

Information

European
Investment
Bank



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The international capital market* during 1977 and the first half of 1978

The movement of the USA into heavy deficit in its balance of payments and a consequent depreciation of the exchange value of the dollar played a major role in the development of the international capital market during 1977 and the first half of 1978. The additional liquidity deriving from the US balance of payments deficit exercised a more lasting influence perhaps in the market in syndicated credits in which competition between banks seeking employment for their liquid resources has become intense. In the bond market, on the other hand, the weakening of the US dollar which began about the middle of 1977 induced a certain reluctance in investors from September onwards to commit themselves in this currency.

A number of markets operating in currencies other than the US dollar which experienced capital inflows while the dollar remained weak were able to meet a larger proportion of borrowers' requirements of resources on fixed interest terms. Nevertheless public bond issues on the international market and the foreign sector of national markets, having reached in 1976 a little over 21 000 million European Units of Account (abbreviation EUC), rose scarcely at all during the next year and a half when they continued at about 11 000 million EUC in each six-monthly period. Private placings in 1977, at 3 500 million EUC, were only slightly higher than the previous year. Internationally syndicated credits, on the other hand, which amounted to 29 000 million, were nearly one-fifth higher than in 1976; continuing this growth, they reached nearly 25 000 million EUC in the first six months of 1978, almost half as much again as in the same period a year earlier.

The growth during 1977 and the first half of 1978 in the volume of finance provided by the international capital market was mainly attributable to a rapid expansion of loans by international syndicates of banks and only to a small extent to an increase in bond issues.

The performance of bond markets and of international bank syndicates

would, however, look somewhat different if allowance were to be made for reimbursements of earlier borrowings. No reliable statistics exist of these reimbursements but it seems that the volume of repayments of earlier bond issues has been growing. It is probable that because the gross amount of bond issues has varied little during the last year and a half, the net new capital which they have raised has been tending to decline. The changing pattern of bond issues, the resort to borrowing in new currencies, the revival of old techniques, the heavier borrowing by some sectors, may be seen as attempts to avoid the worst effects of the contraction of issues denominated in dollars.

Large scale borrowing in the form of internationally syndicated credits, on the other hand, is of comparatively recent origin, and so the normal repayment of earlier loans is not likely to have been very large.

(*) It is intended henceforth to publish studies on this subject at the beginning of each year, thus continuing the review on the evolution of the international capital market which was previously covered in the third chapter of the Bank's annual publication «Investment in the Community and its Financing», which has now been discontinued. See also note on p. 3.

However a number of borrowers whose loan contracts contained no penalties for prepayment of their loans have taken advantage of the movement of terms in their favour, particularly during the first half of 1978, to refinance their earlier borrowing at lower rates of interest.

After deducting these repayments from the total of new credits granted, the growth of net new credit by international banking syndicates during the last year or so would not look so spectacular but would probably remain high, at least in nominal terms. Thus the market in syndicated credits has been able to accommodate the requirements of a widening circle of borrowers, including an increasing number of developing countries, while reducing interest charges and lengthening maturities. It is worth noting that among these extensions of activity syndicated credits to developing countries are tending to be linked more and more to the implementation of specific projects. A further significant development in this mar-

ket has been a gradual move to a more formal organisation by managing banks of participants in banking syndicates on lines resembling the invitations issued by managers of bond issues to members of the selling group of institutions in the international bond market.

