

# Information

European  
Investment  
Bank



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## EIB financing operations in 1978 totalled 2 188.3 million u.a.

An increase in financing operations to a total of 2 188.3 million units of account (u.a.) is shown in the European Investment Bank's preliminary figures for 1978.

This is 39.2% up on the 1 571.5 million u.a. provided in 1977 and confirms the continued growth in the Bank's annual lending, which has more than doubled since 1975.

Loans for projects in Community Member Countries amounted last year to 1 966.5 million u.a., up 40.3% on the total lent in 1977 (1 401.3 million).

In line with the principal task given to the EIB under the Treaty of Rome, almost three-quarters — 1 457.6 million u.a., an increase of over 50% on the amount the previous year — went to investment in regions which are economically less developed or confronted with industrial conversion problems.

These loans — strongly concentrated in areas of high unemployment and low income levels — were made for a variety of industrial projects, water supply, sewerage and irrigation schemes, telecommunications, transport improvements and for electricity and gas supply projects. Southern Italy benefited the most, with almost half the total amount lent for regional development, but finance was also extended for many projects in other regions, principally Northern England, Scotland, Wales, the North, East and West of France and in Ireland.

At the same time, lending for projects of common interest to several Member Countries or the Community as whole, the Bank's other priority role under the Treaty of Rome, rose by more than a third to 662.0 million u.a. \* (493.8 million in 1977).

Funds were provided for several important transport schemes, improving links between Member Countries, but most went to a range of energy projects which will help to reduce the Community's dependence upon oil imports (they should lead to replacing an estimated 15 million tons per year, roughly equivalent to 3.5% of present imports).

Development finance provided in countries which have association or cooperation agreements with the Community rose last year by over 30% to 221.8 million u.a. (170.2 million u.a. in 1977).

More than half of this sum went to investment in African, Caribbean and Pacific countries which are signatories to the Lomé Convention. Loans were also made in Portugal, Greece and Turkey, Yugoslavia and, for the first time, in the Lebanon.

### Almost 2 000 million u.a. raised on the markets

To finance its lending activities, the EIB stepped up its borrowings in 1978 to a total of 1 949.7 million u.a., raised (mostly through public or private issues) on the international market and on certain national markets, both within and outside the Community; this is nearly 68% more than the 1 161.5 million u.a. raised the previous year.

\* A number of loans (totalling 153.1 million u.a.) went to projects serving both regional development and a common interest; they are included under both headings.

# BEI-EIB

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## Action to stimulate investment and employment

The EIB's lending in the Community last year was more than 80% above the level of operations in 1976. Well over a third of all the finance the Bank has provided for investment in Member Countries, since its creation in 1958, has been made available during the last two years alone. This shows the Bank's efforts to respond to the call made by the European Council (Community Heads of State or Government), in March 1977, for the Community to mobilise greater financial resources to combat unemployment, generally sluggish investment and insufficient convergence of national economic performances.

The Bank's work last year was aimed at bolstering resources available for major investment in energy and other infrastructure of key importance in stimulating greater economic activity, while seeking at the same time to give firm support to industrial investment.

The impact on employment made by the projects which the Bank helped to finance can be seen essentially in three ways:

— jobs equivalent to some 620 000 man-years of work, involved in construction, plus the supply of necessary services and materials;

— the creation of an estimated 11 000 permanent jobs plus the safeguarding of 10 000 more, mainly in the industrial projects financed by the Bank;

— the long term effects of most infrastructure projects — concerning energy, communications and water supplies, for example — which create few permanent jobs directly but which are of fundamental importance if conditions for economic growth are to be improved.

The increase in the EIB's activities was given firm backing by the Member States in June last year when they decided to double the Bank's subscribed capital to 7 087.5 million u.a.

## Main sectors

Over a third of all EIB loans in the Community in 1978 — 721.3 million u.a., up more than 90% on the previous year (379.4 million) — went to **energy** projects; 540.9 million u.a. concerned electricity production and transmission and 180.4 million u.a.

the development of European oil and gas resources plus pipelines and storage installations.

**Communications** improvements accounted for loans totalling 625.6 million u.a. (more than double the previous year's figure, 310 million u.a.); of this, telecommunications attracted 305.2 million u.a., 185.1 million went for road links, 63.9 million to sea transport, 55.3 million for railway development and 16.1 million for air transport.

As in 1977, the Bank lent a substantial sum for **water supply, sewerage and irrigation** schemes (357 million u.a. against 285.7 million).

Lending to **industry** came to 262.6 million u.a. against 426.2 million u.a. in 1977. Demand for loans was low, with the difficult economic climate leading many firms to hold back investment. Some major public enterprises which borrowed large sums in previous years were not borrowers in 1978. An encouraging feature, however, was the amount provided in the form of global loans to intermediary financial institutions which on-lend the funds for **small and medium-sized ventures**; this reached 99.9 million u.a. against 91.3 million in 1977.

During 1978 credit provided from these global loans, and from others granted previously, totalled 72.2 million u.a. and helped to finance 155 ventures (in 1977 credit worth 57.8 million u.a. went to 133 ventures). As these smaller projects tend to be labour-intensive, creating many jobs in relation to the scale of investment, they are all the more important in the present circumstances.

## Country by country

In **Italy** EIB lending practically doubled last year to reach 845.1 million u.a. (Lit. 908 700 million), equivalent to 43% of all operations within the Community; over four-fifths went to investment in the Mezzogiorno.

Energy projects accounted for a total of 328.7 million u.a. Loans were made for the laying of 230 km of gasline in Calabria and Sicily (plus an underwater connection across the Messina Straits), representing the first section in Italy of the Algeria-Italy gasline; acquisition of various high technology equipment to be used for laying this and other pipelines; development of five small

gas and oil fields in the Ionian and Adriatic seas; conversion of depleted gas fields into storage reservoirs (Lombardy and Emilia Romagna) plus interconnecting gaslines. The Bank also helped to finance construction of geothermal power stations in Tuscany; erection of 4 500 km of transmission lines in Sicily, Campania and Apulia; construction of part of the nuclear power station at Montalto di Castro (Latium) and a thermal peak load generating unit in Campania.

A total of 252.7 million u.a. went to industrial zone development, water supplies and irrigation in the South. The projects concerned port works at Cagliari (Sardinia); irrigation of areas near Cagliari and also certain inland zones; transport, sewerage and water recycling facilities in the Augusta-Priolo-Syracuse (Sicily) industrial areas; water supplies to industrial areas of Naples and Caserta (Campania); development and extension of industrial estates at Avellino (Campania), Catania (Sicily) and Taranto (Apulia); road access, water supplies and drainage at the Gela and Ragusa industrial zones (Sicily) and irrigation in Calabria. Loans totalling 121.4 million u.a. were made for telecommunications improvements in Sardinia, the Abruzzi, Molise and Latium.

A total of 128.2 million u.a. was lent for investment in industry. This went towards small and medium scale ventures in the South (via a global loan to ISVEIMER - Istituto per lo Sviluppo Economico dell'Italia Meridionale); restructuring and expansion of car assembly plants at Casino (Latium) and Termini Imerese (Sicily); modernising tubes production at steelworks in Dalmine (Lombardy) and energy-saving equipment at steelworks near Milan; expansion and modernisation of factories in Florence and Massa (Tuscany), Talamona and Brescia (Lombardy) which produce high technology equipment for various branches of the energy industry; construction of a pharmaceuticals factory and expansion of a car batteries factory, both in the Abruzzi, plus expansion of a colour TV tubes factory (Latium). In addition a global loan of 14.1 million u.a. was provided to the Cassa per il Mezzogiorno to finance modernisation of stock farming.

