

EUROPEAN INVESTMENT BANK



ANNUAL REPORT 1968

EUROPEAN
INVESTMENT BANK

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LUXEMBOURG

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Representative Office in Brussels
60, rue Royale
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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 (u.a.) =	{	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 1968

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Italy : EMILIO COLOMBO, Minister of the Treasury, Rome;

Luxembourg : PIERRE WERNER, Minister of State, President of the
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Chairman until 27th May, 1968;

Netherlands : HENDRIKUS JOHANNES WITTEVEEN, Minister of Finance,
The Hague.

(1) ROBERT HENRION, until June 1968.

(2) MICHEL DEBRÉ, then MAURICE COUVE DE MURVILLE until June 1968.

BOARD OF DIRECTORS

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Vice Chairmen : YVES LE PORTZ

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ALFRED KUBEL, Minister of Finance of the Land of Lower Saxony, Hanover, (3);

(1) GIUSEPPE DI NARDI, until 27th May, 1968.

(2) ROGER BOYER, until 27th May, 1968.

(3) WALTER DUDEK, until 27 th May, 1968.

UGO MOSCA, Director General of Economic and Financial Affairs of the Commission of the European Communities, Brussels;

ALFRED MÜLLER - ARMACK, former State Secretary, Cologne;

LUDOVICO NUVOLONI, Director General of the Treasury, Principal Private Secretary to the Ministry of the Treasury, Rome, (1);

MAURICE PÉROUSE, General Manager, Caisse des Dépôts et Consignations, Paris;

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HANS RANNOU, Ministerialdirektor, Federal Ministry of Finance, Bonn;

STEFANO SIGLIANTI, President, Istituto Mobiliare Italiano, and Chairman Associazione Bancaria Italiana, Rome;

MICHEL ALBERT, Director of Economic Structure and Development, Directorate-General of Economic and Financial Affairs, Commission of the European Communities, Brussels;

WILHELM HANEMANN, Ministerialdirigent, Federal Ministry of Economy, Bonn;

ALDO BALDARI, Inspector General of the Treasury, Inspectorate General for External Finance, Ministry of the Treasury, Rome, (3);

PIERRE ESTEVA, Director of the Secretariat of the Minister of Economy and Finance, Paris, (4);

JEAN-PIERRE METTAS, Assistant Director in the Directorate of the Treasury, Ministry of Economy and Finance, Paris, (5);

FRIEDRICH BERNARD, Ministerialrat, Federal Ministry of Finance, Bonn;

N (6)

(1) ROBERTO DUCCI, until 27th May, 1968.

(2) JEAN SALTES, until 27th May, 1968.

(3) ALBERTO CAPANNA, until 27th May, 1968.

(4) ANDRÉ POSTEL-VINAY, until 27th May, 1968.

(5) JACQUES FRIEDMANN, until 27th May, 1968.

(6) ALDO BALDARI, until 27th May, 1968.
GIROLAMO TROTTA, until 1st April, 1968.

MANAGEMENT COMMITTEE

PARIDE FORMENTINI, *President*

YVES LE PORTZ, *Vice President*

ULRICH MEYER-CORDING, *Vice President*

DEPARTMENTS

<i>General Affairs Office :</i>	HENRI LENAERT, Manager HANS HITZLBERGER, Deputy Manager, Head of Personnel (1)
<i>Loans in Member Countries :</i>	GUY TRANCART, Manager (2) ROMEO DALLA CHIESA, Deputy Manager, Manager of the Rome Office HELMUTH CRAMER, Deputy Manager (3)
<i>Loans in Associated Countries :</i>	KARL-HEINZ DRECHSLER, Manager (4) EUGENIO GREPPI, Deputy Manager (5) JACQUES SILVAIN, Deputy Manager (6)
<i>Finance and Treasury Department :</i>	LUCIANO MIURIN, Manager (7)
<i>Research Department :</i>	HORST-OTTO STEFFE, Manager LOUIS CASSAGNES, Deputy Manager
<i>Legal Department :</i>	J. NICOLAAS VAN DEN HOUTEN, Manager
<i>Technical Advisers :</i>	HENRI JEANDET HELMUTH BERGMANN EUGENIO COMBONI JACQUES FAUDON MARCELLO GOFFI

(1) ARNOLD RIETZ, until 31st March, 1969.

(2) HANS WERNER VON LINDEINER-WILDAU, until 31st March, 1969.

(3) ARMEL BELLEC, until 31st July, 1968.

(4) GUY TRANCART, until 31st March, 1969.

(5) PIETRO BEMBINA, until 30th November, 1968.

(6) KARL-HEINZ DRECHSLER, until 31st March, 1969.

(7) GIANDOMENICO SERTOLI, until 23rd July, 1968.

AUDIT COMMITTEE

Chairman

RENÉ BRESSON	Président de Chambre Honoraire à la Cour des Comptes; former Chairman of the Commission de Vérification des Comptes des Entreprises Publiques, Paris;
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Members

KARL BERNARD	Former Chairman of the Central Board, Bank Deutscher Länder, Frankfurt-on-Main;
ADRIAAN M. DE JONG	Former Executive Governor and Vice President, De Nederlandsche Bank, Amsterdam.

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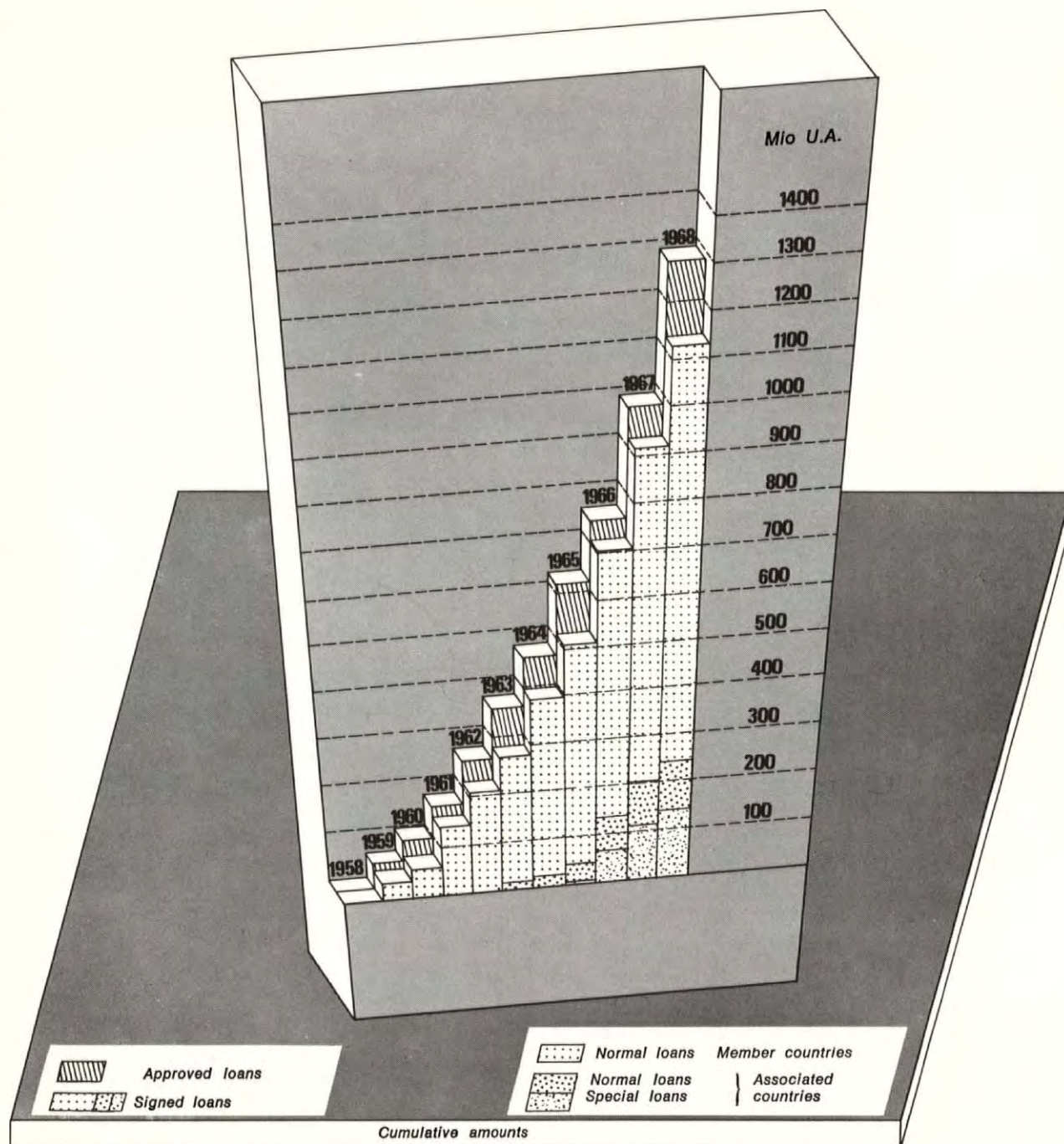
The first part of the Annual Report gives an overall picture, for 1968, of the general economic evolution in the Community – with particular reference to investments and their financing – as well as in the associated countries.

The second part deals with the Bank's activities, the loans and borrowings in the past financial year, and recapitulates the operations performed since its foundation.

