

European Investment Bank

Information

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Den europæiske Investeringsbank
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Financing operations in 1980 reach almost 3.5 billion u.a.

A high concentration of lending for investment in regions worst hit by unemployment plus increased support for energy projects aimed at reducing the European Community's dependence upon oil imports — including lending for energy-saving in industry and other fields — are among the main features of the European Investment Bank's activities in 1980.

Total financing for industrial, energy and infrastructure development in the Community reached almost

3 billion units of account (u.a.), 80% of this in Italy, the United Kingdom and Ireland, the three countries with the most difficult structural problems.

Part of the amount (almost 200 million u.a.) came from the resources of the New Community Instrument for borrowing and lending⁽¹⁾ — NCI or "Ortoli Facility", for which the Bank handles the lending operations on the EEC's behalf.

Outside the Community, the EIB provided close to 550 million u.a. to help the development of countries which have signed association or cooperation agreements with the EEC.

Over 100 million of this was lent in Greece in its last year as an "associated country" prior to joining the Community on 1 January 1981, becoming at the same time the EIB's 10th Member Country.

Borrowings which the EIB made during the year to fund lending operations totalled about 2.5 billion u.a., mainly in the form of public bond issues.

In the Community

Major aims: to sustain investment and create employment, to cut oil imports

Financing in the Community totalled **2 950.8 million u.a.**⁽²⁾. This was composed of 2 753.2 million u.a. from the Bank's own resources (up almost 21% on the 1979 figure of 2 281.2 million u.a.) plus 197.6 million from New Community Instrument resources (277 million in 1979).

The total shows a nominal increase of 15% against the previous year (2 558.2 million) but in real terms — i.e. taking into account the effects of inflation — it was roughly equal.

The year was one of consolidating the high level of activity which has built up rapidly in recent years — half the Bank's lending since it began work in 1958 has taken place in the last three years alone — against a difficult climate for investment throughout the Community coupled with tensions on the capital markets.

Bank action was heavily concentrated on assisting **regional development**, its first task under the EEC Treaty, and investment serving a common interest to several Member Countries or the Community as a whole, in particular in the **energy field**.

Within this framework, the EIB directed its lending to support policies which the European Council has stressed as crucial for the Community's development over the years ahead: encouraging fresh investment, combating unemployment, reducing disparities between national economic performances, tackling structural changes and cutting, as far as possible, dependence upon oil imports.

● **Investment:** the Bank calculates that its financing in 1980 went towards **fixed investment** in the Community totalling about **8.7 billion u.a.**

Helping to sustain investment in two countries where needs are highest — Ireland and Italy — was the application of **3% interest subsidies**, paid from the Community budget, on over 60% of the loans (total 1 020 million u.a.) made in these two countries; the subsidies

In this issue

EIB financing in 1980

— in the Community:
breakdowns by country and sector

— in Mediterranean and Lomé
Convention countries p. 1-8

**Expansion in finance for small
and medium-scale industry**
p. 8-9

**The International Capital Market
in 1980** p. 10-16

⁽¹⁾ The Commission of the European Communities has been authorised by the Council of the European Communities to borrow up to 1 billion ECU in the name of the EEC for the purpose of promoting investment in the Community. The Commission decides the eligibility of projects for a loan within guidelines laid down by the Council of the European Communities. The EIB receives the loan applications, examines them in accordance with its customary criteria, decides on the loans to be granted and the terms, and then administers the loans in the name, for the account and at the risk of the Community.

⁽²⁾ Long-term loans with the exception of a long-term guarantee (14.2 million u.a.) in Germany.

were provided under arrangements agreed when Ireland and Italy joined the **European Monetary System**⁽¹⁾, using resources set aside for this purpose under the 1980 budget plus a small amount left over from 1979.

● **Energy:** it can be calculated that the projects supported in 1980 — e.g. hydro, coal and nuclear power plant, development of European oil resources, laying of gaslines, investment aimed at energy saving — should represent, when all fully operational, the means to **replace 12 million tonnes of imported oil per year**. Taking energy investment assisted in the last four years (1977-1980), the impact can be put at about 50 million tonnes per year; this will make a substantial contribution towards meeting the target set by the Council of the European Communities of limiting the EEC's net oil imports in 1990 to no more than those in 1978, i.e. 470 million tonnes (the 50 million t.p.a. corresponds to 11% of the figure).

● **Employment:** it is difficult to be precise about the final impact of investment yet to be completed, but it can be estimated that projects supported in 1980 represent the creation or safeguarding of up to 50 000 permanent jobs (mainly in industry and including an expected 16 000 jobs in advance factories which the Bank helped to finance in Ireland).

In addition there are the temporary effects on employment during construction (often for lengthy periods) and also on employment involved in supply of necessary services and materials — this mainly concerns large-scale energy and infrastructure works: the total effect of projects assisted in 1980 can be estimated at the equivalent of over 600 000 man-years of work, which corresponds to some 120 000-130 000 jobs a year in 1980 and 1981, progressively fewer thereafter.

Also, but impossible to quantify, there is, of course, the long-term impact of most infrastructure projects — e.g. water supplies, sewerage, communications — which create few permanent jobs in themselves but which are necessary as the base for economic growth.

Priority to regions with most serious problems

Two thirds of lending in the Community went to investment in regions which are economically less

developed or confronted with industrial conversion problems, and out of this two thirds again went to areas given special attention under Community regional policy — Ireland, the Italian Mezzogiorno, Northern Ireland and Greenland.

High priority was given to investment in areas of substantial unemployment: more than 80% of lending for regional purposes went to areas where the jobless total more than 7.5% of the labour force.

Apart from industry and agriculture, lending for regional development concerned mainly telecommunications and transport improvements, water supplies and sewerage infrastructure.

Under the Bank's other main role — financing investment of "common interest" to several Member Countries or the Community as a whole — by far the most important activity was in the energy field (including a substantial amount for investment aimed at energy-saving or restructuring consumption, e.g. switching from oil to coal); other loans went to transport links between Member Countries, industrial projects involving cooperation between enterprises from different countries in high technology fields, environmental protection.

Main sectors

The Bank can point to a 55% increase in lending to the productive sectors — principally industry — with loans totalling 585.4 million u.a. against 377.6 million u.a. in 1979, which was itself over 40% up on the previous year.

This was due above all to a virtual doubling in the amount of global loans for financing **small and medium-scale ventures** (global loans are basically lines of credit which the EIB opens to regional or national financing institutions which then split up the funds, in amounts down to 25 000 u.a., for a series of small investments chosen in agreement with the EIB).

Global loans for industrial development were granted in Italy, Ireland, the United Kingdom, Denmark and Belgium for a total of 265.5 million u.a., compared with 137.1 million in 1979, and 99.9 million the year before.

Credits drawn down from global loans last year helped to finance 518

ventures against 415 in 1979. There was a trend towards assisting smaller investments⁽²⁾ than in the previous year and over 90% of them were carried out by small or medium-sized firms⁽³⁾.

The EIB attaches a particular importance to global loans primarily because the kind of investment which they go to support tends to be relatively labour-intensive. A new feature, however, was that three of the global loans (21.2 million u.a. in Italy and Ireland) were granted specifically for investment aimed at rationalising energy consumption in small and medium-scale ventures.

Other features of lending for industry were the granting of a number of loans to reduce energy consumption in larger industrial plants and, in Ireland, continued support for construction of advance or custom-built factories.

Lending in the **energy sector**, for a wide range of production and transmission facilities, totalled 1 186.0 million u.a. (of which 108 million from New Community Instrument resources), equivalent to over 40% of financing in 1980.

Increased amounts went to nuclear facilities, development of European oil and gas resources, gaslines, coal-fired power stations, energy-saving district heating schemes, peat extraction.

Other main fields of activity were — telecommunications: 366.3 million u.a. (including 39.8 million from New Community Instrument funds)

⁽¹⁾ By decision of the Council of the European Communities, 3% interest subsidies paid from the Community budget may be applied to selected loans from the EIB's own resources and from those of the New Community Instrument which are made over a period of five years (1979-1983) in less prosperous countries fully participating in the European Monetary System (Ireland and Italy have been designated as such). These subsidised loans are to be concentrated on infrastructure (including energy) projects which help to solve major structural problems in the countries concerned, reduce regional disparities and improve the employment situation. The Commission is responsible for deciding the eligibility of investment projects for a subsidy.

⁽²⁾ Although the number of ventures assisted last year rose appreciably, the total amount of credits provided stood at 131.6 million u.a. against 131.4 million the previous year. It should be noted that several of the global loans were made towards the end of 1980 and so their impact should be felt as credits are drawn down in the current year.

⁽³⁾ Community definition: firms employing up to 500 people, with fixed assets of up to 30 million u.a., and in which shareholdings by larger concerns do not exceed 1/3.

- transport: 243.6 million u.a. (37.3 million from NCI)
- water supplies and sewerage: 221.4 million
- agricultural development (irrigation, drainage, afforestation): 195.2 million.