In the **United Kingdom** lending came to 430.7 million u.a. (£ 286.3 million), about 22% of all operations within the Community.

Water supply and sewerage schemes, largely to meet present or projected industrial needs, attracted 174.1 million u.a. with loans provided for various works in the North-East and North-West, Yorkshire, the South-West, the Midlands, South Wales and in the Lothian and Grampian regions of Scotland.

Improved energy supplies accounted for 116.4 million u.a. with loans for construction of a pumped storage hydroelectric power station at Dinorwic, North Wales, a thermal power station at Peterhead, Aberdeenshire, the Hartlepool nuclear power station and the URENCO gas centrifuge uranium enrichment plant (embracing also German and Dutch interests) being built in Cheshire.

Finance provided for investment in industry totalled 67.4 million u.a. The majority (45 million) is for small and medium-sized ventures; the funds are being made available through a scheme whereby the regional offices of the Department of Industry in England, the Scottish Economic Planning Department, the Welsh Office Industry Department and the Department of Commerce in Northern Ireland act on the EIB's behalf and use the finance provided by the Bank to make loans for investment in assisted areas, priority going to ventures making the most impact on employment. The modernisation of a copper refinery and expansion of a fertiliser plant, both in Merseyside, and a new soft drinks production and bottling plant, in Glasgow, were also supported by the Bank.

Other loans provided during the year went towards construction of high speed diesel trains for the London-Aberdeen main line, extension of Sumburgh airport in the Shetlands (the main transit point for communications with North Sea oil and gas rigs), and also towards improvements to the telephone system in the Hull area.

In France loans totalled 359.3 million u.a. (Ffrs 2 038.4 million) of which over half (182.3 million u.a.) concerned extension and modernisation of the telecommunications networks in the Pays de la Loire and Nord-Pas de Calais.

A total of 98.1 million u.a. went to two energy projects of considerable European importance, the EURODIF uranium enrichment plant being built at Tricastin (Drôme), involving French, Italian, Belgian and other interests, and the NERSA nuclear

power station at Creys-Malville (Isère) which is developing fast breeder reactor technology, promising great economies in uranium consumption; the NERSA project is being undertaken by a company bringing together French, Italian, German, Belgian, Dutch and British interests.

Loans totalling 55.3 million u.a. were provided for construction of road links of European as well as regional importance: the Beaune-Besançon section of the A36 Beaune-Mulhouse motorway, the final link connecting the Paris-South East France motorway with the German and Swiss frontiers; the last section (La Turbie-Roquebrune) of the A8 motorway, running from Aix-en-Provence to Menton on the Italian frontier; the Fréjus road tunnel, linking France and Italy under the Alps.

Industry attracted 23.6 million u.a. with loans for modernisation of the dairy industry in Brittany, Normandy and the Pays de la Loire, and for

modernisation of steelworks in Lorraine and Nord-Pas de Calais.

Lending in Ireland rose by almost 50% to 117.4 million u.a. (£ 1r 78.5 million), in per capita terms a far higher amount than in any other Member Country.

Three global loans totalling 14.9 million u.a. were granted to the Industrial Credit Company and the Agricultural Credit Corporation for on-lending to assist small and medium-sized ventures.

To improve conditions for industrial growth a total of 95.1 million u.a. was lent for development of Cork Harbour, improved water supplies in the same area and construction of a thermal power station at Aghada (County Cork), water and sewerage works in the Dublin area, and for several important road schemes designed to improve East-West communications and links with the North. In addition, 7.4 million u.a. went towards the cost of a new car

## EIB FINANCING OPERATIONS IN 1978

Breakdown by project location

	Number	Amount (million u.a.)	% total	% Member Countries
<b>Ordinary operations</b>				
<b>Member Countries</b>				
Belgium	1	62.2	2.8	3.1
Denmark	9	106.3	4.9	5.4
Germany	3	45.5	2.1	2.3
France	9	359.3	16.4	18.3
Ireland	10	117.4	5.4	6.0
Italy	40	845.1	38.6	43.0
United Kingdom	23	430.7	19.7	21.9
<b>Total</b>	<b>95</b>	<b>1 966.5</b>	<b>89.9</b>	<b>100.0</b>
<b>Financing outside the Community</b>				
<b>Mediterranean</b>				
	6	83.0	3.8	
Greece	1	20.0	0.9	
the Lebanon	1	3.0	0.1	
Portugal	3	35.0	1.6	
Yugoslavia	1	25.0	1.2	
<b>ACP</b>	<b>12</b>	<b>90.9</b>	<b>4.1</b>	
<b>Total</b>	<b>18</b>	<b>173.9</b>	<b>7.9</b>	
<b>Ordinary operations total</b>	<b>113</b>	<b>2 140.4</b>	<b>97.8</b>	
<b>Special operations</b>				
Turkey	1	6.3	0.3	
ACP	18	41.5	1.9	
Lomé (risk capital)	15	25.3	1.2	
Yaoundé II (remaining resources)	3	16.2	0.7	
<b>Total</b>	<b>19</b>	<b>47.8</b>	<b>2.2</b>	
<b>Grand total</b>	<b>132</b>	<b>2 188.3</b>	<b>100.0</b>	

ferry which will be operated on routes between Ireland and Great Britain.

In **Denmark** lending tripled to 106.3 million u.a. (DKr 747.5 million), of which almost half — 51.4 million u.a. — went for improved communications: construction of a stretch of the South Jutland motorway between the Danish-German border and the town of Christiansfeld; acquisition of four freight and tanker vessels for Greenland's coastal and Atlantic shipping services; port development and extension of the car ferry terminal at Rønne on the Island of Bornholm.

A loan of 42.5 million u.a. went to convert a generating unit at Asnaes power station (Zealand) to enable it to burn coal instead of oil.

For investment in industry the Bank provided 12.4 million u.a., of which 7.5 million was in the form of two global loans to the State which will be used by the Regional Development Board to finance small and medium-scale ventures; other loans were for extension of a mineral wool factory, new plant at a factory producing electric motors and expansion of a dairy, all in Jutland.

In **Belgium**, 62.2 million u.a. (Bfrs 2 500 million) was lent towards construction of the third section of the DOEL nuclear power station near Antwerp. In **Germany**, loans totalled 45.5 million u.a. (DM 115.7 million). Most of this — 43.2 million u.a. — went for construction of a gas-line system running across Germany from the Czechoslovak and Austrian frontiers to the French frontier, designed to bring gas from the USSR and Iran. The Bank also helped to finance construction of a meat products factory in Saarbrücken (Saar) and extension of a pharmaceuticals factory at Cuxhaven (Lower Saxony).

### Cooperation with EURATOM

During the year two loans totalling 70.8 million u.a. were signed jointly by EURATOM — the European Atomic Energy Community and the EIB for construction of the Mülheim-Kärlich (Germany) and Montalto di Castro (Italy) nuclear power stations.