The third part contains an analysis of the principal items of the balance sheet and the profit and loss account.

The report concludes with a chapter on the role and experience of the Bank in the framework of the Associations of the European Economic Community with Greece, Turkey and the African States and Madagascar.

DEVELOPMENT OF THE ACTIVITIES OF THE E.I.B.



ANNUAL REPORT 1968

I

THE ECONOMIC EVOLUTION IN THE COMMUNITY AND THE ASSOCIATED COUNTRIES

COMMUNITY.

In 1968, the economy of the Community, considered as a whole, recorded definite progress in many fields by comparison with the previous year.

The improvement was particularly appreciable in the investments, production and employment sectors as well as in respect of incomes expressed in real terms, but it was also pronounced in the formation of savings and the evolution of the capital markets, to such an extent that the investment financing possibilities were quite widely facilitated as a result.

Unfortunately, this general picture also has some aspects which are much less satisfactory.

Firstly, not all the member countries have benefited equally from the improvements in question. In France, the political and social agitation in May and June had damaging consequences for the economy, especially from the point of view of prices and the balance of payments. In Italy, a certain cyclical slowdown was perceptible, at least during the first half-year.

Above all, however, the year 1968 was marked by serious monetary upsets.

The persistent disequilibrium in the balance of payments of the reserve currency countries led in the course of the year to considerable speculative movements of capital, essentially in the direction of the Federal Republic of Germany : the May events in France and their repercussions on cost accentuated these movements, this time to the detriment of the French franc, *inter alia* in the form of considerable variations in the payment terms.

The French Government already re-established exchange control and a certain degree of import quotas in June; the exchange control, which was suspended in September, had to be re-introduced in November, as the speculative transfers had assumed considerable proportions in the last quarter of the year. France then decided to take fiscal and budgetary measures aimed at alleviating corporate charges, in particular for exports, as well as at reducing greatly the budget deficit, and instituted the credit framework system. At the same time, the Federal Republic of Germany applied fiscal and monetary measures to limit the influx of foreign capital and the balance of trade surplus, with a view to ensuring the stability of prices.

It may be hoped that the aggregate of these measures, on condition that they are applied strictly and, if need be, reinforced and provided that the economies of the countries concerned are not adversely affected by new burdens, will make it possible to reduce to an acceptable level the balance of payments disequilibria and to abolish definitively both exchange control and the fiscal measures applied to foreign trade operations. In this respect, the total abolition of import quotas by France on 1st January, 1969, is an encouraging factor.

It should be stressed, however, that the present situation could not be allowed to last too long without serious dangers for the cohesion of the Community.

The present exchange control measures, which constitute a temporary abandonment of the free movement of capital within the Community, in the same way as the manipulations of border taxes, probably do not hamper

the basic mechanisms of the Common Market, but if the necessary equilibrium were to take too long to restore, the uncertainty of the future could compromise the equilibrium of investments and give rise to further speculative moves; the abnormal variations in (forward) exchange rates, the application of a system which is equivalent to a differentiation of the exchange rates according to whether it is a question of products or services and capital, expose commercial transactions to considerable risks of distortion.

In 1968, the *expansion* of the economy was vigorous in the *Community*. The gross national product in real terms, which had advanced by barely 3% from 1966 to 1967, increased by 5.5% in 1968. The resumption of expansion was even more marked for industrial production : the increase was by 7.5% against 1.7% in 1967. As regards demand, the acceleration was most definite in the case of investments : the gross formation of fixed capital advanced by 6.5% in volume by comparison with 1967, against only 1.5% from 1966 to 1967.

The acceleration of economic expansion is ascribable in the first place to the evolution of foreign demand, which constantly developed under the influence of a very dynamic world cyclical situation, to such an extent that certain inflationary trends even emerged again in important non-Community countries. From 1967 to 1968, exports of goods from the Community increased, according to estimates which are still provisional, by 11.5% in value, against 7.5% in the previous year. This figure even amounts to 30% for exports to the United States.

The expansion was subsequently given a very substantial stimulus within the Community itself by the increasingly rapid cyclical upswing in the *Federal Republic of Germany* from the spring of 1967 onwards and which, having originated in the growth of exports and the replenishment of stocks, was afterwards sustained to an increasing extent by a development of fixed investments, amplified by supplementary public investment programmes and steps to encourage private investments. In the course of the second half of 1968, with the usual time-lag in the business cycle, the growth of consumer expenditure by households also showed a definite acceleration.

Until the autumn, production remained highly elastic, due to the prolongation of the effects of the earlier weakening of the economic situation, and the gross national product at constant prices increased by nearly 7 % whereas in 1967 it had only just reached the level of the previous year.

The impetus of the German business cycle made itself felt in *France* where, thanks also to the cyclical support plan put into effect in mid-January 1968, the expansion accelerated until May, before being abruptly interrupted by the Spring strikes. Despite the subsequent efforts – largely successful – of the economy to catch up with the production backlog, the gross national product progressed by only 3.7 % in the course of the year whereas, without the upheavals of May and June and their consequences, the growth should have attained 5.5 % to 6 %. The shortcomings of these two months caused even more prejudice to the economy because throughout the year, but especially after the May events, overall demand continuously showed a marked expansion. This was accompanied by a big reduction in stocks and an acceleration in imports which considerably worsened the external balance of goods and services, although exports of goods still recorded definite progress, as the result, inter alia, of special encouragement measures.

The *Benelux countries* greatly felt the effects of the resumption of German economic expansion, the upswing in the world business cycle and the increase in French imports. These different factors led to a definite expansion of exports which, in view of their very important role in the economy of these countries, was accompanied in turn by a recovery in corporate investments, first of all in the Netherlands and Luxembourg, then, from mid-1968 onwards, in Belgium. The consumer expenditure of households followed, on the whole, the evolution of the other demand factors. Precisely because of the quite marked elasticity of production, the expansion in overall demand led to an acceleration of the economic growth : thus, the national product in real terms increased by 4.5 % in Belgium (1967 : 3.5), by nearly 6.5 % in the Netherlands (1967 : 5.6 %) and 4.5 % in Luxembourg (1967 : 2 %).

In *Italy*, the economic situation showed a slowdown in the first half-year despite the very brisk advance in export demand. The weakening in growth

was particularly clearcut in industry : on the one hand, the expansion of private investments fell off, more particularly under the influence of psychological factors linked with the evolution of domestic policy; on the other, production was slowed down as a result of the efforts by enterprises to reduce the stocks of finished products, as well as a diminished propensity by households to engage in individual consumption, probably connected with an increase in expenditure on residential building. The rapid expansion of demand in the building sector, the accelerated increase in current government expenditure and the growth in exports did not suffice to offset the slowdown in the other factors of demand. In the second half-year, a series of measures to relaunch the economy were decided on, and certain of them put into effect, while the spontaneous trends of the business cycle again showed an upturn. Nevertheless, the growth of the gross national product in real terms remained slightly below that of the previous year : of the order of 5.7% instead of 6.4%.

The situation on the *employment* market in the Community improved considerably. Although productivity – in the meaning of production per person employed – certainly increased greatly, as is natural after a period of cyclical slowdown, the number of persons employed rose during the year, according as the growth of production accelerated, and unemployment fell markedly, despite the large number of young people coming on to the labour market. This evolution was particularly clearcut in Germany. In France, after an aggravation of unemployment as a consequence of the events of May-June, a definite improvement was observed at the beginning of the autumn. In Italy, after a slight increase during the summer, unemployment absorption reappeared; on an annual average, however, the number of unemployed was slightly higher than the previous year.

As regards the evolution of *prices* only Italy obtained results in 1968 which were better than in the course of the previous year. In the other countries of the Community, the increase in prices was more or less at the level recorded in 1967. France was an exception to this rule. The upsurge in prices was particularly marked in that country, where the over-rapid growth of wages and social charges, as a result of the claims put forward in the Spring campaign, contributed to a rise in prices which the competition

resulting from the existence of the Common Market and the efforts of the authorities nevertheless made it possible to limit to about 5%. In the Community as a whole, the increase in prices of the gross national product amounted to over 3% in 1968 against 2.4% in 1967, and that of the consumer prices index 3% against 2.5%.

As in the previous year, a certain number of independent factors exerted an influence within the Community in the direction of higher prices : the heavier burden of indirect taxation, for example, or again the increase in the tariffs of public enterprises and in controlled rents. This observation, however, should not lead us to overlook the fact that the cyclical trend of prices, influenced by the very marked expansion in demand, again took an upturn in the course of the year in five out of six member countries.

In Germany, the consumer prices level underwent the influence of the upturn which occurred at the beginning of the year owing to the entry into force of the value-added tax (VAT); it then remained stable until the autumn thanks, in particular, to a fall in food prices. The uptrend was resumed in the course of the fourth quarter. Under the influence of a rapid expansion in demand, the stronger pressure of prices also became accentuated in the autumn in the Benelux countries and in particular in the Netherlands.

Despite this orientation, the advance of *incomes in real terms* in the Community appeared in a more favourable light in 1968 than in 1967, except in France and Italy. In Germany and the Benelux countries, the rate of growth of nominal incomes indeed increased to a much greater extent than that of prices. This is true both of incomes of households and of corporate profits appropriated to reserves.

