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BOARD OF DIRECTORS

EIB LENDING ACTIVITIES IN THE CANDIDATE COUNTRIES

CONFIDENTIA

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EUROPEAN INVESTMENT BANK

EIB LENDING :

AUSTRIA, FINLAND, NORWAY AND SWEDEN

1. Introduction

1.1. The Board of Directors had a brief informal discussion of the pros and cons of adopting a more global approach to EIB lending activities in Austria, Finland, Norway and Sweden at its October 1993 meeting. This was on the occasion of an Article 18 project involving investments in the Kingdom of Sweden ("Baltic Cable").

1.2. The purpose of this document is to take the discussion forward. In short there seem to be four main options :

a) continuation of the present case-by-case financing arrangements under Article 18(1),2 of the EIB Statute,

b) continuation of the present case-by-case decisions by the Board of Governors but with the range of sector investments, broadened to include for example those covered by the Edinburgh facility,

c) delegation by the Board of Governors to the Board of Directors of case-by-case decisions, with the same range of possible sector investments as under b)

d) establishment by the Board of Governors of a formal pre-accession facility for the four candidate countries.

2. Background

2.1. Any of the options under point 1.2. above to broaden EIB lending activities would be in line with the political agreement of EC and EFTA countries at their meeting of 19 April 1993. This favoured a common growth initiative which EIB action could well complement.

2.2. The authorities in Austria, Finland, Norway and Sweden have on several occasions confirmed their interest in broader EIB lending activities. Contacts in banking and business circles in these countries have given a similar message. Increasing EIB activity in the four countries would not only provide economic and financial benefits, it would also serve as a positive "European signal" which would help to prepare the way for the various referenda which are to take place.

2.3. Annexes 1 and 2 provide key economic data on the EC and the four candidate countries and individual country profiles. They establish that the applicant countries taken as a group are in economic and population terms, comparable to the BENELUX countries, a fact which also might indicate an order of magnitude for future EIB activities.

2.4. Since the level of economic development in the candidate countries is above the EC average, the Bank would apply its normal criteria and procedures without asking for a Community guarantee. This should not necessarily be seen as a precedent for other applicant countries however, particularly if the future applicants were less highly developed or had special problems

3. Alternatives

All financing operations of the Bank outside the European territories of the Member States come under the second paragraph of Article 18 (1) of the EIB Statute. The Article as a whole reads as follows :

> "Within the framework of the task set out in Article 130 of the Treaty of Rome, the Bank shall grant loans to its members or to private or public undertakings for investment projects to be carried out in the European territories of Member States, to the extent that funds are not available from other sources on reasonable terms.
>
> However, by way of derogation authorised by the Board of Governors, acting unanimously on a proposal from the Board of Directors, the Bank may grant loans for investment projects to be carried out, in whole or in part, outside the European territories of Member States."

Under present practice, such authorisation is given unanimously by the Board of Governors

- case by case, for project loans of particular importance to the Community or its Member States, or
- in the form of a global authorisation, with or without a ceiling or time frame, for operations corresponding to specific co-operation mandates or situations.

3.1. Continuation of the present case-by-case approach under Article 18 (1).2

A number of projects in Austria, Norway and Sweden have been identified and some of them have already been submitted to the CA and the CG under Article 18 of the Bank's Statute. They include Austrian Motorways, CA Doc. 92/399, Austrian Telecoms, CA Doc. 93/286, Skagerak Cable, CA Doc. 93/216 and Baltic Cable, CA Doc. 93/426.

Experience shows that this approach works well for large infrastructure investments, especially Trans European Networks, where individual investment projects can be demonstrated to be of direct interest to the EEC. Given the level of economic development in all four applicant countries, it might be thought sufficient for the Bank to continue on the present basis. This would be more restrictive than the other options considered below. On the other hand widening the range of the Bank's activities while accession negotiations were still in progress could raise expectations on the part of the applicant countries in a way which the Community might prefer to avoid.