The bond markets

a) The currencies

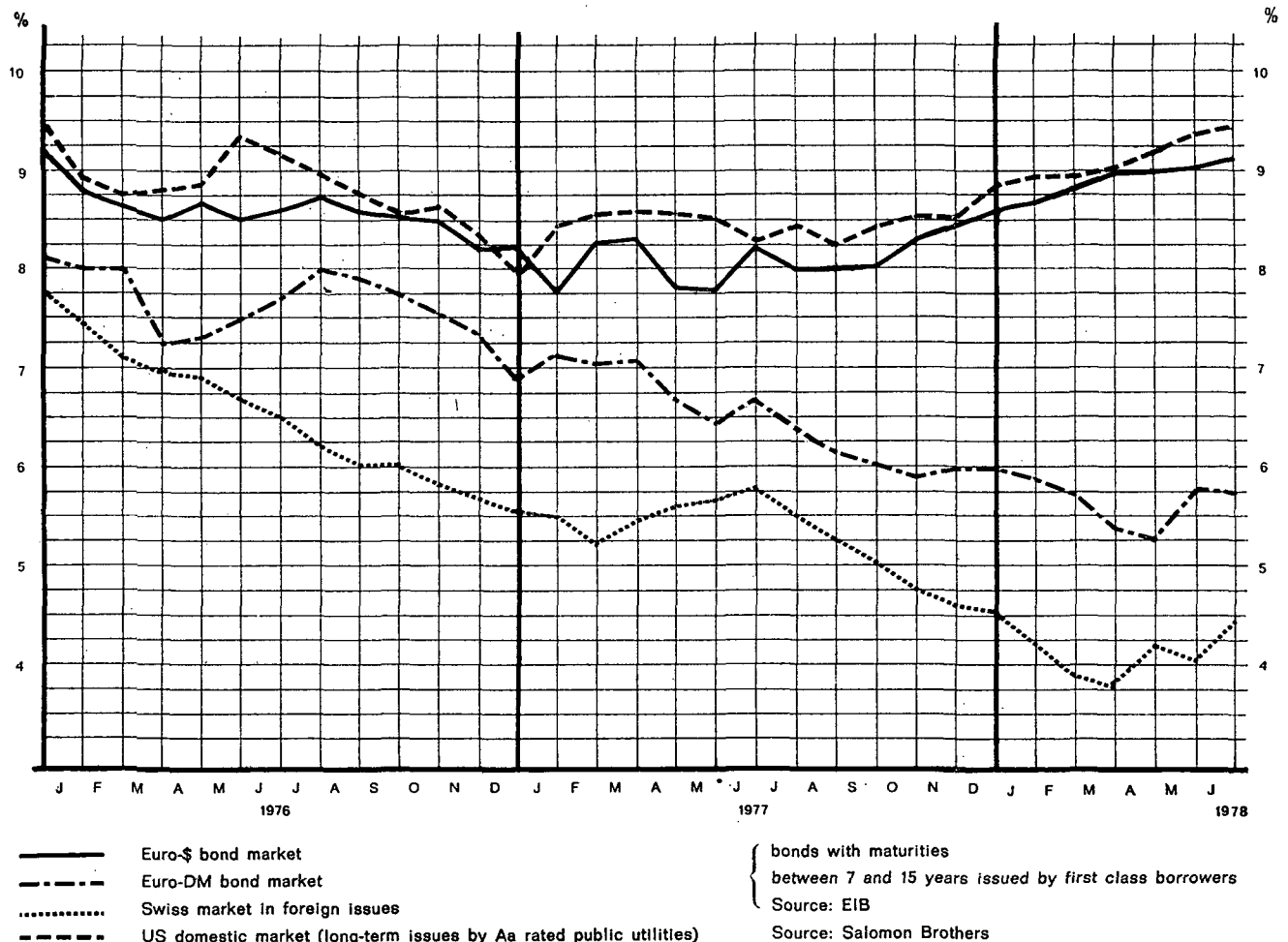
The most striking effect of the weakening of the exchange rate for the US dollar on international capital issues was to be seen in the contraction of new issues denominated in that currency (see Table 1, page 4) despite a widening interest rate differential in favour of dollar investments. In 1976 eurobond and foreign public bond issues denominated in US dollars accounted for 73% of the total. This proportion fell to 68% in the first half of 1977, to 63% in the second half of that year and to 50% in the first half of 1978. Meanwhile the offering yield on a 10-year

bond issue which for a first-class borrower would have been between 8 and 8.25% at the beginning of 1977, either in New York or on the international bond market, would have risen to around 9.25% by mid-1978.

Public issues denominated in Canadian dollars fared worse. Having accounted for 6% of the total in 1976, they still represented 4% in the first half of 1977 but then dried to a trickle in the second half and disappeared entirely in 1978. The Canadian dollar, being weaker than the US currency, had even less of an appeal as a medium for investment despite the availability of higher yields.

The contraction of new issues denominated in the North American currencies was offset by increased new issue activity in European currencies, principally the Deutsche mark and the Swiss franc, and in Japanese yen. A substantial movement of funds into these currencies, especially in the first quarter of

Average yields on new bond issues made in selected markets



Yields are all calculated according to the standard method used by the International Association of Bond Dealers - I.A.B.D.

1978, was largely undeterred by declining interest rates. However, official action taken in Switzerland to restrict capital inflows probably had a limiting effect as the proportion which new public issues financed in Swiss francs formed of the total of international bond issues rose from 6 or 7% in 1976 and 1977 to only 9% in the first half of 1978.

