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DEN EUROPÆISKE INVESTERINGSBANK
EUROPÄISCHE INVESTITIONSBANK
ΕΥΡΩΠΑΪΚΗ ΤΡΑΠΕΖΑ ΕΠΕΝΔΥΣΕΩΝ
EUROPEAN INVESTMENT BANK
BANCO EUROPEO DE INVERSIONES
BANQUE EUROPEENNE D'INVESTISSEMENT
BANCA EUROPEA PER GLI INVESTIMENTI
EUROPESE INVESTERINGSBANK
BANCO EUROPEU DE INVESTIMENTO



came the continued emphasis the Bank placed on quality rather than quantity. The Bank's balance sheet total at the end of 1990 stood at 63.5 billion ecus (55 billion ecus in 1989).

The Governors re-emphasised that, in promoting social and economic cohesion, the EIB's main priority was to support projects helping regional development. Of the 12.7 billion ecus the Bank advanced for capital investment in the Community, 60% was in regional development areas. In this context, the Board noted the EIB's cooperation with the Community's structural funds complementing grant finance with loans to ensure the most effective mix of resources in implementation of regional development objectives.

The Governors also endorsed the Bank's work in helping to carry out the Community's cooperation policies

Annual Meeting of the Board of Governors

The European Investment Bank's 1990 Annual Report and balance sheet was unanimously approved by the Board of Governors at its annual meeting in Luxembourg on 10 June 1991. The Board, made up of a Government Minister, usually the Minister of Finance, from each European Community Member Country, met under the Chairmanship of the Governor for France, Mr Pierre Bérégovoy, Minister of State and Minister for Economic and Financial Affairs and the Budget.

The 1990 Annual Report and balance sheet was presented at the meeting on behalf of the Board of Directors by the Board's Chairman, EIB President Ernst-Günther Bröder. The key part of his introductory statement is reproduced below. The Governors approved the Annual Report and balance sheet after hearing the statement of the Audit Committee from its Chairman, Constantin Thanopoulos, Vice-Governor, National Mortgage Bank of Greece.

Winner of the 1991 EIB Prize, awarded every two years for a doctorate thesis on investment and finance, was also announced by the President (see page 8).

The Governors congratulated the Board of Directors, Management Committee and staff on the Bank's results and for the range and scale of its operations in working consistently to further the balanced development of the European Community. They noted that the Bank's lending in support of Community policies had increased by 9.4 per cent to 13.4 billion ecus. They particularly wel-

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The annual meetings of the EIB's Board of Governors are not major public events. The meetings last normally over two hours during which the Governors, representing the Member States, evaluate the Bank's activities and provide orientations for the future.

How the EIB borrows in order to lend page 4

The diversification in its lending activity is matched in the variety of mechanisms the EIB uses to raise finance on capital markets. In 1990 the EIB borrowed 11 billion ecus in over 90 operations. Its "AAA" credit rating is essential to the EIB so that it can continue to raise an important volume of funds at conditions which will enable its borrowers to implement their projects.

EIB to lend in Bulgaria, CSFR and Romania page 7

The Governors also welcomed the Bank's financing of projects in Poland and Hungary and looked forward to its lending in Bulgaria, CSFR and Romania.

Award of 1991 EIB Prize page 8

Every two years the EIB awards a prize for a doctoral thesis on investment and financing. The winner of the 1991 prize, as announced at the annual meeting, is Mr Benoît Mulkey, a Belgian national.

towards countries outside the EC, in the African, Caribbean and Pacific states, in the Mediterranean region, and in Central and Eastern Europe. They remarked on the support the EIB had provided in the start-up phase of the new European Bank for Reconstruction and Development, and looked forward to the two Banks developing further this cooperation in financing projects in Central and Eastern Europe.

The Governors emphasised that they expected the EIB to continue to play a dynamic, flexible role as the Community's financing institution in the achievement of the single market programme and the movement towards economic and monetary union.

EIB PRESIDENT, Mr BRÖDER'S STATEMENT

Mr Chairman,
Gentlemen,

In 1990 the European Investment Bank increased its lending to 13.4 billion ecus, an increase on a year earlier of 9 1/2 per cent in nominal terms and about half that in real terms.

