European Investment Bank

EIB Information

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The EIB Group strengthens its support for European Union policies

In 2001, the European Investment Bank lent EUR 36.8 billion to support capital projects contributing towards the attainment of European Union policy objectives.

The Bank made available 31.2 billion for projects in the EU Member States, 2.7 billion in the Accession Countries to assist preparations for enlargement, 1.4 billion in the Mediterranean region to underpin projects aimed at modernising the economies of the countries participating in the Euro-Mediterranean Partnership and 1.5 billion in the other Partner Countries.

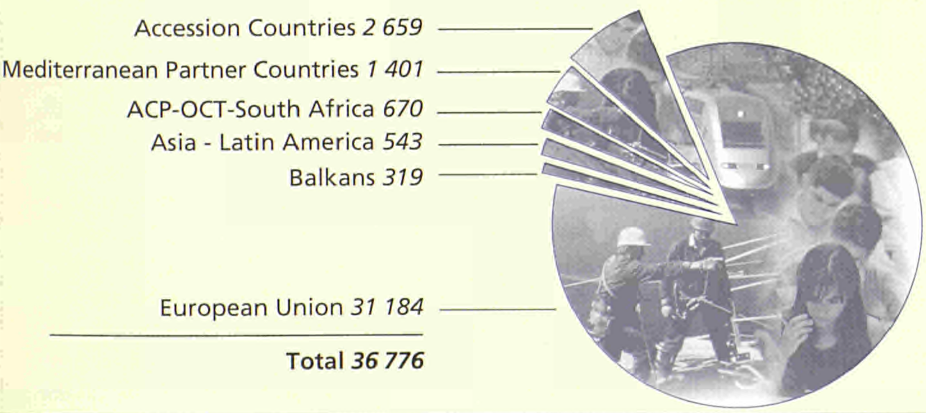
In order to finance its lending, the EIB raised EUR 32.3 billion on the capital markets via 148 transactions in 13 currencies (before swaps).

As at 31 December 2001, the EIB's balance sheet amounted to 209.4 billion. Outstanding borrowings totalled 176 billion and outstanding loans, 221.6 billion.

The EIB's annual Press Conference on EIB Group activity in 2001 was held on 6 February in Luxembourg and on 7 February in Brussels

On these two occasions, the EIB Group's President, Philippe Maystadt, presented the results for 2001 and medium-term strategic guidelines, while replying to numerous questions raised by journalists present.

Contracts signed in 2001 (EUR million)



The EIF in 2001

The EIF is now the European Union's financial institution specialising in venture capital and guarantees for SMEs.

Since June 2000, the EIB has acquired the majority of the Fund's capital, although the EIF remains a tripartite institution (EIB, EC, 28 banks). In January 2001, the EIB transferred its equity participation portfolio to the EIF.

During 2001, the EIF considerably increased its activity, despite the difficult conditions prevailing on the market. It concluded 57 venture capital operations worth EUR 800 million in the 15 Member Countries and five Accession Countries as well as 39 new SME portfolio guarantee operations totalling 958 million.

As at 1 January 2002, the EIF managed a portfolio of 153 venture capital funds, corresponding to EUR 2 billion. Aggregate EIF guarantee commitments ran to more than 3.3 billion and covered some 100 000 SMEs.

European Investment Fund

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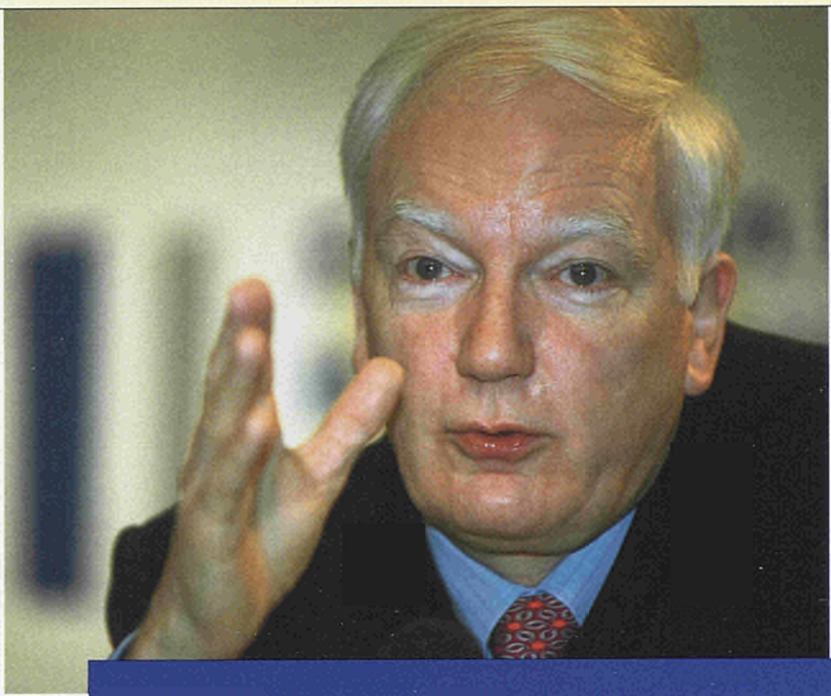


Philippe Maystadt at the press conference in Brussels on 7 February last

"Focusing on the EIB Group's effectiveness"

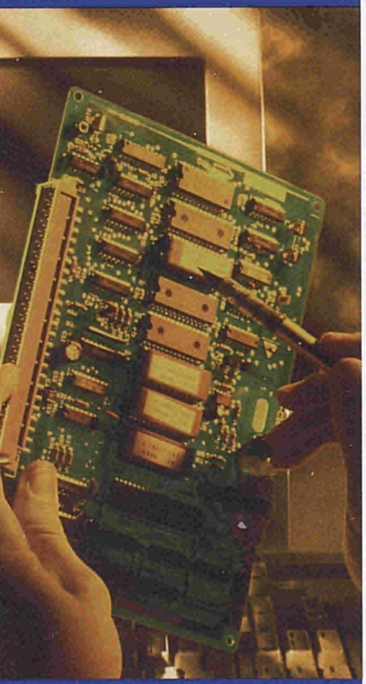
During my two years' tenure as President of the EIB Group, my main focus has been on ensuring that the Bank and the EIF operate effectively in furthering the Union's objectives.

I have encapsulated this priority in the phrase "policy-driven public bank". This describes a public bank which, in closest liaison with the Union's other institutions and without burdening the public finances, contributes to the realisation of projects giving concrete expression to the economic, social and, ultimately, political priorities of the Union.

To support this goal of effectiveness, the Bank has introduced various changes in the past two years that I should like to outline to you.

• On the institutional level, first of all, we have intensified our dialogue with the **European Parliament** through participation in various meetings of parliamentary committees (notably the Committee on Economic and Monetary Affairs) and, above all, through the examination in plenary session of a *report by the Parliament on monitoring the Bank's activities* (see page 6). The aim has been to organise a frank and open dialogue on the Bank's contribution to furthering the Union's objectives, a sphere where the Union's elected representatives are both the driving force and ultimate monitoring body. This dialogue is of great value to us: it enables us both to increase awareness of what we do and to learn at first hand what the European Parliament's priorities are. Additionally, and without doubt most importantly, this ongoing dialogue enables the Parliament to dovetail the Bank's operations with the discharge of its legislative and budgetary responsibilities, thereby making for greater consistency in the initiatives that the Union pursues for the benefit of its citizens.

• In parallel, the Bank is involved in the **Ecofin Council,** placing its expertise at the Union's disposal, particularly with regard to the deployment of new instruments. The gratifying result is that there is now scarcely a European Council meeting where the Heads of State and Government do not turn to the Bank. This was again the case in 2001 at the Council meetings in *Stockholm* in March (inviting the Bank to step up its financing to turn Europe into a high-performance economy based on knowledge and innovation); and again in *Ghent*, in October, when the Council called on the EIB to spearhead efforts to stabilise investment in sectors hardest hit by the economic slowdown. The Bank



has also strengthened its operational links with the Commission in order to enhance the synergies between the Bank's lending, the EIF's operations and the Union's budgetary resources in furthering joint objectives. This applies particularly to regional development, preparing the Accession Countries for EU membership, promoting research and development and supporting European audiovisual production – areas on which the two institutions have concluded agreements. In addition, an important document on environmental protection is currently being finalised with a view to enhancing coordination between our respective efforts, particularly to facilitate practical implementation of the Union's commitments on sustainable development and combating climate change.

• Furthermore, in 2001 the Bank implemented its new policy of **transparency**. The main vector of this is a new information policy: the Bank now lists projects under appraisal on its website, with details of the parameters for each investment; the Bank also discloses its operational strategies by publishing its Corporate Operational Plan and documents on sectoral policy (those relating to the environment, sustainable development, climate change and preparing the Accession Countries for membership are already to be found there); and finally, the EIB makes available detailed information on its procedures and methods for project appraisal and monitoring. This drive for greater transparency is backed up by *an ongoing dialogue with representatives of civil society via NGOs.* In the course of 2001 alone, the Bank participated in 5 meetings held by NGOs on sectoral aspects of its activities, and itself organised two round tables – one in June in Brussels on its information policy and the other in November, in London, to discuss its policies on poverty reduction and sustainable development in the emerging countries.

• To reinforce this strategy of openness, the EIB has also forged closer links with the **Economic and Social Committee (ESC)** so that it can take account of the Committee's opinions when formulating its financing strategies and make the most of the Committee's enhanced role under the Treaty of Nice as an interface between the Union's institutions and civil society.

