,116		

* In capital and interest.

(R1) = 50% of the bonds for redemption may be purchased at prices not exceeding par.

(R2) = the bonds for redemption may be purchased at prices not exceeding par.

	<i>In national currency</i>	<i>In u.a.</i>	<i>Final maturity</i>	<i>Terms and conditions of redemption</i>
<i>US dollars</i> (million)				
5 1/2% bonds 1964	23.3	23,333,000	1984	in 14 practically equal annual instalments 1971-1984 (R ³).
6% bonds 1965	20.0	20,000,000	1985	in 15 practically equal annual instalments 1971-1985 (R ³).
6 1/2% bonds 1966	20.0	20,000,000	1976	in 6 increasing annual instalments 1971-1976 (R ³).
6 1/2% bonds 1966	15.0	15,000,000	1986	in 15 equal annual instalments 1972-1986 (R ³).
6 1/2% bonds 1967	25.0	25,000,000	1982	in 5 annual instalments of \$ 1.25 million 1973-1977 (R ³) and 5 annual instalments of \$ 3.75 million 1978-1982.
6 1/2% bonds 1967	25.0	25,000,000	1987	in 15 practically equal annual instalments 1973-1987 (R ³).
6% bonds 1967	20.0	20,000,000	1972	at final maturity.
6 1/2% bonds 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 (R ³).
6 3/4% bonds 1968	25.0	25,000,000	1980	in 8 equal annual instalments of \$ 1.0 million 1971-1978 and 2 equal annual instalments of \$ 8.5 million 1979-1980 (R ³).
7 1/2% bonds 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 (R ³).
Floating rate : bonds 1970	15.0	15,000,000	1975	at final maturity.
	15.0	15,000,000	1976	at final maturity.
8 3/4% bonds 1970	30.0	30,000,000	1975	at final maturity.
8 3/4% bonds 1970	30.0	30,000,000	1986	in 8 annual instalments of \$ 1.5 million 1974-1981 and 5 annual instalments of \$ 3.6 million 1982-1986 (R ³).
	<u>\$ 313.3</u>	<u>313,333,000</u>		
Total bonds and notes		<u>822,200,443</u>		(R ³) = the bonds repurchased may be set off against the nominal amount of the bonds to be redeemed contractually.

II. OTHER MEDIUM- AND LONG-TERM BORROWINGS

<i>Deutsche Mark</i> (million)				
6 1/2% private loan 1968	100.0	27,322,404	1980	in 10 equal instalments 1971-1980.
6 1/4% private loan 1968	50.0	13,661,202	1974	at final 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 final maturity.
6 1/4% private loan 1968	25.0	6,830,601	1984	in 6 annual instalments of DM 2.0 million 1973-1978, 1 instalment of DM 3.0 million 1979 and 5 instalments of DM 2.0 million 1980-1984.
6 1/2% private loan 1968	100.0	27,322,404	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	8,196,722	1984	in 10 equal annual instalments 1975-1984.
6 1/2% private loan 1969	20.0	5,464,482	1984	in 10 equal annual instalments 1975-1984.
6 1/2% private loan 1969	100.0	27,322,404	1981	in 10 equal annual instalments 1972-1981.
7% private loan 1969	50.0	13,661,202	1984	in 10 equal annual instalments 1975-1984.
	<u>DM 700.0</u>	<u>191,256,830</u>		
<i>Luxembourg francs</i> (million)				
5% bank credit 1964	30.6	612,811	1974	in 4 constant annual instalments 1971-1974.
Total other medium- and long-term borrowings		<u>191,869,641</u>		

III. REDEMPTION PREMIUMS

	<i>In national currency</i>	<i>In u.a.</i>	<i>Final maturity</i>
<i>French francs</i>	<i>(million)</i>		
6 1/4% bonds 1966	12.8	2,304,567	1981
6 1/4% bonds 1967	20.0	3,600,921	1985
	<u>FF 32.8</u>	<u>5,905,488</u>	
Grand total		1,019,975,572	

The evolution of the Bank's consolidated debt, broken down by currencies, was as follows in the course of the financial year (in units of account) :

	<i>Effective debt on 31st Decem- ber, 1969</i>	<i>Operations of the financial year</i>		<i>Effective debt on 31st Decem- ber, 1970</i>
		<i>Borrowings</i>	<i>Redemptions</i>	
DM	326,994,535	27,322,404	18,661,202	335,655,737
FF	72,917,923	19,984,912	6,001,415	86,901,420
Lit.	143,150,400	—	1,702,400	141,448,000
BF	56,926,000	15,000,000	1,166,000	70,760,000
Fl.	49,709,945	16,574,585	925,414	65,359,116
Flux	748,219	—	135,408	612,811
US \$	226,250,000	90,000,000	2,917,000	313,333,000
Total	876,697,022	168,881,901	31,508,839	1,014,070,084
Redemption premium	5,905,488	—	—	5,905,488
	882,602,510	168,881,901	31,508,839	1,019,975,572

Miscellaneous

The amount of 5,815,563 u.a. entered under this heading includes sundry expenditure undisbursed at the close of the financial year and other administrative charges incurred or foreseen, for deferred settlement, as well as sundry creditors.

