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DEN EUROPÆISKE INVESTERINGSBANK
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■ Loan monitoring at the EIB

The raison d'être of the European Investment Bank, as the financial institution of the Community, is to further the attainment of EC objectives both within and outside the Community. The Bank adapts its eligibility criteria and loan formats in line with the changing needs of the economy with a view to facilitating the EC's transition towards economic and monetary union.

Unlike other EC institutions, the EIB serves Community interests through banking channels: it borrows on capital markets the resources required to finance its loans and therefore has to contend with the constraints inherent in its borrowing/lending activities. The EIB's particular role is reflected in its procedures for deciding on and monitoring its loans. It is incumbent on the EIB to have a monitoring structure which provides its shareholders – the Member States of the Community – and its lenders – those subscribing to its bond issues – with a guarantee of sound management and compliance with the Bank's remits.

Every decision to grant a loan taken by the Board of Directors, acting on a proposal from the Management Committee, is based on a detailed examination carried out during project appraisal; the latter involves an evaluation of the component parts of the investment and its place in the economy as seen from three points of view by: engineers in the Technical Advisory Service, economists in the Research Directorate and analysts in the Directorates for Operations inside and outside the Community. At the same time the financial solidity of the promoter, borrower and guarantor and the soundness of the proposed financing package are examined from a banking and legal standpoint.

This strict approach to financing decisions is seen also in the monitoring mechanisms which the Bank has established. These are elements of an overall concept of project supervision, beginning with an evaluation before a decision on a loan and continuing until and beyond the final stage of project completion. Monitoring is thus an integral part of the life of the loan, its objective being to guarantee proper use of the funds advanced and to assess the results of the investment.

The most senior body in the EIB's monitoring structure is the Audit Committee, established by virtue of Article 14 of the Bank's Statute. This Committee consists of three members, appointed by the Board of Governors for a renewable three-year term on the grounds of their competence in this field. The Audit Committee bases itself on the work conducted by the Bank's Internal

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Loan Monitoring at the EIB 1

As well as carrying out detailed appraisals of projects before deciding on a loan, the EIB closely follows up on the progress of investment it supports. Monitoring is an integral part of the life of a loan, ensuring the proper use of the funds advanced and the evaluation of the investment's results. Equally the EIB's own activities, like any bank's, are also closely controlled and monitored by internal and external bodies to reduce risks and enhance effectiveness. This article examines the structure of the EIB's monitoring and control mechanisms.

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As the European Community's long-term financing institution, the EIB mobilises a large volume of funds on capital markets, for lending to investment projects furthering Community policy objectives. The Bank is the largest of the international financing institutions and operates in many different currencies. While the EIB, as a Community institution uses the ECU as its unit of account, it also borrows and lends in this currency. This article sketches out the important contribution the EIB has made to the development of the ECU.

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The EIB has been financing priority investment in five Central and Eastern European Countries for nearly three years. Its lending in these countries takes place within the framework of the EC's support for states in the region moving towards pluralist democracies and market economies. This article provides a brief overview of EIB activity so far in the region with a list of the projects financed.

Audit Division, by the units responsible for loan monitoring and by an outside firm of international chartered accountants.

The Board of Governors of the Bank approves the annual report, annual balance sheet and profit and loss account, after hearing the views of the Audit Committee in accordance with the Statute (1). By signifying their approval, which is the final stage in monitoring activities during the financial year, the Governors reconfirm the management of the Bank by the Board of Directors and the Management Committee.

MONITORING LOANS

The loan monitoring units, which are attached to the Directorates for Operations inside and outside the Community, are responsible for the follow-up and monitoring of the Bank's loan and guarantee operations once the finance contract has been signed. The terms of the contracts concluded with the beneficiaries provide the legal basis for these activities; in addition to other annexures, the contracts include a technical description of the project concerned and the measures taken to guarantee its compliance with relevant legislation, particularly that relating to environmental protection.

The controls range from administration of the loan to monitoring of work in progress on the project and an evaluation of its results once the project is operational; they apply to all Bank operations, irrespective of their location or source of funding: the Bank's own resources or resources managed under mandate (from the European Development Fund, for certain loans to ACP countries, or from the Community budget, for certain loans to Mediterranean countries) (2).