Operations within the Community totalled 12.7 billion ecus. Loans were made in all twelve member countries, and they included the first loans in the new German Länder.

Lending in the less favoured regions of the Community accounted for more than 60 per cent of loans from the Bank's own resources and 85 per cent of this

financed projects in regions benefitting from interventions of the Community's structural funds.

Lending for communications (transport, telecommunications) increased significantly.

Environmentally-oriented investment also progressed strongly, especially that designed to improve air and water quality, waste management and the urban environment.

There was a further increase in loans for projects contributing to the reinforcement of international competitiveness in industry and services. More than half of the Bank's total lending to industry was to SMEs through global loan allocations.

Outside the Community the EIB's loans totalled 713 million ecus. This included the first loans in Poland and Hungary.

In the ACP countries, the scope for lending was limited by a combination of economic constraints, low borrowing capacity and the gradual exhaustion of the amounts of risk capital remaining under the Third Lomé Convention.

In the Mediterranean, lending progressed as foreseen in the Financial Protocols.

In sum, the growth and pattern of the Bank's lending inside and outside the Community has continued to reflect the priorities of Community policy, in particular the policies that make up the 1992 programme and the preparation for economic and monetary union.

To finance its lending activities inside and outside the Community, the Bank raised a total of 11 billion ecus in 1990. In that year its issues in the international bond markets were of about the same order of magnitude as those of the World Bank, making it one of the world's most active borrowers in these markets. After swap operations, Community currencies accounted for 71 per cent of aggregate funds raised. The ecu was first, followed by the pound sterling, the Deutsche mark and French franc. Between them, these four currencies represented around half of the resources borrowed.

At the end of 1990 the stock of outstanding loans and guarantees amounted to 62 billion ecus. At 31 December 1990, the balance sheet total amounted to 63.5 billion ecus against 55 billion at the end of 1989.

During the past year the Board of Directors has had intensive discussions on the role of the Bank and its financial framework and I would like to say a little about these subjects. First, however, let me draw your attention to some aspects of the changing environment of the Bank's operations.

A CHANGING ENVIRONMENT

The domain of the EIB's activity has been widened both by German unification, and by the new role given to the Bank in respect of Eastern Europe, now including the Czech and Slovak Republic, Bulgaria and Romania as well as Poland and Hungary. The main changes however have not been geographical. Rather they have concerned the development of the Community of twelve and, in a different way, and on a different scale also the area of the Bank's lending outside the Community.

Within the Community, the 1992 programme has accelerated a process of liberalisation and increasing competition that has long been under way in the product and financial markets in which the Bank operates. Thus a period of faster external change has meant that a wider range of sources and uses of finance has become accessible, changing saving and investment patterns and presenting the Bank with new challenges and opportunities in the fulfilment of its role in the service of the Community.

In this situation, the Bank's rate of internal change has also speeded up. Loan conditions have been increasingly diversified as revisable terms for long-term fixed rate loans and floating-rate terms have been made available, and the possibility of switching between the different rate formulae has been introduced. Moreover private sector guarantees have become more common, as governments have become less willing to offer their security and some public

CHAIRMANSHIP OF THE BOARD OF GOVERNORS

Chairmanship of the Board of Governors rotates annually according to the alphabetical order of Member States. The Chairmanship is taken over by the Governor for Ireland, Albert Reynolds, Minister of Finance as of 11 June until the end of the day of the annual meeting in 1992.

sector investors have been privatised. On the borrowing side too there have been modifications. Some have been to suit project promoters. This has been in part the case with the increase in the use of the ecu, which has also been to encourage the wider use of this new currency. Others, in particular the increased use of hedging devices, have been rather to reduce interest rate risks to the Bank. An effect of these various changes has been to increase the complexity of the EIB's operations considerably.

The increasing competition in the Community's product and financial markets has added appreciably to the importance of risk analysis, and on both sides of the balance sheet. Thus recourse is more often had to sophisticated analysis of the economic and financial risks of new loan proposals and modern techniques of asset and liability management have been introduced.