A point of interest: apart from the global loans for energy saving in industry in Ireland and Italy, the Bank also made a global loan for financing smaller scale investments in district heating systems in Denmark and granted three global loans to a financial institution in France to help finance small and medium-scale infrastructure works assisting regional development.

Country by country

In Italy lending totalled 1 290.3 million u.a., worth Lit 1 533.2 billion at exchange rates ruling at contract signatures (including 137.8 million u.a./Lit 165 billion from New Community Instrument resources). This represents an increase of over 30% on 1979 (total: 990.4 million u.a./Lit 1 128.5 billion) and accounts for almost 44% of all the Bank's operations in the Community last year. About two thirds of the total went to investment in the Mezzogiorno.

The tragic consequences of the November 1980 earthquakes in Southern Italy place special responsibility on the EIB in the years ahead in channelling Community effort to help the authorities rebuild damaged infrastructure and promote economic recovery. A number of loans were concluded in December (about Lit 200 billion) for investment in the affected areas.

Interest subsidies of 3% are being paid from the Community budget on loans totalling 719 million u.a. (Lit 854 billion) under arrangements made when Italy joined the European Monetary System (EMS).

A third of all the lending in Italy last year was for energy production and transmission (425.7 million u.a./Lit 502.4 billion). Loans went towards hydroelectric plant at Edolo (Lombardy), Alto Gesso (Piedmont) and Presenzano (Campania); development of oil and gasfields off the Adriatic and Tyrrhenian coasts, and on the mainland near Milan (Lombardy), Modena (Emilia Romagna) and in Abruzzi; stretches of the Algeria-Italy gasline in Sicily and Calabria and a connecting link, run-

ning from Emilia Romagna to Veneto, with the Trans-Austria gasline; conversion of power stations from oil to coal-firing (Brindisi, Apulia, and Sulcis, Sardinia) plus improved facilities at the port of Savona (Liguria) for handling more coal imports; strengthening of the power networks in Sardinia and Latium; energy-saving improvements to the national grid control system and construction of a district heating system at Brescia in Lombardy.

For industrial investment, the Bank made available a total of 223.8 million u.a./Lit 266.9 billion, of which more than half (138.4 million u.a./Lit 166 billion) in the form of global loans for financing investment in small and medium-scale ventures. Most of these global loans are aimed at helping development in the Mezzogiorno (loans to ISVEIMER, IRFIS, Banca Nazionale del Lavoro and Banco di Napoli), but other global loans (to Mediocredito Centrale and Centrobanca) will benefit assisted areas in the Centre and North of Italy; the last two mentioned institutions also contracted global loans to help finance investment directed towards rationalising energy consumption in small and medium-scale ventures in the Centre-North.

Larger industrial projects supported by the Bank came from a wide range of sectors and here again energy saving was an important factor, e.g. loans went to investment aimed at

cutting energy consumption and reducing dependence upon oil in FIAT plants in the Turin (Piedmont) area, conversion of four cementworks in Piedmont, Tuscany and Emilia Romagna so that they will be able to burn coal instead of oil, improvements at a papermill at Riva del Garda (Trentino-Alto Adige) enabling an increase in productivity with economies in consumption of energy and raw materials, modernisation of a flat glass factory in Abruzzi permitting a substantial cut in natural gas consumption.

Among other industrial projects were modernisation of FIAT tractor factories at Modena (Emilia Romagna) and Jesi (the Marches), extensions to a car components plant at Bari (Apulia), a rubber tubing and belt factory at Ascoli Piceno (the Marches), reorganisation of a carbon products factory in Umbria, and food industry investment in Apulia and Campania.

At the same time the Bank tried to improve conditions for industrial growth by making available 60.7 million u.a./Lit 72.2 billion for various works to develop industrial zones or expand their facilities in the areas of Sangro-Aventino (Abruzzi); Acerra, Battipaglia, Mercato S. Severino (Campania); Frosinone, Cassino and Anagni (Latium); Pantano d'Arce and Syracuse (Sicily) and for a new industrial zone at Prato, near Flor-

Table 1: EIB lending within the Community in 1980

Breakdown by project location

	Own resources		NCI resources	Combined	
	million u.a.	%	million u.a.	million u.a.	%
Belgium	153.2	5.6		153.2	5.2
Denmark	81.1	3.0	18.1	99.2	3.4
Germany	14.2	0.5		14.2	0.5
France	279.0	10.1		279.0	9.5
Ireland	334.3 ⁽²⁾	12.1	41.7 ⁽³⁾	376.0	12.7
Italy	1 152.5 ⁽²⁾	41.9	137.8 ⁽³⁾	1 290.3	43.7
United Kingdom	688.0	25.0		688.0	23.3
Non-Member Countries ⁽¹⁾	50.9	1.8		50.9	1.7
Total	2 753.2⁽²⁾	100.0	197.6⁽³⁾	2 950.8	100.0

⁽¹⁾ Loans made in accordance with the second paragraph of Article 18 (1) of the Bank's Statute empowering the Board of Governors to authorise the Bank to contribute towards financing projects outside, but of direct interest to, the Community.

⁽²⁾ of which EMS subsidised loans from EIB own resources :
Ireland: 259.3 m u.a. — Italy: 631.0 m u.a. : Total: 890.3 m u.a.

⁽³⁾ of which EMS subsidised loans from NCI resources :
Ireland: 41.7 m u.a. — Italy: 88.0 m u.a. : Total: 129.7 m u.a.

ence, which will help in raising productivity and restructuring part of the area's textiles industry.

Loans worth 253.3 million u.a./Lit 304 billion went to a number of irrigation schemes — covering 150 000 ha in Foggia and Taranto provinces (Apulia); the Campidano, Oristano and Chilivani plains in Sardinia, the Peligna valley in Abruzzi — and water supply schemes serving the provinces of Bari (Apulia), Matera and Potenza (Basilicata), Cosenza (Calabria), Teramo and Chieti (Abruzzi), Ascoli Piceno (the Marches), and the Cagliari zone in Sardinia.

Other main fields were telecommunications development (219.2 million u.a./Lit 259 billion) in the Mezzogiorno, mainly in Apulia and Campania, and European transport schemes (107.6 million u.a./Lit 128.7 billion) with loans for approach roads to the France-Italy Alpine road tunnel at Fréjus, the strengthening of air links with other Member Countries through purchase of eight European Airbus jetliners, and construction of part of the Friuli motorway (this connects the Italian, Austrian and German motorways and also constitutes an important element in helping the recovery of zones hit by the 1976 earthquakes).

In the **United Kingdom**, lending came to 688 million u.a./£ 417.3 million — 23% of total operations in the Community — taking EIB operations in the UK, since the country joined the European Community in 1973, comfortably past £ 2 000 million.

Although the year's lending was down on 1979 (844.3 million u.a./£ 553.3 million), mainly because spending limits have reduced demand from the public sector, there was a 250% increase in financing for industry, which totalled 166.7 million u.a./£ 102 million.

Of this, 39.4 million u.a./£ 25 million was provided for small and medium-scale ventures in assisted areas, to be made available in two ways; through Département of Industry regional offices in England, the Scottish Economic Planning Department, Welsh Office Industry Department and Northern Ireland Department of Commerce, each acting as EIB agents, and through a global loan to Industrial and Commercial Finance Corporation Ltd (ICFC), aimed in particular at smaller investments.

Larger industrial projects supported directly by the Bank were in a variety of sectors: in Northern England — modernisation of cable factories in Merseyside, Cheshire and Manchester, construction of a heavy engineering works and extension of a factory producing equipment for nuclear power stations, both in Darlington, construction of a packaging machinery factory at Gateshead, modernisation of a glassworks, cutting energy consumption, in Wigan; in Scotland — modernisation of an aluminium smelting plant at Fort William (making more efficient use of energy), extension of whisky bottling plants at Dumbarton and Kilmalid, extension of a chipboard factory at Cowie, a new factory in Glasgow producing activated carbon for the food and pharmaceutical industries, plus a meat processing complex near Edinburgh; in Wales — a domestic appliances factory at Rhyl and an insulation materials factory at Bridgend; in Northern Ireland — extension and modernisation of tyre factories at Belfast and Ballymena.

This upturn in lending for industry reflects, in large measure, the added attraction of exchange risk cover facilities which the UK Government has been providing since 1978 on EIB loans for private sector development in assisted areas.

The energy sector accounted for 191.6 million u.a./£ 115 million with loans for construction of the URENCO uranium enrichment plant in Cheshire (being built in cooperation with German and Dutch interests) and, in Scotland, for construction of the Torness nuclear station, a thermal power station at Peterhead, and upgrading generating capacity in the Shetland Islands.