The accelerated expansion of incomes observed in the Community was still more rapid than that of consumption; the *propensity to save*, more particularly by households, was thus reinforced. The supply of funds on the capital market directly benefited from this, especially in Germany. Naturally, the situation was less satisfactory in France, where after the strikes the market experienced a period of tension corresponding to the abrupt rise in costs, the shrinkage of self-financing resources, the diminution of public

savings and an increased propensity to consumption; issue activities then had to be temporarily suspended; the flight of capital, due to speculative movements in connection with a possible adjustment of exchange rates, further aggravated the weakness of the market. Italy, for its part, continued to record considerable outflows of long-term capital, due mainly to the attraction of the higher rates of interest offered abroad and factors of a fiscal and political nature : the very flexible policy of the Issue Institute made it possible to avoid an increase in the yield-at-issue rates on the financial market, although, especially in the second half of the year, the latter nevertheless showed a tendency towards a slight tightening.

The budgets of the Member Countries of the Community clearly reflect the economic evolution outlined above. In Germany, the increase in tax receipts, caused by the brisk cyclical upswing, made possible, inter alia, – despite the extent of the burdens linked with the implementation of cyclical programmes and with the measures to encourage investments – a diminution of the deficit on the public budgets as a whole. In France, on the contrary, the overall repercussions of the year's events brought about a marked advance in the deficit, which amounted to 11,000 million francs for 1968. The government – in its anxiety to restore on a term basis the equilibrium of public finances which had been compromised in this way – took the appropriate steps, at the end of the year, to reduce the gap to some 6.4 thousand million in 1969, by cuts in supplementary expenditure and by tax increases aimed mainly at checking the expansion of consumption.

In the other member countries, budgetary policy also exerted a more pronounced expansion effect on liquidities and domestic demand than in 1967. The deficits increased everywhere although, at least in the Benelux countries, the receipts benefited increasingly from the recovery in production. The growth of the deficit is ascribable to some extent to cyclical and structural policy measures; the situation should therefore improve as soon as the upsurge in economic activity has made its effects fully felt.

Generally speaking, the public departments have shown a tendency to finance their increased deficits by a wider recourse to monetary creation. This was not the case, however, in the Federal Republic of Germany, where

the budget deficit – smaller, indeed, than in the previous year – could be financed to a larger extent by long- and medium-term resources, thanks to the growth of the savings by enterprises and private persons and to the very flexible credit policy applied by the Issue Institute.

In the other member countries, the central banks also followed a rather flexible *credit policy* until the closing months of the year. This observation applies also to France where, it is true, the discount rate was increased from 3.5% to 5% at the beginning of July, but where stricter measures to exert a checking effect in the credit field were taken only on 12th November in the form of a further increase in the discount rate, to 6%, an increase in the rate of compulsory reserves and the restoration of the framework arrangements for outstanding credit. On 19th and 20th December, Belgium and the Netherlands in turn raised their discount rate to 4.5% and 5% respectively. The Netherlands, where the danger of a wages and prices spiral was the greatest after France, then also applied quantitative restrictions on the increase of the amounts of short-term credit outstanding.

The following factors prevented a deterioration of the *long-term interest rates* in force on the majority of the capital markets of the Community : considerably increasing formation of savings, financing of the deficits on public budgets by means outside the financial markets, flexibility in the credit policy. Despite the expansion of investments and strong pressure exerted in the upward direction by the evolution of the long-term interest rate in the United States and Great Britain which could have spread via the interpenetration through the Eurocurrency markets, pronounced uptrends in rates of interest by comparison with 1967 occurred only in France and the Netherlands. In Belgium and Italy, the increase of these rates remained very limited. In Germany, a considerable downturn was even recorded.

Apart from the upsets linked with speculative movements of capital, the evolution of the *Community balance of payments* was quite satisfactory in 1968. The balance of trade surplus, with 1.8 thousand million units of account, was indeed higher than that of the previous year, despite the acceleration of the business cycle. Imports of goods increased briskly (by approx. 9% in value) after the stagnation in 1967, but the increase in exports

was greater as the result, inter alia, of a large demand on the part of non-Community countries. The surplus on the aggregate of current payments was also higher than in 1967. However, the Community has acquired the position of a large-scale net exporter of long-term capital; not only the increased formation of savings and the downturns in rates of interest recorded on important Community markets, but also the considerable rise in the rates observed in non-Community countries, were contributory factors here. In the field of short-term capital movements, the speculation on certain currencies temporarily provoked considerable transfers towards the Community, but after the meeting of the "Group of Ten" held in November at the time of the aggravation of the international monetary situation, and as a result of the decisions taken then by the governments and monetary authorities of several countries, a considerable reflux of capital occurred. To these movements were added net outflows of capital from France to Switzerland, part of which had not yet been repatriated by the end of the year.

Precisely because of the steep increase in exports of long-term capital, the overall Community balance of payments showed a deficit in 1968. The gross gold and exchange reserves of the monetary authorities of the member countries decreased by about 1.8 thousand million units of account from end-December 1967 to end-December 1968. The net foreign exchange position of the banks improved to a parallel extent, but did not keep pace with the diminution of the official reserves. When making an annual comparison, it is thus found that, despite all the upheavals in the course of the year, the economic relations between the Community and the outside world have really developed in a direction which is propitious for a better equilibrium of international payments.

The results are less satisfactory as regards *intra-Community trade and payments*.

The acceleration of the expansion in trade in goods among the member countries is probably, in itself, a favourable factor; the growth was 15% in value by comparison with 1967, against only 5.5% from 1966 to 1967. Imports by Germany from its European partners showed a very marked

growth, after the decline of the previous year. The increase in French imports, already observed in 1967, was even more brisk. As regards exports, a remarkable expansion was recorded in Italy, whose industry was best able to develop its sales by reason of the cyclical slowdown and the favourable trend in domestic prices and costs. The intra-Community exports of the other member countries also increased in varying degrees.

This expansion of trade among the member countries was however accompanied in the second half-year by a considerable deterioration in the French trade balance.

Precisely because of the disequilibriums which occurred in the second half of 1968, serious problems arose for the *coordination of cyclical policy in the Community*.

On the whole, the orientation of this policy in the Federal Republic of Germany, Italy and the Benelux countries was in conformity with the Community recommendations. As regards France, the primary aim of the French authorities after the events of May-June was to normalise the situation with respect to production and employment, and to enable the production losses incurred as a result of the strikes to be offset as rapidly as possible. In order to sustain this action, the Commission authorised the adoption of exceptional and temporary measures (quotas for certain imports, export aids, introduction of exchange control in respect of certain operations) and the mutual assistance provided for by Article 108 of the EEC Treaty was granted to France by the Council of the Community.

Nevertheless, in the course of the second half-year the deterioration of the French balance of payments continued, while in Germany the surplus on external payments showed a tendency towards reinforcement. In November, further coordination action was undertaken in the Community on the occasion or as the result of the meeting of the "Group of Ten", with a view to facilitating the return to internal and external equilibrium.

The year was marked by the adoption of the second *medium-term economic policy programme* by the Council of Ministers of the Community.

This programme endeavours to establish in a concrete way the main lines of a coherent structural policy with general scope.

It stresses the need for improving the mobility of production factors, competition, company law, taxation, external financing conditions, management organisation and methods.

In the field of policy in respect of sectoral structures, it lays main emphasis on the measures aimed at improving the transparency of the market and the mobility of labour.

As regards more particularly the development of savings and the financing of investments, the programme contains different suggestions to encourage the formation of savings by private persons and to guide a more considerable share thereof towards the capital market, as well as several improvements in the operating methods of these markets : relaxation of the regulations for investments by insurance companies and savings funds, abolition of the fiscal penalisation which affects investment funds, the abandonment of overlong terms for fixed-income securities, and lastly the abolition of the privileges of certain issuing bodies. It recommends a greater self-discipline on the part of applicants for capital, the harmonisation of provisions regulating the activity of institutional investments, the elimination of the remaining cases of double taxation and the reduction of the overgreat differences existing from one member country to another, between the methods of taxation of income from capital.

Lastly, it seems useful to mention the fact that the "Scientific and Technical Research Policy" working group of the Committee on Medium-Term Economic Policy resumed the examination of the possibilities of developing co-operation among the member countries and, if need be, with non-Community countries in the seven following sectors : computers and data processing, telecommunications, new transport media, oceanography, metallurgy, air and water pollution, meteorology.

As in previous years, the *European Investment Bank* endeavoured in 1968 to meet the requirements of Community economic policy.

In the field of structural policy, first of all, it continued to grant its assistance to sectors of the economy or to regions in which certain reconversions are called for, as well as to certain industrial modernisation projects, or projects of special technological interest. Furthermore, it contributed again this year by its loans towards the implementation of projects of common European interest, particularly in the field of infrastructure. Lastly, it maintained its action in favour of the less developed regions of the Community and this part of its activity was appreciably amplified by comparison with the previous year, as a result of a considerable reinforcement of its operations in Italy.

