

European BACKGROUND INFORMATION Community

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March 16, 1978

BACKGROUND NOTE

No. 13/1976

EUROPEAN COMMUNITY TO CONCLUDE ITS LARGEST LOANS EVER

The European Community will make the largest loans in its history as a result of a mandate to conclude \$1.3 billion in loans given yesterday to the EC Commission by the Council of Ministers.

Ireland will receive \$300 million and Italy \$1 billion to help finance balance-of-payments deficits aggravated by petroleum price increases. In exchange, both countries agreed to economic adjustments at home. EC Commission Vice President Wilhelm Haferkamp welcomed this move as "an important practical expression of the concept of Community solidarity."

How the Loans Will Work

Three international banking consortia, managed by the Deutsche Bank of Frankfurt, will make the equivalent of US \$1 billion available to the Community at fixed interest rates. The terms match the best market conditions and the average duration of five years. Another international banking consortium -- the European Banking Company, Ltd., of London -- will grant a five-year bank loan of \$300 million.

The banks and the Commission will sign contracts on March 22 covering the following transactions

- a public loan with a fixed duration of six years for US \$300 million
- a public loan with a fixed duration of seven years for 500 million German marks
- a five-year loan at variable interest rates for US \$300 million.

The rest of the money will be raised by a \$500 million private placement of dollar notes with a duration of up to four years. This placement will be made in April.

These special European Economic Community (EEC) loans to Ireland and Italy

should not be confused with loans made under the Community system for short- and medium-term monetary support. The EEC loans are made from money raised on the international capital market and can be used only to finance balance-of-payments deficits caused by petroleum price increases.

Nonborrowing member countries guarantee EEC loans and agree to be responsible for fixed differentiated percentages of the amount due if the borrower cannot pay and for providing fixed differentiated amounts of foreign exchange for repayment if the borrower does not have the necessary foreign exchange. Loans will be denominated and repaid in a single currency.

Previous Community Loans

The Community's lending activities go back to the early Fifties and loans made by the European Coal and Steel Community to finance investments in the coal and steel industries and housing for coal and steelworkers. The ECSC's largest loan so far is \$150 million. Several ECSC bond issues have been floated in New York.

The Community's European Investment Bank (EIB) also has broad experience with financing industrial investments. Its biggest loan has been \$100 million.