Telecommunications (strengthening of the Northern Ireland network, improved links with the Continent) took 85.3 million u.a./£ 51 million; loans for transport schemes (71.9 million u.a./£ 45.2 million) went towards high speed trains on the Scotland — S.W. England and London-Teesside/Humberside routes, construction of part of the M65 motorway in Lancashire, extension of the Sullom Voe oil harbour in the Shetlands and improved cross-channel ferry facilities; water supply and sewerage schemes accounted for 101.9 million u.a./£ 62.1 million (loans for various works, mainly to support industrial development,

throughout the North West, in Tyne-side, Yorkshire and Humberside, East and West Midlands, Devon, Cornwall and in Wales). The Bank also lent 70.5 million u.a./£ 42 million in Scotland to help finance various infrastructure works carried out by regional councils to improve conditions for development (e.g. construction of the Monkland motorway across Glasgow, extension to Dundee airport, various water supply and sewerage works and road improvements in Strathclyde, Fife, Grampian, Tayside, Dumfries and Galloway regions and in the Shetlands).

Ireland was again the country in which EIB lending operations were the most heavily concentrated. With roughly 1% of the Community's population, Ireland accounted for almost 13% of financing operations in 1980. Loans came to 376 million u.a./IR£ 252.8 million, a moderate rise compared with 1979's total of 339.6 million u.a./IR£ 226.1 million. Of the total, 41.7 million u.a./IR£ 28.1 million came from New Community Instrument resources.

Interest subsidies of 3%, under the European Monetary System arrangements, apply to loans totalling 301 million u.a./IR£ 202.3 million.

Industrial and agro-industrial development accounts for close to half, with global loans for small and medium-scale ventures granted to the Industrial Credit Company Ltd (ICC) and Agricultural Credit Corporation Ltd (ACC) and a similar agency arrangement with the Industrial Development Authority (IDA) — total 75 million u.a./IR£ 50.5 million; one of the global loans to ICC is aimed at rationalising energy consumption. A series of loans (91.8 million u.a./IR£ 61.6 million) was made for construction of over 500 advance or custom-built factories in all parts of Ireland by the IDA, the Shannon Free Airport Development Company and Udárás na Gaeltachta, which is concerned with development of the Irish language speaking areas.

Energy investment — a coal-fired power station in Co. Clare, development of peat bogs in the Midlands, extensions to peat-fired power stations in Co. Offaly and Co. Longford (20% of the country's electricity comes from peat burning) — took 57.5 million u.a./IR£ 38.7 million. Other fields for lending were improvements to the national telecommunications system, water supply

tion in Bavaria by guaranteeing a 14.2 million u.a./DM 36 million loan granted by a group of banks.

The EIB's Board of Governors gave special authorisation for the Bank to lend for two energy projects **outside the Community but of direct interest to the EEC**: in Austria 33.6 million u.a. went to the Zillertal hydroelectric scheme in the Tyrol, half the output of which will be supplied to a German electricity company, and in Tunisia 17.3 million u.a. was lent to an Italian company for construction of part of the Algeria-Italy gas-line.

Cooperation with EURATOM

During the year EURATOM — European Atomic Energy Community lent 184.4 million u.a. for construction of nuclear plant in Belgium and France.

These operations were funded from resources borrowed by EURATOM on the capital markets and decided upon by the Commission, the Bank assuring the project appraisal and loan management; they are not included here in the figures for the Bank's lending operations.

Outside the Community Lending in 30 countries

During 1980 the European Investment Bank lent 547.7 million u.a. for development in 30 countries which have signed cooperation or association agreements with the EEC. This compares with operations in 26 countries, and worth in total 512.9 million u.a., carried out in 1979.

Two thirds (371.4 million u.a.) was in the form of loans from the Bank's own resources (usually with interest subsidies paid from the Community budget or by the Member States) with the remainder — 176.3 million u.a. — as finance on special conditions (long-term loans at minimal interest rates and various kinds of risk capital operations) provided from budgetary funds which the Bank manages on the Community's behalf.

Mediterranean region

Lending in the Mediterranean region totalled 402 million u.a., of which 155 million from budgetary resources.

Table 3: EIB financing operations within the Community in 1980

Sector	Own resources		NCI resources		Combined	
	million u.a.	%	million u.a.	%	million u.a.	%
Energy, communications and other infrastructure	2 167.8	78.7	197.6	100.0	2 365.4	80.2
Energy	1 078.0	39.1	108.0	54.7	1 186.0	40.2
Production	893.1	32.4	49.3	24.9	942.4	31.9
Nuclear	432.6	15.7			432.6	14.7
Thermal power stations	116.5	4.2	9.0	4.5	125.5	4.2
Hydroelectric power stations	213.8	7.8			213.8	7.2
District heating plant	29.5	1.1	9.2	4.7	38.7	1.3
Development of oil and natural gas deposits	88.5	3.2	16.7	8.4	105.2	3.6
Solid fuel extraction	12.2	0.4	14.4	7.3	26.6	0.9
Supply systems	184.9	6.7	58.8	29.7	243.7	8.3
Power lines	47.3	1.7	17.1	8.6	64.4	2.2
Gaslines and oil pipelines	137.6	5.0	41.7	21.1	179.3	6.1
Communications	532.9	19.4	77.1	39.0	610.0	20.7
Transport	206.3	7.5	37.3	18.9	243.6	8.3
Railways	47.2	1.7			47.2	1.6
Roads, bridges and tunnels	58.6	2.1	37.3	18.9	95.9	3.3
Shipping	46.9	1.7			46.9	1.6
Airlines	53.6	1.9			53.6	1.8
Telecommunications	326.6	11.9	39.8	20.1	366.4	12.4
Water schemes	416.6	15.1			416.6	14.1
Agricultural development	195.2	7.1			195.2	6.6
Water catchment, treatment and supply	221.4	8.0			221.4	7.5
Other infrastructure	118.7	4.3	12.5	6.3	131.2	4.5
Global loans (unallocated portion) (1)	21.6	0.8			21.6	0.7
Industry, agriculture and services	585.4	21.3			585.4	19.8
Industry	433.8	15.8				
Mining and quarrying	0.7					
Metal production and semi-processing	30.4	1.1				
Construction materials	16.6	0.6				
Woodworking	14.7	0.5				
Glass and ceramics	22.1	0.8				
Chemicals	18.4	0.7				
Metalworking and mechanical engineering	67.6	2.4				
Motor vehicles, transport equipment	23.7	0.9				
Electrical engineering, electronics	31.4	1.2				
Foodstuffs	59.2	2.2				
Textiles and leather	15.0	0.6				
Paper and pulp	16.9	0.6				
Rubber and plastics processing	22.6	0.8				
Other	2.6	0.1				
Building - civil engineering	0.1					
Industrial estates and buildings	91.8	3.3				
Agriculture, forestry, fishing	16.7	0.6				
Services	1.0					
Tourism	0.9					
Other	0.1					
Global loans (unallocated portion) (2)	133.9	4.9				
Total	2 753.2	100.0	197.6	100.0	2 950.8	100.0

(1) Difference between the sum of global loans granted for infrastructural works in 1980 (59.9 m u.a.) and the sum of allocations approved during the year from current global loans (38.3 m u.a.)

(2) Difference between the sum of global loans granted for industrial investment in 1980 (265.5 m u.a.) and the sum of allocations approved during the year from all current global loans (131.6 m u.a.)

In **Greece** a total of 101 million u.a./ Dr 6 019.7 million was made available, finishing the financing provided for under the second EEC-Greece Financial Protocol which expired as Greece became the Community's 10th Member on 1 January.

This means that from 1963, when the EIB began operations under the first EEC-Greece Financial Protocol, to end-1980 the Bank made available over 350 million u.a. in Greece. From 1 January this year the EIB's operations in Greece are being carried out on the same basis as in any other Member Country.

Loans granted in 1980 went towards the Sfikia and Assomata hydroelectric power stations on the Aliakmon river in Southern Macedonia, improved signalling on the Athens-Salonika railway line, irrigation of 38 000 ha in the Evros region (Thrace) sewerage infrastructure on Euboea, modernisation of a cementworks near Patras, plus two global loans to the National Investment Bank for Industrial Development — NIBID and the Hellenic Industrial Development Bank — ETBA to help finance small and medium-scale industrial and tourism ventures.

In **Portugal**, currently negotiating Community membership, lending rose to 70 million u.a. (46 million in 1979). Funds were provided for development of the Port of Aveiro, an improved control system for the country's electricity generating and transmission facilities, expansion of a cementworks near Coimbra plus storage and packaging facilities near Oporto. A global loan was made to Caixa Geral de Depósitos for financing small and medium-scale industrial and tourism ventures.

In **Turkey**, associated to the Community since 1963, lending more than doubled to 179 million u.a. (82 million in 1979). Funds went mainly to help develop lignite resources and for the construction of a lignite-fired power station near Elbistan (Eastern Anatolia), with power lines to Ankara and Kayseri, and also the construction of a major hydroelectric station at Karakaya on the Euphrates (total 135 million)*. Two global loans were granted to the Industrial Development Bank of Turkey — TSKB and the Industrial Investment and Credit Bank — SYKB for financing small and medium-scale

industrial development; there was also a loan for a paper and cardboard mill in Western Anatolia.

