EUROPEAN INVESTMENT BANK

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B O A R D O F D I R E C T O R S

Minutes of the meeting held in Luxembourg on Tuesday, 23 May 1989

Agenda

2nd part : general questions

9. DEVELOPMENT OF THE BANK AND ITS FINANCES

The CHAIRMAN, introducing Document 89/245, recalled that, when the Board of Directors had examined the balance sheet and profit and loss accounts for 1988 at its meeting on 14 March 1989, a number of general issues relating to the Bank's overall financial situation and future development had been raised.

The document was intended to initiate useful discussion in advance of the Board of Governors meeting and it was neither necessary nor appropriate to seek a decision at the present stage.

The significant growth in Bank lending within the Community in 1988, after three years of moderate increases, reflected a surge in demand brought on by a number of macroeconomic factors, including the accelerating rate of growth in investment in the Community. The Bank had responded to this in a flexible, selective way, with close attention to the quality of the investments in question and their coherence with Community objectives and Member Countries' needs. In this way, the Bank was contributing to the efficient allocation of funds as between individual Member States.

As far as the future was concerned, there were many uncertainties to be borne in mind and the document was designed to be a technical aid on which to build discussion. The issues were difficult and raised questions to which quantifiable answers did not suffice. Subject to these provisos, two inferences could be drawn : (a) that an increase in the Bank's capital would be needed some time in 1991, for which preparation would have to be made in 1990, and (b) that actual and prospective accumulated surpluses could be used to keep down the cost of that increase to the Bank's shareholders, in terms of the amount to be paid in.

The construction of Europe could be expected to advance considerably in coming years, with radical changes in the Community's markets and the structure of its economy. If the Bank was to go on playing its full part in the balanced development of the Community, its policy of pragmatic adaptation would have to be pursued steadily and consistently. This could mean diversification of existing activity, and in turn reform of existing structures or consideration of the case for creating a subsidiary. All this would have to be borne in mind in 1990 when the decisions on the next capital increase came under consideration.

Equally important in that connection was to take full account of negative trends in the financial world outlined in the document. The Bank's performance in 1988 had been good and there had been steady progress so far in 1989. This gave grounds for satisfaction but not complacency.

Responding to the CHAIRMAN's call for comments from the floor, Mr SAMUEL-LAJEUNESSE (together with several other Directors) complimented the Bank on a clear and informative document. He registered slight disappointment with the Bank's record to date on finance for advanced technology projects. Progress on this front was vital.

In company with Messrs SARCINELLI, MÜLLER-ENDERS, ALLEN, SOMERS, DE VRIES and VANORMELINGEN, he was interested in the prospect of avoiding large contributions from Treasuries when the capital increase occurred, for which he gave credit to good management.

He would be prepared, in the light of the document and the approach it outlined, to look again at the possibilities for the Bank to establish a subsidiary (a point taken up by Messrs ALLEN and COSTA).

Mr SARCINELLI (and Mr ALLEN) would have liked a fuller exposition on the hypotheses on which the document was based, rather than just the resulting projections. He would be opposed to any departure from the statutory limit on loans outstanding of 250% of the subscribed capital : this could undermine the Bank's market credibility. The maintenance of the Bank's operating ratios was the main consideration. He would refrain from taking a stance on the level of capital to be paid in, should the need arise.

On the qualitative aspects (§4), Mr SARCINELLI noted in particular the possible effects of the achievement of the single market and the legislation involved, in terms especially of the blurring of the distinction between short and long-term credit institutions, and the increasing incidence of direct raising of resources in the markets. This should prompt the Bank to consider closely the scale and nature of its operations : the Community market was part and parcel of the world market.

On the question of the possible creation of a subsidiary, it was important to decide just what segment of the market this would involve.

Mr MÜLLER-ENDERS, noting that the prospective capital increase, as a function of growth in operations, would still be in line with the projections made at the time of the last increase, observed that it was proper for the Bank's shareholders to contribute : he discounted the idea of a zero paid-in ratio.

As regards future prospects and the Bank's rôle in the single market, it was important to remember that the climate for financial services would be completely different. There would have to be closer cooperation with other agents in the market, many of which would be able to share certain of its traditional activities, and the Bank's established rôle as a catalyst would come to the fore. This in turn would bring into focus the principle of additionality in its lending operations.

Mr ALLEN, looking at the activity projections, was against any earlier increase in capital than that suggested : it would be preferable to consider ways and means of slowing down activity, not only in regard to the timing of the increase, but also in terms of the burden on the Bank's administration and the staffing implications.

He was wary of increasing the Bank's activity in competition with the commercial banks in a more sophisticated market, which he, like Mr MÜLLER-ENDERS, felt could prove costly. He had similar reservations about the proposed subsidiary.

Mr COSTA raised the wider question of the real nature, rôle and future of the Bank, in which respect he found the section in the document on infrastructure (§4.4) rather short. The Commission was currently engaged in putting forward proposals to the Council in this connection. These had yet to be finalised, but in the meantime the Commission hoped to see the Bank playing a more active part.

As far as technology was concerned, he would have preferred to see a more complete analysis of the problems (§4.5) given the strength of Far East competition. A new Framework Programme was to be unveiled shortly, also providing scope for greater EIB involvement. It was to be hoped that the upturn in private-sector financing would also be reflected in public-sector activity.

He echoed Mr MÜLLER-ENDERS on the rôle of the Bank, which called for further reflection and adherence to the principle of additionality in Bank lending.

Mr SOMERS felt that the coming changes should encourage the Bank to widen its range rather than limit its scope, and the basis on which it had been established thirty years before should be reconsidered.

Mr HECK underlined the national budgetary implications of the coming capital increase which, if it were for implementation in 1991, presupposed that requirements would have to be known by August 1990.

Mr DE VRIES commented that a very low paid-in ratio on the capital increase would have the benefit of making for ease of discussion on the rôle of the Bank, but at the same time he felt that the effect of increasing market competition could be to narrow the Bank's operating margin and so reduce the chances for such a zero pay-in.

Noting that the projections for the medium term implied some reduction in rates of return on Bank operations, he cautioned against such mechanical exercises or simulations, which might be read as a sign of weakness.

Summing up, the CHAIRMAN thanked the Board for its positive attitude to the paper and underlined that it was too early to consider possible levels of pay-in for the capital increase. When that ratio was decided, it was important to give the right signal to the markets.

As regards longer-term prospects for activity, increasing importance attached to the financial services sector and the implications for the Bank of developments there. The EIB should involve itself in more cooperative efforts and expand its advisory rôle. It had, on the macroeconomic front, to adopt the broadest possible approach. There were implications in regard to staffing, but there were also productivity reserves to be tapped.

The questions of the guarantee fund and the subsidiary had both been aired in 1988 ; it had also to be borne in mind that both involved an element of risk.

As far as the prospect of 1992 was concerned, the Bank expected to find room for further expansion : it tended to be most successful in those quarters where the banking sector was most highly developed.

The issues were complex and interlinked. Recording that the BOARD OF DIRECTORS took note of the Document, the CHAIRMAN thanked it for its guidance and noted that further reflection on the issues would follow.