In the field of cyclical policy, the Bank continued to sustain, thanks to the development of its activities within the Community as a whole, the expansion of investments and above all to facilitate their financing via long-term savings. The amount of the loans approved in 1968 for projects in the Community reached 226.4 million units of account, thus showing a considerable advance in amount (64.1 million units of account) and in relative value : 40 %. From 1966 to 1967, the total of the loans granted during the year in the Community had increased still more rapidly in relative value, as it had almost doubled. Such an accelerated pace of expansion was then fully justified with a view to sustaining the revival of economic activity which had become weaker within the Community. On the other hand, it would have been obviously excessive on the cyclical plane in 1968, a year during which the expansion of investments, considered as a whole, followed from the outset a definitely rising curve.

In Italy, the only member country to have shown tendencies – sometimes very clearcut – towards slowing-down of the gross formation of fixed capital, the Bank granted in 1968 loans amounting to 122.5 million units of account, nearly 90 % more than in the previous year. In 1967, on the contrary, it had slightly reduced the volume of its new loans to this country which was then the only one in the Community to record a rapid economic growth.

Furthermore, the Bank endeavoured to maintain the amount of its interventions in France at a significant level so as to contribute towards offsetting the movements which affected this country in the second half of the year and to meet the difficulties in respect of long-term financing of investments which arose there.

ASSOCIATED COUNTRIES.

In *Greece*, the economic expansion was resumed in 1968. The gross national product in real terms progressed by 4.5% compared to a growth of 3% in the previous year. This evolution reflects essentially the increase in industrial production (7% as against 3.3% the previous year), whereas agricultural production, affected by adverse weather conditions, remained slightly below the result attained in 1967.

The gross fixed investments increased by approx. 17% in volume by comparison with 1967. The two most important factors in this expansion were residential building and public investment. The resumption of private building and the increased public works activity were at the origin of the considerable progress observed in the industrial production of certain branches : building materials, cement, steel. Other branches, such as chemical products, oil refining and paper, also recorded progress. The branches linked with final consumption, such as food products and beverages, textiles, leathers, domestic appliances, did not experience such a marked expansion as the other sectors, although in the second half of the year they seem to have participated more definitely in the economic growth.

The prices level remained stable, although wages recorded uptrends varying – according to the branches – between 5 and 10%. Monetary circulation hardly varied from end-December 1967 to end-December 1968, despite a growth in bank credits of the order of 10%. The liquidity of the banking system was favoured by a marked increase in time deposits by private persons.

The evolution in the balance of payments was characterised by an increase in the current deficit which, according to the initial estimates, rose from 235 million in 1967 to 275 million units of account in 1968. This change was essentially brought about by the deterioration in the trade balance. While imports increased by 8%, exports exceeded the previous year's level by only 2%. The growth in the trade deficit was not sufficiently offset by the improvement in the net exchange receipts from invisible transactions due

mainly to an increase in mercantile marine receipts. However, the current deficit was less than the net inflows of capital which, after the decline they had shown in 1967, again reached the 1966 level. It should be noted, however, that this recovery corresponds to a rather marked expansion of private credits (suppliers' credits) and short- and medium-term bank credits. The gold and convertible exchange reserves increased by approx. 35 million units of account in 1968.

In Turkey, 1968 was characterised, as had been the previous years, by a vigorous expansion of economic activity. The growth of the national product in real terms is estimated to be 6.6% from 1967 to 1968, against 6.1% from 1966 to 1967. As was already the case in the previous year, the added value of agriculture indeed grew by only about 1%, which is well below the average increase of 4% per annum forming the target of the Development Plan. But the rate of growth of the value added in industry, which slightly exceeded 10%, remained exceptionnally high. Although this rate was a little less than that of 1967 (12.3%), this is partly due to the fact that important industrial sectors have reached the limit of the available capacities, and henceforth their production can only increase after the commissioning of new plant now in course of construction.

The acceleration in economic expansion which is revealed by the progress of the national product from 1967 to 1968 derives exclusively from the more intense activity recorded in the services (increase of 9% against 8% in the previous year) and building (10% against 7%).

After the definite slowdown of their expansion recorded in 1967, the year 1968 was characterised by a more pronounced growth in fixed investments. According to the data now available, this is essentially due to the expansion of investments in the private sector, which increased by approx. 14 to 15% in volume (against 10.6% in the previous year). On the other hand, the rate of growth of investments in the public sector only slightly exceeded the 1967 rate (10.5%).

The private consumer expenditure, and above all the public consumer expenditure, continued their definitely upward evolution. Towards the end

of the year, however, steps were taken with a view to reducing the size of the budget deficit until the end of the budget year (February 1969), by a big cut in public consumer and investment expenditure.

Contrary to what happened in 1967, when prices showed a steep rise, they remained relatively stable during the greater part of 1968. The prices of food products continued to increase, as did those of numerous imported goods, as a result of the rise in certain import duties; on the other hand, there was a fall in the prices of a whole range of industrial products, the unit cost of which was reduced according as progress was made in mass production on an ever larger scale. In the course of the last few months of the year, however, fairly clear inflationary tendencies again emerged, one of the causes of which – and not the least important – seems to be the more marked growth in demand, further reinforced by the budget deficit.

The balance of payments situation remained very tense in 1968. Exports of goods amounted, with a total of 496 million units of account, to 5.2% below the level of the previous year (523 million), while imports of goods exceeded by 79 million, or 11.5%, those of 1967 (764 against 685 million). The persistent shortage of exchange again provoked in 1968, on several occasions, considerable delays in the transfers by the Central Bank for commercial payments abroad; towards the end of the year, the granting of licences for the decontrolled products again had to be suspended.

Whereas the trade balance deficit deteriorated, the net exchange receipts from invisible transactions did not increase. The official foreign exchange receipts from tourism indeed increased as the result of the introduction of an exchange premium granted to tourists since the Spring of 1968, and the transfers of wages of Turkish workers abroad again rose, thanks to the more favourable evolution of the labour market in the E.E.C. But the increase in interest due on foreign debts, in transfers of profits and particularly in expenditure in respect of travel by Turkish citizens abroad, more than offset the growth of receipts.

The overall deficit of the balance of current operations attained 210 million units of account, against 104 million in 1967.

As in previous years, the deficit on current payments and the capital requirements for the redemption of existing debts were covered to a large extent by foreign public credits and the credits from multilateral financing institutions, made available to Turkey within the framework of the O.E.C.D. Consortium.

In the *Associated African States and Madagascar* (A.A.S.M.), 1968 was in general characterised by a more marked trend towards expansion, an appreciable improvement in the trade and payments balances and a less easy situation of the public treasuries. There are however numerous exceptions : in particular, this evolution was less definite in Central Africa than in West Africa; furthermore, this was a manifestly difficult year in a number of countries of the Saharo-Sudanese zone owing to the climatic conditions.

The prices of the principal products of interest to these countries were maintained on the whole, except as regards oilseeds, the downtrend in which was particularly marked, especially for palm oil. Cocoa and copper, on the other hand, benefited from exceptionally high prices.

The net public assistance received by the A.A.S.M. increased in 1967 ⁽¹⁾ by just over 5%. It attained 552 million units of account, an amount which is comparable to that for 1962, but 6% less than that for 1965. Over 85% of this aid was granted by the E.E.C., of which about one fifth in the form of community assistance (by the European Development Fund and the Bank) and the rest in the form of bilateral aid by Member Countries, to a large extent in the form of gifts.

The events in France last May led to attenuated repercussions in several African capitals and, in several countries, they proved the occasion for granting wages increases which had until then been postponed.

In Central Africa, the search for new methods for a regional grouping met with some difficulties. Congo-Kinshasa, Chad and the Central African

(1) The figures for 1968 are not yet known.

Republic first of all decided to set up a Union of the Central African States (U.E.A.C.), from which the Central African Republic finally became detached in order to join, in the Central African Customs and Economic Union (U.D.E.A.C.), the Republics of Cameroon, Gaboon and Congo-Brazzaville, from which it – as well as Chad – had initially separated.

These general comments have, however, only a limited range by reason of the great diversity of the situations and evolutions, which emerges clearly if one considers the African States for which loans have been granted or approved so far by the Bank in application of the Yaoundé Convention : Mauritania, Senegal, Ivory Coast, Cameroon, Gaboon, Chad, Central African Republic, Congo (Brazzaville) and Congo (Kinshasa).

The *Islamic Republic of Mauritania* has undergone an important change since its iron mines were opened up in 1962-63. The economy of this country, two thirds of which is desert, was essentially pastoral and agricultural until the early 1960s. Its population – nomadic for the most part – of about one million inhabitants, spread over a territory of nearly 1,100,000 square kilometres, had a per capita product of only some 60 units of account. The exports of iron ore have gradually increased from about 1.3 million tons in 1964 to some 7.7 million tons in 1968. The trade balance, which formerly showed a very marked deficit, now records a surplus which, according to official statistics, attained 30 to 45 million units of account in recent years. The large budget deficit could be absorbed thanks to the mining royalties, which provide just under one third of the ordinary receipts. The gross domestic product has more than doubled since 1959-1960; it reaches about 140 units of account per capita.

In the medium term, the growth prospects are still based mainly on the mining sector : considerable investments have just been made with a view to the opening-up of the Akjoujt copper mines, which will give a new impetus to the Mauritanian economy and be accompanied by an improvement in the roads and ports infrastructure. Other contributions to the diversification of the Mauritanian economy also marked the year 1968, inter alia the first mining of ore containing rare earths, the development – despite various

difficulties – of the fishing industries at Port-Etienne, the opening of a refrigerated slaughter-house at Kaédi, the commissioning of the date packaging workshop at Atar and the construction, at Nouakchott, of a sea-water desalination plant.

