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EVALUATION REPORT

THE IMPACT OF EIB BORROWING OPERATIONS ON THE INTEGRATION OF NEW CAPITAL MARKETS

Evaluation Report

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ABBREVIATIONS

AIAF	**:**	Spanish Securities Dealers Association
AfDB	**:**	African Development Bank
AsDB	**:**	Asian Development Bank
ASE	**:**	Athens Stock Exchange
ATHIBOR	**:**	Athens Interbank Offered Rate
CDF	**:**	Comprehensive Development Framework
CMVM	**:**	Portuguese Securities Market Commission
DIP	**:**	Debt Issuance Programme
DRS	**:**	Deferred Rate Settings
EBRD	**:**	European Bank for Reconstruction and Development
EEC	**:**	European Economic Community
ECG	**:**	Evaluation Cooperation Group
EIB	**:**	European Investment Bank
EMS	**:**	European Monetary System
EMU	**:**	Economic Monetary Union
ESP	**:**	Spanish Peseta
EU	**:**	European Union
EUROFIMA	**:**	Société Européenne pour le Financement de Matériel Ferroviaire
EV	**:**	Evaluation Unit
FRN	**:**	Floating Rate Note
GDP	**:**	Gross Domestic Product
GRD	**:**	Greek Drachma
IFC	**:**	International Finance Corporation
IFR	**:**	International Financial Reseach
ISMA	**:**	International Securities Market Association
LIBOR	**:**	London Interbank Offered Rate
LSE	**:**	Lisbon Stock Exchange
MDB	**:**	Multilateral Development Bank
MIBOR	**:**	Madrid Interbank Offered Rate
OECD	**:**	Organisation for Economic Co-operation and Development
OTC	**:**	Over-the-Counter Market
PTE	**:**	Portuguese Escudo

N.B.: 1999 Conversion/exchange rates: 1 Euro = 166 ESP = 200 PTE = 329 GRD

EXECUTIVE SUMMARY

The report presents the findings of an ex-post evaluation of the impact of EIB borrowings on the development of the bond markets of Spain, Portugal and Greece. The purpose of the study is to explore whether these borrowing operations and those of other Multilateral Development Banks (MDBs) contribute to the successful evolution of these markets, and what lessons could be learned to help MDBs formulate future strategies to assist the authorities more effectively in integrating their bond markets into the international market. The study was carried out by the autonomous Evaluation Unit (EV) of the EIB, in close co-ordination with EIB's Finance Directorate and Directorate for Economics and Information, with the assistance of outside experts in capital market development and banking. Their findings, reported in three country reports[1] as well as the comments of EIB staff, are fully reflected in this synthesis report.

MDBs conduct their borrowings primarily to acquire funds at the lowest possible cost to on-lend to their clients. In the longer term, however, they depend on efficient capital markets, not only to enlarge their field of borrowings but also to meet their fundamental developmental goals and reduce the risk of financial crises. As development banks are the largest non-sovereign borrowers in the world, one would expect them to use their borrowings to make new capital markets more efficient and help transform local savings into investments with long gestation periods.

In theory, MDBs can do so in several ways. They can use their special status to launch the first foreign issue in a new market, hereby having an "icebreaker" effect. By returning regularly to a new bond market, their AAA rating can help develop its capital demand and supply, extend maturities into the "long end" of the market, introduce international financial know-how and innovative features to the local banking industry, stimulate competition in what are otherwise government-dominated markets, and help regulate and expand secondary bond markets. Moreover, through their borrowings, MDBs can assist in establishing a sustainable regulatory and fiscal framework. In doing so, they must limit exchange rate instability and the crowding-out of domestic borrowers, while protecting domestic savings. Finally, if they lend as well as borrow locally, they can help reduce the exchange risks for promoters of local investments who have no foreign exchange earnings.

The EIB's borrowing experience in Spain, Portugal and Greece suggests that under certain conditions, MDBs do indeed contribute to the development of new bond markets. The EIB was the first foreign issuer on the Greek and Portuguese markets and was instrumental in getting the Marathon and Caravela markets off the ground. In Spain, this initial role to launch the Matador market was played by other international issuers such as the European Company for the Financing of Railway Equipment (EUROFIMA), the European Economic Community (EEC), the World Bank and the International Finance Corporation (IFC). These first icebreaker foreign issues had an important signal effect on the international financial community as they enhanced the prestige of the market place and the attraction of the local currency.

MDBs acted as key suppliers of AAA-quality paper in all three markets. EIB designed tailor-made issues for institutional investors mainly in Spain and to a lesser extent in Portugal. Such issues offered special interest rates, return features and special maturity dates, to help mobilise additional funds from institutional investors. In Greece, the small number of truly domestic EIB issues did not provide much scope for tailor-made issues. The study confirms that innovative borrowings by the EIB and other MDBs helped broaden and deepen the local bond markets, created a more competitive environment and attracted more domestic and foreign institutional funds.

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1 Available from EIB Evaluation Unit respecting conditions specified in EIB's disclosure policy.

MDBs, in extending the yield curve and facilitating access to long-term debt, can play an important role in facilitating domestic long-term investments. The EIB started to extend the yield curve in all three countries by issuing the first fixed-rate medium-term bond with maturities longer than those offered by the government debt managers. In Greece, after the EIB opened the foreign issues market in 1994 with a 5-year fixed-rate issue, the Government took over the task of extending the yield curve later.

The appeal of the bond market beyond the government securities market may be further enhanced by MDBs launching liquid benchmark bonds with particularly attractive maturities. The EIB created such benchmark bonds, partly by using the re-opening technique, in Spain and to a lesser extent in Portugal.

The retail base of the local bond market may be broadened through widely advertised special retail issues distributed with the support of the savings bank sector. The EIB only offered retail issues in Spain, as this was the sole country in which the savings bank sector was involved in foreign bond issues. The EIB was the only MDB that became active in this particular field.

In all three countries, the EIB contributed to widening the supply of local bond market resources to the domestic economy by acting both as a lender and bond issuer in the currency of the country, although the balance between local and foreign currency borrowing and lending differed in each country.

Efficiency in the new issue market may be enhanced if the EIB and other MDBs compete with government issues in the same maturity segments, although this requires that MDBs come to the market fairly frequently and in a co-ordinated way. This condition was practically only fulfilled in Spain. There is, however, no evidence that MDB borrowings harmed government borrowings in any way. On the contrary, the greater competitiveness and integration of these markets facilitated government debt management, provided the timing of new issues was properly co-ordinated.

Efficiency gains, both in terms of time and cost savings, can also be achieved using Debt Issuance Programmes (DIPs). The EIB used DIPs in Spain and Greece, although in Greece fewer benefits could be derived from this arrangement because of the small number of local GRD issues which, moreover, were launched from London from 1997 onwards.

In both Spain and Portugal, the EIB and other MDBs helped “import” international financial know-how into the local investment banking community in areas such as the issue business, securities administration (including depository, clearing and settlement operations), and swap and hedging techniques. The local learning process in these areas can be accelerated if the EIB or other MDBs initially use a rotation system for lead- and co-lead managers and book-runners. This can be changed later into a competitive bidding procedure, which fosters cost efficiency. In Greece, the EIB provided some opportunities for educating the local investment banking community, although to a lesser degree.

The EIB and other MDBs have failed to contribute to developing the secondary market in foreign bond issues in any of the three countries. This was the result of European bond holders’ practice of holding on to their bonds, and the inadequacy of the local technology infrastructure in areas such as trading, clearing and settlement, which was either lacking altogether (Greece, until recently), not competitive (Portugal), or introduced too late (Spain). In this context, it should be noted that with the creation of the Euro Zone in January 1999, the secondary bond markets are in any case tending to move to markets in which the technology infrastructure is most competitive.

The EIB’s borrowing experience in Spain, Portugal and Greece suggests that if the EIB and other MDBs are to contribute to developing a local bond market, a number of conditions need to be fulfilled. The major impulse must come from the country’s authorities themselves. Macro-economic conditions need to be conducive to the development of a longer-term bond market. Interest rates and inflation rates must show a general downward trend and not be too volatile. It is an advantage if exchange rates are reasonably stable. Efforts also need to be based on close co-operation between the main groups of players: the authorities, the investment banking industry, the EIB and other MDBs acting as borrowers, and investors, mainly institutional investors (life insurance companies, pension funds and investment funds). Public debt should not overwhelm the financial system to the point that the bond market cannot breathe under the burden of public sector borrowing requirements. Interest rates should be allowed to reflect genuine market conditions.

Taxation of interest income from both domestic and foreign bond issues needs to be conducive to the development of the bond market. This means that at least foreign holders of foreign bonds should not be subject to withholding tax on interest income from these bonds at rates grossly out of line with those prevailing on other competitive markets.

The one overriding lesson to be learned from this exercise is that the EIB and other MDBs would benefit from formalising their borrowing policies to include integrating new bond markets with the international capital markets. The authors of this report believe that this would help to identify a number of procedures that previously failed to receive the attention they deserve. It would also alleviate fears amongst the authorities in the countries concerned, who regard MDBs as competitors on their domestic bond markets rather than as having a positive development role. As new bond markets become more competitive, higher initial MDB borrowing costs would be compensated by the subsequent simplification of administrative procedures. Thus, to summarise, the authors of this report recommend that MDBs fully integrate the other side of their balance sheet in their efforts to raise their development effectiveness in countries with new capital markets.

1. INTRODUCTION AND METHODOLOGY

1.1 Introduction

1.1.1 This report evaluates the development impact of the borrowing activities of the European Investment Bank (EIB) on the capital markets of Spain, Portugal and Greece. It is expected to yield useful lessons for formulating development policies for the borrowing activities of Multilateral Development Banks (MDBs)[2] on new markets. The evaluation was carried out by the autonomous Evaluation Unit of the EIB (EV) with the help of a four-man consultant team[3]. It is supported by the Evaluation Co-operation Group (ECG) created in 1995 to foster co-operation among the independent operation evaluation units of MDBs.

1.1.2 One would expect MDBs to list well-functioning capital markets as a critical part of their development effort. The World Bank and the International Monetary Fund were created with a dual role: reconstruct war-damaged economies - a role later transformed into reducing income disparities - and prevent the international financial crises that shook pre-World War II economies[4]. This second role is now receiving closer attention, with a growing concern for the risk of moral hazard in international capital markets, which is causing international financial institutions to become increasingly cautious about bailing out crisis-ridden new capital markets. Although regional MDBs were given specific assignments they are, in general, clearly associated to the activities of the Bretton Woods institutions.

1.1.3 MDBs are expected to help reduce income disparities by providing foreign capital, properly guaranteed, in support of profitable investments in less-advanced countries or regions. In this perspective, they borrow funds as cheaply as possible to on-lend to their clients. Until recently, this goal has been seen as the sole objective of MDB borrowing activities, and is still a top priority.

1.1.4 Only recently have MDBs become aware of their potential role in improving the efficiency of domestic financial networks and capital markets as well as their critical part in facilitating access to long term capital by domestic enterprises and governments. In 1992, the Organisation for Economic Co-operation and Development (OECD) referred in a paper to World Bank and the Asian Development Bank bond issues on local Asian markets as alternatives to government bonds to develop local capital markets.

1.1.5 At the January 1998 meeting of the Joint Development Committee, the Heads of the MDBs agreed to list ”reforms and structural changes in the financial sector” as a key objective of closer co-operation. In January 1999, a further step was achieved with the Comprehensive Development Framework (CDF) proposed by Mr. Wolfensohn, President of the World Bank. Under the CDF, MDBs would take a more global approach to removing bottlenecks to progress in new markets. Institutional reforms of financial systems are a key aspect of the CDF, with “the development and strengthening of capital markets” mentioned explicitly.

1.1.6 This awareness has increased with the recent Asian and other financial crises. In December 1998, the OECD and the World Bank organised a workshop on fixed income securities markets in developing countries. At the meeting, participants agreed that “the presence of foreign investors improves competition, liquidity and transparency in local markets”, and that ”the lack of development of the domestic debt market, especially for medium- to long-term fixed rate instruments, has been identified as an important cause of the Asian crisis”.

1.1.7 Awareness of the impact of borrowing activities on capital markets is particularly acute in the AsDB. Its published policy objectives recognise “that the AsDB could pursue its mission (to promote the development of the region) not just through its lending activities but also through its

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2 In this report, the term MDB covers the following organisations: World Bank, International Finance Corporation (IFC), Inter-American Development Bank (IADB); Asian Development Bank (AsDB), African Development Bank (AfDB); European Bank for Reconstruction and Development (EBRD) and the EIB. All MDBs but the EIB are members of the Joint Development Committee set up by the Governors of the MDBs to improve their development effectiveness.

3 Mr. Günther Bröker, former Head of the OECD Financial Affairs Division, Mr. Jørn Kjaer, former Assistant Governor of the Danish National Bank, Mr. Alfonso del Rivero, former President of BNP España. Mr. Ole Rummel, Economist, was responsible for basic data collection.

4 Mr. Harry Dexter White, the US Treasury economist who proposed the creation of the International Monetary Fund and the World Bank, was well aware of this dual role: ”the two things, monetary reconstruction and the reconstruction of trade, were quite inseparable” (C. CAUFIELD, ”Masters of Illusion” - 1997, Henry Holt & Cy, p. 40).

fund-raising activities, i.e. to assist in the development of the capital markets of the region". At the last annual meeting, its newly appointed President identified among the five major challenges facing Asia that of strengthening the financial sector. For him, inefficient capital markets have been unable to transform very high local savings into investments with a long gestation period, forcing financing from foreign resources.