Once the finance contract has been signed, an initial check is carried out, as a preliminary to disbursement, to ensure compliance with the legal and material conditions governing provision of the funds. In the case of projects financed in a number of tranches or of global loans extending credit for a large number of final beneficiaries, such checks are repeated at the time of each disbursement, in line with

progress on the project or drawdown of the global loan by the financial institution deploying the proceeds.

Such monitoring activity also embraces the consequences, during the life of the loan, of any financial, legal or technical developments; in cooperation with the departments which appraised the project and with the promoter, appropriate solutions are sought, compatible with the objectives underlying the EIB's financing decision. Such developments, their origin and implications are the subject of an annual analysis, the findings of which, after evaluation by the Management Committee, are notified to the Board of Directors.

MANAGING THE FINANCIAL RISK

Since it operates with borrowed resources which must therefore be repaid, the EIB is obliged to conduct its operations in accordance with strict banking principles. It is largely thanks to this policy that the Bank is regarded in the financial markets as a first-class borrower. The credit-rating agencies, such as Moody's or Standard and Poor's, have consistently awarded the Bank their highest credit rating ("AAA"). Serving the interests of the Community, the EIB passes on to its borrowers the advantages it enjoys as a result of its excellent position on the financial markets.

EIB loans must also be backed by adequate security, whether in the form of a conventional guarantee from a public institution or first-class bank or based on the project itself: security provided by the promoter's parent company or associate, a charge on the assets of the promoter or of an associate or on the revenues of the project, etc.

During the life of the loan the financial risk is therefore carefully monitored by the Bank. Firstly, before any disbursement, a check is carried out on the validity of the guarantees provided for the operation. Subsequent developments in the promoter's and guarantor's financial situation are monitored constantly together with compliance with the terms of the contract. In the case of the Bank's regular borrowers, data on the borrower itself, the amount of loans outstanding and the rate

of repayment are collated and processed in a data base specific to each operator.

Furthermore, whenever necessary, for example in the case of operations financially vulnerable because of developments in the project or the financial position of the promoter, special monitoring is undertaken. The risks are analysed and negotiations are entered into with the borrower, its guarantor(s) and joint backers, in order to find solutions which offer the best prospects for completing the project and defending the Bank's interests.

These procedures are also an integral feature of the administration of loans in non-Community countries. In recent years, economic trends and, in many cases, political developments in a number of countries have had a damaging effect on the financial performance of projects. The Bank has therefore tightened up monitoring of such projects and of any arrears, in order to be able to anticipate the consequences of such situations.

The Bank's loan portfolio, covering operations both inside and outside the Community, is the subject of a report submitted each year to the Management Committee of the Bank. It deals principally with the breakdown of loans outstanding by type of borrower, guarantee and sector and includes a study of the risks associated with each category. The report also contains a review of loans experiencing difficulty and of conclusions to be drawn from them for the future.

MONITORING WORK IN PROGRESS

While work is still continuing on projects financed by the Bank they are monitored on the basis of information provided, as required by contract, by the promoter and confirmed, if necessary, by on-the-spot visits; hence, each year an assessment is carried out of progress being made on projects and the extent to which that progress accords with Bank financing criteria. If necessary, consideration is also given in this context, and in cooperation with the Bank's technical advisers, to the case for changes to elements of a project which, in the light of technical or economic developments in the sector, might be necessary in the interests of the project.

A similar monitoring procedure is followed, *mutatis mutandis*, with regard to global loans in member and non-member countries. It should be remembered that, in the case of global loans, the promoters of projects financed - the "final beneficiaries" - do not, of course, have a direct contractual relationship with the EIB but with the financial or banking intermediary to whom the global loan is granted.

This monitoring centres firstly on ensuring that the intermediaries respect the criteria on sectoral objectives and location of the final beneficiaries. Monitoring differs according to the relations built up between the Bank and each intermediary. Checks can therefore range from a systematic examination of the project appraisal dossier to approval of allocation lists submitted to the EIB by the intermediary. Such checks are a condition for any disbursement from the credit line opened by the Bank with the intermediary.