Strengthening the Union's economic and social cohesion

My reason for wishing to focus attention on these institutional changes affecting the Bank is that they have an important bearing on the conduct of our operations, as is shown by the highlights of our activity in 2001.

Strengthening the Union's economic and social cohesion ...

First of all, I should like to underline the top priority that the EIB Group always accords to strengthening the Union's economic and social cohesion; and our perspective now encompasses the Accession Countries – our members-to-be in the very near future.

In 2001, the Bank devoted nearly **EUR 22 billion** to financing projects in the least developed regions of the Union and the Accession Countries. This unprecedented support ranged across all sectors of the economy, from basic infrastructure - large and small - to industrial projects and SMEs. But more important than this was the major catalytic effect in attracting other sources of finance, particularly from banks, while the bulk of the EIB's lending also involves the deployment of Community structural funds. In addition, there is *a close degree of complementarity between the Bank's choice of projects in these regions and the achievement of objectives defined at Union level.* This makes a decisive contribution to giving the populations of these areas equal access to state-of-the-art health and education facilities (87% of loans to these sectors go to less developed areas), new technologies, advanced communications networks, a better quality of life and protection of the environment.

... and quality of life

In this connection, I am pleased to report our continuing endeavours in the field of **environmental protection**. In the year 2001 alone we advanced some EUR 9 billion for this purpose, 8 billion of which within the Union. This lending mainly targeted the treatment and protection of water resources, waste management and the generation of non-polluting or renewable energy.

Through our global loans, we also supported thousands of small local infrastructure schemes, which often have a decisive impact on the quality of life in these regions.

The Bank could not, year after year, sustain such a high volume of lending in favour of environmental protection if it did not engage in **a continuous review of its methods for appraising the projects it finances and taking account of their environmental parameters.** I have already mentioned the comprehensive overhaul of our environmental strategy documents in order to support the Union's commitments on climate change and sustainable development; these are available on our website. During the year, the Bank also *rethought its internal organisation* in this domain, creating a new environmental set-up within the Projects Directorate based on an "environmental unit" and an "environmental evaluation group". To ensure consistency between the Bank's individual project choices and its revised environmental criteria, an "Inter-Directorate Steering Committee" brings together the Bank's operational Directors General several times a year to consider the issues of methodology, portfolio composition and the evaluation of operations from the point of view of their environmental impact.

Modernising Europe's economy...

The second objective that we are called on to pursue is modernising and sustaining Europe's economy in order to enable the Union, now underpinned by the creation of its new currency, to play its full part in a globalised economy. The Innovation 2000 Initiative (i2i), which the EIB Group set up in response to the conclusions of the Lisbon European Council (March 2000), revolves around *five objectives* that pave the way for technological upgrading and for equipping human capital to cope with the challenges of the European economy of tomorrow. In 2001, "i2i" surged ahead, bringing total loans signed to more than 7.2 billion (over 5 billion of this in 2001), while the volume of EIF equity participations exceeded 2 billion (800 million of this in 2001 alone). Thus the Group has gone a long way towards achieving the goal – set for it by the Lisbon European Council in March 2000 – of investing between EUR 12 and 15 billion under the "i2i" programme by the end of 2003. The sectoral variety of projects financed and their strong concentration in the Union's less advantaged areas demonstrate that the EIB Group has managed, within a very short timespan, to respond to a real economic demand with suitably tailored financial products while according priority to investment producing a *transfer of know-how to the less advanced regions.*

... and sustaining it

Finally, in response to the request of the Ghent European Council, the Bank recently decided to **step up its support for sectors particularly affected by the economic slowdown**. Through its targeted financing choices, the Bank will be able to play a stabilising role in investment in areas such as transport and environmental protection infrastructure, new-technology projects and tourism, by expanding its risk-sharing lending through its Structured Finance Facility and by financing up to 75% of the cost of certain projects, including via its global loans.

Accession Countries: environment, direct investment and human capital

Outside the Union, the Bank continues as always to devote particular attention to two areas of vital importance for tomorrow's Europe: the Accession Countries of Central and Eastern Europe and the Mediterranean Partner Countries.

In 2001, the Bank invested **2.7 billion in the Accession Countries,** bringing total lending since 1990 to prepare these countries for EU membership to over 16.5 billion. Confirming a strong trend that has developed in recent years, *2001 saw EIB lending to the environmental sector taking a 20% share* of its investment, *with the emphasis on support for foreign direct investment* contributing to the transfer of technological know-how and capital to the EU's future Member States – an essential factor in their competitiveness.

Helping to revitalise the Barcelona Process

With 1.5 billion lent to the Mediterranean Partner Countries in 2001, the EIB has established itself as by far the leading source of bank finance for projects to achieve sustainable development in these countries. Our financing, spread equally over the whole area, encompasses the main sectors of the economies concerned and is geared to three objectives:
1) - *liberalising the economy* by strengthening the private sector and encouraging modernisation of the local banking sector;
2) - ensuring sustainable development by creating basic infrastructure primarily aimed at *safeguarding the environment* (which accounted for an unprecedented 34% of our lending in 2001);
3) - supporting the emergence of *projects with a regional dimension* giving concrete expression to enhanced cooperation among the beneficiary countries, thereby helping to promote economic development and greater stability across the region.

The EIB is by far the leading source of bank finance for projects in the Mediterranean Partner Countries

Nevertheless, despite these significant achievements which testify to the EIB's resolute commitment to furthering the Union's objectives in the region, it has to be recognised that the process launched in Barcelona in 1995 needs to be revitalised in order to deepen the dialogue between the European Union and its partners on the southern and eastern shores of the Mediterranean. As you will be aware, **the Spanish Presidency of the Union has put this at the top of its priorities** and the EIB for its part is determined to deploy its financial expertise as well as its knowledge of people and needs within the region in support of any initiative that its shareholders consider appropriate. The Bank is accordingly closely involved, at the Council's request and alongside the Commission, in the current debate directed towards:

- bolstering **coordination of the various forms of financial aid** from the Union and its Member States;
- developing **new financial instruments**, for example to encourage more foreign direct investment in the beneficiary countries;
- involving **beneficiary countries** more directly in implementation of the aid so as to increase their commitment to supporting Union-financed projects.

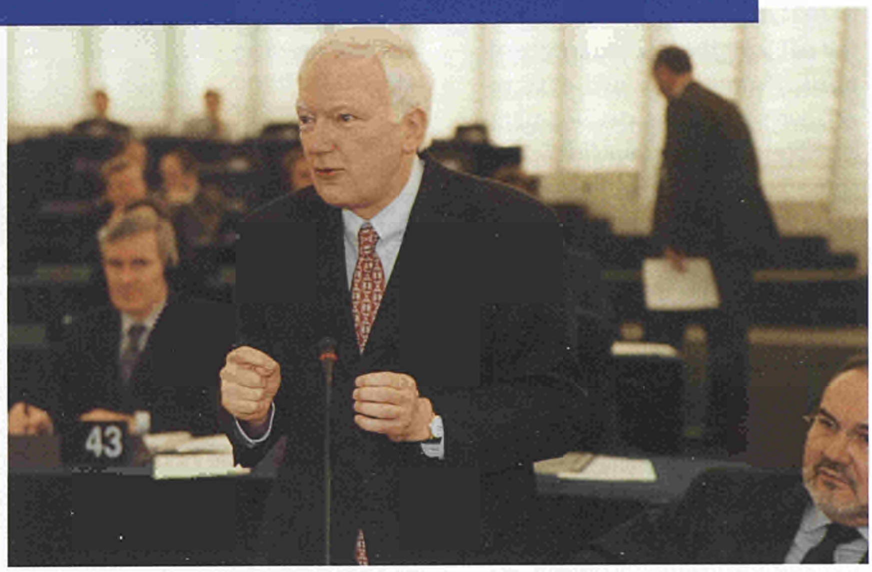
Capital increase

The overview that I have just presented clearly illustrates the range and diversity of the arenas in which the EIB Group is called upon to shoulder increased responsibilities in meeting the challenges facing the Union.

As is widely known, the Bank funds its operations without direct recourse to public finances. Instead it taps the capital markets, where it raises the huge sums it requires on the finest terms, using innovative financial engineering techniques that are widely acclaimed – as shown by the accolade of winning Euroweek's prize for best borrower of the year 2001. In so channelling funds from where they are available to where they are needed, the EIB is acting wholly in keeping with both Union and shareholder guidelines which, through the Bank's Corporate Operational Plan, have set a framework in terms of volumes and priorities: a framework of sustained growth over the next five years as regards financing outside the Union, and one of relative stability in the volume of lending within the Union. The Bank's five priorities were set out in detail in an earlier part of my statement.

With **loans of 221 billion outstanding** as at 31 December 2001 against an **upper limit of 250 billion** permissible under the Statute, the pursuit of these objectives has led me to submit to the Bank's shareholders a proposal to consider **a 50% increase in its capital**. Discussions within the Bank's Board of Directors are now well advanced regarding possible strategies on how best to equip the Union's financing institution to continue working for an integrated Europe. A decision on this matter will be taken at the next annual meeting of our Governors on 4 June. I have no doubt that once again, as on previous occasions, the proposed capital increase will command the solid and unanimous backing of the Bank's shareholders. ■

The EIB Group at a plenary session of the European Parliament



The President, Philippe Maystadt was invited to take part in the debate and replied to the questions raised by the report at the EP's plenary session

At its plenary session on 5 February, the European Parliament adopted the resolution on the EIB Group's 2000 Annual Report. The EIB's President, Philippe Maystadt, was invited to take part in the debate and replied to questions raised by the Report.