1.1.8 Perhaps because of its special position as the financial arm of the European Union and hence its role in integrating the capital markets of the EU, the EIB has taken an interest in developing these markets through borrowing operations since the late 80's. In 1995, Patrick Honohan[5] concluded that he could find limited evidence that the EIB's lending operations were indeed contributing to its primary goal, regional development, and suggested that instead, EIB borrowing activities be analysed to see if they might be doing so. The role of the EIB in the development of the ECU and Euro markets is a good illustration. In 1998, the EIB declared that developing the Central European countries' capital markets was a key objective in its development strategy of this region. Although this study does not answer Honohan's question, it suggests that his lead is worth pursuing.

1.1.9 Surprisingly, the impact of borrowing activities on new capital markets has so far not been evaluated, either by external or internal experts, despite the fact that MDBs are among the largest non-sovereign borrowers on the international capital markets, let alone on fragile new markets. This study is therefore moving into uncharted territory. The authors recognise that the conclusions remain relatively general and do not provide concrete proposals, and further work should be done, in particular regarding the impact of borrowing activities on the efficiency of local financial networks and the pattern and level of savings. The present evaluation is therefore only a first attempt in helping MDBs to integrate borrowing activities into their efforts to achieve their main goals of reducing income disparities and preventing financial crises. Foreign capital will not be used efficiently if local resources are not. The study should also yield interesting methodological lessons for future similar undertakings.

1.2 Terms of Reference - Methodology

1.2.1 The present evaluation study was launched in January 1999 to explore whether the flotation of bond issues by MDBs in general, or by the EIB in particular, has contributed, or could contribute in future, to the development of local capital markets. The study's ultimate purpose has been to explore how "MDBs could best contribute to reinforcing local financial networks, broadening and deepening local capital markets and improving their functioning and efficiency so that both local and foreign capital can be used more effectively and efficiently for the purpose of general economic development" (Annex 1).

1.2.2 The study consisted of:

- first, analysing and evaluating the EIB's borrowing experience on the basis of field studies in three EU countries – Spain, Portugal and Greece in the chronological order of their implementation;
- second, drawing lessons from this analysis to formulate more consistent and comprehensive strategies in the field of new capital market development.

Initially, the study was to test the validity of the lessons derived from this first phase in the Czech Republic, Hungary and Poland. This second part of the study has, however, been postponed at the request of EIB management until after year 2000, in order to take stock of the first phase.

Since the countries evaluated were selected on the basis of potential lessons to be learned rather than at random, the sample and therefore the conclusions of the report cannot be considered as being representative of EIB's overall borrowing portfolio in new markets.

1.2.3 An essential part of the preparatory work consisted of developing a practicable methodology. The consultants felt that, before starting their field studies, they had to develop clear concepts of what MDBs, in theory, could achieve in terms of impact on capital market development through their borrowing operations, including technical assistance. These considerations, based on a broader theory of bond market development, were intended to answer the question: what are the

5 "The Public Policy Role of the European Investment Bank within the EU", Journal of Common Market Studies, Vol. 33, n°3, September 1995 ; pp 315- 329.

main factors affecting the development of a local bond market and which of these factors can be influenced by MDB borrowing operations[6]?

1.3 Working hypotheses

1.3.1 As a working hypothesis, it has been assumed that MDB borrowings can, in principle, help develop local bond or capital markets in a number of ways:

(i) The first MDB issue in a new bond market can have a positive icebreaker effect on investors in- and outside the country by strengthening general confidence in the stability and safety of the local financial system. Other foreign borrowers may follow suit, and the governments, investment banks and securities industry may feel encouraged to take further action to develop an efficient local market for foreign issues, thereby contributing to the international integration of the local capital market.

(ii) MDBs that return regularly to a new bond market can contribute to:

- broadening the capital demand side (i.e. increasing the availability of a range of AAA bonds) of that market. If MDBs are engaged in sizeable domestic currency lending programmes in the country concerned, they operate as domestic intermediaries, channelling domestic financial savings via the bond market into domestic use, for example to companies which are unable to tap the country‘s bond market directly. This in itself contributes to the developmental role of the domestic bond market and is particularly important for financing investments that do not generate foreign exchange earnings;
- broadening the capital supply side of the bond market, by attracting additional funds into that market through an innovative design of debt instruments as well as through special marketing and selling efforts. In particular, by issuing bonds of longer maturity, they should help develop “the long end” of the market. When MDBs with important domestic lending programmes place their domestic-currency issues outside the country, they also supply foreign capital for development purposes while limiting the country’s foreign exchange risk exposure;
- developing, through swap operations, the local derivatives and swap markets. In some new capital markets that experience excessive capital inflows, MDB borrowing and swapping out of the local currency may also be beneficial in “sterilising” the liquidity effect of such inflows.

(iii) Having acquired extensive experience in a large number of countries, MDBs can transfer financial know-how to the local market place, mainly in areas such as the design of financial instruments, and selling and marketing techniques. Thus, they can contribute to the training and education of the local investment banking and securities industry in countries with new bond markets. In particular, MDBs that systematically swap issues in local currency into international currencies can train local debt managers in swap techniques.

(iv) MDBs can stimulate competition in the new issues market and other securities-related activities, thereby assisting the authorities in policies aimed at improving efficiency in the functioning of their country’s financial markets.

(v) MDBs can also influence the organisation, regulation and functioning of secondary bond markets. Since they are themselves interested in well-functioning secondary markets notably for their own benchmark bonds, it is worth their while helping the local securities industry and the authorities to eliminate deficiencies in this area.

(vi) Finally, through their contacts with the authorities and the local financial community, they can assist in developing a regulatory framework (admission rules, listing requirements, investment regulations for institutional investors, etc.), as well as tax regulations and administrative procedures which are conducive to improving the functioning of the local capital markets generally.

1.3.2 Attempts by MDBs at assisting the development of local capital markets through their borrowing operations, notably if they wish to access a local market for the first time, are likely to

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6 The results of this preparatory work on methodology have been presented in an internal working paper, which is available upon request.

meet with resistance from the national authorities who can have two main concerns:

(i) Exchange rate instability. If sizeable amounts of new foreign bond issues, including any eurobonds denominated in domestic currency, are bought and held by foreign investors, there is a danger of speculative attacks on the country's currency using the bond market as a vehicle for hot money inflows and outflows. A related disturbing impact on monetary stability resulting from such hot money flows may be feared as well.

(ii) Crowding out and protecting domestic savings. If high-quality foreign borrowers such as MDBs are given free access to the domestic bond market, they might draw unduly on domestic financial resources, with the effect that the government and/or domestic enterprises could be faced with a relative shortage of long-term funds. This concern seems less justified for MDBs with substantial local lending activities, as domestic savings remain in the country and are made available to the economy in the form of longer-term loans. Nevertheless, local authorities might then fear that domestic banks are crowded-out by an MDB functioning like a domestic financial intermediary.

1.3.3 From the onset, it was recognised that the study would suffer from the difficulties encountered by any study trying to link specific micro-economic actions and macro-economic effects. A mono-causal link between specific MDB borrowing operations and the evolution of a capital market or the economic development of a country is difficult to establish, but the failure to demonstrate this link does not necessarily mean that it does not exist. Improvements in the functioning of securities markets are based on a complex process involving four groups of players: government authorities (in their function as regulators), the financial community (investment bankers, securities firms, the stock exchange etc.), borrowers (i.e. the issuers of securities, including the government's debt manager), and investors, notably institutional investors. Separating foreign from local effects, and isolating the influence on capital markets of the convergence policies pursued by EU-member countries in their endeavour to join the Economic and Monetary Union (EMU), is a difficult if impossible task. Thus, the study will simply test whether the characteristics of EIB borrowings were conducive to satisfying the positive and negative hypotheses listed in paragraphs 1.3.1 and 1.3.2.

1.3.4 After documentary and statistical research, and interviews with EIB staff, the hypotheses were translated into a questionnaire which was first tested in Spain and subsequently improved in preparation for the field studies in Portugal and Greece. An important part of the field studies consisted of confronting the working hypotheses with actual results, trying to identify under what conditions MDBs can play a constructive role in the development of local bond markets. Meetings were held in Madrid, Lisbon and Athens with present and former officials of the central banks, the Ministries of Finance and the Securities Market Commissions, with representatives of the stock exchanges, investment banks acting as lead managers, representatives of clearing and settlement systems, and with lawyers specialising in preparing new issue documentation. Research material was obtained from the EIB, relevant official and private bodies in the countries concerned, publications from the OECD and the EU, and from specialised data banks such as International Financial Research (IFR), London.

1.3.5 Throughout, the consultants were reminded repeatedly that the development of local capital markets has, so far, not been the primary objective of MDBs. Their debt managers' priority has been to cover the borrowing needs of these institutions at the lowest obtainable cost. Some staff members in the EIB, and according to comments received, also in some other MDBs, see this task as the sole objective of Treasury Departments. It is, indeed, only in a longer-term perspective that MDBs' borrowing operations can be expected to be oriented towards the development of new capital markets.

1.3.6 In terms of costs, the study required a total of 300 mandays, of which 170 mandays of external consultancy and 130 mandays of evaluation staff (35% professional and 65% support staff).

2. OVERVIEW OF MDB BORROWINGS AND THE FOREIGN ISSUES MARKETS IN SPAIN, PORTUGAL AND GREECE

2.1 General

The scope and opportunity for MDBs to play a role in the development of a local bond market through their borrowing operations are determined by the number, size and characteristics of the bond issues they are able and willing to launch on these markets, keeping in mind that the MDBs' primary objective is to cover their overall borrowing needs at the lowest possible cost. Any development impact depends also on the functioning and regulation of the markets in which MDB bonds are being issued and on the degree to which foreign issues are integrated into the domestic bond market. In this regard, the countries reviewed are very different. In Spain, the foreign bond market was conceived as an integral part of the domestic bond market. In Portugal, the primary market was located in Lisbon, but the secondary market and related clearing and settlement operations were concentrated on the Luxembourg Stock Exchange, or in the international over-the-counter (OTC) market. In Greece, the market arrangements were similar to those in Portugal, except that from 1997 onwards, the primary market for GRD issues too was operated from a foreign base. The scope for MDB borrowing operations to contribute to local bond market development is likely to be greater where the domestic bond market is integrated with the foreign issues market.

2.2 Volume of EIB and other MDB borrowings in the markets for foreign ESP, PTE and GRD issues

2.2.1 MDBs have been the largest group of issuers in the markets for ESP, PTE and GRD issues, accounting for 49%, 27% and 47% respectively of total foreign issues in these currencies. Other borrowers include private banks, corporates and public institutions. The percentages are averages, falling from higher levels during initial phases as market access was gradually opened up, first to sovereign borrowers and those with sovereign guarantees and finally, in principle, to all borrowers (Table 2.1). The fact that in Spain the MDB market share remained fairly high - 45% also in the later phase (1994-98) - seems to confirm that the authorities have maintained some informal controls on market access by other borrowers. In Portugal, the sharp fall of the MDB market share between the first phase (1988-93) and the second phase (1994-98) clearly reflects the opening of the market to all categories of borrowers. In Greece, developments were similar except that in 1997 the market for new GRD issues moved to London, where market access is virtually free, although the Greek authorities maintained an informal issuing calendar.

Table 2.1: Relative Importance of MDB and EIB Borrowing Operations

	Spain (ESP)		Portugal (PTE)		Greece (GRD)	
Total foreign issues (in bn local currency) **of which:**	1987-98 1987-93 1994-98	**4112** **977** **3135**	1988-98 1988-93 1994-98	**2320** **212** **2108**	1994-99* 1994-96 1997-99	**2269** **367** **1902**
MDB issues as % of total foreign issues	1987-98 1987-93 1994-98	**48.6** **59.4** **45.2**	1988-98 1988-93 1994-98	**26.8** **79.2** **21.5**	1994-99 1994-96 1997-99	**46.6** **94.6** **37.4**
EIB issues as % of all MDB issues	1987-98 1987-93 1994-98	**68.7** **60.7** **71.9**	1988-98 1988-93 1994-98	**82.4** **61.3** **90.3**	1994-99 1994-96 1997-99	**27.4** **24.5** **28.8**
EIB issues as % of total foreign issues	1987-98 1987-93 1994-98	**33.4** **36.0** **32.5**	1988-98 1988-93 1994-98	**22.1** **48.6** **19.4**	1994-99 1994-96 1997-99	**12.8** **23.2** **10.8**

*) until May 1999

2.2.2 Within the three countries analysed, most MDBs were active (Table 2.2). The EIB was the most important single issuer both in Spain and Portugal, while in the market for foreign GRD issues, the World Bank and the IFC issued significantly larger amounts than the EIB. The more modest presence of the EIB in the GRD bond market can be explained by EIB's policy to avoid "opportunistic" borrowing. It is in any case striking that GRD borrowing and lending operations by the EIB are broadly kept in balance, while in Spain and Portugal the volume of local lending exceeds local currency borrowing (Table 4.1 in Chapter 4), with the difference being covered by currency swaps and other sources. This large gap between local currency lending and borrowing in Spain and Portugal reflects access restrictions motivated by fears of "crowding-out", reduced borrowing opportunities in the local market, and EIB's capacity to finance its lending operations in a more cost-effective way via swaps. It can be argued that the EIB would have further enhanced its development impact on the local bond markets had it been able or willing to cover its local currency needs solely by domestic borrowings.