Outside the Community, the countries of Eastern and Central Europe are creating new challenges as they move towards a pluralist society, a market economy and closer relations with the Community. As shareholders, but also as a bank, we have been in close touch with the EBRD where we have provided a wide range of start-up assistance and are looking forward to a close cooperation in the field. The environment of the Bank's operations in the ACP states and the Mediterranean is very difficult. In particular, the problems of Africa south of the Sahara have become increasingly acute during the past few years. The problems of some of the Mediterranean countries are also deep-seated and intractable. Nevertheless, given the importance of this region, the Bank would be willing to expand further its operations there, if asked to do so. Thus the management of lending outside the Community has become increasingly complex.

In sum, the changing environment has made for significant increases in the sophistication of the EIB's operations, as well as in their volume and spread; and it has meant that more emphasis has had to be given to risk management.

THE ROLE OF THE BANK

There is full agreement that the role of the EIB is to support particular Community objectives, especially the development of the Community's regions, environment, infrastructure, energy and SME and the furthering of its industries' integration and external competitiveness. These objectives are vital to the success of the 1992 programme and economic and monetary union. From the point of view of the Bank's lending the most important of them is, and always has been, the development of the Community's less developed regions; and cooperation on this with the Commission is particularly close.

The Bank supports Community objectives by borrowing and lending for the finance of individual investment projects. Discussion of the role of the Bank has therefore focused on these operations and on the strength of the link between ends and means in particular circumstances. Thus the Board of Directors has discussed the eligibility of particular kinds of investment project, priorities within the category of eligible projects, subsidiarity and the practice of charging all borrowers the same rate of interest for a loan of given characteristics.

Broad agreement has been reached in the Board of Directors on all these issues; and the exchanges there have helped the Bank to keep its operations on target to provide maximum support for Community policies.

Two initiatives, which are currently being launched as a result of the debate in the Board, are worth quoting in this context. They concern respectively big infrastructure projects and small and medium enterprises.

As to infrastructure, the Board has agreed that, as an experiment, the Bank should be prepared to commit up to 2 million ecus a year during the next 3 years to finance prefeasibility studies in the Community. The purpose is to facilitate the emergence of proposals for infrastructure investment of Community interest. This arrangement is akin to that

which the Bank has set up jointly with the World Bank, the Commission and the United Nations Development Programme for the finance of prefeasibility studies of environmental problems in the Mediterranean (the METAP Programme). In both cases added value and increased international cooperation are among the objectives.

As to SME, the Board has decided, again as an experiment, to create a new facility to strengthen the capital base of SMEs, initially in Assisted Areas. This facility is to be implemented in partnership with some of the Bank's global loan intermediaries. The structure envisaged would entail the Bank and the financial intermediary contributing jointly to the finance which is to be made available and sharing the associated risks. The structure ensures that risks to the Bank are limited. The Bank's total commitment will not exceed 15 million ecus a year over the next two years, after which a review will be undertaken and lessons drawn. This represents a new departure for the Bank, and the experiment will show how big the demand is for this kind of finance, and indicate the direction that Community policy might most usefully take in this area.

The role of the Bank outside the Community has been the subject of recent discussions in the Council of Ministers as well as in the Board of Directors and these discussions are continuing.

THE FINANCIAL FRAMEWORK

In recent meetings the Board of Directors have considered the financial framework of the EIB's operations. A conclusion has been that the Bank's satisfactory financial performance over the years has been made possible by a policy of careful and gradual adaptation to evolving Community policies and a changing external environment.

In line with this approach, the liberalisation and deregulation of financial markets throughout the Community in recent years has been matched within the Bank. Its system of pricing follows market movements very closely. It is well under-

stood by borrowers and co-financiers because it is transparent and objective; it passes the benefits of the Bank's triple A rating on to those who borrow from it; and it is appropriate to a Community institution in that it prevents there being any question of haggling over lending rates.

The Bank's borrowing rate is also a market rate. Since borrowing and lending

How the EIB borrows in order to lend ...

