

COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

on the experience gained in the operation of the
interest subsidy scheme within the arrangements
for the European Monetary System during 1979 and
1980

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I. Introduction

The scheme for interest subsidies, chargeable to the Community budget, on certain loans for infrastructure projects in less prosperous member states which participate fully and effectively in the European Monetary System arrangements, has now been in de facto operation for somewhat over a year. The scheme was set up by Council Regulation 1736/79 (CEE) of 3 August 1979 and given practical effect by Council Decision 79/691/CEE of the same date, back-dated to 1.1.79, with Italy and Ireland named as beneficiaries. Article 10 of the said regulation requires the Commission to present a report not later than the end of 1980 on the experience gained with the system to the Council and the European Parliament. The present report fulfils this requirement.

Detailed results concerning the operations carried out with the 1979 appropriations were provided in the first annual report on the scheme, which was presented to the Council and the European Parliament in April 1980 (doc. COM(80)192 final), and a further report will provide comparable data on the use of the 1980 appropriations after the close of the year. The present report therefore sets out a small selection of key results, concerning the cumulative operations carried out or signed since the inauguration of the scheme up to the end of 1980, before going on to discuss the lessons to be learned from experience to date with operating the system.

II. Summary of operations to date

Regulation 1736/79 lays down two separate upper limits, distributed over a series of five annual slices (1000 MEUA per year of loans to receive subsidy and

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200 MEUA per year of capitalized subsidies, expressed as a "present value" of the interest subsidy which would otherwise be paid over the full life of the loan). As already reported, the 1979 slice of subsidies (i.e. 200 MEUA chargeable directly to the Community budget), was used in its entirety, although the attainment of this limit brought the 1979 operations to a close below the other limit, of 1000 MEUA of subsidized loans. This was mainly due to the fact that loans of relatively long duration and grace periods were involved. For 1980 the near-complete utilisation of the 200 MEUA has involved giving subsidies to loans of slightly over 1000 MEUA, although the two-year total remains below 2000 MEUA.

The cumulative position at the end of the budgetary year 1980 of subsidies paid since the start of the scheme is as shown in the following table.

	<u>Loans subsidized</u>		<u>Subsidies paid</u>	
	<u>No</u>	<u>MEUA(1)</u>	<u>MEUA</u>	<u>%</u>
<u>Recipient country</u>				
Italy	53	1359	264	66
Ireland	36	557	133	34
	<u>89</u>	<u>1916</u>	<u>397</u>	<u>100</u>
<u>Source of loan</u>				
NCI	13	251	52	13
EIB	76	1665	345	87
	<u>89</u>	<u>1916</u>	<u>397</u>	<u>100</u>
<u>Sector of activity</u>				
Energy	39	870	171	43
Other infrastructure	50	1046	226	57
	<u>89</u>	<u>1916</u>	<u>397</u>	<u>100</u>

(1) The values of subsidized loans quoted in the EIB's publications differ slightly from those presented here, the latter being converted into MEUA on the basis of exchange rates at the same dates as for the subsidies themselves.

Over 1900 MEUA of loans have now been subsidized under the EMS arrangements, representing 89 loans in all. Regarding the recipient countries, about two-thirds of the value of loans subsidized and of the subsidies paid has gone to Italy, and one-third to Ireland.

The analysis by source of loan shows that seven-eighths of the total value of subsidies was paid on loans from the European Investment Bank's own resources and one-eighth on loans made under the New Community Instrument facility; the shares by value of loans subsidized were the same. These proportions are in line with the division between total EIB and NCI loans - subsidized and unsubsidized - for infrastructure projects in the countries concerned.

By sector of activity benefitting from subsidized loans, energy projects occupied an important place and accounted for over 40 % of total loans and subsidies.

III. Experience gained

The results summarized above show that the basic objectives of the scheme are being attained. The subsidies represent some 21 % of the loans subsidized, which were made for projects in the priority fields of energy independence and of types of infrastructure capable of helping to overcome structural problems, and in particular regional disparities. The subsidized loans themselves represented some 45 % of the total investment costs of the projects involved in the two countries concerned in 1979-80, and accounted for 1.4 % of total fixed capital formation in Italy and for 7.7 % in Ireland. In the case of Ireland the subsidized loans in fact covered a substantial proportion of the Irish Government's capital spending programmes in the relevant sectors. Much of this effort has been concentrated in areas designated for development : all of the subsidies for Ireland, and 70 % of the total paid in respect of Italy. Taking the two countries together, 57 % of the value of subsidies was for non-energy projects in such areas (one of these being also a transport link of common interest to 2 Member Countries), 23 % was for energy projects in the developments areas, and 20 % was for energy projects elsewhere.

In accordance with Article 3 of the regulation, which requires the countries concerned to draw up "Indicative Programmes", the Commission has received details of the development priorities of Italy and Ireland. These show that the emphasis on developments in the energy sector within the infrastructure total is still being maintained, and that there appear to be sufficient projects suitable for subsidisation, even in the relatively small Irish economy. The Irish programme in particular stresses the rôle of infrastructural investment in creating job opportunities for the rising population. The distribution of the subsidized loans is fully consistent with these objectives.

The success with which the system has been operated, despite the short interval since the entry into force of the enabling legislation, suggests that, in conjunction with existing types of EIB or NCI loans, it provides an efficient means of lowering the cost of debt service on loans relating to investments in accordance with Community priorities. The mainly indirect effects of the projects financed through the subsidized loans should make a significant contribution to the creation of new employment opportunities, at least in the medium and long term. In addition there are more immediate effects on the employment situation, especially in the areas where the projects are located, which derive from the actual carrying out of the infrastructure and energy investments themselves.

The financial mechanism of the scheme has been built on the model of previous smaller-scale operations with the European Development Fund and the Financial Protocols with Mediterranean countries. Co-operation with the EIB, which participates with the Commission in the implementation of the scheme, has been close and efficient.