EUROPEAN INVESTMENT BANK

CA/308/97
9 June 1997

PV/97/06

DRAFT : Please provide the Secretariat, preferably in writing, with any requested amendments

These minutes will be submitted for the approval of the Board of Directors, together with those of the meeting to be held on 29 April in Budapest, at the meeting scheduled for 9 June 1997

BOARD OF DIRECTORS

Minutes of the meeting (***special session***) held in Luxembourg on 17 April 1997 at 10.00 a.m.

I - general questions

4. FRAMEWORK FOR THE NEXT 5-10 YEARS

The medium-term outlook and the next capital increase

Turning to Document 97/125 on the agenda, the CHAIRMAN pointed out that the original purpose of the Special Meeting had been to continue discussion on the medium-term strategy (following the January "Awayday") and to enable the Board to have a first discussion of the next capital increase. It had, however, been overtaken by the proposal tabled on 25 February for distribution, in the form of a dividend, of the 1996 operating surplus. This had been further discussed on 24 March on the basis of Document 97/097, to which had been appended an opinion by the Bank's Legal Directorate on the dividend proposal.

In summing up the 24 March discussion, which had not reached a conclusion, the CHAIRMAN had undertaken to try to provide further papers on the question of the next capital increase ; the possibility of placing all or part of the 1996 surplus in a special reserve with a view to using the funds to finance an increase in capital ; and whether the surplus could be used to fund the outstanding payments due by Member States to complete the 1990 capital increase. He had also promised to try to cover the questions of the appropriate level of capitalisation for the Bank, and of alternative ways of deploying the Bank's funds in ways consistent with its statutory mission.

Document 97/125 sought as far as possible in the time available to cover these points. The CHAIRMAN expressed his regrets that it had not been possible to dispatch the paper in its entirety any earlier.

In previous discussions in the Board there had been full agreement on the need to develop a coherent and consistent policy on surpluses in the context of the medium-term strategy review. The new paper therefore began (in Part I) by restating the proposed medium-term objectives of the Bank, particularly against the background of forthcoming EMU, future enlargement to the East, and the likely future role of the Bank in regional policy. It then analysed likely investment trends and concluded that the type of investment that the Bank, in pursuit of its agreed objectives, financed seemed likely to increase by between 5 and 10% *per annum* over the coming decade.

Part 2 considered certain issues against that background : when a capital increase was likely to be necessary, its possible size and how it might be funded. A variety of options was possible, depending on the precise assumptions and objectives chosen, but the two key conclusions were that : -

(i) even if new lending did not grow at all in 1998 and 1999, a capital increase would be required by 1999 unless the Bank's lending operations were to be seriously disrupted ;

(ii) under present policies, and depending on the precise assumptions made, under most scenarios the Bank would be able to finance a 1999 capital increase from reserves. How long this would last before hitting the new capital constraint would obviously depend on the mix of options chosen (size of increase, percentage of paid in, rate of annual lending growth etc). But if confidence in the ability of the Bank to continue discharging its mission was to be preserved, the increase must be structured - and be seen to be structured - so as to enable it to meet the challenge of future enlargement early in the next decade. It was unthinkable that the Bank should not be seen to be in a position to cope with this with the support of its shareholders. This argued strongly for gearing the next capital increase to the time-frame of the medium-term framework strategy.

As requested by some Directors, Part 3 of the paper contained a preliminary discussion of the long-term capital requirements of the Bank and gave some comparisons with other IFIs. It emphasised that any view must be set in a dynamic perspective, particularly since the risk structure of the Bank's lending operations was changing and was likely to continue to do so as the move towards the private sector continued.

Part 4 of the paper looked briefly at a number of other issues raised by members the Board. It had not, however, been possible in the time available to go into these in great detail and further study would be necessary if these were to be pursued. A point stressed, however, was that if there were to be a change in the Bank's present non-profit-making objective, this would have implications not only for its management and operating policies, but also for its overall institutional character.