The main expansion in international bond issues in Europe was in issues denominated in Deutschmarks, taking eurobond issues and foreign issues on the domestic market together. Having accounted for 11% of the total of international public issues in 1976, Deutschmark bond issues rose to 17 or 18% in each half of the following year and reached 21% in the first half of 1978, notwithstanding the suspension of new issues by foreign borrowers between mid-May and mid-June to allow the market time to overcome a certain weakness which developed in early May after a period of intense activity.

This temporary weakness in the primary Deutschmark market was attributable in part to the difficulty of digesting a number of large issues, and in part also to the cessation and reversal of the flow of foreign capital into Deutschmark securities. With the decline in offering yields on new Deutschmark issues — from about 7% on 10-year bonds, for example, at the beginning of 1977 to 5.2% in April 1978 — the yield gap between US dollar and Deutschmark issues (see chart page 2) had widened from an average of around 1 or 1.25% to nearly 4%. Thus when the US dollar/Deutschmark exchange rate showed signs of stabilising in early May 1978 and the Deutschmark had lost much of its revaluation potential in the eyes of international investors, a move into higher yielding dollar securities began.

Up to the end of June 1978 the Japanese market had not been similarly affected as the yield gap between dollar and yen securities was smaller and the yen appeared to retain more potential for appreciation than the Deutschmark. From a very small proportion of around 1% of public issues on the international bond market up to mid-1977, new issues denominated in yen rose to 8% in the second half of 1977 and to 14% in the first half of 1978. In the meanwhile the terms of issue had moved steadily if slowly in favour of borrowers; whereas in

April 1977 a first-class borrower would have had to offer 7.25% for 7-year money, in June 1978 a little over 6.5% was being offered for 12-year funds. The European Investment Bank led the way in floating the first ever euro-yen public issue in April 1977 in which the securities were placed entirely outside Japan. This was followed by a number of other euro-yen public issues before the end of the year but there have not been any so far in 1978.

A growth of public issues in a number of other currencies was also recorded while the weakness of the dollar created difficulties for issues in that currency. Among issues denominated in Community currencies, Guilder issues rose appreciably in volume during the first half of 1978 while sterling eurobond issues, which were revived in December 1977, raised a substantial amount of capital in the brief period to the end of the first quarter of 1978 when a fresh decline of the exchange rate against the stronger European currencies rendered further issues unlikely. A single issue denominated in European Units of Account (but not the basket EUC used for this article, see note below) was launched in the first half of 1977 but was followed by a number of others towards the end of the year and in the first half of 1978. During the period under review modest amounts were also borrowed in

French, Belgian and Luxembourg francs.

Outside Europe currencies used in international issues included Australian dollars, Saudi Arabian riyals, Kuwaiti and Bahraini dinars and Hong Kong dollars.

b) The borrowers

Countries

Among the main groups in Table 2 (page 4), developed countries continued to secure a major share of the funds raised through public issues of bonds on the international market. There was admittedly a minor decline in the percentage of gross new issues obtained by such countries, from 84% in 1976 to 73% in the second half of 1977. But in the following six months the percentage had risen again to 81%, much the same as the 80% recorded in the same period a year earlier when the European Economic Community raised a massive 530 million EUC at fixed interest rates partly for on-lending to Italy and partly to fund earlier borrowing. Largely because of this borrowing the share of the market obtained by EEC borrowers rose from 24% in 1976 to an average of 26% in 1977 at which it remained during the first half of 1978.

Even if one excludes the petroleum-exporting (OPEC) countries which absorbed an increasing, though rela-

Note

Unless otherwise stated, the statistics of bond issues in this article are those of public issues on the international market (of eurobonds) or of foreign public bond issues on national markets. Statistics of international private placings during the first half of 1978, as compiled by the World Bank and OECD, had not been published at the time the article was written.

Eurobond issues are those which are sold through international banking syndicates, usually in more than one market including markets outside Europe; they include all issues to which special monetary clauses are attached (EUA, EURCO, ECU, SDR and other multiple currency issues).

Foreign bond issues are those which are sold on a single national market on behalf of non-resident borrowers by financial institutions of the country concerned. The distinction between eurobond and foreign bond issues is, however, becoming blurred.

Syndicated credits consist of loans granted by international banking syndicates as publicly reported; they are recorded at the time of signature and not of drawdown.