As the project financing arm of the European Community, the EIB granted loans of some 51 billion ecus between 1986 and 1990. To finance its activities, the EIB draws on its own funds and borrowings on the world's main financial markets. Unlike other financial institutions, the EIB has no savings deposits or current accounts; most of the resources needed for its lending operations thus derive from calls on the capital markets, where prevailing conditions affect its borrowing policy.

Under its Statute, the total amount of EIB loans and guarantees outstanding may not exceed 250% of the capital subscribed by its shareholders, the Community's Member States. As a sign of its renewed confidence in the Bank's capacity to finance capital investment which promotes European integration, the EIB's Board of Governors doubled the Bank's capital with effect from 1 January 1991, taking it to 57.6 billion ecus. Only 7.5% of this capital has actually been or is to be paid in; the uncalled part represents a guarantee for investors in its bonds which account for the bulk of the Bank's resources. To give a brief idea of the trend in EIB borrowing over the past decade, whereas in 1980 the Bank raised 2.5 billion ecus through 73 issues, by 1990, it borrowed 11 billion ecus in some 91 operations covering 13 currencies, including the ecu, the currency most used by the EIB.

do not take place simultaneously, however, borrowing rates may be higher or lower than lending rates if interest rates are changing; and in practice they have recently become more volatile in all the main currencies. To protect the Bank against adverse movements in interest rates, increasing recourse has recently been had to hedging techniques. The Bank is cautious in its adoption of such

In carrying out its task of working in the common interest as a non-profit-making lender, the Bank applies the expertise it has acquired through more than thirty years of activity. On the capital markets, the EIB raises funds with two aims in mind which reflect its dual role as a bank and a Community institution: the Bank's task is not only to obtain a significant amount of funds on the best possible terms to meet the needs of the projects it has to finance, but also to use its presence to expand and give fresh impetus to the capital markets in the Community, enabling them properly to serve business and the economy as a whole.

IN TUNE WITH THE MARKET

The EIB is distinctive among long-term credit institutions in providing financing which may be denominated in some fifteen different currencies with a wide range of interest-rate formulae and maturities. Reflecting its borrowers' requests, the EIB lends mostly at fixed rates. The structure of outstanding Bank lending thus demonstrates its special purpose, which is to promote the financing of projects, generally major operations with long lead-times and project lives, which help to fulfil the economic potential of the Community. In recent years, however, owing to the wider choice of financing structures for capital investment supported by the Bank and trends on the financial markets, its borrowers are tending to opt for loans at variable rates, although such loans amount to no more than 9% of the total.

instruments. But it is prepared to use them where appropriate, keeping its financial management up to date with best practice.

Mr Chairman,
Gentlemen,

Let me in conclusion express my gratitude and that of my colleagues in the Management Committee to you for your continuing support.

Intermediating a substantial volume of transactions, the EIB does not match each loan with a borrowing. Apart from a few back-to-back operations, in terms of interest rates and particularly maturities, borrowings are matched on an overall basis with lending activity. Hence, given that funds have to be raised in different currencies and for various terms, account is taken of disbursement schedules, cash-flow and the constraints of asset/liability management (ALM).

In this context, it is worth drawing attention to certain special features of the EIB's borrowing and lending policy. Firstly, the Bank leaves it as far as possible to its borrowers - whether from the public or the private sector - to select the currency of the loan, a decision which is all the more important in an uncertain environment because it is a long-term commitment. Secondly, the Bank stands by the principle of transparency in its borrowing policy, raising the currencies which it needs to meet projected disbursements. In applying a strict and prudent policy on currency and interest-rate swaps, the EIB uses these only exceptionally, at times of tension on the markets, in order to obtain a currency which is temporarily unavailable at reasonable rates.

As the world's leading supranational borrower, the EIB is a familiar presence on the capital markets, adopting a pragmatic and flexible approach in its borrowing policy. This enables it to take advantage, at short notice, of the keenest borrowing conditions available with regard to interest rates, maturities and,

especially, spreads in relation to the benchmarks used for pricing its issues. Using its experience as a regular issuer, the EIB funds itself by drawing carefully and selectively on the timing and placement opportunities provided by the various markets. Immediately available liquidity amounts to some two or three billion ecus.