Finally, Part 5 briefly restated the Management Committee's conclusions. It continued to insist that any new policy decision should be taken in the context of a coherent and consistent medium-term policy and should be related to the next capital increase ; and that any explicit dividend payment would require a change in the Bank's Statutes. The latter point had been reinforced by the further legal opinion of M. Marco Darmon, a former Advocate-General of the Court of Justice, which had been tabled.

Subject to these caveats, however, the Management Committee would be ready to respond to a proposal, if the Board so wished, to fund from the 1996 surplus all the outstanding contributions (totalling some ECU 250m., the next of which was due on 30 April) to the 1990 capital increase. This would require a very early decision from the Board and a unanimous decision by the Governors. The Management Committee would also agree in principle to finance fully from reserves the paid-in proportion of the next capital increase. If the latter course were adopted, the remainder of the 1996 surplus could be carried forward by a decision of the Governors at the Annual Meeting in June either into the supplementary reserve or in the unallocated profit and loss account, in either case entirely without prejudice either to decisions on the timing and scale of that capital increase, or on any future changes in long-term reserves or other policies.

The CHAIRMAN reiterated that the Management Committee was not opposed to change as such. It was more than ready to cooperate with the Board in further exploring future possibilities as quickly as possible. But, mindful of its responsibilities, it did attach importance to doing this in a consistent and coherent way, taking full account of the Bank's mission, objectives and standing i nthe capital markets.

Given the short time available, the Board must try to reach an early consensus. It was absolutely imperative that the Governors should be in a position to approve the accounts of the Bank at the Annual Meeting in June. The CHAIRMAN therefore invited the further views and guidance of the BOARD OF DIRECTORS.

Mr VANORMELINGEN felt that the primary concern should be to provide the Bank with sufficient capital to accomplish its mission, while enabling it to adapt its activities to changing economic and financial circumstances. In any event, hasty action should be avoided as regards both the capital increase and possible distribution of dividends. This capital increase should be "reasonable" ; integration of the CEEC did not necessarily have to be taken into account as these countries seemed unlikely to come on board before 2002.

He did not favour the proposal to create special funds for technical assistance, particularly in support of TENs (cf. Mr RAVASIO's proposal): it was not the Bank's role to fund the Community budget. He also considered that, as they stood, the texts of the Statute and Treaty precluded distribution of dividends to the shareholders. The scope for action in this area therefore needed to be looked at carefully. On the other hand, he was in favour of the 1996 surpluses being transferred to the additional reserves or otherwise allocated in the balance sheet in such a way that the Governors would be in a position to decide on using these reserves and surpluses to finance the paid-in portion of the next capital increase. He also agreed with the principle of using the 1996 surplus for settlement of the instalments still to be paid in under the 1990 capital increase.

Mr PONTOLILLO observed that the entire analysis given in the paper was predicated on Article 18.5 of the Statute, viz. the ceiling on Bank lending, set at 250% of the subscribed capital. That reaching such a ceiling was not indicative of a real lack of own funds could be inferred from the steady reduction of the paid-in portion of the Bank's capital with each increase in the same, from 25% to, most recently, 7.5%.

He felt that only passing attention had been paid to the element of risk in lending overall and regretted that no guidelines in this area appeared to be envisaged in the paper.

He considered it necessary to establish an appropriate level of capitalisation for the Bank and an appropriate gearing ratio before discussing the arrangements for the payment of contributions to an increase in the capital

The gearing ratio of the EIB was calculated on a nominal amount of loans of 14%, and the Cooke ratio for the Bank calculated on risk-weighted assets, worked out at 53%, compared with 8% for commercial banks.

The observation had been made at the previous meeting that an excessive level of own funds could have a negative impact on efficiency. Mr PONTOLILLO pointed out that, in the period 1990-96, the Bank's own funds had risen by 12% per annum, while the net operating surplus had increased by only 4.7%, with a commensurate decline in the ROOF.