For the purpose of comparison amounts in various currencies have been converted in the summary tables into the new European Unit of Account (of which the abbreviation is EUC) consisting of a basket of specific amounts of the currencies of EEC Member States. The rates applied in this article for converting the EUC into the main currencies in use on the international market are as follows:

		US \$	DM	S. franc	Guilder	Yen
1977	1 EUC:	1.132	2.659	2.770	2.796	311.37
1978 (1st half)	1 EUC:	1.242	2.563	2.404	2.756	286.65

Table 1: Eurobond and foreign bond issues and new syndicated credits classified according to currency
(million EUC)

CURRENCIES	Eurobonds					Foreign bonds					Syndicated credits					TOTAL				
	Year 1976	1st H. 1977	2nd H. 1977	Year 1977	1st. H 1978	Year 1976	1st H. 1977	2nd H. 1977	Year 1977	1st H. 1978	Year 1976	1st H. 1977	2nd H. 1977	Year 1977	1st H. 1978	Year 1976	1st H. 1977	2nd H. 1977	Year 1977	1st H. 1978
US dollars	6 773	4 822	3 625	8 447	2 960	8 868	2 776	3 178	5 954	2 597	23 038	12 511	15 669	28 180	22 196	38 679	20 109	22 472	42 581	27 753
Canadian dollars	1 288	437	72	509	—	—	—	—	—	—	—	—	—	—	1 288	437	72	509	—	—
Deutschemarks	1 920	1 719	1 773	3 492	2 087	367	244	113	357	234	897	374	344	718	351	3 184	2 337	2 230	4 567	2 672
Pounds sterling	—	—	183	183	227	—	—	—	—	—	434	159	—	159	23	434	159	183	342	250
Dutch guilders	49	30	27	57	5	127	84	39	123	186	40	—	—	—	216	114	66	180	191	
Swiss francs	—	—	—	—	—	1 290	640	746	1 386	986	14	93	—	93	1 304	733	746	1 479	986	
Japanese Yen	—	32	64	96	—	194	103	848	951	1 524	1	—	—	—	195	135	912	1 047	1 524	
Other currencies	385	230	81	311	245	86	24	103	127	115	364	123	64	187	835	377	248	625	510	
TOTAL	10 415	7 270	5 825	13 095	5 524	10 932	3 871	5 027	8 898	5 642	24 788	13 260	16 077	29 337	22 720	46 135	24 401	26 929	51 330	33 886

Sources: Eurobond and foreign bond issues — EIB; new syndicated credits — OECD.

Table 2: Eurobond and foreign bond issues and new syndicated credits classified according to borrower
(million EUC)

BORROWERS	Eurobonds					Foreign bonds					Syndicated credits					TOTAL				
	Year 1976	1st H. 1977	2nd H. 1977	Year 1977	1st H. 1978	Year 1976	1st H. 1977	2nd H. 1977	Year 1977	1st H. 1978	Year 1976	1st H. 1977	2nd H. 1977	Year 1977	1st H. 1978	Year 1976	1st H. 1977	2nd H. 1977	Year 1977	1st H. 1978
I. Developed countries	9 247	6 205	4 631	10 836	4 263	8 779	2 728	3 296	6 024	4 748	7 860	5 413	4 053	9 466	8 966	25 886	14 346	11 980	26 326	17 977
Borrowers in EEC countries (inc. EEC organisations)	3 318	2 499	1 711	4 210	1 929	1 831	603	721	1 324	1 065	4 000	3 292	1 921	5 213	3 441	9 149	6 394	4 353	10 747	6 435
Other developed countries	5 929	3 706	2 920	6 626	2 334	6 948	2 125	2 575	4 700	3 683	3 860	2 121	2 132	4 253	5 525	16 737	7 952	7 627	15 579	11 542
II. Developing countries	963	890	1 054	1 944	1 068	90	191	571	762	473	14 645	7 084	10 349	17 433	12 162	15 698	8 165	11 974	20 139	13 703
OPEC countries	90	97	86	183	215	—	88	133	221	140	3 020	2 560	2 862	5 422	4 354	3 110	2 745	3 081	5 826	4 709
Other developing countries	873	793	968	1 761	853	90	103	438	541	333	11 625	4 524	7 487	12 011	7 808	12 588	5 420	8 893	14 313	8 994
III. Eastern European countries (inc. Comecon organisations)	42	43	38	81	24	—	—	—	—	—	2 065	719	1 497	2 216	1 271	2 107	762	1 535	2 297	1 295
IV. Other international org. (1)	163	132	102	234	169	2 063	952	1 160	2 112	421	36	—	110	110	—	2 262	1 084	1 372	2 456	590
V. Unallocated	—	—	—	—	—	—	—	—	—	—	182	44	68	112	321	182	44	68	112	321
TOTAL	10 415	7 270	5 825	13 095	5 524	10 932	3 871	5 027	8 898	5 642	24 788	13 260	16 077	29 337	22 720	46 135	24 401	26 929	51 330	33 886

(1) World Bank; Asian Development Bank; Inter-American Development Bank; African Development Bank; Council of Europe; Nordic Investment Bank; Eurofima.