Other operations in Mediterranean countries were as follows:

Algeria — 20 million u.a. (first loan in this country) towards improved electricity supplies in five Sahara oasis towns: Adras, Timimoun, El Golea, Ain Salah and Tamanrasset

Tunisia — 20 million u.a.: a railway line to carry phosphate rock exports from the mines at Gafsa to the port of Gabes*

Morocco — 5 million u.a.: a global loan to the Industrial Development Office for small and medium-scale industrial ventures*

Jordan — 4 million u.a.: extension of power supply network in the Amman area

the Lebanon — 3 million u.a. for extension to a power station near Beirut.

Lomé Convention countries

1980 was marked by a strong increase in operations in the African, Caribbean and Pacific (ACP) countries — 137.9 million u.a. against 86.4 million in 1979. With this activity the EIB was able to exhaust the full amount of finance (total 489 million u.a.) which had been foreseen under the first Lomé Convention for EIB operations in the signatory countries.

In addition the Bank lent 7.8 million u.a. under the Council of Ministers' decision to extend similar development aid to Overseas Countries and Territories which have special links with EEC Member States.

Parallel to this increase in lending, the Bank last year covered much of the groundwork for a **major extension** of its work under the **second Lomé Convention** which came into force on 1 January 1981.

Of the total funds made available in the ACP-OCT in 1980, more than four fifths (124.4 million u.a.) came from the Bank's own resources; 21.3 million was drawn from European Development Fund resources which the Bank uses under Community mandate to carry out risk capital operations.

Finance was provided towards the following:

Nigeria — 25 million u.a.: strengthening the power supply system in the Lagos area

Senegal — 18.4 million u.a.: chemical plant (phosphoric acid/ fertilisers) at Taïba and M'Boa*; groundnut oil mill at Ziguinchor

Fiji — 11.5 million u.a.: hydro electric power station on Viti Levu island

Upper Volta — 11.5 million u.a.: reopening of a gold mine* at Poura, to the South of Ouagadougou

Zambia — 10.8 million u.a.: improved cobalt production facilities at Chambishi; modernisation of a cementworks* near Lusaka

Ivory Coast — 10 million u.a.: two global loans (to Crédit de la Côte d'Ivoire - CCI and Compagnie Financière de la Côte-d'Ivoire - COFINCI) for financing small and medium-scale industrial and tourism ventures; construction of a flour mill

Botswana — 8.2 million u.a.: construction of a factory at Gabarone to produce vaccines to protect cattle against foot-and-mouth disease*; uprating of a coal-fired power station

Kenya — 7.5 million u.a.: construction of 10 smallholder tea processing factories

Mauritius — 7.5 million u.a.: hydroelectric power station on the east coast; study on possible production of ethanol from molasses*

Malawi — 5.2 million u.a.: global loan to the Investment and Development Bank of Malawi - INDEBANK for financing small and medium-scale ventures; study on expanding local cement production*

* Mediterranean countries: denotes finance provided either wholly or partly on special conditions, using budgetary resources which the Bank manages on the Community's behalf (very long-term loans, with extended grace periods, at minimal interest rates).

+ Lomé Convention countries - OCT: denotes finance provided wholly or partly on special conditions, using European Development Fund resources which the Bank manages on the Community's behalf to carry out various forms of risk capital operations.

Barbados — 5 million u.a.: strengthening of power network

Trinidad & Tobago — 5 million u.a.: global loan to the Trinidad and Tobago Development Finance Corporation — TTDFC for financing small and medium-scale ventures

Guinea — 4.6 million u.a.: modernisation of an alumina works to the north of Conakry; study on expansion possibilities at same plant*

Cape Verde — 3.5 million u.a.: repair yard for fishing vessels*

Swaziland — 3 million u.a.: two global loans to the National Industrial Development Corporation of Swaziland — NIDCS for financing small and medium-scale ventures*

A further 1.3 million u.a. was drawn from risk capital, mainly for prein-

vestment studies on industrial, tourism, mining and energy sector projects, in the **Comoros, Gambia, Ghana, Lesotho, Somalia, Tanzania, Zaire**, and for schemes of regional interest in **West Africa**.

In the Overseas Countries and Territories, the Bank lent 7 million u.a. for a hydro electric scheme on the Néaoua river in **New Caledonia** and 0.8 million u.a. in a global loan* to the Société de Crédit et de Développement de l'Océanie — SOCREDO for small and medium-scale ventures in **French Polynesia**.

Borrowing operations in 1980

To finance its lending activities in 1980, the EIB borrowed a total of

2 466.8 million u.a. on the capital markets, very slightly less than the previous year (2 481.2 million).

Of the total, 1 509 million u.a. was raised in public issues, 874.5 million in private placings, and 83.3 million from the sale to third parties of participations in EIB loans, guaranteed by the Bank.

The most important currencies for the Bank's borrowings were the Deutsche Mark (826.2 million u.a., 33.5%), the US\$ (687 million u.a., 27.8%), Swiss francs (283.3 million u.a., 11.5%), Guilders (226.2 million u.a., 9.2%), Yen (166.6 million u.a., 6.8%) and French francs (136.6 million u.a., 5.5%). The Bank also borrowed Luxembourg francs, Sterling and Lire.

Expansion in lending for small and medium-scale industry

A marked feature of the EIB's lending in 1980 in the Community was the growth in financing of small and medium-scale industry in regional development areas (see page 2 of preceding article).

Over 500 ventures in Belgium, Denmark, Ireland, Italy and the United Kingdom were helped to set up or

expand activities last year with financial support from the EIB. The funds were made available through "global loans" which the EIB grants to regional or national financing institutions which then, acting as intermediaries, on-lend in smaller amounts (down to 25 000 u.a. per loan) for investments chosen in agreement with the EIB.

The ventures were mainly in the mechanical engineering sector, food processing and packaging, woodworking, paper and printing, construction materials and rubber and plastics processing, but a variety of other activities were also involved. In total they represent the creation of an estimated 9 000 permanent jobs, concentrated in regions with substantial unemployment problems. This employment-generating aspect is one of the main reasons why the EIB attaches great importance to helping smaller-scale industry. Indeed, the Bank calculates that the investment cost per job in the ventures supported last year averaged 37 000 u.a., roughly a quarter of the figure for large-scale industrial projects which it assisted.

A welcome trend is that credits are going to smaller-scale ventures: the average credit amount in 1980 was in the region of 250 000 u.a., against 320 000 in 1979 and 460 000 in 1978. More than 90% of the credits by number and over 75% by amount went to independent firms employing less than 500 people.

The EIB began its global loans system over 10 years ago in 1969, but it has undergone a particularly rapid expansion in the last two years.

At end-1980 more than 1 750 ventures had been supported with credits from global loans, compared with 835 at end-1978.

An innovation last year was the granting of a new kind of global loan, in Ireland and in Italy, aimed at helping to finance investment reducing energy consumption in industry. The scope is considerable. A report issued towards end-1979 by UNICE — Union des Industries de la Communauté Européenne — estimated that, using best technologies currently available, the average industrial specific consumption could be brought down by 15 to 30% below the 1975 level, the figures differing from country to country and depending on the profile and age of the industrial structures.

The new global loans will be used for financing insulation of factory buildings, heat-recuperation equipment, modernisation of boilers, im-

proved electricity circuits and control systems, etc.

A detailed review of the Bank's global loan system was published in EIB-Information No. 17 (June 1979) and further information was given in issue No. 21 (May 1980). It is perhaps worth repeating a few key points from the first article.

One is that the extent to which the EIB can help small and medium-scale ventures is not simply a matter of being ready to offer more funds.

While the Bank wants to see the scheme continue expanding, this basically depends upon demand a) from firms themselves and b) from the financial institutions which act as the intermediaries.

Broadly speaking, the institutions only come to the EIB when they have insufficient funds to meet demands made upon them; their approaches will be influenced by a number of factors, such as the general level of industrial investment, the liquidity position on national financial markets, interest rates and also exchan-

ge-rate movements which may be a deterrent in seeking a loan paid at least in part in foreign currencies, e.g. EIB loans.

It is hardly a coincidence that the countries where the global loan systems has been most successfully developed are Italy, essentially in the Mezzogiorno, Ireland and the United Kingdom, where the Governments accept the exchange risk, as is the case also in Belgium and Denmark. Institutions which currently have EIB funds available for financing small and medium-scale industrial ventures are:

Belgium: Société Nationale de Crédit à l'Industrie — SNCI — Nationale Maatschappij voor Krediet aan de Nijverheid — NMKN

Denmark: Danish Government (Regional Development Board)

Ireland: Industrial Credit Company — ICC ⁽¹⁾

Agricultural Credit Corporation — ACC

Industrial Development Authority — IDA

Italy: Istituto per lo Sviluppo Economico dell'Italia Meridionale — IS-VEIMER

Mediocredito Centrale ⁽¹⁾

Istituto Regionale per il Finanziamento alle Industrie in Sicilia — IRFIS

Banca Centrale di Credito Popolare — CENTROBANCA ⁽¹⁾

Banca Nazionale del Lavoro

Banco di Napoli

United Kingdom: Department of Industry (offices covering assisted areas in England)

Scottish Economic Planning Department, Welsh Office Industry Department, Northern Ireland Department of Commerce

Industrial and Commercial Finance Corporation Ltd — ICFC

⁽¹⁾ including funds specifically for energy-saving investment in industry.