Table 2.2: Borrowings by MDBs in Spain, Portugal and Greece
(Amounts in million Euro)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	87-98
EIB		266	661	745	1069	539	1212	1126	1742	2314	1879	435	11988
IFC	58	73	153	132	124	75	67	35	539	324	989		2569
World Bank	70	182	230	201	317	98	265	52		334	186	186	2121
IADB					223	75				62	49		410
EBRD								60		206	332		597
AsDB			77										77

2.3 Overview of the markets for foreign ESP, PTE and GRD bond issues

2.3.1 The creation of the foreign bond markets in the three countries was a consequence of their EU membership. The creation of the EU Single Market for Financial Products and Services required that financial transactions be fully liberalised as from 1 January 1993. Spain was the first to open its domestic bond market to foreign issuers (August 1987), Portugal followed in November 1988 and the Greek market for foreign GRD issues was not opened until February 1994, as it received a temporary dispensation from its liberalisation obligations in view of the country's macro-economic situation and its capital market development problems.

2.3.2 The three countries each opted for a different approach as regards the organisation and regulation of the markets for foreign issues. Spain introduced the most vigorous and systematic regime for regulating this new segment of the domestic market and did not encourage, nor even tolerate, the emergence of an euro-ESP bond market or of any external market in ESP-denominated financial assets. The market for these "traditional" foreign ESP bond issues, the Matador market[7]**,** was set up by the Ministerial Order of 3 February 1987. Initially only international agencies (not only MDBs) of which Spain was a member, were allowed to issue ESP-denominated bonds, subject to two conditions: first, prior authorisation by the authorities; second, management of the new issues market by resident institutions (including foreign-owned institutions domiciled in Spain). Spanish authorities clearly sought to strengthen the international competitiveness of domestic investment banks by giving them access to appropriate know-how. Later, market access was gradually liberalised, but even after full formal liberalisation, corporate issuers without a state guarantee were discouraged.

2.3.3 In Portugal, the regulation of the new market for foreign PTE bond issues, i.e. the Caravela[7] market, was less formal and systematic. There was no explicit legal framework, and foreign issues were authorised by administrative decision even after the introduction in 1991 of a new comprehensive Securities Market Code. Until mid-1994, access to the foreign issues market remained restricted to supranational agencies of which Portugal was a member, and to sovereign borrowers. Thereafter, access to the Caravela market was free, on condition that new issues were filed with the Securities Market Commission (CMVM) and that an issue prospectus be published. Supranational and sovereign borrowers were exempted from certain disclosure requirements. The authorities did not insist on listing on the Lisbon Stock Exchange and tolerated listing on the Luxembourg Stock Exchange and clearing and settlement at EuroClear (Brussels) or CEDEL (Luxembourg).

2.3.4 In Greece too**,** the authorities adopted an ad hoc approach to new issues on the foreign GRD issues market, the Marathon[7] market. As in Spain and Portugal, access was initially restricted to supranational agencies of which Greece was a member. But conditions - amount, timing, maturity, interest rate features, offering price etc. - were strictly controlled, even for the EIB after it had negotiated a DIP, which was intended to ensure greater flexibility in market access and in the choice of debt instruments. Although the foreign GRD issues market was originally conceived as a new segment of the domestic bond market, the authorities tolerated, or may even have sought, the emergence of a sizeable euro-GRD issue market operated from London, after the Marathon market had been severely hit by the introduction in January 1997 of a withholding tax applying equally to

7 For definition, see Glossary.

resident and foreign non-official holders of GRD bonds. The Bank of Greece maintained an issuing calendar based on informal notification requirements. This queuing system was maintained essentially to avoid timing clashes with government bond issues.

2.3.5 Measuring the size and the growth of the markets for foreign ESP, PTE and GRD bond issues in relative terms, i.e. as a percentage of total gross domestic bond issues, there are striking differences between the markets concerned (Table 2.3). During the first phase of partial liberalisation, foreign issues in all three markets were roughly of the order of 5% of the domestic bond issue market. Then considerable divergences developed in the relative size of these markets. By far the sharpest expansion took place in Portugal, where the share of foreign issues in total bond issues jumped from 4.8 to 16.2%, largely reflecting the full liberalisation of access to the foreign PTE issue market in 1994. There was a less dramatic expansion in the relative size of the market for foreign GRD issues, from 4.9 to 8.1% of total issues, which essentially resulted from the emergence of the euro-GRD bond issue market in 1997. The comparatively modest expansion in relative terms of the Matador market could indeed reflect restrictive access controls by the authorities, which may have been motivated by fears of “crowding out” due to the fact that in Spain the public sector borrowing needs were still rising, whereas in Portugal the share of government securities in total bond issues declined rapidly. Given the domination of the Greek domestic bond market by government securities, the sharp rise in foreign GRD bond issues in 1998 and 1999 was possible only because this particular market segment became fully international and moved to London.

Table 2.3: Relative Size of the Markets for Foreign ESP, PTE and GRD bond issues

	Spain		**Portugal**		**Greece**	
Total foreign issues (in bn local currency)	1987-98 1987-93 1994-98	**4112** **977** **3135**	1988-98 1988-93 1994-98	**2320** **212** **2108**	1994-98 1994-96 1997-98	**1676** **367** **1309**
as % of total gross bond issues	1987-98 1987-93 1994-98	**5.9** **5.4** **6.1**	1988-98 1988-93 1994-98	**12.3** **4.8** **16.2**	1994-98 1994-96 1997-98	**7.1** **4.9** **8.1**
as % of nominal GDP	1987-98 1987-93 1994-98	**0.6** **0.4** **0.7**	1988-98 1988-93 1994-98	**1.7** **0.6** **2.4**	1994-98 1994-96 1997-98	**1.1** **0.7** **1.3**

2.3.6 The secondary markets for foreign ESP, PTE and GRD issues encountered problems in all three countries. A satisfactory solution was only found recently in Spain and possibly in Greece in the near future. The problems arose mainly from the absence of a competitive technological infrastructure for handling secondary market transactions when the foreign issue markets were opened. The authorities concentrated their efforts on modernising their government securities market, while the stock exchanges, which were largely responsible for the other segments of the bond market, were busy with the modernisation of the equity markets. Hence, it is not surprising that the authorities in Portugal and Greece did not object to secondary market transactions taking place outside the country. Only Spain broadly succeeded also in keeping the secondary market for foreign ESP issues inside the country. The Spanish Securities Dealer Association was quick enough to put into operation in 1995 a new automated quotation and trading system for all debt instruments outside the government securities market, the AIAF market. The Greek authorities consider that their recently computerised book entry system, which clears and settles all government papers, could easily be adapted to meet the needs of other GRD-denominated instruments.

3. OVERVIEW OF THE DEVELOPMENT OF THE BOND MARKETS IN SPAIN, PORTUGAL AND GREECE

3.1 General

3.1.1 The scope and opportunity for MDBs to influence the development of a local bond market through borrowing operations depend on the international financial environment and the initial level of development of the market. A neutral impact of MDB borrowing operations can be expected if the local bond market is already functioning fairly well, with an active "long end" of the market for fixed-rate bonds. This is so in relatively mature capital markets. There would also seem to be little scope for a positive development impact if the market is technically and institutionally not yet "ripe" for receiving external assistance through MDB borrowings. Occasional private placements rarely do any harm, but unless market mechanisms allow for MDB issues to be accommodated either at primary or secondary market levels, they might have a crowding out effect on domestic borrowers, notably the government. Such a case was encountered in one of the countries analysed, when a series of too large MDB issues was launched with government support, with the intention of lowering benchmark interest rate levels. Hence, MDBs need to analyse carefully the capacity of a new capital market before launching their first foreign bond issue.

3.2 Common features of market development

3.2.1 When MDBs began their borrowing operations in the three countries under review, the bond markets were all at an early stage of development. Interest rate restrictions were just being removed; fixed-rate medium- and long-term debt instruments, which usually represent the bulk of a mature bond market, were practically non-existent. In fact, in Greece prior to 1997 there were no fixed-rate government debt instruments at all, while in Spain in 1987 and in Portugal in 1988, when the foreign issues markets were opened, the longest maturities for fixed-rate government debt instruments were 2 and 3 years respectively. Another common feature was the low level of secondary market trading. In Greece, the bond turnover on the Athens Stock Exchange accounted for less than 1% of market capitalisation, which is extremely low by international standards, particularly for modern government securities markets serving as a base for corresponding future and options markets.

3.2.2 The three countries concerned also faced a common macro-economic environment that played a determining role in their internationalisation. First of all, during most of the period under consideration, the international environment was characterised by decreasing interest rates which in particular facilitated deficit financing and benefited the new capital markets especially. Secondly, the three countries were committed to join, sooner or later, first the EU Single Market for Financial Products and Services, and later, the EMU. They all actively pursued the EU convergence and integration policies, although with varied success. Interest rates and inflation rates were, when the foreign issues markets were opened, in 1987, 1988 and 1994 respectively, on a general downward trend (Table 3.3), so that the local bond market attracted increasing amounts of both domestic and foreign investible funds, thereby reinforcing this tendency. The result of the common downward trend in bond yields has been that even the GRD bond market, including Greek government bonds, is now "on the map" of international private and institutional investors. The contribution of MDBs to the internationalisation of the three new capital markets must be seen in the favourable context of preparation for the Euro.

3.2.3 Within the framework of EU financial integration policies, all three countries gave high priority to modernising their markets for government securities. They introduced auction techniques for selling these securities, hired specialists (primary dealers) to support the markets for government securities both at primary and secondary market levels, and modernised the technological infrastructure. Government debt managers in all three countries made considerable efforts, quite successfully, to extend the yield curve for fixed-rate government securities, usually following the flotation by the EIB and other MDBs of medium-term fixed rate bonds. It is also worth noting that during the period in which MDBs were engaged in local market borrowings, the bond markets in all three countries were also expanding noticeably in relative terms, i.e. expressed as a percentage of nominal GDP, both at primary and secondary market level (Table 3.1). Another common feature is that in all three countries the role of institutional investors, notably investment funds, has increased considerably since 1990.

Table 3.1: Bond Market Development Indicators

Indicators	Spain		Portugal		Greece	
First foreign issue	**1987 (August) EUROFIMA**		**1988 (November) EIB**		**1994 (February) EIB**	
I. RELATIVE SIZE OF BOND MARKET						
As % of nominal GDP:						
Gross bond issues	1988-90 1996-98	**6.2** **12.4**	1989-91 1996-98	**12.6** **16.0**	1994-96 1997-98	**15.3** **16.5**
Net bond issues	1988-90 1996-98	**1.3** **5.4**	1989-91 1996-98	**6.8** **7.2**	1994-96 1997-98	**7.4** **12.0**
Bond market capitalisation	1988 1997	**22.6** **55.4**	1988 1998	**8.0** **44.3**	1988 1998	**19.5** **63.9**
Bond market capitalisation as % of balance sheet volume of banking system	1988 1997	**16.5** **32.0**	1988 1997	**6.5** **17.2**	1989 1996	**37.6** **88.2**
II. FEATURES OF DEBT INSTRUMENTS						
Fixed-rate government bonds: longest maturity in the market	1988 1998	**3 yrs** **30 yrs**	1988 1998	**2 yrs** **15 yrs**	1994 1998	**none** **15 yrs**
Share of floating rate debt in total marketable public debt					1994 1998	**91.3** **77.6**
Gross issues as a multiple of net issues	1988-90 1996-98	**4.8** **2.3**	1989-91 1996-98	**1.9** **2.2**	1994-96 1997-98	**2.1** **1.4**
Share of Treasury bills in total marketable public debt	1988 1998	**20.0** **25.1**			1995 1998	**37.6** **19.0**
Share of government bonds in total bond issues (gross)	1988-90 1996-98	**53.9** **76.0**	1989-91 1996-98	**77.9** **50.5**	1994-96 1997-98	**97.2** **99.6**
III. SECONDARY MARKET INDICATORS						
Bond market turnover as % of market capitalisation (stock exchange data)	1988-90 1997-98	**n.a.** **70.4**	1988-90 1997-98	**n.a.** **22.6**	1988-90 1996-98	**0.8** **0.3**
IV. DEGREE OF INSTITUTIONALISATION						
As % of nominal GDP:						
All types of Institutional investors (financial assets), of which:	1990 1997	**16.0** **56.1**	1990 1996	**9.0** **34.4**	1990 1996	**6.5** **28.5**
Investment funds	1990 1997	**3.2** **33.7**	1990 1997	**4.3** **21.2**	1990 1996	**n.a.** **13.1**

3.3 Differences in market development

3.3.1 There were also considerable differences in bond market developments. The most striking one concerns the timing of the domestic bond market reforms in relation to that of the opening of the foreign bond market. In Spain, the government securities market reform coincided with the opening of the Matador market, whereas in both Portugal and Greece, three years elapsed between the first foreign issues on the domestic market and domestic reforms. Thus, in Spain the development of the foreign issues market was better integrated with domestic bond market reform than in the two other countries, although the Portuguese reforms may have been inspired by developments in the Caravela market that included EIB borrowing operations.