Obviously, the financial performance of the intermediary is also examined in order to confirm the continuing solvency of the borrower and its ability to achieve the objectives of the ongoing global loan.

The conclusions of such evaluations, relating to both individual and global loans, are conveyed to the heads of the directorates concerned; the Management Committee, after examining them, forwards the conclusions in summary form to the Bank's Board of Directors.

EVALUATING THE COMPLETED PROJECT

Project evaluation reports, drawn up after a check on supporting documents and, most often, on-the-spot visits, are prepared once the project has been completed and is operational. On-the-spot visits are made by the units responsible for monitoring loans assisted, if necessary, by the technical advisers concerned. This activity is particularly important in the case of projects financed in third countries.

Monitoring prior to a final evaluation of projects centres on ensuring that the completed project is in conformity with its technical specification, evaluating the economic and/or financial return on the investment and examining the financial position of the promoter. The purpose of these controls is to assess the impact of the

projects on the economic sectors or regions concerned, i.e. to check that the result is in accord with the Community objectives underlying the EIB's financing decision.

With regard to evaluation of the results of global loans, checks are carried out at the end of the loan allocation period to assess the degree of success - or failure - of small or medium-scale ventures financed from EIB allocations. Here again the nature of such checks depends on the closeness or otherwise of the Bank's association with the intermediary concerned; they range from a "periodic review", usually once every three years, for an established intermediary, to a more detailed examination involving several visits to undertakings in the case of a first global loan.

The Bank's Management Committee is kept closely informed of the results of such evaluations and of any resulting recommendations. The Bank is then in a position to judge the contribution it makes to the attainment of Community objectives in relation to the economy of Europe or of third countries. The EIB's managing bodies, therefore, place particular emphasis on the quality of the monitoring system applied and on adapting accordingly the methodology and organizational structure of the departments concerned.

INTER-INSTITUTIONAL COOPERATION

As the financial institution of the Community, the EIB attaches the same importance to project implementation and monitoring irrespective of the source of funds which it deploys as part of its Community remit. Operations financed by the EIB from funds managed under mandate from the Community are therefore also subject to the same monitoring procedures as those financed from the Bank's own resources⁽²⁾.

Furthermore, the Bank also provides information for the authority mandating these funds - the Commission - and facilitates external checks on these resources, carried out by the Court of Auditors of the European Communities through the Commission, as they derive from the Community budget or the European Development Fund (EDF). To this end, the EIB and the institutions concerned have, for several years, cooperated closely on the

practical arrangements for the Court of Auditors' verification of the use of such funds.

This cooperation has been the subject of an accord between the three institutions, signed in June 1989 and renewed in November 1992; it applies to operations covered by the Community budget guarantee and those managed by the Bank under mandate from the Community. The accord sets out the practical arrangements to be followed for external Community monitoring of such operations; it attaches priority to documentary control and, in certain specific cases, provides for the possibility of on-the-spot visits by auditors from the Court of Auditors and the Bank's Audit Committee working together on the same control mission.

INTERNAL UDIT

Each year the Internal Audit Division carries out an audit of departments and management procedures - particularly in the field of data processing - in collaboration with the Audit Committee and covering about fifteen areas. Like all internal audits the activities of this Division ensure that careful attention is paid to management methods and implementation of decisions.

The Internal Audit Division reports to the President and to the Management Committee; the heads of the directorates concerned then ensure that appropriate action is taken to implement the recommendations of the audit. A multi-annual follow-up of such action is incorporated into the Division's work programme.

Applying the "systems control" method, the audits of this Division assess the estimated operational risks and scrutinize the correctness of operations carried out; they also evaluate the quality of the management methods used by the various departments.

Regular checks are thus carried out on the management of financial operations (raising of funds, accounting, treasury operations, disbursements), loan monitoring procedures and the management of administrative expenses. In addition, the Internal Audit Division carries out special checks on EDP management systems and measures taken to guarantee their security.

The Internal Audit Division is also consulted when rules and management systems are being drawn up for the various departments, especially when they relate to the introduction of effective monitoring and security procedures, particularly in the field of data processing.