For the second year running, the activities of the EIB Group were the focus of a Parliament report. On the basis of the report drawn up by the Swedish Liberal MEP Olle Schmidt, on behalf of the Committee on Economic and Monetary Affairs (CEMA), Parliament adopted its resolution at the plenary session on 5 February. Replying to questions from MEPs, Mr Maystadt emphasised that it was legitimate for "all public institutions, including financial institutions, to reply to questions and take account of the priorities expressed by the elected representatives of European citizens".

Examination of the Bank's activities by Parliament has become established practice following the questions raised by the Committee on Economic and Monetary Affairs, which is keen to have an overview of the Union's achievements in the light of the objectives laid down by the Treaties. On this occasion, the Committee took account of the criticism of the EIB's activities levelled by certain NGOs. Less than a year after delivering its first opinion, drawn up by the Green MEP Mr Lipietz, on the 1999 Annual Report, Parliament was able to note with satisfaction EIB developments in the direction recommended by the parliamentary report. In concluding its discussions, Parliament expressed the desire that the policy dialogue initiated with the Bank should be continued and accorded priority. It has already announced its intention of repeating the exercise next year and the Committee has in fact designated the Dutch Socialist MEP Ms Ieke van den BURG to prepare its work on the activities of the EIB Group.

Among the important aspects addressed in the Parliament report adopted in February 2002 are the Accession Countries, environmental protection, financing of SMEs, controls, information and transparency. These points were clarified in detail before the plenary by Mr Maystadt [1].

Accession

The eastward enlargement of the European Union represents a major challenge. In order to prepare for this, the EIB is providing the future member countries with the same access criteria and terms of access as those offered to businesses in the Member States of the Union. In its three-year Corporate Operational Plan, the

Bank has confirmed its intention of increasing its lending in this region: it has limited its growth target for loans within the Union in order to release more funds for the Accession Countries, which are currently eligible for loans under the Innovation 2000 Initiative.

The environment

The environment is an area to which the rapporteur devoted particular attention. In his reply, Mr Maystadt pointed out that in 2001 "a fifth of loans were allocated directly for improving the environment. The Bank hopes gradually to increase this proportion to a quarter of its total loans". In addition, following a recommendation made in Mr Lipietz's report last year, the Bank has set up a new structure [2] to bolster its support for fostering the Union's environmental policy, and for sustainable development. For each project financed, the Bank will endeavour to strike the most suitable balance between environmental constraints and the economic development requirements of the region or sector concerned. The Bank is also already developing a number of measures intended to strengthen its contribution to the objectives subscribed to by the Union with regard to sustainable development and the promotion of alternative sources of energy.

SMEs

EIB backing for small and medium-sized enterprises is provided mainly via financial intermediaries, either in the form of global loans or European Investment Fund venture capital and counter-guarantee operations. Thus nearly 100 000 SMEs have indirectly benefited from EIB Group support in its various forms. Taking note of these results, Parliament called upon the Bank to inform SMEs of all the financing facilities that it is able to offer.

Prudential supervision

On the subject of the supervision of financial activities, Parliament took note of the external and internal control structures developed by the EIB but stressed the desirability of also putting in place appropriate prudential supervision. According to Parliament, this activity could be exercised by the European Central Bank. Mr Maystadt stated that the EIB would have no objection and would be happy for "an external authority (...) to verify that it is applying prudential rules correctly". This matter will be discussed at the next Intergovernmental Conference.

Information and transparency policy

While Parliament is delighted that the EIB has improved its dialogue with the elected representatives of citizens at European institutional level, it would like contacts to be extended to organisations at local level, which are directly concerned by projects financed by the Bank. The President pointed out that during 2000 the EIB had strengthened dialogue with representatives of civil society by taking part in meetings arranged by the NGOs and organising two round-table talks for NGOs. In 2001, the Bank also implemented its new policy of transparency, which has involved in particular making available to the public on its website a series of documents, including documents on strategy, a presentation of evaluation methods, the list of projects under appraisal and all *ex post* evaluation reports. Although developed in two languages (English and French), the website offers the public access to all versions of these documents existing in other languages.

Capital increase

Finally, Parliament, aware of the new challenges that the Bank must take up against a changing economic backdrop, declared itself in favour of an increase in the Bank's capital, so that it can respond to the new requirements of European integration, enlargement and the EU's policies of cooperation with non-member countries.

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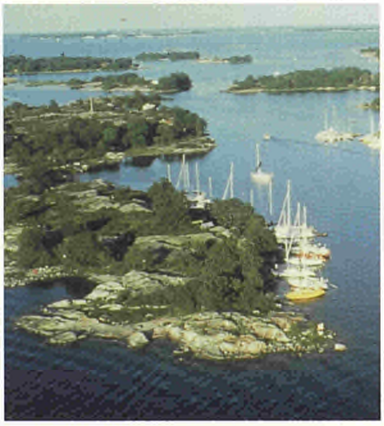


[1] The full text of Mr Maystadt's statement before Parliament may be consulted on the EIB's website (www.eib.org) under the heading Information Policy, "Plenary Session of the European Parliament on the EIB Annual Report (2000)".

[2] See article in the same issue on the EIB's new environmental structure, page 11.

The EIB Group's activities in 2001

Lending in the European Union

Regional development

In accordance with its primary remit, which is to strengthen economic and social cohesion within the Union, the EIB stepped up its support for the development of communications infrastructure in the less favoured areas, while also assisting industry and services – activities that create employment and prosperity – plus health and education. Furthermore, with a view to ensuring successful enlargement of the Union and in order to help tackle forthwith the regional disparities existing between the Accession Countries, the EIB has included the ten Central European Accession Countries, as well as Cyprus and Malta, under its assisted areas activity. In 2001, a total of **nearly 22 billion** was devoted to financing projects in the least developed regions.

In the **European Union**, projects were financed in assisted areas to the tune of EUR 14.5 billion (70% of individual loans within the EU) and 5.3 billion was allocated from global loans in favour of SMEs and small local infrastructure schemes. Large-scale projects in the Cohesion Countries (Spain, Portugal, Ireland and Greece) alone attracted 5.1 billion and Italy's Mezzogiorno 866 million. Germany's eastern Länder, where there was a marked upturn in financing for the third year running, received 1.8 billion.

In the least favoured regions ("Objective 1" areas), transport claimed the lion's share of support (40%). Its share of lending – to help mitigate the effects of geographical isolation – was significantly higher in these areas than for the Union as a whole, where the corresponding figure was 25%. Particular emphasis was placed on the health and education sectors, which attracted 16% of financing. This clearly demonstrates the EIB's

Contribution of venture capital activity to regional development

The EIF's venture capital activity takes full account of the need to promote a balanced venture capital market within the Union. In the southern countries of the EU (Greece, Portugal and Spain) and in the Accession Countries, the EIF has played a significant role in developing the market. It also acts as a catalyst in the southern part of the Union by attracting other investors. Some of the guarantees arranged by the EIF from its own resources have benefited regional funds in Objective 1 areas of the United Kingdom and Germany's new Länder.

desire to build up, in these areas lagging behind in their development, health and education services of a level comparable to that of the most privileged regions, thereby providing the people of the Union with equal access to the most advanced healthcare and teaching techniques.

In the **Accession Countries**, which will be covered by the EU's regional policy in the future, the Bank granted 2.7 billion. Poland was the leading recipient, accounting for 43% of the funds, followed by Hungary and the Czech Republic. As in the Union, the main sector to benefit was transport, with 39%. Next came the environment, telecommunications and support for small and medium-scale projects via global loans. Maiden projects were financed in the health and education sectors.

Innovation and human capital

Financing provided by the EIB in 2001 to foster the emergence in Europe of an information-based, knowledge-driven economy amounted to EUR 5 billion. Since May 2000, when the "i2i" Initiative was launched in the wake of the conclusions of the March 2000 Lisbon European Council, the **EIB Group** approved funding of more than EUR 10.3 billion (9.1 billion for the EIB plus 1.2 billion for the EIF) for "i2i" projects in the fields of research and development, information and communications technology networks, the diffusion of innovation, the establishment of innovative SMEs, and human capital.

Research and development (R&D)

In 2001, 1.7 billion was invested in 12 R&D projects carried out by the private sector in 10 EU countries and Hungary in the chemicals/pharmaceuticals, metallurgy, electronic components and telecommunications fields. Of these, special mention should be made of two pan-European projects concerning *research into the introduction and shared management of third-generation telecommunications networks.*

On 7 June 2001, the EIB and the Commission signed a Memorandum on the transfer of know-how and synergies between the two institutions with the aim of promoting R&D investment within the Union.