The EIB reviews its rates for new loans, where appropriate for each currency and maturity, on a weekly basis; these rates closely reflect the real or opportunity cost of borrowing on the markets (mark-to-market) plus a margin intended to cover the Bank's operating expenses. This cost could be that of a borrowing operation carried out recently by the Bank or by a comparable issuer for the same maturity and currency. In most cases, however, the EIB assesses what it would cost to borrow in the light of the secondary market performance (currencies and maturities) of bonds issued by itself or borrowers of similar standing: state or supranational issues which are rated - like its own - as "AAA". This approach enables the EIB to offer the best lending conditions available at the time, despite the volatility of markets and the discretion in the choice of maturity or currency granted to its borrowers.

A PIONEERING ROLE ON THE MARKETS

Some ten years ago, the EIB obtained half its resources on markets outside the Community, mainly in dollars, yen and Swiss francs. For these first two currencies, the Bank used a variety of markets: the domestic "yankee bond" or Eurodollar market in the first case; the domestic "samurai" market and private placements for the yen. For this latter currency, the EIB has played a pioneering role in opening up the Euroyen market, starting a trend which has since been considerably expanded.

Today, most of the EIB's resources are raised on financial markets in the Community (88% in 1989, 71% in 1990). The main reason for this lies in the preference of the Bank's customers to borrow in their own currency or in those forming

part of the European Monetary System to finance projects situated mostly within the Community. A further reason is the active role played by the EIB in working towards the Single Market of 1993: economic growth and the rapid development of major infrastructure projects (such as the Channel Tunnel, trans-European motorways, the future high-speed rail network started by the "TGV Atlantique" and "TGV Nord" in France, or the modernisation of telecommunications networks) have increased demands on financial institutions, and first and foremost the EIB.

Furthermore, the Community's financial markets have developed under the combined influence of liberalisation measures and an increasingly international bias, leading the monetary authorities of the various Community countries to support this trend by attracting investors and foreign issuers to their centres. In working towards a European financial market-place, the EIB has built up its issues step by step in many sectors of the capital markets, especially those for non-resident issuers; it has thus been able to open up or reinforce the long-term markets for foreign borrowers wherever its presence as an issuer offering exceptional security and ample liquidity - by launching major, sometimes fungible issues - has made it possible to support growth in the volume of business.

The EIB's share of the market for sterling, which it was one of the first to call on via the domestic "bulldog" (!) sector in 1982 - with the Bank of England as lead manager for its first issue - increased rapidly from 1.5% in 1987 to 9% in 1989, before decreasing to 4.6% in 1990.

The Bank also occupies a special position on the Community's newest capital markets, in Spain and Portugal. Since the "matador" market (1) opened in 1987, the Bank's issues have accounted for some 35% of all borrowings floated on this new market which the Spanish authorities reserve for certain supranational foreign borrowers and, more recently, sovereign ones too (such as Denmark in 1990). In the same way, the EIB was the first to borrow on the "nave-

gador" market (1) in Portugal where it accounts for 62.5% of overall volume. In both cases, it should be pointed out that the EIB is helping to develop these new markets - without having to engage in swap operations in the currencies concerned - by selecting domestic banks to manage its operations in order to help them master international issuing techniques.

Lastly, on the markets for the French franc, while the EIB had to limit itself to one or two issues per year in the mid-1980s, its borrowings in this currency have since grown significantly to FRF 8.2 billion in 1989 (in eight issues, four of which were domestic and four in Eurofrancs) and 7.7 billion in 1990. In 1991, the Bank has also launched two further issues, the first for FRF 2 billion on the domestic market (in April, a tranche fungible with a previous issue of 1.5 billion launched in 1988), the second for FRF 3 billion on the Eurofranc market (in February). In this context, attention should be drawn to the special "kick-start" role played from time to time by the EIB on certain Euromarkets - such as those for the franc, the lira or sterling - to enable dealings to resume after temporary closures due in most cases to a glut of issues.

