

**EUROPEAN  
INVESTMENT BANK**



**ANNUAL REPORT 1964**

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For its accounts and balance sheet the European Investment Bank uses the unit of account as defined in Article 4 § 1 of its Statute. The value of this unit of account is 0.88867088 gramme of fine gold.

In this report, conversions into units of account are made at the following par values :

1 unit of account =	{	50 Belgian francs
		4.00 Deutsche Mark
		4.93706 French francs
		625 Italian lire
		50 Luxembourg francs
		3.62 Netherlands guilders
		1 United States dollar
		4.37282 Swiss francs
		30.00 Greek drachmae
		9.00 Turkish pounds.

# EUROPEAN INVESTMENT BANK



ANNUAL REPORT 1964

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(1) Mr. Hans Karl von MANGOLDT-REIBOLDT was Vice President until 28th May, 1964; he has been nominated Honorary Vice President.

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The activity of the European Investment Bank in 1964 can be viewed not only in the light of the general evolution of the six Member countries of the European Economic Community but also in connection with the economic problems of associated countries to which it has now extended its action. The object of the first part of this Annual Report is to retrace, in the first chapter, the evolution of the situation in the six Member countries and in Greece and Turkey, the first two associated countries in which the Bank has intervened. The second chapter deals with investment in the six Member countries. The third chapter is an analysis, on the basis of available statistics, of the financing of investments especially in relation to capital markets, the growth of savings and movements of capital within the Community and between the Community and other countries.

The second part of the Report deals with the activity of the Bank : loans and borrowings. In 1964, the Bank continued its action of granting loans, from its own resources, in the six countries of the Common Market and in Greece. The Bank also carried out, for the first time, special operations in Turkey, using the funds placed at its disposal by the Member Countries and prepared its first interventions in the recently associated African countries and Madagascar. The Report also includes details of the granting of loans and the issue of bonds during the financial year under review and statistics recapitulating the results of the Bank's activity up to the end of 1964. The third section is an analysis of the principal items of the balance sheet. The Report concludes with a special study of industrial development in Greece.



# ANNUAL REPORT 1964

## I

### THE ECONOMIC EVOLUTION IN THE COMMUNITY, IN GREECE AND TURKEY

One of the most important events concerning the evolution of the European Economic Community in 1964 was the establishing of a co-ordinated conjunctural policy destined to eliminate the inflationary disequilibriums which had arisen to various degrees in Member Countries. Apart from specific factors particular to certain countries, these disequilibriums were particularly due to large surpluses in the balance of payments, public spending, a large flow of credits granted to a vigourously expanding economy, in a situation characterised by over-employment of skilled workers and the intensive use of existing production capacity.

The appearance of pressures in Italy and in France had, already in 1963, obliged the governments of these countries to take stabilization measures.

The high degree of interdependence reached by the economies of the Member Countries of the Six gave rise to fears that the measures taken individually would only bring about the transfer of these inflationary tendencies to neighbouring countries. In order to avoid the danger of the spreading of serious inflationary pressures throughout the Community, the Member Countries decided, following the Community

Commission's suggestions, to take concerted action based on a common policy : counteract inflationary tendencies by taking measures aiming to stabilize costs and prices by influencing total demand, without, however, unnecessarily restraining the expansion of production and avoiding any restrictive trade practices.

With this object in view, the Council of Ministers of the Community, drew up in April 1964, a series of precise recommendations for the Member Countries, tending essentially to limit the increase in public spending and to maintain or reinforce a restrictive credit policy.

The measures taken individually by the Member Countries, in conformity with the decisions of the Council, brought about a progressive return to balanced conditions, both internal and external, during the year. The rise in prices (an average of 4 % in 1964 in comparison with 1963 for the whole of the Community) and unit costs still remain the subject of some apprehension. Therefore, the Council of Ministers which met on the 10th November, 1964, recommended that the policy of stabilization be continued. On the 30th March, 1965, however, because of the increasing differences in the conjunctural developments in Member Countries the Council recommended a moderate stimulation of internal demand in Italy based on investment, the encouragement of private industrial investment in France and some slackening of credit restrictions in Belgium and Luxembourg.

In Germany and the Netherlands, the pace of expansion has been very high while inflationary tendencies, although better held in check, were existent at the end of the year. In the Netherlands, the national product rose by 7.5 % against 3.8 % in the preceding year. The strong rise in prices noticed in the first quarter of the year, levelled off later but the keeping of this more satisfactory situation would appear difficult if wages were to continue to rise too rapidly in comparison with productivity. In Germany, the national product rose by 6.5 % against 3.2 % in 1963. Certain pressures, especially in the labour market and in prices, were not as serious as had been feared : the availability of goods proved to be fairly elastic in response to a more sober level of demand. The latter was influenced by a certain slowing down in the growth of public expenditure and a slackening in export demand from

several important trade partners of the country, as well as by the continued high level of saving.

In Belgium, where expansion had been slower during the first years of the Common Market, the national product rose by 5.5 % (the highest rate of increase since 1958) as against 3.9 % in 1963. The spreading of public investments and a stricter monetary policy moderated the pressure of demand and attenuated tensions in the labour market.

In France, where the application of the stabilization programme, initiated in the autumn of 1963, had as effect the slowing down of the rise in incomes and prices, the national product increased by 5.5 % as against 5 % in 1963. Industrial production, however, made less progress, especially in the industrial equipment sector. Measures have been taken recently in the domains of taxation and credit facilities in order to encourage a recovery in private investment.

In Italy, the extent of the disequilibriums made it absolutely necessary to enforce a strong policy against inflation which could not be checked without a certain period of slowing down in economy. This slowing down was more marked because business investment was affected by the progressive reduction in profit margins caused by the marked inflationary rise in costs. The increase in the gross national product was limited to 2.7 % in 1964 as against 4.8 % in the previous year, while investments showed a marked regression. Even if the rise in prices continued in 1964, although at a more moderate rate, it was almost exclusively due to the rise in costs linked with the after effects of inflationary disequilibriums and structural factors.

In general, for the whole of the Community, 1964 was a year of new expansion. Gross national product increased, in real terms, by about 5.5 % against 3.9 % in the previous year, reaching a figure of some 270 milliard units of account <sup>(1)</sup>. In comparison with 1958, the first

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(1) Unless otherwise stated, the figures given in this Report are expressed in units of account (see definition page 2).

year of the Common Market, the total increase amounts to 38 %, as against 28 % in the United States and 21 % in the United Kingdom.

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In Greece, expansionary tendencies have been maintained. The salient feature was the rise, in real value, of more than 10 % in industrial production. The contribution of industry to the national product was for the first time greater than that of agriculture although the latter had shown an increase of 8 %. Total gross national product rose by 8 %.

This expansion was sustained by a marked increase in investments : about 20 %. The increase was general except for the mines but it was more marked in the private than in the public sector. In spite of an above average increase, private investment in the manufacturing industry remained relatively low, not much more than 100 million units of account. On the other hand, total consumption rose by about 10 %.

The considerable rise in incomes in 1964 created a heavy pressure on demand, which in contrast with the previous years, also led to slightly rising prices. Fears have arisen as to the difficulty of maintaining a balanced monetary situation in view of the strong expansionist tendencies. In fact, in 1964 there was an obvious tendency to aggravate the current balance of payments situation. Imports of goods reached a figure of more than 800 million, 15 % more than in 1963. This increase in imports linked with the evolution of demand was not compensated by exports, where the figures remained practically unaltered at about 300 million, nor by invisible receipts the increase of which in the past had helped to maintain the deficit in the balance of payments at a reasonable level. The adverse balance, taking into account the movement of immigrant remittances was in the region of 150 million. This was covered for the most part by net capital imports, especially private, and a slight decrease in the monetary reserves.

The government undertook a certain number of structural reforms, including the setting up of a new public development bank, formed by the amalgamation of a number of existing organizations. The new

development plan which is in preparation envisages increased efforts for accelerating modernization in agriculture and increasing industrial development.

Without underestimating the importance of agricultural development, in which the Bank has already intervened, this Report contains a study on the industrial development of Greece.

\* \* \*

The Treaty of Association between the European Economic Community and Turkey came into force on the 1st December, 1964.

The economic policy of Turkey is based on the Five-Year Plan for 1963-1967, which is the first stage of a fifteen year development plan. The principal objectives of the Plan are : increase of the national product by 7 % per annum, industrialization, improvement of the employment situation for a population which is increasing by about 3 % per annum and improvement of education. The Plan also envisages to eliminate the balance of payments disequilibrium within the next ten years. A number of important reforms in the organization of State enterprises, in agriculture, in credit and in taxation are envisaged to help towards the realization of the Plan.

While in the first year of the Plan, the national product increased by 7.5 % — slightly above Plan targets —, the figure fell to 4 % in 1964. Agriculture contributed nothing to the increase in the national product; the excellent results obtained by export products such as cotton, tobacco and nuts were not sufficient to compensate the reduction in the cereal harvest which decreased in comparison with the record crop of 1963. Other elements of uncertainty in domestic and foreign politics continued to have an adverse influence on economic development.

The total volume of investments in 1963 reached the level envisaged by the Plan but their distribution showed certain divergencies from Plan targets. Housing for instance, in which a decrease had been expected, remained very active, whereas a number of industrial investments, which should have been undertaken by the public sector, had to be postponed.

It would seem that these tendencies continued and even amplified in 1964. According to provisional figures, the productive investments of public and private enterprises have not reached the target laid down by the Plan.

During the first two years of the Plan, after a rise in prices in the first half of 1963, monetary stability has been maintained.

The continual deterioration of the balance of payments situation, which had been evident in previous years, was followed by a considerable reduction in the deficit (102 million against 280 million in 1963). Exports of goods rose by 12 % and reached a total of 411 million, the highest figure since 1953. On the other side imports fell to 537 million, a drop of 22 %.

## INVESTMENT

According to a provisional estimate, investment in the Community reached a total of 63 milliard units of account in 1964, 11 % more than the figure for the previous year (1). In real terms, the increase is about 7 %.

Investments have increased more rapidly than the national product, their proportion to the latter reaching 23.3 % against 22.8 % in 1963. Within the Community, the proportion of investment in the national product was higher than that in other important industrial countries. In the United States and England, for example, the figure has been in the region of 16 % in recent years. It is true that within the Community itself certain divergencies exist between Germany, Italy, Luxembourg and the Netherlands where investments represented an average of between 23 and 25 % between 1961 and 1964, and Belgium and France where they represented about 20 %.

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(1) In this Report the term "investment" means "gross fixed capital formation".

As shown in the table below, investment by enterprises in the Community amounted to 37 milliards. Compared with the preceding year and in view of the policy followed in Italy, the increase for 1964 was only 7 % or about 3 % in real terms. Their share in total investment had already fallen between 1962 and 1963 and fell from nearly 62 % in 1963 to 59.4 % in 1964. On the other hand, expenditure for housing construction as well as investment by public administrations continued to increase at a higher rate than during the previous year (respectively 19 and 17 %) in spite of the checking measures introduced in several countries. The higher rate of increase in these two fields must nevertheless be attributed, in part, to the difference in the climatic conditions which had prevailed in the first few months of both years.

INVESTMENTS IN THE COMMUNITY  
1961 to 1964

	<i>Milliards of units of account at current prices</i>				<i>% of total</i>			
	1961	1962	1963	1964	1961	1962	1963	1964
Investment by enterprises	29.8	32.9	34.9	37.4	63.8	63.2	61.8	59.4
Housing	10.7	12.0	13.5	16.1	23.1	23.1	23.9	25.5
Public investment	6.1	7.1	8.1	9.5	13.1	13.7	14.3	15.0
Total	46.6	52.0	56.5	63.0	100.0	100.0	100.0	100.0

The aggregate evolution of investment showed marked differences from one country to another. In France, the rate of increase remained roughly the same as in 1963, while in Belgium, Germany and the Netherlands a marked increase was registered. By contrast the reduction in investments was very sharp in Italy.