3.2. Continuation of the present case-by-case decisions by the Board of Governors with an increased range of investments and sectors of involvement

While the approach set out under point 3.1. has enabled the Bank to support a number of important projects so far,

- it prevents the Bank from operating in some fields which correspond to major Community objectives and policies, and in which the Bank's activity and expertise have proved to be particularly useful and welcome. These include industry, SME, the protection of the environment and smaller scale local and regional energy and communication schemes, involving global loans in some cases;

- it can involve significant delays due to the case-by-case approval mechanism at the Governors' level,

- it does not reflect the full extent of Community interest in lending to the candidate countries, in particular the common efforts being made under the joint EC/EFTA growth initiative,

- it does not fully satisfy the applicant countries themselves.

In order to alleviate these limitations the Board of Governors could declare its readiness to consider projects in a broader range of sectors, including the ones provided for in the Edinburgh initiative, and in all size categories.

3.3. Increasing the range of sectors and investments as under point 3.2., and changing the decision making mechanism for granting loans

Market soundings suggest that widening the range of eligible investment, as under point 3.2 above would bring in many relatively small projects. This would mean approaching the Board of Governors rather frequently. A bundling of individual proposals would still involve significant delays due to the somewhat complicated approval mechanism.

A pragmatic modification of the present procedure would be for the Board of Governors to delegate case-by-case decisions to the Board of Directors who would be authorised to lend under the same procedures as when operating in the European territories of the Member States for projects furthering Community objectives. This might be on a temporary basis to reflect any time limit set by the growth initiative,

This possibility would allow a limited broadening of the EIB's normal lending activities in the candidate countries into areas of special interest for the Community.

3.4. Establishment of a formal pre-accession facility

Finally, the Bank could establish a formal pre-accession facility as in the cases of Portugal, Spain and the German Democratic Republic. While in the case of the GDR, the pre-accession period was unexpectedly short, and no individual operation was undertaken, a great variety of projects was financed in the other two countries before their accession. During 1981-85 Ecu 550m of pre-accession financing was agreed for Spain, and Ecu 725m for Portugal. About 36% of the total was provided through global loans, mainly in favour of small and medium-sized enterprises in the industrial sectors.

Since income per head in the present candidate countries is above the EC average, a pre-accession facility would have to follow other terms of reference, excluding e.g. regional aspects and giving greater emphasis to other Community policies.

Before opening a formal pre-accession facility, there are a number of points to be considered. Such a measure would imply the setting of maximum amounts and/or time frames, thus reducing the flexibility in the Bank's lending decisions. It would be more visible to the outside world than any of the other solutions considered here, which might imply some imponderables for the Bank and even become a factor in the ongoing pre-accession negotiations. Finally, the modalities of operating in a country which in the end decided not to join the Community would be more difficult under a formal pre-accession facility.

For these reasons it might be better to reserve pre-accession facilities for countries with lower levels of economic development than in the present ones, or featuring special problems.

4. Conclusion

Directors are invited to consider whether they would favour a broadening of the EIB's lending in the applicant countries and/or a simplification of the approval procedures under one or other of the approaches set out in this note.

Depending on the Directors' guidance, the Management Committee would, if necessary, table a draft Board of Governors' decision for their meeting in December, and for subsequent processing by way of the written procedure.

Enclosures : A table presenting summary economic data on the EC and applicant countries (Annex 1)
Surveys on the economic situation of each of the candidate countries (Annex 2)