Sources: Eurobond and foreign bond issues — EIB; new syndicated credits — OECD.

tively small, amount of the funds available on the international bond market, the proportion of new issues made by developing countries rose from 4.5% in 1976 to maintain an average of 10.5% over the next eighteen months. With the exception of Papua-New Guinea, which successfully launched a \$ 25 million issue with the backing of the Australian Government, all the issues were made by relatively high income countries such as Brazil, Mexico, Hong Kong, the Philippines and Singapore.

On the other hand, East European countries, which managed to obtain a bigger offtake of funds through public issues during 1977, borrowed less in this form in the first half of 1978. International organisations other than those of the EEC also borrowed less in nominal terms, as well as proportionally, in the first half of 1978 than they had during the two halves of the preceding year. This comparison does not take into account private placings by the World Bank equivalent to 832 million EUC in the first half of 1977 and to 1 041 million EUC in the second half of that year.

Sectors

International bond issues have been classified in Table 3 (below) according to the type of activity in which the borrowers are principally engaged. The table should be regarded as an indication of the end-uses to which the funds could be put and not as a definitive sectoral analysis of projects financed with the proceeds of bond issues.

A further difficulty in identifying the purposes to which funds raised on the international bond market are applied is that around 40% of the borrowing is conducted by institutions which are themselves financial intermediaries. The two categories concerned are «Financial», which includes banks and insurance companies, and «International organisations», which for the most part are international financial institutions lending at long-term such as the World Bank and the European Investment Bank.

Including as it does almost all bond issues on floating rate terms, the «Financial» category is the larger of the two even though it contracted during the first half of 1978 when the banks had already met a large part of their more urgent require-

ments for liquid funds and were able to slow down their borrowing until they could discern better which way interest rates were moving. This last consideration is not applicable, however, to floating rate bonds and notes in which new issue activity has been sustained. The main buyers of these securities have also tended to be banks which have found the normal interest rate margin of 0.25% above the London inter-bank offered rate (LIBOR) coupled with a guaranteed minimum rate increasingly attractive against a background of shrinking margins on syndicated credits; one of the results has been that transactions in floating rate issues have begun to resemble an inter-bank market. The borrowing by «International organisations» which, on the other hand, is mostly against fixed interest bonds, tapped a rather larger portion of the funds available on the international bond market in the first half of 1978 than during the two preceding years, partly as a consequence of an effort to finance a wider range of activities.

A third category of borrowers which could also be intermediaries is «National Governments, provincial and local authorities». Where conducted on the international market, borrowing by National Governments for balance of payments or budgetary support has often tended to be in the form of syndicated credits, but it is also possible that the proceeds of bond issues have been used for similar purposes. Against

this, borrowing by provincial and local authorities is in many instances linked to the financing of infrastructure. A large part of the substantial increase in the proportion of international bond issues, from around 18% in 1976 and 1977 to over 29% in the first half of 1978, was nevertheless accounted for by heavy borrowing by the Governments of Norway, Denmark, Australia and New Zealand. If the bond issues of National Governments are added to the two categories of intermediaries mentioned above, it would seem that the end-use of about half the funds raised on the international bond market cannot be identified.

With these rather extensive reservations, it would seem that rather more of the funds raised in international bond issues are going into «Energy and mining» than hitherto. This reflects heavier borrowings by international oil companies and by electricity producers. Mining finance remains on a small scale.

While there is reason for satisfaction in the supply of finance for energy purposes, the declining share of bond issues by «Manufacturing» is somewhat serious, illustrating, as it probably does, the effect of lowered output on investment. A similar decline in the share of finance from international bond issues has occurred in «Transport and Communications» and «Commerce». In all three categories experiencing a decline, the share of

Table 3: Eurobond issues by sector

	Percentage of total		
	1976	1977	1st half 1978
Energy and mining	13.9	15.2	17.8
Manufacturing	12.4	16.9	9.9
Transport and communications	10.6	7.0	5.0
Commerce:			
retail trade	1.2	0.4	1.1
other	1.6	1.3	—
Leisure activities	—	0.2	0.2
Financial	33.0	30.3	24.6
Property	—	0.1	—
International organisations	9.3	9.6	12.0
National Governments, provincial and local authorities	18.0	18.7	29.4
Miscellaneous	—	0.3	—
	TOTAL	100.0%	100.0%
		100.0%	100.0%

Source: EIB

bond issues has been more or less halved between 1976 and the first six months of 1978.