In Germany, investment showed a very marked increase by 11 % as against 2.2 % in the previous year. The increased activity in building

INVESTMENT GROWTH IN THE COUNTRIES OF THE COMMUNITY  
(% on previous year)

	<i>At current prices</i>			<i>At constant prices</i>		
	1962	1963	1964	1962	1963	1964
Germany	11.8	5.2	13.8	5.2	2.2	11.0
France	11.6	12.7	12.2	7.5	6.9	8.5
Italy	14.6	11.8	— 1.3	8.8	5.7	— 9.2
Netherlands	5.9	8.3	21	3.1	3.9	16
Belgium	7.4	5.7	15	3.8	1.6	10
Luxembourg	12.7	n.a.	n.a.	n.a.	n.a.	n.a.
The Community	11.6	8.7	11.3	6.5	4.2	7.2

n.a. = details not available.

construction owing to a less severe winter, and the rise in the purchases of capital goods were the main reasons for this expansion.

The marked increase in demand from abroad started to favour, from 1963 onwards, investment in the exporting industries. In 1964, the expansion of internal demand led to a more intensive use of production capacity and stimulated investment in most branches : many signs point to the fact that enterprises have revised upwards their original investment programmes during the year.

In France, the trends remained very much the same; the growth of investment in 1964 was 8.5 % against 6.9 % in the preceding year.

The stabilization measures taken were not intended to influence directly the level of investments but rather to attain a better balance between output capacity and consumer demand. Public investments were adapted to available capacities, especially by appropriate phasing of adjudications, without, however, greatly influencing the general trend of expansion. Although the State reduced considerably the funds placed

at the disposal of the *Crédit Foncier*, housing construction remained strong due to the increased recourse to private financing.

The growth in investment by enterprises probably slowed down very slightly in 1964. If investments in the private industrial sector fell by 3 to 4 %, expenditure in other sectors, especially agriculture and commerce, increased by about the same rate as in 1963.

On the whole, enterprises do not seem to have encountered the financial difficulties which might have been expected following the restrictive budget and credit policies adopted. But a part of the credits received was used to finance increased stocks. If, in total, self-financing increased slightly in 1964, especially in basic industries and in certain nationalized industries, a large number of enterprises felt the effects of the gradual reduction in self-financing which has developed since 1959. Further, in some branches, investment was restrained by the fear of diminishing markets.

In Italy, the marked slowing down of development was reflected in the heavy fall in investment by enterprises which decreased in value by about 14 % in comparison with the preceding year, a reduction of nearly a fifth in real terms. The regression, particularly noticeable in investment in equipment also affected building construction in general owing to the marked fall in orders. Several factors contributed to create this situation : the persistent fall in profits due to the increase in labour costs which was not compensated by a rise in productivity, the stagnation and sometimes reduction in the volume of sales accompanied by a feeling of general uncertainty, and the restriction of credit in the first half of the year.

Investment in housing increased, but covered mainly the completion of buildings already begun, while a serious crisis developed in the opening up of new building construction sites. Public works seem to have made some progress. Overall investment fell off in value and by about 9 % in real terms.

Various measures designed to stimulate investment, either directly or indirectly, through an increase in the supply of available

funds, have been announced or prepared during the year. Certain social security charges borne by the enterprises will be financed directly by the State. Tax allowances favouring extension and modernization investments as well as the merger of enterprises came into force after the end of the financial year.

In the Netherlands, the very marked expansion of investment was maintained throughout the year and covered nearly all sectors. It was particularly evident in building, not only in residential (+ 25 %) but in industrial construction and public works as well. The demand for building construction having outstripped the capacity of industry, in spite of an increase in employment and a marked advance in productivity, measures were taken to restrain demand: suppression of certain fiscal incentives, limitation of certain public investments, a tightening up of the regulations.

An increase in demand, due largely to the rise in salaries, forced enterprises to develop their production capacities to the full. The rapid rise in turnover, in spite of the increase in wages and price controls, continued to assure their possibilities for self-financing. Their extra requirements were quite easily covered by loans in spite of some restriction in credit facilities.

The construction of large-scale industrial installations has continued, especially in the natural gas, iron and steel and chemical sectors, and modernisation investments have remained as important as before. In total, the investment of enterprises rose by about 14 % in real terms against 4.3 % in 1963.

The increase in investment by the public sector was also marked and reached 15 %, in spite of restrictive measures. The carrying out of long-term programmes, the Delta Plan, the extension of road networks and the construction of schools all made considerable progress.

In Belgium, certain difficulties also arose, at first in the construction sector. As these difficulties began to increase, the public authorities were forced to take restrictive measures. First, credit restrictions were introduced and new public investment was spread over a longer period;

then, towards the middle of the year, subsidies were reduced in favour of investment in less developed areas and stricter terms were applied to the granting of mortgages.

Investment by enterprises rose by 10 % in real terms, against 2.5 % in the preceding year. This increase was due to some important enlargements in production capacity in the petro-chemical and electrical industries, the construction of a large iron and steel complex and, furthermore, to large investments for modernisation. The volume of investment does not seem to have been seriously limited by financing problems; it rather seems that the impact of the restrictive measures has only affected new investment plans.

The investment activity of foreign firms is still an important factor, although foreign firms seem to have been somewhat more reluctant to invest since the appearance of full employment.

In total, investments increased by about 10 % against 1.6 % in 1963.

In the Grand Duchy of Luxembourg, total investment by enterprises seems to have decreased in comparison with the preceding year because of a decrease in the iron and steel sector. Some branches, however, seem to have been very active, especially the chemical industry, where some foreign enterprises are carrying through very important programmes.

## INVESTMENT FINANCING AND CAPITAL MARKETS

The gross fixed capital investment of the Community thus includes from 9 to 10 milliards of public investments (see also page 23) and some 53 milliards invested in the economy (more than 37 milliards for enterprises and 16 milliards for housing construction).

The investors' own resources, either of enterprises or private individuals, form by far the larger proportion of the capital used for the financing of investment in the economy. Amortization is of first importance and can be roughly estimated at 25 milliards, that is to say about 47 % of the total invested, representing appropriations from the current income of enterprises.

The financing of the rest, i.e. 28 milliards net investment, is chiefly assured from the retained profits of enterprises and by private capital directly invested in the construction of housing accommodation. Without the necessary statistical information, it is only possible to determine these amounts by difference, after the subtraction of financing from abroad, the issuing of securities and the utilisation of medium and long-term credit. The issue is still further confused by short-term credit used to cover investment, which varies considerably with countries and periods.

We can, however, establish approximate figures as follows :

Investment in the economy	53 milliards
less : amortization	— 25 milliards
Net investment	28 milliards
covered by : — Net issues of securities (economy)	7 - 8 milliards
— Increase in medium and long-term credits	10 - 11 milliards
— Self-financing by enterprises and private individuals and variation in the utilization of short-term credit	about 10 milliards

This chapter is devoted to the various aspects of the capital markets in relation to the financing of investment, and comprises the following six sections :

- Issues of securities;
- Medium and long-term credit to economy;
- The total calls of economy on external resources;
- Financial requirements of the public sector;
- Formation of saving;
- Movements of long-term private capital within the Community and outside the Community.

### 1. *Issues of securities.*

The total public issues of securities in the Community showed an increase of 13 % in 1964. This figure was slightly higher than that of the previous year (10 %).

#### NET ISSUES OF SECURITIES IN THE COMMUNITY

1961-1964

<i>Category</i>	1961	1962	1963	1964
	<i>(milliards of units of account)</i>			
Shares	2.34	2.67	2.04	2.71
Public loans (State and local authorities)	1.47	1.51	2.43	2.43
Borrowing by the economy (enterprises and credit institutions)	3.18	3.89	4.38	4.92
Total for the Community	6.99	8.07	8.85	10.06

From one year to another the distribution between shares and bonds has varied. The issue of shares showed a marked decline in 1963, but increased in 1964 by more than 30 %, to attain the level reached in 1962. Loans in the public sector showed little change while loans of enterprises and credit institutions increased slightly.

SHARE ISSUES IN THE COMMUNITY  
1961-1964

<i>Country</i>	1961	1962	1963	1964
	<i>(billiards of units of account)</i>			
Germany	0.82	0.55	0.33	0.56
France	0.66	0.81	0.84	0.95
Italy	0.67	0.97	0.64	0.88
Netherlands	0.04	0.13	0.02	0.06
Belgium	0.12	0.16	0.12	0.17
Luxembourg	0.03	0.05	0.09	0.09
Total for the Community	2.34	2.67	2.04	2.71

In Belgium, Germany and the Netherlands, the issuing of new shares was favoured by the general expansion climate in investments and the favourable trend of stock exchange quotations.

In France, private industrial investment made no progress in 1964, but the issue of shares continued to increase in spite of a persistent fall in quotations.

In Italy, after the regression of 1963, an improvement became evident, in spite of a heavy fall in investments by enterprises and a further fall in prices in the financial markets; some important increases in capital were registered by companies with a strong foreign participation.

NET SECURITY ISSUES IN THE COMMUNITY  
1961-1964

<i>Country</i>	1961	1962	1963	1964
	<i>(milliards of units of account)</i>			
Germany	1.96	2.36	3.00	3.33
Public sector	0.96	1.05	1.54	1.54
Economy	1.00	1.31	1.46	1.79
France	0.73	0.69	1.45	1.25
Public sector	— 0.11	— 0.14	0.49	0.17
Economy	0.84	0.83	0.96	1.08
Italy	1.39	1.61	1.70	2.18
Public sector	0.23	0.10	— 0.11	0.24
Economy	1.16	1.51	1.81	1.94
Netherlands	0.13	0.11	0.27	0.17
Public sector	0.12	0.03	0.28	0.13
Economy	0.01	0.08	— 0.01	0.04
Belgium	0.44	0.61	0.39	0.42
Public sector	0.27	0.46	0.23	0.35
Economy	0.17	0.15	0.16	0.07
Luxembourg	—	0.02	—	—
Public sector	—	0.01	—	—
Economy	—	0.01	—	—
Total for the Community	4.65	5.40	6.81	7.35
Public sector	1.47	1.51	2.43	2.43
Economy	3.18	3.89	4.38	4.92

In Germany, the issue of loans in 1964 showed a marked increase in comparison with 1963. The total amount of issues of the public sector remained stable. The credit institutions, especially those specialized in the financing of building construction, were able to profit from the widening of the market: the placing of mortgage bonds absorbed 33 % of the available funds as against 30 % in the previous year. Calls made by industry on the market continued to be on a small scale; operations included, among others, the issue of some loans convertible into shares.

The widening of the market was related to a new rise in the rates offered to subscribers which, from 6 % at the beginning of the year, rose progressively to 6.3 %: this rate is high in view of the relative stability of purchasing power and the strong external position of the DM. In March 1964, however, the German government drafted a bill

proposing a tax of 25 % deducted at source on the revenues from German bonds owned by foreigners — project which has since become law and comes into force on the 1st of July, 1965. This had the effect of discouraging foreigners from taking advantage of the high rates of interest offered by German bonds and, while purchases from abroad had reached 500 million in the preceding year, sales exceeded purchases by 16 million in 1964. Taking into account this reversal of the situation, the amounts invested by residents in German bonds actually increased by 35 % from one year to another. Side by side with the market for German bonds, a new market has come into being (see table on page 44) for dealings in foreign loans expressed in German marks; the revenue from these loans not being subject to the new tax of 25 %, subscribers accept a lower yield, which is generally less than 6 %.

In France, the State made calls on the market but for an amount which was less than half that demanded in 1963. The additional resources thus made available in a market the capacity of which remained fairly constant, permitted the specialized credit institutions and, to a lesser extent, the national enterprises to profit by the situation. On the contrary, the issue of bonds by private industry fell off.