These operations were funded from resources borrowed by EURATOM on the capital markets, the Bank assuring the project-appraisal and

loan management. They are accounted for separately and not included here in the EIB's own lending figures.

### Outside the Community: the Lomé Convention countries

Last year saw steady progress in financing activities in the African, Caribbean and Pacific (ACP) countries which have signed the Lomé Convention with the Community.

This Convention, together with the Council Decision extending financial aid also to Overseas Countries and Territories (OCT) which are linked to certain Member States, provides for the EIB to lend up to 400 million u.a. from its own resources. In addition the Bank has responsibility for managing resources drawn from the Community's European Development Fund (EDF) for use as interest subsidies (100 million u.a.) and for various kinds of risk capital assistance (101 million u.a.).

In 1978 financing under the Lomé Convention and OCT Decision came to 116.2 million u.a. and the countries involved included 12 in which the EIB had not been active previously. Of the total amount, 90.9 million u.a. came from the Bank's own resources. Loans were made principally to industry, either for individual projects or via global loans to intermediary financing institutions, and for energy projects, details as follows:

— **Nigeria**: 25 million u.a. in a global loan to the Nigerian Industrial Development Bank Ltd. to finance medium-scale industrial ventures throughout the country;

— **Fiji**: 12.5 million for a hydroelectric scheme;

— **Kenya**: 12 million u.a. for a hydroelectric scheme and 0.1 million u.a. risk capital assistance for a tourism development study;

— **Swaziland**: 10 million u.a. for development of sugar cane plantations and construction of a sugar mill;

— **Papua-New Guinea**: 7 million u.a. and 1.9 million u.a. in risk capital assistance, both for construction of a palm oil mill;

— **Liberia**: 7.4 million u.a. for extension of a power station and to assist industrial and tourism ventures, via a global loan to the Liberian Bank for Development and Investment, in which the Bank also

took a 0.3 million u.a. equity participation on behalf of the Community, as a form of risk capital assistance;

— **the Sudan**: 6.5 million u.a. in risk capital assistance for construction of a cotton textile mill;

— **Tanzania**: 5 million u.a. in the form of a global loan to Tanganyika Development Finance Company Ltd.;

— **Trinidad and Tobago**: 5 million u.a. in the form of a global loan to the Trinidad and Tobago Development Finance Company Ltd.;

— **Zaire**: 4 million u.a. in risk capital assistance for construction of an oil mill;

— **Mali**: 3.6 million u.a. risk capital assistance for construction of a rice mill;

— **Guyana**: 3.2 million u.a. risk capital assistance for development of forestry resources;

— **the Congo**: 3.1 million u.a. in risk capital assistance for construction of an international class hotel;

— **Zambia**: 2.5 million u.a. in the form of a global loan to the Development Bank of Zambia plus 0.6 million in risk capital assistance for the DBZ (through an equity participation) and for a feasibility study concerning a cementworks;

— **the Caribbean region**: 3 million u.a. in the form of a global loan to the Caribbean Development Bank which will use the funds to finance investment in member countries of the Caribbean Community;

— **Niger**: 1.5 million u.a. and 0.9 million in risk capital assistance, both for modernisation of a textile mill;

— **the Seychelles**: 0.6 million u.a. in risk capital assistance to the Development Bank of Seychelles (in the form of an equity participation) to help finance small and medium-scale ventures;

— **Senegal**: 0.2 million u.a. in risk capital assistance for a technical study concerning phosphate deposits;

— **Ivory Coast**: 0.2 million u.a. in risk capital assistance for a technical study concerning manioc production.

Apart from finance under the Lomé Convention itself, three loans on special conditions totalling 16.2 million u.a., managed by the Bank as agent for the Community, were signed jointly with the Commission, drawing upon resources remaining

from the earlier Yaoundé II Convention and Decision extending financial aid to Overseas Countries and Territories:

— **Zaire:** 14 million u.a. for road construction and 1.8 million for an oil mill;

— **French Guiana:** 0.4 million u.a. for construction of a fishing wharf.

### The Mediterranean region

The year saw the beginning of a fresh expansion in EIB activities in the Mediterranean region, outside the Community.

Under development finance arrangements drawn up between the Community and 14 countries in the region, the EIB has agreed to lend up to 983 million u.a. from its own resources for investment projects and to act as agent of the Community in managing certain loans, on special conditions, financed from budgetary resources. The countries are Greece, Portugal, Turkey, Algeria, Morocco, Tunisia, Syria, Jordan, Egypt, the Lebanon, Malta, Israel and Cyprus, which have all signed Financial Protocols with the Community, most running up to October 1981. In Yugoslavia financing is provided for projects of common interest to this country and the European Community, in line with the joint declaration in Belgrade in December 1976, spelling out cooperation policy between the two.

It was only late in the year that the majority of the Protocols came into force and further complications arose concerning the legal framework needed for most lending operations to begin. Despite these delays — beyond the EIB's control — the Bank was nonetheless able to start by lending, from its own resources:

— in **Portugal:** 35 million u.a. for fertilizer production facilities at Barreiro and Alverca, equipment for production of glass fibre and base materials for plastics, also at Barreiro, and for extension of a cement-works at Souselas;

— in **Greece:** 20 million u.a. in the form of a global loan to the National Investment Bank for Industrial Development which will on-lend the proceeds to finance small and medium-scale ventures.

It can be expected that during 1979 the Bank's lending in the Mediterra-

nean region under these Protocols will move ahead at an increasing pace.

A loan of 25 million u.a. was made in **Yugoslavia** to help finance construction of parts of the Trans-Yugoslavian Highway, which will constitute the most direct route between the Community and Greece, Turkey and the Middle East. This loan used up the remainder of the 50 million u.a. which was foreseen for projects of common interest (last year 25 million went to extension of the Yugoslav power grid and connection with other European electricity systems). Under negotiations concerning further cooperation, the EIB could be asked to continue financing operations in Yugoslavia.

In **the Lebanon** 3 million u.a. was lent towards the cost of extending a power station near Beirut as part of the «exceptional aid» which the Board of Governors authorised in

November 1977 to help the Lebanon's economic recovery; the exceptional aid is in addition to financing foreseen under the Financial Protocol between the Community and the Lebanon.

In **Turkey**, a loan on special conditions of 6.3 million u.a. was made for equipment at the Dalaman paper mill in Western Anatolia; this was provided by the Bank, acting as agent for the Member States, using the final amount available under the second Community-Turkey Financial Protocol which came into force in 1973 (under this Protocol 195 million u.a. in special loans have been granted from funds provided by the original six Community Member States plus a further 25 million in loans from the EIB's own resources).

A resumption of substantial EIB activity in Turkey is foreseen as soon as ratification of the Third Protocol, signed in 1977, is completed.