Annex 1

EC-ENLARGEMENT - SOME FIGURES

COUNTRY	SURFACE AREA in km2	%	POPULATION ('000) 1991	%	GDP bn ECU/1991	%	GDP p.c. in ECU/1991	%
Belgium	30500	1.3	10022.0	2.9	159.2	3.1	15885.1	108.1
Denmark	43100	1.8	5162.1	1.5	105.3	2.1	20398.7	138.9
Germany	356900	15.1	80274.6	23.2	1274.0	25.1	15870.6	108.0
Greece	132000	5.6	10249.4	3.0	57.1	1.1	5571.1	37.9
Spain	504800	21.4	39055.9	11.3	426.6	8.4	10920.2	74.3
France	544000	23.0	57206.2	16.6	970.3	19.1	16961.4	115.5
Ireland	70300	3.0	3542.0	1.0	35.1	0.7	9909.7	67.5
Italy	301300	12.7	56757.2	16.4	930.9	18.3	16401.4	111.7
Luxembourg	2600	0.1	389.8	0.1	7.6	0.1	19497.2	132.7
The Netherlands	41200	1.7	15129.2	4.4	235.2	4.6	15546.1	105.8
Portugal	92400	3.9	9846.0	2.9	55.5	1.1	5636.8	38.4
United Kingdom	244100	10.3	57749.0	16.7	816.5	16.1	14138.8	96.3
EC-12	2363200	100.0	345383.4	100.0	5073.2	100.0	14688.6	100.0
Norway	323900	13.7	4273.8	1.2	85.7	1.7	20053.4	136.5
Sweden	450000	19.0	8644.1	2.5	191.7	3.8	22177.0	151.0
Finland	337100	14.3	5029.0	1.5	100.6	2.0	20004.0	136.2
Austria	83900	3.6	7860.8	2.3	132.9	2.6	16906.7	115.1
EC+4	1194900	50.6	25807.5	7.5	510.9	10.1	19796.6	134.8
EC-16	3558100	150.6	371190.9	107.5	5584.1	110.1	15043.7	102.4

Source: Eurostat

AUSTRIA: **Economic overview**

Austria has a population of 7.8 million residents occupying an area of 83 900 km^2. Austria is geographically slightly bigger than Ireland but smaller than Portugal. With 94 residents/km^2, it is almost as densely populated as France. Except the capital, Vienna (1.55 Mio. residents, 20% of the whole population), large cities are rare. Other major towns (Graz, Linz, Salzburg, Innsbruck) all count below 250 000 residents.

Austria was a founding member of EFTA in 1960 and concurred in the EFTA-EC free trade agreement coming into force in 1973. Austria applied in July 1989 for accession to the EC and could join the EC as a neutral country without any major reservation.

Austria has a stable economy. Austria's GDP totalled about 133 bn ECU in 1991, so that the country's economy is bigger than Denmark's and smaller than Belgium's. Per capita GDP is the lowest among the candidate countries, but with 16 900 ECU, it exceeds the EC average by 15% (8% if converting into PPP). The composition of Austria's GDP shows a dominance of industry (37%) and services (60%) and little agriculture (3%); transport and communications count for 6.3% of GDP. Since 1988, Austria has continuously reported a trade deficit of about 1% of GDP and can be expected to do so at least until 1995. In 1991, exports accounted for 25% of GDP with intermediate manufactures, machinery and transport equipment as principal export items. The principal import items (29% of GDP) are consumer goods and the same items as in exports (importance of intra-industry trade). Hence, the Austrian economy is a major (vertical) linkage of internationally integrated production lines for industrial items. In 1991, trade with the EC accounted for 66% of exports and 70% of imports, with Germany as the major partner for exports (39%) and imports (43%). Trade with other EFTA countries played a minor role, trading about the same volume as with neighbouring Italy (exports 9%, imports 7%).

To date, in contrast to the Scandinavian candidate countries, **Austria has not experienced major recessionary tendencies.** However, a deceleration of economic growth (1.8% in 1992 after 3% in 1991) suggests that the boom which began in 1988 has come to an end. The Austrian economy seems to have done better than most other OECD countries. GFCF continued to increase by 3% in 1992 and may at worst stagnate in 1993. The slowdown of the Austrian economy has led to rising unemployment, reaching a (for Austria historically high) level of 5.8% in 1991 and 6.7% in 1992 and increasing further in 1993. Consequently, budget deficit forecasts had to be revised upward, reaching 3.3% of GDP in 1992 but likely to remain below 4% in the future because of on-going consolidation efforts. Austria is the 2nd best performer with respect to the Maastricht limits (behind Luxembourg) among EC countries and candidates.