Because of the control exercised over the volume of securities issued, the net yield on issues of bonds was maintained at 5.7 % for the fourth year in succession. Private holders of some bonds also benefit from a tax allowance which is shouldered by non privileged borrowers — Crédit National and enterprises among others — which represents an increase in yield of approximately 0.5 %. Yields, calculated on the basis of the stock exchange quotations, are more varied, ranging from 5.4 % for classic public sector bonds (unchanged in comparison with 1963) to 6.3 % instead of 6.4 % for private issues.

At the end of the year, measures were taken to standardize the application of tax for all loans issued as from January, 1965 : the revenue from these bonds is, in principle, subject to a deduction of 10 %, which constitutes a tax allowance and which the borrower cannot assume for his own account.

In Italy, the issue of bonds is an important source of capital for the financing of investment and the market continues to develop. Again this year, the banking system was largely responsible for the subscrip-

tion of new issues. A large proportion of the available funds was collected by specialized credit institutions. Issues placed directly by private concerns were not numerous due to the tax regulations.

The net rates offered to subscribers increased during the year from some 6.5 % in the early months to nearly 7 % in December. At the end of the year quotations on the market showed an average yield of 6.3 % for public sector loans and 6.9 % for those of the private sector : as against 6 and 6.4 % respectively in December, 1963, after having reached a maximum of 7.2 and 7.6 % in June, 1964.

In the Netherlands, loans issued by the State and local authorities, chiefly by the intermediary of the N.V. Bank voor Nederlandsche Gemeenten, although less than in 1963, still represented more than five sixths of the market capacity. Issues by private companies, in the form of convertible bonds in particular, nevertheless increased, in comparison with 1963.

After a rise which continued until September, when yields offered to subscribers of bonds in the public sector had reached 5.8 %, a certain decline took place. The figure of 5.4 % registered in December was, however, higher than that obtained at the end of the previous year.

In Belgium, loans issued by the public sector once again absorbed, this year, practically all the possibilities of an expanding market thanks to the high interest rates offered : 6.5 % for loans for ten years. The Treasury was able to cover its needs from fairly long-term resources and thereby reduce its floating debt. Industrial companies placed only two issues of convertible bonds. Finally, credit institutions made no public issues, excepting those which are offered on tap.

In Luxembourg, where no issues had been made in the previous year, the public sector floated two new loans. The yield of about 5.25 % was higher than the previous level by nearly 1 %.

Therefore, although the issues of loans did not increase in the Community, a fairly marked rise in interest rates was registered everywhere. Yields are similar in Belgium, France, and Germany; and Italy may well join this group if the improvement which has become evident in the last few months maintains itself. On the other hand, although the yield of securities in the Netherlands was high in view of the traditional

policy of cheap money in that country, it still remains much lower than the yield in the other countries of the Community.

## 2. *Medium and long-term credits to economy.*

The following table shows the increase, in the last four years, of medium and long-term credits granted to enterprises and to individuals within the Community by banks and specialized institutions as well as loans granted direct by lending organizations such as: Insurance companies, Pension and Benevolent funds etc. (calculated on available statistics), and by public authorities in France, Germany, Italy and the Netherlands.

It has not been possible to take into consideration loans made from private sources, nor advances made to firms by shareholders, elements which in some countries have considerable importance.

In order to avoid duplication, the resources which borrowing enterprises have collected by issuing securities outlined in the preceding paragraph, have been deducted from the figures.

THE ANNUAL INCREASE OF MEDIUM AND LONG-TERM CREDITS  
TO ECONOMY

Country	1961	1962	1963	1964 (p.)
	<i>(milliards of units of account)</i>			
Germany	4.15	5.18	4.67	4.84
France	2.16	2.45	2.65	3.10
Italy	0.83	1.27	1.45	1.16
Netherlands	0.71	0.92	0.88	1.11
Belgium	0.17 (1)	0.28 (1)	0.33 (1)	0.46 (1)
Total for the Community	8.02	10.10	9.98	10.67

(1) Including investment credits and fixed-term advances granted by Belgian banks, calculated on the basis of 50 % of the item "Advances" in their balance sheets.

The credits so placed at the disposal of economy in 1964 can be estimated as being slightly superior to those of the previous two years, about 11 milliards, taking into consideration the elements which it has not been possible to evaluate.

After an increase of 25 % in 1962, these credits levelled off in 1963 and rose more moderately in 1964 because of the measures taken in the various Member Countries to contain inflationary tendencies.

### 3. Total calls of economy on external long-term sources.

If it can be considered that long-term sources are devoted primarily to the financing of investment, it is possible to make a comparison by country of the different external financing resources to which the economy sector may have recourse.

The following table, based on the average of the years 1961 to 1963 (in order to avoid, as far as possible, the variations due to excep-

NEW DEMANDS BY ENTERPRISES AND BY INDIVIDUALS  
ON EXTERNAL LONG-TERM CREDIT SOURCES  
(Yearly Average for 1961 to 1963)

Country	Sources				Investment by enterprises and housing construction	Long-term resources in percentage of investment
	Shares	Bonds	Medium and long-term credits	Total		
<i>(In milliards of units of account)</i>						
Germany	0.57	1.26	4.67	6.50	18.65	35
France	0.77	0.88	2.42	4.07	12.62	32
Italy	0.76	1.49	1.19	3.44	8.34	41
Netherlands	0.06	0.03	0.84	0.93	2.63	35
Belgium/Luxembourg	0.19	0.16	0.26	0.61	2.37	26
Total for the Community	2.35	3.82	9.38	15.55	44.61	35
<i>(In % of the total)</i>						
Germany	9	19	72	100		
France	19	22	59	100		
Italy	22	43	35	100		
Netherlands	7	3	90	100		
Belgium/Luxembourg	31	26	43	100		
Total for the Community	15	25	60	100		

tional circumstances) shows clearly the place occupied by the different sources in each of the Member countries.

Thus, during the period under consideration, an average of about 16 milliards of new external resources was procured every year.

In effect, the annual figures rose from 13.5 milliards in 1961 to nearly 17 milliards in 1962 and this level was maintained in 1963. The rhythm of the increase was different according to the country. In Belgium and France, the rate of increase remained constant, while in Italy the increase levelled off in comparison with 1962 and in Germany as well as in the Netherlands some regression was registered in 1963.

The relative importance of each category of resource differs from country to country but is not greatly affected by cyclical conditions. The issues of shares and bonds plays a very important rôle in Italy, whereas in Belgium and France, these issues are of much less importance. In these countries, the rôle undertaken by public and semi-public credit institutions is of primary importance. The importance of the issues of shares and bonds is even less marked in Germany and is practically negligible in the Netherlands. The situation in these last two countries seems to be due among other reasons to tax regulations, the non-specialization of the bankers and to the extensive intervention, as lenders of medium and long-term money, of insurance companies which are particularly powerful owing to the attraction of the various forms of capitalization for the investors.

On the other hand, the total recourse to external resources does not vary much from one country to another. Care should be taken, however, not to draw hasty conclusions as far as the financing of investment in enterprises is concerned. Indeed, in the mass of these resources, the part devoted to housing construction, especially in the form of loans to private individuals, varies greatly and is much higher in Germany and the Netherlands than in the other countries.

Furthermore, in France and Italy, where the credit institutions are specialized, it is more than possible that a much larger fraction of short-term indebtedness than in Germany and the Netherlands is devoted

to financing of investment. Until recently, the Belgian banks had rarely intervened formally in the granting of medium and long-term credits, the need had not been felt while the investments of enterprises remained at relatively low levels and were mostly covered by self-financing. The development of investment during the last few years has brought about, in a first phase, an increased demand for short-term credits and it would seem that this demand must be followed, in a second phase, by calls on longer term resources. On this subject it should be noted that the volume of shortterm credit granted to economy has increased at a different rhythm in each Member Country. The differences noted in the rises in the gross national products do not furnish a sufficient explanation of this phenomenon.

INCREASE IN SHORT-TERM CREDITS TO ECONOMY AND NET NATIONAL PRODUCTS  
FROM THE END OF 1960 TO THE END OF 1963

<i>Country</i>	<i>Increase in short-term credits (milliard units of account)</i>	<i>Percentage increase</i>		<i>Total credits outstanding in percentage of GNP (end of 1963)</i>
		<i>Credits</i>	<i>GNP</i>	
Germany	3.3	32	27	14
France	5.7	56	32	19
Italy	8.1	75	41	42
Netherlands	0.3	28	22	9
Belgium	0.6	72	21	10

In view of these figures, the conclusions to be drawn from the preceding table must take account of the fact that enterprises in Germany and the Netherlands, and probably in Belgium as well, are less indebted; and that due to a more limited self-financing programme, French and above all Italian enterprises make greater demands on external sources for the financing of investment than do those of the other countries.

The analyses of balance sheets, which certain private organisations have undertaken on a large scale, confirm this opinion.

#### 4. *Financial requirements of the public sector (State and local authorities).*

The Central Treasury does not maintain the same rôle everywhere. In Belgium, the Treasury contents itself with covering its own needs, while in the other Member countries it grants facilities for housing construction. In Germany and Italy, and more especially in France, the Treasury intervenes directly in the financing of productive investments, either in the form of participation in certain enterprises or in the form of granting of long-term credits. It has, in this way, some means of exercising a selective economic policy. In France, nevertheless, where Treasury loans to enterprises were important, the authorities expressed their intention to let the resources of specialized institutions take the place of State resources. This is the first step towards reconciling the various conceptions of the rôle of public authorities in the different Member Countries.

The following table shows the annual average of the calls made by the public sector on the capital markets from 1961 to 1963.

CALLS MADE BY THE PUBLIC SECTOR ON THE CAPITAL MARKETS  
(Yearly average 1961-1963)  
(milliards of units of account)

Country	Gross increase of indebtedness	Funds placed at the disposal of economy (1)	Net demand	Public Investments	Percentage of investments financed by calls on the market
Germany	1.41	2.76	— 1.35	3.50	—
France	1.83	1.09	0.74	1.79	41
Italy (2)	1.32	0.62	0.70	0.99	71
Netherlands	0.38	0.20	0.18	0.60	30
Belgium	0.41	0.03	0.38	0.30	127

(1) In the form of loans, deposits with credit institutions, or issues the products of which are returned to economy.

(2) Yearly average 1962-1963.

The comparison between public investment and the calls made on the market has only a relative value as the figures do not cover the same situations in the different countries. For example, the accounts of public utilities, post offices, railways etc. are sometimes included in the Treasury accounts. Certain public works, such as the construction of motorways are sometimes included and sometimes not. Further, economy benefits from a number of subsidies provided by the public authorities which are more or less important and of which no account is taken.

Apart from these reservations, the figures show that the situation of the public sector is particularly favourable in Germany and the Netherlands where the total financing of investment or a very large proportion is covered from normal resources. On the other hand, the public authorities in Belgium and Italy borrow substantially in order to cover their investments.

Evidently, in any given situation, the importance of the calls of the public sector on the market determines the amount remaining available for the needs of economy. However, comparison of these figures country by country has no real value unless another important element is taken into account: this is the part of the national product which the State appropriates to cover public consumption and transfers abroad and which does not bring any profit to economy directly.

Reduced to product by inhabitant, it appears that this appropriation is highest in Germany and Italy (16 %), average in France and the Netherlands (15 %) and much lower in Belgium (12 %). It is obviously in Italy, where the product per inhabitant is the lowest in the Community, that this appropriation, although not very high in absolute value, is hardest felt. It is in this country, therefore, that the collecting of the necessary capital for the development of economy presents the most difficulties.

##### 5. *Formation of saving.*

The sources which users of capital, especially public authorities and enterprises, can call upon to cover their requirements are of necessity

different from country to country, in view of the different habits of investors and the possibilities offered to them. They also vary according to income and its distribution. It is of interest to examine the formation of saving in the perspective of the progressive integration of the capital markets in the Member Countries. These differences risk, in effect, to modify considerably the importance of measures taken towards the liberation of capital movement.