The economic situation and future of *Senegal* are dominated by the evolution of the production and prices of groundnuts, oils and oil-cakes, which at present account for about 70 % of its export receipts and nearly 20 % of its gross domestic product. In fact, for three consecutive years, the inadequacy and irregularity of the rainfall have bedevilled efforts made to improve the yields : after a very poor season in 1966-1967 (790,000 t on basis of nuts in shell marketed), the 1967-1968 season proved very mediocre and the initial estimates concerning the 1968-1969 crop are most disappointing. During the same period, the abolition of the preferential prices formerly granted by France and the fall in world prices, which exceeded forecasts, have led – despite the temporary support granted by the E.E.C. – to a fall in export prices of nearly 15 %. An effort to reduce marketing and manufacturing costs has been undertaken, the Government has reduced its export taxes, without thereby being able to avoid a considerable fall in the purchase prices paid to the producer, for whom the nominal level of prices, unchanged since 1955-1956, already corresponded to a decline in the real income.

The consequences made themselves felt very strongly at all levels of the country's economic and financial life. Despite the austerity efforts, the surplus of budget receipts over the operating expenditure was reduced and, for lack of sufficient financing resources, the execution of the Four-Year Plan 1965/66 - 1968/69 is threatened with some delay. The trade balance and the balance of payments continued to show a definite deficit, despite the decline in imports.

In this context, the goals of diversification of production assume very special importance, even if the natural conditions somewhat restrict the range thereof : development of cotton cultivation, progress of fisheries, extension of the rice crop, sugar-cane tests with a view to a sugar project,

stock-rearing, selection of varieties of millet with a better yield, slow expansion of the industrial sector, etc. These are naturally long-term actions, the effects of which are still too limited to remedy the present slowdown in economic growth.

In the *Ivory Coast*, a certain acceleration of the economic growth has been encouraged by the favourable evolution of the main agricultural and forestry products and the continued industrial expansion. In the course of the 1967-1968 season, the coffee production marketed attained approx. 290,000 t against approx. 131,000 t during the previous season. The cocoa production marketed, estimated at about 147,000 t for the 1967-1968 season, was only 2% less than the excellent crop of the previous year and benefited from prices whose upward trend – which had started in 1966 – continued. Wood exports, showing an increase of about 20%, reached more than 1.65 million tons for the first nine months, or nearly as much as for the whole of 1967. Banana sales progressed more slowly, and their placing outside the French and Italian markets remains problematic. The diversification of agricultural production was actively continued. The oil-palm plan is well on the way to implementation both at the plantations level and as regards the gradual installation of factories and the organisation of marketing. The marketed production of unginned cotton exceeded 40,000 t in 1968-1969 against 25,000 t in 1966-1967; the current actions in favour of pineapples, rubber, rice and coconuts have advanced normally. The growth of the industrial sector continued at a rate which might be of the order of 16% in 1968.

When the definitive results for 1968 are known, they will probably reveal a rate of expansion in external trade of approx. 21%; the progress was definitely more rapid for exports than for imports, despite the larger orders for capital goods, so that the surplus on the trade balance will amount to over 110 million units of account for 1968 against 60 million for 1967.

According to the "First Sketch of the Five-Year Development Plan 1971-1975", the country's gross domestic production should continue to grow at an annual rate of at least 8% from 1966 to 1975, in so far, *inter alia*,

as a rapid pace of industrialisation can be maintained, which pace is itself henceforth conditioned by the implementation of a limited number of major projects. The construction of a port at San Pedro and a dam at Kossou has already started.

In the *Federal Republic of Cameroon*, the economic growth continued during 1968, thanks inter alia to the excellent cocoa and coffee crops for the 1967-1968 season, the development of the industrial sector at a rate of 15% and the expansion of exports favoured by the high cocoa prices. A certain restriction in credit to enterprises, a prudent budgetary policy and a reduction in the imports of capital goods have furthermore made possible the return to a greater equilibrium of the trade balance and the replenishment of external assets.

Several major industrial projects were however commissioned in 1968 : an aluminium rolling mill, a sugar complex, a chocolate factory, while the two big textile mills reached their "cruising speed" and the works for the development of hydroelectric power production were undertaken.

The 1968-1969 season shows relatively good prospects for cocoa, a slight fall for coffee, while in the north the outlook for groundnuts and cotton is excellent, and the cotton crop might attain approx. 68,000 t. Banana production, on the other hand, has persistently diminished.

A large-scale oil-palm development programme is in course of execution in Western Cameroon and will be undertaken in Eastern Cameroon, but will have only a long-term effect on production. The inauguration of the Yaoundé-Belabo and Ediki-Kouamba railway lines in the near future will open up new prospects for forestry. On the whole, however, if the Cameroon economy and in particular its agricultural sector, despite obvious progress, gives an impression of slowness rather than of spectacular expansion, there are probably two reasons for this : the inadequate development of its road infrastructure and the need, for political reasons, to disperse the public investment efforts among the Eastern, Western and Northern regions.

The *Republic of Gaboon*, with hardly 500,000 inhabitants, is the least populated of the A.A.S.M. The equatorial forest, rich in okoumé wood, which was for long its main resource, accounted for only 32% of its export receipts in 1967, against 64% for the products of its subsoil as a whole : manganese ore 1.2 million tons, crude oil 3.2 millions tons, uranium ore 1,400 tons. It is mainly thanks to the utilisation of its mining resources that Gaboon achieved from 1960 to 1966 an average annual rate of growth of its GNP of the order of 10%, thus bringing it to over 450 units of account per inhabitant. The tendency however is towards a certain slowdown, which is explained by the stagnation at a high level in the production of manganese ore, uranium and wood, as well as by a pause in investments and in building and public works activity. Forestry even showed a certain decline from 1964 to 1967 owing to the impoverishment of the coastal belt and the transfer of the major operations to the second zone; but for 1968, the initial estimates showed a record production of about 840,000 t of okoumé, which is higher than the previous maximum reached in 1964. The crude oil extracted off the Gaboon coast has become the only branch of production showing rapid expansion : 1.4 million tons in 1966, approx. 4.6 million tons in 1968.

The rapid increase in receipts for long ensured that the Gaboon budget was in a very easy position. A relative tightness now appears to prevail, although nearly 28% of the budget for the 1969 financial year were appropriated to investment expenditure.

Gaboon is preparing to pursue a major programme of infrastructure works necessary for the development of new forest zones; it even has the ambition of launching the first part of the Owendo-Belinga railway project which is intended, in a later stage, to make possible the mining of a large iron ore deposit. Lastly, in the industrial sector, several achievements are under way, inter alia, an oil refinery, a brewery, a flourmill, and a printed textile factory.

There will thus have been a slight resumption of economic expansion in 1968, which should be confirmed in 1969, although considerable delays are to be expected in the execution of the 1966-1970 plan, especially as regards

large-scale operations such as the cellulose factory, the cement mill and the Kinguélé dam.

In the *Republic of Chad*, 1968 proved a more difficult year, both as regards the problems of maintaining order in the north of the country and as regards the cotton crop, which was below the forecasts in 1967-1968, as the marketed production hardly exceeded 102,000 t against some 123,000 t in 1966-1967. The financial situation, already relatively tense, was aggravated by a slower collection of taxes. The trade balance continued to show a big deficit. While exports of live cattle appear to have decreased, meat exports, on the other hand, have increased by about 30 %.

According to the initial estimates, the 1968-1969 cotton crop should show an increase. The downturn in prices which began in the last quarter of 1968 however threatens to upset partly this improved outlook.

The economy of the *Central African Republic* is based mainly on diamonds, cotton and coffee, which together account for over 90 % of the export receipts. In 1967, the latter showed a certain sagging, as the decline in sales abroad of diamonds and coffee was only partly offset by the growth in consignments of cotton and wood. In the same year, imports increased by over 26 %, owing inter alia to purchases of equipment necessary for infrastructure works and the installation of various industries : textiles, flourmilling, oil mill combined with soap works, and silk mills. This led to a considerable increase in the deficit on the trade balance. According to information which so far is available only for the first few months of 1968, this deficit was absorbed to a large extent thanks to a definite decline in imports, the continuous increase in cotton and wood exports and a very marked recovery in diamond sales.

The modernisation and promotion of the agricultural sector have yielded very encouraging results. The production of unginned cotton, which had fallen to 24,000 t in 1965-1966, reached the record level of about 49,000 t in 1967-1968, whereas the forecasts concerning the 1968-1969 season amount to some 60,000 t.

The *Republic of Congo (Brazzaville)*, in its search for a difficult equilibrium between rival trends, went through a year of political upheavals and, as in 1967, continued to cope with the same problems of an economic and financial nature. Since 1966, the expansion of foreign trade has been more marked for imports, so that the disequilibrium in the trade balance, already considerable, was further aggravated. In addition to the budget deficit which has persisted for several years, there are now deficits in various national enterprises. The campaigns in favour of the traditional agricultural activities have so far yielded only few results. The outlet difficulties have limited sugar production to a level appreciably below the installed capacities. Forestry production again increased in 1968, after the slight fall observed in 1967. The wood industries (sawing and plywood) have formed the object of considerable investments in recent years.