A RANGE OF BORROWING METHODS

The EIB has in recent years broadened its range of borrowing techniques to take account of the constraints imposed by the environment in which it operates. Moves to liberalise capital markets and make them more international, current volatility of interest rates and fluctuations in certain exchange rates have recently been joined by other factors which have affected the expectations of the Bank's borrowers, particularly in terms of disbursements and types of loan contract: greater awareness on the part of borrowers of the emergence of new financial products, and market instability at a time of international uncertainty connected with the upheavals in Eastern Europe and the recent crisis in the Gulf, etc.

Thus, while keeping pace with the gradual institutionalisation of the markets

growing needs for finance, the EIB has adjusted its policy of medium-sized issues whenever it has deemed appropriate, turning instead to large-scale public issues ("jumbos") serving as benchmarks on the markets concerned. In 1990, five successful issues were floated in ecus (1.125 billion), Eurofrancs (two of 2 billion each), Eurodollars (600 million) and Deutsche Mark (700 million); in January 1991, the EIB took advantage of opportunities on the Euro-markets to launch an issue of 3 billion Eurofrancs, followed shortly after by two fungible tranches of 500 and 650 million ecus (1.15 billion) in January and February. These were recognised as benchmarks by the markets.

In pursuing this policy, the Bank has clearly sought to reinforce the quality of its "AAA" rating on the markets, notably by offering investors the ample liquidity they require. As regards the ecu in particular, however, in targeting "jumbo" issues at this market the EIB has shown that the Community currency can be a benchmark borrowing currency for operators and has demonstrated the depth in the market for the ecu, where institutional investors can place funds with the prospect of appropriate yield curves. Finally, the EIB is also helping through these measures to lay the ground for the new futures markets, expansion of which is an important part of the development of major centres such as Paris and London.

Recognising its responsibilities as a supranational issuer and as the financial institution of the European Community, the EIB is thus working to develop the market for the ecu: it is providing volume and liquidity and helping, through its presence, to bring about the rapid expansion of a market in which sovereign issuers are now participating. Indeed, a far from insignificant development in terms of practical use of the ecu has been the floating of issues in this currency - in the wake of those launched by the EIB - by the United Kingdom (2.5 billion ecus on 14 February 1991), Belgium (1 billion at the same time) Spain and Italy.

Furthermore, 1990 saw a significant increase in the EIB's calls on the money markets. The equivalent of 1.16 billion ecus (315 million in 1989) were borrowed in this way in the form of commercial paper, accounting for 10.5% of funds raised over the year. Begun in 1984 with the US dollar, the Bank's commercial paper programmes were extended to the ecu in 1989. They now cover five currencies, following the introduction in 1990 of programmes in sterling, lire and guilders; at 1 March 1991, the amount outstanding totalled nearly 1.8 billion ecus. This trend, which is likely to develop further in coming years, mirrors growth in demand from the Bank's borrowers for variable-rate loans against a background of volatile long-term rates. The effect is to consolidate the Bank's already strong presence on the various capital markets acquired through launching some 90 medium- and long-term operations each year.

BREAKING NEW GROUND IN BORROWING TECHNIQUES

Speed and efficiency being the hallmarks of its borrowing operations in accommodating demand for project financing Community-wide at optimum cost, the EIB is increasingly making use of new placing and hedging techniques and formulae for determining the issue price.

On the ecu market, for example, the most recent - fungible - issues floated by the Bank in 1990 and early 1991 are different from previous issues on the same market. Firstly, the Bank has departed from the traditional practice - as on other markets - of charging commission to investors in favour of a fixed reoffer price proposed to investors by banks in the syndicate.

Secondly, in a further departure from practice on other markets - such as those for the dollar or the French franc - the EIB has floated issues where the pricing has been determined not by reference to some form of state borrowing (French OAT - fungible Treasury bonds - or gilts, for example), but by reference to one of its own issues and, what is more, to a fungible tranche of that same bor-

rowing. In the case of the issue of 650 million ecus launched in February 1991, fungible with that of 500 million from the previous month, the benchmark chosen was precisely that first tranche of 500 million, as quoted on the secondary market when the second tranche was launched, with a spread of only 0.04%. The same had applied to the first tranche of 500 million, which had taken as a benchmark an issue floated by the Bank the year before.