Development of SMEs and entrepreneurship

During the year, more than 800 million was committed by the EIF in 57 venture capital funds (VCFs), acting as a catalyst for investment amounting to some 3 billion, in all the Member States and five Accession Countries. *This 800 million represents roughly a quarter of the European start-up capital market.*

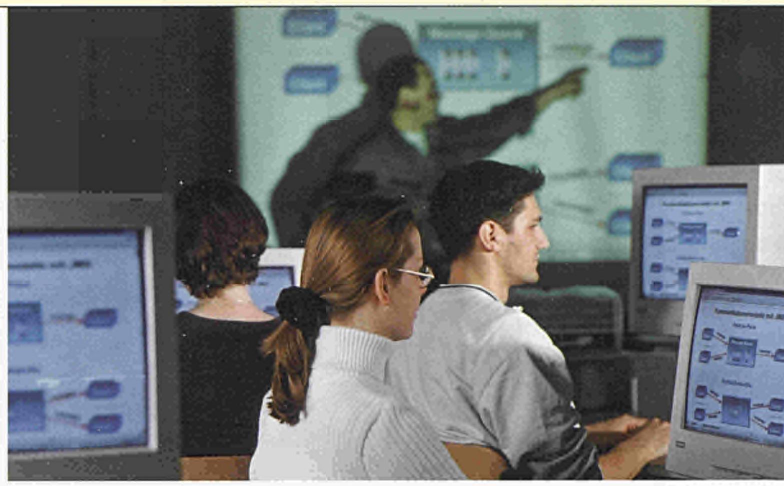
Against a deteriorating market backdrop, the EIF thus provided a strong signal, helping to mobilise investors and to encourage the dissemination of best practice throughout the Union. In the main, the financed VCFs focused on start-up capital for high-tech companies (biotechnology, ICT, multimedia, TIME, etc.), in harmony with the conclusions of the Stockholm European Council (March 2001). In the southern countries of the EU (Greece and Portugal, Spain with four operations in 2001) as well as in the Accession Countries (where the EIF concluded its first operations), EIF finance played a significant part in developing the market. Many of the VCFs financed had a regional dimension, particularly in the United Kingdom.

Mention should also be made of equity participations in *11 pan-European VCFs (based in France, the United Kingdom, the Netherlands and Germany) furthering the emergence in Europe of players comparable to those in North America,* in terms of their funding capacity, the duration of their backing for firms in which they invest and the calibre of their management teams.

The EIF's total outstanding equity participations exceed 2 billion in 153 VCFs, confirming the position of the EIB Group's specialised subsidiary as the leading source of start-up venture capital in Europe, a segment of the market where the risks are highest, resources at their scarcest and the Union's strategic requirements at their most apparent.

ICT

In 2001, information and communications technology (ICT) networks, essential vehicles for the diffusion of innovation and the exchange of data between firms, attracted 1.8 billion in EIB loans in Spain, Portugal, Italy, the United Kingdom, Sweden, Finland and the Accession Countries. A particular example was the pan-European "Telia" project involving extension of the broadband network to the Central European Accession Countries (Baltic States, Poland, the Czech Republic, Slovakia, Hungary) from Scandinavia, Germany and Austria.



Human capital formation

The EIB invested 1.4 billion in 2001 in **11 projects in the education** sector focusing on the modernisation and computerisation of schools, colleges and universities in eastern Germany, Austria, Denmark, Greece and the United Kingdom as well as Poland.

The EIB also devoted 750 million to the technological upgrading or construction of **eight hospital complexes** in eastern Germany, Spain, Austria, the United Kingdom, Cyprus and Poland. All these projects were located in assisted areas and will help improve access to the most advanced educational practices and healthcare for the people concerned.

"Audiovisual i2i"

"Audiovisual i2i", launched by the EIB Group in December 2000, is intended to underpin European audiovisual productions, adapt this industry to new technologies and increase the involvement of Europe's banking and financial community in financing companies operating in this sector. This initiative is being mounted in tandem with the Commission's "MEDIA Plus" programme.

In 2001, the **EIB** advanced 147 million for a new television centre (production, digitalisation and-broadcasting) in Denmark as well as for two financial intermediaries specialising in financing film production and operating on a pan-European basis from France. These loans were in addition to funding for a cable television network project in Spain (financed in 2000) and bring to 219 million EIB financing operations signed in the audiovisual sector.

For its part, the **EIF** invested some 89 million in seven VCFs in Germany, Finland, Italy, Spain and Denmark specialising chiefly in bolstering the equity base of SMEs in the audiovisual sector, especially those involved in production (Finland, Denmark, Spain).

Protecting and improving the environment

Lending for projects that contribute towards safeguarding the environment and improving the quality of life, both within and outside the European Union, totalled some EUR 9 billion in 2001.

- Within the **European Union**, in addition to the EUR 6 billion made available in the form of individual loans (i.e.) around 30% of overall individual lending within the EU), an estimated EUR 2 billion was allocated, under global loans, for smaller-scale public environmental projects.

- The urban environment constituted a key sector: urban public transport networks, including the Athens, Barcelona and Lisbon tramways and the Copenhagen, Madrid, Valencia, Toulouse, Oporto and Stockholm metros, received EUR 1.7 billion; loans totalling more than EUR 1.2 billion were granted for urban renewal, in particular social housing projects in Finland, Sweden and the United Kingdom and renovation work in Venice.

- Loans were also advanced for water and sewerage schemes (EUR 946 million) and for improving air quality (EUR 846 million) as

New environmental structure at the EIB

Following a period of review and consultation, the EIB has introduced a number of new arrangements aimed at strengthening the approach to environmental issues in conjunction with its lending activity.

The institutional measures taken by the EIB reflect the priority accorded to environmental objectives as well as the variety and complexity of matters associated with concern to protect and improve the environment.

Based on the experience of comparable financial institutions and its own expertise, which have guaranteed the Bank's good environmental record in the past, the EIB's Management Committee has endorsed three major developments:

- establishment of a high-level, cross-Directorate environmental steering committee (ENVSC) to provide guidance to the Bank's decision-making bodies on new key policy issues in this area as they arise;

- strengthening of the environmental assessment capability of the Bank's Projects Directorate by continuously developing methodologies and enhancing expertise through the setting-up of a specialised environmental assessment group (ENVAG);

- creation of an environmental unit (ENVU), also within the Projects Directorate, as a focal point for the development and dissemination of the Bank's environmental policies and procedures and responsible for nurturing existing and new external relations on the environment.

These new arrangements will bolster the EIB's support for promoting the Union's environmental policy and sustainable development, ensure that all activities funded by the Bank incorporate the optimum environmental benefit-cost ratio and provide the basis for the Bank's value added service on environmental matters.

well as for energy saving (EUR 790 million) and energy substitution projects (EUR 723 million).

- Finance worth EUR 143 million in all was provided for projects for processing solid and hazardous waste, while EUR 94 million was earmarked for the management of natural resources.

In the Accession Countries, lending for projects to protect the environment and improve the quality of life came to EUR 484 million, representing about 20% of aggregate individual loans.

- Reconstruction work following the flooding in Poland and Hungary was financed to the tune of EUR 310 million.

- Water and sewerage projects in Lodz and Szczecin (Poland), Prague and various towns in Hungary and Slovenia claimed EUR 164 million.

EIB loans for environmental schemes in the Accession Countries helped these countries to meet European Union environmental standards. Some projects were cofinanced with the European Commission and received Community grants under the EU's ISPA programme.

- In the **Euro-Mediterranean Partnership Countries**, the bulk of the EUR 580 million devoted to financing the environment and quality of life benefited water and sewerage-related projects in Morocco, Algeria, Turkey and

Financing environmental projects in the St. Petersburg and Kaliningrad regions

Tunisia (EUR 540 million), particularly irrigation infrastructure rehabilitation work in Morocco. In Turkey, the public transport sector received a total of EUR 72 million.

- EIB loans for the environment may carry a 3% interest subsidy financed from the EU budget; in 2001, loans worth EUR 60 million in all attracted such subsidies.

- The EIB is participating in the Mediterranean Environmental Technical Assistance Programme (METAP), which provides grant finance for feasibility studies and project design and management, while encouraging environmental institutional capacity building. Many environmental projects receiving EIB support in the region stem from a METAP study.

Following a resolution of the Stockholm European Council, the Bank is to finance environmental projects with a European dimension in the St Petersburg and Kaliningrad regions (Russia) under a new EUR 100 million financing facility coming under the "Northern Dimension Environmental Partnership".

Finance contracts signed in 2001 and from 1997 to 2001 (EUR million)

Country	2001		1997-2001	
	amount	%	amount	%
Belgium (BE)	365	1.0	3 091	1.9
Denmark (DK)	1 171	3.2	4 536	2.8
Germany (DE)	6 017	16.4	26 045	16.3
Greece (GR)	1 658	4.5	6 271	3.9
Spain (ES)	4 559	12.4	18 592	11.7
France (FR)	3 825	10.4	16 908	10.6
Ireland (IE)	525	1.4	1 454	0.9
Italy (IT)	5 488	14.9	22 901	14.4
Luxembourg (LU)	10	0.0	511	0.3
Netherlands (NL)	787	2.1	2 156	1.4
Austria (AT)	820	2.2	3 045	1.9
Portugal (PT)	1 799	4.9	8 098	5.1
Finland (FI)	695	1.9	2 668	1.7
Sweden (SE)	953	2.6	3 695	2.3
United Kingdom (GB)	2 337	6.4	15 626	9.8
Other	174	0.5	1 058	0.7
Total European Union	*31 184*	*84.8*	*136 655*	*85.8*
Central and Eastern Europe	2 584	7.0	11 485	7.2
Cyprus, Malta	75	0.2	413	0.3
Total Accession Countries	*2 659*	*7.2*	*11 898*	*7.5*
(of which Pre-Accession Facility)	*2 285*	*6.2*	*6 740*	*4.2*
Mediterranean Partner Countries (exc. Cyprus, Malta)	1 401	3.8	5 366	3.4
ACP-OCT-South Africa	670	1.8	2 687	1.7
Asia, Latin America	543	1.5	2 124	1.3
Balkans	319	0.9	625	0.4
Total Partner Countries	*2 933*	*8.0*	*10 802*	*6.8*
Total	**36 776**	100.0	**159 356**	100.0

Further information on the EIB Group's activity and organisation is available on the websites www.eib.org et www.eif.org

Trans-European networks (TENs)

The strong support provided for TENs and other infrastructure of European or regional interest totalled EUR 7.2 billion in 2001, which brings EIB lending for TENs over the past five years to EUR 43.6 billion.