From 1993 on, Austria's economy will continue to grow at an annual rate exceeding 1.5%, thanks partly to stimulated investment with off-budget financing (e.g. public works, railway and road financing) and to a slow and steady global economic recovery. The main impetus supporting the Austrian economy is twofold. First, the well-balanced mix of macroeconomic policies, especially anchoring the Austrian currency to the German mark, has secured long-term stabilisation of interest rates and exchange rates. Currency stabilisation in relation to EMS countries has led to a 3.8% appreciation of the Austrian Schilling vis-à-vis the ECU between early 1992 and mid 1993. Second, Austria is a major beneficiary of the opening of Central and Eastern Europe (CEE) and their transition efforts towards creating market economies, thanks to its geographical location. So far, trade with CEE countries has been of the same magnitude as with Austria's EFTA partners. Any economic consolidation of CEE-countries and their sustained economic growth will overproportionately benefit the Austrian export sector. However, Austria's large public sector (including public owned enterprises) and a tendency towards corporatism impose structural rigidities to the economy and, henceforth, could put the country's undeniable macroeconomic successes at a certain risk.

Austria has a potential for EIB lending for infrastructure and industry. Austria's role as a major transport exporter will be augmented by its EC membership as well as by its proximity to CEE-countries. Though Austria has already a well developed **communication infrastructure** in place for the North-South axis, further capacity enhancements will be required (in an environmentally acceptable way) to channel new intra Community-transit through its territory. Similarly, Austria will

have to extend transit capacities on the West-East-Axis. At the same time, the new West-East Axis benefits the lagging parts of Southeastern Austria, which via new investment may be able to catch up with the rest of the country. Examples of related EIB transport financing are the Klagenfurt by-pass (signed), and - outside Austria - the Budapest-Austrian border highway (Hungary, under assessment) and the Karawankentunnel (Slovenia, approved). At the same token, Austria will pursue major investments to significantly upgrade its "low productivity" telecommunications network. Recent EIB financing include the 1993 Austrian Telecoms project (approved).

In the energy field, Austria will certainly strengthen its role as transit country for electricity and gas. Furthermore, hydropower as Austria's main indigenous source - presently accounting for 25% of primary energy requirements and 70% of electricity generation - will receive a further boost in the context of declining domestic production of fossil fuels and the likelihood of introducing an EC-wide CO_2-tax. Related to Austria's energy policy is its commitment to environmental protection. The EIB should be able to develop projects within the framework of the Danube Programme as well as for significant depollution investment in industry.

In certain industry sectors, Austrian companies already benefited from EIB loans for investments within the EC - Egger (signed), Kaindl (in pipeline). Supporting their domestic efforts to modernise would facilitate Austria's integration into the Internal Market as well as improve the overall competitiveness of European industry. In addition, Austria has a number of SMEs, some of which are very innovative and active in exports. Global loan operations with appropriate banks could be envisaged for funding SMEs as well as upgrading and expanding Austria's whole sale and trade network.

FINLAND: **Economic overview**

With an **area** of 337 100 km2 and a **population** of 5 million inhabitants, Finland has about as many people as Denmark spread over an area as large as Italy. Population density is 15 inhab./km2 and thus only a tenth of EC average. Most Fins live in the climatically more mild Southern part of the country. Even there, large cities are rare: Helsinki, the capital, has 500 000 inhabitants, the other major towns (Espoo, Tampere, Turku) range all below 200 000.

Given its **specific geopolitical position**, Finland became in 1961 an associated member of EFTA and only joined it in 1986 as a full member. A Free Trade Agreement was signed with the EC in 1973, and in 1992 the application for EC membership was submitted. EC membership is no longer considered incompatible with the Finnish policy of neutrality.

Finland has built up a well developed economy since the 1960s. In 1991, GDP totalled about 100 bn ECU (slightly less than Denmark's). Per capita income exceeded 130% of the EC average when measured in ECU, and was still above 110% when converted into PPP[1]. The sectoral breakdown of GDP shows a relatively high share of industry & construction (38%) as well as of agriculture, fishing & forestry (6.7%, with 12.5% of employment); among service sectors, commerce (13.3% of GDP) and transport & communication (10.5%) as well as the aggregate category "finance, insurance, real estate & business services" (25%) are worth mentioning. Exports and imports of goods and services account for about 25% of GDP each; the main export items are pulp&paper (32%) as well as metal products and engines, the main import items are raw materials (55%). Trade intensity with the EC has increased and in 1991 accounted for 51% of exports and 46% of imports. Another 20% are exchanged within the EFTA block and most of it would thus become intra-Community trade within an EC/16. Until 1990, Finland maintained a high investment ratio of around 24-26% of GDP.