Syndicated credits

a) Currencies

One of the natural developments in the market in internationally syndicated credits is that because of the substantial addition to world liquidity through the balance of payments deficit of the USA, the proportion of syndicated credits financed in US dollars has tended to rise, increasing from 93% in 1976 to 98% in the first half of 1978. Among the stronger currencies in Europe, the Deutschemark was employed to a diminishing extent in syndicated credits in 1977 and in the first half of 1978 when it was used in 1.5% of such credits. Swiss francs are used only infrequently and the Guilder has not figured in a contract since 1976. The Japanese yen, on the other hand, does not figure in these statistics because the syndicates which lend this currency internationally are composed entirely of Japanese banks. It is, however, worth noting the growth of yen credits to non-Japanese borrowers.

A feature of many of the yen credits is that their interest rate is set at a fixed margin above a reference rate in the Japanese domestic market, such as the commercial banks' base lending rate. As a result the interest rate, while floating, may vary less from one period to another than those which are based on rates which fluctuate daily in response to market forces. The main reason for the growth of yen credits, however, was perhaps the need for Japanese banks to seek outlets for their liquidity which had been fed by the country's balance of payments surpluses.

The Japanese banks certainly made their presence felt in the dollar sector of the market from the third quarter of 1977 onwards after having been absent for about two years. A typical dollar credit granted to a first-class borrower at the beginning of 1977 would have had a term to maturity of 7 years and the interest rate would have been set at a margin above LIBOR of 0.875%, rising to 1% for the later maturities. By the end of Sep-

tember 1977 it was possible to obtain a 10-year loan with margins within the range of 0.75% to 0.875%. Towards mid-1978, under the influence of more intense competition, 10-year maturities had become the rule of the day and margins had been reduced to within the range of 0.5% to 0.625% for first-class borrowers.

At the other end of the scale, terms for credits to non-oil-exporting developing countries varied much more because the range of borrowers was wider and banks' judgements about their relative standing were more likely to change from one period to another. However, taking public institutions in the Philippines as an example, the terms of syndicated credits improved from a 7-year term and a margin of 1.75% at the beginning of 1977 to a margin of 1.625% (but with no change in maturity) at the end of the third quarter of that year and finally to a 10-year term and a 1% margin by mid-1978.

Thus margins were generally reduced to below what some banks regarded as a profitable level. During the first half of 1978 US banks in particular refused to participate in syndicates lending at margins of 0.5 or 0.625% to developed countries. They appear to have been anxious not only to resist the move to lower margins but also to conserve their lending capacity for dealing with an expected surge in the domestic demand for credit as economic activity accelerated. This policy may have had a restraining effect upon the growth in 1978 of internationally syndicated credits denominated in dollars. US banks, however, have continued to participate in syndicates lending to developing countries, sometimes in the guise of a rescue operation for the country concerned.

Another consequence of the reduction in margins to their lowest since 1974, and hence of the cost of new compared with old credits, has been that a number of borrowers have sought to renegotiate or refinance their credits on more favourable terms. Some credit agreements carry a penalty clause to protect the lenders against early repayment but in others the borrower is free to repay or renegotiate without penalty. It is borrowers under the latter form of agreement who have tended to take advantage of the present favourable conditions to

restructure their liabilities, including the pattern of maturities, on better terms.

b) The countries of the borrowers

The development of lending to particular groups of countries can only be traced in a general way. Syndicated credits are often very large and their inclusion in one period or another — with a marked effect upon the statistics — may well be a matter of chance. As an example, syndicated credits extended to developed countries (see Table 2) averaged 32% of the total of such credits during 1976 and 1977, but rose to 39% in the first half of 1978 when, as has been explained, a number of borrowers renegotiated their earlier credits. The renegotiation by the United Kingdom of a \$ 1 500 million credit, however, fell outside the period under review.