As key tenets of a future operating policy, Mr PONTOLILLO advocated : coverage of administrative expenditure by the proceeds from intermediation ; use of the ROOF, roughly equivalent to net income to maintain an appropriate gearing ratio and to preserve the real value of own funds, and distribution of the excess/surplus either as dividends or to meet commitments consistent with the Bank's mission.

If the present gearing level was deemed acceptable, Mr PONTOLILLO could envisage an increease in the subscribed capital without additional funds, drawing on the existing reserves and reducing the paid-in percentage.

Mr TYBJERG said he was in favour of a capital increase financed by means of undistributed profits. This increase could be of the order of 100%. However, the paid-in percentage could be reduced to 5 or 6% of the subscribed capital. He was not opposed to the Bank pursuing a dividend distribution policy in the future, subject of course to the Statute being amended as necessary. He was also in agreement with the Bank using the 1996 surpluses to meet the outstanding payments on the 1990 capital increase and he accepted the principle of transferring these surpluses to a holding account pending a decision by the Governors.

Mr TYBJERG stated that Mr O'GORMAN (absent) went along with the principle of immediately utilising the surpluses to finance the outstanding paid-in contributions to the 1990 capital increase. The latter also thought that the paid-in portion of the next capital increase should be wholly funded from the reserves.

Mr WIESER emphasised that capital increases were above all linked to the expansion of operations. How these were likely to develop over the coming years should be examined before any decision was taken. One of the main questions to be posed was whether to continue stepping up the volume of operations on the basis of demand rather than supply. The conclusions reached as regards capital increases and allocation of surpluses would differ widely depending on the answer to that question.

Mr WIESER noted that EU enlargement by admission of the CEEC would require a substantial volume of finance in the years ahead, while at the same time the Bank's operations in the Southern countries were unlikely to diminish. Attention would need to be given to consistency between structural policy (for which the Commission and the Member States were responsible) and the Bank's policy. Other issues to be explored included: Should the EIB be a development bank acting in a variety of circumstances like a commercial bank? Should it not restrict its participation in project financing to 25% instead of 50%? These questions should be discussed before deciding on the future capital increase and on any dividend distribution. Decisions on these matters should not be rushed. Regarding the establishment of special funds (cf. Mr RAVASIO's proposals), Mr WIESER said he was not keen on this.

Mr DE VRIES appreciated the paper and the openness to which it attested. To his mind, the question of distribution of the surplus should be kept quite separate from the strategic review. He could not see such a distribution occurring before 1998. The proposed financing of the remaining payments in respect of the 1990 capital increase, he observed, would already account for some 20% of the 1996 surplus : this invited reflection on the relative volume of the available surplus. Deliberations on the financing of future capital increases should be kept apart from discussion of the funds currently available.

Concerning the analysis of the outlook, Mr DE VRIES expressed some unease on scenarios that posited the Bank's growth at rates in excess of the growthin investment in general. The EIB was now a mature institution that did not need to command an ever-increasing share of the market. Some slow-down and a reduced availability of EIB resources might have a salutary effect, whcih might for instance manifest itself in a more inventive approach.

Increasing the capital was not as difficult a process for the EIB as for some other IFIs, which in the view of Mr DE VRIES argued for more frequent recourse to the exercise, say on a five-yearly basis, with the added benefit of the analysis that accompanied the procedure.

Recalling the tendency for the paid-in element to drop with each capital increase, Mr DE VRIES pointed out that, to adhere to a 7.5% ratio would in effect increase the Member States marginal contributions. A zero paid-in, moreover, would still leave their aggregate contributions to the paid in at around 5%. With that scenbario, he felt, it would actually redound to the standing of the Bank for the gearing ratio to be kept unchanged.

He believed that the paper rather understated the capacity of the Bank to proceed with distribution of the surplus, particularly if closer consideration were given to the possible phasing of such an exercise. The arguments raised as to the increasing risks borne by the Bank were, in his view, invalidated by the scale of the EIB's Cooke ratios, nor did he believe that distribution of surpluses would effectively negate trhe Bank's non-profit-making status. He agreed with Mr MAYER that alternative uses of the surplus would be ill-advised ; now was not the time for exploring new areas for expenditure.