REGULARITY OF ACCOUNTS

In accordance with the Statute (Article 14), the Audit Committee is responsible for checking that the accounts of the Bank have been kept in a proper manner. The accounts consist of the balance sheet, the profit and loss account, the statement of Special Section, a statement of changes in the financial position as at 31 December and a number of annexes concerning the financial statements. The Audit Committee confirms to the Board of Governors that these various statements faithfully reflect the position of the EIB in respect of its assets and liabilities. To this end, the Committee ensures that checks are carried out on the books, vouchers and documents which it deems relevant; it is assisted in this

task by an international firm of chartered accountants, Price Waterhouse.

This firm makes sure that the books and accounts have been prepared in accordance with internationally recognized accounting standards. It carries out a regular and systematic audit and undertakes those sectoral auditing tasks which the Audit Committee feels should be entrusted to it.

The work of the chartered accountants is concerned mainly with the manner in which the general accounts of the Bank are kept and with the operation of the internal monitoring procedures applicable to the departments concerned. If necessary, reference may also be made to checks carried out by the Internal Audit Division. Every six months, the firm of chartered accountants prepares reports on the accounting position as at 30 June and 31 December of each financial year.

The conclusions drawn from such work and from other in-house monitoring activities are then discussed freely with the departments concerned; the Management Committee of the Bank - and,

through it, the Board of Directors - are kept informed of the outcome of these activities.

* * *

The EIB has set up monitoring structures tailored to its specific banking functions and Community remit. Nevertheless, however precise and thorough monitoring systems may be, they can never eliminate the risk element inherent in any lending activity; this is particularly the case when lending long term on a significant scale in a wide variety of sectors and countries and against an ever-changing economic backdrop. Consequently, the EIB pays considerable attention to ensuring that its monitoring mechanisms are permanently adapted to developments in financial and investment techniques with a view to pinpointing risk factors and reacting accordingly.

(¹) Article 9 (3) (e) and (f) of the Statute; the EIB's Statute forms an integral part of the Treaty of Rome.

(²) Out of a total of 58.7 billion ecus lent from 1987 to 1991, EIB loans from own resources amounted to 57.181 billion, or 97.3%. Financing from other resources, deployed under mandate, is accounted for off balance sheet in the "Special Section" and represented 1.58 billion, or 2.7% of EIB operations, over the past five years.

The European Investment Bank and the ECU

The past few weeks have seen a certain amount of turbulence on the financial markets, sparked off partly by uncertainty about ratification by some Member States of the Maastricht Treaty on European Union. This affected the ECU in particular and indeed the capital market in this currency has since remained closed. Nonetheless, other segments of the ecu market are displaying a level of activity which attests to the genuine importance of this currency for market operators. The volume of trading on the Matif ECU futures market for example has continued to be high and interbank clearing activity in the currency has also remained lively, recording a daily average of 45.4 billion ECUs in October 1992, with a peak of 62.5 billion.

The world's leading international borrower, the EIB maintains a permanent presence on the capital markets. Its borrowing policy is marked by pragmatism and a flexible approach, contributing over many years now to the use of the ECU as a monetary instrument suited to the needs of its borrowers. The following article maps out the main stages in this policy, which has established the EIB as the world's largest user of the ECU.

The Maastricht Treaty on European Union establishes the framework and a timetable for the European Community's economic and monetary union, including the introduction of a single Community currency by 1999. The Member States currently use the ECU as a central element for measuring national currencies for the Exchange Rate

Mechanism of the European Monetary System. The Community's institutions also use the currency as their unit of account.

The European Investment Bank, as the Community's long-term financing institution, has made a steadily increasing use of the ECU on both the assets and liabilities

sides of its balance sheet and is today the largest long-term borrower and lender of the currency. The ECU for the past three years has headed the list of 17 currencies in which the Bank works.

From its establishment in 1958, the EIB, like other Community institutions, has always used a unit of account in drawing up its balance sheet, as well as for the presentation of its activities. Until 1974, the measure used was known as the "unit of account" (u.a.) and valued in terms of gold (¹). Following the breakdown of the gold standard and the introduction of floating exchange rates, the EIB's Board of Governors in 1974 adopted a new definition of the Bank's unit of account, as one identical to the European Unit of Account, defined as a basket of Member States' currencies (²).