In the **transport** sector, the main financing operations centred on:

- construction of *high-speed rail lines* with initial loans in France for the line connecting Paris and Strasbourg (and ultimately Luxembourg and Frankfurt) as well as financing for the Milan-Bologna link in Italy and the Amsterdam-Schiphol Airport-Rotterdam-Belgian border line;

- improvements to the *road and motorway networks* in eight countries, with in particular ongoing work on the concession-based systems in Portugal, construction of the PATHE and EGNATIA networks in Greece and widening of the Bologna-Florence section of the A1 motorway linking northern Italy with the Mezzogiorno;

- upgrading of *airport infrastructure* in Cologne, Munich and Nuremberg (Germany), Madrid (Spain), Gatwick and Stansted (United Kingdom), Cork, Dublin and Shannon (Ireland) and Portugal;

- extension and modernisation of *port infrastructure*: Bilbao and Barcelona in Spain, Göteborg in Sweden, some twenty ports in Italy and above all the Autonomous Port of Le Havre to back the first phase of a capital expenditure programme to develop container traffic.

In the **Accession Countries**, where there is a substantial need to develop and rehabilitate infrastructure, projects in the fields of transport and telecommunications TENs attracted **1 billion**.

They involved rail transport (340 million for improving rail lines in Bulgaria, Hungary, Poland), and road or motorway projects (549 million in Bulgaria, Lithuania, Poland, Slovak Republic, Czech Republic) located on priority corridors. In addition, 111 million went to schemes involving telecommunication or mobile telephony networks.

- The EIB is the **prime source of bank finance** for these major networks. It is able not only to mobilise, on the finest terms, the substantial amounts required for their implementation but also to offer maturities and other conditions tailored to the scale of the projects and to act as a catalyst for other sources of funding.

- This is illustrated in particular by the growing number of **public-private partnerships** supported by the EIB and combining the advantages specific to the two sectors in building this infrastructure. After financing projects such as Athens Airport, the London-Channel Tunnel high-speed link, the Øresund link between Denmark and Sweden and numerous sections of motorway in the United Kingdom and Portugal, it extended this type of partnership in 2001 to the Accession Countries by financing the A2 motorway in Poland.

- Furthermore, in 2000 the EIB established a **Structured Finance Facility** (SFF), endowed with a reserve of EUR 750 million in all for the following three years and intended to generate a volume of operations of between 1.5 and 2.5 billion. This facility will make it possible to offer diversified financial products. It aims to furnish value added for priority projects by complementing commercial banks and the capital markets. These operations will be undertaken chiefly in EU countries although the Accession Countries will also benefit.

Accession Countries

In 2001, the EIB advanced a total of EUR 2.7 billion for projects in the ten Central European Accession Countries, Cyprus and Malta. By way of comparison, during the period 1996-2000 the annual amount of lending averaged EUR 2.1 billion. Loans granted in 2001 brought aggregate financing devoted to the region since 1990 to EUR 16.8 billion. Projects funded will enable the Accession Countries to comply with the policies and standards in force within the Union.

In order to accommodate these countries' considerable communications infrastructure requirements, enabling links to be improved between the countries themselves as well as between the region and the EU, the EIB earmarked 56% of its total lending in the Accession Countries for this type of infrastructure (modernising and uprating the capacity of the rail network, rehabilitating national highways, building motorways, bridge over the Danube, enhancing fixed and mobile telecommunications).

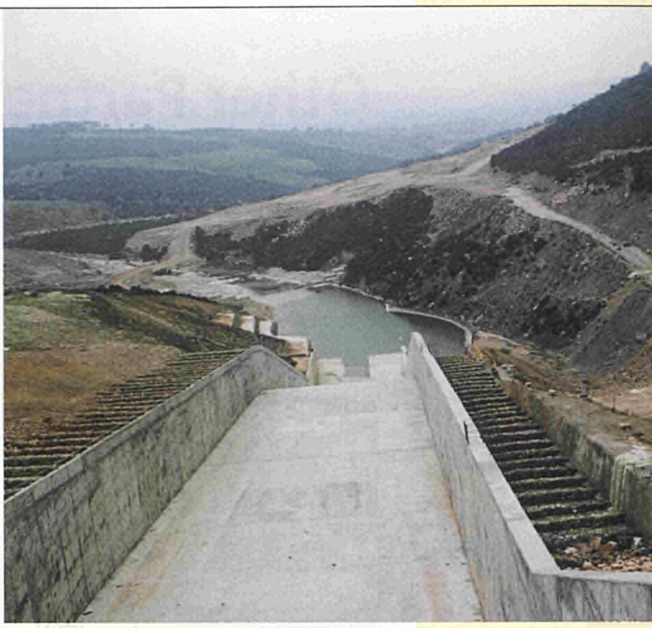
Emphasis was placed on projects that contribute towards protecting and improving the environment (20%) in order to help the Accession Countries to fall into line with Community standards (water treatment and municipal waste processing in Hungary, water supply and sewerage networks in Poland, the Czech Republic and Slovenia). Furthermore, in Hungary and Poland, flood prevention projects and repair work were financed following the flooding of previous years.

Transport and environmental projects were cofinanced, in a number of cases, with grant aid from the Community's ISPA programme.

The EIB widened the scope of its lending to encompass health and education infrastructure, which requires substantial investment, and financed its first projects under this heading for modernising health and education infrastructure in Lodz, Poland, and fitting out a new hospital in Nicosia, Cyprus.

The EIB also offered strong support for foreign direct investment assisting the transfer of know-how and capital into the region. Loans to the industrial sector took the form of lines of credit for SMEs, major vehicles for developing a dynamic private sector that will generate employment.

Mediterranean Partner Countries



The EIB, the leading multilateral lender in the region, stepped up the volume of its loans in the Mediterranean Partner Countries to EUR 1.4 billion.

In 2001, lending to these countries was marked by the priority accorded to safeguarding the environment (in the water sector), which attracted 34% of the total amount advanced. In particular, the EIB granted loans for drinking water supplies in 70 medium-sized municipalities in Morocco, in Tunisia (Sahel region) and in Greater Algiers as well as for modernising wastewater management in Turkey and Egypt. EIB lending for projects aimed at rectifying environmental degradation carry a 3% interest subsidy, financed from EU budgetary resources.

The Bank's second priority is to fund both large and small private enterprises via lines of credit. These received 25% of total lending. In particular, numerous financial intermediaries in the Mediterranean Partner Countries benefited from EIB credit lines to fund small and medium-scale capital projects carried out by SMEs. These lines of credit also help to develop the domestic financial sector in the countries in question by bolstering their technical and financial capacities.

During the year, the Bank extended the scope of its activities by establishing a "Mediterranean Partnership Facility", under which it will be lending a further EUR 1 billion by 2007 in favour of major transregional transport, energy and environmental projects.

The volume of loans in 2001, the broad variety of sectors financed and the resources deployed confirm the position of the EIB, the leading source of sustainable bank finance for the region, as a major player in the economic development of the Mediterranean Partner Countries.

Balkans

The EIB made a major contribution by committing up to EUR 320 million in 2001 for a number of crucial capital projects in the infrastructure and industrial sectors in the Western Balkans (Albania, Bosnia-Herzegovina, Croatia, the Federal Republic of Yugoslavia and FYROM). The financing of cross-border regional schemes in the transport and energy sectors under the international infrastructure restoration programme represented a particular priority.

After assuming a leading role in coordinating and financing the first Infrastructure Reconstruction Programme, launched in 2000, the EIB will also be contributing EUR 2.4 billion to the new Regional Infrastructure Programme. It will play a particularly active part in projects centred on the reconstruction and rehabilitation of roads, railways and energy infrastructure.

In 2001, the Bank also concluded its first global loan contracts with intermediary banks, which will help to promote modernisation of the financial sector and investment by SMEs in the region.

Other Partner Countries

The EIB is helping to finance development in the **African, Caribbean and Pacific** (ACP) countries within the framework of the European Union's development policies. In 2001, the EIB mounted operations in 21 countries and provided assistance for five regional projects. Loans totalled 520 million, including 332 million in risk capital.

Of the funding provided, EUR 144 million (88 million from own resources and 56 million in risk capital) served to finance the Chad-Cameroon oil pipeline, part of a broader integrated oil development and pipeline project supported by the World Bank and international oil companies. The environmental and social issues associated with the project were scrutinised in close cooperation with the World Bank.

In addition, EUR 15 million was given over to micro-finance ventures via equity participations in specialist micro-finance funds, the Bank's goal being to help these funds achieve a satisfactory level of commercial maturity and become financially self-sustainable. Ventures will be cofinanced with other lenders and, where necessary, combined with grants from other sources of finance for institution-building measures.

