

€2.6 billion for projects in the Central European Accession Countries

In 2001, the European Investment Bank (EIB) lent a total of **EUR 2.6 billion** to projects in the ten Accession Countries in Central Europe. By comparison, in the five-years 1996-2000, annual lending averaged € 2.1 billion. The loans granted in 2001 brought to € 16.6 billion the total provided in the region since 1990.

EIB extended its scope of lending to the health and education infrastructure in the Accession countries. In addition, EIB was offering strong support to foreign direct investment, which contributes to the transfer of both, know-how and capital, into the region. Attempts to consolidate public budgets and national elections in Poland, Romania and Bulgaria delayed public investment decisions. Therefore, total lending in the candidate countries was somewhat below the record volume achieved in 2000.

Lending in 2001 was made under the Bank's EUR 8.68 billion mandate for 2000-2006 and the three-year Pre-Accession Facility of EUR 8.5 billion (2000-2003). At the EIB, the Central European Accession States have 'quasi-member-state status' following their integration in 2001 into the General Directorate for Lending Operations in the Member States.

LENDING BY SECTOR IN 2001

EIB lending in the Accession Countries in 2001 was in the following sectors: transport (40%), water (20%), telecommunications (16%) and health and education (1%). These are priority areas in vital need of rehabilitation or modernisation to meet EU standards and build up a sound infrastructure. The remaining 23% were granted as global loans (credit lines) to banks operating in the region to encourage them to increase their lending to projects undertaken by small and medium-size businesses and by smaller towns or associations of municipalities:

Transport	1 045 million €
Telecommunications	423 million €
Water and various	527 million €
Credit lines to SMEs and local govt.	563 million €
Health and education	25 million €

TRANSPORT

Major transport infrastructure financed by the EIB comprised: in Poland the rehabilitation and extension of roads and highways as well as the strengthening of railway capacity; in the Czech Republic the extension of the highway network; in Hungary the modernisation of the railways; in Slovakia sections of the 'European Roads' network and a new bridge over the Danube in Bratislava; and in Bulgaria the upgrading of stretches of roads and railways.

TELECOMMUNICATIONS

Loans totalling € 423 million to telecommunications sector investment helped upgrade fixed (often fibre-optic cables) and mobile networks in Estonia, Latvia, Lithuania, Poland, the Czech Republic, Hungary and Slovenia. The strong focus on telecommunications infrastructure reflects the need to upgrade links with the EU. Modern telecom facilities are a prerequisite for doing business and, particularly for facilitating communication between headquarters abroad and their affiliates in the Accession Countries. Efficient communications links (internet access, broadband, etc.) are crucial for attracting new foreign direct investment.

INDUSTRY

The international economic environment deteriorated considerably in the second half of 2001 in the Accession Countries as well as in the EU. The EU Commission has revised markedly downwards the Accession Countries' GDP growth for 2001 and 2002. In 2003, when the outlook for the world economy may improve, a return to higher growth is expected, allowing countries in the region to continue catching up with the EU.

Demand for EIB finance for foreign direct investment (FDI) by large Western companies remained weak in 2001 due to the excess capacity in Western Europe and in other regions. EIB financing of an Ericsson telecom research and development centre in Hungary was, however, an example of know-how transfer supported by the Bank, helping to create jobs, increase exports and the further EU-integration of a Central European economy.

Against this background, EIB lending to the industrial sector in 2001 was almost exclusively in the form of credit lines (global loans) to partner banks, which on-lend the funds to small and medium-sized companies. A total of € 563 million went to a dozen banks active in the region: HVB Bank branches in Bulgaria, Hungary, the Czech Republic and Romania; First Investment Bank in Bulgaria; Hansabank in Estonia; Intereuropa Bank and Raiffeisen Bank in Hungary; BRE Bank, ABN AMRO Bank and PBK Bank in Poland, and Citibank in Romania. Small and medium-scale enterprises are a major vehicle for developing a strong, dynamic private sector in the Accession Countries. In addition to SMEs, smaller scale municipal projects may also be financed under the global loan set-up.

SOME 20% OF LENDING FOR ENVIRONMENTAL PROTECTION

The protection of nature and the improvement of the urban environment were an important, if not the overriding reason for EIB support for some 20% of the projects financed in 2001. To join the EU, the Accession States will also have to comply with the Union's environmental standards. Without counting urban and regional transport schemes, which may also help reduce air and water pollution or otherwise improve the quality of life, the Bank maintained a steady flow of funds to environmental protection schemes. Co-financing between EIB loans and grants from the European Commission under its ISPA programme for transport and environmental projects is now well on track. In Hungary and Poland important flood repair and prevention schemes were financed in order to ensure adequate protection in the future.

VENTURE CAPITAL FOR THE ACCESSION COUNTRIES

In June 2000, the Bank's Board of Governors doubled the scope of EIB Group's venture capital financing to EUR 2 billion up to 2003. In line with EIB Group policy to offer the same financial products in the Accession Countries, the European Investment Fund (EIF), the Group's subsidiary specialising in venture capital and SME guarantees, took up participations in four Central European Venture Capital funds: the Baltic Investment Fund, the Baltic SME Fund, the Baring Central Europe Fund and Raiffeisen Central and Eastern Europe Equity Fund. The EIF is a fund of funds, and while the Member States remain its main focus, it is playing a growing role for the birth of high tech companies in the region.

DEVELOPING CENTRAL EUROPEAN CAPITAL MARKETS

Through its presence on the emerging capital markets of Budapest, Prague and Warsaw, the EIB is contributing to their deepening and internationalisation, an important aspect to an improvement of their liquidity. In 2001, EIB issued the equivalent of EUR 304 million in CZK, PLN and HUF, thereby increasing its annual issuance volume in Accession Countries' currencies by about 50 %.

The EIB made a major contribution to the development of the Polish capital markets, as the first issuer to launch a domestic programme. It signed a PLN 3 billion Debt Issuance Programme in October 2001. Subsequently, a PLN 500 million 10-year zero-coupon issue was launched under the programme and the bonds were placed with domestic investors.

When Hungarian exchange control restrictions were lifted, allowing the currency to be settled also outside Hungary, the EIB was the first to also issue HUF in the international market. Its HUF 20 billion transaction was ranked number two by 'Euroweek' in its annual exotic currency issue awards.

In the Czech Republic market, the EIB increased a CZK 2 billion zero-coupon bond, originally launched in the international markets in 1998, to CZK 3 billion.