The present ECU was formally created in March 1979 with the establishment of the European Monetary System. The EIB's Governors decided to adopt the ECU, which was equal in value to the European

Unit of Account, as the Bank's unit of account as from 1 January 1981. Advantages in using a unit based on a basket of currencies include a neutral expression of the Bank's financial activities, and a brake on rapid swings in balance sheet ratios, as would occur during periods of widely fluctuating exchange rates if denominated in a single domestic currency.

The EIB's subscribed capital is also expressed in ECU. Until recently, payment of the paid in portion of the subscribed capital was in the national currencies. To ensure the ECU value of these amounts remained constant, compensatory payments are made, according to established rules, to and from the Bank, as required by Article 7 of its Statute. In 1989, the Board of Governors decided that Member States could have the option of paying in future capital contributions in ECU, and to convert past payments also into ECU. Currently about 75% of the paid in capital is effectively held in ECU.

BORROWING ECU

Long-term

To finance its lending, the EIB borrows the bulk of its resources on capital markets. The volume of the Bank's borrowing has steadily grown and is of a size, currently, that places it at the forefront of the group of international financing institutions. The currencies raised by the EIB match the requirements of its project promoters. In 1991, its total borrowing operations amounted to ECU 13.67 billion equivalent, of which the ECU accounted for 18.3% - ECU 2.5 billion (Table 4).

The EIB launched its first ECU public bond issue (an 8 year bond with a 13.5% coupon) for ECU 40 million in June 1981, the second borrower ever to float an ECU issue, and the first European Community institution to do so. Since then its activities in the expanding ECU market have grown rapidly. Between April 1981 and the end of 1991, a total of ECU 92 billion in 60 issues has been raised on the international capital markets, of which some ECU 8 billion was by the EIB, representing nearly 9% (Table 1)⁽³⁾.

TABLE 1 : PUBLIC BOND ISSUES DENOMINATED IN ECUS
(in m ECUs)

	Capital Market		(EIB/no)	Total	EIB market share	
	National I	International II			(% of III) IV	(% of II) V
1981	-	232	(85/02)	232	36.6	36.6
1982	1 200	662	(112/02+war)	1 862	6.0	16.9
1983	600	1 870	(185/04)	2 470	7.5	9.9
1984	1 300	3 484	(445/07)	4 784	9.3	12.8
1985	2 600	9 465	(550/07)	12 065	4.6	5.8
1986	1 766	6 840	(705/05)	8 606	8.2	10.3
1987	1 818	7 386	(625/06)	9 204	6.8	8.5
1988	7 250	9 213	(875/07)	16 463	5.3	9.5
1989	9 190	11 127	(1 395/11)	20 317	6.9	12.5
1990	10 486	15 040	(1 125/04)	25 526	4.4	7.5
1991	7 185	26 554	(1 900/05)	33 739	5.6	7.2
Total	43 395	91 873	(8 002/60)	135 268	5.9	8.7

TABLE 2 : PUBLIC BOND ISSUES AND PRIVATE PLACEMENTS IN ECU LAUNCHED BY THE EIB
(in m ECUs)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Public offerings:											
Euro											
- Fixed rate	85	(*)112	185	415	310	455	625	875	1 195	1 125	1 500
- Floating rate	-	-	-	-	-	-	-	-	-	-	-
Foreign											
- Fixed rate	-	-	-	(**)40	(**)240	(**)250	-	-	200	-	-
Private placements:											
- Fixed rate	-	-	-	-	-	-	-	-	-	130	50
- Floating rate	-	-	-	-	-	-	-	-	-	-	50

Notes: (*) Including 12 m ECUs raised through bonds subscribed under warrants exercised on a 1981 issue.
(**) With tranches launched simultaneously on the Euro market.

