

European Investment Bank

Information

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Doubling of EIB's capital to 28.8 billion ECUs

The European Investment Bank's subscribed capital will be doubled from 14.4 billion ECUs to 28.8 billion. At its annual meeting on 11 June 1985, the EIB's Board of Governors ⁽¹⁾ decided to increase the subscriptions of the present 10 Members of the Community (and of the EIB) from 14.4 billion ECUs to 26.5

billion; a further 2.3 billion ECUs ⁽²⁾ will be subscribed by the two new Members, Spain and Portugal. The increase comes into effect on 1 January 1986 coinciding with the accession of Spain and Portugal (see table, pages 2 and 3, for the evolution of the Bank's capital).

As EIB President Ernst-Günther Bröder said in his address to the Board: "In the quarter-century of its existence, the European Investment Bank has been successful in building up its activity in the service of the European cause and, at the same time, in reinforcing its sound financial structure. The doubling of the capital will allow the Bank a continuous and smooth growth of its lending in an enlarged Community".

The Board of Governors, acting unanimously, has the power under the EIB's Statute (Article 4, (3) ⁽³⁾) to increase the Bank's subscribed capital. The subscribed capital sets a limit to the overall amount of the EIB's outstanding loans and guarantees, which under the Bank's Statute (Article 18, (5)) may not exceed 250% of the subscribed capital. By mid-June 1985 these stood at 32 billion ECUs within the Bank's statutory ceiling of 36 billion ECUs, based on the current subscribed capital of 14.4 billion ECUs. As from 1 January 1986, with a subscribed

capital of 28.8 billion ECUs, this ceiling will be 72 billion ECUs.

At the same time, Italy's share of the subscribed capital, at the request of the Italian Government, is being aligned with the shares of the three other larger Members of the Community in terms of GNP, Germany, France and the United Kingdom.

The part of the capital increase to be paid-in has been fixed by the Board of Governors at 7.5% (about 1 billion ECUs), to be paid-in in twelve equal semi-annual instalments, starting on 30 April 1988 ⁽⁴⁾.

The paid-in or due to be paid-in capital will then be equivalent to some 2.6 billion ECUs, 9.01% of the subscribed capital. This apparently arbitrary percentage stems from the entry of new Member States, each with a contribution to the capital of the Bank, and from the fact that of the different increases of subscribed capital decided on in the past, the proportions to be paid-in were as follows: for the original subscribed capital equivalent to 1 billion ECUs in 1958, it was fixed at 25%, then, for the increases in 1971, 1975 and 1978, it was fixed at 10% each, and for that in 1981 at 7.5%.

The new level of paid-in capital is in line with the levels set for other similar multinational development banks: World Bank 8.4%, Inter-American Development Bank 7.9%, Asian Development Bank 9.6% and African Development Bank 25%.

The unpaid portion of the EIB's capital can be called in by a simple majority decision of the Board of Directors to the extent necessary to

meet its borrowing obligations. This provision has certainly not been introduced into the Bank's Statute with the idea that it could ever become necessary to be implemented. Nevertheless, it represents an important ultimate guarantee to those who have invested and will invest in EIB bonds.

Since its establishment in 1958, with a subscribed capital equivalent to 1 billion ECUs, the Board of Governors has decided to increase the Bank's capital on five occasions to allow its level of lending to rise, with a doubling of the capital on the last two occasions, in 1978, 1981 and now again in 1986.

⁽¹⁾ The Board of Governors consists of one Government Minister from each Member State, usually the Finance Minister.

⁽²⁾ This amount is to be viewed as being composed of the contributions initially foreseen on accession of Spain (1.1 billion ECUs) and Portugal (145 million) to the present total of 14.4 billion ECUs subscribed capital. This would have brought the total of subscribed capital for the 12 Member States to 15.645 billion ECUs before the newly authorized increase, and the new level of 28.8 billion ECUs could therefore be seen as representing an 84% increase on this sum. Spain and Portugal's share of this totals some 1.05 billion (which together with their initially foreseen contribution amounts to 2.3 billion of the new level of the subscribed capital).

⁽³⁾ The Statute of the EIB is a Protocol to the EEC Treaty and forms an integral part of the Treaty (Article 239 of the Treaty). The Bank's tasks are defined in Article 130 of the Treaty.

⁽⁴⁾ This applies also to Spain and Portugal as far as the 84% increase is concerned (see footnote 2). In addition Spain and Portugal will pay in 126.7 million ECUs in five equal instalments between 1 January 1986 and 30 April 1988 representing 10.18% of the 1.245 billion ECUs which they will together contribute to the present subscribed capital to match the 14.4 billion subscribed by the existing Member States.