In the other industrial branches, 1968 was marked by the setting-up of several large-scale State enterprises, the commissioning of which seems bound to raise delicate management and sales problems : the Loutété cement works, the Kinsouli textile complex, the Pointe-Noire glass works. However, the main chances of improving the country's economic situation probably reside in the opening-up, in the very near future, of the Holle potash mines.

With its 2,345,000 sq. kilometres and some 16.5 million inhabitants, the *Democratic Republic of the Congo (Kinshasa)* is by far the most extensive and the most populated of the A.A.S.M. It is probably also the country with the most considerable economic potentialities. It has only just emerged from a long period of serious political upsets and deterioration of the economic, budgetary, monetary and balance of payments situation, linked with an inflationary process. The monetary reform of 24th June, 1967 and the reform measures accompanying it have since then made possible a certain recovery, which still has to be supplemented and consolidated.

Although, at constant prices, the gross domestic product approximately recovered its 1959 level in 1967, the recession remained considerable for the primary sector and even affected, although to a lesser extent, the secondary

sector, where the development of manufacturing industry had however been encouraged until 1967 by restrictions on imports and transfers.

In 1968, the re-establishment of order and security throughout the territory and the new monetary conditions resulting from the June 1967 reform made possible a definite expansion of agricultural production estimated at 30 % by comparison with 1966, as well as of transport and exports. Copper production reached approximately 321,000 t in 1967, or 13.5 % more than in 1959. Since 1966, it has benefited from very high prices, which even attained an exceptional level in 1968. A certain slowdown in the activity of the manufacturing industries, which had begun in the second half of 1967, continued in 1968; it is explained by measures aimed at stabilising demand and by competition from imported products after the liberalisation of imports.

Thanks to the recovery in agricultural production as well as to the high copper prices, the increase in exports will probably be of the order of nearly 30 % by comparison with 1967. On the other hand, imports – despite the liberalisation of payments – appear to have progressed less rapidly. The trade balance surplus, which already amounted to 172 million units of account in 1967, should remain considerable : from June 1967 to June 1968, the balance of payments showed a positive balance of approx. 120 million units of account.

However, the gap between the official parity of the Zaïre and its rate on the parallel market, which had been reduced to 7.5 % in October 1968, exceeded 17 % at the end of December. The success of the reform programme seems to depend mainly on the lasting restoration of the equilibrium in public finance and the no less durable stabilisation of prices. In this connection, the indications are relatively favourable. Prices appear to have been stabilised since June 1968, after a rise by comparison with June 1967 of the order of 85 %, although this is clearly less than the rate of the devaluation. As for the Government accounts, after certain difficulties which arose in the course of the first half-year, their equilibrium at the end of 1968 seemed almost assured partly thanks – it is true – to the supplementary fiscal receipts which resulted from the exceptionally high copper prices. The consolidation of the incipient recovery still has to be ensured.

As regards power, 1968 was marked by the commissioning of an oil refinery at Moanda and by the start of the development works on the Inga hydroelectric site. The development of agricultural production, the overhauling of the road system, the reorganisation of certain transport enterprises and the reorientation of industrial activity are among the priority schemes undertaken.

INVESTMENTS IN THE COMMUNITY

In 1968, investments in the Community as a whole showed a definite recovery. According to provisional estimates, the gross fixed capital formation amounted to about 87 milliard units of account compared to 79.8 milliard in the previous year, thus showing an increase of approximately 9% in value and 6.5% in volume. This evolution contrasts with that of the previous year, when the gross fixed capital formation, influenced by the recession which then occurred in the Federal Republic of Germany, had increased – by comparison with 1966 – by only about 2% in value and by a negligible percentage in volume.

All the member countries recorded an increase in investment expenditure in 1968.

In *Germany*, the trends towards improvement, which had been perceptible from the second half of 1967 onwards, were gradually confirmed in 1968, to such an extent that investment expenditure finally increased by 10.4%, whereas it had decreased by 9.8% in 1967. The growth in volume was 8.6% after a decline of 7.4% in 1967. However, the 1966 level has not yet been attained again.

In *France*, despite the difficulties which arose in the wake of the May-June events, investment expenditure increased by about 8%, which is appreciably the same as the percentage for the previous year. Taking into account the acceleration in the uptrend in prices in 1968, the rate of increase in volume (4.5%) remained definitely below that of 1967 (6.4%).

In *Italy*, the growth pace of investment expenditure fell off slightly owing to the cyclical slowdown observed in this country during the first half of 1968. The development of investments reached 9.9%, against 13% in the previous year; the growth in volume was 7.4% instead of 10.5% in 1967.

In the *Netherlands*, the rate of expansion was higher in 1967, both in value (13.5%) and in volume (10.5%).

In *Belgium*, the decline in investment expenditure continued: the rate of increase was only 4.5%, against 8% in 1967 and just over 10% in 1966.

In the *Grand Duchy of Luxembourg*, on the other hand, where investment had declined for three consecutive years, a recovery was observable in 1968.

Table 1 – GROWTH OF FIXED INVESTMENTS IN THE COMMUNITY
(in % by comparison with previous year)

	Value				Volume			
	1965	1966	1967	1968	1965	1966	1967	1968
Germany	9.0	2.5	– 9.8	10.4	6.6	0.2	– 7.4	8.6
France	10.2	11.2	8.2	8.0	7.1	9.5	6.4	4.5
Italy	– 6.6	5.3	13.0	9.9	– 8.4	3.4	10.5	7.4
Netherlands	9.7	11.6	10.8	13.5	4.9	6.2	7.2	10.5
Belgium	8.4	10.1	8.0	4.5	3.7	6.6	4.0	2.0
Luxembourg	–13.1	– 0.7	–15.8	9.0	17.9	6.0
The Community	6.7	6.7	2.0	9.0	4.0	4.7	1.5	6.5

Under the influence of a pronounced growth in Germany and the Netherlands, and although their expansion slowed down in France, Italy and Belgium, fixed investments by enterprises, excluding expenditure for housing, showed an average increase in the Community in 1968 of approximately 8% by comparison with 1967. Their growth was thus a

little less rapid than that of the aggregate of gross fixed investments. Their share in the total of these same investments thus fell from 58.7% in 1967 to 58.1% in 1968, whereas that of expenditure for housing construction was maintained at some 26%, and that of investments by public departments, under the influence of a rapid acceleration of public investments in France, Germany and Italy, exceeded 16% compared to 15.4% in 1967.

In Germany, the *enterprises* were able, thanks to the rapid cyclical recovery, which led to a definite improvement in the commercial prospects and a rapid increase in profits, to step up by about 10% the expenditure relating to their equipment and their industrial and commercial building projects, after having reduced the latter by over 9% from 1966 to 1967. The recovery in investment was able to occur all the more easily since the conditions in which it was possible to have recourse to the borrowing resources of the banks and the capital market were markedly favourable and the cost of long-term money temporarily showed a considerable downturn.

Table 2 — GROSS FIXED CAPITAL FORMATION IN THE COMMUNITY

	Milliards of units of account at current prices				% of total			
	1965	1966	1967	1968	1965	1966	1967	1968
Investments by enterprises	42.8	45.9	46.8	50.5	58.5	58.7	58.7	58.1
Housing	19.3	20.3	20.7	22.5	26.3	26.0	25.9	25.8
Public investment	11.1	11.9	12.3	13.9	15.2	15.3	15.4	16.1
Total	73.2	78.1	79.8	86.9	100.0	100.0	100.0	100.0

In the Netherlands, the enterprises also stepped up their investment expenditure in appreciable proportions : by about 9.5% - 10% from 1967 to 1968, instead of 6.3% from 1966 to 1967. Enterprises in the private sector, whose self-financing capacity improved notably, also participated in this expansion, which was bound to be favoured by the execution of several large-scale investment projects of foreign enterprises, particularly in the sector of the petrochemical industry located in the port areas, as

well as by a number of measures taken by the authorities with a view to encouraging regional development.

Likewise, in Luxembourg, the evolution was more favourable than in other years. Investment expenditure by enterprises, which had shown a tendency to fall since 1965, again increased from 1967 to 1968. This growth is due mainly to the progress of investments by the public utility services, but it seems too that a certain acceleration was perceptible at the level of the foreign industries established in the Grand Duchy.

On the other hand, the slackening observed in France is probably due, to a large extent, to the delays and losses of production which occurred during and immediately after the May crisis. From a cyclical point of view, a definite expansion of investment activity, stimulated by the measures taken at the beginning of the year, was observed until mid-May. After the slackening period, the expansion tendencies reappeared very rapidly, despite the financial difficulties provoked at the level of the French enterprises by the abrupt rise in wages and the temporary absence of receipts of funds. Moreover, numerous pointers allow one to think that it was the favourable sales outlook resulting from the rapid growth of domestic demand brought about by the public's increased purchasing power, but also the need to offset, at least partly, the rise in the cost of labour, that led the heads of enterprises to expand their investment programmes in the course of the second half-year. This trend was further reinforced by a series of measures taken by the government – grant of long-term loans and exceptional cash advances under advantageous conditions, tax relief at the time of purchase of capital goods, abolition of the tax on wages – and by the gradual improvement of profit margins. Indeed, investments by enterprises should have advanced in France by more than 6% from 1967 to 1968, against 8.7% from 1966 to 1967.