TABLE 3 : EIB ECU LOAN DISBURSEMENTS IN MEMBER STATES BY SECTOR (1981-1991)
(in m ECUs)

	Energy	Infrastructure	Manufacturing Industry	Commerce & Services	Global loans	Total
Germany	64	59	-	190	315	627
France	232	1 085	8	60	657	2 042
Italy	1 187	909	1 596	36	1 117	4 846
United Kingdom	-	202	-	-	1	203
Spain	438	1 709	39	-	154	2 340
Belgium	12	14	14	-	86	125
Netherlands	-	-	-	-	45	45
Denmark	559	607	-	-	40	1 206
Greece	88	251	14	8	81	441
Portugal	269	274	173	7	232	956
Ireland	71	184	6	12	26	299
Luxembourg	-	37	-	-	-	37
Article 18	23	1	-	-	-	24
Total	2 943	5 332	1 849	312	2 755	13 192

The Bank has avoided market saturation or increased borrowing costs by adapting evolved from being fragmented and retail driven to a global and highly liquid sector of the international market. Initially, the EIB issues were launched under the lead management of Belgium and Luxembourg banks for retail customers. As interest in the ECU began to develop elsewhere, the EIB expanded the range of its issues beyond countries that encouraged the ECU's development. Negotiations were entered into with authorities to enable quotation of ECU bond issues on some stock exchanges.

The EIB's policy of diversifying ECU issues has fostered the currency's internationali-

sation and allowed it to reach investors in new markets, both within the Community - France, Italy, Denmark, the Netherlands, and Germany - and outside - Austria, Hong Kong, Singapore, and in particular Switzerland and Japan. Issues also came to be aimed at not just retail investors, but also at specific target groups, such as savings banks, pension funds, and insurance companies through public issues or private placements. The EIB's policy has been to foster the convergence of ECU bond markets towards a unified global market structure by ensuring its issues included an internationally placed portion. Systematic quotation of its ECU issues on the Luxembourg stock exchange has helped avoid market segmentation.

By 1990, the international ECU bond market had become sufficiently unified and liquid to allow for a substantial increase in the size of issues. The ECU's credibility was also strengthened with the European Community's growing commitment to liberalization of financial markets and economic and monetary union. The EIB was among the first issuers to identify the evolution, and in January 1990 the Bank launched its first "jumbo" ECU bond (10% of 1997) initially for ECU 500 million. Using a fungibility clause, the issue was gradually increased, and by May 1991 had reached a total ECU 1 125 million, making it one of the largest and most liquid international ECU issues (Table 2).

TABLE 4: EIB BORROWINGS BY PRINCIPAL CURRENCY
(in m ECUs)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
ECU	85	112	230	555	731	897	807	1 329	1 839	1 765	2 500
DEM	358	586	706	632	674	879	1 153	1 545	959	1 124	1 198
FRF	129	177	149	175	369	413	464	854	1 164	1 114	1 378
ITL	-	-	-	108	342	594	639	652	626	851	1 466
GBP	107	263	176	285	218	304	142	752	1 769	1 331	1 837
ESP	-	-	-	-	-	-	-	237	701	614	813
BEF	52	79	161	153	171	263	302	473	346	330	166
NLG	319	413	357	479	424	515	338	500	317	528	369
USD	615	745	834	1 255	1 806	1 760	722	308	385	1 574	2 262
CHF	300	345	285	323	355	511	370	556	264	818	782
JPY	264	387	469	346	529	514	517	314	431	771	627
Other	81	97	254	49	92	136	138	147	234	175	274
Total	2 310	3 205	3 619	4 361	5 709	6 785	5 593	7 666	9 035	10 996	13 672

Note: Medium-term and long-term fixed and floating rate bond and note issues as well as short-term operations and third-party participation in loans; after swap operations.

TABLE 5: EIB LOAN DISBURSEMENTS IN MEMBER STATES BY PRINCIPAL CURRENCY
(in m ECUs)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	Total
ECU	158	184	435	615	813	1 003	986	1 434	2 143	2 404	3 016	13 192
DEM	398	723	847	887	1 117	1 118	1 320	1 502	1 326	1 215	1 901	12 353
FRF	144	208	245	291	281	615	505	907	1 401	1 051	1 367	7 016
ITL	38	88	43	174	261	728	640	684	805	1 022	2 014	6 497
GBP	161	300	286	254	304	443	218	906	1 613	1 186	1 927	7 599
USD	539	689	717	1 121	1 560	1 083	466	225	898	1 142	1 840	10 280
Other	1 084	1 163	1 314	1 623	1 526	1 776	1 468	2 003	2 521	3 401	2 929	20 806
Total	2 522	3 355	3 887	4 965	5 862	6 776	5 603	7 661	10 707	11 421	14 994	77 743

EIB Financing in Central and Eastern Europe

This technique of building large issues through successive additions was re-employed in January 1991, with an initial issue of 500 million (the 10% of 2001) which was increased to ECU 1 150 million the following month providing liquidity in the secondary market.