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**Evolution of the European Investment Bank's capital
from 1958 until the Decision of the Board of Governors of 11 June 1985 (in million ECUs)**

	Community of Six			Community of Nine			
	Initially	Decision of the Board of Governors 26 April 1971		Enlargement of the Community 1 January 1973	Decision of the Board of Governors 10 July 1975		Decision of the Board of Governors 19 June 1978
	Subscribed Capital	Subscribed Capital	%	Subscribed Capital	Subscribed Capital	Subscribed Capital	%
Germany	300.0	450.0	30.0	450.0	787.5	1 575.0	22.22
France	300.0	450.0	30.0	450.0	787.5	1 575.0	22.22
Italy	240.0	360.0	24.0	360.0	630.0	1 260.0	17.78
United Kingdom	—	—	—	450.0	787.5	1 575.0	22.22
Spain	—	—	—	—	—	—	—
Belgium	86.5	129.75	8.65	118.5	207.375	414.75	5.85
Netherlands	71.5	107.25	7.15	118.5	207.375	414.75	5.85
Denmark	—	—	—	60.0	105.0	210.0	2.96
Greece	—	—	—	—	—	—	—
Portugal	—	—	—	—	—	—	—
Ireland	—	—	—	15.0	26.25	52.5	0.74
Luxembourg	2.0	3.0	0.2	3.0	5.25	10.5	0.15
Total	1 000.0	1 500.0	100.00	2 025.0	3 543.75	7 087.5	100.00

(1) The part of the subscribed capital which is not set to be paid in is available for call by decision of the Board of Directors to such extent as may be required to meet the Bank's obligations in respect of its borrowings (Article 5 of the Bank's Statute).

In 1978, the doubling (from 3.5 billion to 7 billion ECUs) was made partly in response to the European Council's call for more intensive Community financing activities following the effects of the "oil shock", the consequent reduction in investments and the impact of recession on the European economy. The EIB's capital was again doubled in 1981 (after the accession of Greece to 14.4 billion ECUs), partly in response to a call from the European Council for concerted Community action against unemployment, for an increase in investments generally and for a greater convergence of the EEC Member countries' economies, and also in order to enable the Bank to increase its energy investments to cut the EEC's dependence on oil imports.

The Chairmanship of the Board of Governors rotates annually following the alphabetical order of Member States. Until the end of the day of the annual meeting of 11 June 1985, the Chairman was Nigel Lawson, Chancellor of the Exchequer, United Kingdom. As he was unable to attend, Mr. Lawson asked the next Chairman, Frans Grootjans, Deputy Prime Minister and Minister of Finance, Belgium, to chair the annual meeting. Mr Grootjans is Chairman of the Board of Governors until the end of the day of the 1986 annual meeting.

The Board of Governors also approved the Bank's annual report and balance sheet for 1984. Salient points of the address to the Board by EIB President Ernst-Günther Bröder follow.

"...It was clear that the world economy in 1984 was marked by a process of recovery, most especially in the United States and Japan but also with effect in the Community. Against this background the Bank pursued and intensified its operations along the guidelines that you the Governors had confirmed at the last Annual Meeting, making almost 7 billion ECUs available for the financing of investment in 1984, compared with just under 6 billion in 1983. Of this 7 billion total, 5.6 billion ECUs was from the Bank's own resources.

In the Community, lending from the Bank's own resources came to 5 013 million ECUs and that from the New Community Investment (NCI) resources to 1 182 million. This represented an increase of 18% in own-resources lending over 1983, while loans from the NCI remained more or less on a par with the previous year. Aggregate lending for investment within the Community thus amounted to almost 6.2 billion ECUs, which is nearly 60% of all Community loans and grants for investment.

In 1984, more than four-fifths of the Bank's loans went to Italy, France

and the United Kingdom. Lending decreased in varying degrees in Ireland (reflecting efforts to clamp down on public expenditure, coupled with the ending of EMS interest subsidies), Greece (the effect of the lead-time factor for new projects), Denmark (in the wake of the exceptionally high volume of loans that had previously gone into construction of the major sections of the country's natural gas grid) and Germany (where, unlike the case in 1983, the Bank provided no guarantees). Also worth mentioning is the fact that loans were again granted in Belgium and Luxembourg.

The main objective of our operations continued to be the reduction of regional disparities, a prerequisite for the more balanced development of the Community. Loans granted in pursuit of this aim from our resources totalled over 3 billion ECUs and, with the addition of NCI financing under this heading, the figure reached 3.3 billion ECUs.

These loans went first and foremost to regions with low per capita GDP and high unemployment, in particular the South of Italy, Greece and Ireland.