3.3.2 The attention paid by the authorities and the investment banking industry to the development of the local corporate bond market or market for non-government securities also differed. In Spain and Portugal, the modernisation of the government securities markets was given priority, with the result that the corporate bond market was somewhat neglected both by the authorities and the Stock Exchange, notably as regards the technological infrastructure of the secondary market. In the end, the Spanish Securities Dealer Association created outside the Stock Exchange a new fully computerised and screen-based market system for all non-government bonds including Matador bonds. This AIAF Market only received official recognition by the Spanish authorities in January 1999. In Portugal, there was increasing scope for the development of the corporate bond market, as the government managed to reduce its market share in the new issues market drastically from 78% (1989-91) to 50% (1996-98), which is in striking contrast with developments in Spain (Table 3.2). In Greece the extremely high public sector borrowing requirements left hardly any scope for promoting the development of the corporate bond market.

Table 3.2: Bond Market Infrastructure Development Indicators

	Spain (ESP)	Portugal (PTE)	Greece (GRD)
Memorandum item:			
First foreign issue	1987 (August) EUROFIMA	1988 (November) EIB	1994 (February) EIB
Indicators			
I. CAPITAL MARKET REFORMS			
New Capital Market Law	Securities Market Law 1988	Securities Market Code 1991	Stock Ex change Law 1988
Securities Market Commission	1988	1991	1991
Stock Exchange Reform	1988	1991	
Reform of government securities markets	1987/88	1991	1997
Dematerialization of securities (introduction of book-entry system):			
Government securities	1987	1991	1998
Other securities	1992	Shares: 1988	Shares: 1996
II. TECHNOLOGICAL INFRASTRUCTURE			
Introduction of computerised depository, clearing and settlement system for:		1991 Creation of a Central Securities Depository	1991 Creation of a Central Securities Depository
Government securities	1987	1991	
Other securities	1992	1991	1992 (shares)
Introduction of computerised quotation and trading system for:			
Government securities	1988	1991	1998
Other securities	1988/91	1991	
III. INSTITUTIONAL INNOVATIONS IN GOVERNMENT SECURITIES MARKETS			
Introduction of auction techniques	1987	1988	1995-1997
Introduction of Specialists in Government Securities (Primary Dealers)	1988	1991	1997
Introduction of market for future and options in government securities	1989	1996 (Oporto Stock Exchange)	none (planned for 1999/2000)

Table 3.3: Inflation Rates and Interest Rates

Inflation rates	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Spain	5.2	4.9	6.8	6.7	5.9	5.9	4.6	4.7	4.7	3.6	2.0	1.8
Portugal	9.4	9.7	12.6	13.4	10.2	9.4	6.7	5.4	4.2	3.1	2.3	2.8
Greece	16.4	13.5	13.7	20.4	19.5	15.9	14.4	10.9	8.9	8.2	5.5	4.8
Short-term interest rates												
Spain	15.8	11.7	15.0	15.2	13.2	13.3	11.7	8.0	9.4	7.5	5.4	4.2
Portugal	13.9	13.0	14.9	16.9	17.7	16.1	12.5	11.1	9.8	7.4	5.7	4.3
Greece	19.0	19.2	19.0	23.0	23.3	21.7	21.3	19.3	15.5	12.8	10.4	11.5
Long-term interest rates												
Spain	12.8	11.7	13.8	14.6	12.8	11.7	10.2	10.0	11.3	8.7	6.4	4.8
Portugal	..	..	..	..	..	..	..	10.4	11.5	8.6	6.4	4.9
Greece	..	..	..	..	..	..	..	..	..	..	9.1	7.8
Memorandum item: Germany	6.4	6.6	7.1	8.7	8.5	7.9	6.5	6.9	6.9	6.2	5.7	4.6

Source: OECD, Economic Outlook, June 1999; long-term rates for Greece = 10-year government bond new issue yield: Bank of Greece

4. THE ROLE OF EIB BORROWING OPERATIONS IN THE DEVELOPMENT OF THE BOND MARKETS IN SPAIN, PORTUGAL AND GREECE

4.1 General

4.1.1 In contrast with other MDBs, the EIB has had a special position in the financial markets of the countries concerned insofar as it was also an important lender in the national currency to local promoters of long-term investments. The EIB operated as a domestic financial intermediary channelling domestic or foreign financial resources into domestic uses. This is in itself an important contribution to the development of the local bond market and the financial system. Apart from the effects on the financial markets, EIB efforts to be a competitive lender in local currency also helped reduce the foreign exchange risk for local investors without foreign exchange earnings. As indicated earlier, the extent differs among the three countries evaluated. While in Spain and Portugal lending in the domestic currency largely exceeded borrowing, so that important resources had to be channelled into these markets via swap operations, GRD borrowing and lending operations have roughly been in balance[8].

Table 4.1: EIB Lending and Borrowing Operations in Local Currencies (EUR bn)

	Spain 1987-1998	Portugal 1987-98	Greece 1994-98
EIB lending (disbursements) in local currency:	13.3	5.0	0.6
of which covered by:			
Bond issues in local currency	9.1	2.7	0.7
Swaps and other sources	4.2	2.3	-0.1
Memorandum item:	**1987-98**	**1987-98**	**1987-98**
EIB lending (disbursements) in other than local currencies	13.9	5.8	3.8

4.1.2 The impact of EIB borrowing operations on the development of the bond markets in Spain, Portugal and Greece is obviously determined by the number and volume of individual operations, both in absolute and relative terms, and by the number of years during which the EIB borrowed on these markets. While over a period of 11 years (1988-1998), there had been some 120 EIB bond issues in Spain and 34 bond issues in Portugal, EIB borrowing experience in Greece covered only 5 years (1994-1999) and included 12 bond issues (up to March 1999). Moreover, only 4 of these 12 issues may be considered as having affected the domestic market, since the other eight issues were arranged in London and had the characteristics of euro-GRD bonds. This suggests as a preliminary conclusion that the EIB has had a more limited potential impact on the development of the Greek bond market through its borrowing operations than in the other two countries.

Table 4.2: EIB Issues in the Markets for Foreign ESP, PTE and GRD Bonds

Market and Currency of Issue	Period of EIB Borrowing Operations	Total Amount Issued (Number of Issues)
SPAIN: ESP bn	1988-98	1372 (120)
PORTUGAL: PTE bn	1988-98	513 (34)
GREECE: GRD bn	1994-1999 (March)	290 (12)

8 The timing of lending and borrowing may not always match and it would seem that some GRD funds were channelled outside Greece.

4.2 EIB contributions to the development of local bond markets

4.2.1 Opening the foreign issues market

In Portugal and Greece, the EIB launched the first foreign issue on the newly created segment of the domestic bond market, thereby assisting the authorities decisively to get this new market segment off the ground. In Spain, the first issuer was EUROFIMA. These first foreign issues created the foreign issues market insofar as a number of other foreign borrowers followed them. They had an icebreaker function, and the lawyers of these issues had to reconcile the new issue documentation with the relevant local legislation in areas such as authorisation and listing requirements, foreign exchange controls, taxation, investment regulations of institutional investors, depository requirements, clearing and settlement, etc. The lead-time needed for the preparation of the first issue took between several months and more than a year. Local legislation had to be adapted to international standards in several respects so that subsequent issues could follow more smoothly. The EIB played this icebreaker role in two out of the three new capital markets evaluated.

4.2.2 Enhancing the international image and attraction of the market place

By opening the foreign issues market in Portugal and Greece, and by entering the Spanish bond market frequently at an early stage, the EIB initiated and supported an important process of image and confidence-building, which has put these countries and their currency on the map for international investors. The first foreign issues launched by the EIB were rapidly followed up by other AAA issuers – often MDBs. The media reported the beneficial effects of EIB bond issues on these markets at the time. They were seen as a signal to the international financial community that these markets had reached their first stage of maturity, that their currencies were beginning to lose their hitherto exotic nature, and that investors in- and outside the countries concerned could have confidence in the capability of the authorities to manage their economy and their financial system satisfactorily. In the three cases considered, it was also a signal that they were on the road to reach EU integration targets.

4.2.3 Broadening the local bond market through increased supply of AAA paper

The EIB, as well as other MDBs and supranationals such as EUROFIMA and the Council of Europe Resettlement Fund, were the first issuers of AAA paper on the domestic market, followed by other AAA issuers. This has clearly increased the scope for domestic institutional investors with relatively tight investment regulations to diversify their portfolios away from domestic government securities.

4.2.4 Broadening the local bond market through an extension of the yield curve

In the countries under review, the EIB initiated a process of extending the yield curve, thereby attracting more financial resources from in- and outside the country into the long end of the market (Table 4.3). Developing the long end of the bond market is worthwhile in itself. Initially yield curves in new markets are often reversed and relatively short, discouraging the development of the “long-end” of the market. Long-term bonds increase the supply of long-term capital in the economy, facilitate government debt management and, more generally, make the financial system less vulnerable to financial crises. The EIB made a considerable contribution to achieving this objective both in Spain and Portugal, while in Greece, after an encouraging start, there has been no further extension of EIB’s yield curve. In all three countries, the governments took over issuing bonds with longer maturities.

Table 4.3: Longest Maturities for Fixed-rate ESP, PTE and GRD Bonds (Years)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
SPAIN												
EIB	10	10	10	10	10	10	10	15	25	10	10	EURO
Government	3	10	10	10	10	15	15	15	15	15	30	EURO
PORTUGAL												
EIB	9 (1)	8 (1)	5	5	7	7	7	8	20	10	30	EURO
Government	2	2	FRN	5	5	10	10	10	10	10	15	EURO
GREECE												
EIB							5	FRN	FRN	FRN	6	3
Government							FRN	FRN	FRN	10	15	15

(1) Coupons adjustable every 2 or 3 years.

Note: The table shows for each year the longest maturities of fixed-rate bonds issued by the Government and the EIB respectively; FRN = Floating Rate Notes with no indication of maturity.

4.2.5 Broadening the local bond market through innovative interest rate and return features of EIB debt instruments

Besides contributing to the expansion of existing medium- and long-term markets for fixed-rate bonds, the EIB has taken initiatives in the design of debt instruments with special interest rate and other remuneration features. In all three countries, the EIB was the first issuer in the foreign issues market of FRNs linked to the local interbank offered rate (MIBOR, LISBOR, ATHIBOR), thereby inter alia enhancing the prestige of the local interbank market. In Greece, EIB issued the first “genuine” FRN. FRNs issued previously by the Government were indexed on the Treasury Bill rate, which was fixed by the Government until end-1997.

Table 4.4: EIB Issues with Special Interest Rate and Return Features

	Spain (ESP)	Portugal (PTE)	Greece (GRD)
Years of bond issuing activities	1987-1998	1987-98	1994-99
First foreign issuer of FRN	1994 (LIBOR-linked) 1997 (MIBOR-linked)	1994 (LISBOR-linked)	1995 (ATHIBOR-linked)
First foreign issuer of “step-up callables“	1995 (dual coupon, call options at change in coupon)		
First equity-linked bond	1996 (linked to share price index of Madrid Stock Exchange: IBEX 35)		

In Spain, EIB debt instruments with special interest rate and return features were largely designed as tailor-made issues for domestic institutional investors.

4.2.6 Broadening the retail base of the local bond market through special retail issues

In Spain, in October 1996 and October 1997, in close co-operation with the Spanish savings and other banks, the EIB issued 2 fairly large 10-year issues, each amounting to ESP 40 000 m (about EUR 240 m), which were designed particularly for small savers. Both operations, which were supported by considerable advertising efforts, were very successful and represented a remarkable achievement for a supranational issuer.

4.2.7 Broadening the local bond market through the creation of liquid benchmark bonds

In Spain and Portugal, the EIB made considerable efforts towards enhancing the attraction of the market for foreign issues by creating a number of larger benchmark bonds through the application of re-opening techniques (issuing over time several tranches of bonds with identical coupon and maturity characteristics). In Spain, there were 8 such re-openings, which in one case resulted in the creation of an ESP 70 000 m (about EUR 420 m) issue maturing in 2001, which, for one single issue, is considered to be large.

4.2.8 Preparing for the Euro

In both Spain and Portugal, the EIB issued Euro-fungible or Euro-tributary bonds, with a view to merging them after the advent of the Euro with similar issues floated in a number of other countries into larger single Euro-denominated issues. In this way, the EIB helped the local market participants to familiarise themselves with the problems raised by the introduction of the Euro.

4.2.9 Improving the efficiency and competitiveness of the local investment banking industry through the transfer of international financial know-how

4.2.9.1 Through its local borrowing operations, the EIB has contributed to educating the local investment bankers in areas such as lead-management and syndication of foreign issues, preparing the documentation and engaging in the administrative work connected with international bond issues. To intensify the local learning process, the EIB initially used a system of rotation amongst the local investment banks for lead-management and book-runner mandates and combining local with international banks. In Spain, some 15 banks acted as lead or co-lead managers of EIB issues, in Portugal 11. In Greece, the EIB also rotated local and foreign lead-managers, but the Bank considered that the scope for giving lead-management to local banks was limited. Nevertheless, it should be mentioned that the London offices of 3 Greek banks were involved in the management of EIB euro-GRD issues.

4.2.9.2 Following the initial learning and rotation process, in Spain and Portugal the EIB introduced a system of competitive bidding for lead-management and book-runner mandates, thereby helping to strengthen the efficiency and competitiveness of the investment banking industry.