The following table gives details of the formation of saving in the Member Countries covering the period 1961-1963.

FORMATION OF SAVING IN THE COMMUNITY  
(Yearly average 1961-1963)

Country	Savings accounts, etc.	Savings in Insurance companies and Provident funds	Public subscriptions at short-term	Public subscriptions of securities	Direct loans by private investors	Total
<i>(milliards of units of account)</i>						
Germany	3.28	1.05	— 0.09	1.54	n.k.	5.78
France	1.36	0.57	0.84	1.39	n.k.	4.16
Italy	1.95	0.32	0.25	1.35	n.k.	3.87
Netherlands	0.48	0.22		0.05	0.07	0.82
Belgium	0.43	0.21		0.28	0.05	0.97
Luxembourg	0.02	n.k.		n.k.	n.k.	0.02
Total for the Community	7.52	2.37		5.61	0.12	15.62
<i>(in % of the total)</i>						
Germany	57	18	— 2	27	n.k.	100
France	33	14	20	33	n.k.	100
Italy	50	8	7	35	n.k.	100
Netherlands	59	27		6	8	100
Belgium	44	22		29	5	100
Luxembourg	100	n.k.		n.k.	n.k.	100
Total for the Community	48	15		36	1	100

Two points are worthy of particular attention :

- the relatively low figure for private investment in insurance and provident funds in France and Italy. The adoption by the provident organizations of systems of insurance by distribution rather than by capitalization, the lasting memory of devaluations of the currency in the two countries and the relatively low standard of living in Italy are reasonable explanations of this point;
- the high figure for the placing of issues of securities directly with the public in France, is the survival of a long tradition and can be further explained by the relative inactivity of financial intermediaries on the markets, by the holding of large sums of money, the limitation of the amounts deposited in savings and the relatively limited use made of deposits at fairly long terms.

6. *Capital movements within the Community and between the Community and countries outside.*

The countries of the Common Market industrialized for a long time and having a high standard of living, are all exporters of public capital, particularly in the form of aid to developing countries. In many cases these operations are incorporated in the budgets and increase the charges they have to bear.

The movement of long-term private capital sometimes facilitates and sometimes complicates (according to the direction it takes) the covering of financial needs in the public and economic sectors. The movements of capital in the Community are shown in the following table according to their destination or origin and are based on the average for the years 1961 to 1963.

Thus, during the period under review the Member Countries, with the exception of the Netherlands, were importers of large amounts of foreign capital. Exports of capital were also substantial, however, in the form of direct investments or in investments in foreign securities, especially as far as the Netherlands, Germany, Italy and Belgium were concerned.

MOVEMENT OF LONG-TERM PRIVATE CAPITAL  
CONCERNING THE MEMBER COUNTRIES

(Yearly average 1961-1963)

	<i>Millions of units of account</i>				
	<i>Germany</i>	<i>France</i>	<i>Italy</i>	<i>Netherlands</i>	<i>B.L.E.U.</i>
<i>I. Net foreign investments</i>					
<i>Origin :</i>					
E.E.C.	202	112	45	55	15 %
U.S.A.	177	117	30	109	71 %
Other O.E.C.D. countries	296	190	60	87	4 %
Others	44	31	20	42	10 %
<b>Total</b>	<b>719</b>	<b>450</b>	<b>155</b>	<b>293</b>	<b>100 %</b>
<i>II. Net investments abroad by residents</i>					
<i>Destination :</i>					
E.E.C.	54	40	30	163	98
U.S.A.	22	— 8	8	— 5	21
Other O.E.C.D. countries	95	14	54	96	9
Others	129	— 23	74	83	—
<b>Total</b>	<b>300</b>	<b>23</b>	<b>166</b>	<b>337</b>	<b>128</b>

*NOTE :* In *Italy* corrections have been made taking into account foreign investments which have as counterpart the export of bank notes by residents.

In *Belgium*, the figures take into account only the new foreign investments estimated for the years 1961-1962 and the net average purchase of foreign securities by the residents in the period 1961-1963.

The total reached by investments by any one country of the Community in another Member country appear to have been small in view of progress made in integration. The figure of 163 million of the Netherlands was by far the largest. The importance of these investments in comparison with investments outside the Community is only preponderant in France, where the amount is in fact relatively small, and in Belgium, insofar as the figures for investment in foreign securities are concerned as these are the only figures available. German private invest-

ments were distributed throughout the world while Italian investments in Latin America were substantial.

Investments having other countries of the Community as origin only represent a quarter of the total foreign investments in Germany and France and Italy. The figures do not exceed 20 % for Belgium and the Netherlands. Investments from within the Community were on about the same level as American investments in Germany and France, they were very much lower in the Netherlands and particularly in Belgium. Switzerland seems to have made the most important contribution to development in Italy.

For some years the export of private capital in the form of *public issues of foreign loans in the Community* has developed in the Member Countries; still strictly controlled in several of the countries, they continue to be subject to fluctuations in the possibilities of the markets. The level of these issues should be stabilized in order that the Community may be considered as a real international capital market.

Until 1962, the placing of foreign loans was most frequently effected on one single market, of which the currency was used to express the indebtedness of the borrower.

Since then, however, this type of operation has been supplemented by an increasing number and volume of foreign loans expressed in dollars, in units of account and in one case in Swiss francs. These operations are generally centralized in London and Luxembourg.

The distinction between the possibilities offered to borrowers would seem, however, to be more formal than real and it appears that offers and demands for capital vary according to the conditions offered : such as interest rates, as well as monetary clauses and preferential taxation treatment.

The following table recapitulates, in nominal amounts (gross figures), the issues placed during the last four years. It shows for each market the proportion of issues to borrowers of the other countries of the Community and to the European financial institutions such as the E.I.B. and the E.C.S.C.

ISSUE OF LOANS BY INTERNATIONAL INSTITUTIONS  
AND FOREIGN LOANS IN THE COMMUNITY

<i>Country</i>	1961	1962	1963	1964
	<i>(in millions of units of account)</i>			
Germany	3	25	40	224
from the Community	—	—	15	45
France	—	—	12	30
from the Community	—	—	12	30
Italy	24	48	24	—
from the Community	—	24	24	—
Netherlands	148	50	1	15
from the Community	88	25	—	15
Belgium (1)	—	—	—	—
Total	175	123	77	269
from the Community	88	49	51	90
Luxembourg/London	4	5	130	403
from the Community	—	—	51	65

(1) No public issue of foreign bonds but investment by institutional investors in several loans floated by European institutions.

*Foreign loans obtained by Community borrowers in 1964 amounted to: 50 million units of account in Switzerland (against 95 in 1963), 25 million in the United States (E.I.B. loan see page 56) and 14 million in England (City of Turin), making a total of 89 million as against 115 million in 1963. No doubt a large proportion of these loans was, as in the previous year, subscribed with capital originating in the Community.*

In view of the fairly wide liberation of the movement of capital and securities, it is impossible to determine statistically the importance of the actual support given by the markets of the Community to other countries and by markets of other countries to the markets of the Community. It can be affirmed, however, that in 1964, the balance of movement of capital of the Community, as far as public issues were concerned, was in favour of outside countries, by several hundred million dollars.

In spite of this opening up of the markets to foreign borrowing, the total monetary reserves of the Community again increased by 1.5 milliard dollars in 1964, while the surplus of the balance of ordinary transactions only amounted to several hundred million dollars. The Community has therefore remained, once again this year, a large importer of capital.

The interpenetration of capital within the Common Market seems to have been relatively limited and incapable of compensating or reducing balance of payment difficulties, most of which have their origin in inter-Community exchanges of goods. Certain tendencies for a rapprochement in the conditions on the capital markets of the Community have become evident and should develop further during ensuing years. In effect, important decisions were taken by the Council of Ministers of the E.E.C. in 1964, with a view to co-ordinating the economic and financial policies of the Member Countries. Important steps were made towards a common agricultural policy. According to the Monetary Committee, parity modifications between currencies of the Member Countries have been made more difficult and improbable because of the adoption of common agricultural prices expressed in units of account. Further progress in the liberation of movement of capital seems possible and indeed is very desirable for the continuation of harmonious economic development.



## II

### ACTIVITIES OF THE BANK

#### LOANS

Apart from normal operations carried out in 1964, as in the past, with the aid of its own resources, the Bank also undertook its first operations within the framework of the "Special section", details of which will be given later.

#### ORDINARY LOANS

Under this heading the Bank approved 16 ordinary loans for a total of 101.4 million units of account <sup>(1)</sup>. Twelve of these loans, totaling 74.5 million units of account were for projects in Italy, one for 13.1 million for a project in France and three for a total of 13.8 million for projects in Greece.

The projects are :

*Italy :*

*Loans by the Bank  
(million u.a.)*

- |   |     |
|---|-----|
| 1. Exploitation of fluorine and baryte mineral deposits at Fluminimaggiore (Sardinia). Promoter : <i>Sarramin - Sarrabus Mineraria S.p.A.</i>                           | 0.4 |
| 2. Construction at Manfredonia (Puglia) of a factory for the production of monosodic glutamate for the food-stuffs industry. Promoter : <i>Ajinomoto - Insud S.p.A.</i> | 2.8 |

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(1) Unless otherwise stated, the figures given in this Report are expressed in units of account (see definition page 2).

	<i>Loans by the Bank</i> <i>(million u.a.)</i>
3. Construction at Benevento (Campania) of a crêpe-papermill. Promoter : <i>Industrie Soavex S.p.A.</i>	1.8
4. Enlargement of a viscose factory at Naples (Campania). Promoter : <i>C.I.S.A. Viscosa - Compagnia Industriale Società per Azioni per le Produzioni Viscosa S.p.A.</i>	0.8
5. Enlargement of a ceramic works at Salerno (Campania). Promoter : <i>S.p.A. Ceramica Matteo d'Agostino &amp; Co.</i>	0.6
6. Enlargement of a factory at Chieti-Scalo (Abruzzi) for the manufacture of shirts for men. Promoter : <i>Marvin Gelber S.p.A.</i>	0.4
7. Extension and modernization of a cement works at Naples-Bagnoli (Campania). Promoter : <i>Cementir - Cementerie del Tirreno S.p.A.</i>	1.0
8. Construction of a section of the Brenner motorway between the Brenner pass and Bolzano. Promoter : <i>Autostrada del Brennero S.p.A.</i>	24.0
9. Increase in production of synthetic fibres in the chemical works at Castellaccio di Paliano (Latium). Promoter : <i>Bombrini Parodi - Delfino S.p.A.</i>	1.4
10. Enlargement and modernization of an iron and steel-works at Naples-Bagnoli (Campania). Promoter : <i>Italsider S.p.A.</i>	24.0
11. Extension and modernization of telephone installations in Sardinia. Promoter : <i>S.I.P. - Società Italiana per l'Esercizio Telefonico per Azioni.</i>	16.0
12. Loan granted to the <i>Cassa per il Mezzogiorno</i> , which was renounced after the end of the financial year.	1.4

France :

Loans by the Bank  
(million u.a.)

13. Irrigation and water supplies in Provence. Promoter : *Société du Canal de Provence et d'Aménagement de la Région Provençale.* 13.1

Greece :

14. Irrigation of the Salonika plain. Promoter : *Ministry of Agriculture and Ministry of Public Works.* 10.3
15. Enlargement of a cement works at Eleusis, near Athens. Promoter : *Société anonyme des Ciments Titan.* 1.5
16. Construction of a nitro-phosphates compound fertilizer factory near Salonica. Promoter : *Société Industries Chimiques du Nord de la Grèce.* 2.0

\* \* \*

The loans in France and in Greece and to the Autostrada del Brennero company were granted directly to the beneficiaries.