NB

The table alongside, giving a national and regional breakdown of global loan financing, includes credits to public authorities in France for carrying out small and medium-scale infrastructure works assisting regional development. These were provided through the intermediary of Caisse d'Aide à l'Équipement des Collectivités Locales — CAECL; the credits total 50 in number and 42.7 million u.a. in amount (i.e. all the credits provided in France in 1980 plus three — 4.4 million for works in Aquitaine, Basse Normandie and Nord-Pas-de-Calais — granted in 1979).

Allocations from global loans within the Community in 1980 and from 1969 to 1980 Breakdown by region and economic policy objective

Region / Objective	1980			1969-1980		
	Number	Amount m. u.a.	%	Number	Amount m. u.a.	%
REGIONAL DEVELOPMENT						
Belgium	6	6.2	3.6	41	30.6	4.4
Antwerp	2	2.8	1.6	6	5.6	0.8
Hainaut	1	0.3	0.2	7	3.7	0.5
Liège	1	0.4	0.2	10	7.1	1.0
Limburg				3	1.1	0.2
Luxembourg	1	0.8	0.5	1	0.8	0.1
Namur				1	0.8	0.1
Eastern Flanders				5	5.6	0.8
Western Flanders	1	1.9	1.1	8	5.9	0.9
Denmark	10	3.4	2.0	92	33.5	4.9
East of the Great Belt (excluding Copenhagen)				9	5.4	0.8
West of the Great Belt	10	3.4	2.0	83	28.1	4.1
Germany				88	36.0	5.2
Baden-Württemberg				2	0.5	0.1
Bavaria				16	4.3	0.6
Hessen				15	6.0	0.9
Lower Saxony				19	6.8	1.0
North Rhine-Westphalia				18	8.7	1.2
Rhineland Palatinate				8	2.9	0.4
Schleswig-Holstein				10	6.8	1.0
France	47	38.3	22.5	220	113.1	16.5
Alsace				27	8.3	1.2
Aquitaine	1	1.2	0.7	11	6.7	1.0
Auvergne	5	3.2	1.8	9	6.4	0.9
Basse-Normandie	2	5.1	3.0	5	7.9	1.1
Burgundy				3	2.3	0.3
Brittany	6	16.6	9.7	34	28.2	4.1
Centre	1	0.5	0.3	3	1.2	0.2
Champagne-Ardenne				2	0.5	0.1
Corsica	1	0.3	0.2	1	0.3	0.1
Franche-Comté				2	0.4	0.1
Languedoc-Roussillon	21	4.9	2.9	23	5.4	0.8
Limousin	4	0.5	0.3	11	2.7	0.4
Lorraine				24	13.3	1.9
Midi-Pyrénées				18	7.9	1.1
Nord-Pas-de-Calais	3	2.5	1.5	10	5.5	0.8
Pays de la Loire	2	2.5	1.5	22	9.9	1.4
Picardy				2	1.1	0.2
Poitou-Charentes	1	1.0	0.6	6	2.6	0.4
Rhône-Alpes				7	2.5	0.4
Ireland	307	38.3	22.5	515	63.1	9.2
Italy	161	66.9	39.4	706	327.8	47.7
Abruzzi	18	8.1	4.8	85	37.5	5.5
Basilicata	6	1.6	1.0	18	7.2	1.1
Calabria	6	2.8	1.6	33	10.6	1.5
Campania	31	15.7	9.2	127	66.0	9.6
Friuli-Venezia Giulia	8	1.9	1.1	26	7.9	1.1
Lazio	14	10.7	6.3	110	64.9	9.4
The Marches	7	2.5	1.5	23	13.0	1.9
Molise	4	0.3	0.2	15	6.9	1.0
Apulia	22	6.1	3.6	91	33.5	4.9
Sardinia	7	1.2	0.7	65	28.3	4.1
Sicily	16	8.5	5.0	67	33.8	4.9
Tuscany	10	1.6	0.9	19	3.8	0.6
Trentino-Alto Adige	11	5.4	3.2	23	10.7	1.6
Umbria	1	0.5	0.3	4	3.7	0.5
United Kingdom	33	15.6	9.2	142	81.7	11.9
Scotland	3	2.9	1.7	32	16.0	2.3
Northern England	9	4.2	2.5	47	30.0	4.4
North West England	1	0.3	0.2	4	2.2	0.3
South West England	3	0.7	0.4	12	9.0	1.3
Yorkshire and Humberside	6	4.1	2.4	10	8.8	1.3
Wales	10	3.0	1.8	35	15.0	2.2
Northern Ireland	1	0.4	0.2	2	0.7	0.1
Total	564	168.7	99.3	1 804	685.8	99.8
ENERGY SAVING						
Italy	1	1.2	0.7	1	1.2	0.2
Total	1	1.2	0.7	1	1.2	0.2
GRAND TOTAL	565	169.9	100.0	1 805	687.0	100.0

The International Capital Market in 1980

The exceptionally heavy stresses to which the international capital market was subjected in 1980 brought about wide fluctuations in market activity at generally high levels of interest rates and changes in the relative importance of different forms of borrowing. The total of internationally syndicated credits and public issues of eurobonds and foreign bonds, after a series of often substantial increases in recent years, fell in 1980 by over 2 billion to 73.26 billion ECU

(see Table 1. Opposite for the value of the ECU see note below). Syndicated credits, which had previously grown faster than other forms of borrowing, were some 3 billion ECU down, while foreign bond issues, having been about 1.8 billion ECU lower in 1979, fell by a further 1.6 billion ECU in 1980. Only eurobond issues were higher in 1980 after two indifferent years, increasing by some 2.6 billion ECU to a little more than the amount raised in 1977 (see Table 2).

Most of the rise on the primary market in eurobonds occurred in new issues of straight bonds launched during the second quarter when tension eased temporarily, but a surge in dollar convertible issues in the closing months of the year under the influence of rising share prices, particularly on the Tokyo and New York stock exchanges, and a larger amount of floating rate issues from the second quarter of the year onwards, also contributed to the market's buoyancy.

The total of finance raised by developing countries in 1980, whether by means of syndicated credits or public bond issues, fell back by some 11 billion ECU. Of this about 2 billion represents a decline in borrowing by OPEC countries but the remaining fall of 9 billion ECU resulted from a serious reduction in the flow of resources to non-oil developing countries.

Most of the reduction was in syndicated credits as banks ran up against their individual limits in lending to particular borrowers and at the same time sought, in the difficult financial circumstances of 1980, to minimise their portfolio risks. Bond issues by developing countries, OPEC and other, were also lower in 1980 for which the generally high cost of borrowing during the year may have been partly responsible. On the other hand a rise of half a billion ECU in borrowing by "other international organisations", the bulk of which consists of finance for the World Bank and regional development banks, would have increased the ability of these institutions to onlend to developing countries.

Borrowing by Eastern European countries was nearly 2 billion ECU lower in 1980, all of the decline being in syndicated credits. In this, the greater concern of banking

syndicates over the structure of their portfolios again played a part. Thus it was only developed or "industrialised" countries which, as a group, borrowed more in 1980 than in 1979. They obtained 9 billion ECU more in syndicated credits, substantially to cover balance of payments deficits attributable to the rise in oil prices, and an additional 1.2 billion ECU from bond issues. Borrowers in EEC countries who took 1.8 billion ECU more than in 1979 accounted for more than the whole of this increase but US financial institutions and corporations operating under severe credit constraints in the USA itself were also more active on the primary eurobond market.

In making these comparisons of market activity, amounts borrowed in various currencies have been ex-

pressed as a matter of statistical convenience in a single currency unit, the ECU. Some distortion is unavoidable, especially when comparisons are made over a period of several years, though between 1979 and 1980 the differences in the conversion rates applied, with the exception of those for the yen, have been relatively minor.

The bond market

The influence of credit tightening in the USA

Tensions created by developments in the Near and Middle East coupled with the inflationary influence of

Note

Unless otherwise stated, the statistics of bond issues in this article are of public issues on the international market (of eurobonds) or of public issues by foreign borrowers on national markets.

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 (ECU, EUA, EURCO, 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, however, is no longer clear cut.

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.

The classification of **developed** or "industrialised" and **developing countries** is based on that of the World Bank, i.e., developing countries are mostly those which had an average income per head in 1978 of less than US\$ 3 500. South Africa, however, has been classified as an industrialised country.