## EIB FINANCING OPERATIONS IN THE COMMUNITY IN 1978

### Sectoral breakdown

	Number	Amount (million u.a.)	% total
<b>Energy, communications and other infrastructure</b>	<b>67</b>	<b>1 703.9</b>	<b>86.6</b>
Energy	27	721.3	36.7
<i>Production</i>			
Nuclear energy	6	241.1	12.3
Thermal power stations	4	128.7	6.5
Hydroelectric and pumped storage plant	1	35.7	1.8
Geothermal power stations	1	29.1	1.5
Development of oil and gas deposits	8	59.5	3.0
<i>Transmission</i>			
Power lines	3	106.3	5.4
Gaslines and oil pipelines	4	120.9	6.2
Communications	21	625.6	31.8
<i>Transport</i>			
Railways	1	55.3	2.8
Roads, bridges and tunnels	7	185.1	9.4
Shipping and inland waterways	6	63.9	3.3
Air links	1	16.1	0.8
Telecommunications	6	305.2	15.5
Water schemes	19	357.0	18.1
Agricultural development	3	74.8	3.8
Water catchment, treatment and supply	16	282.2	14.3
<b>Industry</b> (of which global loans)	<b>28</b> (8)	<b>262.6</b> (99.9)	<b>13.4</b> (5.1)
<b>Grand total</b>	<b>95</b>	<b>1 966.5</b>	<b>100.0</b>

# The international capital market in 1978\*

The gross amount of funds raised internationally in the form of publicly issued eurobonds, foreign bonds and syndicated bank credits reached a new high in 1978 with a total of 68 700 million European Units of Account (abbreviated in this article, as in publications of the European Communities, to EUA) against 51 800 million EUA in the previous year. The increase occurred in syndicated bank credits where intense competition among lenders was stimulated by the abundant liquidity deriving from the US balance of payments

deficit. In bond markets on the other hand, the weakness of the dollar from about the middle of the year onwards, accompanied by rising short-term interest rates on euro-dollar deposits, discouraged longer-term investments in that currency. The decline in new issues denominated in dollars was consequently substantial and greater than could be compensated by an increase in the volume of issues denominated in Deutschemarks, Japanese Yen and Swiss francs. (See Tables 1 and 2, p. 9).

The growth in new loans granted by international syndicates of banks from 29 800 million EUA in 1977 to 49 600 million EUA in 1978, more than half of it in the last six months of the year, is certainly impressive. Allowance should however be made for the heavier incidence of refinancing in one form or another during 1978. Some loans were repaid ahead of schedule and simultaneously refinanced on terms which during 1978 moved increasingly in favour of borrowers. These operations were negligible in 1977 but rose to no less than 4 000 million EUA during 1978, inflating the statistics of gross lending without any new money being lent. Similarly, the normal refinancing of maturing debt is thought to have increased from 8 800 million EUA in 1977 to 14 300 million last year, accentuating the growth in gross lending without representing additional new money.

A further aspect is the improvement in the balance of payments of some countries which enabled them to repay loans ahead of schedule thus eliminating debts which had been incurred in order to finance deficits in external payments. The major part of such operations was accounted for by the United Kingdom and the Kingdom of Spain for which identified prepayments amounted to some 1 400 million EUA in 1978. Taking into account these three various operations, net lending in the form of syndicated credits would be about 30 000 million EUA in 1978, still appreciably higher than the 21 000 million EUA or so recorded in the previous year.

## The bond markets

### a) Deterioration during 1978

The steep rise in the volume of new issues of fixed interest securities since 1974 suffered a check last year. New public issues of eurobonds and foreign bonds declined from 22 000 million EUA in 1977 to

19 000 million EUA in 1978. Private placings were also affected, falling from 9 300 million EUA in 1977 (of which 3 500 million EUA were eurobonds) to 7 200 million EUA in 1978. The net contraction of about 5 000 million EUA in 1978 is in the total of gross new issues and placings; if the probable increase in redemption payments were to be taken into account, the reduction in the flow of new capital would be even more marked.

The deterioration in security markets during 1978 occurred from about mid-year onwards. During the first half, issuing activity in the bond market continued at about the same pace as in the previous six-month period, but it declined sharply during the second half when the weakening of the exchange rate for the dollar not only exercised an adverse influence on activity on the New York market and the dollar sector of the international market but also disturbed in a more general way international investment flows. A further adverse influence which developed during the second half of 1978 was a reduction in foreign issues on the Japanese market which found itself obliged to meet increasing demand for finance emanating from its own national authorities.

### b) The currencies

Exchange rate developments clearly played a large role in the performance of security markets during the second half of 1978 and overshadowed the influence of interest rate differentials. One of the consequences of the heavy depreciation of the US dollar against most major currencies, particularly during the second half of 1978, which induced investors to switch into securities denominated in stronger currencies, has been a widening of the interest rate differential in favour of investments denominated in dollars. New eurodollar bond issues, for exam-

ple, which in 1977 offered yields about one and a half percentage points higher than those on Deutschemark issues, had to offer three and a quarter percentage points more in 1978. A similar widening of the yield differential occurred between dollar bond issues and foreign issues in Swiss francs.

As the chart of average yields on new bond issues indicates (p. 8), yields on issues denominated in dollars, whether made in New York or on the international market, were rising much more than those on other securities. Seven or eight-year notes issued in New York by a first class borrower in September 1978 would have had to offer 1.25% more than a year earlier and fifteen to twenty-year bonds would have had to offer about 0.8% more. Similarly on the international market a twelve-year bond issue in October 1978 by a first-class borrower would have had to offer 9.75% which was nearly 1.5% higher than on equivalent issues in October 1977. In the eyes of investors, however, the interest rate advantage in subscribing to dollar issues was evidently insufficient to compensate for expected foreign exchange losses. To the extent that investors chose to remain in dollars, the appearance of a reverse yield gap in which, for example, interest rates on short-term euro-dollar deposits rose above bond yields, attracted them to the short-term market. As a result, no public issues of straight bonds were made on the international market after October and, on the US mar-

\* An article on the international capital market during 1977 and the first half of 1978 appeared in EIB-Information No. 14 published in September 1978. The present article on the same subject matter covers the whole of 1978 thereby continuing the review of developments in this market which previously formed the third chapter in the Bank's former annual publication on Investment in the Community and its Financing.

ket the only public issues launched during the fourth quarter of 1978 on behalf of foreign borrowers were for Canadians.

An increase in new issues of floating rate notes, in which securities with a specified term to maturity are issued on the bond market in the same way as bonds with a fixed coupon but in which the interest rate is set at a specified margin above some short-term interest rate such as the six-months' London inter-bank offered rate (LIBOR in short), only partially compensated for the virtual absence during the last quarter of straight bond issues denominated in dollars. Investors remained hesitant over dollar investments even after the introduction on 1 November of measures by the US authorities to strengthen the currency, and when short-term interest rates rose sharply it was evident that the regular adjustments of interest rates on floating-rate notes would not compensate quickly enough for changes in market conditions, and floating-rate issues fell to a discount. Some resistance to new issues of floating-rate notes accordingly developed.

In total new dollar issues fell from 14 400 million EUA in 1977 to 8 600 million last year, a decline of 40% which resulted from a contraction of 44% in international bonds and note issues and of 35% in foreign issues in New York. As a result, the role of the US dollar in total bond financing was sharply curtailed from 65.5% in 1977 to 45.1% in 1978. During the fourth quarter of last year, the percentage was even lower (36.8%).

The counterpart of the reduced proportion of international and foreign issues formed by those denominated in dollars is to be found in the increased role played by the sectors denominated in Deutschmarks, Swiss francs and Yen.