In conclusion, Mr DE VRIES offered the thought that the inadmissability of payment of dividends might in itself argue against the contributions that new Member States were required to make to the Bank's existing reserves and provisions.

Mr SAUPE placed the capital increase in the context of the prospective enlargement of the Union, along with which went the continuation of its core activity and its increasing tasks outside. Without an increase in capital, activity would be inhibited at the very time the CEEC were acceding ; this would in turn impact upon the Member States' own budgets. This left the question of the scale of the increase. He was unable to give credence, in the present climate of austerity, to the scenario of a 5-10% increase in investment, more or less double the prospective growth in GDP. Rather should the Bank prioritise, for instance investment in the CEEC and the substitution of loan for grant aid in the assisted regions via bankable projects. The advent of Monetary Union also heralded greater efficiency in the financial markets and possibly an increased incumbency upon the Bank to practise subsidiarity, standing aside and allowing the market to function.

When it came to financing an increase in capital , the fact was that no fresh funds would be forthcoming from the Member States. This would have to come out of the Bank's surpluses, which in Mr SAUPE's view would not be difficult, given its already considerable reserves and the prospect of ongoing surpluses, perhaps rising to as much as ECU 3 billion by the year 2007 : even projected profits up to 1998 would suffice to cover the doubling of the capital at a 6% pay-in rate. However, this did not allow for the fact that lump-sum funding was not required : pay-in could be phased over a matter of years, and this went also for the financing of an increased Statutory Reserve. Such had been the approach for the 1990 capital increase, which would only be completed in 1998. Any increase would have to be approved by the Bundestag Budget Committee.

As regards the distribution of dividends, there could either be a one-off, corrective pay-out or an annual, systematic adjustment as a matter of policy. Mr SAUPE inferred that there was a surplus of surpluses ; i.e. that these consistently exceeded needs for financing an increase in capital.

The study of comparabilities with other AAA-rated IFIs should be pursued. In his view, the fact that the Bank's gearing ratio was 250% and that of the World Bank 100% in no way detracted from its relative credit-worthiness, given the comparative strengths of the two institutions' shareholder groups. The BIS required commercial banks to maintain a Cooke ratio of at least 8% ; many prime banks barely bettered 10%, but the EIB's risk-weighted assets, scaled down from ECU 130 to ECU 30 billion against own funds of ECU 17½ billion, yielded a Cooke ratio in excess of 53%, without counting the ECU 53 billion uncalled portion of the capital, which would take the ratio past 100%.

The form of any pay-out required close consideration, especially if a one-off corrective adjustment was envisaged. The German Directors, whose understanding was that this was possible under the Treaty and the Statute, were not seeking any fundamental transformation of the Bank ; they wanted no dividends policy that might be misconstrued nor any new lines of financing in pursuit of Union objectives, which should be a matter for the Union budget. There would also have to be careful handling of the markets, to make it quite clear that pay-out was neither a sign of weakness in the Bank nor of diminished shareholder support ; quite the opposite. Above all, it needed to be made clear that locking up surpluses year after year was economically meaningless.

Time was short, and all questions could not be settled by the Annual Meeting, although an early decision on pay-out was needed and the Board of Governors should receive a report on the debate and options that had emerged, with a view to obtaining their mandate to proceed with the studies, establish target dates and work towards a solution by year-end. By the next meeting, the Board of Directors should also agree and finalise their recommendation to the Governors on the placing of the 1996 surplus, but without prejudice to the possibility of its subsequent distribution to the shareholders.

Finally, Mr SAUPE commended, as a practical immediate step towards such distribution, the use of the 1996 surplus to finance the last two years' remaining paid-in contributions to the 1990 capital increase due from the Member States, a proposal for which should go to the Board of Governors.