However, the launching of issues for ever-greater amounts exposes the borrower to the possibility of losses when lending the sums raised, insofar as interest rates could move downwards during the period prior to disbursement. On its most important markets, the EIB is therefore using a novel method of hedging against interest rate risks: deferred rate-setting (DRS), which allows the Bank to adjust the cost of its funds by reference to a spread over the yield on a benchmark from a comparable - state or supranational - issuer which is already quoted on the secondary market. The spread is fixed at the time of issue. The cost can be locked in at the time the interest rate on the loan is fixed. This technique has been applied by the EIB since 1986 for Euro-borrowings in dollars, sterling and ecus, and was used notably for the latest issues of FRF 3 billion and NLG 300 million.

It is particularly well suited to an institution such as the EIB, which for the most part finances its activities through borrowing, and enables the issuer to determine the cost of its borrowing through a series of tranches phased over several months at rates which vary according to the performance of the benchmark. This method allows the cost of resources to be matched as closely as possible to the rates applied when they are lent and, if the dates are chosen carefully, the overall cost of the operation to be reduced. However, this means of hedging requires an adequate number and volume of swap transactions and benchmark issues or, better still, a futures market offering long-term contracts, as is the case with Chicago, London and, more recently, Paris, in particular for the ecu,

with the new notional contracts on the MATIF (Paris) and the LIFFE (London).

In seeking to secure a close match between the conditions of its bond issues and the interest rates applied to its loans, the EIB is developing a pragmatic market approach and borrowing policy in the interests of effective operations and a determined approach to building a European financial marketplace, especially one making use of the ecu.

EIB to lend in Bulgaria, CSFR and Romania

On April 18, 1991, the EIB's Board of Governors authorised lending of up to 700 million ecus for investment projects in Bulgaria, the Czech and Slovak Federal Republic and Romania. The decision was taken according to Article 18 of the EIB's statute under which the Governors, acting unanimously on a proposal from the Board of Directors, can authorise the Bank to grant loans for investment projects to be carried out outside the Member States. The general budget of the European Community will provide a guarantee for the loans advanced by the EIB in these three countries.

This brings to six the Central and Eastern European countries where the EIB may finance projects. In November 1989, the Board of Governors had authorised lending up to 1 billion ecus in Poland and Hungary where loans totalling 215 million ecus have now been signed. In addition, since 1976 the EIB has also been lending in Yugoslavia in the framework of the Community's cooperation with the countries in the Mediterranean; to date 760 million ecus have been committed for projects of common interest to both Yugoslavia and the Community, mainly in the transport sector.

The EIB's actions in Bulgaria, CSFR, Hungary, Poland and Romania are fully coordinated with the PHARE programme set up and implemented by the Commission of the European Communities and financed by 24 nations,

Through its borrowing and lending activity, which brings into play a substantial volume of funds across all sectors of the European economy and, to a lesser extent, benefits some 90 countries outside the Community, the EIB is able to contribute, in macro-economic terms, to a transfer of surplus savings from capital markets towards productive investment in the less-developed regions of the Community, the modernisation of European industry and the establishment of integrated communications networks

including the EC Member States. Most aid provided under this programme is non-reimbursable and oriented towards technical assistance.

In line with EIB practice inside and outside the Community, lending in Central and Eastern Europe will remain closely tied to specific projects in the public and private sectors. All projects are carefully appraised to ensure their eligibility for EIB financing and viability from an economic, technical and financial point of view. Funding will be forthcoming only if a project is economically justified.

The EIB usually co-finances projects with other banks and specialised financial institutions; the most likely co-financing partners in Central and Eastern Europe are the bilateral financing institutions of the Community's Member States, the World Bank group, the European Bank for Reconstruction and Development (EBRD) and possibly commercial banks.

In the Central and Eastern European countries the EIB is giving priority to projects in:

— the energy sector, where there is an urgent need for restructuring and technological modernisation. In addition, the EIB will finance schemes for saving energy and reconverting industry to less polluting fuels in order to reverse the all too evident environmental damage.

— transport and telecommunications which have a vital role in open economies wishing to develop external trade relationships on a cost-effective basis. The EIB will finance projects aimed at improving national networks and extending communication links with the West, and with the EC in particular.

across Europe.