The other side of the picture is a decline in the percentage lent to developing countries from an average of 59% in 1976 and 1977 to 54% in the first six months of 1978. Within the total for developing countries, the percentage of credits accounted for by petroleum exporters, a somewhat volatile element, rose from 12% in 1976 to 18 or 19% in 1977 and in the first half of 1978. Lending to other developing countries has risen steadily in amount, even though the percentage of the total market which these countries have secured has been tending to fall. Similarly East European countries have borrowed more in nominal terms while losing ground, on the basis of gross new credits, to the developed countries of the Western World.

As regards international organisations, the African Development Bank borrowed 10-year funds during the fourth quarter of 1977 on the basis of a floating interest rate. In general, however, international financial institutions have preferred to borrow on fixed interest rate terms.

c) The end-uses of syndicated credits

The larger syndicated credits, whether obtained by developed or developing countries, have tended to be obtained for reasons of balance of payments or budgetary support. Among developing countries which have run into arrears on their external payments, the nego-

tiation of such credits has been pursued as part of or parallel to debt settlements.

Commercial banks, however, have begun to link their credits to the implementation of specific projects. If a commercial product is seen as the end result, so much the better. Lending for reasons of balance of payments support will no doubt continue and indeed commercial banks have fulfilled a useful role in reducing the impact on the world economy of the accrual of huge surpluses of oil revenues. But other-

wise it seems that the character of syndicated credits, after a few years of experience, is tending gradually to change, particularly as regards credits to developing countries.

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* * *

Summing up, it would seem that the international capital market has not expanded as much during the last 18 months as the gross figures for new borrowing indicate. The bond markets have probably done

no more than consolidate earlier gains. In the process they have lost further ground to internationally syndicated credits. At the same time, the banks participating in these credits have improved their techniques and the organisation of their syndicates. In view of the weakness of the major international currency which has persisted since the middle of 1977, the performance of the bond markets which have suffered more from the ensuing uncertainties, as well as of syndicated credits, should be counted a solid achievement.

EIB financing from January to July 1978

Financing provided by the European Investment Bank between 1 January and 31 July 1978 amounted to 934.6 million u.a., confirming the trend observed in 1977 when operations totalled 1 571.5 million u.a., against 1 273.3 million u.a. in 1976.

EIB loans for projects **within the Community** reached 887.9 million u.a., thereby extending efforts undertaken in 1977 in response to the request of the European Council (Heads of Member States or their Governments) of March 1977 inviting the EIB to seek ways of speeding up expansion of its activity in the light of the Community's economic problems.

Lending has shown a particularly sharp upturn in Italy with loans totalling 460.4 million u.a. over the first seven months of the year as against 425.7 million u.a. for the whole of 1977. In the United Kingdom loans totalled 175.2 million, in France 102.4 million, in Ireland 54.3 million, in Denmark 52.4 million u.a. and in Germany 43.2 million.

Close on three quarters (670 million u.a.) of financing within the Community was advanced for projects assisting regional development, in pursuance of the principal task given to the Bank under Article 130 of the Treaty of Rome; this is a proportion similar to that of earlier years.

The finance went to a range of infrastructure schemes (roads and

motorways, telecommunications, water supplies/sewerage) and industrial projects; five global loans were made to intermediary financial institutions for on-lending for smaller scale ventures.

Lending for energy projects, most of which will help to reduce the Community's dependence upon hydrocarbon imports and/or diversify its supply sources, totalled 327.9 million u.a.

Financing **outside the Community** over the same period amounted to 46.7 million u.a., of which 33.0 million related to ordinary operations, i.e. loans from the Bank's own resources, and 13.7 million to special operations financed from funds provided directly or indirectly from Member States' budgets.

A steep rise in EIB activity outside the Community is likely in coming months as progress on ratifying the protocols concluded between the Community and 13 Mediterranean countries suggests that these may enter into force fairly soon. A number of operations have already been appraised and could be concluded before the end of the year, ratifications permitting.

Ordinary loans carrying interest subsidies provided for under the Lomé Convention enabled the Bank to extend its activity to countries which had not so far attracted EIB support: Swaziland (10 million u.a. for a sugar project), Fiji (12.5 million for a hydroelectric scheme), Trini-

dad and Tobago and Liberia (global loans of 5 and 2.5 million u.a. respectively).

Special operations financed from risk capital resources made available under the Lomé Convention (1) comprised two conditional loans for feasibility studies in Zaire (80 000 u.a. for a cementworks scheme, 30 000 u.a. concerning an agro-industrial complex); a 290 000 u.a. shareholding on behalf of the European Community in the capital of the Liberian Bank for Development and Investment, and a conditional loan of 6.5 million u.a. for a textile project in the Sudan.