The proportion of new Deutsche-mark securities in the total of new public bond issues rose from 17.5% to 22.4% between 1977 and 1978. During much of the first half of 1978, the demand for these securities was strengthened by the channelling of funds into the external Deutschemark market which followed the announcement in December 1977 of the imposition of restrictions on the inflow of foreign funds into the German domestic market. Bet-

ween mid-May and mid-June, however, new issues activity was suspended to give the market time to recover from the strain of absorbing a heavier than usual flow of new issues. The strain was aggravated by the persistence of borrowers in offering relatively low-yielding securities after the development of a more stable relationship, albeit transitory, between the Deutsche-mark and the dollar had reduced much of the former currency's revaluation potential.

During the second half of 1978, the Deutschemark sector suffered from intermittent pressures which caused yields offered on new issues to rise further. In line with developments in the German domestic market, demand for international bond issues denominated in Deutschemarks weakened in August and September but then improved for a while in October following the introduction of measures in Switzerland aimed at preventing the further appreciation of that currency which had the effect, among others, of turning investors towards Deutschemark securities. The US Government decision to raise \$ 10 000 million through issues in foreign currencies, including the Deutschemark and Swiss franc, initially gave rise to some apprehension but investors were quickly reassured as it turned

out that the Deutschemark element of the operations would be in the form of shorter-dated, 3 and 4-year notes which would be placed with German institutional investors and would not therefore compete with security issues aimed at foreign investors. The market in international Deutschemark issues recovered a little towards the end of 1978 but at a higher level of yields; as an example, 6.4% was being offered on ten-year securities issued by top-rated borrowers, against a low of about 5.3% in April and somewhat less than 6% at the end of 1977.

As was their practice in earlier years, foreign investors concentrated in 1978 on high-quality Deutschemark paper with low yields while German investors, mainly pension funds and other institutional investors, preferred higher-yielding issues made by lower-rated sovereign borrowers. The German institutional investors (who it seems are allowed to include this type of paper in their portfolios) benefited from the yields higher than those in their domestic market. A significant feature in 1978 was the increased volume of new convertible Deutschemark issues made by Japanese companies. Investors were attracted by the possibility of converting these securities into Yen-denominated shares, for which prospects of capi-

### Note

Unless otherwise stated, the statistics of bond issues in this article are those of public issues on the international market (of eurobonds) or of foreign public bond issues on national markets.

**Eurobond issues** are those which are sold through international banking syndicates, usually in more than one market including markets outside Europe; they include all issues to which special monetary clauses are attached (EUA, EURCO, ECU, SDR and other multiple currency issues).

**Foreign bond issues** are those which are sold on a single national market on behalf of non-resident borrowers by financial institutions of the country concerned. The distinction between eurobond and foreign bond issues is, however, becoming blurred.

**Syndicated credits** consist of loans granted by international banking syndicates as publicly reported; they are recorded at the time of signature and not of drawdown.

The classification of **developed and developing countries** corresponds to that used by the World Bank, i.e. developing countries are mostly those which had an income per head in 1976 of less than \$ 2 500 but they also include a number with a higher income per head such as Greece and Spain.

For the purpose of comparison, amounts in various currencies have been converted in the summary tables into the new European Unit of Account (of which the abbreviation is EUA) consisting of a basket of specific amounts of the currencies of EEC Member States. The rates applied in this article for converting the EUA into the main currencies in use on the international market are as follows:

		US \$	DM	Sfrs	Guilder (Fl)	Yen
1977	1 EUA:	1.132	2.659	2.770	2.796	311.37
1978	1 EUA:	1.261	2.564	2.287	2.765	269.00

tal appreciation were generally good, while for the borrower interest rates were lower than on the Japanese market.

The proportion which Swiss franc issues formed of the total of international and foreign bond financing rose from 6.3% in 1977 to 10.5% last year. In the early part of the year, the primary market was unsettled by the introduction of a ceiling of 35% — subsequently increased, at the beginning of October, to 50% — on subscriptions to new foreign issues on the part of non-Swiss investors. Securities floated by five international long-term financial institutions, however, including the World Bank, EIB and ECSC, were exempted from these ceilings. Capital inflows supplied abundant liquidity and interest rates fell to very low levels (and were negative for short-term deposits). Foreign borrowers taking advantage of low interest rates did not appear to be unduly perturbed by the exchange risk implied by the appre-

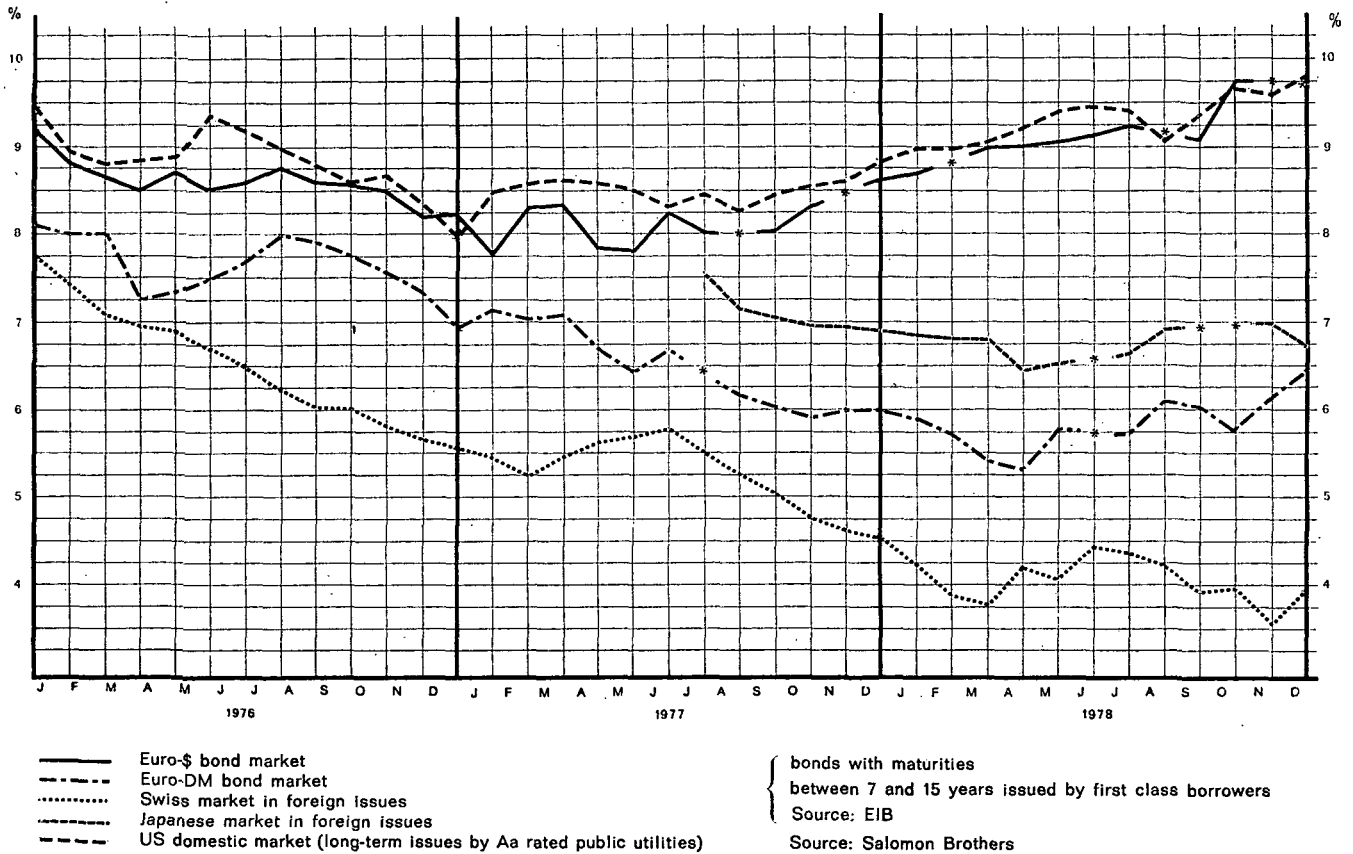
ciation potential of the Swiss franc, partly because it was felt that at least an interim limit to the appreciation was being approached. The decline in interest rates led towards an increasing number of early redemptions of existing bonds with a view to conversion into lower coupon debt.