* * *

The result of the Bank's activity emerges from the Profit and Loss Account appended hereto, the main items of which are commented on below.

Administrative expenses and charges

The administrative expenses and charges amounted to 4,660,394 u.a., as against 3,764,630 for the previous year.

They are made up as follows :

– Staff expenses	u.a.	3,302,135
– Overhead expenses and provisions for other possible charges	u.a.	1,358,259

The increase in staff expenses, i.e., 733,352 u.a., is mainly due to the adaptation of salaries in 1970 in relation with the trend in the cost of living during the previous year, as well as to staff expansion.

On 31st December, 1970, the staff of the Bank totalled 194 persons, 126 of whom were employed in the translation, administrative, equipment and maintenance services.

Interest and charges on borrowings

The amount of 62,834,868 u.a. represents interest and commission on borrowings and other debit interest, as well as issue charges incurred in the course of the year, amounting to 3,746,628 u.a.

Financial charges

The amount of 805,644 u.a., entered under this heading, is explained almost entirely by losses resulting from valuation of the investments.

Interest and commission from loans

This item amounts to 62,936,153 u.a., against 48,172,338 u.a. for the previous financial year. The increase is in correlation with the growth of the amounts paid on effective loans.

Interest and commission from investments

The income derived from investments of liquidities amounts to 23,382,700 u.a., against 24,078,209 u.a. for the previous year.

Management commissions

This item, amounting to 1,069,940 u.a., represents the remuneration for the management of loans for the account of and on mandate from member countries and the E.E.C.

Exchange differences

The increase in this item by comparison with the previous year is explained by the profits resulting from the service of loans in respect of which the Bank can opt among the currencies of member countries, after the changes in parities of the Deutsche Mark and the French franc in 1969.

Financial proceeds and other receipts

The amount of 750,394 u.a. is explained almost entirely by the profit resulting from valuation of the investments and other income from securities.

* * *

SPECIAL SECTION

The situation of the Special Section, simplified in its presentation this year, appears on page 126 of the present report.

The amount of 211,871,800 u.a. represents the overall amount of the loans signed by the Bank in the framework of the Special Section on 31st December, 1970, viz. :

- | | | |
|---|------|-------------|
| a) for the financing of projects located in Turkey for the account of and on mandate from the member countries | u.a. | 164,670,815 |
| b) for the financing of projects in the Associated African States and Madagascar and in the Overseas Countries and Territories (A.A.S.M.-O.C.T.) for the account of and on mandate from the European Economic Community | u.a. | 47,200,985 |

Of these amounts, the funds disbursed amount respectively to 120,127,904 u.a. and 13,117,105 u.a.

IV

ADMINISTRATION OF THE BANK

As the terms of office of the President, Mr. PARIDE FORMENTINI, and the Vice Presidents, Messrs. YVES LE PORTZ and ULRICH MEYER-CORDING, expired at the Annual Meeting in 1970, the Board of Governors proceeded to the renewal of the Management Committee of the Bank for a period of six years.

On a proposal from the Board of Directors, the title of Honorary President was conferred on Mr. PARIDE FORMENTINI, who did not request the renewal of his term of office.

Mr. YVES LE PORTZ, Vice President, was appointed President of the Bank.

The term of office of Mr. ULRICH MEYER-CORDING, Vice President, was renewed. Mr. SJOERD BOOMSTRA, Director of External Finance at the Netherlands Ministry of Finance and Director of the Bank since its origin, was appointed Vice President.

On 15th October, 1970, the Representatives of the Governments of the member countries signed a treaty amending Article 13, paragraph 1, of the Protocol on the Statute of the Bank, so as to create a third post of vice president. The Board of Governors decided to appoint Mr. LUCA ROSANIA, Direttore Centrale of the Bank of Italy, to this post.

It is our pleasant task to record here the expressions of sincere gratitude which the Board of Governors and the Board of Directors conveyed to the President, Mr. PARIDE FORMENTINI, for the eminent part he played in the leadership of the Bank for nearly twelve years, after an extremely fruitful career.