In **South Africa**, EUR 50 million went to the N4 Toll Road Project, an award-winning operation as a key component of the toll road network to the north and west of Pretoria.

Loans signed in **Latin America** ran to 365 million and in Asia to 178 million. Strengthening the international presence of European companies and banks by providing backing for their subsidiaries and joint ventures remained the top priority. Over 90% of loans served this objective.

Borrowings

The EIB must strive to reduce its funding costs as much as possible in order to maintain its position as a leading non-sovereign benchmark borrower, enabling it to grant loans to project promoters on the keenest terms and thus continue to serve the policies of the European Union.

In order to finance its lending activity, the Bank borrowed EUR 32.3 billion in 2001 via 148 transactions in 13 currencies before swaps (11 currencies after swaps). It continued to reinforce its role as a European Union institution promoting the euro. The USD was the foremost currency borrowed, given the favourable borrowing conditions for this currency, and its share consequently increased substantially compared to 2000.

Before swaps, resources raised in the three main currencies accounted for 94% of the total and broke down as follows: USD 41%, EUR 32% and GBP 21%. After swaps, the breakdown was: 67% for the EUR, 21% for the GBP and 8% for the USD, the latter currency having been a significant generator of EUR by virtue of swaps. Non-structured operations served to tap EUR 31 billion (i.e. 96% of the total) in 94 transactions. Structured operations brought in EUR 1.3 billion (i.e. 4% of the total) via 54 transactions.

A key feature of funding activity was the issuance of large liquid benchmark bonds in EUR, USD and GBP. The EIB is the leading supranational borrower and the only benchmark issuer offering liquid benchmark yield curves in each of the core currencies. This strategy is aimed at broadening the EIB's investor base and strengthening market penetration while offering investors highly liquid and electronically traded products.

Particular emphasis was attached to transparency through the use of book-buildings and the pot syndication methodology. These techniques were implemented within the context of the largest single bond issue ever launched by the EIB, the EUR 5 billion Global EARN 2007. At the end of 2001, the EARNs curve comprised nine benchmarks covering maturities from 2003 to 2010, with an outstanding volume of almost EUR 40 billion, all of which are traded on the MTS electronic trading network.

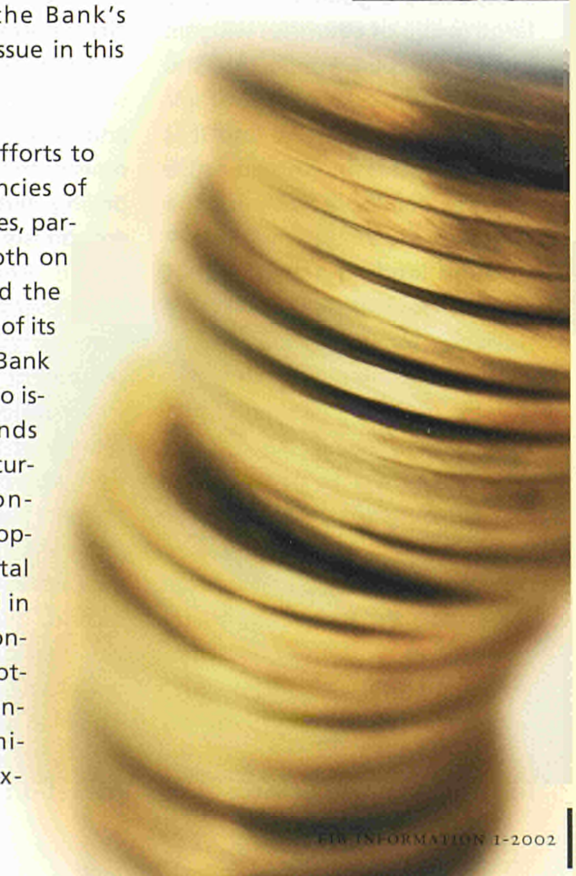
In USD, the Bank offered large-sized issues. Four Global bond issues were brought to the market, with the USD 4 billion 2006 issue constituting the Bank's largest outstanding issue in this currency.

The EIB pursued its efforts to borrow in the currencies of the Accession Countries, particularly the CEEC, both on domestic markets and the Euromarket. By virtue of its top credit rating, the Bank continues to be able to issue longer-term bonds denominated in such currencies, thereby contributing to the development of deeper capital markets. Funds raised in such currencies are onlent to project promoters in the region concerned and, by eliminating foreign exchange risks, provide a strong incentive for investment, ultimately fostering integration.

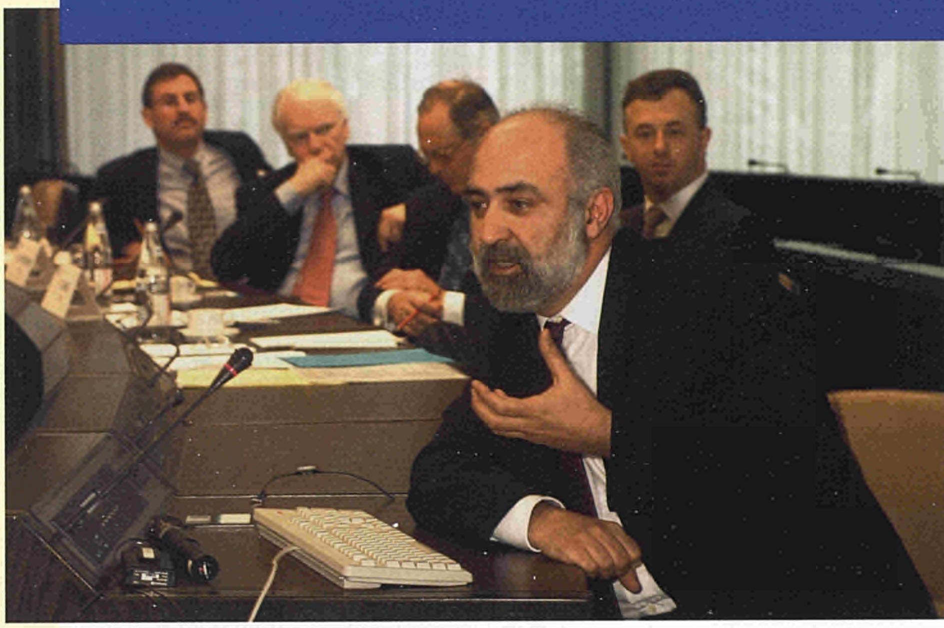
The EIB's role as an important international issuer is also reflected in its currency diversification. This is demonstrated by the EIB's strong presence notably in Japan, the Asian/Pacific region and the South African market. ■

Appointment

As from 1 February 2002, Mr Luis Botella, Deputy Director of Accounting, has been appointed Deputy Financial Controller, assisting Mr Patrick Klaedtke, the Bank's Financial Controller.



The 2002 EIB conference on economics and finance



The financial integration of an enlarged EU

More than ten years after the fall of communism all Accession Countries of Central and Eastern Europe have made major strides in establishing functioning market economies. As a result, prospects are good that a fairly large group of countries will join the EU by 2004. Supporting the accession process is a key strategic objective of the Bank and it is clear that achieving this objective requires collaboration with the region's financial markets – through lending activities that also involve commercial banks and through mobilising funds via the region's capital market. Obviously, an improved understanding of the region's financial markets can only strengthen the contribution the Bank makes. With this in mind, the 2002 EIB Conference on Economics and Finance – organised by the Bank's Economic and Financial Studies (EFS) Division – focused on achievements and remaining challenges on the road to further integration of the financial systems of Accession Countries with those of Current EU Members.

In his opening speech, **President Maystadt** addressed four key issues that he expected the conference to shed some light on. First, there is the fundamental question of whether financial systems matter for economic growth and development. To non-economists, the question seems surprising. But it is true that many economists, including Nobel Prize winner Robert Lucas, have argued that it is economic growth that causes financial system development rather than the other way round. Against this background, it was important to review recent evidence on these matters and to examine what it all means for Accession Countries.

Second, distinguishing between banks and capital markets, he continued with the question of whether Accession Countries have been successful in creating market-driven banking systems and whether remaining constraints to more efficient banking reflect a lack of competition, funds or expertise in banking – or whether there are yet other forces at work. From the Bank's perspective, it is clear that the efficiency of the banking system affects the effectiveness of Bank activities that involve commercial banks from the region.

Third, turning to the other important pillar of financial systems, the President wondered which direction the development of Central and Eastern European capital markets should take. More specifically, he asked whether Accession Countries need to develop their own capital markets or whether they could instead rely on existing EU markets. Obviously, this debate is highly relevant for the Bank's activities on the capital markets of Central and Eastern Europe.

Finally, with EU membership, Accession Countries make a commitment to eventually join EMU. While the ultimate objective is thus established, Mr Maystadt posed the question of how Accession Countries should prepare themselves for EMU membership and – equally important – how quickly. In this context, the President alluded to the intriguing question of which exchange rate regime would best ensure economic growth and financial stability on the road to EMU.

Reflecting these key questions, the conference was organised in four main sessions. The first set the scene by reviewing from a macro- and microeconomic perspective the role of finance in the transition from centrally planned to market economies. Kicking off this session, **Robert A. Feldman** (IMF, Washington) emphasised that recent research strongly supports the view that financial sector development indeed causes economic growth. But he also stressed that to play their growth-enhancing role, financial sectors need to be adequately regulated and supervised. Indeed, experience from elsewhere in the world has shown that weak financial systems are often the main culprit in triggering financial crises that can be hugely damaging to sustainable economic development. **Ricardo Lago** (EBRD, London) developed this theme further by pointing out that privatisation with foreign strategic investors had been instrumental in creating sound banking systems in Accession Countries. One of the reasons why he considered foreign banks important for the transition process is that their decision-making is less prone to those incentives that entice domestic banks to lend in favour of economically unviable investments. Overall, both speakers agreed that Accession countries have made major strides in setting up market-driven financial systems but that there was scope for further improvements, notably with respect to the effectiveness of the regulatory and supervisory framework for the financial sector.