The other loans concerning projects coming within the sphere of action of the Cassa per il Mezzogiorno were, as in the past, granted to this organization, which re-lends the respective amounts either directly (to Italsider and S.I.P.), or through the competent regional institutions. The two institutions concerned with the granting of credit to industries which intervened are : Istituto per lo Sviluppo Economica dell'Italia Meridionale (ISVEIMER) in the Mainland Mezzogiorno and the Credito Industriale Sardo (C.I.S.) in Sardinia.

Loans approved for projects in Italy represent about three quarters of the total number and amounts. To the structural and legal justification of an intervention in that country on such a large scale were added, in 1964, the reasons linked with the unfavourable development of the situation in Italy and the recession in productive investments which have already been mentioned earlier in the Report. Three of the

loans in Italy, representing a total of 64 million, were for very important projects: the Brenner motorway, the Naples-Bagnoli iron and steel works and for the telephone network in Sardinia. These projects are being carried out by public authorities and holdings with State participation. Such investments come within the scope of Italian policy bolstering the development of economy.

The activity of the Bank does not only help the enterprises which benefit directly from the loans and the regions in which they are situated since the carrying out of an investment project gives rise to orders, which are often of considerable importance, for the importation of equipment from other countries. In fact, a substantial part of the orders for industrial material financed by the Bank have been placed with enterprises situated in other countries of the Common Market.

As far as Greece is concerned, the first project to be approved by the Bank, in the second year of its intervention in that country, is the putting into operation of an important regional agricultural plan: the irrigation of the Salonika plain. This project has very high priority in the Greek plan for development. The other two projects are for operations in favour of two basic industries: cement and fertilizers. Mention has already been made of the interest the Bank takes in the problems of Greek industrial development.

The Convention of Association between the Community and the Associated African Countries and Madagascar (E.A.M.A.) extended to the Overseas Countries and Territories (P.T.O.M.) and the French Overseas Departments (D.O.M.), came into force on the 1st June, 1964. The Bank has already sent a first mission to visit several of the African countries and a number of projects were under consideration by the end of the financial year.

The following table recapitulates the aid the Community expects to allocate to these countries in the period of five years covered by the Convention of Association. It shows the extent of the interventions of the Bank in the form of ordinary operations on the one hand and the part taken by the Bank in the preparation and administration of special term loans from the funds made available by the E.D.F.

FINANCIAL AIDS BY THE COMMUNITY TO ASSOCIATED OVERSEAS STATES,  
COUNTRIES AND TERRITORIES FOR THE PERIOD 1964 TO 1969

<i>Forms of aid</i>	<i>Beneficiaries</i>	<i>E.A.M.A.</i>	<i>P.T.O.M. D.O.M.</i>	<i>Total for overseas associates</i>
<i>(in million units of account)</i>				
Grants by the European Development Fund (E.D.F.)		620	60	680
Special term loans from the resources of the E.D.F.		46	4	50
Ordinary loans by the Bank from its own resources		64	6	70
<b>Total aids</b>		<b>730</b>	<b>70</b>	<b>800</b>

## SPECIAL LOANS

As has already been noted at the beginning of this chapter, the Bank undertook operations within the framework of the Special Section set up by the Board of Governors on the 27th May, 1963, for the first time in 1964.

The Annual Report for 1963 gave a brief explanation of the reasons which led to the organization of this Special Section. It was necessary to bring into being an appropriate instrument permitting the Bank to intervene in the interests of the Community, each time that the nature of the projects to be financed or disequilibriums in the balance of payments of an associated country justified the granting of financial aid in the form of loans with special terms such as : reduced rates of interest, long duration and extended periods of grace before the first repayment.

The Special Section is not a legal entity separate from the Bank, nevertheless the operations the Bank carries out on behalf of this section are financed from special sources and managed separately. They are, in effect, based on mandates granted to the Bank by the Community or by Member Countries under their own responsibility.

The utilization of the Bank's ordinary resources for the financing of special operations is excluded. The means to be used are defined according to each case and are either supplied directly by the responsible authorities or collected for their account.

Aid to Turkey was the first case in which the Special Section was employed. The loans envisaged in favour of this country under the terms of the Agreement of Association with the Community (175 million over five years) are granted by the Bank under a mandate from the Member Countries.

This mandate, completed by directives of the Board of Governors, provides for the application of favourable conditions: the duration of the loans may reach 30 years, with a period of grace of up to 7 years; interest is fixed at 3 % for loans destined to finance long-term or indirect rentability projects (infrastructure, power, irrigation etc.), and at 4.5 % for normal rentability projects, especially in the industrial sector.

In the latter case, the loan is made directly to the Turkish State which re-lends the funds to the beneficiary either directly or through the intermediary of a long-term credit institution, on terms normally applicable in Turkey. This procedure, which was the object of a General Convention concluded between the Turkish State and the Bank on the 8th December, 1964, permits the improvement of the Turkish balance of payments while allowing companies to take advantage of loan conditions fixed in relation to the economic characteristics of the projects in question.

The Agreement of Association came into force on the 1st December, 1964 and between then and the end of the financial year the Bank had approved two operations in Turkey for a total of 5.4 million.

The projects approved were :

*Loan by the Bank  
(million u.a.)*

- |  |     |
|--|-----|
| 1. Construction of an electric power station near Lake Kovada in North Antalya. Promoter : <i>The General Management of State Hydraulic Works (Ministry of Energy and Natural Resources)</i> . | 5.0 |
| 2. Enlargement of a steel tube factory at Izmit. Promoter : <i>Mannesmann-Sümerbank Boru Endüstrisi T.A.S.</i>   | 0.4 |

The loans will be accorded to the Turkish State which in the case of the " Mannesmann-Süerbank " project re-lends the funds, in the manner described above, through the intermediary of the Türkije Sinaî Kalkinma Bankasi (Turkish Industrial Development Bank), Istanbul.

\* \* \*

During the financial year, the Bank approved, for ordinary and special operations together, 18 loans, for a total amount of 106.8 million, as against 104.6 million in the previous year.

These loans cover projects involving an estimated total cost of 480 million. The Bank has therefore intervened for an average of 22 % in the total costs of the projects.

Since being founded and until the end of 1964, the Bank has approved 85 loans totalling 465.1 million units of account, i.e. an average of approximately 5.5 million per loan. The investments in which the Bank has participated amount to a total of about 2 milliard units of account : the Bank's share in the financing of these projects has averaged 23 %, varying considerably according to the nature and importance of the projects.

The breakdown of loans approved by country and by sector is given in the two following tables :

BREAKDOWN BY COUNTRY  
at 31st December, 1964  
(Ordinary and Special loans)

<i>Countries</i>	<i>Number of projects</i>	<i>E.I.B. loans (million u.a.)</i>	<i>Each countries part in the total (%)</i>
<b>I. Ordinary loans</b>			
<i>Member countries</i>			
Belgium	1	4.8	1
Germany	3	32.4	7
France	11	71.0	15
Italy	59	310.7	67
Luxembourg	1	4.0	1
	75	422.9	91
<i>Associated countries :</i>			
Greece	8	36.8	8
<b>Total</b>	<b>83</b>	<b>459.7</b>	<b>99</b>
<b>II. Special loans</b>			
Turkey	2	5.4	1
<b>Grand total</b>	<b>85</b>	<b>465.1</b>	<b>100</b>

BREAKDOWN BY ECONOMIC SECTOR  
at 31st December, 1964  
(*Ordinary and Special loans*)

<i>Sector</i>	<i>Number of projects</i>	<i>E.I.B. loans (million u.a.)</i>	<i>Each countries part in the total (%)</i>
AGRICULTURE IMPROVEMENTS	4	33.8	7
TRANSPORTS	11	132.2	29
POWER	11	79.6	17
TELECOMMUNICATIONS	1	16.0	3
INDUSTRY :	58	203.5	44
— Mining	2	2.0	
— Iron and steel	3	48.9	
— Building materials	7	13.5	
— Glass and pottery	4	6.4	
— Paper pulp and paper	4	17.5	
— Mechanical engineering	13	26.1	
— Chemicals	11	74.0	
— Textiles and clothing	3	3.1	
— Leather	1	0.3	
— Foodstuffs	10	11.7	
Total	85	465.1	100

As regards the terms of loans, taking into account the general evolution of financial markets, the interest rates to be applied for ordinary operations were fixed as follows on the 8th October, 1964 :

<i>Duration of loan</i>	<i>Rate</i>
up to 7 years	5 7/8 %
over 7 but not exceeding 12 years	6 %
over 12 but not exceeding 20 years	6 1/4 %

## ORIGIN AND EMPLOYMENT OF RESOURCES

At the beginning of the financial year 1964, the Bank's combined resources amounted to approximately 382.4 million units of account, derived from paid-up capital, borrowings and accrued profit. At the same date effective loans amounted to a total of 281.0 million, of which 200.0 had been disbursed.

During the financial year, the Bank continued its borrowing activities accordingly to the evolution of its available assets and its commitments as well as to the situation and possibilities on the different financial markets. It was thus able to issue five new loans for a total value of 66.8 million, details of which are given below.

At the beginning of June, a new public loan was floated in Germany for a nominal amount of 80 million DM (20 million u.a.) at 5 1/2 %. This loan was taken up by a syndicate of German banks under the management of the Deutsche Bank and the Dresdner Bank and offered for public subscription at 99 %. The bonds run for 10 years and are not redeemable before due date.

A loan was also contracted in June with the Caisse d'Épargne de l'État de Luxembourg. The total amount of this 10 years loan bearing interest at 5 % is 50 million Luxembourg francs (1 million u.a.). Redemption begins in 1968.

In July the Bank contracted for the issue of a loan in Germany with the Commerzbank for a nominal amount of 50 million DM (12.5 million u.a.) represented by six series of registered bonds redeemable between 2 and 7 years. The rate of interest is 5 % for bonds due after 2 to 4 years and 5 1/4 % for the others.

A new public loan was floated in the Netherlands at the end of August, for 30 million Florins (about 8.3 million u.a.) at 5 3/4 %. It was taken up by a consortium of Dutch banks under the management of the Amsterdamsche Bank and offered for public subscription at 97 %. The bonds run for 20 years and are repayable at par in ten equal annual instalments as from September 1975.

Finally, a public loan was issued in New York during December for a nominal amount of 25 million U.S.A. dollars (25 million u.a.) bearing interest at 5 1/2 %. It was taken up by an international syndicate directed by Kuhn, Loeb & Co. Inc., The First Boston Corporation, Lazard Brothers & Co., and composed mainly of 50 European Banks. The loan was offered to the public at 99.5 %, but to United States persons at 108.33 %. The bonds run for 20 years and are redeemable at par in 15 substantially equal annual instalments as from September 1970.

This loan registered with the Securities and Exchange Commission and quoted on the New York Stock Exchange is the first operation of the Bank on the dollar market, on which it had so far voluntarily refrained from entering. The coming into force in 1964 of the " Interest Equalization Tax " which is applicable to bonds issued by the Bank if purchased by United States persons allowed to place the whole amount outside this country.

Taking all these operations into account, the total amount of funds borrowed by the Bank was 155.6 million as at the 31st December, 1964. After deduction of repayments made, the funded debt, at this date, amounts to 153.7 million. In part III of this Report, in the comments on the balance sheet, will be found detailed tables of the loans issued by the Bank.

New loan agreements signed during the financial year brought the total amount of loans granted to 404 million as at the 31st December, 1964. After deduction of repayments made, amounting to 9.3 million, of which 6.2 million were repaid during the financial year under review and taking into account exchange adjustments and cancellations, total effective loans amounted to 394.5 million, of which 273.7 million had been disbursed. Disbursements made during the financial year 1964 amounted to 79.9 million units of account.

\* \* \*

The balance of the Profit and Loss account, before appropriation to the statutory reserve and to provisions, amounted to 10.6 million, as against 10.4 million in the previous financial year. This amount was

distributed as follows : 5 million for provisions and the balance to the statutory reserve.