Mr. KARL BERNARD, who had been chairman of the Audit Committee, resigned at the 1970 Annual Meeting. The Board of Governors appointed Mr. HANS-GEORG DAHLGRÜN, former President of the Landeszentralbank in Rhineland-Palatinate, to replace him as member of the Audit Committee.

Some modifications occurred in the composition of the Board of Directors as the result of changes in the situations of several of its members.

Messrs. HANS RANNO, LUDOVICO NUVOLONI, OTTO WILLEM VOS, WILHELM HANEMANN, PIERRE ESTEVA and JEAN-PIERRE METTAS have resigned.

The Board of Governors appointed as directors : Messrs. HANS-HERBERT WEBER, GASTONE MICONI, ANTHONY J. A. LOOIJEN and WALDEMAR MÜLLER-ENDERS, Alternate of Mr. Müller-Armack, Mr. PAUL GAUDY, Alternate of Mr. Denucé, ANTOINE DUPONT-FAUVILLE, Alternate of Mr. Pérouse.

We thank Messrs. KARL BERNARD, HANS RANNO, LUDOVICO NUVOLONI, OTTO WILLEM VOS, WILHELM HANEMANN, PIERRE ESTEVA and JEAN-PIERRE METTAS for their valuable participation in the work of the Bank in the exercise of their functions.

The Board of Directors was deeply stricken by the loss of Mr. STEFANO SIGLIANTI, Director, who deceased on 5th April, 1971 : President of the Istituto Mobiliare Italiano and President of the Associazione Bancaria Italiana, he had contributed to the Bank, from its very origin, his vast knowledge and great competence.

The Bank mourned the loss of its Honorary Vice President, Mr. HANS-KARL VON MANGOLDT-REIBOLDT, who died on 2nd February, 1971. At the time of the creation of the Bank and during the first six years of its activity, from 1958 to 1964, Mr. VON MANGOLDT-REIBOLDT placed at the service of our Institution his vast culture and long experience acquired in the important international functions which he had assumed previously.

The further expansion of the Bank's activities in 1970 was achieved with a staff of less than two hundred. The Board of Directors wishes to convey to the staff of the Bank its sincere thanks for the work devotedly performed in the course of the year.

Luxembourg, 14th May, 1971.

The Chairman of the Board of Directors,
YVES LE PORTZ.

BALANCE SHEET,
PROFIT AND LOSS ACCOUNT,
SPECIAL SECTION
AND
STATEMENT BY THE AUDIT COMMITTEE

BALANCE SHEET AT

(in units of account of

ASSETS

CASH AND BANKS		
At call or not exceeding one year	229,657,492	
Over one year	5,889,838	
		235,547,330
INVESTMENTS		
Not exceeding one year	21,576,960	
Over one year	43,006,288	
		64,583,248
RECEIVABLE ON BONDS TO BE DELIVERED		44,250,000
RECEIVABLE FROM MEMBER COUNTRIES FOR ADJUSTMENT OF CAPITAL		1,242,474
EFFECTIVE LOANS		
Ordinary loans	1,392,966,472	
(of which, 334,124,719 u.a. undisbursed)		
Loans on mandate guaranteed by the Bank	56,010,929	
(of which, 6,830,601 u.a. undisbursed)		1,448,977,401
REAL ESTATE, FURNITURE AND EQUIPMENT		300,000
ACCRUED INTEREST AND COMMISSION		18,901,229
UNAMORTIZED REDEMPTION PREMIUMS		4,028,274
SPECIAL DEPOSITS FOR SERVICE OF LOANS		10,379,706
MISCELLANEOUS		686,730
	<i>Total : u.a.</i>	1,828,896,392

MEMORANDUM

SECURITIES RECEIVED AS GUARANTEE FOR LOANS ON
SECURITIES RECEIVED IN DEPOSIT

DECEMBER 31, 1970

0.88867088 g fine gold)

LIABILITIES

CAPITAL		
Subscribed	1,000,000,000	
Not called	750,000,000	
		250,000,000
STATUTORY RESERVE		57,261,781
PROVISIONS		
For risks on loans and guarantees	56,000,000	
For equalization of interest on borrowings and for issuing charges	9,000,000	
For monetary risks	5,000,000	
For building	2,000,000	
		72,000,000
STAFF PENSION FUND		2,138,372
OWING TO MEMBER COUNTRIES FOR ADJUSTMENT OF CAPITAL		2,274,270
BORROWINGS		
(of which 15,694,703 u.a. due within one year)		
Bonds and notes	822,200,443	
Other medium- and long-term borrowings	191,869,641	
	1,014,070,084	
Redemption premiums on bonds	5,905,488	
		1,019,975,572
CREDITORS FOR LOANS ON MANDATE GUARANTEED BY THE BANK (of which 6,830,601 u.a. undisbursed).		56,010,929
UNDISBURSED BALANCE OF ORDINARY LOANS		334,124,719
ACCRUED INTEREST AND COMMISSION AND INTEREST RECEIVED IN ADVANCE		18,915,480
MATURED COUPONS AND BONDS – NOT YET PAID		10,379,706
MISCELLANEOUS		5,815,563
	<i>Total : u.a.</i>	<u>1,828,896,392</u>