For its part, Italy recorded a very brisk acceleration of expenditure relating to industrial and commercial building, due largely to an exceptional factor : the introduction, from September 1968, of new and stricter regulations in respect of town planning, which prompted the enterprises to hasten the opening-up of worksites for a large number of new buildings.

Equipment investments, on the other hand, showed a slight growth – barely 5% –, whereas in the previous year the expansion had amounted to 19%. Apparently this trend is due firstly to the cyclical slowdown as well as to shrinking profit margins. In all, the progress in investment expenditure by enterprises was probably of the order of about 7.5% against 20% in the previous year.

In Belgium, the growth in investments by enterprises slowed down even more markedly, reaching a rate of only 5% in 1968, against 8% in 1967 and 16% in 1966. Indeed, the promoters continued to show a definite reserve, especially in the first half-year, owing to the inadequate utilisation of their production capacities and the narrowness of their profit margins. Furthermore, investments by foreign firms, which had constituted a very important expansion factor in the course of recent years, no longer increased. From mid-1968 onwards, however, the propensity to invest recovered slightly, mainly in industry, probably owing to the rapid expansion in foreign demand and also to the improved profit outlook as a consequence of the cyclical recovery.

In the Community as a whole, and despite considerable differences from one country to another, expenditure for *housing construction* showed, from 1967 to 1968, an identical increase to that relating to the gross fixed capital formation.

Of the member countries, Italy experienced the most marked expansion in this expenditure (15.3% against 7.4% in the previous year). In the Netherlands as well, the increase, which amounted to 11%, was maintained at a very high level, without however reaching the exceptional growth rates of recent years (average 1963-1967 : 23%). In Germany, the advance was approximately 6%; in fact, the construction of housing, after the fall by about 8% in the previous year, resumed its progress only in the course of 1968, as demand in this field, which had already increased as the result of the improvement in financing conditions, was translated into effective investments only with a certain timelag. In France, especially in the course of the second half-year, there was a quite pronounced progress

in expenditure for housing construction which might, despite the effect of the strikes, prove to be slightly over 7%, against 5% from 1966 to 1967; on the one hand, the encouragement measures taken at the beginning of the year by the public authorities in favour of social housing construction and accession to ownership exerted their effects and on the other, it seems that the prospect of an uptrend in cost resulted in hastening, especially in the private sector, the opening-up of numerous worksites. In Belgium, the high cost of construction and financing continued to weigh on development of investments of this type; despite the encouragement measures taken at the beginning of the year in favour of social housing, expenditure for housing construction was probably, on the whole, slightly less in 1968 than in 1967.

Investments by public departments, by and large, accelerated their progress from 1967 to 1968; their growth should have reached about 13% against 3.2% in the previous year.

Public investments, sustained in the Federal Republic of Germany mainly by the special expenditure decided on in the previous year in the framework of the federal government's cyclical and structural programmes, increased in value by 10% from 1967 to 1968, after a fall of 5.5% in the previous year. In France, the initial targets of the Plan which provided for special efforts in respect of equipment expenditure, mainly in the field of education and telecommunications, were exceeded despite the events in May; according to provisional estimates, the amount of public investments might have increased by about 15% from 1967 to 1968 (against 12% the previous year).

The rate of progress was also high in the Benelux countries. In the Netherlands, the growth was located, as in the previous year, in the region of 16.5%; the investment expenditure by local communities was slightly slowed down, but that of the central government showed a definite increase, mainly in the framework of the programme aimed at reducing regional unemployment. For Belgium, the increase in investments by public departments is estimated at nearly 12% (14.6% in 1967). Italy is the only

country where public investments increased by only 1.6%, whereas they progressed by 17.7% from 1966 to 1967; this evolution is due, it seems, to administrative difficulties which had led to delays in the signature of contracts.

INVESTMENT FINANCING

In 1968, investment financing within the enterprises of the Community was relatively easy. Indeed, it seems that the profit margins improved somewhat and that the rate of self-financing tended to become stabilised in France, despite the momentary difficulties there, while it progressed slightly in Italy and the Netherlands and showed a pronounced increase in Germany.

Notwithstanding this evolution, which was quite favourable on the whole, 1968 was also characterised, in all the member countries, by a more intensive call by enterprises on medium- and long-term loans.

A relative reduction of certain other sources of financing seems to be the cause of this. The private enterprises in particular had to cope, in certain cases, with a slowdown in transfers in their favour of capital originating from the public sector, and in other cases seem to have called less on short-term credit and foreign capital for financing their investment programmes.

This analysis of the financing schemes probably involves of necessity a large share of approximation owing to the absence of statistical data on certain categories of resources or to their uncertain and provisional character. However, the application of the same method from year to year and for all the countries makes it possible to discern the most significant trends.

There are thus calculations which consist of placing alongside the amount of the investments effected in the economic sector in the course

of recent years, the large masses of capital having served to finance these investments : resources appropriated to depreciations, net proceeds of the issues of securities on the market by enterprises and credit institutions, medium- and long-term contributions by financial intermediaries not derived from the issue of securities, and lastly – this figure being arrived at by difference – the overall amount of calls on short-term bank credit and other external resources, of assets of private persons devoted directly to housing construction and of profits appropriated to reserve by the enterprises.

It is certainly necessary to refrain from drawing overhasty conclusions from these different data, for the whole of the internal or external resources considered also includes those which are devoted to the financing of housing construction and which cannot be isolated.

Table 3 – METHODS OF FINANCING FIXED INVESTMENTS OF THE SECTOR
OF THE ECONOMY IN THE COMMUNITY 1964-1968

(%)

	1964	1965	1966	1967	1968	Annual average 1964-1968
I. Depreciations	45.4	47.0	48.6	51.6	51.6	49.0
II. Long- and medium-term external resources	32.8	32.3	29.1	32.3	34.6	32.3
– Shares	5.0	4.9	4.0	3.3	4.7	4.3
– Bonds	8.5	9.0	6.7	8.4	8.7	8.3
– Credits	19.3	18.4	18.4	20.6	21.2	19.7
III. Other external resources including short-term bank credit (1) and net self-financing	21.8	20.7	22.3	16.1	13.8	18.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

(1) In the present state of the statistics, it is impossible to isolate the share of short-term credits appropriated to investment financing. The extent of the short-term bank indebtedness of enterprises in Italy and France however makes it possible to assert that the utilisation of overdraft facilities for long-term financing is particularly current in these two countries. The differences from one national source to another and from country to country render comparisons difficult : according to the statistics published in 1967 by the O.E.C.D., based on the analysis of financial accounts or on samples of companies and updated for the period 1964-1967, the percentage of short-term bank credits in the aggregate of the external resources collected in the course of the years 1964-1967 by the enterprises to finance the whole of their working capital, financial investments, stocks and fixed investments amounted to 40% in Italy, 35% in France and 20% in Germany.

Subject to this reservation, it is clear that in the Federal Republic of Germany, undistributed profits showed very appreciable progress in 1968, and at the same time the call by enterprises on external resources also advanced. The expansion of calls on the domestic capital market did not reach the scope it had attained in 1965 and 1966, but it served to offset the fall in State subsidies and the other capital resources transferred by the public Departments to the sector of the economy. It is above all with the banks and financial institutions that the enterprises tended to become more indebted in the form of medium- and long-term loans. Share issues also acquired more importance. The growth of investments made in respect of housing construction, for its part, had as corollary a very appreciable progress in calls by mortgage banks on the bond issues market as well as calls by the public on the credit provided by these establishments. Despite this growth in fund requirements, the supply and demand of funds on the long-term capital market and more particularly on the market for issues of fixed-interest securities reached equilibrium in interest rate conditions which definitely showed a downturn by comparison with the previous year. This situation is due to rather exceptional factors and in particular to the maintenance of a very high liquidity of the economy linked in particular with the specially favourable external payments situation.

In the other countries of the Community, the role played in investment financing by external medium- and long-term resources was also stepped up.

In the Netherlands, the calls on private loans with insurance and providence institutions continued to increase, although the self-financing capacities of the enterprises considerably improved, as in Germany.

In Italy, several factors also enabled the enterprises to improve their self-financing rate. The most important are the downturn in the pace of investments and the marked progress in foreign sales, making possible the maintenance of large profits. The financial market was nonetheless widely called upon for the direct benefit of the national enterprises, or for the indirect benefit of private enterprises, thanks to the intervention

of credit institutions. The wider recourse to medium- and long-term external resources was accompanied by a reduction in the calls on overdraft facilities to finance investments and a more moderate expansion of transfers of capital originating from the State.

In France, undistributed profits increased a little more rapidly than in the previous year, despite the repercussions of the Spring events. The aggravation of wage charges in the course of the second half of the year appears to have been gradually offset by the productivity gains, the profits linked with price rises and above all the tax relief granted by the State, to such an extent that the profit margins would little by little have returned, in industry as a whole, to their pre-strike level, subject to considerable differences observed from one branch to another. On balance, the self-financing rate would be located at a level quite close to that of the previous year. However, the share of calls by enterprises on medium- and long-term resources increased.