For the purpose of comparison, amounts in various currencies have been converted in the summary tables into the European Currency Unit (of which the abbreviation is ECU) consisting of specific amounts of the currencies of EEC Member Countries (excluding the Greek drachma). The rates applied in this article in converting the ECU into the main currencies in use on the international market are as follows:

		US\$	DM	Sfrs	Yen	Ffrs	£
1979	1 ECU	1.380	2.511	2.250	291.27	5.816	0.6519
1980	1 ECU	1.393	2.519	2.332	319.38	5.840	0.6099

further increases in oil prices had an adverse effect on sentiment on bond markets from the very beginning of the year. In the USA, where the buoyancy of the economy and a strong demand for bank credit aggravated the threat of an acceleration in the rate of inflation, the authorities began to introduce a much stricter monetary and fiscal regime in February that had the effect of sending domestic short-term interest rates soaring and an ensuing rise in bond yields carried them above the prevailing rate of inflation.

As normally happens, this upward movement was followed closely by a similar rise in interest rates on the eurodollar market but, on this occasion, the severity of the US measures also contributed to a strengthening of the exchange rate for the dollar against most major currencies. The combination of a rising real return on securities denominated in dollars and a strengthening dollar proved a very strong attraction to international investors who began to switch increasingly into dollar securities from those denominated in other currencies. At the same time, widening balance of payments deficits on current account, largely induced by rising oil prices, left most industrialised countries very sensitive to outflows of capital. A direct result of the rise in interest rates on dollar markets in March and the concomitant strengthening of the dollar in foreign exchange markets was a general rise in short and long-term interest rates not only in other sectors of the international market but also over a wide range of national capital markets.

The rise which occurred in bond yields on most markets in February and March discouraged borrowers and new issues, except of floating rate notes, tended to fall away as the quarter progressed. However, a significant easing of tensions in the USA during the latter part of March, inspired by fears that the economy was sliding into a deep recession, led to a sharp fall in US and eurodollar interest rates in April as spectacular as their rise a few weeks earlier, followed by an easing of credit restrictions in early May and a gentler downward movement that lasted until mid-June. These developments in dollar markets paved the way for a similar, if less extensive, decline in short and long-term interest rates in other sectors of the international market and in most

Table 1: Total international financing through public issues of eurobonds, foreign bonds and syndicated credits, classified according to borrower

	million ECU							
	1979				1980			
	1st H.	2nd H.	Total	%	1st H.	2nd H.	Total	%
Eurobonds	6 027	4 666	10 693	14.2	5 433	7 879	13 312	18.2
Foreign bonds	3 578	4 365	7 943	10.5	3 122	3 214	6 336	8.6
Total bonds	9 605	9 031	18 636	24.7	8 555	11 093	19 648	26.8
Syndicated credits	22 376	34 337	56 713	75.3	22 335	31 274	53 609	73.2
TOTAL	31 981	43 368	75 349	100.0	30 890	42 367	73 257	100.0
Borrowers								
Developed countries	13 633	15 915	29 548	39.2	15 200	24 632	39 832	54.4
Borrowers in EEC countries (inc. EEC organisations)	6 469	7 217	13 686	18.2	7 219	9 669	16 888	23.1
Other developed countries	7 164	8 698	15 862	21.0	7 981	14 963	22 944	31.3
Developing countries	15 545	25 052	40 597	53.9	13 736	15 897	29 633	40.4
OPEC countries	2 758	3 417	6 175	8.2	1 695	2 468	4 163	5.7
Other developing countries	12 787	21 635	34 422	45.7	12 041	13 429	25 470	34.7
Eastern European countries (inc. Comecon organisations)	2 024	1 454	3 478	4.6	666	953	1 619	2.2
Other international organisations	597	905	1 502	2.0	1 288	768	2 056	2.8
Unallocated	182	42	224	0.3		117	117	0.2
TOTAL	31 981	43 368	75 349	100.0	30 890	42 367	73 257	100.0

Table 2: Total international financing 1976-1980 through public bond issues and syndicated credits

	million ECU				
	1976	1977	1978	1979	1980
Eurobonds	10 415	13 095	9 310	10 693	13 312
Foreign bonds	10 932	8 898	9 277	7 943	6 336
Syndicated credits	24 788	29 764	52 338	56 713	53 609
	46 135	51 757	70 925	75 349	73 257

other national markets. New issue activity was consequently stimulated and, with the exception of foreign or "Yankee" bond issues on the New York market, remained vigorous at least until the end of July.

The flood of new issues launched by domestic borrowers on the New York bond market was so extensive that it virtually overwhelmed approaches by foreigners and by end-June appeared to have exceeded the market's absorptive capacity. With the appearance of signs of renewed buoyancy in the US economy, interest rates began to rise again on dollar markets and in late Sep-

tember, when demand for bank credit and price inflation were again threatening to accelerate, the US authorities resorted for the second time in 1980 to a tightening of monetary policy which they intensified in November and maintained beyond the end of the year. The resultant rise in short and long-term dollar interest rates proved to be greater and more prolonged than in the spring but a temporary decline in short-term rates at the beginning of October encouraged the dollar sector of the international bond market sufficiently for it to absorb a substantial number of fixed-interest issues. During the rest of the year,

however, the launching of fixed-interest dollar issues remained very difficult and a number of borrowers resorted to offering special inducements such as issuing securities in partly paid form, the attachment of warrants entitling bondholders to subscribe — after an interval in which it was presumed bond prices would rise — to a like amount of the same issue on the same terms, or guaranteeing the yen value at a fixed conversion rate of interest payments and capital reimbursements. In addition, convertible issues gained in popularity towards the end of the year under the influence of rising share prices in a number of stock exchanges and borrowers continued to tap the market with issues of floating rate notes.

On non-dollar markets the tendency of interest rates to follow the rise in rates on dollar markets in the closing months of the year was less marked than in the spring. In view of prospects of slower economic growth in a number of European countries, resistance to a rise in borrowing costs was stronger. With the aim of improving conditions on bond markets, the last quarter of the year saw a suspension, as from mid-November, in Deutsche Mark issues by foreign borrowers other than international institutions which continued to be allowed to approach the market. On a number of national markets, such as that of Japan from the beginning of March to the end of May and again in the last two months of the year, high interest rates induced most foreign borrowers to postpone or withdraw their issues. High interest rates were also the main reason that the domestic market in the United Kingdom, in which controls over borrowing by non-residents had been suspended in October 1979, saw only one foreign issue, by the Kingdom of Denmark, in the whole of 1980. In Switzerland, on the other hand, the primary market continued to take up new issues throughout the year at relatively low offering yields, though not without occasional signs of strain.

The currencies

In spite of the two substantial increases in yields experienced last year in dollar markets, the proportion of public bond issues denominated in US dollars rose from 51.6% in 1979 to 53.0% in 1980, the total of public bond issues having risen bet-

ween the two years from 18.6 billion to 19.6 billion ECU (see Table 3, page 14). The share of the market accounted for by issues in French francs rose from 2.2% in 1979 to 3.9% in 1980 while that of issues in pounds sterling increased from 1.0% also to 3.9%; in both currencies most issues were launched on the international sector rather than on the domestic market.

Rather more Dutch guilders were borrowed last year and rather fewer Canadian dollars. The currencies which played a diminished rôle in bond finance in 1980, however, were mainly the Deutsche Mark, down from 19.0% to 17.7%, and the yen which at 5.0% was 1.6% lower than a year earlier. Deutsche Mark issues suffered from the attraction for investors of the higher yields available in other countries while the reduction in foreign borrowing in yen was largely influenced by heavier borrowing by the Japanese Government. The Swiss franc more or less maintained its position in accounting for about one-eighth of the total.

The borrowers

The increase of 1 billion ECU in the total of public bond issues in 1980 was more than accounted for by heavier borrowing on the part of developed countries which raised an additional 1.2 billion ECU last year (see Table 4, page 14). Within the category of developed countries, borrowers in the EEC secured an even larger proportion of bond finance than in 1979. Their share of the total market rose from 28.4% to 35.9%, while that of borrowers in other developed countries declined from 53.7% to 47.9% despite the more active tapping of external markets by US enterprises and in particular by US banks.

The reasons for the heavier borrowing by the EEC were various. The Governments of some Member Countries, for example those of Belgium, Denmark and Ireland, sought to fund a part of their borrowing requirements from external sources so as to avoid straining their domestic markets too far — though the Belgian borrowing, not being in the form of a public issue, is not covered by these statistics. In a somewhat similar category, public entities in

a number of Member Countries of the European Community raised more finance in 1980 by means of bond issues outside their own national markets. Banks based within the Community also borrowed more internationally in 1980 to finance the expansion of their operations in other currencies, notably in dollars; these banks have all been treated as "borrowers in EEC countries" even where it is known that a part of their equity is held outside the Community such as by Middle Eastern interests.