The Bank's contribution to the financing of investment in energy increased again to total 2.25 billion ECUs. Projects financed in 1984 will, on completion, serve to reduce the Community's dependence on imported oil by some 12 million tonnes per annum (of which 2.3 m will be achieved through projects designed to make more rational use of en-

Community of Ten				Community of Twelve		
Enlargement of the Community 1 January 1981	Decision of the Board of Governors 15 June 1981			Enlargement of the Community and Decision of the Board of Governors of 11 June 1985, to take effect from 1 January 1986		
Subscribed Capital	Subscribed Capital	Paid-in Capital ⁽¹⁾	%	Subscribed Capital	Paid-in Capital ⁽¹⁾	%
1 575.0	3 150.0	320.625	21.875	5 508.725	497.529375	19.127
1 575.0	3 150.0	320.625	21.875	5 508.725	497.529375	19.127
1 260.0	2 520.0	256.505	17.5	5 508.725	497.529375	19.127
1 575.0	3 150.0	320.625	21.875	5 508.725	497.529375	19.127
—	—	—	—	2 024.928	181.333940	7.031
414.75	829.5	84.430	5.76	1 526.980	136.742250	5.302
414.75	829.5	84.430	5.76	1 526.980	136.742250	5.302
210.0	420.0	42.750	2.925	773.154	69.236550	2.684
112.5	225.0	22.900	1.563	414.190	37.091750	1.438
—	—	—	—	266.922	23.903086	0.927
52.5	105.0	10.6875	0.729	193.288	17.309100	0.671
10.5	21.0	2.1375	0.146	38.658	3.461850	0.134
7 200.0	14 400.0	1 465.715	100.0	28 800.000	2 595.938276	100.0

ergy). Projects financed between 1977 and 1984 should help to bring petroleum imports down by the equivalent of 112 million tonnes of oil per annum (including 16.6 m t.o.e. via rational energy use), i.e. 34% of forecast Community oil imports in 1990.

There was also an increase in the total for Bank lending in support of improved transport and communications infrastructure linking the Member Countries (274 m ECUs). In all these projects contributing to the economic integration of the Community, we have made strenuous efforts to get more and more contracts placed through international competitive tendering.

Following your guidelines, the Bank keeps a close watch on the environmental effects of the projects it finances and has, in addition, widened the range of its financing for investment assisting protection of the environment.

There was a major increase last year – of 37% – in the total for lending in support of industry and other productive sectors. Loans under this heading, at 2.2 billion ECUs, came to over a third of all financing within the Community. Three quarters of EIB finance for industry – 1.6 billion in all – was made available in the form of global loans to support investment by small and medium-sized enterprises, almost half of this total being drawn from NCI resources for investment outside assisted areas. From global loans already in effect, credits were ex-

tended to more than 4 600 smaller undertakings. About 40% of the overall amount in question went to regional development areas.

There was also a pronounced increase in the individual loans the Bank grants for larger-scale industrial projects, a noteworthy case in point being 251 million ECUs for investment projects making a significant contribution to the development or deployment of advanced technology enhancing the competitiveness of Community industry. Most of the projects financed in this category concerned the computerisation of production processes, electronic components, numerical-control machines and telecommunications satellites.

Total investment in projects the Bank has part-financed in 1984 is estimated at around 19 billion ECUs, and these are expected to involve the direct creation of about 44 000 permanent jobs (including 35 000 in small and medium-sized enterprises financed via global loans). Projects concerned with modernisation helped to safeguard jobs in firms employing an overall total of about 600 000 people. The works and supplies involved in the implementation of the projects also generated considerable temporary employment either directly or indirectly. It is estimated that, by 1984, projects financed by the Bank provided a secure occupation for 500 000 to 550 000 working people.

*
* *

Financing **outside the Community** reached 708 million ECUs in 1984, or just over one tenth of all EIB financing.

The Bank provided loans totalling 220 million ECUs in Spain and Portugal as part of pre-accession financial cooperation arrangements. The funds assisted investments in small and medium-sized enterprises; further improvement of transport infrastructure and the development of indigenous energy resources.

In other Mediterranean countries, EIB financing totalled 328 million ECUs. Funds were advanced for construction of the Trans-Yugoslav Highway and the improvement and electrification of the Yugoslav railway system (126 million). In addition, 65 million was advanced in Maghreb countries, 117 million in Mashreq countries and 20 million in Israel, under current Financial Protocols.

The economic situation in the African, Caribbean and Pacific countries remains difficult, matters being made worse in many cases by adverse climatic conditions. Overall financing in ACP countries in 1984 amounted to 161 million ECUs, of which 82 million took the form of risk capital made available from EDF resources. The funds were more or less evenly spread between industrial investment, especially rehabilitation projects, and the provision of energy infrastructure and water schemes...

To finance its lending from own resources the Bank raised funds in the capital markets for a total of 4 361 million ECUs, largely by means of public bond issues (3 228 million) and long and medium-term private placings (822 million). In addition, commercial paper was issued for the first time (in the United States), enabling us to make a new departure by offering appropriate promoters variable-rate loans, as provided for under your guidelines.

The main currencies borrowed were the US dollar, the Deutsche Mark, the Guilder, the Yen, the Swiss franc, sterling and the ECU. The amount raised in ECUs came to 555 million, which was more than double the 1983 figure...

Financing from all resources in 1985 should total between 6.5 and 7.4 billion ECUs, of which 5.8 to 6.4 billion would be from own resources, although the realisation of such an outlook depends on a wide range of imponderables, in particular disturbances affecting the capital markets.