Other special operations carried out were:

— a 450 000 u.a. loan on special conditions for port works in Guyana (granted from resources remaining from those foreseen under the second Yaoundé Convention);

— a 6.3 million u.a. loan on special conditions for a paper industry project in Turkey (using up the remainder of funds provided for under the second EEC-Turkey Financial Protocol, which came into force in 1973).

The EIB also made its first loan in Lebanon (3 million u.a. for a power station) from the 20 million u.a. exceptional aid which the Bank was authorised to provide by its Board of Governors in November 1977.

(1) A detailed review of risk capital financing was given in EIB-Information No 13.

EIB loans in the Community January - July 1978

(in million u.a.)

Denmark:

Extension of mineral wool factory (Jutland)	1.3
Extension of pump factory (Central Jutland)	3.0
Rationalisation of a dairy (S.W. Jutland)	0.6
Two global loans for small/medium-scale ventures	7.5
Improvements to Rønne harbour (Bornholm Island)	2.2
65 km motorway (Christiansfeld to German frontier)	37.8

Germany:

630 km gasline across Germany from the Czechoslovak/Austrian frontier to France	43.2
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France:

Steelworks modernisation (Lorraine, Pas-de-Calais)	9.5
Telecommunications development in the Loire Valley	82.3
Fréjus transalpine tunnel (France-Italy)	10.6

Ireland:

Car ferry between Ireland and Great Britain	2.0
Two global loans for small and medium-scale ventures	7.4
Development of Cork harbour/industrial zone	15.0
Water supplies to Cork harbour area	15.0
Improvements to national road network	15.0

Italy:

Barge for laying oil and gas pipelines	14.0
Restructuring FIAT factory at Cassino (Latium)	37.3
Expansion of FIAT factory at Termini Imerese (Sicily)	7.4
New pharmaceuticals factory at Scoppito (Abruzzi)	4.7
Improvements to telecommunications in Sardinia	41.9
Construction of an industrial harbour and installations in Cagliari industrial zone (Sardinia)	28.0
Road development, sewerage scheme and water supplies in Syracuse industrial estate (Sicily)	41.9
Development of natural gas deposit near Crotone (Calabria), and off Pescara (Abruzzi)	3.7
Steel tube factory at Dalmine (Lombardy)	13.2
Heavy mechanical equipment at factories at Brescia and Roncadelle (Lombardy)	14.0
Upgrading Maddaloni power station (Campania)	1.9
Extension of the electricity grid in Sicily	18.6
Global loan for small/medium-scale agricultural ventures in the Mezzogiorno	46.6
Construction of two gaslines in Lombardy	14.1
Expansion of storage capacity of two depleted natural gas fields in Lombardy and Emilia Romagna	10.3
Alto Lazio nuclear power station (Latium)	9.4
Extension of electricity grid in Campania, and Apulia	37.6
Energy-saving equipment in steelworks near Milan	34.3
Extension of telephone networks in Abruzzi, Molise and Lower Latium	25.4
	4.2
	51.8

United Kingdom:

Dinorwic pumped storage power station (Wales)	35.7
Hartlepool nuclear power station	35.7
Water supplies, sewage treatment and disposal schemes in Merseyside, Lancashire, Manchester area	23.6
Water supplies in Yorkshire and Humberside	22.1
Roadworks, pumping station and effluent treatment in the Aberdeen area	7.4
Construction of a dam, water supplies and sewerage scheme in the Edinburgh area	12.5
Modernisation of a copper foundry at Prescott, Merseyside	7.4
Sewerage, sewage treatment and disposal at Tyneside	14.9
Kielder dam on the North Tyne	9.9
Water supplies to the Plymouth area (Devon)	6.0

Unit of Account

Below are the values in national currencies of the Unit of Account used by the Bank, as at 30 June 1978; these rates are applied the following quarter in preparing financial statements and operational statistics of the Bank:

DM	2.58101	Bfrs	40.6953
£	0.668451	Lfrs	40.6953
Ffrs	5.60057	Dkr	7.01962
Lit	1 062.79	£ Ir	0.668451
FI	2.77740	US \$	1.24412

The composition and hence value of the unit is the same as that of the European Unit of Account (EUC).

Opening of a liaison office in London

At the beginning of September 1978, the European Investment Bank opened a liaison office in London for its lending operations in the United Kingdom; the Bank now has an officer in situ to facilitate contacts between the EIB and borrowers, other financial institutions and the authorities.

The address of the office is:

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