A substantial part of borrowing by so-called developed countries outside the EEC was also in the form of issues by national Governments with Sweden figuring prominently. Austria, Finland and Australia each launched more than one issue during the course of 1980 and single issues were made by Norway, New Zealand and South Africa. As mentioned earlier, US banks and finance corporations were actively seeking finance outside their domestic market during 1980 and, towards the end of the year, a substantial number of Japanese industrial and commercial enterprises tapped international and foreign bond markets, taking advantage of a shift of sentiment in their favour inspired by the improving outlook for their economy.

Among "developing countries" as borrowers, the national Governments of the large Latin American countries, Argentina, Brazil, Chile, Mexico and Venezuela, figured prominently but Costa Rica, Thailand and the Philippines also launched public bond issues. Apart from issues by banks in India, the Ivory Coast, Morocco, Taiwan and Yugoslavia, the remaining operations by developing countries were also carried out on behalf of Latin American borrowers. Capital issues by the World Bank and regional development banks of about 1.45 billion ECU included under "other international organisations" (leaving out borrowing by the Council of Europe Resettlement Fund, Eurofima and the Nordic Investment Bank) should be added to the amount raised on capital markets on behalf of the third world.

Eurobond issues by sector

The proportion of eurobond issues by financial institutions, internation-

al organisations and national governments and subsidiary authorities taken together has remained fairly steady at about two-thirds of the total, though financial institutions have been gaining ground during the last two years mainly at the expense of public authorities as Table 5, page 15 shows.

A fall in finance raised during 1980 by the manufacturing and commercial sectors, possibly influenced by a clouding of the economic outlook, seems to have had a counterpart in

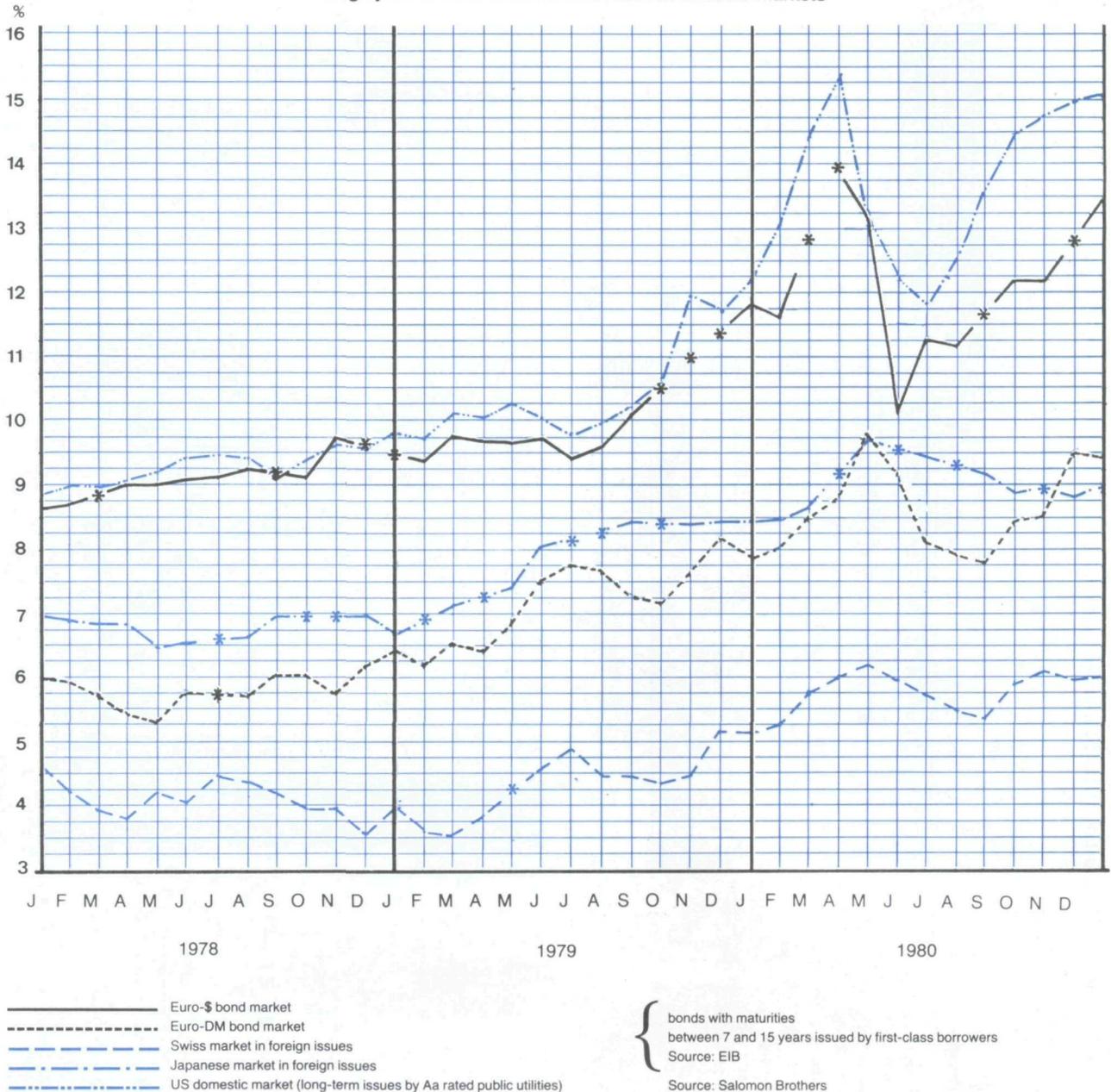
increased borrowing by public utilities. It would also seem that more finance was being sought on eurobond markets in 1980 than in the previous year for mining activities including the exploitation of hydrocarbon deposits.

Syndicated loans

International lending at medium and long-term by banking syndicates

was relatively subdued in the early months of 1980, partly because of the absence of Japanese banks from the market until the beginning of April — even then their re-entry was limited — and partly because US banks were faced with a strong demand for credit from their domestic customers. It is also possible that there may have been some reluctance on the part of borrowers to conclude agreements at a very high initial interest rate as would have happened until about mid-March. Activity rose with a fall in short-term

Average yields on new bond issues made in selected markets



Yields are calculated according to the standard method used by the International Association of Bond Dealers — I.A.B.D.
The sign * indicates the absence of new issues by first-class borrowers.

Table 3: Eurobond and foreign bond issues classified according to currency million ECU

Currencies	Eurobonds						Foreign bonds						Total							
	1979			1980			1979			1980			1979				1980			
	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	%	1st H.	2nd H.	Total	%
US dollars	3 438	3 376	6 814	3 695	5 363	9 058	1 438	1 362	2 800	951	402	1 353	4 876	4 738	9 614	51.6	4 646	5 765	10 411	53.0
Canadian dollars	248	62	310	80	104	184							248	62	310	1.6	80	104	184	1.0
Deutsche Mark	1 641	786	2 427	1 056	1 395	2 451	40	1 057	1 097	377	655	1 032	1 681	1 843	3 524	19.0	1 433	2 050	3 483	17.7
Pounds sterling	138	46	184	213	429	642					123	123	138	46	184	1.0	213	552	765	3.9
Dutch guilders	38	7	45	34	32	66					127	225	87	62	149	0.8	132	159	291	1.5
French francs	160	110	270	235	346	581					69	189	216	196	412	2.2	355	415	770	3.9
Swiss francs							1 261	1 113	2 374	1 106	1 311	2 417	1 261	1 113	2 374	12.7	1 106	1 311	2 417	12.3
Japanese Yen	34	52	86	47	125	172	645	498	1 143	363	454	817	679	550	1 229	6.6	410	579	989	5.0
Other currencies	330	227	557	73	85	158	89	194	283	107	73	180	419	421	840	4.5	180	158	338	1.7
Total	6 027	4 666	10 693	5 433	7 879	13 312	3 578	4 365	7 943	3 122	3 214	6 336	9 605	9 031	18 636	100.0	8 555	11 093	19 648	100.0

Table 4: Eurobond and foreign bond issues classified according to borrower million ECU

Borrowers	Eurobonds						Foreign bonds						Total							
	1979			1980			1979			1980			1979				1980			
	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	%	1st H.	2nd H.	Total	%
I. Developed countries	5 022	3 965	8 987	4 495	7 265	11 760	2 925	3 381	6 306	2 381	2 328	4 709	7 947	7 346	15 293	82.1	6 876	9 593	16 469	83.8
Borrowers in EEC countries (inc. EEC organisations)	1 753	1 613	3 366	2 101	2 558	4 659	946	973	1 919	931	1 460	2 391	2 699	2 586	5 285	28.4	3 032	4 018	7 050	35.9
Other developed countries	3 269	2 352	5 621	2 394	4 707	7 101	1 979	2 408	4 387	1 450	868	2 318	5 248	4 760	10 008	53.7	3 844	5 575	9 419	47.9
II. Developing countries	808	521	1 329	432	504	936	343	327	670	238	228	466	1 151	848	1 999	10.7	670	732	1 402	7.1
OPEC countries	36	72	108		96	96	40		40				76	72	148	0.8		96	96	0.5
Other developing countries	772	449	1 221	432	408	840	303	327	630	238	228	466	1 075	776	1 851	9.9	670	636	1 306	6.6
III. Eastern European countries (inc. Comecon organisations)		22	22	36		36		19	19					41	41	0.2	36		36	0.2
IV. Other internat. organisations (*)	197	158	355	470	110	580	310	638	948	503	658	1 161	507	796	1 303	7.0	973	768	1 741	8.9
Total	6 027	4 666	10 693	5 433	7 879	13 312	3 578	4 365	7 943	3 122	3 214	6 336	9 605	9 031	18 636	100.0	8 555	11 093	19 648	100.0

(*) African Development Bank, Asian Development Bank, Council of Europe, Eurofima, Inter-American Development Bank, Nordic Investment Bank, World Bank.
Source: EIB

inter-bank rates on the eurodollar market which are used as a reference for fixing the rates at regular 3 or 6 monthly intervals on most internationally syndicated bank loans and the total of loan agreements concluded in the first half of 1980 was similar to that for the first half of 1979 (see Table 6, bottom right).