In 1990/91, Finland was severely hit by recession. GDP declined by 6.4% in 1991 and by another 3.5% in 1992. GFCF fell by almost one third over those two years, in particular in the private sector. The unemployment rate doubled first to 7.6% and then once more to 16.6% (1993). The underlying reasons were partly due to the worsening global economic climate, but structural aspects played an exacerbating role. Certain export sectors had well developed within the sheltered trade relations with Comecon and in particular ex-USSR (15% exports until 1990); once this exchange collapsed, those industries proved uncompetitive on the international markets. Other sectors had remained too domestically oriented and were now penalised as home demand faltered. The important pulp&paper sector suffered from North American export pressure benefiting from low USD exchange rates; it also needs to adjust to the international trend to shift production closer to the consumer. Like in Sweden and Norway, recession hit the banking sector seriously, when many loans granted during the previous deregulation-driven credit expansion fell into default; the resulting underfunding of banks required significant government rescue operations, incl. take-over by the State.

In 1993, Finland's recession may have bottomed out. GDP has stopped falling, and investment may pick up again as from next year on. Exports are growing, benefiting from wage restraint as well as from the successive devaluation and floating of the FIM, which has lost over 15% against the ECU between early 1992 and mid 1993. The foreign balance has increased (+ 4.3% of GDP in 1993) and inflation remains below 4%. Public deficits, though, have risen to 10% of GDP and may only slowly be reduced, in spite of another austerity budget planned for 1994. The public debt may increase to some 63% of GDP next year. To be also noted that Standard&Poor's has meanwhile downgraded Finland's foreign currency debt to AA-minus.

A potential for EIB lending exists both in infrastructure as well as in industry. Communication infrastructure is not deficient, but it has been built in a context of less intensive exchange both with the EC as well as with Eastern Europe. In transport, some reinforcement may be needed in order to fully insert Finland into Trans-European Networks, as well as to improve links in particular along its Southern coast and towards St. Petersburg, or to Estonia. Road and rail links with

[1] Purchasing Power Parity (PPP) data from Eurostat are presented. Since PPP weighting schemes are not uniform, other institutions (e.g. OECD, World Bank) may report higher PPP figures.

the Lake district as well as up North may also need some improvement in the perspective of future EC integration, even if the low population density may impose a very selective approach.

In the energy sector, some reinforcement of transmission cables between Finland and Sweden, but possibly also with Russia or Estonia, seem to be considered. In the environmental sector, investment needs exist for urban wastewater treatment in the Helsinki area (estimate: 190 MECU), for reducing industrial pollution in particular from pulp&paper (estimate: 150 MECU) and from the metal sector, as well as from more diffuse pollution generated by agriculture and fish farming.

In certain industry sectors, Finnish companies (often with State participation) are among the European leaders and some already benefited from EIB loans for investments within the EC (Neste Oy, Enso-Gutzeit). Supporting their domestic efforts to modernise and adjust to a European division of labour would facilitate Finland's integration into the Internal Market as well as improve the overall competitiveness of European industry. In addition, Finland has a number of SMEs, some of which are very innovative and active in exports. Global loan operations could therefore be envisaged with appropriate banks.

NORWAY: Economic overview

With an area of 323 900 km2 and a population of 4.3 million inhabitants, Norway is slightly smaller than Finland. Population density is 13 inhab./km2 and in an EC/16, Norway would be the least densely populated country. Most Norwegians live in the climatically milder Southern part of the country. Even there, large cities are rare: Oslo, the capital, has 470 000 inhabitants, Bergen, the other major town, counts 220 000.