These projections are generally consistent with the forward scenario that was put before you in 1981 in connection with the last increase in the Bank's capital. The total outstanding on loans and guarantees will, in fact, be nearing the upper limit allowed under the Statute at 31 December 1985, and we are today submitting, for your approval, a proposal for a further capital increase.

The question of a capital increase leads in turn to a consideration of the medium-term prospects for the Bank, and I should like to review the

tasks that will, in coming years, devolve upon the Bank and the factors that look like being the most challenging in our activity.

In the quarter century of its existence, the European Investment Bank has been successful in building up its activity in the service of the European cause and, at the same time, in re-inforcing its sound financial structure. To preserve – and if possible enhance – its standing will always be one of the Bank's principal aims. The large-scale investment that is necessary for structural change within the Community will continue to call for a high level of financing by the Bank. At the same time there will be far-reaching economic changes so that the operational conditions surrounding the workings of the Bank will in many respects become more difficult.

There are quantitative implications; hence the proposal before you that the Bank's capital – allowing for the contributions of Spain and Portugal following the accession of those countries – be doubled, so clearing the way for a continuation of the present level of activity and some expansion of operations...

Naturally, the Bank's financing activity will continue to be concentrated in the priority sectors specified in its Statute and by the Decisions of the Board of Governors particularly as regards the demands made by fast-changing economic conditions. The following key areas seem likely to emerge:

- regional development and the economic integration of Spain and Portugal into the Community;
- the reduction of the Community's dependence on imported oil and the rational use of energy;
- sharpening the competitive edge of the Community's economy, in particular through the development and implementation of advanced technology;

— the development and improvement of major transport and communications infrastructure of common interest;

— environmental protection;

— finally, financial cooperation between the Community and the ACP and Mediterranean countries on the basis of the Third Lomé Convention and the ongoing or newly-agreed financial protocols with the Mediterranean states.

In the process, we shall find:

(a) that the financing we have to offer will have to adjust to the sharper bite of competition, without our developing into a pure commercial bank;

(b) that the Bank will have to defend its character as a long-term investment financing institution, the first function of which is to serve the balanced development of the Community. We shall have to be sure to spot shifts in economic trends and policies at the right time and to adapt our financing criteria and terms and conditions in a pragmatic way to ensure that we continue to operate efficiently and usefully.

To achieve this aim, there are qualitative and quantitative considerations to be met. Concern to identify and appraise projects properly can only have a significant economic impact, for instance, when the volume of investment financed is great enough. Conversely, with the widening of the Bank's activity, increasing importance attaches to the correct, efficient deployment of resources, if there is to be any real improvement in the circumstances of the firms, sectors, regions and countries concerned.

Finally, we shall have to take care to ensure that the organisation of the Bank and especially its staff show the objectivity, flexibility and efficiency appropriate to a banking institution facing the growing strain of international competition...

Spain and Portugal an already acquired experience for the EIB

Spain and Portugal are due to join the European Community on the 1st of January 1986.

The Treaty of Rome establishing the European Community specifies that EC Member States become automatically members of the European Investment

Bank: Spain and Portugal will, consequently, join on the same date the ten other EIB members and share the same membership terms: participation in the Bank's decision-making bodies, contribution to its capital and reserves, access to EIB finance along the criteria set for Community countries.

This does not imply, however, that Spain and Portugal represent a completely new experience for the EIB, as the Bank has already been operational in those countries for a

number of years. Its activity in Portugal started in 1975, at the outset of financial cooperation between this country and the Community: first in the framework of the Community's

exceptional emergency aid package, then of a financial protocol; and, since 1981, under a pre-accession cooperation aid agreement between Portugal and the Community. In

Spain, EIB financing dates back to 1981 and forms also part of a Community pre-accession cooperation arrangement. In broad terms, these agreements aim at paving the way to accession by helping build up the Spanish and Portuguese economies to levels closer to the Community average.

The following article reviews the loans extended so far by the EIB in Portugal and Spain in order to further policies geared to integrating their economies in the EC.

The economic policy objectives pursued by the EIB are reflected in Article 130 of the Treaty of Rome, the Bank's Statute and the directives and guidelines issued by its Board of Governors.

Specifically, the Bank finances:

— regional development projects, i.e., projects in the industrial, agricultural or infrastructure areas contributing to the economic enhancement of less developed regions.

— projects of common interest to several member countries or benefitting the Community as a whole. This category includes, for instance, specific projects improving the competitiveness of Community industry by developing or introducing advanced technology, infrastructure projects promoting European integration (transport and telecommunications schemes improving links within the Community) or helping to attain Community objectives, such as reduction in oil imports and protection of the environment.

These objectives, and especially regional development, have characterised EIB operations in both Portugal and Spain, particularly in the context of pre-accession finance.

Portugal

The first EIB loans in Portugal date from October 1975, when the Portuguese economy was undergoing major structural changes, both as a result of changed economic conditions and the adoption of new economic policy strategies.