Against the recent background of increased interest rate volatility, the fungibility of "jumbo" issues allows subsequent tranches to be timed to coincide more closely with the EIB's lending as a hedging technique, allowing it to benefit from the competitive funding costs associated with more liquid issues. Taking advantage of the opening of ECU futures markets in France and the United Kingdom, the EIB has been able to make use of the Deferred Rate Setting technique (known as "spread-lock" in the US market) on its more recent ECU issues; a technique the Bank has used for a number of years in other markets. This technique enables the Bank to receive in its treasury the proceeds of an issue, while the cost of the funds are gradually established over a pre-set period subsequent to the launch, *pari passu* with fixing the interest rate for loan disbursements.

To the extent compatible with its asset-liabilities management, the EIB is making appropriate use of jumbo issues, providing the ECU market with benchmarks that are both liquid and easy to trade.

Short-term

The EIB has been active in the shorter end of the ECU market since 1984 with an ECU note programme, with maturities of between one and six months and sold directly by the Bank. The initial issue ceiling of ECU 100 million was increased in 1988 to ECU 400 million. In 1989, the EIB set up a commercial paper programme for a total ECU 200 million to meet increasing interest in variable rate loans from its project promoters. This Euro-CP programme is limited to issuing in ECU, in maturities of between one week and twelve months. Following several increases and the addition of a second programme, the total outstanding exceeds ECU 1 billion. The EIB also continues to be an active player in the ECU deposit market.

For more than two years the EIB has been making available its finance, know-how and experience for assisting development in Central and Eastern European countries (CEEC). Its loans for projects in this region complement the European Community's Assistance Programme PHARE which is managed by the EC-Commission and provides non-reimbursable aid.

EIB lending in the CEEC takes place in accordance with Article 18 of the EIB's statute under which the Governors, acting unanimously on a proposal from the Board of Directors, may authorise the Bank to grant loans for investment projects outside the Community. In decisions taken in November 1989 and April 1991, the Board of Governors authorised lending of up to 1 700 million ecus for investment projects in Bulgaria, the Czech and Slovak Federal Republic, Hungary, Poland and Romania.

At end of October 1992 total EIB lending in the region had reached 750 million ecus with loans provided in all five countries; further loans are expected to be signed before the end of the year.

Loans signed by end October 1992:

	million ecus
Bulgaria	
Completion of coal-fired power station	45
Modernisation of the telecommunications network	70
	<hr/> 115
CSFR	
Global loan to the State Bank for financing - via local banks - small and medium-scale manufacturing and tourism, as well as energy saving and environmental projects	85
Hungary	
Modernisation and expansion of telecommunications network	80
Electricity generation and distribution improvements	50
Global loan to Inter-Europa Bank for financing small and medium-scale manufacturing and tourism, as well as energy saving and environmental projects	25
Global loan to the National Bank of Hungary for financing - via local banks - industry, tourism and related services	80
Financing of roads and bridges	50
	<hr/> 285
Poland	
Modernisation and expansion of telecommunications network	70
Global loan to Polish Development Bank for financing - via local banks - small and medium-sized enterprises in industry, agro-industry, industry-related services and tourism, as well as small-scale environmental protection and energy saving schemes	75
Expansion of gas production and distribution	50
Modernisation of railway maintenance centres	20
Global loan to Export Development Bank for financing small and medium-sized enterprises in industry, agro-industry, industry-related services and tourism, as well as small-scale environmental protection and energy saving schemes	25
	<hr/> 240
Romania	
Rehabilitation of two power stations	25
	<hr/>
TOTAL CEEC	750

At the meeting of the European Council in Lisbon in June 1992, the twelve Heads of State and Government reaffirmed the Community's support for the process of political and economic reform in the CEEC. They welcomed the progress made in developing and strengthening relations with the region through the entry into force of interim arrangements relating to the European Agreements with the CSFR, Hungary and Poland signed in December 1991. Under these agreements it is foreseen that the EIB, the Community's financing institution, will continue to lend in these countries. Negotiations are under way on establishing similar agreements with Bulgaria and Romania.