Norway was a founding member of EFTA in 1960. After a failed attempt to join the European Community in 1972, Norway ratified a free trade agreement with the EC in 1973. Being a founding member of NATO, Norway - in contrast to its Scandinavian neighbours - never faced policy difficulties with regard to neutrality considerations.

The Norwegian economy is one of the most prosperous in Europe. In 1991, GDP totalled about 94 bn ECU - less than Denmark and Finland but more than Greece and Portugal. Per capita income exceeded 130% of the EC average when measured in ECU (falling to the 100% level when converted into PPP[1]). Norway features the characteristic that 81% of its GDP is generated on the mainland, the residual consists of oil activities (16%) and ocean transport and drilling (3%). However, off-mainland activities contribute only 2.5% of employment. For mainland GDP, the relative significance of general public services (18.5% of GDP) and agriculture, forestry and fishing (3,3% of GDP, 5.5% employment) becomes obvious; in contrast, Norway's manufacturing (18% of GDP) is relatively less important than for EC countries (23%). Norway generated a 4.8% current account surplus of GDP in 1991; exports (imports) accounted for 32% (24%) of GDP. The principal export items were oil, gas and related products (44%); major import items include machinery and electrical equipment (23%). Major export markets were the EC (67%) and EFTA (13.5%); imports came from EC-members (49%) and EFTA countries (22%). Since 1990, Norway's investment share as GDP percentage has been below 20%; from 1982-1989, it was in the range of 25-28%.

Norway is suffering less from recession than most other countries. This is mainly due to the dual structure of Norway's economy. Though the mainland economy progressed at a sluggish rate (0.1-1%), Norway's economy received a strong boost by the fast growing offshore sector. Norway's real GDP grew by 1.9% in 1991 and 2.6% in 1992. After a period of declining levels, GFCF increased by 1% in 1991 and by 5.6% in 1992, whereby the latter received a major boost by high capital formation in oil and shipping.[2] Nevertheless, unemployment reached historically unprecedented levels (6%). Government schemes should stabilise the unemployment rate at current levels but also contributed to a doubling of the fiscal budget deficit in 1992 (5.5% of GDP). Deducing oil revenues, the 1992 deficit came to 9.5% of GDP and may rise again in 1993.

In 1993 and 1994, Norway's economy should continue to grow thanks to the booming offshore sector. Mainland economic expansion is expected to strengthen gradually as from mid-1993 on, generating aggregate annual GDP growth of around 2%. The main impetus should come from exports due to a revival in world commodity markets and Norway's strengthened competitiveness on world markets. With higher oil reserves (+12%) than previously thought and expandable gas sales to Continental Europe (+160% by 1999), Norway's export sector should internalise a certain robustness against uncertainties on world commodity and exchange markets. Despite the (effectively) 3.3% devaluation of the Norwegian Krona in December 1992, inflation (1992: 2.4%) can be expected to remain stable. With accumulated public debt below 50% of GDP, Norway's economy is among the top three contenders to meet the Maastricht limits.

A few special aspects of the Norwegian economy deserve separate mention when evaluating long-run perspectives. First, similar to Sweden and Finland, the Norwegian Banking sector suffered heavily from a financial crisis including rescue operations of troubled banks and capital injections from the central government. Though a systemic collapse of the Norwegian financial system was prevented and stabilising measures were put into place, it will take some time to return nationalised banking institutions to private ownership. Second, the Norwegian economy is

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1 Purchasing Power Parity (PPP) data from Eurostat are presented. Since PPP weighting schemes are not uniform, other institutions (e.g. OECD, World Bank) may report higher PPP figures.

2 Accounting methods of oil platform investments cause large swings in reported annual capital formation figures.

structurally characterised by a great reliance on natural resources and energy production. It is likely to become the leading non-OPEC oil exporter in the world. Thus, the EC's dependence on third country hydrocarbon imports could be considerably reduced. Third, Norway's industry depends mainly on electricity generated from hydroelectric power. The introduction of a Community wide CO_2-tax (already in place in Norway), exempting hydro-power, would promote Norwegian's industry into a stronger position vis-à-vis its competitors. Hence, Norway has a close interest in becoming an integral part of the community's internal energy market (with supplying significant gas quantities as well).