The Council of the EC decided, after consultations with the EIB, to meet the Portuguese authorities' request for exceptional emergency aid. This aid consisted of ECUs 150 million to be granted in the form of EIB loans with a 3% interest rebate from the Community budget. It was to assist Portugal, then facing particularly difficult conditions, while waiting for the implementation of a longer term financial protocol with the Commu-

ity. The amount earmarked, which was fully committed by December 1977, contributed chiefly to projects in the infrastructural and industrial sectors.

The subsequent financial protocol negotiated between the Community and Portugal allowed for up to ECUs 200 million in the form of EIB loans, of which ECUs 150 million with a 3% interest rate subsidy on Community funds. The protocol specified that these loans were to contribute to investment projects aiming at improving the infrastructural base, diversify the economy and, especially, promote the modernisation of agriculture and foster industrialisation. The ECUs 200 million were totally committed at the end of 1981.

EIB financing in Portugal assumed a still wider dimension with a financial agreement, concluded in December 1980, between this country and the Community covering pre-accession aid.

This agreement marked the third phase of the EIB's activity in Portugal. It made provisions for ECUs 150 million in EIB loans – of which 125 million with a 3% interest rebate on the Community budget; it also included additional ECUs 100 million subsidies from the Community's budgetary resources in favour of specific projects or cooperation programmes. These entailed technical assistance (studies, consulting services etc), part of which contributed to identify and prepare investment projects eligible for EIB finance. The agreement was extended in August 1983 for ECUs 75 million EIB loans and a second time in June 1984, for further 150 million to be lent until December 1985 in favour of investments promoting Portugal's economic integration in the Community.

The level of development of the Portuguese economy – as measured by income per capita and industrial production – is well below the Community average and is roughly comparable to that of the Mezzogiorno. The problem is worsened by considerable regional disparities, as approximately 56% of the population, 65% of GDP and 80% of production are concentrated in the coastal areas of Lisbon and Oporto. Furthermore, in spite of the Government's endeavours, the country is still heavily dependent on energy imports, mainly oil.

Particular attention has consequently been devoted to industrialisation efforts, strengthening the communication network, energy saving schemes and agricultural and fore-

stry development. Up to end-June 1985, EIB loans in Portugal have totalled ECUs 625 million: ECUs 259 million in the productive sector, ECUs 206 million for infrastructure development, ECUs 160 million towards energy saving schemes.

Of the ECUs 259 million finance for directly productive investments, loans in the **industrial sector** have represented ECUs 214 million; a striking feature has been the amount granted under the global loan mechanism – ECUs 144 million or over 50% of the total. Global loans are basically lines of credit the EIB opens to financial institutions which on-lend the proceeds to small and medium-size enterprises (SMEs) or investments selected on the basis of EIB eligibility criteria. SMEs are of crucial importance for the Portuguese economy, as firms with a labour force of less than 100 account for circa 95% of the country's industrial sector. Many are operating under sub-optimal conditions and need to invest in modern equipment to enhance their efficiency and improve their competitiveness.

Through these global loans, the EIB has help finance almost 200 smaller industrial and tourism undertakings in their drive towards modernisation.

Finance in the manufacturing sector has also been made available for larger investment projects in key sectors: fertilisers, cement, plastics and copper metallurgy. ECUs 25 million was granted for the extension of a cement factory in Coimbra; 20 million towards the installation of a mill for the treatment of pyrite ashes, and for copper metallurgy at Barreiro, near Lisbon; also at Barreiro, 17 million for the modernisation of a fertiliser factory and 8 million towards the installation of new plants for glass fibres and plastic goods manufacturing.

Loans in the agricultural and forestry sector have amounted to ECUs 45 million; they include 27 million for irrigation projects which, by permitting higher yields and greater crop diversification, will help raise income in predominantly agricultural regions and contribute to the government's policy to reduce foodstuff imports. The EIB has also supported with ECUs 18 million an eucalyptus plantation on non-arable land intended to serve the production needs of a nearby paper pulp mill.

In the **communication sector**, ECUs 206 million has concentrated on improving road and railways lines (106 million) and developing harbours

(54 million); 46 million has contributed towards strengthening airport facilities.

ECUs 31 million has gone for the refurbishment of a section on the Lisbon – Algarve road and 25 million for the construction of a new section of the road from Aveiro to the Spanish border, at Villar Formoso. These two projects will enhance growth prospects for the country's least developed Southern and Central areas. ECUs 18 million has contributed to the construction of a new road link between Oporto and Vila Real, which will facilitate traffic movements in the Northern regions. An ECUs 32 million loan has been provided for the new railway bridge over the River Douro, which will make for considerable improvement in communications between Oporto and Lisbon.

Portugal is a coastal country characterised by a mountainous hinterland and depends consequently heavily on its ports, both for domestic and foreign trade. Therefore, more efficient port services entail direct economic benefits. EIB loans have included ECUs 30 million for investments in the harbour of Aveiro aimed at enabling access to larger ships; ECUs 16 million and 8 million, respectively, for expanding the harbour of Leixoes, the principal harbour for the Oporto region and the Northern part of the country, and the port of Lisbon, through which are channelled a large proportion of imports.