LENDING

As the EIB lends in the same currencies that it borrows, its capital market activity reflects the specific currency needs of its project promoters. The EIB's loan disbursements in ECU, either as a single currency or in a currency mix, have jumped from ECU 158 million in 1981 to 3 billion in 1991. It disbursed some ECU 15 billion in 1991 in about 17 currencies (Table 5), of which 20% was in ECU, well ahead of the others. In the period 1981-1991, the Bank disbursed a cumulative amount of ECU 13 billion, representing on average 17% of its total disbursed funds.

While ECU loans have been made in all Member Countries, in terms of volume, disbursements have been uneven. It seems likely that the value of the ECU in the context of greater currency stability following the introduction of the Exchange Rate Mechanism of the EMS has in some areas made the ECU more attractive for borrowers as well as investors in bonds. The main demand from EIB borrowers has been in Italy, France, Spain, Denmark, and Portugal (Table 3).

THE EIB AND THE ECU BANKING ASSOCIATION

As a major player in all sectors of the ECU market, the EIB has also been closely associated with the setting up of a clearing system for the "private" ECU (as opposed to the "official" ECU managed by the EC central banks). The clearing system which began operation in 1986, has been established by the ECU Banking Association to settle ECU transactions amongst banks with a base in the Community. The EIB is a founder member of the EBA and nominates a vice-president to the Association's Executive Committee. The clearing system consists of a communication and netting system operated by SWIFT (Society for World-wide International Financial Telecommunications) and a settlement function run, as agent, by the Bank for International Settlements (BIS) in Basel. The EBA's role also includes the general promotion and

development of the private ECU's use. The second stage towards economic and monetary union in the Maastricht Treaty establishes the European Monetary Institute (EMI) as of 1 January 1994. Among its tasks, EMI will "facilitate the use of the ECU and oversee its development, including the smooth running of the ECU clearing system"⁽⁴⁾.

CONCLUSION

While the EIB borrows and lends, after swaps, in 17 currencies, the ECU's importance is growing as it becomes the favoured currency for an increasingly diversified set of EIB borrowers. The EIB has contributed in the development of a widening range of ECU financing mechanisms. At the end of October 1992 the Bank's outstanding ECU-denominated borrowings amounted to 9.1 billion and outstanding ECU-denominated loans to 12.9 billion. While the ECU currently remains a basket of the EC Member States' currencies, the Maastricht Treaty has laid down the procedures and timetable for its conversion into an irrevocably fixed composition basket⁽⁵⁾. The EC Member States are to decide on the single currency to be introduced when establishing full economic and monetary union.

(1) Until 1974, 1 u.a. = 0.88867088 grammes of gold = US\$ 1.

(2) At the start, one European Unit of Account was equivalent in value to the International Monetary Fund's Special Drawing Right and to the statutory unit of account used until then by the EIB.

(3) Other sources of ECU: The EIB has also received ECU from the EC budget in the form of capitalised interest subsidies provided for certain loans in Italy and Ireland between 1979 and 1983 as part of arrangements covering these countries' entry into the European Monetary System. ECU have also come from the European Development Fund to cover interest subsidies on EIB loans made in the African, Caribbean and Pacific countries under the Lomé Conventions and from the Community's budget in countries in the Mediterranean region under the Financial Protocols concluded between the EC and countries concerned.

(4) Treaty on European Union, Article 109f.

(5) Treaty on European Union, Article 3a, 109g, 109l.4.

Ecu

Below are the ecu values in national currencies, as at 30 September 1992. These rates are applied to the fourth quarter in preparing financial statements and operational statistics of the Bank:

DEM	1.97117	BEF	40.6118
GBP	0.787381	LUF	40.6118
FRF	6.66145	DKK	7.63446
ITL	1730.69	GRD	253.890
NLG	2.22030	IEP	0.750078
ESP	138.434	PTE	175.448
		USD	1.39800

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