4.2.9.3 The EIB, as well as other foreign issuers, contributed strongly to the development of markets for swaps (interest rate swaps, cross currency swaps etc.) and other hedging facilities. In Spain and Portugal, the EIB, in its function as an important lender in local currency, needed inward foreign currency swaps in particular because its funding needs exceeded the amounts raised through domestic currency bonds. Other MDBs have a tendency to systematically swap their local issues into international currencies, hereby helping local banks to get acquainted with swap operations. The EIB was a natural counterpart to these MDBs and other foreign issuers. The EIB was also an important player in the interest rate swap market for swapping fixed-rate into variable rate liabilities needed to cover variable-rate domestic loans. Finally, special hedging techniques were needed for covering the interest rate risk arising from any time difference between the date of receipt of borrowing proceeds and the date of loan disbursement.

4.2.9.4 The position of Madrid and Lisbon as international financial centres has greatly benefited from the transfer of the financial know-how that was needed for developing new products. Such a learning process took place to a lesser extent in Athens because the GRD bond issues market emigrated too early - in 1997 - to London (Chapter 2).

4.2.10 Streamlining authorisation procedures

In the countries under review, the EIB achieved a considerable simplification of the authorisation procedures by introducing DIPs. DIPs contain the basic new issue documentation and set an umbrella amount under which any number of smaller issues in different forms (as stipulated in the DIP) can be issued, in principle, any time. Each issue under a DIP only requires the preparation of a Pricing Supplement. The DIP method increases efficiency both in terms of time and cost saving. The benefits expected from this simplification were limited in Greece because of the imposition of the queuing system. Admittedly, this was necessary to avoid clashes with frequent issues of Government bonds (only recently has the timing of Government bond issues been fixed in advance) and justified by the Greek authorities to keep track of euro-GRD issues from London or elsewhere. These authorities expressed their doubts about whether the elimination of the queuing system would have by itself significantly enhanced the international attractiveness of the domestic GRD market.

4.3 Obstacles to the development of efficient secondary local bond markets

4.3.1 The EIB and other MDBs were unable to make a major contribution to the development of efficient local secondary bond markets, in Portugal and Greece in particular, but to some extent also in Spain, where the EIB endeavoured to develop large and liquid benchmark bonds. The basic reason for this failure was that at the time when the EIB started its borrowing operations, the countries concerned had a limited technological infrastructure to manage secondary market operations. Thus, secondary market trading moved immediately to the international OTC market (Reuters and Bloomberg screens), and clearing and settlement largely took place in the efficient European clearing houses EuroClear and CEDEL. For this reason, the bulk of foreign PTE and GRD issues were listed on the Luxembourg Stock Exchange and not in Lisbon or Athens.

4.3.2 In Spain, the situation was more complex. For legal reasons (official listing), EIB ESP bonds were mostly listed on the Madrid Stock Exchange but traded on Reuters and Bloomberg screens. When the Spanish Securities Dealers Association began to operate its new AIAF automated market system for bonds other than government securities in 1995, most foreign ESP issues found a new secondary market home in this special market, which was unfortunately only recognised officially in January 1999, so the EIB and the World Bank did not join the new system. Thus, it may be concluded that, partly for reasons of inefficiencies and excessive costs of the domestic market systems (Portugal and Greece), the secondary markets for the EIB's ESP, PTE and GRD bonds operate largely outside the countries concerned, as illustrated by Table 4.5. The most liquid PTE and GRD bonds issued by the EIB are quoted both on the Luxembourg Stock Exchange and in the international OTC market, while the Bank's most liquid ESP bonds are essentially quoted and traded only on the international OTC market, as the listing of ESP bonds on the Luxembourg Stock Exchange was prohibited by the Spanish authorities[9].

Table 4.5: EIB Bonds on Secondary Markets (Number of ESP, PTE and GRD bonds outstanding at mid-1999)

	ESP Issues	PTE Issues	GRD Issues
Number of EIB Issues	120	94	12
Of which still in circulation (mid-1999)	92[10]	19	10
Of which :			
Quoted on Luxembourg Stock Exchange (International OTC market)	None	19	8
Quoted on ISMA Weekly International Securities Guide	17	6	6
Memorandum Items:			
Total number of ESP, PTE and GRD bonds quoted:			
a) On the Luxembourg Stock Exchange	None	159	91
b) On the ISMA Weekly International Securities Guide (international OTC Market)	105	10	98

Source: Luxembourg Stock Exchange, ISMA and EIB

4.3.3 Domestic investors generally favour government issues, both because of the liquidity provided by their large volume and because they perceive their government as an AAA-equivalent borrower and assume that it cannot default. Hence, the greater actual security of MDB bonds is not appreciated, and only highly innovative issues are considered to be attractive. This applies to most of the findings given in Chapter 4.

5. CONCLUSIONS

5.1 Potential contributions to bond market development

5.1.1 EIB borrowing experience in Spain, Portugal and Greece shows that under certain conditions (par. 5.2), MDBs can contribute to the development of local bond markets. By coming to these markets as the very first foreign issuer, AAA rated MDBs can be instrumental in getting new market segments off the ground, provided they size their first issue properly. This has an important signal effect for the international financial community and enhances the international prestige of the market place and the international attraction of the local currency. In order for the signal effect not to fade away, first icebreaker issues must be rapidly followed by regular AAA-quality bond issues. The general policy climate, even under changing governments, must remain conducive to the international integration of the local capital market.

5.1.2 MDBs can help diversify new bond markets, which are usually dominated by government issues. The supply of AAA-quality paper helps attract more domestic and foreign institutional funds. Bond market funds may also be mobilised through the design of tailor-made issues with special interest rate, return features and maturity dates. MDBs may also, with agreement of the authorities, set up a process of extending the yield curve. This proves particularly useful when government debt managers hesitate to start issuing medium- or long-term fixed-rate debt instruments. The attraction of the bond market outside the government securities market may be further enhanced through the creation of liquid benchmark bonds also in maturity areas in which the government debt manager is not present. The retail base of the local bond market may be strengthened through special retail issues, widely advertised in the media and distributed with the support of the savings banks and other banks with branch networks. This may require a special marketing effort to overcome the comparative advantage for local savers of government paper. Finally, MDBs can make a contribution to broadening the supply of local bond market resources to the domestic economy by acting both as a lender and bond issuer in the country concerned.

9 It has not been possible for the consultant team to explore the subject of secondary markets for EIB bonds in greater detail. So, it is not known whether and to what extent Spanish, Portuguese or Greek banks, respectively, are engaged in secondary market operations conducted on the international OTC markets of EIB ESP, PTE and GRD bonds.

10 More than half of these issues represent so-called structured issues, which are not traded on a secondary market.

5.1.3 MDBs can also enhance the efficiency of the new issue market by competing with the government debt manager in the same maturity segments, although this requires that they come to the market fairly frequently. Efficiency gains both in terms of time and cost are also to be achieved through the use of DIPs.

5.1.4 The efficiency, sophistication and competitiveness of the local investment banking industry can be improved considerably by importing international financial know-how in areas such as the international new issuing business, securities administration (including depository, clearing and settlement operations), swap and other hedging operations. The local learning process in these areas can be accelerated by rotating lead- and co-lead managers and book-runners. This system can be changed later into a competitive bidding procedure, which is conducive to further enhancing cost effectiveness. Since foreign borrowing operations usually involve in a large measure different swaps or other hedging operations, the development of a foreign issues market stimulates the local markets for these particular products and services as well. The EIB has played a special role in this regard insofar as, in its function as an important domestic supplier of domestic currency loans, it has had a special need for both domestic currency interest rate swaps from fixed-rate to variable rate liabilities and foreign currency or cross currency swaps for filling the gap between domestic currency lending and domestic currency borrowing. The efficiency of an MDB in that dual role depends on the efficiency of those who implement the physical investments financed by the MDBs. Delayed investments limit disbursement requirements and hence local borrowing needs.

5.1.5 This study shows that careful planning of the effects of MDB borrowing activities with an appropriate macro-economic policy and liberalisation of the markets helps them to develop into mature markets without the feared negative effects and, on the contrary, has beneficial effects, including for government debt managers.

5.2 Conditions for a positive bond market development impact

EIB borrowing experience in Spain, Portugal and Greece suggests that if the Bank and other MDBs are to be able to contribute to the development of a local bond market, a number of conditions need to be fulfilled, many of them probably self-evident for the professionals:

A. The major impulse for the development of the local bond market must come from the country's authorities themselves; there must be a strong political will to bring the legal and institutional framework and the technological infrastructure of the local bond market up to international standards, which in the cases studied are largely set by EU policies. It would be a considerable advantage if major reforms in these areas had already taken place, or were at least under way, at the time of the opening of the foreign issues market, so that MDB borrowing operations could be part of the reform process.

B. Macro-economic conditions need to be conducive to the development of a longer-term bond market. Interest rates and inflation rates should not be excessively high and volatile and preferably be on a downward trend. Exchange rates should be reasonably stable.

C. The level of the public debt and of the government borrowing needs should not be such that the whole financial system is dominated by public debt and that the bond market cannot breathe under the burden of public sector borrowing requirements.

D. Interest rates should be allowed to reflect genuine market conditions, and any mandatory investment requirements and long term capital movement controls should have been abolished by the time the foreign issues market is opened.

E. Successful local bond market development efforts imply close co-operation between the main players: the government authorities, investment banks, MDBs, and investors, mainly institutional investors (life insurance companies, pension funds and investment funds). The EIB and other MDBs must be given the scope and opportunity to assist in the bond market development process. The authorities and the local investment banking industry should provide guidance as to how these institutions might best be integrated in the reform and development process. The authorities and the local investment banking industry should be receptive to MDB initiatives and innovative ideas, as these institutions have a rich international borrowing experience. Careful timing is essential for the success of a bond issue, and should not be unduly influenced by bureaucratic procedures.

F. As one of the cases studied demonstrates, taxation of interest income from both domestic and foreign bond issues affects the development of the local bond market. If foreign investors are to be attracted into this market, withholding tax on interest income from these bonds for foreign holders of foreign bonds issued on the domestic market must be in line with tax on the international markets.

6. RECOMMENDATIONS FOR FUTURE EIB BORROWING OPERATIONS IN NEW MARKETS

This evaluation in three EU countries with new capital markets leads to the 9 recommendations hereafter. The operational services of the EIB, and some other MDBs consulted as part of the review of this report, confirm that many of these recommendations are already applied on an ad hoc basis in new markets. Others will be considered to be part of EIB's future borrowing activities in new bond markets, in particular in Central European countries.

The one overriding lesson to be learned from this exercise is that the EIB and other MDBs would benefit from formalising their borrowing policies to include integrating new bond markets with the international capital markets. The authors of this report believe that this would help to identify a number of procedures that previously failed to receive the attention they deserve. It would also alleviate fears amongst the authorities in the countries concerned, who regard MDBs as competitors on their domestic bond markets rather than as having a positive development role. As new bond markets become more competitive, higher initial MDB borrowing costs would be compensated by the subsequent simplification of administrative procedures. Thus, to summarise, the authors of this report recommend that MDBs fully integrate the other side of their balance sheet in their efforts to raise their development effectiveness in countries with new capital markets.

1. The EIB should publicise more systematically than hitherto its bond market development policies and the ways by which it makes its contribution, taking into account the need to contain borrowing costs.

2. The EIB should verify how it can best co-ordinate local bond market borrowings with local-currency lending operations in developing countries, in order to be able to operate as a domestic financial intermediary, channelling domestic bond market resources into domestic uses and helping to reduce exchange risks for its clients.

3. Given that each country's bond market is a case sui generis as regards its regulation, structure and functioning, the EIB should study each market in detail (with a "diagnostic study") and identify weaknesses and strengths before entering the local market with its own bond issues. This is necessary to optimise borrowing operations, which develop the local bond market. Any such diagnostic study could, for cost-saving reasons, be carried out collectively with other MDBs. A tentative list of performance indicators is set out in Annex 2. Such a study would also identify obstacles that need to be removed before the first foreign issue can be launched and traded in the local bond market.

4. The EIB should try to co-ordinate and integrate as much as possible its own potential contributions to the evolution of the bond market with the reform and development plans of the authorities and the financial community of the country concerned. The Bank should try to convince the authorities that a comprehensive blue print approach is preferable to a piece-meal approach.

5. EIB contributions to broadening the bond market by designing innovative debt instruments and extending the yield curve should be discussed with the government debt manager to co-ordinate the issue of fixed-rate medium- and long-term bonds with the government's own borrowing programme and to gain support for the EIB's attempts to create liquid benchmark bonds.

6. By the same token, the EIB should explore with the local investment banking industry, to what extent tailor-made issues with special interest rate and return features could attract more institutional funds into the local bond market. It should also explore with local savings banks or other banks with large branch networks whether there is scope for special retail issues designed to broaden the retail base of the bond market.

7. The EIB should make a particular effort to create efficient secondary markets in its own benchmark bonds within the country concerned. This may require special agreements with local investment banks to provide, on a continuous basis, at least indicative, if not firm quotations for EIB benchmark bonds on local, or locally used automated screen networks. Wherever necessary, the EIB should assist the government authorities and the financial community to put in place a technological infrastructure for quotations, trading, clearing and settlement. The EIB may need to support a special marketing effort to offset a traditional preference for government bonds.