With respect to airport facilities, ECUs 11 million has been lent for improving the traffic security system at Madeira airport; ECUs 35 million for works at the airports of Faro, in the Algarve, and Oporto. The first will contribute towards developing the South of the country, whereas the second will make for better communications within the country's Northern economic heartland.

EIB loans in the **energy sector** have accounted for ECUs 160 million and has focussed on investments to diversify energy sources and expand electricity supply to meet an ever-growing demand. ECUs 60 million has been granted for the construction of three 300 MW generating sets at Sines coal-fired power station, south of Lisbon, which – at completion – should permit a reduction in Portugal's foreign oil dependence by an estimated 10% of its 1981 petroleum imports. ECUs 55 million has contributed to financing the construction of a thermal power station in Setubal and its connection to

the domestic high voltage grid and to the Spanish network. An ECUs 20 million loan has been granted towards the construction of a hydroelectric power station on the river Douro, in the North, and 15 million for upgrading the electricity supply system in the Azores through the installation of one thermal and two hydroelectric power stations; such energy investment will help remove one obstacle to the island's economic development. An ECUs 10 million loan will help computerise the regulation of electricity generation and distribution throughout the country, bringing about a more rational use of generating capacity.

Spain

EIB project financing in Spain started in 1981 and, as in the case of Portugal, was carried out within the framework of a Community pre-accession cooperation arrangement. In 1980, the Spanish Government made known its wishes for some form of cooperation – which could be translated into EIB loans – aimed at financing projects facilitating the integration of the Spanish economy into the Community's. In May 1981, following the request of the Council of the European Communities, it was decided that the EIB lend up to ECUs 200 million for appropriate projects in Spain; this sum was totally committed by June 1983 and the agreement was extended on two instances: the first time in August 1983 for an additional ECUs 100 million and the second time in August 1984 for ECUs 250 million, to be committed up to the end of December 1985.

EIB loans in Spain have concentrated on two areas: firstly, regional development which entailed the restructuring, modernisation and development of small and medium-size enterprises, as well as the improvement of regional infrastructure in order to promote a greater balance between regions and strengthen communications between Spain and the rest of the Community. This latter point is important because it allows not only for a better integration of the Spanish economy into the Community, but also of the Portuguese one, as Spain also represents the link by land between Portugal and the rest of Europe. The second area of activity involved support for the government's energy saving policies. Total EIB finance in Spain up to end-June 1985 included ECUs 135 million in the industrial sector, ECUs 140 million for infrastructure

investments and ECUs 85 million towards energy saving schemes.

Spain's **industrial sector** is quite advanced, although unevenly developed across the country, and in terms of volume of output ranks as the world's tenth. It is, furthermore, characterised by a large number of small and medium-size enterprises which account for circa 90% of all undertakings. In view of the acknowledged contribution of SMEs to fostering growth and employment at the local level and their important role in introducing advanced technology, the EIB has so far made funds available for industrial purposes only in the form of global loans. These have amounted to ECUs 135 million and financed over 300 small and medium-size firms, three quarters of which are located in less developed areas. Amongst others, they have funded ventures in the foodstuff processing industry (20 million), metallurgy (14 million) woodworking industry (11,5 million), construction materials (10 million) and chemical industry (10 million), the balance being shared between the mining, plastic and glass industries.

The ECUs 140 million loans for **infrastructure development** concerned primarily the **transport sector**. Notably, the EIB has contributed ECUs 40 million to the financing of the Barcelona rail loop line to improve traffic flows along the Mediterranean coast main line. Serving a fifth of the country's entire population, this is a vital corridor not only for heavy tourist traffic during summer, but also for a faster and more efficient transportation of goods between the Valencia region and the Community.

An ECU 20 million loan went towards modernising the railway linking the coal port of Gijon in the North of the country with the main railway system at Leon. This line is of particular importance, since it crosses Asturias where about 70% of Spain's coal is exploited, and thus helps reduce coal transportation costs.

Via the global loan mechanism, the EIB has granted ECUs 80 million towards the financing, in less developed areas, of small infrastructural projects, such as minor road improvements and water supply and sewerage schemes. This amount includes an ECUs 17 million global loan for some 250 small investments in Andalusia, one of Spain's most depressed regions; small roadworks, waste disposal plants, electrification and tourism infrastructure.

Like Portugal and most European countries, Spain is heavily dependent on foreign sources of energy supply: about 65% of the total consumption of primary energy is imported, mainly in the form of oil. Spain's domestic energy resources include coal, hydroelectric power, uranium and some petroleum and gas reserves. The Spanish authorities actively pursue energy import substitution policies. EIB loans in the **energy sector** – ECUs 85 million have supported the Government's efforts: 20 million have gone towards the construction of the Moralets pumped storage hydroelectric complex in the Eastern Pyrenees which at completion will have a capacity of 210 MW; a further 20 million will contribute to the exploitation of the off-shore gasfield "Gaviota" near Bilbao, the production capacity of which is estimated at 1.2 billion cubic metres per year. ECUs 15 million have been granted towards the construction of a pipeline between the gasfield of Serrablo (in the Pyrenees) and Zaragoza, where it links up with the network serving the Basque country. ECUs 30 million in the form of global loans has been directed towards small and medium-size energy-saving or oil-substituting projects, such as small infrastructural schemes centered on coal mining and the substitution of oil by coal in a number of industrial firms.