On the 31st December, 1964, the total of reserves and provisions was approximately 54.6 million, of which 26.6 million units of account in the statutory reserve.

At the end of the financial year, the Bank's total resources, paid-up capital, borrowings and accrued profit amounted to approximately 458 million units of account.



### III

The balance sheet and profit and loss account are enclosed with this Report.

Their main items are analysed below :

#### BALANCE SHEET

The balance sheet total as at 31st December, 1964, amounts to 584,968,287.59 u.a. On 31st December, 1963, this total was 466,525,227.85 u.a.

#### ASSETS

*Cash and banks, gold assets and investments.*

The total of these assets on 31st December, 1964, amounts to 186,122,632.93 u.a., as against 174,642,550.36 u.a., on 31st December, 1963, as follows :

	on 31st December, 1963	on 31st December, 1964
— Cash in hand and banks	147,358,713.12	155,596,714.43
— Gold assets	8,562,954.50	8,602,167.25
— Investments	18,720,882.74	21,923,751.25

The treasury bonds, bonds and notes to the value of 18,070,760.67 u.a., have been valued at cost price or at market quotation as at 31st December, 1964, if the latter were below cost price, with a maximum of 100 %.

The total of these three items is made up as follows :

— Currencies of member countries	126,043,066.38 u.a.
— Other currencies	51,477,399.30 u.a.
— Gold	8,602,167.25 u.a.

The break-up by maturities is :

— At call	20,367,294.84 u.a.
— Not exceeding 3 months	79,944,416.26 u.a.
— Exceeding 3 months but not exceeding 6 months	31,053,024.86 u.a.
— Exceeding 6 months but not exceeding 1 year	46,924,238.38 u.a.
— Exceeding 1 year	7,833,658.59 u.a.

*Effective loans.*

The amount of loans is 394,536,399.63 u.a. and represents the total amount of the loans for which agreements had been signed by 31st December, 1964, less repayments during the year amounting to 6,198,715.36 u.a. and annulments amounting to 680,000 u.a. Of this total, the amount actually paid out to borrowers by that date is 273,654,577.49 u.a.

Amounts due to the Bank as a result of these payments are made up as follows :

— Currencies of Member countries	211,759,787.77 u.a.
— Currency of any Member State at the Bank's option	33,838,527.72 u.a.
— Other currencies	28,056,262.00 u.a.

The undisbursed amounts viz. 120,881,822.14 u.a. appear as a contra item in the liabilities under the heading "undisbursed balance of effective loans".

The items concerning loans compare as follows with the previous year :

	on 31st December, 1963	on 31st December, 1964
— Amounts disbursed	200,024,239.76	273,654,577.49
— Amounts undisbursed	81,008,174.44	120,881,822.14
Total of loans	281,032,414.20	394,536,399.63

With the following breakdown by country of current loans :

<i>Country</i>	<i>Amounts disbursed</i>	<i>Amounts undisbursed</i>	<i>Total</i>
Belgium	4,800,000.—	—	4,800,000.—
Germany	29,103,809.54	2,500,000.—	31,603,809.54
France	57,483,569.65	11,221,253.14	68,704,822.79
Italy	172,417,205.—	90,372,000.—	262,789,205.—
Luxembourg	3,638,562.30	—	3,638,562.30
Greece	6,211,431.—	16,788,569.—	23,000,000.—
	273,654,577.49	120,881,822.14	394,536,399.63

Of this total of 394,536,399.63 u.a., loans guaranteed by Member countries directly concerned amount to 330,835,922.88 u.a.; loans granted to associated countries and guaranteed by them amount to 23,000,000.— u.a., the balance of 40,700,476.75 u.a. being composed of loans covered by usual long term financial security.

Part of the loans granted are covered by both guarantee and security.

#### *Furniture and equipment.*

Furniture and equipment which have been fully amortized, are entered under this heading only pro memoria.

*Accrued interest and commission.*

Under this heading are shown interest and commissions accrued but not yet due for payment as at 31st December, 1964; they amount to 3,582,412.48 u.a.

*Miscellaneous.*

The total shown under this heading viz. 726,841.55 u.a., includes 722,360.37 u.a. representing deposits constituted to cover the payment of coupons due but not yet paid.

LIABILITIES

*Capital.*

Subscribed capital amounts to 1,000,000,000.— u.a. of which 250,000,000.— u.a. have been paid up and 750,000,000.— u.a. are guarantee capital.

*Statutory Reserve.*

The statutory reserve which amounted to 20,970,420.22 u.a. at the beginning of the year is increased to 26,615,682.53 u.a. by the transfer to this reserve of the balance of the Profit and Loss account.

*Provisions.*

The provision for risks on loans and guarantees, which stood at 15,000,000.— u.a. at the close of the previous financial year, is increased to 20,000,000.— u.a.

Total provisions therefore amount to 28,000,000.— u.a., as against 23,000,000.— u.a. at the close of the previous financial year.

### *Staff pension fund.*

This heading appears for the first time in the Balance Sheet and is due to the coming into force, on 1st July, 1964, of the Bank's pension scheme. The figure of 607,501.84 u.a. represents contributions made in conformity with the regulations.

### *Amounts due under Article 7 para. 2 of the Statutes.*

The amount appearing under this heading is 424,249.06 u.a., as against 461,072.22 u.a. on 31st December, 1963.

### *Medium and long term debt.*

The figure of 153,694,512.61 u.a. under this heading represents the Bank's current borrowings as at 31st December, 1964.

The breakdown of the funded debt is as follows :

		<i>Principal outstanding</i>		<i>Final</i>	<i>Amortization</i>
		<i>in local currencies</i>	<i>in u.a.</i>	<i>matu- rity</i>	
4 3/4 %	Bank loan of 1961	Sw. fr. 5.4 million	1,234,901.04	1967	in equal annual instalments.
4 1/2 %	Bonds of 1961	Fls. 16.0 million	4,419,889.50	1968	in equal annual instalments.
4 1/2 %	Bonds of 1961	Fls. 50.0 million	13,812,154.70	1981	in 15 substantially equal annual instalments 1967-1981.
5 %	Bonds of 1962	Lit. 15,000.0 million	24,000,000.00	1977	redeemable by anticipation, as a whole or in part, at par as from 1967.
4 3/4 %	Bonds of 1962	Fls. 30.0 million	8,287,292.82	1982	in 10 equal annual instalments 1973-1982.
5 1/2 %	Bonds of 1963	DM 60.0 million	15,000,000.00	1970	at maturity.
6 %	Bonds of 1963	Belg.fr. 400.0 million	8,000,000.00	1987	in 19 annuities 1969-1987.
5 %	Bonds of 1963	FF 60.0 million	12,152,981.73	1983	1/4 of the nominal value of each bond at the end of the 5th, 10th, 15th and 20th year.
5 1/2 %	Bonds of 1964	DM 80.0 million	20,000,000.00	1974	at maturity.
5 %	Bank loan of 1964	Lux. fr. 50.0 million	1,000,000.00	1974	in 7 annuities 1968-1974.
5 3/4 %	Bonds of 1964	Fls. 30.0 million	8,287,292.82	1984	in 10 equal annual instalments 1975-1984.
5-51/4 %	Bonds of 1964 (Serial Bonds)	DM 50.0 million	12,500,000.00	1971	in 6 substantially equal annual instalments 1966-1971.
5 1/2 %	Bonds of 1964	US \$ 25.0 million	25,000,000.00	1984	in 15 substantially equal annual instalments 1970-1984.
			153,694,512.61		

During the financial year the funded debt of the Bank developed as follows :

	<i>Principal outstanding at 31st December, 1963</i>	<i>Operations during the financial year</i>		<i>Principal outstanding at 31st December, 1964</i>
		<i>Borrowing</i>	<i>Repayments</i>	
in DM	15,000,000.—	32,500,000.—	—	47,500,000.—
in FF	12,152,981.73	—	—	12,152,981.73
in Lit.	24,000,000.—	—	—	24,000,000.—
in Belg. fr.	8,000,000.—	—	—	8,000,000.—
in Fls.	27,624,309.40	8,287,292.82	1,104,972.38	34,806,629.84
in Lux. fr.	—	1,000,000.—	—	1,000,000.—
in Sw. fr.	1,646,534.72	—	411,633.68	1,234,901.04
in US \$	—	25,000,000.—	—	25,000,000.—
Total	88,423,825.85	66,787,292.82	1,516,606.06	153,694,512.61

The amount of funded debt due within the financial year 1965 is 1,516,606.06 u.a.

*Undisbursed balance of effective loans.*

The amount of 120,881,822.14 u.a. represents payments due by the Bank to its borrowers under contracts signed prior to 31st December, 1964.

*Accrued interest payable and interest received in advance.*

The amount of 2,152,107.37 u.a. appearing under this heading represents 2,086,790.39 u.a. accrued interest not yet paid and 65,316.98 u.a. interest received in advance for periods subsequent to 31st December, 1964.

*Miscellaneous.*

The amount of 2,592,412.04 u.a. under this heading includes 722,360.37 u.a. for coupons due but not yet paid and the balance represents various expenses remaining to be paid at the end of the financial year and administrative charges incurred or foreseen for later payment.

## PROFIT AND LOSS ACCOUNT

### DEBIT

#### *Administrative expenses.*

These expenses amount to 2,369,680.50 u.a. as against 1,902,651.44 u.a. for the previous year.

They are made up as follows :

— Staff expenses	1,304,171.14 u.a.
— General expenses and provisions for possible other charges	1,065,509.36 u.a.

The increase in expenses in comparison with the previous financial year is mainly due to the rise in salaries which, following the general trend, took place during the year and the coming into force of the staff pension scheme which resulted, after actuarial valuation, in the constituting of large provisions.

The staff of the Bank totalled 132 persons on 31st December, 1964, of which 81 were employed in the translation, administrative, and maintenance services.

#### *Interest and charges on borrowings.*

This item, amounting to 7,309,702.31 u.a., represents interest on borrowings and other debit interest as well as sundry charges and expenses connected with borrowings.

#### *Financial expenses.*

The amount of 105,268.55 u.a. under this heading consists almost entirely of the differences in the valuation of investments at 31st December, 1964.

*Amortization of furniture and equipment.*

Expenditure on furniture and equipment, made during the year and fully amortized, was 29,069.19 u.a., as against 40,762.26 u.a. for the previous year.

C R E D I T

*Interest and commission from loans.*

This item amounts to 13,308,365.15 u.a., as against 9,627,777.83 u.a. for the previous year. The increase is in proportion to the increase in amounts paid out.

*Interest and commission from investments.*

The amount of interest from investments of available funds is 7,102,286.11 u.a., as against 6,599,993.95 u.a. for the previous year.



## IV

### ADMINISTRATION OF THE BANK

At the Annual Session on 28th May, 1964, the Board of Governors renewed the powers of the Board of Directors for a period of six years. Mr. Paride FORMENTINI, President, and Mr. Yves LE PORTZ, Vice President, were re-appointed. Mr. Karl von MANGOLDT-REIBOLDT, Chairman of the O.E.C.D. Consortium for Turkey, was nominated Honorary Vice President.

We take pleasure in recording here the unanimous gratitude expressed by the Board of Directors to Mr. von MANGOLDT-REIBOLDT for the prominent part he played in the opening up of the Bank and during the first six years of its existence, placing, as he did, his high intelligence and the vast experience he had acquired in other important international functions at the Bank's disposal.

The Board of Governors nominated as his successor, as Vice President, Prof. Ulrich MEYER-CORDING, formerly Director General of European Co-operation at the Ministry of Economic Affairs of the German Federal Republic.

\* \* \*

Brussels, 29th April, 1965.

Chairman, Board of Directors,  
PARIDE FORMENTINI.