8. Progress in bond market development should be reviewed from time to time at joint meetings between the EIB and the local authorities, and preferably also with representatives of the financial community in order to verify progress made against the cost of borrowing that the longer term development efforts require.

9. Appropriate budgetary allocations should be foreseen for these activities in new markets, whose efficiency is a prior condition to the effective use of foreign development financing at large.

GLOSSARY

DIPs. Debt Issuance Programmes (as well as MTNPs - Medium-Term Note Programmes - not mentioned before in this report) are contractual framework agreements between an issuer and a group of banks containing the regular new issue documentation which is normally included in a new issue prospectus. Under a DIP (or an MTNP), an issuer is authorised to make several issues with equal or different interest and maturity features within the limits of the total amount and the timeframe (of one or several years) stipulated in the DIP. The use of these Programmes results in considerable cost and time savings insofar as each new issue requires only the preparation of a "pricing supplement". MTNPs were originally used in the euro-markets. In a domestic market context, the term DIP has become more commonly used, as there is less emphasis on the issue of medium-term notes.

Domestic, local, national bond market. The terms domestic, local, national are used in the present study as synonyms.

Eurobonds versus Euro-bonds. The term **Eurobond** usually refers to bonds that are issued through an international banking syndicate and offered simultaneously in a number of different countries and markets. Eurobonds have often been issued under Luxembourg or United Kingdom law and are generally not subject to regulations originating from the country whose currency is used for denomination purposes. However, a number of countries have not tolerated the use of their currencies for the denomination of eurobonds. Although such conditions cannot be legally enforced, any such national policy has generally been respected by the international banking world. Spain belongs to this group of countries (see also under Matador bond). With the advent of the Euro, the distinction between eurobonds and traditional foreign bonds no longer seems relevant as far as the Euro-Zone is concerned, although issuers of Euro-denominated bonds from a country within the Zone, or from countries outside the Zone, can presumably still choose the country in- or outside the Euro-Zone whose law and regulations, including those relating to clearing and settlement, should be applied.

Euroclear, Brussels, and CEDEL, Luxembourg. These two organisations are the only truly European, or even international, depository, clearing and settlement systems; they were set up to support the emerging Eurobond market. Today, these two systems, although being competitors, co-operate closely, also as regards their linkages with national clearing organisations within and outside the Euro-Zone. The first Euro issues of the EIB were deposited with these two organisations.

Euro-fungible, or Euro-tributary. These terms relate to bond issues which the EIB issued simultaneously in a number of countries in 1997 and 1998 with a view to merging them after the advent of the Euro into larger Euro-denominated issues. These operations required, of course, that the original national tranches of this issue had to carry identical coupons and final maturity dates.

Hedging. MDBs are often faced with the problem that their borrowing calendar deviates from their loan disbursement calendar. The interest rate risks arising from such time discrepancies are generally **hedged,** i.e. covered by particular techniques such as D.R.S. (deferred rate settlement) or more generally by temporary investment in financial assets where changes in the present value as a result of interest rate fluctuations offset changes in the current value of the liability resulting from the funding operation.

LIBOR, MIBOR, LISBOR AND ATHIBOR. LIBOR is the abbreviation of London Interbank Offered Rate. As London is the most important centre for eurocurrency interbank operations, the interest rates prevailing in the various currency segments of this vast market offering, moreover, a wide range of shorter-term maturities, are often used as reference rates for corresponding interest-rate linkages. **MIBOR** is the abbreviation for Madrid Interbank Offered Rate applying to Peseta interbank deposits. These rates, which can be compared with the corresponding LIBORs, often serve variable-rate linkage purposes in Spain. **LISBOR** is the abbreviation for Lisbon Interbank Offered Rate applying to Escudo interbank deposits. These rates, which can be compared with the corresponding LIBORs, often serve variable-rate linkage purposes in Portugal. The 3 and 6 month LISBOR are apparently the most important rates in this context. **ATHIBOR**, created in early 1995, is the abbreviation for Athens Interbank Offered Rate, applying to GRD Interbank deposits. These rates, which can be compared with the corresponding LIBORs, often serve variable-rate linkage purposes in Greece.

Matador market, or Matador bond market. The Matador market, or Matador bond market is the Spanish bond market for non-resident issuers of ESP bonds. In principle, there can be two markets in which non-residents can issue bonds denominated in a given country's currency, first, in the **market for traditional foreign issues,** which is legally and institutionally a part of that country's domestic bond market; second, in that segment of the so-called **eurobond market** which uses that country's currency for denomination purposes. In order to designate particular markets for traditional foreign issues as distinct from the corresponding eurobond market segments, the international banking community has often introduced particular nicknames such as **Yankee** bonds for traditional foreign bonds issued in the United States, **Bulldog** bonds for traditional foreign bonds issued in the United Kingdom, **Samurai** bonds for traditional foreign bonds issued in Japan, etc..

Caravela or Navigator market, or bond market. Same as above, but applying to the Portuguese bond market for non-resident issuers of PTE bonds.

Marathon market. Same as above, but applying to the Greek bond market for non-resident issuers of GRD bonds.

There are apparently no nicknames for traditional foreign French Franc, Deutsche Mark or Swiss Franc bonds.

Swaps. The proceeds from foreign bond issues are mostly converted into other foreign currencies or the issuers' home currency, unless the issuer needs the funds in the country whose currency is used in the borrowing operation. In principle, the issuer can simply sell the foreign currency proceeds against the target currency. However, with a view to covering the foreign exchange risks involved in the payment obligations prevailing during the life of the issue (annual interest payments, redemption of the principal on final maturity), the issuer mostly prefers to cover these risks by a **currency swap**, i.e. by exchanging the payment obligation (future cash flow) in one currency against the corresponding payment obligation (future cash flow) in the other currency.

If a borrower like the EIB, for example, borrows funds in a particular country and on-lends these funds in the same country, it may combine a borrowing operation with a corresponding **interest rate swap.** This is usually done if the loans carry variable interest rates and the related bond issues carry long-term fixed rates of interest. The interest rate swaps serve to exchange the fixed interest payment obligation (future cash flow) against a variable interest payment obligation (future cash flow) so that variable interest rates prevail on both sides of the balance sheet.

EVALUATION OF DEVELOPMENT IMPACT OF THE BORROWING ACTIVITIES OF MULTILATERAL DEVELOPMENT BANKS (MDBs)

TERMS OF REFERENCE

The purpose of this evaluation study is to provide an answer to the broad question whether, to what extent and how the flotation of MDB bond issues has been, or could be, used as a tool for the development of domestic capital markets. The exercise is intended to help MDBs to evaluate their development effectiveness - so far examined from the lending side only - from the borrowing side of their activities as well.

More specifically, the study will attempt to answer questions of how MDBs can best contribute to broadening and deepening local capital markets and improving their functioning and efficiency, so that both local and foreign capital can be used more effectively and efficiently for the purpose of general economic development. This goal is in line with the priorities set by the MDBs' Joint Development Committee to reinforce local financial networks. For the EIB, "it is crucial to help financially immature countries develop their own capital markets so that they can themselves raise funds on reasonable terms". The Asian Development Bank has also published policy objectives that recognise "that the ADB could pursue its mission (to promote the development of the region) not just through its lending activities, but also through its fund-raising activities, i.e. to assist in the development of the capital markets of the region"[1]. A more detailed list of questions to which the study should seek answers under these Terms of Reference is attached as Appendix 1.

Although the study will necessarily concern, at least indirectly, all MDBs operating on the markets evaluated, the present Terms of Reference apply only to the experience of the EIB. In terms of implementation a phased approach will be adopted. A first phase will comprise: (a) a descriptive and statistical analysis of the capital markets, notably the bond markets, of the countries selected for study; (b) interviews with the EIB staff involved in the Bank's borrowing operations; (c) a proposal of a set of criteria and indicators for assessing the development and performance of different local capital markets.

[1] Andrew W.B. Ferguson, The Asian Development Bank's "Dragon Bond"; in OECD, Emerging Bond Markets in the Dynamic Asian Economies, Paris 1993

In the second phase of the exercise, the method of work will be first tested in a field study on Spain and applied to Portugal and Greece. It is then proposed to verify findings on EIB borrowings in newly developing markets: the Czech Republic, Hungary and possibly Poland. Each country investigation will result in a country report structured along the lines of the framework set out in Appendix 2. These country reports are strictly confidential and serve only to collect factual information for internal use by the countries concerned and EIB staff. Subsequently, the results of these country reports will form the basis for the preparation of a synthesis report on the EIB‘s experience and recommendations that could be published.

After completion of this study, the EIB intends to share the findings with other interested MDBs, who wish to apply the methodology to their own borrowing activities in new markets. This phase of the exercise would be conducted under the aegis of the Evaluation Co-operation Group, whose mandate is to harmonise evaluation procedures of the MDBs.

The Evaluation Unit of the EIB (EV) will retain basic responsibility for the conduct of the EIB study and carry out basic statistical research. A panel of three consultants was hired to investigate, in principle, two countries each. They are Mr. G. Bröker, Mr. Jørn Kjaer and Mr. A. del Rivero. Mr. G. Bröker will co-ordinate the research, assemble the findings and conclusions of the consultants‘ panel and draw up the initial draft of the synthesis report. Both the individual country reports and the synthesis report will be finalised after careful consultation with the authorities of the countries concerned and the EIB services. Their views will be reflected in the various reports.

The first two phases of the study dealing with the EIB experience are expected to take about 6 months and to be completed by July 1999.

ANNEX 1
Appendix 1

QUESTIONS TO WHICH THE STUDY SHOULD SEEK ANSWERS

(I) Macro-economic policy considerations

1. By what considerations have the local authorities been guided in controlling restrictively the access by Multilateral Development Banks (MDBs), or any other foreign bond issuers, to their local bond market: (a) monetary policy considerations; (b) foreign exchange rate policy considerations; (c) balance of payments and/or external debt considerations; (d) considerations regarding the protection of domestic savings, i.e. reserving domestic financial savings for domestic borrowers, notably the government; (e) any other considerations?

2. What is the authorities' attitude towards MDBs, or other international borrowers, using the country's currency for borrowing operations outside the country, i.e. issuing eurobonds denominated in the country's currency?

3. How are EIB bond issues viewed in this broader policy context: Does it make a difference for the authorities that the EIB, in contrast with most other foreign bond issuers, is engaged in important lending activities in the country concerned so that, in fact, the EIB operates like a domestic financial intermediary channelling domestic savings into domestic investment?

(II) Image and confidence building effect through MDB borrowing

4. Did the first issues by MDBs on the domestic bond market have a positive effect on both investors and borrowers in- and outside the country? Did any of these issues enhance the image of the financial market place and strengthen general confidence in the willingness and the capability of the authorities to ensure financial market stability and safety in the country concerned?

(III) Broadening the domestic capital market

5. Are MDB bond issues considered to contribute to a broadening and deepening of the domestic bond market in the sense of increasing and diversifying the supply of high-quality (AAA) bonds? To what extent is this welcomed by domestic institutional investors (investment funds, pension funds and life insurance companies)?

6. Have MDB borrowing operations encouraged other high-quality borrowers from inside and outside the country to come to the domestic bond market?

(IV) Promoting financial innovation

7. Have MDBs served as pioneers in the field of financial innovation in the sense of testing the market with new financial instruments or introducing innovative features of already existing financial instruments with a view to attracting increasing amounts of domestic financial savings into the bond market? Are there any examples where the EIB, or other MDBs, have tested the market for longer maturities or fixed-rate issues before the government has entered these markets?

(V) EIB borrowing and lending operations

8. To what extent has the EIB served as an intermediary for channelling domestic financial savings into productive uses by domestic enterprises thereby indirectly providing access by these enterprises to the domestic bond market? What is the domestic banks' attitude towards EIB lending operations in the country: are such operations considered as providing scope for useful co-operation, or is the EIB more viewed as a potentially uncomfortable competitor of the domestic banks?

(VI) Strengthening the local institutions operating on the financial market place

9. Has the launching of MDB bond issues in the domestic bond market helped to improve and distribute more widely and evenly the financial know-how within the banking community and the securities industry of the country concerned, thereby contributing to the development of the country‘s financial infrastructure and its financial service capabilities?

10. Has the EIB provided technical assistance in the broad areas of legal dispositions, documentation, financial regulation, administrative procedures, or otherwise, with a view to facilitating access by foreign borrowers (including the EIB) to the domestic bond market? Have MDBs, notably the EIB and EBRD, assisted in strengthening the safety and effectiveness of the domestic depository and clearing system for securities?

11. How and where are MDB issues mainly traded in the secondary market? Are present arrangements and procedures considered to be satisfactory both from the authorities‘ and the domestic market point of view?

(VII) Internationalisation of the local market place

12. Have MDB bond issues, or foreign bond issues in general, contributed to a gradual internationalisation of the capital market, the banking system and the securities industry of the country concerned, thereby facilitating the country‘s intended access to the EU? Is there a difference in this regard between eurobonds denominated in domestic currency and foreign bond issues offered on the domestic bond market?

13. Is there any information on the relative importance of foreign investors participating in the purchase of EIB issues or foreign bond issues in general?

(VIII) EIB Performance

14. Has the EIB so far been able to make useful contributions to the development of the domestic capital market; in the affirmative, in what areas?