Issues denominated in Japanese Yen accounted for 14.4% of total bond financing in 1978, against only 4.8% in the previous year. Conditions moved steadily in favour of borrowers until May 1978 largely as a result of the introduction of regulations, in November 1977 and mid-March 1978, restricting the inflow of foreign funds into the Japanese market. The latter measures included the application of a 100% reserve requirement on the increase in bank deposits held by non-residents who were also prohibited from buying Japanese securities with a maturity of less than five years and one month. This induced foreign holders of Yen to turn to bonds issued by

non-residents, the so-called «Samurai» bonds. The market suffered, however, in the second half of 1978 because the very large budget deficit for the current fiscal year necessitated heavy recourse to bond issues and the market was saturated with paper from July onwards. At about this time also, foreign investors began to assess the revaluation potential of the Yen less favourably. On the assumption that the exchange value of the currency was approaching a plateau, the enthusiasm of foreigners for holding bonds denominated in Yen waned considerably and contributed to the fall in bond prices which began in July.

There was only one Yen-denominated issue on the international market during 1978, the Yen 15 000 million (equivalent to 56 million EUA) raised by the Asian Development Bank in September. These issues are comparatively rare as only international financial institutions have so far borrowed in this sector.

### Average yields on new bond issues made in selected markets





**Table 1: Eurobond and foreign bond issues and new syndicated credits classified according to currency**

(million EUA)

CURRENCIES	Eurobonds						Foreign bonds						Syndicated credits						TOTAL					
	1977			1978			1977			1978			1977			1978			1977			1978		
	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total
US dollars	4 822	3 625	8 447	2 916	1 782	4 698	2 776	3 178	5 954	2 557	1 338	3 895	12 509	16 098	28 607	23 496	24 642	48 138	20 107	22 901	43 008	28 969	27 762	56 731
Canadian dollars	437	72	509	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	437	72	509	—	—	—
Deutschemarks	1 719	1 773	3 492	2 087	1 624	3 711	244	113	357	234	312	546	374	344	718	420	411	831	2 337	2 230	4 567	2 741	2 347	5 088
Pounds sterling	—	183	183	226	—	226	—	—	—	—	—	—	159	—	159	23	84	107	159	183	342	249	84	333
Dutch guilders	30	27	57	5	6	11	84	39	123	187	24	211	—	—	—	106	11	117	114	66	180	298	41	339
French francs	—	—	—	—	79	79	—	—	—	66	88	154	9	—	9	—	—	—	9	—	9	66	167	233
Swiss francs	—	—	—	—	—	—	640	746	1 386	1 036	964	2 000	93	—	93	—	—	—	733	746	1 479	1 036	964	2 000
Japanese Yen	32	64	96	—	56	56	103	848	951	1 624	1 060	2 684	—	—	—	—	56	56	135	912	1 047	1 624	1 172	2 796
Other currencies	230	81	311	243	286	529	24	103	127	50	186	236	114	64	178	176	201	377	368	248	616	469	673	1 142
<b>TOTAL</b>	<b>7 270</b>	<b>5 825</b>	<b>13 095</b>	<b>5 477</b>	<b>3 833</b>	<b>9 310</b>	<b>3 871</b>	<b>5 027</b>	<b>8 898</b>	<b>5 754</b>	<b>3 972</b>	<b>9 726</b>	<b>13 258</b>	<b>16 506</b>	<b>29 764</b>	<b>24 221</b>	<b>25 405</b>	<b>49 626</b>	<b>24 399</b>	<b>27 358</b>	<b>51 757</b>	<b>35 452</b>	<b>33 210</b>	<b>68 662</b>

**Table 2: Eurobond and foreign bond issues and new syndicated credits classified according to borrower**

(million EUA)

BORROWERS	Eurobonds						Foreign bonds						Syndicated credits						TOTAL					
	1977			1978			1977			1978			1977			1978			1977			1978		
	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total
I. Developed countries	6 205	4 631	10 836	4 222	2 842	7 064	2 728	3 296	6 024	4 782	2 677	7 459	5 398	3 656	9 054	9 523	9 512	19 035	14 331	11 583	25 914	18 527	15 031	33 558
Borrowers in EEC countries (inc. EEC organisations)	2 499	1 711	4 210	1 910	937	2 847	603	721	1 324	1 082	673	1 755	3 291	2 021	5 312	3 907	5 425	9 332	6 393	4 453	10 846	6 899	7 035	13 934
Other developed countries	3 706	2 920	6 626	2 312	1 905	4 217	2 125	2 575	4 700	3 700	2 004	5 704	2 107	1 635	3 742	5 616	4 087	9 703	7 938	7 130	15 068	11 628	7 996	19 624
II. Developing countries	890	1 054	1 944	1 062	837	1 899	191	571	762	503	411	914	7 084	10 632	17 716	13 092	14 225	27 317	8 165	12 257	20 422	14 657	15 473	30 130
OPEC countries	97	86	183	215	299	514	88	133	221	208	115	323	2 560	3 027	5 587	4 314	3 186	7 500	2 745	3 246	5 991	4 737	3 600	8 337
Other developing countries	793	968	1 761	847	538	1 385	103	438	541	295	296	591	4 524	7 605	12 129	8 778	11 039	19 817	5 420	9 011	14 431	9 920	11 873	21 793
III. Eastern European countries (inc. Comecon organisations)	43	38	81	24	—	24	—	—	—	—	—	—	719	1 497	2 216	1 291	1 499	2 790	762	1 535	2 297	1 315	1 499	2 814
IV. Other International org. (1)	132	102	234	169	154	323	952	1 160	2 112	469	884	1 353	—	110	110	—	119	119	1 084	1 372	2 456	638	1 157	1 795
V. Unallocated	—	—	—	—	—	—	—	—	—	—	—	—	57	611	668	315	50	365	57	611	668	315	50	365
<b>TOTAL</b>	<b>7 270</b>	<b>5 825</b>	<b>13 095</b>	<b>5 477</b>	<b>3 833</b>	<b>9 310</b>	<b>3 871</b>	<b>5 027</b>	<b>8 898</b>	<b>5 754</b>	<b>3 972</b>	<b>9 726</b>	<b>13 258</b>	<b>16 506</b>	<b>29 764</b>	<b>24 221</b>	<b>25 405</b>	<b>49 626</b>	<b>24 399</b>	<b>27 358</b>	<b>51 757</b>	<b>35 452</b>	<b>33 210</b>	<b>68 662</b>

(1) World Bank, Asian Development Bank, Inter-American Development Bank, African Development Bank, Council of Europe, Nordic Investment Bank, Eurofima.