Session 2 took a more detailed look at achievements and challenges in setting up banking sectors in the Accession Countries. The presentation of the Bank's **Economic and Financial Studies** team brought two issues to the fore. First, bank lending in a number of Accession Countries does not seem to be constrained by a lack of funds but rather by shortcomings in the legal environment in which banks have to operate. From a policy viewpoint this strongly suggests improvements to the effectiveness of the legal framework, in particular a strengthening of creditors' rights. Second, while not yet sufficiently profitable, the banking sector will face additional challenges in the period ahead. These challenges will arise from lending to riskier borrowers, full capital account liberalisation, and generous deposit insurance schemes. Raising the profitability of their operations is first and foremost a task of banks and does not call for a public policy response. However, improvements to the effectiveness of banking regulation and supervision have to ensure that banks' endeavours to become more profitable do not undermine the stability of banking.

The presentations on the Czech and Slovak banking sectors by **Jan Hanousek** (CERGE, Prague) and on the Hungarian banking industry by **Eva Varhergy** (Financial Research Ltd, Budapest) reinforced these conclusions. In addition, they brought out clearly the difference between the experience of Hungary in creating a market-driven banking system, on the one hand, and that of the Czech and Slovak Republics on the other. The main distinguishing fea-

Mr Robert A. Feldman
IMF, Washington

Mr Ricardo Lago
EBRD, London

Mr Jan Hanousek
CERGE, Prague

Ms Eva Varhergy
Financial Research Ltd, Budapest

Mr Eric Hampel
Chairman of the Managing Board of Creditanstalt, Vienna

Mr Jens Köke
ZEW, Mannheim

tures include (i) strict vs. lax licensing of banks; (ii) early vs. late privatisation with strategic foreign investors; (iii) lending decisions based on commercial criteria vs. connected lending; and (iv) prompt vs. delayed solving of bad loan problems. While these differences have been fading away in recent years, their effect continues to impact on the behaviour and performance of banks in these countries. Looking ahead, both speakers expressed the view that the banking systems in the countries considered should smoothly integrate into the EU banking market, not least because banks owned by EU banks dominate the banking sector in these countries.

Erich Hampel (Chairman of the Managing Board of Creditanstalt, Vienna) changed the perspective by providing an EU banker's strategic view of banking in the region. He observed that the region offers an enormous business potential given the underdevelopment of the market. Furthermore, he considered the prospect of accession to the EU an additional stimulus for intervention in the region – a factor that positively distinguishes Accession Countries from other emerging markets. As to the strategic positioning of his institution (i.e. the HypoVereinsbank/Bank Austria/Creditanstalt group), he expects benefits from an "early mover" advantage, reflecting the timely involvement of the group in the region. Looking ahead, he expressed the view that Central and Eastern Europe is an attractive market that is certain to prosper over the longer term. Against this background, he envisioned that the region would become the second core market (after Austria and Germany) for HypoVereinsbank/Bank Austria/Creditanstalt.

Session 3 of the conference turned to capital markets. **Jens Köke** and **Michael Schröder** (ZEW, Mannheim) started with an overview of capital market developments in the Accession Countries of Central and Eastern Europe (CEE). They showed that capital markets account for only a small portion of financial assets in these countries and that capital markets are thus even less developed than the banking sector. They demonstrated that the structure of corporate finance reflects this situation, with bank credit dominating external corporate finance, and debt securities playing a non-negligible role for financing investment only in the Czech Republic. It was emphasised, however, that despite the currently modest contribution of non-bank external finance for investment, firms must have access to capital markets to allow Accession Countries to catch up with higher standards of living elsewhere in the world. In this context, an intriguing question raised by Köke and Schröder was whether Accession countries had to advance the development of their capital markets or whether existing EU markets could provide the financial services necessary for furthering economic growth in the region. On this matter, the speakers concluded that the establishment of a pan-CEE capital market ought to be the preferred option and that emerging alliances of individual CEE security exchanges with counterparts in the EU were only second best.

Eva Thiel (OECD, Paris) critically discussed this pan-CEE capital market proposal. One of her concerns was that the hoped-for larger liquidity pool created by such a market would still not be large enough to represent a cost-effective alternative – in particular for blue chip companies of the region – for raising funds in this market. Yet, setting up the institutional framework for such a market could constitute a costly investment in a possibly short-lived pan-CEE capital market. In any case, she wondered whether the creation of such a market is at all feasible given the difficulties of establishing an effective single capital market in the euro zone. Overall, Ms Thiel concluded that as long as enabling legislation and regulation of securities operations (including contract enforcement, insolvency and investor protection) exist so that everyone who seeks to issue and trade can do so according to the rules of the game, the markets should be allowed to gravitate towards cost-effective solutions – national, pan-CEE, or alliances between exchanges in the Accession Countries and those in the EU.

To sum up, the proper development of capital markets in Accession Countries remains open to debate. But it seems also fair to conclude that due to the dominance of bank intermediation in these countries a public policy priority should be, for the time being, the soundness of banking rather than the development of capital markets.

The last session of the conference addressed both fundamental exchange rate policy questions relevant for the Accession Countries and exchange rate regime options on the road to EMU. **Paul de Grauwe** (Catholic University of Louvain) examined the viability of fixed exchange rate regimes and concluded that while a strong commitment to a fixed exchange rate system and high costs of abandoning it make such systems more credible, exogenous shocks are likely to undermine them before too long. This is particularly the case when countries move to full capital account liberalisation, as the Accession Countries will have to upon EU membership. At the same time, he was critical about flexible exchange rate regimes, emphasising that floating exchange rates could be an independent source of vulnerability, adversely affecting – in particular – the banking sector. In this context, he noted that the adverse repercussions of exchange rate changes on the banking sector raise the cost of abandoning a fixed exchange rate regime, thereby enhancing the credibility and life expectancy of such a regime. Overall, one can conclude from Mr de Grauwe's contribution that the transition to EMU should be short and that, in these circumstances, fixed exchange rates are advantageous.

The final presentation by **Willem Buiter** (EBRD, London) was fully in line with this conclusion. He pointed out that the credibility of a fixed exchange rate regime is greatly enhanced if it is combined with a sound exit strategy such as the prospect of membership in a monetary union. He further argued that it would make economic sense if Accession Countries joined EMU at the earliest possible date, preferably on the same date on which they become members of the EU. Realising that this could be in conflict with the EMU exchange rate and inflation criteria, he explained that the exchange rate criterion had been flexibly interpreted in the past while still observing the Maastricht Treaty. As to the inflation criterion, he stressed that there are sound economic reasons to redefine this criterion in terms of the inflation rate for tradable goods rather than consumer price inflation. Mr Buiter finally reasoned that a flexible approach to applying the exchange rate and inflation criteria would not undermine the stability of the euro.

The conference brought together participants from academia and national as well as international institutions, including central banks from Central and Eastern Europe, the European Central Bank, the European Commission, and the World Bank. This conference's strategic and operational relevance to the Bank was clearly reflected in the participation of members of the Bank's Management Committee and a considerable number of EIB staff. The conference proceedings will be published shortly as Volume 7 of the semiannual EIB Papers and they will also be available on the Bank's website (www.eib.org/efs/papers.htm).

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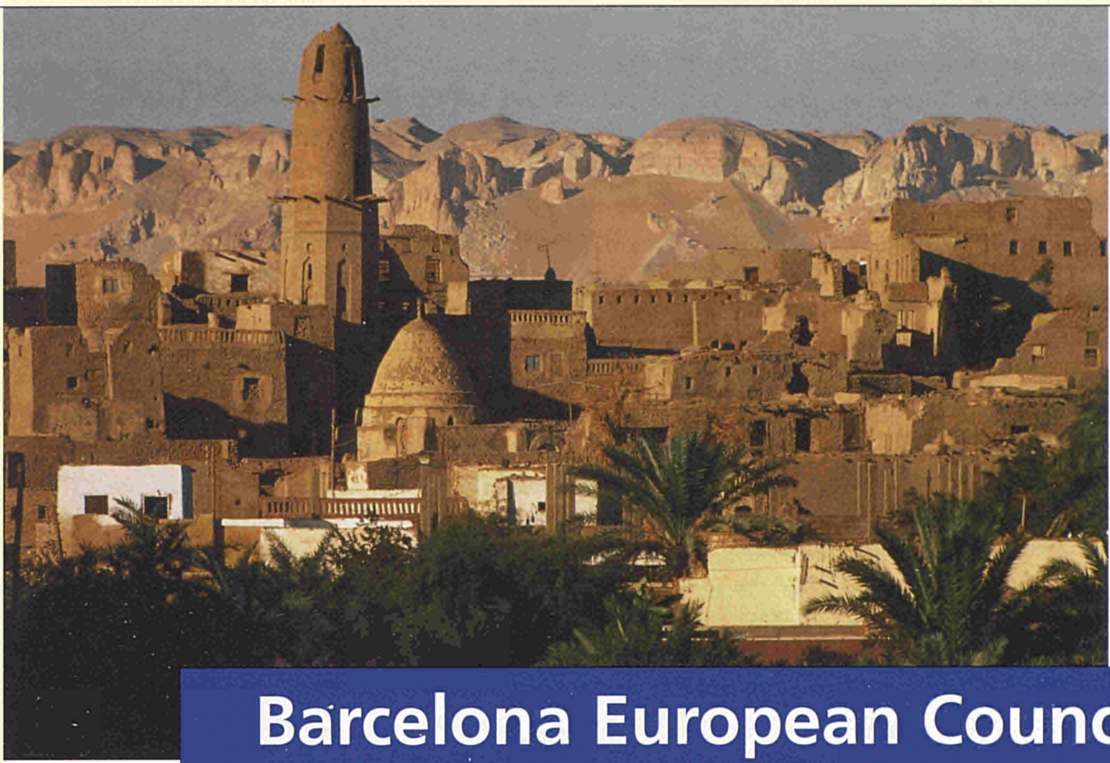