15. What are the capital market areas where the EIB could improve its development impact and effectiveness?

ANNEX 1
Appendix 2

DEVELOPMENT IMPACT OF EIB BORROWINGS ON THE CAPITAL MARKET OF (Name of Country)

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ANNEX 2

CHECKLIST FOR DIAGNOSTIC STUDIES OF BOND MARKETS

For conducting "diagnostic studies" of the bond markets in emerging economies the following checklist may serve as a guide. Studies providing information on all or most of the points listed will be helpful for the EIB and other MDBs to formulate policies as regards their contributions to the development of the bond markets concerned. The information thus obtained can also be used for comparative studies in this field if the relevant data are presented in the form of "Bond Market Development Indicators" as shown in Tables 3.1 and 3.2 of the present report. Statistics should preferably be presented in the form of time series.

1.	**Legal infrastructure**
1.1	Basic Securities Market Law (year)
1.2	Regulation of foreign bond issue market; official attitude towards the issue of eurobonds denominated in local currency; access controls; queuing system
1.3.	Authorisation and listing requirements: special reference to the treatment of supranationals including MDBs? Is domestic listing required, is listing abroad possible as well?
1.4	Depository, clearing and settlement requirements: What are the depository requirements for foreign issues? How and where have transactions to be cleared and settled? Dematerialization or immobilisation of securities and the use of book-entry system?
1.5	EU Directives in the banking and securities field: Have the relevant directives been translated into national law? When?
1.6	Foreign exchange controls on: foreign bond issues and use of issue proceeds, cross border transactions in securities, cross border income from bonds
1.7	Taxation of resident and non-resident income from holdings of domestic and foreign bonds (withholding tax regulations with history of any changes)

2.	**Technological infrastructure**
2.1	Depository, clearing and settlement system: Does the system meet the requirements of a state-of-the art computerised book-entry system working on the principle of delivery against payment? Is there a central securities depository system for all securities, or are government securities handled differently? Is there a direct link with any automated and screen-based quotation and secondary market trading system? What about links with foreign clearing systems such as EuroClear and CEDEL?
2.2	Automated screen-based quotation and trading system: Special local system or use of Reuter and Bloomberg screens? Separate system for government securities? How and where are foreign bonds quoted and traded? On the Stock Exchange or on a screen-based local OTC market?

3.	**Institutional infrastructure**
3.1	Securities Market Commission: functions, reports, statistics
3.2	Investment banks and securities firms; number of foreign-owned firms, well-known names? Identification of good financial market analysts, relevant publications, or Internet information. Size and international experience of local banks. Degree of concentration.
3.3	Stock Exchange: Structure of market capitalisation; publications, statistics; stock exchange membership (number of foreign-owned members?)
3.4	Over-the-counter (OTC) market in bonds?

4.	**Structure and growth of the primary bond market (capital demand side of the bond market)**
4.1	New issue statistics (gross and net) with breakdown by main categories of issuers; market shares of different categories of issuers (central government, local governments, banks and other financial institutions, non-financial enterprises, foreign issuers)
4.2	Relative size and growth of new issue market (as a %age of GDP)

5.	**Structure and growth of the capital supply (the investors') side of the bond market**
5.1	What statistics are available on bond holdings by main categories of bond investors: banks, insurance companies, pension funds, investment funds, private households, foreign investors? This is usually the most difficult point in bond market analysis in countries without "Financial Accounts of the Economy". Some reliance on anecdotal evidence may be inevitable.
5.2	Relative importance of institutional investors (insurance companies, pension funds, investment funds): OECD data on financial assets of these groups of institutions as a percentage of nominal GDP may be used as a rough indicator of degree of institutionalisation of the capital market

6.	**Government debt instruments**
6.1	Description of main types of marketable government debt instruments
6.2	Statistics of government debt by instruments with detail on maturities of fixed-rate debt instruments (Time series on longest maturities in the market)
6.3	Statistics on gross and net issues of government securities by instruments
6.4	Average life of marketable government debt. In the absence of data on average life the following ratios may serve as indicators of development: Net issues as a ratio of gross issues of marketable government securities, the share of Treasury bills in total marketable government debt
6.5	Role of floating rate instruments may also serve as an indicator of bond market development

7.	**Organisation and functioning of government securities market**
7.1	Recent reforms
7.2	Introduction of new instruments
7.3	Use of auction techniques
7.4	Use of specialists in government securities (primary dealer system)
7.5	Functioning of secondary markets: Stock Exchange, automated and screen-based OTC market? (see also further below under item 11)

8.	**Corporate bond market**
8.1	Main issuers in the corporate bond market: banks, non-financial enterprises (which sectors?)
8.2	Debt instruments used by corporate issuers: role of commercial paper

9.	**Size and growth of secondary bond market**
9.1	Statistics on bond market capitalisation (or on outstanding amounts of marketable government debt): absolute amounts, and relative size (as a ratio of nominal GDP)
9.2	Bond market capitalisation as a ratio of balance sheet volume of the banking system is an interesting indicator of bond market development. Electronic market data system?

10.	**Turnover in secondary bond market**
10.1.	Statistics on bond market turnover (Stock Exchange, or separate market system for government securities).
10.2	Turnover as ratio (or multiple) of bond market capitalisation: Analysis of turnover is important for an assessment of bond market liquidity and the relevance of size of market capitalisation (a large market capitalisation is meaningless from a market development point of view if there is low turnover)

11.	**Functioning of secondary market for corporate and foreign bonds**
11.1	Description of price determination process: single price auction on stock exchange versus continuous screen-based quotation system based on market maker principle (auction versus dealer market)

12.	**Local lending over the past or estimate of investment efficiency**
12.1	Tradition of allocation of budgetary funds
12.2	Record of delays in project implementation

13.	**Estimates of staff needs and timing. Marketing budget**

ANNEX 3

STATISTICS AND SOURCES

This statistical annex is intended, first, to provide statistical support material for tables included in the main body of the Synthesis Report and to show annual data where in the report data for periods have been presented; second, to provide information on the sources of the statistics that have been used.

I. TABLES

Two sets of tables are presented:

1) Bond market development indicators with some basic macro-economic data shown as memorandum items:

Table A1.1: Spain
Table A1.2: Portugal
Table A1.3: Greece

2) Foreign bond issues by types of issuers

Table A2.1:	Spain :	Foreign ESP bond issues on the domestic market (Matador bonds)
Table A2.2:	Portugal:	Foreign PTE bond issues on the domestic market (Caravela bonds)
Table A2.3:	Greece :	Foreign GRD bond issues on the domestic market (Marathon bonds) and Euro-GRD bonds

II. SOURCES

1) Bond market development indicators

Data on bond issues (items 1.1 to 1.4) and related ratios (items 2.1, 2.2, 3.1.1, 3.4) are obtained from national sources (Bank of Spain, Bank of Portugal and Bank of Greece); in the case of Greece, total bond issues have been estimated as the sum of government bond issues and foreign GRD bonds issued on the domestic market. Data on foreign bond issues (items 1.5, 1.5.1, 1.5.2, 3.1.2) are those shown in Tables A.2.1, A.2.2 and A.2.3 (see below).

Data on Bond market capitalisation (items 1.6, 2.3, 3.3) are, in the case of Greece and Portugal, obtained from the Athens Stock Exchange (ASE) and the Lisbon Stock Exchange (LSE), respectively. In the case of Spain, Financial Account data on outstanding amounts of bonds provided by the Bank of Spain (Financial Accounts of the Spanish Economy) have been used. The ratio shown under Item 3.3 (bond market capitalisation as percentage of balance sheet volume of the banking system) is based on the OECD Banking Yearbook.

Data on longest maturities (item 4.1) are obtained from national sources.

Data on degree of institutionalisation (items 5.1 and 5.1.1) are taken from the OECD Institutional Investors Yearbook.

Data on bond market turnover (items 1.7 and 3.2). Data on Greece are obtained from the Athens Stock Exchange (ASE). For Spain and Portugal corresponding stock exchange data have not been used as most of the government bond turnover takes place outside the stock exchange.

Memorandum items (items 6.1 to 6.7) are all (with the exception of item 6.6.1) OECD data published in the OECD Economic Outlook (latest issue No. 65, June 1999). Data under item 6.6.1 (10-year government bond yield serving as a Maastricht convergence indicator) are obtained from the corresponding central banks.

2) Data on foreign bond issues (Tables A2.1, A2.2, A2.3) have been compiled from information on individual issues obtained from various sources: European Investment Bank, International Financial Research (IFR), Capital DATA Bondware, and national sources (Portugal: Banco Portuguès de Investimento). These data have also been used in Tables A1.1, A1.2, and A1.3. In the case of Greece the distinction between Marathon bonds (foreign GRD bonds issued on the domestic market) and Euro-GRD bonds is based on information on banks acting as lead-managers. Generally, GRD issues arranged from a London base are counted as Euro-GRD bonds.

ANNEX 3
Table A1.1

SPAIN

	BOND MARKET DEVELOPMENT INDICATORS	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
1	**ESP bn**												
1.1	Gross bond issues		2661	2905	2782	4888	4184	10177	5383	7057	7799	10493	10678
1.2	Net bond issues		1054	133	542	2519	1313	7604	2073	4296	3942	5578	3197
1.3	Gross government bond issues		1220	1771	1509	3183	2656	7844	3212	5069	5748	7735	8545
1.4	Net government bond issues		990	277	587	2038	1119	6298	1437	3764	3144	4064	2978
1.5	Gross foreign ESP issues	38	88	245	171	268	168	390	210	294	896	1023	321
	of which:												
1.5.1	Foreign ESP issues on domestic market	38	88	245	171	268	168	390	210	294	896	1023	321
1.5.2	Euro-ESP issues												
1.6	Bond market capitalisation (BkofSp data)		9087	9522	10382	13390	15787	25099	27362	31639	35947	43148	
1.7	Bond market turnover												
2	**As percentage of nominal GDP**												
2.1	Gross bond issues		6.6	6.4	5.5	8.9	7.1	16.7	8.3	10.1	10.6	13.5	12.9
2.2	Net bond issues		2.6	0.3	1.1	4.6	2.2	12.5	3.2	6.2	5.3	7.2	3.9
2.3	Bond market capitalisation		22.6	21.1	20.7	24.4	26.7	41.2	42.2	45.3	48.7	55.4	
3	**Other bond market ratios**												
3.1	As percentage of gross bond issues												
3.1.1	Gross government bond issues		45.8	61.0	54.2	65.1	63.5	77.1	59.7	71.8	73.7	73.7	80.0
3.1.2	Gross foreign ESP issues		3.3	8.4	6.1	5.5	4.0	3.8	3.9	4.2	11.5	9.7	3.0
3.2	Turnover ratio (bond market turnover as percentage of bond market capitalisation)												
3.3	Bond market capitalisation as percentage of balance sheet total of banking system		16.5	15.0	14.8	17.0	18.2	24.3	24.7	26.3	28.5	32.0	
	Gross bond issues as a multiple of net issues		2.5	21.8	5.1	1.9	3.2	1.3	2.6	1.6	2.0	1.9	
4	**Other bond market indicators**												
4.1	Longest maturity of fixed-rate government bonds issued (years)		3	10	10	10	10	15	15	15	15	15	30
5	**Degree of institutionalisation** (OECD data on financial assets of institutional investors as percentage of nominal GDP)												
5.1	Institutional investors, total				16.0	22.9	22.8	29.9	36.4	38.1	45.4	56.1	
	of which:												
5.1.1	Investment funds				3.2	8.5	10.0	15.6	18.3	18.4	24.8	33.7	
6	**Memorandum items:**												
6.1	Nominal GDP (ESP bn)	36144	40159	45044	50145	54927	59105	60953	64812	69780	73743	77897	82651
6.2	Real GDP annual growth rate (OECD data)	5.6	5.2	4.7	3.7	2.3	0.7	-1.2	2.3	2.7	2.4	3.5	3.6
6.3	Inflation rate (consumer prices) (OECD data)	5.2	4.9	6.8	6.7	5.9	5.9	4.6	4.7	4.7	3.6	2.0	1.8
6.4	OECD short-term interest rate	15.8	11.7	15.0	15.2	13.2	13.3	11.7	8.0	9.4	7.5	5.4	4.2
6.5	OECD long-term interest rate	12.8	11.7	13.8	14.6	12.8	11.7	10.2	10.0	11.3	8.7	6.4	4.8
6.5.1	10-year government bond yield (BkofSp)								10.00	11.27	8.74	6.40	4.83
6.6	ESP/EURO rate (OECD daily average)	142.3	137.7	130.4	129.3	128.4	132.5	148.9	159.0	163.0	160.8	166.0	166.0

