# COMMISSION OF THE EUROPEAN COMMUNITIES

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Brussels, 9 February 1979.

# Proposal for a

### REGULATION (HFC) OF THE COUNCIL

concerning interest rebates for certain loans with a structural objective

(Presented by the Commission to the Council)

## EXPLANATORY M'EMORANDUM

The European Council of 4 et 5 December 1978, which agreed on the introduction of the European monetary system, provided that the less prosperous Member States should be helped to take part in the system by measures to strengthen their economies. The main responsability for the help should, of course, be borne by the Member States; but the Community can support their efforts and make its own contribution.

This contribution should involve aid towards financing investment, particularly in the infrastructure sector; for the measures in question will have to be aimed at reducing regional and structural inbalances, and thus at bringing economic performances within the Community closer together.

Capital can be mobilized on favourable terms on the international markets both by the New Community Instrument introduced by the Council on 16 October 1978 and by the European Investment Bank.

Foreover, Community loans granted on special terms with an interest subsidy from the Community budget will be cheaper, and therefore provide a greater incentive to invest.

However, it is important that the investment incentive should be consistent with Community policies in general, and with the priorities of these policies. That is the reason for providing that indicative programmes should be drawn up jointly by the Member State concerned and the Commission.

The interest subsidies will be financed from the resources entered in the General Budget of the European Communities. Since Member States that do not effectively and fully participate in the mechanisms of the European Monetary System must not be required to bear the financial burdens attaching to it, they will have to be compensated financially, likewise out of the General Budget.

As their purpose is similar to that of regional policy, the appropriations for interest subsidies and those for compensation to Member States not participating in the European monetary system are to be entered in the Budget in a new chapter under Title 5 (Regional and Social Funds). They will be treated as non-differentiated appropriations, and classed as compulsory expenditure.

The appropriations entered in the Budget as financial compensation allocated to Member States not participating in the system will be used quarterly, as and when the appropriations for interest subsidies are spent.

At the moment, the most suitable method for dealing with appropriations for interest subsidies seems to be to enter the annual instalment as non-differentiated appropriations. However, this method requires that the value of the instalment entered should represent the up-rated value of the subsidies to be granted.

The Commission of course reserves the right to make appropriate proposals to take account of any developments of the European Monetary System with implications for the operation of the interest subsidy machinery.

# PROPOSAL FOR A REGULATION CONCERNING INTEREST REBATES FOR CERTAIN LOANS WITH A STRUCTURAL OBJECTIVE

The COUNCIL of the European Communities,

HAVING REGARD to the Treaty establishing the European Economic Community, and in particular Article 235 thereof,

HAVING REGARD to the Opinion of the European Parliament,

HAVING REGARD to the Opinion of the Economic and Social Committee,

WHEREAS a European monetary system was set up by Council Regulation (EEC) No ..... of ......

WHEREAS the European Council, at its meeting of 4 and 5 December 1978, provided that this system should include measures to strengthen the economies of the less prosperous Member States taking part in it;

WHEREAS it is of prime importance in fulfilling this purpose that investment programmes and projects in infrastructure be carried out in these less prosperous Member States;

WHEREAS the Loans made by the European Investment Bank and those made within the framework of Council Decision No 78/870/EEC of 16 October 1978 (1) empowering the Commission to contract loans for the purpose of promoting investment within the Community are intended, among other things, to finance investments in infrastructure; whereas the rates of interest applied to these loans depend on terms for the corresponding borrowings;

WHEREAS selected projects, mainly in infrastructure, in the less prosperous States effectively and fully participating in the European monetary system could be more easily carried out if Community loans carrying interest rate subsidies, financed by the general budget of the European Communities, were available;

WHEREAS the European Council requested the Community institutions and the European Investment Bank to put at the disposal of these States for a five-year period loans of 1 000 million EUA a year on special terms, those made by the Community institutions being within the framework of Council Decision 78/870/EEC;

WHEREAS the Community should, during this five-year period, participate in this action by granting interest rebates on these loans of 3 % a year, totalling 1 000 million EUA in five annual instalments of 200 million EUA each;

.../...

<sup>(1)</sup> OJ L 298 of 25.10.1978, p. 9.

WHEREAS special arrangements are needed for Member States which do not effectively and fully participate in the mechanisms of the European monetary system;

WHEREAS the Bank has agreed to take part in implementing this Regulation;

has adopted this regulation:

#### Article 1

Loans made out of its own resources by the European Investment Bank, herinafter referred to as "The Bank", and loans made within the framework of Council Decision No 78/870/EEC to aid investments in the less prosperous Member States of the Community may carry an interest rebate financed by the budget of the European Communities, provided that the recipient States effectively and fully participate in the mechanisms of the European monetary system.

#### Article 2

The Council shall decide, on a proposal from the Commission and acting by a qualified majority, which Member State or States shall be eligible for the subsidies described at Article 1.

#### Article 3

The interest rate subsidies provided for in this Regulation shall be granted only for loans primarily devoted to financing projects and programmes relating to the infrastructure, provided such loans are consistent with the Community's priority objectives, especially those of regional policy, provided they do not distort conditions of competition in any way that is inconsistent with the principles of the relevant provisions of the Treaty, and provided that the investment contributes to increasing gross fixed asset formation in the Member States concerned.

#### Article 4

To ensure the coherence of Community action, and to facilitate the selection of suitable projects, indicative programmes shall be drawn up by each Member State involved, in collaboration with the Commission.

These indicative programmes shall be concerned particularly with the overall amount and the categories of investment to be aimed at.

Investments in regions for which the Member States are required to present regional development programmes shall come within the framework of these programmes.

#### Article 5.

Applications for loans which might be eligible for the interest rate subsidy provided for in this Regulation shall be submitted for the opinion of the Member State on whose territory the project is to be carried out.

The Commission shall decide whether the loans are eligible for the interest rate subsidy, subject to approval of the loan being made.

#### Article 6.

The subsidized loans covered by this Regulation shall be made and managed in accordance with the Bank's regulations and with the provisions of Council Decision N $^{\circ}$  78/870/EEC.

#### Article 7.

The amount of interest rate subsidy is fixed at 3 % a year. The amount entered in the Budget shall be the discounted value of the subsidies for the whole period of the loan.

#### Article 8.

The amount of loans to be subsidized pursuant to this Regulation shall be 5 000 million EUA over five years, divided into five annual instalments of 1 000 million EUA each. Over the same period, the amount of interest rate subsidies financed by the budget shall be 1 000 million EUA divided into five annual instalments of 200 million EUA each.

#### Article 9.

Any Member State which does not take part in the European monetary system shall receive financial compensation, financed by the budget, of an amount to be determined on the basis of expenditure on interest rate subsidies under this Regulation.

#### Article 10.

The arrangements for applying this Regulation shall be set out in a convention between the Commission and the Bank.

#### Article 11.

No later than two years after this Regulation enters into force, the Commission shall present the Council and the European Parliament with a report on the application of the Regulation, and shall make any proposals for adjustments it may consider necessary.

#### Article 12.

This Regulation shall enter into force on the third day following its publication in the Official Journal of the European Communities. It shall be applicable as from 1 January 1979.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, .....

For the Council, The President.