Sources: Eurobond and foreign bond issues - EIB, new syndicated credits - OECD Financial Statistics.

Other currencies accounted for only 7.6% of new public issues of euro-bonds and foreign bonds in 1978. Securities denominated in French francs raised an equivalent of 233 million EUA, of which 154 million EUA was in the form of foreign bonds issued on the domestic market, while the remainder was raised in the euro-franc sector which was reopened with a 10-year issue by the EIB in October after nearly three years of inactivity. The euro-sterling sector weakened considerably in 1978; after nine new issues had imposed a severe strain on the market such operations were suspended from April onwards. Later in the year prices sagged in the secondary market under the influence of rising interest rates on the domestic market; the movement of funds appears to have been mostly in one direction because international issues can receive no direct investment support from British institutions. The Dutch Guilder sector weakened in the last quarter of 1978 but, taking the year as a whole, the volume of finance provided, amounting to 222 million EUA, was some 23% higher than in 1977. The 214 million EUA raised in the sector denominated in Belgian and Luxembourg francs was three times as high as that recorded in 1977. In the market in Austrian schillings a single issue was floated in December by the EIB.

Operations on the primary market denominated in Kuwaiti dinars rose substantially to the equivalent of 333 million EUA in 1978 from 107 million in 1977. A minor volume of financing was provided by bonds denominated in Bahraini dinars, Australian dollars, European Units of Account and Special Drawing Rights. The last of these sectors was tapped by the Swedish Investment Bank in the first such operation since July 1975. The European Unit of Account issues were in the unit which has been in existence since 1961 with a revision to its formula in 1973; it is not the basket unit which it is proposed to use in the European Monetary System.

### c) The borrowers

#### Countries

During 1978 developed countries remained the major borrowers against public international and foreign bond issues, raising 76.3% of the total of 19 000 million EUA, a percentage which hardly changed from that recorded in 1977. Within this general category, the percen-

tage of borrowing by countries in the European Economic Community, including EEC organisations, which accounted for a little less than one fourth of the total, was also little changed. Among borrowers in the Community, EEC institutions raised 1 722 million EUA, of which 1 302 million consisted of EIB issues (two thirds of the Bank's total borrowing of 1 950 million EUA in 1978, which also included private placings, inter-bank operations and the assignment of participations in EIB loans to third parties). Outside the EEC, the major borrowers in developed countries were Canada and Japan. As in past years, the former country secured the greater part of its financing needs in the US bond market while Japanese borrowers sought finance over a wider field, benefiting in particular from the interest shown by holders in Deutsche-marks in convertible issues by Japanese companies.

After rising sharply from 4.5% to 10.5% between 1976 and 1977, the share of non-oil-exporting developing countries in total borrowing in the form of bond issues was unchanged in 1978. Among these countries, the major borrowers were Brazil and Mexico both of which have regularly approached the international bond market for substantial amounts since 1977.

In 1978 oil-exporting countries (OPEC) as a group had the distinction of being able to increase in absolute terms the volume of bond finance they obtained which more than doubled to a total of 837 million EUA. The bulk of the increase was accounted for by Algeria and Venezuela, both of which recorded relatively large deficits in their external trade.

International organisations other than those in the European Economic Community borrowed less in 1978, reducing their share of finance from public bond issues to 8.8% from the 10.7% recorded in 1977.

#### Sectors

A large part of the end-uses of funds raised in bond markets cannot really be identified because of the dominant role played by issuers who are financial intermediaries of one sort or another, such as banks and international financial organisations on the one hand and Governments or local authorities on the other. Nearly all foreign issues of bonds on national markets are made by such borrowers and any classification according to end-use would be meaningless. On the other hand, the portion of new issues made by financial intermediaries on the international market, though still large, is smaller than among foreign issues on national markets. An attempt to classify international issues according to the sector of activity in which the funds will ostensibly be applied is made in Table 3. There is some evidence that the percentage of funds channelled into financing the «Manufacturing» sector declined quite sharply in 1978 to 11.8% from 16.9% in 1977. A comparatively large reduction was also recorded by «Transport and Communications» which secured only 4% of the total raised through international public issues in 1978 as against 6.6% in the previous year. The «Energy and mining» sector, which accounted for 14.8% of the market in 1978, maintained more or less the same percentage recorded in 1977 and that of «Commerce» remained very low at 2.6%. Because

Table 3: Eurobond issues by sector

	Percentage of total	
	1977	1978
Energy and mining	15.2	14.8
Manufacturing	16.9	11.8
Transport and communications	6.6	4.0
Commerce:		
retail trade	0.4	2.6
other	1.3	—
Leisure activities	0.2	0.6
Financial	29.8	29.2
Property	0.1	0.2
International Organisations	10.5	13.4
National Governments, provincial and local authorities	18.7	23.4
Miscellaneous	0.3	—
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

the total finance raised by means of international bond issues declined in 1978, even the maintenance of a share of the market implies a reduction in the absolute amount of funds secured. This applies particularly to the «Financial» category which again accounted for about 29% of the total. This sector, which consists largely of banks, only maintained its share of the market by heavy recourse to floating-rate issues. Non-American banks were able thereby to secure part of the funds needed for financing syndicated loans (most of which are also extended on floating-rate terms) from a less volatile source than the short-term interbank market.

The borrowing by «International Organisations» which, on the other hand, remained mostly in the form of fixed-interest securities accounted for a larger portion of funds available in the eurobond market with an increase from 10.5% to 13.4% between the last two years. The African Development Bank, the only international organisation to borrow on floating rate terms, launched a 5-year floating-rate issue in 1978. The sector of «National Governments, provincial and local authorities» was also able to increase its market share from 18.7% in 1977 to 23.4% in 1978. Bearing in mind that there are a number of official or semi-official institutions among the borrowers in the «Financial» category, it seems that official borrowers made more use of the international market during 1978 than the private sector.

## **Syndicated credits**

### **a) Currencies**

Unlike its performance on bond markets, the US dollar figured in an overwhelming 97% of credits granted by international banking syndicates. The large deficit in the US balance of payments, which widened seriously in 1977, continued in 1978, adding to world liquidity and enabling international banking syndicates to extend their business in medium and long-term loans denominated in dollars. These credits increased by nearly 20 000 million EUA to 48 100 million in 1978. Among stronger currencies, the Deutsche mark was used in only 1.7% of internationally syndicated credits, the share of the Dutch Guilder and Japanese Yen was negligible and the Swiss franc did not figure in any contract recorded during 1978.

The statistics of internationally syndicated bank credits, however, do not cover international credits granted by syndicates of banks in a single country in their own currency. Japanese banks, for example, appear to have lent during 1978 the equivalent in Yen of 1 400 million EUA, mostly at a fixed margin above the Japanese prime lending rate. A further area of uncertainty in the statistical coverage of international credits is the extent to which borrowers who have currency option clauses in their contracts exercise these options. It is conceivable that at some point a borrower might decide that the interest differential in favour of a low cost but high exchange risk currency and vice versa justified exercising his option. It seems unlikely, nevertheless, that if such additional information were available, the general picture of the dominant role played by the US currency in international credits would be significantly altered.