ACCOUNTS

MANDATE	u.a.	16,393,443
.	u.a.	35,000,000

PROFIT AND LOSS ACCOUNT FOR THE

(in units of account of

DEBIT

ADMINISTRATIVE EXPENSES AND CHARGES	4,660,394
INTEREST AND CHARGES ON BORROWINGS	62,834,868
FINANCIAL CHARGES	805,644
AMORTIZATIONS	
On real estate	110,000
On net purchases of furniture and equipment	83,702
	193,702
PROVISION FOR RISKS ON LOANS AND GUARANTEES	9,000,000
PROVISION FOR EQUALIZATION OF INTEREST AND FOR ISSUE CHARGES . .	3,000,000
PROVISION FOR BUILDING	2,000,000
BALANCE APPROPRIATED TO THE STATUTORY RESERVE	6,006,126
<i>Total : u.a.</i>	88,500,734

FINANCIAL YEAR ENDED DECEMBER 31, 1970

0.88867088 g fine gold)

CREDIT

INTEREST AND COMMISSION FROM LOANS.	62,936,153
INTEREST AND COMMISSION FROM INVESTMENTS.	23,382,700
MANAGEMENT COMMISSIONS.	1,069,940
EXCHANGE DIFFERENCES	361,547
FINANCIAL PROCEEDS AND OTHER RECEIPTS	750,394
<i>Total : u.a.</i>	<u>88,500,734</u>

**SPECIAL
STATEMENT OF CONDITION**

(in units of account o

ASSETS

	TUR
Loans	120,127,904
Undisbursed loans	44,542,911
Total	164,670,815

ASSOCIATED AFRICAN AND MALAGASY STATES

Loans	13,117,105
Undisbursed loans	34,083,880
Total	47,200,985

	SUM
Loans	133,245,009
Undisbursed loans	78,626,791
<i>Grand total : u.a.</i>	211,871,800

SECTION

AT DECEMBER 31, 1970

(1,888,670,888 g fine gold)

LIABILITIES

KEY

MEMBER COUNTRIES

– Funds in trust management	120,127,904
– Undisbursed funds	44,542,911
Total	<u>164,670,815</u>

AND OVERSEAS COUNTRIES AND TERRITORIES

EUROPEAN ECONOMIC COMMUNITY

– Funds in trust management.	13,117,105
– Undisbursed funds	34,083,880
Total	<u>47,200,985</u>

MARY

Funds in trust management	133,245,009
Undisbursed funds	78,626,791
<i>Grand total : u.a.</i>	<u>211,871,800</u>

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,

- having examined the books, accounting vouchers and documents which it deemed necessary in the exercise of its task,
- having examined the reports drawn up by Messrs. Price Waterhouse & Co., the conclusions of which are given hereinafter,

Considering the 1970 Annual Report as well as the balance sheet of the Bank as at 31st December, 1970, 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 14th May, 1971,

Considering Articles 22, 23 and 24 of the Rules of Procedure,

hereby certifies :

that the Bank's operations during the 1970 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, 25th May, 1971.

The Audit Committee,

E. RAUS R. LÉONARD H.G. DAHLGRÜN

REPORT OF MESSRS. PRICE WATERHOUSE & Co.

The President,
EUROPEAN INVESTMENT BANK
LUXEMBOURG

Rue Ravenstein 60
B - 1000 Brussels

We have examined the balance sheet of the European Investment Bank at December 31, 1970, and its profit and loss account for 1970. 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, notes and bonds at their cost, possibly limited to the nominal value or the stock market value : 46,202,397 u.a., (b) the Bank's own bonds at their repurchase value : 3,441,858 u.a., (c) bank bills at their nominal value : 6,250,000 u.a. and (d), for the first time this year, gold assets : 8,688,993 u.a., at their statutory value.

In our opinion, the balance sheet and the profit and loss account attached hereto, supplemented by the information contained in the preceding paragraph, give a true and fair view of the financial situation of the European Investment Bank at December 31, 1970, 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 22, 1971.

PRICE WATERHOUSE & Co.