In doing this, the EIB is continuing to pursue the financial objectives entrusted to it by the authors of the Treaty of Rome: securing a position as a borrower which matches its role as a lender in contributing to the balanced development of the Community.

(1) "Bulldog", "matador" and "navegador" markets: the non-resident markets for medium- and long-term sterling, peseta and escudo bonds; the EIB launched its maiden operation on the "matador" market in 1988.

— industry, where in an initial phase projects are likely to be joint-ventures with Western partners and direct investments by EC firms. The EIB finances large industrial investments directly and supports small and medium-sized projects through its global loans, i.e. temporary lines of credit to local banks which on-lend the funds in smaller amounts for projects corresponding to EIB lending criteria.

EIB lending in Hungary so far amounts to 120 million ecus. Of this, 80 million ecus were for the improvement of the telecommunications network, 15 million ecus for improving electricity distribution, while a 25 million ecus global loan went to Inter-Europa Bank in Budapest for financing small and medium-sized enterprises in industry, related services and tourism as well as for environmental protection or energy saving schemes.

Of the 95 million ecus lent in Poland, 50 million were for expanding gas production and distribution and for reducing pollution. The modernisation of railway repairshops was financed with 20 million ecus. Finally, Export Development Bank in Warsaw received a global loan of 25 million ecus to be used for the same purpose as the funds advanced to Inter-Europa Bank in Budapest.

Having laid the basis for further activity in Hungary and Poland, where a number of projects are presently being appraised, the EIB is now in the process of establishing the necessary relationships and contacts in Bulgaria, CSFR and Romania.

1991 EIB Prize to Benoît MulKay



EIB President Ernst-Günther Bröder (left) with Prize winner Benoît MulKay (middle) and Professor Michael MacCormac of the EIB Prize Jury.

The 1991 EIB Prize has been awarded to Benoît MulKay, a Belgian national, for his thesis "Investment and Business Survey. A Study on a Panel of French Industrial Firms" (Université Catholique de Louvain, 1991). The prize was presented at the European Investment Bank on 20 June by EIB President Ernst-Günther Bröder and Professor Michael MacCormac, representing the EIB Prize Jury.

In his thesis, Mr MulKay first assesses the consistency of business survey answers with accounting data and uses the outcome to construct a model to understand better the investment behaviour of enterprises. Mr MulKay demonstrates that business survey data present an interesting new source of information, basing his analysis on the balance sheets and income accounts of French industrial firms and business surveys conducted during the period from 1978 to 1984 by the Institut National des Statistiques et des Etudes Economiques in Paris.

The Jury report praises "Investment and Business Survey" for its theoretical thoroughness, rich empirical detail and relevance to the EIB's field of activities. During the presentation ceremony Mr Bröder, underlining the conclusions of the jury, said that Mr MulKay's thesis makes new inroads into the crucial study of firms' investment decisions.

The EIB Prize, worth 12 000 ecus, was instituted on the occasion of the 25th anniversary of the European Investment Bank in 1983 to promote the study of topics related to investment and finance at academic institutions in the European Community. The prize is awarded biennially and was first conferred in 1985.

The members of the EIB Prize Jury are Lord Roll of Ipsden (President of the S.G. Warburg Group and chairman of the Jury), Professors Beniamino Andreatta (University of Bologna), Jean-Claude Casanova (Institut d'Etudes Politiques de Paris), Wilhelm Hankel (Free University of Berlin and University of Frankfurt), Arnold Heertje (University of Amsterdam), Michael MacCormac (University College Dublin) and Julio Segura (University of Madrid). Professor MacCormac is retiring now that the 1991 Prize has been awarded.

Ecu

Below are the ecu values in national currencies, as at 28 March 1991, these rates are applied to the second quarter in preparing financial statements and operational statistics of the Bank:

DEM	2.05891	BEF	42.3693
GBP	0.691945	LUF	42.3693
FRF	6.97964	DKK	7.89333
ITL	1532.03	GRD	222.729
NLG	2.32103	IEP	0.770481
ESP	127.579	PTE	180.567
		USD	1,20018

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