During the first half of the year the banks had continued to lend to non-OPEC developing countries at much the same rate as in the previous year. Lending to OPEC countries had admittedly been reduced by about 1 billion ECU from a year earlier to 1.7 billion ECU but this could be attributed largely to diminished need on the part of the borrowers.

This pattern changed abruptly, however, in the second half of the year during which lending to developing countries fell by 9 billion ECU of which 8 billion was in loans to non-OPEC countries. On the other hand, syndicated loans to developed countries, which rose moderately in the first half of the year, climbed steeply by 6.5 billion during the second half.

Part of the explanation for the difference in the market's performance between the two halves of 1980 may be a matter of timing in that statistics record loan commitments rather than their drawdown. The commitments are also recorded gross and take no account of repayments of borrowing ahead of schedule such as the United Kingdom carried out on a large scale during the year. On the other hand, the progressively wider room for manoeuvre given to Japanese banks might have been expected to result in greater activity in the second half of the year, though this may again be a matter of timing. The official limit for the share Japanese banks might take in syndicated credits, which had been nil during the first quarter of the year and was set at 20% for the six months beginning in April, was raised in October so as to permit them to commit 50% more funds during the ensuing six months. Preliminary indications for the fourth quarter indeed show that loan commitments were rising towards the end of the year, but the extent to which the last six months differ from the first remains sufficient to suggest that banks in general have been paying increasing attention to country risk in their portfolios and have consequently chosen to lend more

to first-class borrowers, even though this has meant a reduction in their interest margins.

The majority of internationally syndicated loans in 1980 continued to use the London interbank offered rate (LIBOR) for three or six months money as a reference rate to which a margin or spread is added in fixing the interest rate but a larger number of credits than in the past resorted to other reference rates. For the same reference rates, spreads which banks charged borrowers in industrialised countries did not change much during 1980; national Governments tended to be charged spreads of between 0.375% and 0.5% ac-

ording to maturity and public enterprises perhaps 0.125% more for loans basing their rates on LIBOR or similar inter-bank rates. To achieve a lower spread, however, which is increasingly regarded by borrowers as a matter of prestige, a number of loan agreements have incorporated the prime lending rate of US banks as their reference rate. Some banking syndicates appear to prefer the US prime rate which has proved to be higher than LIBOR more often than not and on these grounds banks have accepted a spread 0.125% lower than on comparable loans using LIBOR as a reference rate.

Table 5: Eurobond issues by sector

	Percentage of total			
	1977	1978	1979	1980
Mining, exploitation of hydrocarbon deposits	8.0	9.9	5.9	6.7
Manufacturing	17.1	12.4	18.1	13.5
Commerce	1.7	2.6	3.5	3.2
Transport and communications	6.6	4.0	3.8	4.3
Public utilities (electricity, gas, water)	7.2	4.9	4.6	8.3
Financial institutions	29.9	29.4	36.7	40.2
International organisations	10.5	13.4	11.9	10.8
National Governments, provincial and local authorities	18.7	23.4	15.4	12.6
Miscellaneous	0.3		0.1	0.4
	100.0	100.0	100.0	100.0

Table 6: Internationally syndicated bank loans classified according to borrower

	million ECU							
	1979				1980			
	1st H.	2nd H.	Total	%	1st H.	2nd H.	Total	%
I. Developed countries	5 686	8 569	14 255	25.1	8 324	15 039	23 363	43.5
Borrowers in EEC countries (inc. EEC organisations)	3 770	4 631	8 401	14.8	4 187	5 651	9 838	18.3
Other developed countries	1 916	3 938	5 854	10.3	4 137	9 388	13 525	25.2
II. Developing countries	14 394	24 204	38 598	68.1	13 066	15 165	28 231	52.7
OPEC countries	2 682	3 345	6 027	10.6	1 695	2 372	4 067	7.6
Other developing countries	11 712	20 859	32 571	57.5	11 371	12 793	24 164	45.1
III. Eastern European countries (inc. Comecon organisations)	2 024	1 413	3 437	6.0	630	953	1 583	3.0
IV. Other international organisations	90	109	199	0.4	315		315	0.6
V. Unallocated	182	42	224	0.4		117	117	0.2
TOTAL	22 376	34 337	56 713	100.0	22 335	31 274	53 609	100.0

The range of spreads on loans to developing countries has remained wide, if not quite so wide as in earlier years. Well-known borrowers in large Latin American countries have been paying 0.625% compared with 0.875% paid by Nigeria, and 1.875% by Zaire in a debt rescheduling agreement. The average term to maturity of syndicated loans, however, seems not to be a matter of the standing of the borrower but of market conditions. During the sharp rise in short-term interest rates in early 1980, the term to final maturity of syndicated loans tended on average to be reduced and then gradually to lengthen again, though not to quite the number of years prevalent at the end of 1979. Taken together with more or less unchanged spreads, this suggests that, despite a recent lessening in tension, conditions in the market in syndicated loans may have remained a little tighter than they were a year earlier.

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The international capital market, having braced itself to cope with recycling an OPEC surplus of the order of US\$ 120 billion (equivalent to 86 billion ECU) in 1980, perhaps did not fully envisage some of the consequences of restimulating in-

flationary pressures and aggravating balance of payments deficits in developed countries. Among these consequences were two spectacular rises in interest rates in the USA during a presidential election year which influenced similar, if less extensive, increases in the international market and other national capital markets. The persistence of short-term interest rates at a higher level than long-term yields for a greater part of the year tended to produce unstable conditions on several of these bond markets as well as in the USA. At the same time lending by international banking syndicates, instead of expanding rapidly as in recent years, began to contract.

These difficulties on the international capital market, in having a much greater adverse effect upon the flow of financial resources to developing countries than upon borrowers in developed countries, added to the problems of the third world in coping with higher oil prices and the prospect of lower rates of economic growth in the world as a whole. Whether or not in retrospect 1980 proves to have been a year of adjustment or even consolidation of capital markets, it has highlighted the financing problems of developing countries and the need to devise a solution or solutions.

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Personalia

With Greece's accession to the European Community and membership of the EIB on 1 January 1981, the Bank's Board of Governors has been joined by Mr Ioannis PALEOCRASSAS, Alternate Minister for Coordination in the Greek Government.

The Governors have appointed to the Board of Directors Mr John N. SPENTZAS, Vice-Governor of the National Mortgage Bank of Greece, and, as Alternate Member, Mr Sven BOYER-SØGAARD, Assistant Head of Department, National Bank of Denmark; Mr Boyer-Søgaard was nominated jointly by Denmark, Greece and Ireland under arrangements laid down in the Act of Accession (see EIB-Information No. 21, May 1980).

The Governors have appointed also as an Alternate Member Mr Ian PLENDERLEITH, Senior Manager, Gilt-Edged Division, Bank of England, to succeed Mr Edward A.J. George, Assistant Director, Bank of England, who had served as an Alternate since 1977.

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Mr Henri LENAERT, Manager of the EIB's General Administration Directorate from 1962 until February 1980, Secretary-General from 1972 to February 1980, and then Special Adviser to the Management Committee, has retired. In appreciation of his long and highly valued service, the Management Committee has conferred upon him the title of Honorary Secretary-General. The Secretary-General since February 1980 is Mr Eugenio Greppi.

Unit of Account

Below are the values in national currencies of the Unit of Account used by the Bank, as at 31 December 1980; these rates are applied the present quarter in preparing financial statements and operational statistics of the Bank:

DM	2.56556	Lfrs	41.3351
£	0.549110	Dkr	7.88723
Ffrs	5.93916	Dr	61.2587
Lit	1217.30	IR£	0.690185
Fl	2.79081	US-\$	1.30963
Bfrs	41.3351		

Statistics summarising Bank activities in terms of Units of Account have been based on several different conversion rates applied since 1958. This, coupled with the effects of price trends, would suggest prudence in interpreting the significance of figures which relate to operations extending over many years.

The composition and hence value of the unit of account used by the EIB is the same as that of the European Currency Unit (ECU).

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