Mr McINTYRE, stressing that his remarks would be strictly personal, the official position of the United Kingdom being subject to the outcome of the imminent General Election, wished firstly to stress the close connection between questions of the Bank's capital structure and the more general strategic debate which would be resumed at the next special meeting on 21 July. The Board of Governors would need to have before it a more clear and detailed statement of the Bank's strategy and plans for the modernisation of its operational framework before proceeding with any increase in the capital or determining the arrangements. The structure of the Bank's capital and any policy on thr payment of dividends would also have to be situated within that strategic context.

For Mr McINTYRE, the question of the Bank's non-profit-making status was of limited relevance ; far more important was the determination of an appropriate level of own resources.

He regretted the failure of the paper to examine, not just the gearing ratio of the Bank but also the question of flexibility of action in general and that of risk-related loan pricing. He hoped this would be dealt with in the paper for the special meeting in July. Consideration also needed to be given to the assessment and evaluation of the Bank's performance, with the Operations Evaluation Unit's remit extended to projects of recent date. Essential to gauging the objectives of the Bank was the need to look beyond the simple volume of operations.

Mr McINTYRE found the treatment of the capital increase in the paper somewhat mechanistic, given the much-increased scope of the markets, which suggested that a lower percentage ceiling on EIB participation in projects - i.e. increased subsidiarity - might be considered in the next paper. this would have a bearing on the capitalisation of the Bank, and might for instance allow of a zero pay-in on the next increase. This in turn could make for a more focused strategy with increased emphasis on value added in EIB operations. Similarly, doubling of the capital might be more than necessary, at least for the next five years. Urgent attention therefore needed to be paid to determining the correct level of own funds.

When it came to financing a capital increase, the paid-in should no longer come from the Member States. The surplus should more than suffice to fund it without the need for calls on the Bank's shareholders.

Mr McINTYRE agreed with Mr SAUPE that, at the Annual Meeting in June, a remit should be sought from the Governors regarding options on the deployment of the Bank's reserves ; these could be used for financing future capital increases or be distributed as dividends to the shareholders under a properly formulated dividends policy ; or there could be a mixture of both approaches and possibly a whole spectrum of alternatives. However, he would not be in favour of a one-off operation on the surpluses and reserves ; these should be dealt with by the Governors as policy options in the context of the Bank's capital structure and future strategy.

Mr MARESCA observed that the Bank's accumulated reserves far exceeded its requirements, which meant that the issues in this debate were essentially economic and not specifically legal. He was in favour of the outstanding contributions to the 1990 capital increase being paid-in from the 1996 surplus and was hoping to receive the appropriate technical explanations on the subject of the use or non-use of this surplus. A capital increase would in his view be necessary in the near future, but it was too early yet to discuss the parameters. These would depend largely on the way the Bank's strategies evolved; thought should, for example, be given to the structure of the Board of Directors and to the structure of loans and interest rates, and the Bank's appraisal capacity should be strengthened. He proposed that a working party be set up with members drawn from the Board of Directors and Management Committee to explore all the issues involved in this debate.

On the dividend distribution issue, Mr RAVASIO thought that this could be effected out of reserves that looked higher than required in relation to the Bank's gearing ratio, portfolio and capital, or out of the reserves surplus. But this should be a one-off, once-for-all operation only. Because of its impact on the Bank's policy, an in-depth examination of the consequences of such a proposal was needed before any decision was taken.

Mr RAVASIO noted that a capital increase of around 75% would serve to cover the Bank's operations until 2004; but it was not necessary to establish the parameters for this increase at this stage. He regretted that the paper in question followed a purely quantitative approach, when the changing overall context in which the Bank had to operate also needed to be examined. Thought should be given to whether the instruments at the Bank's command were suited to its tasks and to the financial environment.

Mr RAVASIO called again for part of the surplus to be used to enable the Bank to diversify its operational instruments and make them more efficient so that it could fulfil its role better. This meant equipping the Bank with resources in regard to technical assistance or the financing of feasibility studies (particularly in the TENs sector), or even allowing the Bank to assist a project at the outset using its own funds.