Over the coming months, the balance of funds provided for under the cooperation agreements, both in Spain and Portugal, will be lent out in full. New EIB loans will be signed soon and concern, in Spain, 60 million for improvements in the railway network (30 million), as well as for the expansion of small and medium-size enterprises (20 million) and small infrastructure projects in the less developed areas (10 million). In Portugal, 20 million are intended for investments in road infrastructures; a further 15 million global loan will promote small and medium scale ventures in industry and small and medium size energy saving and environment protection schemes.

Addressing the Board of Governors of its annual meeting on 11 June, which this year was attended for the first time by Spanish and Portuguese representatives as observers, EIB President Ernst-Günther Bröder declared regional development and the economic integration of Spain and Portugal into the Community key areas for the Bank's activity (cf. p. 4). And in fact, when these two countries become Community mem-

bers on 1 January 1986, EIB financing in the Iberian peninsula is likely to expand, since Spain and Portugal will have access to EIB funds along

the same eligibility criteria as the present Member States, without any ceilings being set as under the current agreements.

Financing operations during the first half of 1985

The first half of 1985 has seen the European Investment Bank's lending activity continuing to record the high levels achieved in 1984. A total of 3 025.2m ECUs has been lent in the space of six months, very much on a par with the showing for the same period last year which had in turn demonstrated a marked surge in activity. Notwithstanding a wait-and-see attitude deterring certain borrowers from seeking funds or finalising loan contracts until such time as rates had declined, the EIB has managed to increase the volume of its loan finance in Member Countries – 2 961.2m ECUs have been advanced under this heading, or 6.9% more than the 2 770.2m ECUs lent during the first half of 1984. New Community Instrument (NCI) resources account for 578.1m ECUs of this year's figures, as against 549.5m ECUs at 30 June 1984. In contrast, outside the Community the volume of operations has been relatively low – 63.9m ECUs, compared to 306.5m ECUs twelve months earlier. But, to judge by contracts awaiting signature at the beginning of the second half, the outlook here is expected to improve under the impetus of renewed lending activity.

By and large, the impression is that Bank financing operations look set to improve further towards the end of 1985, bearing out the phenomenon noted in previous financial years where, for technical reasons, operations have tended to be bunched in the latter half.

Overview of lending within Member Countries

Industry and related services, a key economic sector, attracted Bank financing in the first half of 1985 to the tune of 1 184.9m ECUs. Energy sector projects accounted for 1 154.8m ECUs of the total, followed by transport and telecommunications infrastructure (621.6m ECUs). Support for the manufacturing sector has continued to be as pronounced as in 1984 and is slanted very much towards financing SMEs. For the purpose, lines of credit (global loans) are opened with banks or financing institutions for on-lending in keeping with the EIB's objectives and criteria.

Credit lines established in favour of industry during the first half amounted to 920.7m ECUs, comprising 484.5m in loans from the Bank's own resources⁽¹⁾ and 436.2m in advances under the NCI⁽²⁾. Amounts allocated under these or older global loans granted in previous years totalled 612.3m ECUs (EIB = 334.7m; NCI = 277.3m). The funds have benefited more than 1 800 smaller capital projects.

Assessed in terms of its contribution to supporting **Community economic policy objectives**, the bulk of EIB lending can be seen to have gone towards making the EEC less dependent on outside sources for its oil supplies; the Bank granted loans worth 1 275.9m ECUs to energy projects, with the emphasis on energy savings and on deriving maximum benefit from Member Countries' indigenous resources. Financing for regional development ran to 1 060.9m ECUs. Loans directed towards the modernisation and conversion of industrial undertakings amounted to 666.7m ECUs.

Notable trends in the manufacturing sector include a renewed upturn in lending for high technology: 220.8m ECUs has already been granted in the first 6 months, equivalent of the total granted for high technology in 1984. The loans have gone in particular to satellite telecommunications and telematics, but also for biomedical and pharmaceutical products, automated manufacture of motor vehicles and capital investment in small and medium-scale projects centred on turning out high-quality products or deploying a high degree of frontier technology.

Operations mounted outside the Community

Overseas lending during the first half has taken the form of 48.5m ECUs advanced from the EIB's own resources and 15.4m ECUs from budgetary resources. Of this amount, ECUs 40.2m has been granted on the basis of financial protocols with Mediterranean coun-

⁽¹⁾ for projects in regional development areas and for energy-saving and high-tech projects irrespective of their location.