## THE PROBLEMS OF INDUSTRIAL DEVELOPMENT IN GREECE

### *Present day industrial structure in Greece.*

In Greece, the manufacturing industry is not yet very important. It consists of little more than 100,000 enterprises, apart from artisans working at home, and does not employ more than 500,000 workers. The added value due to this industry is less than 1 milliard units of account. The modern industrial sector, formed by enterprises employing more than 10 workers, represents 5 % of the total number of enterprises, employs nearly half the labour and is responsible for about two thirds of production. Current statistics show less than 1,000 "important enterprises" employing in all about 100,000 workers.

The place held by industry in Greek economic life is, therefore, relatively modest. The industrial manufacturing sector furnishes less than a fifth of the gross national product. If mining, building construction and public utility services are taken into account, the proportion is little more than a quarter for a labour force which represents a fifth of the total employment. These figures are nearly half those obtaining in the Community. Finally, industrial exports do not, in fact, amount to more than a few million dollars, a very small proportion of the total.

At the moment Greek industry is in an intermediate stage of development, two thirds of total production is concentrated on non-durable consumer goods; textiles and clothing, foodstuffs and tobacco forming the principal elements. The production of durable consumer goods is negligible (about 2 % of the total). The production of intermediary goods is also very poor (a fifth) and the production of capital goods is even worse (a tenth). In the last two categories only some branches such as the chemical industry (mineral products and fertilizers), building materials and cement, ship-building and some branches of mechanical industry, have some importance.

\* \* \*

A number of factors contribute to this situation: the relative lack of natural resources, the reduced demand on the national markets, historical factors and institutional weaknesses. The influence of these factors has slowly given rise to certain fundamental characteristics, the two most important being the slow change in structure and the low level of average productivity.

Composition and structure of industry have remained practically unchanged for forty years and, although industrial production has certainly increased, the contribution of the manufacturing industry to the gross national product has only shown a very slight rise. Industrial employment has only doubled in the last thirty years and, between 1950 and 1960, it remained practically stationary. If certain branches, such as clothing and the manufacture of tobacco have registered a relative regression, and other branches, such as the chemical industry and the production of transportation equipment have shown some progress, these changes have been insufficient to modify fundamentally the country's industrial set-up. In more recent years the development of a few isolated industries such as petrol refining, ship-building, the manufacture of tyres and synthetic chemicals have opened up a new sector, a "new industry".

But, and this is perhaps still more characteristic, the internal evolution of firms has not been so important as it has in the more industrialized countries of Europe. In a traditional sector such as textiles, for instance, in spite of striking efforts made during the last ten years to modernize equipment and management, the average size of enterprises has not changed much in thirty years. In some sectors, it would even seem that the increase in demand has sometimes brought about an increase in the number of new firms, some of them quite small, rather than the internal development of those already in existence. It should be emphasized, however, that in recent years, and more particularly since the question of the association of Greece with the Common Market has arisen, structural transformations have speeded up in most branches.

The average productivity of Greek industry is very low. The added value per person employed in the manufacturing industry actually in the region of 1,200 to 1,300 units of account, is much less, probably

about half of that obtaining in the industrialized countries of Western Europe. This is certainly due to the composition of production which contains few sectors of high productivity; there are nevertheless other causes, which can be classed under the following three headings:

- some of the obstacles are to be found in the firms themselves. They are often too small to be able to realize important economies of scale and their lack of specialization often leads to an exaggerated vertical integration policy to the detriment of productivity. Since the markets are restricted and fragmented, resources for self-financing are naturally limited and in addition their financial standing severely limits their possibilities of obtaining credit from the banks. Isolated firms face great difficulties in achieving rational and dynamic investment programmes. It is also difficult to find or to pay the necessary skilled labour and managerial staff;
- other obstacles are present at a higher level due to the lack of inter-industrial links. As far as the acquisition of intermediary products and certain auxiliary factors of production are concerned, as well as the disposal of their production, Greek firms are rarely integrated in a network of complementary activity. They cannot, therefore, benefit from a number of external economies which result from the proximity of a number of similar firms or the grouping of a number of different firms. This lack of external economies shows its weaknesses in the relative insufficiency or the high prices paid for the use of certain infrastructures, particularly in the fields of transport and power;
- finally, the general institutional situation does not always help a rational development of productivity. Legal and administrative conditions are often complex, the means of financing are not always well adapted, commercial practice tends to split up the markets and tariff barriers (sometimes quite inappropriate) create obstacles to industrial expansion by limiting access to enterprises, discouraging development or restraining new means of production.

In recent years, public authorities, faced with these difficulties, have adopted a policy intended to render industrialization easier.

*Policy in favour of industrial development in Greece.*

A policy of industrial development for the country was laid down in development plans and implemented by a number of specific measures.

The foreword to the 1960-1964 Five Year Plan states that industrialization of the country is a "basic objective". It foresees that the gross product of the manufacturing industry will have to show an average increase of 7.7 % per annum. This should have the effect of raising the contribution of the secondary sector to one third of the domestic product and bring about the creation of 230,000 new jobs in ten years. This aim

PRINCIPAL INDUSTRIAL OBJECTIVES OF GREEK DEVELOPMENT PLANS  
(1960-1964, 1962-1966)

<i>Objectives</i>	<i>Plan 1960-1964</i>	<i>Memorandum 1962-1966</i>
<i>Rate of average annual increase (%)</i>		
Gross production of the manufacturing industry	7.7	7.7
Fixed investments in industry and mining	21	21
<i>Employment (in thousands)</i>		
In industry and the mines		
1959	700	
1969	930	
In the manufacturing industry		
1961		510
1971		663
<i>Fixed investments in industry and the mines (in milliards of Drachmae at constant 1954 prices)</i>		
1959	1.9	
1961		2.5
1964	5.0	
1966		5.7
1971		9.8
Total for the period 1962-1966		23.6

was maintained in June, 1962, when the plan was revised to cover the years 1962 to 1966. The "Memorandum on the programme of economic development in Greece" showed that, in particular, the "participation of industry in the process of development... will become progressively more decisive than in the past towards the realization of the objectives laid down. In this respect, a rapid growth of industrial production during the next ten years is essential if the economy is to continue to progress at a rate of 6 % per annum".

The overall approach of the plans for development in Greece is that the desired industrial objectives can only be attained by intensive efforts by both the State and the private sector. "The rôle of the State" declares the Memorandum "is first of all to create the necessary infrastructure and establish certain basic units which private initiative is not interested in, and secondly, by taking the appropriate measures, to encourage and guide private initiative whose action will be decisive towards the realization of the objectives of the plan".

These general principles have been implemented, in practice, by an increase in budget credits for public investment which have progressed at a steady rate. They rose from 137 million units of account in 1960 to 200 million units of account in 1964. A large part of the increase is devoted to the infrastructure of transport. The investment budgets of State controlled enterprises and, in particular, that of the Public Power Corporation (E.P.E.) were increased considerably. The public authorities set up in 1960 the Organization for Industrial Development (O.B.A.), a company formed with public capital, to facilitate, by information and research, the setting up in Greece of industrial and mining enterprises and to intervene financially in the establishment of new enterprises and the development of existing ones. Lastly, the State financed directly the first petrol refinery to be established, the first factory for the production of nitrate fertilizers and two sugar refineries. These factories have been, or will be handed over to firms of a private or mixed character who will be responsible for exploiting them.

In the field reserved to the private sector, that is to say, the greater part of the manufacturing industry, the industrialization policy provided for in the development plans was to enlighten entrepreneurs

on the possibilities offered by general development, to trace a line for necessary investments and to offer various means of encouragement.

The 1960-1964 Plan laid down, in the first place, that the Greek public authorities attached great importance to the setting up of a certain number of basic industries such as : iron and steel, aluminium, nitrate and phosphate fertilizers, soda, cellulose, iron alloys, zinc, refractory products, sugar refining and foodstuffs. The State declared itself ready to give its support to the setting up of practicable enterprises in these different sectors.

Aside from these "basic industries", the 1960-1964 Plan and more especially the 1962-1966 Memorandum, defined in detail the progress to be made in other sectors, in the traditional branches, in particular, and laid down the lines of development to be followed. For most of these sectors the objective was an average annual increase in gross production of from 8 to 9 %. With regard to employment, it was anticipated that the mechanical industry would make a contribution of 29,000 jobs towards the planned total of 152,500 for the transformation industry between 1961 and 1971, clothing and textiles 46,000, the chemical industry 20,000 and the timber industry 15,000. The Memorandum pointed out that the more recent industries (electric construction, mechanical industries) should expand rapidly.

In order to assure this expansion, the Memorandum recommended an intensive effort of readaptation and investment. It was essential first of all that the Greek industry became aware of the existence of the Agreement of Association between Greece and the Common Market which implied, for the older industries, a reorganization destined to maintain and assure their competitive capacity and, for the new industries, the choice of appropriate production and commercialization techniques. It was estimated that the necessary investments would attain more than 0.7 milliard for the five years between 1962 and 1966 and that about a third of this amount would be devoted to the "basic sectors". The size of the task can be judged from the fact that in 1961, investments in the manufacturing sector were only 60 million, whereas it is planned to reach 200 million in 1966.

\* \* \*

In order to support the efforts demanded by the Plan, the public authorities prepared a number of specific measures in favour of industrial investment bearing on fiscal charges incurred by enterprises, the granting by banks of credit facilities, and, more especially, foreign investments.

The measures taken concerning taxation (apart from taxation of foreign investment which will be considered later) were inspired by three main considerations : in the first place, legislation favouring the creation of new enterprises and the regroupment and enlargement of existing firms. Taxes chargeable on initial and subscribed capital were reduced or, in certain cases, abolished (Acts 4014-4015 of 1959 and Act 4002 of 1959). Act 3765/1957 accorded facilities for exceptional amortization; more especially, Acts 4171/1961 and 4256/1962 concerning enterprises with capital of more than 2 million, provided for the reduction of certain local taxes and guaranteed fixed limits for the rates of most taxes and the possibility to create, during a period of five years, reserves exempt of tax, equal to the amount of their fixed investment. Secondly, legislation was passed favouring the setting up of enterprises in country areas. A number of taxation advantages were granted, exemption or reduction of local taxes, taxes on turnover etc., the constitution of special tax free reserves, exceptional amortizations as well as a number of other advantages such as preference in adjudications for public works even if the tenders prove to be slightly higher. Thirdly, legislation provided for incentives to enterprises exporting part of their production (shipping companies are included in this category). These enterprises are permitted to deduct from their taxable profits up to 4 % of their export revenues.

Insofar as credit is concerned, the most important measures taken, apart from the creation of the Organization for Industrial Development, was the decision of Act 1236/1962 to reduce interest rates on long-term credits for exporting enterprises and for those carrying out enlargement or modernization schemes. The banking system was also able, on its own initiative, to widen the scope of their interventions thanks to the constitution of new investment banks. The public authorities have also favoured the participation of commercial banks in investment projects. Several measures, notably Acts 3746/1957 and 4015/1959, have been taken to try to improve the functioning of the capital market which

nevertheless suffers from the preference which lenders continue to show towards real estate investments or even the hoarding of their savings.

Foreign investments have been encouraged to an even greater extent. Act 2687/1953 (completed by Act 4171/1961) concedes important guarantees to productive investment as far as the repatriation of the capital invested and the transfer of trading profits are concerned and also often assures preferential fiscal and administrative treatment. Favourable conditions are also granted concerning the legal status of foreign capital imported in the form of the registration of merchant ships under the Greek flag or in the form of deposits or banking credits. Since the protection of foreign capital exceeds the framework of common law, all foreign investments must be authorized in advance by the authorities; these authorizations often involve an engagement to export a part at least of the production.

#### *Orientation of industrial development in Greece.*

The action taken to facilitate the industrial development of the country must be actively pursued. The general direction of the policy is towards the intensification of the effort necessary but the elaboration of a concrete plan for the strategic development of industry is still far from being complete.