Mr FERRER saw no legal objection to a distribution of profits to shareholders and did not think this would have an adverse impact on the capital market. However, the emergence of a close correlation between a profit distribution and a capital increase should be avoided. Also, there was no need for such an increase to be decided on immediately, particularly as it would probably not happen until 1998 at the earliest.

On the question of possibly deferring contributions to the paying-in of the 1990 capital increase to allow them to be funded from the 1996 operating surplus, Mr FERRER said that this proposal came too late, at least as far as Spain was concerned, since the pay-in arrangements had already been made (a point echoed by Ms BARATA in relation to Portugal). He considered on the other hand that any future capital increases should not be financed internally as a matter of routine. Finally, he was not in favour of placing the 1996 profits in a holding account pending a decision on their allocation; it should be possible to reach a decision on this without undue delay.

Mr MUSCA considered that the next capital increase could in fact be effected without calling on the budgets of Member States. With regard to utilisation of the 1996 surplus, this raised a problem of presentation to the public: the aim must be to avoid any negative impact on the Bank's market position. In addition, there were various legal problems (the specifically economic problems seemed to have been resolved). Along with Mr RAVASIO, he supported the proposal for a dividend distribution on a one-off basis, which would make it easier to put over to the market. Mr MUSCA also stressed the necessity of keeping the questions of the capital increase and deployment of the 1996 surplus clearly separate. A timetable for discussing and taking decisions on these issues needed to be established that demonstrated the Bank's determination to move forward quickly. He supported Mr MARESCA's suggestion for a working party to be set up with members drawn from the Board of Directors and Management Committee in order to look at all the issues involved.

For Ms GRÖHN, the capital increase was linked to the formulation of a clear strategy for future activities, particularly in view of the possibly uncertain course of future demand for finance. Furthermore, the next capital increase was likely to take place in the context of the Euro's launch, which could also raise certain problems. However that may be, she was in favour of a capital increase, having regard in particular to the impending integration of the CEEC. She also favoured using the reserves to meet the paid-in capital contributions.

Mr ÖBERG thought that the Bank was "overcapitalised" and that a dividend distribution to shareholders should be considered. On the other hand, a large capital increase was needed, particularly in view of the integration of the CEEC; it could be effected without recourse to the Member States' budgets. He felt that the paid-in portion could be reduced to 5% of subscribed capital; in addition, the gearing ratio could go above 250%. He hoped that part of the 1996 surplus would be used to fund the contributions to the 1990 capital increase still to be paid in. Finally, he expressed support for a one-off dividend distribution.

Ms BARATA felt that gearing, paid-in and size of capital increase were issues that must be settled in the light of the Bank's policy and priorities. It would therefore be premature to think of confirming decisions on these matters now. She considered, however, that the next capital increase could be funded out of reserves rather than from national budgets. On the dividend distribution issue, she wondered how and on what basis such a distribution could be made a one-off operation only.

Mr PAPAGEORGIOU also considered the Bank to be "overcapitalised". However, no decision should be taken before looking at how the Bank's mission would evolve, particularly bearing CEEC integration in mind. Nevertheless, he was to some degree in favour of a distribution of profits to shareholders. He was in agreement with the principle of a capital increase, though unable to say what the scale of this should be. An increase of the same size as on previous occasions could be considered.

Mr REINESCH favoured an internally financed capital increase. He also agreed with using part of the 1996 profits to meet the outstanding contributions to the paid-in component of the 1990 capital increase.

Winding up the discussion, the CHAIRMAN remarked that the Board had offered a very wide range of alternatives, some one-off, some ongoing. By and large, however, they reflected broad agreement on the future strategy of the Bank. The need to reach such agreement had been precisely his purpose in launching the strategy exercise earlier in the year and starting the discussions.