A potential for EIB lending exists both in infrastructure as well as in industry. Communication infrastructure is not deficient, but the more intensive exchange in future with the EC may require some upgrading as well as a better integration within Trans-European Networks. In transport, this may include some improvement in links in particular between the major centres in the Southern part of Norway, including links to (Southern) Sweden. Road and rail links with Central and Northern Norway (the distance between the Northern and Southern tips of the country corresponds to the one from Southern Norway to Rome!), as well as possibly with Northern Sweden and Finland, may need some improvement in the perspective of future EC integration. However, the low population density and the difficult, mountainous terrain may impose a very selective approach.

With regard to the **energy** sector, Norway (more so than Sweden) has large hydropower capacities and reserves. Norway, which has meanwhile privatised its electricity sector, could step up exports of (hydro-) electricity if sufficient transmission cables were available, in particular towards the EC countries. A new transmission cable to Denmark is under construction and may become the object of an EIB loan (Skagerrak Cable). In addition, there is the ongoing investment in the exploration and transportation of the Norwegian off-shore oil and gas fields, which benefited already from several EIB loans in the past, when the investment was related to supplying oil and natural gas to EC member states. A new pipeline linking Germany to the Norwegian gas fields seems to be under study. In the **environment** sector, investment needs seem to exist in particular for reducing industrial pollution (incl. from off-shore drilling), as well as the more diffuse pollution generated by agriculture and fish farming.

In several **industry** sectors (shipping and shipbuilding, light metals and pharmaceuticals) Norway counts companies with a European reputation and with transnational investments (Kvaerner e.g. took over part of East German shipbuilding), but EIB loans so far remained limited to the energy sector. Supporting the efforts of such companies to modernise and reposition within a European division of labour would facilitate Norway's integration into the Internal Market as well as improve the overall competitiveness of European industry. In addition, Norway has a number of SMEs, some of which are very innovative and active in exports. Fishing and fishfarming could also become an interesting sector in the Norwegian context. **Global loan** operations could be envisaged with appropriate banks.

SWEDEN: **Economic overview**

With an area of 450 000 km2 and a population of 8.6 million inhabitants, Sweden is the largest of the four candidate countries. It has almost as many people as Portugal spread over an area almost as large as Spain. In an EC/16, Sweden would be the third largest country by surface area. Population density is 19 inhab./km2. Most Swedes live in the climatically milder Southern part of the country where all the large cities are located: Stockholm, the capital, with 1.5 million inhabitants, Göteborg (730 000) and Malmö (475 000).

Sweden was a founding member of EFTA in 1960. In 1972 it signed a Free Trade Agreement with the EC and in 1991 it submitted its application for EC membership.

Sweden has the largest and most diversified economy among the candidate countries. In 1991, GDP totalled about 192 bn ECU, i.e. half of that of Benelux. Per capita income was close to 150% of the EC average when measured in ECU and still at 112% when converted into PPP[1]. The sectoral breakdown of GDP shows that industry & construction contribute a share of 38%; agriculture, fishing & forestry account for 3.7% (and 5.3% of employment). Among service sectors, commerce (14% of GDP) and transport & communication (8.3%) as well as the aggregate category "finance, insurance, real estate & business services" (26.5%) are worth mentioning. Exports and imports of goods and services account for about 30% of GDP each; the main export items are machinery (28%), transport equipment (15%) and metals/metal products (11%), the main import items are machinery, transport equipment and other manufactured goods, totalling 80%. These figures underline the integration of much of the Swedish industry in the international intra-industrial division of labour. Trade with the EC is intensive and in 1991 accounted for 55% of exports as well as imports. Another 18% are exchanged within the EFTA block and most of it would thus become intra-Community trade within an EC/16. Until 1990, Sweden maintained an investment ratio of around 20-24% of GDP.