The desire to press on with industrialization is justified by the results obtained during the last ten years, but they should be neither overestimated nor underestimated. Comparison between the two tables shows that, in spite of the statistical and general problems involved, the general objectives for production have been, in most cases, attained and sometimes even exceeded but that industrial investments are far below the planned levels.

A great deal of progress has been made in a number of sectors. Infrastructure, directly connected with the creation of external industrial economies — production of electricity and distribution networks, improvement and construction of transport routes, modernization and extension of port facilities etc. — has been improved considerably. A certain number

PRINCIPAL INDICATORS OF INDUSTRIAL DEVELOPMENT IN GREECE  
1960 TO 1963

	<i>Average annual increase (percentage)</i>
Gross production of the manufacturing industry	7.5
Fixed investment in the manufacturing industry	10.0
<i>Index of industrial production</i>	
General index	7.3
of which : Textile industry	6.7
Foodstuffs industry	4.2
Manufacture of tobacco industry	3.9
Chemical industry	10.0
Iron and steel industry	13.2
Non-electric mechanical industry	— 3.8
Electrical construction industry	10.4
Vehicles and transport material	15.6
	<i>Milliards of Drachmae at 1954 prices</i>
Gross fixed investment in the manufacturing industry	
1960	1.5
1961	1.5
1962	2.2
1963	2.5
Total 1960-1963	7.7

of industrial units have been or are being established. Two large industrial complexes (aluminium and petro-chemical) are being set up. In the traditional branches (textiles, clothing, leather, furnishing and foodstuffs), factories have been modernized, enlarged or established as in the case of artificial and rayon fibres, ready made clothing, nylon articles

and the preparation of furs. The number of canning factories for preserving fruit, vegetables and fish has been very much increased.

In the less traditional branches, initiative from different sources has permitted the establishment of an important ship-building yard, a petroleum refinery which is already working, some metallurgical installations (including one blast-furnace), two factories for the assembling of automobiles, new cement works, several new fertilizer factories, a new paper-pulp factory (under construction), a synthetic polymer factory, a tyre factory, a number of factories specialized in mechanical-industry (irrigation material, low and medium-powered motors etc.), or in the construction and electrical equipment sectors (radio parts, lamps, cables, small transformers etc.).

Thanks to the efforts made, employment in the manufacturing sector, although it has not attained the planned objective of 20,000 new jobs every year, has nevertheless increased appreciably since 1960.

It is nevertheless obvious that the industrialization experiment made in the last few years has brought to light certain weaknesses. The fact that the planned objectives for employment have not been attained has not only left a good deal of unemployment and under-employment still in existence but has also encouraged the emigration of workers, especially among the younger age groups. This emigration has probably gone beyond desirable limits. The influence of industrialization efforts on exports has been very small.

Many firms, especially among the smaller and medium sized enterprises, but also among the bigger and more modern, have encountered adaptation difficulties due, in particular, to foreign competition. Apart from the social aspects, this situation has become a problem of general economic character and a solution must be found.

\* \* \*

The intensified quantitative and qualitative effort of industrialization must remain, therefore, a fundamental element of medium and long-term economic policy. Furthermore, the possibilities for the pursuit

of a policy of balanced development are very favourable in Greece. Far from being antagonistic it appears that the efforts made for the development of agriculture, industry and services could be mutually supporting. But apart from these general principles, which are fairly easily established, the determination of the basic orientation of development is much more difficult to define.

Indeed, Greece finds itself facing a choice both in the line of action to be taken concerning the general orientation of industry and the means to be employed. In the first place, what part of the effort to open up new markets for Greek industry should be devoted to internal requirements which continue to grow, and what part reserved for the conquest of outside markets ? As far as the second category is concerned, should efforts be made to gain a place on the markets of the European Economic Community, which are full of promise, but which present many difficulties, or should prospection be directed rather to the neighbouring Mediterranean countries or towards the continent of Africa ? Furthermore, should the strategy of development be based on the extensive utilization of abundant factors with relatively low productivity or on the contrary, consider that the comparative advantages are less a question of the allocation of resources than general economic organization and the standard of income.

On these fundamental questions depend both the choice of industrial specialization and that of the appropriate techniques as well as the maximum size of enterprises.

The choice of the means to be employed is also fundamental. What should be the extent, and more especially the structure, of productive investment ? It is possible to continue the use of methods of indirect stimulation employed at present, or would more direct intervention be appropriate ? What should be the proportions of foreign and national capital utilized and that of large or small enterprises ?

If, on the eve of the publication of the New Development Plan which is under preparation, the orientation of industrial development has not yet been clearly defined, a certain number of important problems on which definite action is to be taken have been specified. In the first

place, it is clear that a decisive effort must be made to increase the productivity of enterprises. As far as individual firms are concerned, this implies the rational and progressive improvement of the means of production, an increased specialization, the modernisation of management and equipment, the improvement of market research and advertising and the raising of the standards of professional qualification. From the point of view of the different branches of industry, efforts must be directed to the progressive setting up of industrial groups capable of exploiting foreign markets. Such a policy is in line with the setting up of industrial zones, as planned, for enterprises with similar economic requirements.

The reform of certain structures, which is being undertaken already, must be accelerated. Important progress has been made in legislation in this matter. It has become apparent that more flexible and modern methods are necessary, especially as far as the legal status of enterprises is concerned. But in order to meet with success, these reforms must be completed by a definite improvement in financing methods in order to bring them into line with the real needs of development.

Finally, in Greece, as in many other countries, the problem of the harmonious distribution of activities in the different regions of the country has arisen. The success of the industrialization policy in Greece is dependant on a better territorial distribution of activity but at the same time it is necessary to take into account the possibilities of reduced overheads offered by such towns as Athens and Salonica.

\* \* \*

Greece seems to have reached a crucial period when the future of industry will depend, to a large extent, on the appropriate selection of certain fundamental orientations and to what extent results already obtained will provide the impetus necessary for a cumulative industrial expansion and better competitive capacity. The transition from a fragmentary industrial economy to a well structured and dynamic industrial economy is, for every country, a difficult experience but one that is rich in promise. If Greece is not particularly rich in natural resources, she has, on the other hand, a number of advantages not the least of

which are the qualities of rapid adaptation of her workers, a favourable geographical situation, the desire for progress of her population and the close relations which can be established, in all domains, with the countries with which Greece has chosen to link her destiny by the Agreement of Association. In other words, there is every hope that, in spite of difficulties, the effort of industrialization in Greece will be crowned with success.

**BALANCE SHEET  
AND PROFIT AND LOSS ACCOUNT**

**REPORT OF PRICE WATERHOUSE & Co.**

60, rue Ravenstein  
Brussels

The President,  
EUROPEAN INVESTMENT BANK  
BRUSSELS

In our opinion, the accompanying Balance Sheet and Profit and Loss Account, together with the information contained on page 59 to 67, present fairly the financial position of the European Investment Bank at December 31, 1964 and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

April 30, 1965.

PRICE WATERHOUSE & CO.

# BALANCE SHEET AT

(in units of account of 0.88867088 g

The conversion rates used in the accounts

50 Belg. fr. = 4.00 DM = 4.93706 FF = 625 Lit.

## ASSETS

<b>CASH AND BANKS</b>		
Member countries' currencies		
At call or not exceeding one year	103,995,189.83	
Over one year . . . . .	875,000.00	
	104,870,189.83	
Other currencies		
At call or not exceeding one year		50,726,524.60
		155,596,714.43
<b>GOLD ASSETS . . . . .</b>		8,602,167.25
<b>INVESTMENTS</b>		
Member countries' currencies		
not exceeding one year . . . . .	14,214,217.96	
over one year . . . . .	6,958,658.59	
	21,172,876.55	
Other currencies		
not exceeding one year . . . . .		750,874.70
		21,923,751.25
<b>EFFECTIVE LOANS</b>		
Of which :		
Disbursed :		
In member countries' currencies	245,598,315.49	
In other currencies . . . . .	28,056,262.00	
	273,654,577.49	
Undisbursed balance . . . . .		120,881,822.14
		394,536,399.63
<b>FURNITURE AND EQUIPMENT. . . . .</b>		1.00
<b>ACCRUED INTEREST AND COMMISSION .</b>		3,582,412.48
<b>MISCELLANEOUS . . . . .</b>		726,841.55
<b>Total Assets : u.a.</b>		584,968,287.59

DECEMBER 31, 1964

fine gold — Art. 4 of the Statutes)

of the Bank are : 1 unit of account :

= 50 Lux. fr. = 3.62 Fls = 1 US \$ = 4.37282 Sw. fr.

LIABILITIES

SUBSCRIBED CAPITAL	1,000,000,000.00	
of which paid up in accordance with Art. 5 (1) of the Statutes . . . . .		250,000,000.00
STATUTORY RESERVE . . . . .		26,615,682.53
PROVISIONS		
— for risks on loans and guarantees . . . . .	20,000,000.00	
— for equalization of interest on borrowings and for issuing charges . . . . .	6,000,000.00	
— for monetary risks not covered under Art. 7 of the Statutes . . . . .	2,000,000.00	
		28,000,000.00
STAFF PENSION FUND . . . . .		607,501.84
AMOUNTS DUE UNDER ART. 7 (2) OF THE STATUTES		424,249.06
MEDIUM AND LONG TERM DEBT		
Member countries' currencies . . . . .	127,459,611.57	
Other currencies . . . . .	26,234,901.04	
		153,694,512.61
UNDISBURSED BALANCE OF EFFECTIVE LOANS . . .		120,881,822.14
ACCRUED INTEREST PAYABLE AND INTEREST RECEIVED IN ADVANCE . . . . .		2,152,107.37
MISCELLANEOUS . . . . .		2,592,412.04
<i>Total Liabilities : u.a.</i>		584,968,287.59

## P R O F I T   A N D   L O S S   A C C O U N T   F O R   T H E

(in units of account of 0.88867088 g)

### D E B I T

ADMINISTRATIVE EXPENSES . . . . .	2,369,680.50
INTEREST AND CHARGES ON BORROWINGS . . . . .	7,309,702.31
FINANCIAL EXPENSES . . . . .	105,268.55
AMORTIZATION OF FURNITURE AND EQUIPMENT . . . . .	29,069.19
PROVISION FOR RISKS ON LOANS AND GUARANTEES . . . . .	5,000,000.00
BALANCE APPROPRIATED TO THE STATUTORY RESERVE . . . . .	5,645,262.31
<i>Total : u.a.</i>	20,458,982.86

FINANCIAL YEAR ENDED DECEMBER 31, 1964

(fine gold — Art. 4 of the Statutes)

C R E D I T

INTEREST AND COMMISSION FROM LOANS . . . . .	13,308,365.15
INTEREST AND COMMISSION FROM INVESTMENTS . . . . .	7,102,286.11
EXCHANGE DIFFERENCES . . . . .	48,331.60
<i>Total : u.a.</i>	<u>20,458,982.86</u>



## STATEMENT BY THE AUDIT COMMITTEE

The Committee instituted in pursuance of article 14 of the Statutes and article 25 of the Rules of Procedure of the European Investment Bank in order to verify the regularity of its operations and of its books,

considering the 1964 annual report and the balance sheet of the Bank as at December 31, 1964 and the profit and loss account for financial year ending on that date, as drawn up by the Board of Directors at their meeting of April 29, 1965,

considering articles 22, 23 and 24 of the Rules of Procedure,

hereby certifies :

that the Bank's operations during the 1964 financial year were carried out in compliance with the formalities and the procedures laid down by the Statutes and the Rules of Procedure;

that the balance sheet and the profit and loss account correspond to the book entries and that they reflect exactly the situation of the Bank as regards both assets and liabilities.

Brussels, 5th May, 1965.

*The Audit Committee,*

A. M. DE JONG

R. BRESSON

K. BERNARD

M. WEISSENBRUCH Ltd, PRINTER TO THE KING, 40, RUE DE L'ORPHELINAT, BRUSSELS 7