In his view, in approaching the capital increase, it was crucial to bear in mind the requirements of the extension of the Union early in the next millennium. The new countries would themselves contribute some additional capital, but all experience suggested that the volume of activity the Bank was likely to be asked to undertake in those countries would be disproportionate to that. He considered the support of the shareholders to be most important for the ability of the Bank to cope with enlargement, and the Board would be discussing the implications of this for the capital increase.

In order to keep the options open, he suggested that the Board should advise the Governors to retain the 1996 surplus in the unallocated profit and loss account of the Bank for 1996, subject of course to an appropriate note in the Financial Statements to explain why this had been done. The note would perhaps need to be to cross-referenced to indicate that it had been included pending consideration by the Governors of a future capital increase. A form of words had to be found which did not prejudice the outcome, so as to leave the options entirely open as to future policy on the use of the reserves and surplus

The next step would then be to set up a work programme, related to the medium-term strategy exercise, to consider proposals for a capital increase and the various other issues raised in discussion by the Board : future reserves policy, future dividends policy (if there was to be such a policy) and so on. It would clearly be necessary at the meeting on 9 June to report to the Governors on what the work programme would be and how it was being handled. The Management Committee would now reflect on how most effectively this could be taken forward.

In reply to questions, the CHAIRMAN said he had been advised that it would perfectly proper and possible for the surplus to remain in the unallocated profit and loss account so that the Board of Governors could subsequently, on the advice of the Directors, determine what to do with it. At the Annual Meeting on 9 June, the Governors would as usual be asked to approve the accounts, leaving open the question of the disposal of the balance of the 1996 surplus and a *fortiori* the treatment of reserves. They would also be informed that recommendations would be forthcoming in 1998, for decision at the Annual Meeting on the question of the future capital increase.

Following further discussion, the CHAIRMAN said that a wide variety of views had been expressed by the Board, but there was general agreement on the following conclusions:

(i) it was essential that the Board of Governors should be in a position to approve the 1996 Accounts of the Bank at the Annual Meeting on 9 June 1997 ;

(ii) any decisions taken in respect of the 1996 surplus should continue to be in accordance with the Statutes and the standing of the Bank and set in the context of the on-going consideration of a consistent and coherent medium-term strategy ;

(iii) although no conclusions or decisions could be reached at the present stage - this would require further detailed consideration in the context of the medium-term strategy review - there was a generally positive approach to the question of the next capital increase and support in principle for the proposal that the paid-in proportion should be financed internally by the Bank ;

(iv) in order to leave options for the future open, both in relation to future policy on the surplus and reserves, and other related issues raised by the Board, the Governors should be invited at the Annual Meeting on 9 June to put the 1996 surplus in the unallocated profit and loss account.[1] A suitable amending text for this recommendation and decision would be submitted to the Board separately as soon as possible ;

(v) in the meantime, immediate steps should be taken to enable the Bank to finance out of its 1996 operating surplus the four remaining contributions of the Member States to the paid-in capital of the 1990 capital increase (ECU 215m in total). This could be achieved either by a (unanimous) decision by the Governors before 30 April 1997 to effect the substitution, or by a decision by the Governors to postpone the payments due on 30 April so that a formal decision that the Bank should finance the payments could then be taken separately by the Governors, following the approval of the 1996 Accounts, at the Annual Meeting on 9 June.[2] Subject to receiving further legal and technical advice, the Management Committee would submit proposals to the above effect to the Board for clearance by written procedure in the very near future. Bilateral contacts would also be pursued to resolve any other technical problems that might have arisen over the timing of payments by Member States;

(vi) the Chairman, taking account of the on-going work on the medium-term strategy, would make early proposals for carrying out the further work arising from these discussions, including the possibility of an informal Board Working Party;

(vii) the Chairman would also report these developments on behalf of the Board to the Governors at the June Annual Meeting.

1 ***Modified text of Note L to the Financial Statements faxed to Directors for decision by written procedure on 18.4.97***

2 ***Draft recommendation for Board of Governors to take necessary unanimous decision to defer 30 April due date also faxed to Directors for decision by written procedure on 18.4.97***