The persistence of high liquidity among lending banks ensured the continuation of strong competition between them. Conditions accordingly moved further in favour of borrowers who benefited from a lowering of interest margins, front-end fees and commitment fees, and from longer maturities and grace periods on new loans. At the end of 1977, the term to maturity was commonly seven years and interest rates on new loans to top-rated borrowers would have been set at margins in the range of 0.75% to 0.875% above the base rate (usually LIBOR). By the end of the first half of 1978, on the other hand, maturities on the majority of new loans had stretched to ten years and interest rate margins were reduced to within a range of 0.5% to 0.625%. At this level, margins appeared to have reached a floor for top-rated borrowers but those on loans to lower-rated borrowers from developing countries continued to decline during the second half of 1978, approaching in several cases the margins achieved by borrowers in developed countries. For example, countries with a relatively light external debt like Greece, Tunisia, Morocco and Cyprus were able to secure eight or ten-year loans at interest margins within the range of 0.625% to 1%. The narrowing of differentials in the margins which borrowers are charged has inevitably reduced one of the means of applying selectivity in lending policy.

The participation of Japanese and

European, especially German, lending banks in syndicated credits increased further in 1978 in the face of a general slackness of demand for business loans in their domestic markets. US banks, on the other hand, in accommodating stronger domestic demand were reluctant to participate in some less profitable deals concerning developed countries but remained active in lending to developing countries.

### **b) The countries of the borrowers**

It seems clear that the movement of the terms of lending in favour of borrowers elicited a strengthening demand for finance. By no means all the credits were sought for balance of payments reasons, as some seemed to represent genuine development finance.

Developing countries which are not oil exporters remained the largest group of borrowers in the sector of internationally syndicated credits. Though their share in total credits declined slightly from 41% in 1977 to 40% in 1978, these countries borrowed substantially more last year, accounting for the equivalent of 19 800 million EUA against 12 100 million in 1977. A few of these countries have had access to bond markets but, as has been the case in recent years, were able to secure a much larger amount of funds through bank credits. Brazil and Mexico alone accounted for 40% of syndicated loans obtained by non-OPEC developing countries. In general, Latin American borrowers were more active than others, with Argentina, Chile, Panama, Bolivia and Costa Rica raising a total of 2 800 million EUA. Outside Latin America, the major borrowers were the Kingdom of Spain, the Philippines, Morocco, Hong Kong, Malaysia and Yugoslavia.

New credits obtained by oil-exporting countries (OPEC) rose by 34% to 7 500 million EUA in 1978. The aggregate current account surplus in the balance of payments of this group of countries was cut sharply by two thirds in 1978 as the situation of some individual OPEC countries has clearly deteriorated. Algeria, Venezuela, Indonesia, Nigeria and Ecuador, for example, either moved from surplus into deficit or recorded higher deficits in 1978 and accordingly had to resort to the international market for balance of payments reasons, raising 5 600 million EUA through syndicated cre-

dits. Among OPEC countries which continued to record a current account surplus, only the United Arab Emirates, Iran and Iraq resorted to external borrowing on any significant scale, raising credits amounting to 1 330 million EUA in 1978 to provide external finance for national development programmes. Iran's borrowing was heavy during the first three quarters of 1978 but came practically to a standstill in the last three months of the year following the outbreak of political troubles in that country.

Lending to developed countries not only increased in amount but the percentage of the market which these countries have secured rose from 30% in 1977 to 38% last year. Canada was the major borrower, raising a substantial 4 400 million EUA in 1978, ten times more than in 1977. Sweden secured 1 450 million EUA in 1978, but more than half of this amount represented the refinancing of a loan obtained in 1977.

More finance was channelled to the United Kingdom in the form of syndicated credits in 1978 than to other countries in the European Economic Community, but nearly half of the 3 270 million EUA raised by UK borrowers consisted of the refinancing on more favourable terms of older loans to the Treasury and Shell Petroleum Ltd. In spite of the spectacular improvement in the balance of payments which showed a very large current account surplus, borrowing by Italian principals increased four times, reaching 2 375 million EUA in 1978. These funds were almost all new money which was used for financing specific projects or export credits. New syndicated credits to borrowers in France and Denmark increased by about 15% in 1978, to 1 750 million EUA and to 880 million EUA, respectively. With 262 million EUA, borrowers in Ireland took 27% less than in 1977, while those in the Netherlands, of whom there were none in 1977, raised 750 million EUA last year when the country's balance of payments on current account moved unexpectedly into deficit.

Eastern European countries, including Comecon organisations, borrowed more in nominal terms while losing ground in relative terms and accounted for only 6% of total loans. The international organisations for the most part continued to borrow on fixed-interest terms but the African Development Bank,

for the second time in the last two years, obtained a syndicated credit to which a floating-interest rate was attached.

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The year 1978 saw a number of significant changes occur from about mid-year onwards in the international capital market, which in this context may be taken to include foreign issues on national capital markets. Most of these changes were related in one way or another to the persistently heavy balance of payments deficit of the USA and the ensuing weakness of the dollar in foreign exchange markets. The proposals launched at mid-year to introduce a European Monetary System as from the beginning of 1979 added, if only temporarily, to the general air of uncertainty that pervaded capital markets in the second half of 1978.

The resilience of bond markets was not quite sufficient to meet the challenges of the year. The contraction in straight bond issues denominated in dollars was compensated neither by an increase in floating-rate issues nor by increases in the volume of issues in other European currencies. The hesitant response of bond markets to changing circumstances may be attributed very largely to uncertainty as to the future course of exchange rate relationships between the currencies in which capital issues were denominated. On the other hand, the subdued performance of foreign issues on the Japanese bond market during the second half of the year after their surge during the first half reflected changes in financial circumstances in Japan itself.

The counterpart to the afflictions of the bond markets was to be found in the development of internationally syndicated bank credits which, even allowing for a large volume of repayments of earlier borrowing, was very substantial. The procedures for organising banking syndicates, such as securing the participation of a wider circle of banks in the granting of a loan, seem to have been approaching the technique of arranging private placings. A further feature of 1978 was that the strong competition between syndicates, faced with the need to employ a growing volume of liquid funds, tended to reduce the gradation in the terms offered to borrowers of different standing. This has encouraged a wider range of borrowers to approach a market on which they may obtain finance on

relatively favourable terms but it has also placed a greater responsibility for the proper exercise of judgement on the part of banks participating in the market.

### Unit of Account

Below are the values in national currencies of the Unit of Account used by the Bank, as at 29 December 1978; these rates are applied the present quarter in preparing financial statements and operational statistics of the Bank:

DM	2.50868	Bfrs	39.6543
£	0.675274	Lfrs	39.6543
Ffrs	5.75538	Dkr	6.99113
Lit	1 140.06	£lr	0.675274
Fl	2.71453	US \$	1.37688

Statistics summarising Bank activities in terms of units of account have been based on several different conversion rates applied since 1958. This, coupled with the effects of price trends, would suggest prudence in interpreting the significance of figures which relate to operations extending over many years.

The composition and hence value of the unit of account now used by the EIB is the same as that of the European Unit of Account.

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