In 1991, Sweden was hit by recession. GDP growth has remained negative since then (around -1.5% p.a.), but GFCF fell by 7-9% in each year, and by even more in the private sector. The rate of unemployment rose from 1.5% in 1990 to 6.2% three years later. By international comparison, these indicators may not appear overly dramatic, but the recession is felt all the more severely since the late 1980s were a period of booming demand and even some overheating. Also, the downturn casts additional doubts on the perpetuability of the "Swedish model", characterised by a high level of social protection and public goods provision as well as emphasis being laid on keeping unemployment low. It was "paid" at the price of a well beyond average degree of state intervention via public finance and restrictive regulatory measures, as well as some neglect of price stability. With the recession, macroeconomic and price mechanism dysfunctions became more obvious, and the country has since doubled its efforts to reduce public intervention, increase market efficiency, achieve price stability and reestablish international competitiveness. Like in Finland and Norway, recession also hit the banking sector seriously, when many loans granted during the previous deregulation-driven credit expansion fell into default; the resulting underfunding of banks required significant government rescue operations, incl. take-over by the State.

In 1994, there may be some economic upturn. In spite of all efforts, the recession has so far proved to be longer-lasting than expected. Hopes are that 1994 may bring back some modest GDP growth (1.6%) and exports have already picked up this year, following a devaluation of the SKR against the ECU of over 16% between early 1992 and mid 1993. Inflation has also been lowered (1.9% in 1992, but 4.9% expected in 1993). A major headache continues to be the public deficit, which, in spite of drastic expenditure cuts, has dramatically worsened from a surplus position in 1990 (+4.2% of GDP) to a substantial deficit of -7.8% in 1992 and is expected to further slide into a record deficit of around 13% in 1993 and probably not much less in 1994. Public debt is therefore estimated to exceed the 60% of GDP threshold value in the course of 1993. It may be noted that Moody's has downgraded Sweden twice over the last two years, from Aaa to Aa1 in 1991 and Aa2 in 1993.

[1] Purchasing Power Parity (PPP) data from Eurostat are presented. Since PPP weighting schemes are not uniform, other institutions (e.g. OECD, World Bank) may report higher PPP figures.

A potential for EIB lending exists both in infrastructure as well as in industry. Communication infrastructure is not deficient, but the more intensive exchange in future with the EC will require some major works, in particular on Trans-European Networks. In transport, the best known major project (in the medium term) concerns the fixed link between Sweden and Denmark; some extension of the motorway network (currently 900 km) between the major centres in the Southern part of Sweden may also be required. Part of the State Railways, under deregulation, are to be prepared for high speed trains over the decade. Road and rail links with Central and Northern Sweden, as well as possibly with Norway and Finland, may also need some improvement in the perspective of future EC integration, even if the low population density may impose a very selective approach.

In the **energy** sector, Sweden (and even more Norway) have large hydropower capacities and reserves. Sweden could step up exports of (hydro-) electricity if sufficient transmission cables were available, in particular towards the EC countries. New transmission cables to Germany are under construction and are the object of an approved EIB loan (Baltic Cable); plans further exist for new cables to Denmark as well as for another one to Poland. A pipeline linking Sweden (and Finland) to the Norwegian gas fields also seems to be under study. In the **environmental sector**, investment needs exist in particular for reducing industrial pollution from the important pulp&paper sector (estimate: 75 MECU) and from the mining sector, as well as from more diffuse pollution generated by agriculture and fish farming.

In a number of **industry** sectors, Swedish companies are among the European leaders and some already benefited from EIB loans for investments within the EC (Stora, Electrolux, Volvo, Tetra Pak, ABB). Most of the Swedish blue-chip companies are undergoing a process of internationalisation of their shareholders, well publicised cases concern Volvo as well as, possibly, SAS. To the extent that they are State-owned, privatisation is also planned, even if this may progress slowly as long as recession lasts. Supporting the efforts of major Swedish companies to modernise and reposition within a European division of labour would facilitate Sweden's integration into the Internal Market as well as improve the overall competitiveness of European industry. In addition, Sweden has a number of SMEs, some of which are very innovative and active in exports. Global loan operations could therefore be envisaged with appropriate banks.