Table A1.2

PORTUGAL

	BOND MARKET DEVELOPMENT INDICATORS	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
1	**PTE bn**												
1.1	Gross bond issues			762	1176	1799	1198	1549	1242	2527	2774	2966	2871
1.2	Net bond issues			539	763	707	750	882	394	1352	1237	1056	1592
1.3	Gross government bond issues			578	834	1500	815	1097	771	1500	1413	1482	1451
1.4	Net government bond issues			383	470	470	543	700	143	609	236	-64	708
1.5	Gross foreign PTE issues		5	22	43	100	42	104	127	453	503	537	384
	of which:												
1.5.1	Foreign PTE issues on domestic market		5	22	43	100	42	104	127	453	503	537	384
1.5.2	Euro- PTE issues												
1.6	Bond market capitalisation (LSE)	491	567	1044	1416	2702	3355	4421	4851	5953	6712	7112	8525
1.7	Bond market turnover												
2	**As percentage of nominal GDP**												
2.1	Gross bond issues			9.1	11.9	15.9	9.4	11.5	8.5	16.0	16.5	16.6	14.9
2.2	Net bond issues			6.4	7.7	6.2	5.9	6.6	2.7	8.5	7.4	5.9	8.3
2.3	Bond market capitalisation (LSE)	8.3	8.0	12.5	14.4	23.9	26.3	32.8	33.2	37.6	40.0	39.8	44.3
3	**Other bond market ratios**												
3.1	As percentage of gross bond issues												
3.1.1	Gross government bond issues			75.9	70.9	83.4	68.0	70.8	62.1	59.4	50.9	50.0	50.5
3.1.2	Gross foreign PTE issues			2.9	3.7	5.6	3.5	6.7	10.2	17.9	18.1	18.1	13.4
3.2	Turnover ratio (bond market turnover as percentage of bond market capitalisation)												
3.3	Bond market capitalisation as percentage of balance sheet total of banking system	6.7	6.5	10.1	12.0	18.1	17.5	17.9	17.3	19.2	18.9	17.2	
3.4	Gross bond issues as a multiple of net issues			1.4	1.5	2.5	1.6	1.8	3.2	1.9	2.2	2.8	1.8
4	**Other bond market indicators**												
4.1	Longest maturity of fixed-rate government bonds issued (years)		2	2	FRN	5	5	10	10	10	10	10	15
5	**Degree of institutionalisation** (OECD data on financial assets of institutional investors as percentage of nominal GDP)												
5.1	Institutional investors, total				9.0	14.9	17.3	25.7	31.9	31.9	34.4	42.0	
	of which:												
5.1.1	Investment funds				4.3	8.6	8.8	12.0	18.8	15.6	15.6	21.2	
	Memorandum items:												
6.1	Nominal GDP (PTE bn)	5928	7084	8372	9855	11315	12759	13463	14629	15818	16785	17859	19246
6.2	Real GDP annual growth rate (OECD data)	6.4	4.9	5.1	4.4	2.3	2.5	-1.1	2.2	2.9	3.2	3.7	3.9
6.3	Inflation rate (consumer prices) (OECD data)	9.4	9.7	12.6	13.4	10.2	9.4	6.7	5.4	4.2	3.1	2.3	2.8
6.4	OECD short-term interest rate	13.9	13.0	14.9	16.9	17.7	16.1	12.5	11.1	9.8	7.4	5.7	4.5
6.5	OECD long-term interest rate								10.4	11.5	8.6	6.4	4.9
6.5.1	10-year government bond yield (BkofP)							9.77	10.48	11.47	8.56	6.36	4.88
6.6	PTE/EURO rate (OECD daily average)	162.2	170.1	173.0	180.6	178.5	174.4	188.2	196.9	195.9	195.7	198.6	200.3

Table A1.3

GREECE

	BOND MARKET DEVELOPMENT INDICATORS	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
1	**GRD bn**												
1.1	Gross bond issues								2659	4810	4881	6358	4932
1.2	Net bond issues								996	2889	2075	4759	3433
1.3	Gross government bond issues								2614	4625	4764	6330	4912
1.4	Net government bond issues								951	2704	1958	4731	3413
1.5	Gross foreign GRD issues								65	185	117	307	1002
	of which:												
1.5.1	Foreign GRD issues on domestic market								45	185	117	28	20
1.5.2	Euro-GRD issues								20	0	0	280	982
1.6	Bond market capitalisation (ASE)		1786	2763	3895	5331	7123	9088	11841	17082	17524	13734	22801
1.7	Bond market turnover (ASE)		4.6	5.5	58.8	62.1	25.4	8.8	4.0	2.3	3.1	18.5	128.4
2	**As percentage of nominal GDP**												
2.1	Gross bond issues								11.1	17.9	16.4	19.4	13.8
2.2	Net bond issues								4.2	10.7	7.0	14.5	9.6
2.3	Bond market capitalisation		19.5	25.4	29.6	32.8	38	43	49.4	63.5	59	41.9	63.9
3	**Other bond market ratios**												
3.1	As percentage of gross bond issues												
3.1.1	Gross government bond issues								98.3	96.2	97.6	99.6	99.6
3.1.2	Gross foreign GRD issues								2.4	3.8	2.4	4.8	20.3
3.2	Turnover ratio (bond market turnover as percentage of bond market capitalisation)		0.26	0.20	1.51	1.16	0.36	0.10	0.03	0.01	0.02	0.13	0.56
3.3	Bond market capitalisation as percentage of balance sheet total of banking system			37.6	45.8	52.8	58.8	64.3	77.2	100.1	88.2		
3.4	Gross bond issues as a multiple of net issues								2.7	1.7	2.4	1.3	1.4
4.0	**Other bond market indicators**												
4.1	Longest maturity of fixed-rate government bonds issued (years)								FRN	FRN	FRN	10	15
5	**Degree of institutionalisation** (OECD data on financial assets of institutional investors as percentage of nominal GDP)												
5.1	Institutional investors, total				6.5	8.8	8.5	14.3	18.8	23.4	28.5		
	of which:												
5.1.1	Investment funds							4.4	6.2	9.5	13.1		
	Memorandum items:												
6.1	Nominal GDP (GRD bn)	7595	9169	10895	13143	16231	18766	21136	23984	26884	29698	32752	35677
6.2	Real GDP annual growth rate (OECD data)	-0.5	4.5	3.8	0.0	3.1	0.7	-1.6	2.0	2.1	2.4	3.2	3.5
6.3	Inflation rate (consumer prices) (OECD data)	16.4	13.5	13.7	20.4	19.5	15.9	14.4	10.9	8.9	8.2	5.5	4.8
6.4	OECD short-term interest rate	19.0	19.2	19.0	23.0	23.3	21.7	21.3	19.3	15.5	12.8	10.4	11.5
6.5	OECD long-term interest rate												
6.5.1	10-year government bond yield (BkofGr)											9.08	7.79
6.6	GRD/EURO rate (OECD daily average)	155.8	167.5	178.5	200.8	225.1	246.4	268.3	287.3	302.7	305.5	309.4	329.0

ANNEX 3

Table A2.1

SPAIN
Foreign ESP Issues on Domestic Market (Matador bonds)
(ESP bn)

Types of Issuers	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1987-98
I. Multilateral Development Banks													
European Investment Bank		33	75	80	105	60	145	125	135	299	256	60	1373
Other Multilateral Development Banks	18	35	60	36	58	20	40	0	13	95	236	15	626
of which:													
World Bank	10	25	30	26	30	0	30	0	0	35	31	15	232
International Finance Corporation (IFC)	8	10	20	10	8	10	10	0	13	38	150	0	277
Inter-American Development Bank (IADB)	0	0	0	0	20	10	0	0	0	10	0	0	40
Asian Development Bank (AsDB)	0	0	10	0	0	0	0	0	0	0	0	0	10
European Bank for Reconstruction and Develop	0	0	0	0	0	0	0	0	0	12	0	0	12
Multilateral Development Banks, total	**18**	**68**	**135**	**116**	**163**	**80**	**185**	**125**	**148**	**394**	**492**	**75**	**1998**
II. Other issuers, total	**20**	**20**	**110**	**55**	**105**	**88**	**205**	**85**	**146**	**503**	**532**	**246**	**2114**
Foreign ESP issues on domestic market, tota	**38**	**88**	**245**	**171**	**268**	**168**	**390**	**210**	**294**	**896**	**1024**	**321**	**4112**

Table A2.2

PORTUGAL
Foreign PTE Issues on Domestic Market (Caravela bonds)
(PTE bn)

Types of Issuers	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1988-98
I. Multilateral Development Banks												
European Investment Bank	5	15	23	45	15	45	60	150	70	69	15	512
Other Multilateral Development Banks	0	0	10	38	17	12	0	5	10	10	7	109
of which:												
World Bank	0	0	0	15	17	12	0	0	10	0	7	61
International Finance Corporation (IFC)	0	0	10	11	0	0	0	0	0	0	0	21
Inter-American Development Bank (IADB)	0	0	0	12	0	0	0	0	0	10	0	22
Asian Development Bank (AsDB)	0	0	0	0	0	0	0	0	0	0	0	0
European Bank for Reconstruction and Development	0	0	0	0	0	0	0	5	0	0	0	5
Multilateral Development Banks, total	**5**	**15**	**33**	**83**	**32**	**57**	**60**	**155**	**80**	**79**	**22**	**621**
II. Other issuers, total	**0**	**7**	**10**	**17**	**10**	**47**	**67**	**298**	**423**	**458**	**362**	**1699**
Foreign PTE issues on domestic market, total	**5**	**22**	**43**	**100**	**42**	**104**	**127**	**453**	**503**	**537**	**384**	**2320**

Table A2.3

GREECE
Foreign GRD Issues on Domestic Market (Marathon bonds)
and Euro-GRD Issues
(GRD bn)

Types of Issuers	1994	1995	1996	1997	1998	1999*	1994-99*
a) Foreign GRD issues on domestic market (Marathon bonds)							
I. Multilateral Development Banks							
European Investment Bank	10	45	30	0	0	30	115
Other Multilateral Development Banks	35	140	87	28	20	45	354
of which:							
World Bank	15	0	20	0	20	45	100
International Finance Corporation (IFC)	10	140	27	28	0	0	204
Inter-American Development Bank (IADB)	0	0	0	0	0	0	0
Asian Development Bank (AsDB)	0	0	0	0	0	0	0
European Bank for Reconstruction and Development (ERBD)	10	0	40	0	0		50
Multilateral Development Banks, total	**45**	**185**	**117**	**28**	**20**	**75**	**469**
II. Other issuers, total	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Foreign GRD issues on domestic market, total	**45**	**185**	**117**	**28**	**20**	**75**	**469**
b) Euro-GRD issues							
I. Multilateral Development Banks							
European Investment Bank	0	0	0	50	85	40	175
Other Multilateral Development Banks	0	0	0	30	253	130	413
of which:							
World Bank	0	0	0	30	138	60	228
International Finance Corporation (IFC)	0	0	0	0	55	35	90
Inter-American Development Bank (IADB)	0	0	0	0	30	20	50
Asian Development Bank (AsDB)	0	0	0	0	0	0	0
European Bank for Reconstruction and Development (ERBD)	0	0	0	0	30	15	45
Multilateral Development Banks, total	**0**	**0**	**0**	**80**	**338**	**170**	**588**
II. Other issuers, total	**20**	**0**	**0**	**200**	**644**	**348**	**1212**
Euro-GRD issues, total	**20**	**0**	**0**	**280**	**982**	**518**	**1799**
Foreign GRD issues, total	**65**	**185**	**117**	**307**	**1002**	**593**	**2269**

* January to April

Sources: European Investment Bank, International Financial Research (IFR), Capital DATA Bondware, and national sources

THE EUROPEAN INVESTMENT BANK

The European Investment Bank (EIB) is owned by the fifteen European Union (EU) Member States and has its headquarters in Luxembourg. It supports EU policies on a self-financing basis, raising its resources on the world's capital markets for onlending to sound capital investment projects that promote the balanced development of the European Union.

Set up in 1958 by the Treaty of Rome, the EIB has its own administrative structure and decision-making and control bodies (Board of Governors - usually the Finance Ministers of the Member Countries - Board of Directors, Management Committee and Audit Committee).

As a major international borrower, which has always been awarded the highest "AAA" credit rating by the world's leading rating agencies, the EIB raises large volumes of funds on fine terms. It onlends the proceeds of its borrowings on a non-profit basis.

The volume of the EIB's operations has grown steadily and the Bank is today one of the largest financing institutions of its kind in the world. While the bulk of its loans are within the European Union, the Bank has also been called upon to participate in the implementation of the Union's development aid and cooperation policies through financing for the benefit of some 120 non-EU countries. It therefore supports:

- economic growth in the African, Caribbean and Pacific States and the Overseas Countries and Territories, as well as in the Republic of South Africa;
- a stronger Euro - Mediterranean partnership;
- preparations for the accession of the Central and Eastern European Countries and Cyprus;
- industrial cooperation, including the transfer of technical know-how, with Asia and Latin America.

The EIB began carrying out ex-post evaluations in 1988, mainly for its operations in non-EU Member Countries. In 1995, the Bank established an Evaluation Unit to cover operations both inside and outside the Union. Ex-post evaluations take a thematic approach and are intended for publication. To-date the bank has published:

1. Performance of a Sample of Nine Sewage Treatment Plants in European Union Member Countries (1996 - available in English, French and German)
2. Evaluation of 10 Operations in the Telecommunications Sector in EU Member States (1998 - available in English, French and German)
3. Contribution of Large Rail and Road Infrastructure to Regional Development (1998 - available in English, French and German)
4. Evaluation of Industrial Projects Financed by the European Investment Bank under the Objective of Regional Development (1998 - available in English, French and German)
5. An Evaluation Study of 17 Water Projects located around the Mediterranean (1999 - available in English, French, German, Italian and Spanish).
6. The impact of EIB Borrowing Operations on the Integration of New Capital Markets. (1999 – available in English, French and German).
7. EIB Contribution to Regional Development A synthesis report on the regional development impact of EIB funding on 17 projects in Portugal and Italy (2001 – available in English, French, German, Italian and Portuguese).

These reports are available from:

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