Barcelona European Council
(15-16 March 2002)

EIB set to increase cooperation with the Mediterranean Partner Countries

In the general opinion of the parties concerned, the Euro-Mediterranean Partnership, launched following the Barcelona Conference in November 1995, now calls for fresh momentum built around two concepts: – more intensive financial cooperation in terms of both volume and the type of investment implemented and – greater political dialogue between the European Union and the Mediterranean Partner Countries.

Moreover, the EIB Forum, which was held on 25-26 October 2001[1] and brought together representatives of political, economic and financial circles from both shores of the Mediterranean, had emphasised the need for this new approach.

Reaffirming the crucial importance of the region and the Union's determination to develop the Euro-Med Partnership, the European Heads of State or Government meeting in Barcelona on 15-16 March 2002 invited the EIB to establish a "reinforced Euro-Mediterranean investment facility" complemented by EIB representation in the region. In addition, the conclusions of the Council stipulate that one year after start-up of the Facility, a decision on creating an EIB majority-owned specialist subsidiary could be taken in the light of the Facility's performance and consultations with the Barcelona Process partner countries.

The EIB which, having invested EUR 1.5 billion in the economies of the Mediterranean Partner Countries in 2001, is by far the leading source of bank financing for the region's development, actively participated alongside the Commission in preparing the Council's decision. This opens up tangible prospects for more extensive cooperation and will be implemented by the Autumn 2002.

Operational by Autumn 2002

The main aspects of this Facility are as follows:

- Swift implementation, based on decisions to be taken by the Bank's Governance alone.
- Increased financial resources, leading the EIB to expand its annual lending from EUR 1.5 billion to EUR 2 billion.
- Emphasis on developing the private sector and liberalising the economies of the Mediterranean Partner Countries with a view to the Customs Union scheduled to be in place by 2010. Accordingly,

the share of EIB financing dedicated to this objective would gradually rise from a quarter to one third of the total volume of loans.

- A broader range of products, notably including more venture capital financing (at present around EUR 100 million for the period 2001-2003) to bolster companies' equity base.

- Greater resources devoted to technical assistance for the emergence of projects. Currently limited to investment aimed at safeguarding the environment under METAP [2], technical assistance could be drawn on in particular to facilitate the emergence of social projects and schemes to tackle poverty.

- Enhanced cooperation between the EIB and the Commission in order to optimise synergies between the Bank's loans and grants available under the MEDA Programme.

- Setting-up of a Supervisory Board bringing together European countries and their Mediterranean partners

Conclusion

Introduction of this Facility makes it possible immediately to broaden the nature of EIB financing activity in the Mediterranean Partner Countries, while at the same time strengthening the partnership between the Union and countries on the southern and eastern shores of the Mediterranean.

The solution adopted by the Heads of State or Government will enable the EIB to contribute fully, in stages, to the desired objective of revitalising the Barcelona Process and involving the beneficiary countries more closely in the deployment of aid provided by the Union for their development.

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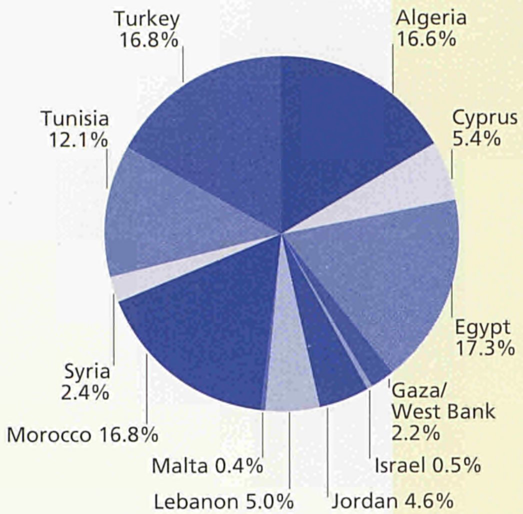
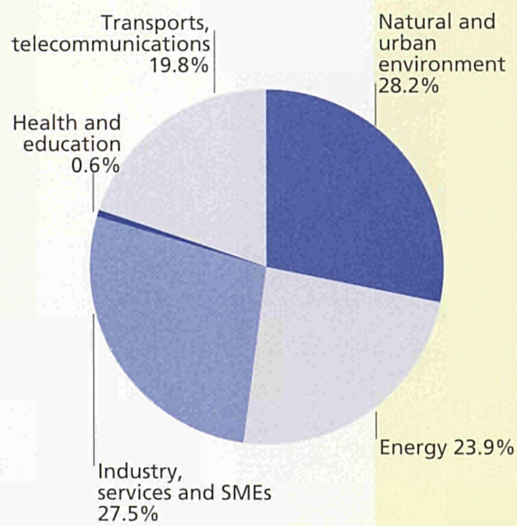
[1] *see EIB Information 2-2001 - N° 108*
[2] *implemented by the EIB, the Commission and the World Bank since 1990*

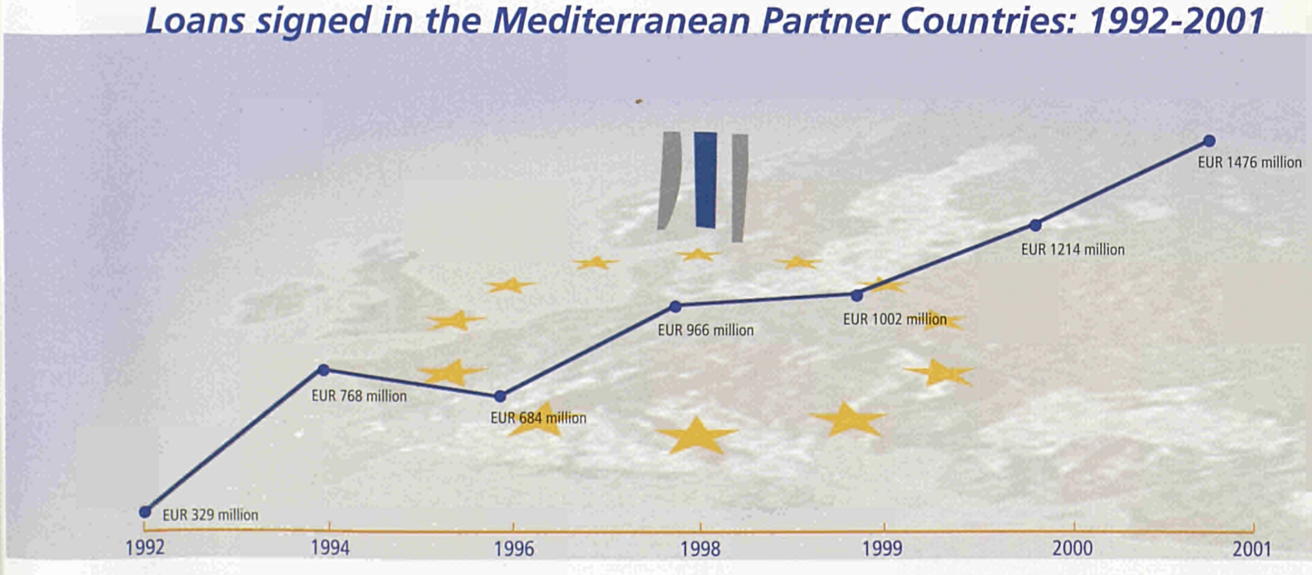
Breakdown by country of EIB loans outstanding at 31.12.2001



Breakdown by sector of EIB loans outstanding at 31.12.2001



Loans signed in the Mediterranean Partner Countries: 1992-2001



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EIB Forum 2002 in Vienna

The EIB Forum 2002 will be held in Vienna on 7 and 8 November on the theme: Countdown to Enlargement - Practical Perspective

BEI/EIB FORUM 2002 VIENNA

By the time of this year's Forum, discussion on EU enlargement will have intensified further, ranking at the top of the political agenda of the Accession Countries.

The Forum will offer an opportunity to eminent speakers to express their views on prospects of completing negotiations on accession as well as on the possibility of new members joining the euro zone. At the same time, it will focus on subjects of immediate interest to the Bank's clients, i.e. investment needs in infrastructure and priorities, experience gained from implementing investment projects, the attractiveness of central and south-eastern European countries for foreign direct investment and sources of finance for the economic catching-up process. A further issue will be the need to achieve more balanced regional development.

The EIB has invited high-level speakers from the EU and Accession Countries to join this discussion, and is expecting some 300 guests from political, industrial and banking circles.

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