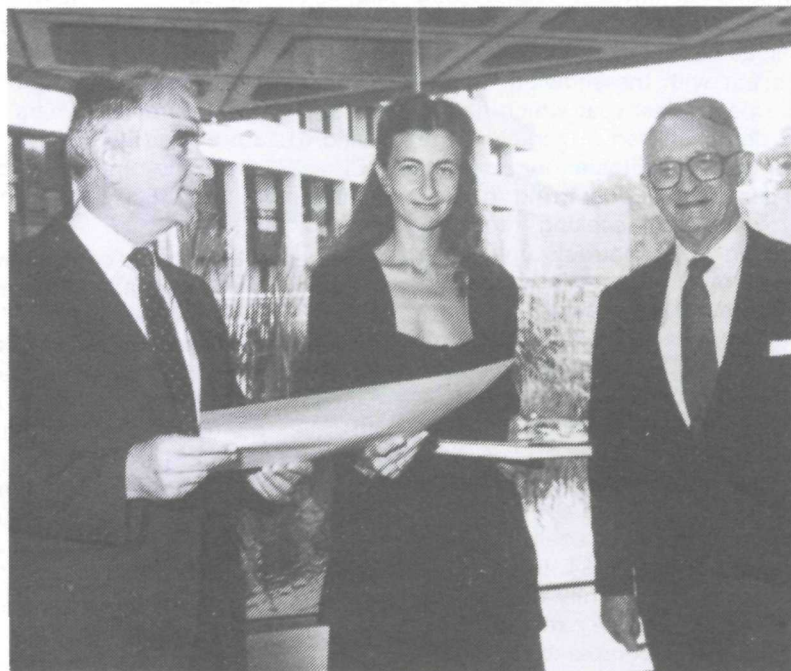
⁽²⁾ mainly for SMEs outside assisted areas.

tries and 23.8m under the Second Lomé Convention and the Decision on the Overseas Countries and Territories (OCT).

The Bank has raised close on 3.0bn ECUs in borrowings since the beginning of the current financial year. The main currencies tapped have

been the US\$ (30.3%), ECU (15.2%), Yen (13.5%), Deutsche Mark (10.5%) and Guilder (8.7%). The increase in ECU borrowings has been particularly marked: in only six months the same amount has been raised in this currency as in 1984 as a whole, i.e. 455m. Of this total 3bn ECUs, the Bank has raised, in the form of commercial paper, 151m ECUs in US dollars at floating rates under an

authorisation from the Board of Governors granted in June 1985 allowing the Bank to raise the equivalent of 500m ECUs at floating rates on an experimental basis. The EIB has also carried out swap operations for a total of 396m ECUs during the six months.



1985 EIB prize to Giovanna Nicodano

On June 26, during a ceremony with the members of the EIB's Management Committee and Lord Roll of Ipsden, Chairman of the London based bank of S.G. Warburg & Co. Ltd. and Chairman of the EIB Prize jury (right), Giovanna Nicodano (centre) received the 1985 Prize from EIB President Ernst-Günther Bröder (left) for her thesis "Struttura finanziaria, costo del capitale e decisioni d'investimento". Ms. Nicodano obtained her doctorate at Università Commerciale "Luigi Bocconi" in Milan in 1983.

In her dissertation, Ms. Nicodano compares several sectoral models and examines the extent to which they can be applied to the Italian situation. The thesis shows how sources of finance and investment decisions are interrelated in most of the 11 sectors of the Italian manufacturing industry which made up Ms. Nicodano's sample over the period 1968-1981. Lord Roll, in a statement, commented Ms. Nicodano's thesis as "a contribution to economic science which, certainly in Italy, no serious researcher can afford to neglect". In a later issue of "EIB Information" we will return to the prize-winning dissertation.

The Jury of the 1985 Prize consisted of Lord Roll, Chairman, and Professors Beniamino Andreatta (University of Bologna), Arnold Heertje (University of Amsterdam), Jacques Lesourne (Conservatoire National des Arts et Métiers, Paris), Michael MacCormac (University College Dublin) and Wolfgang Stützel (University of the Saarland). The EIB Prize, consisting of 10 000 ECUs and a diploma, was instituted on the occasion of the 25-year anniversary of the European Investment Bank in 1983, to promote the study of topics related to investment and its financing at academic institutions in the European Community. The Prize is to be awarded biennially. This year's Prize was the first to be awarded. The next EIB Prize will be granted in 1987. The deadline for entry will be the end of 1986.

ECU

Below are the ECU's values in national currencies, as at 28 June 1985; these rates are applied to the present quarter in preparing financial statements and operational statistics of the Bank:

DM	2.24895	Bfrs	45.2655
£	0.567748	Lfrs	45.2655
Ffrs	6.85414	Dkr	8.06607
Lit	1 433.15	Dr	99.9678
FI	2.53484	IR£	0.717724
		US\$	0.734949

N.B.: ECU/national currency conversions given in this issue are based on different exchange rates, applicable at the time of each contract signature.

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