Belgium is the only country of the Community where the possibility is not excluded that the maintenance of a certain narrowness of profit margins and the inadequate utilisation of production capacities may have found expression in a slight weakening in the enterprises' own resources. The present data are still too uncertain to enable a final judgment to be made on this subject, but in any case it seems clear that the enterprises have had much wider recourse to bond issues and equipment loans, while at the same time stepping up their share issues to quite high proportions.

The wider call by enterprises of the Community on medium- and long-term credit has not been reflected in a rise in the cost of this credit. The institutions which participate in their financing have indeed continued to benefit from very abundant liquid resources at relatively favourable rates, which have facilitated the process of conversion into long-term uses for the benefit of the economy. As for the borrowing conditions on the markets for public issues of fixed-interest securities, they showed no deterioration in the Community as a whole. The evolution was however very different from one country to another and, in certain of them, there were fairly large rises in interest rates, especially in the second half-year.

THE MARKET FOR PUBLIC ISSUES OF SECURITIES

In 1968, the funds collected in the Community on the occasion of public issues of securities (1) once again showed a considerable advance by comparison with the previous year. Issues on the European international market were characterised by a particularly spectacular development. The capital markets of the member countries, taken as a whole, also made it possible to channel greater volumes of capital than in 1967: the countries where expansion was most powerful are Belgium, Italy and Germany; France, on the contrary, recorded a setback in this respect.

I. Issues of securities on the capital markets of member countries.

Issues of national securities.

The amount of public issues of national securities, in net value, i.e., after deduction of depreciations, showed an increase of approximately 18% in 1968, against 16% in 1967.

From one year to the next, the ratio between these issues and the gross national product in value of the Community has advanced from 3.7% to 4.1%.

The pace of growth in demand by the public sector on the financial market, which had been showing marked progress for several years, slowed down a little; placings of loans by this sector showed an increase by 14% instead of 23% in 1967 and 29% in 1966.

The private sector stepped up its issues by 20% in 1968, against 12% in 1967. The net proceeds of loans by non-financial enterprises and credit institutions increased less rapidly than in 1967, but investments in variable-income securities showed considerable progress.

(1) Including issues of medium-term cash certificates in Belgium and issues of credit certificates and nine-year Treasury bonds in Italy.

Table 4 — NET DOMESTIC PUBLIC ISSUES OF SECURITIES

(milliards of units of account)

<i>Type of securities</i>	1965	1966	1967	1968
Shares (1)	2.93	2.57	2.19	3.02
Public loans (State and local authorities)	3.25	4.18	5.16	5.88
Borrowing by enterprises (including financial institutions)	5.59	4.41	5.64	6.38
Total Community	11.77	11.16	12.99	15.28

(1) In order to avoid duplications, it would be advisable to eliminate from this table all issues of shares by institutional investors the proceeds of which are reinvested in securities by subscription to stocks and shares. Unfortunately, this deduction proves to be statistically impossible, except as regards shares issued in France by the investment companies with variable capital, which are therefore excluded from this table.

1. Share issues.

Whereas in the two previous years, share issues had fallen off, on the whole, they developed in 1968 in the majority of the countries of the Community under the effect of a number of factors which exerted various

Table 5 — SHARE ISSUES

(milliards of units of account)

<i>Country</i>	1965	1966	1967	1968
Germany	0.99	0.68	0.48	0.79
France (1)	1.02	0.74	0.70	1.13
Italy	0.65	0.75	0.63	0.76
Netherlands	0.03	0.02	0.01	—
Belgium	0.22	0.30	0.31	0.38
Luxembourg	0.11	0.13	0.12	0.35
Total Community	3.02	2.62	2.25	3.41

(1) Including issues of shares by investment companies with variable capital which attained 0.39 milliard units of account in 1968, against 0.06 milliard units of account in 1967, 0.05 milliard units of account in 1966 and 0.09 milliard units of account in 1965.

influences on the different markets : the evolution of share prices on the stock exchange, the expansion of economic activity, as well as the appearance of certain inflationary tensions.

In *Germany*, the definite recovery in issues of variable-income securities is ascribable above all to the cyclical expansion. Quite a large number of firms sought to finance their investments, in course of rapid development, by carrying out projects for increase of capital which a less favourable economic climate had caused them to postpone in the previous year. The higher degree of utilisation of production capacity and the considerable improvement of productivity gave rise, at the same time, to the publication of very favourable interim results concerning corporate profits and these reports formed a stimulus for investors on the stock exchange. Notable price gains, following those of 1967, were thus observed until August. Although speculation in connection with a possible revaluation of the Deutsche Mark subsequently contributed towards exerting pressure on prices, the year closed with a rise of 13%.

In the *Netherlands*, the uptrend in prices, further sustained by the growing interest of investors in companies likely to be affected by the movement of industrial mergers and concentration, reached 23%.

The upturn was more limited in *Belgium* where, held in check by the lengthy governmental crisis in the spring, it barely exceeded 8% for the year. The expansion in the financing requirements of the enterprises, brought about by the improvement in the economic evolution, nevertheless gave rise to a very marked revival in share issues, which reached an amount unequalled hitherto.

In *France*, the share market recorded an advance in prices by nearly 18% from early January to the May events, reaching its highest quotation level since March 1966. However, the developments of the social crisis and the plans to increase estate duties subsequently led to readjustments in the downward direction, to such an extent that the price gains for the whole year were reduced to 7%. Despite this less favourable situation,

the interest of investors, in view of the aggravation of the threats to the national currency, shifted to an increasing extent to the shares of investment companies with variable capital; subscriptions by the public to these securities attained an amount which was six times greater than that in 1967. Quite a pronounced recovery in issues of shares of the classic type was also observed during the year : nearly half of these issues occurred in December, at a time when the stock market was taking a turn for the better.

In *Italy*, issues of variable-income securities also progressed, although the evolution of the business cycle was a little less favourable during the first part of the year and more particularly the trend on the stock market had, under the influence of essentially political factors, assumed a relatively uncertain character. It was only in November and December that a strong upward trend made it possible to offset the falls which had occurred until then.

In *Luxembourg*, lastly, the index of industrial share prices practically did not vary from one year to the next. A big increase in issues of variable-income securities was nevertheless recorded, by means of the establishment in the Grand Duchy, frequently for considerations of tax neutrality, of numerous investment funds meeting the twofold desire of investors to defend themselves against the erosion of the purchasing power of the currency and to benefit from the chances of appreciation offered by international industrial securities.

2. *Bond issues.*

Whereas they had moved closer in 1967, the stock market yields of fixed-income securities on the markets of the Community again showed a tendency to follow divergent trends. In Germany, they persistently moved downwards gradually until August, then remained at the relatively low level attained at that time, with a remarkable degree of stability. In

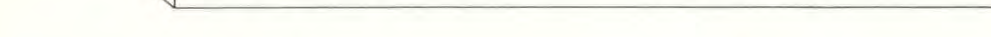
France, on the contrary, an upward movement was observed almost throughout the year, bringing the rates to a level more than three quarters of a point higher than that of end-1967. Tensions were also felt in the Netherlands, slight in the first half-year but more acute at the end of the year. The slight uptrend was resumed in Belgium during the summer and did not slacken subsequently. Italy is the only country where stability practically prevailed but it was possible to avoid a higher cost for long-term money there only by increasingly large-scale interventions by the monetary authorities on the market.

At the end of 1968, the countries of the Community were thus divided into three groups : in Germany, the yields of public sector bonds were below 6.5%, in France, the more or less comparable rates exceeded 7.5%, while in Italy and the Benelux countries, they fluctuated between 6.5% and 7%. Furthermore, the issue conditions were definitely on the upgrade in several of these countries. Italy and Germany were an exception but here too certain signs of tightening were already appearing on the scene.

Thus, in its turn, the Community had entered on the upward phase of the cyclical movement of long-term interest rates, in which the United States, Canada, Japan, and Great Britain – to mention only the biggest industrial countries – had already embarked.

Although the fundamental differences still existing among the different financial circuits of the member countries deprives this type of comparison of much of its interest, it should be noted that within the Community, two countries headed the field as regards the extent of the net issues of national securities made on their own financial markets, in the form of public loans, i.e., Italy and Germany : their respective share in the total of these net issues was 40% and 36% in 1968.

In *Germany*, net issues of fixed-income securities, after having nearly trebled in 1967, further increased by 16% in 1968.



made a point of adding to their bond portfolios. Private investors who, since the upheavals on the market in 1966, had been reluctant to acquire fixed-income securities, also showed renewed interest in the direct purchase of these securities.

These contributions of capital mainly benefited the issuers of municipal bonds and the mortgage banks. The industrial companies, on the other hand, obtaining resources through other channels, made less calls on the financial market than in 1967: their net issues even recorded negative amounts.

Table 6 — NET DOMESTIC PUBLIC ISSUES OF BONDS IN THE COMMUNITY

(milliards of units of account)

Country (1)	1965	1966	1967	1968
Germany	3.12	1.38	3.83	4.45
Public sector	1.40	0.81	2.42	2.74
Economy	1.72	0.57	1.41	1.71
France	1.43	1.73	1.64	1.15
Public sector	0.11	0.23	0.12	— 0.13
Economy	1.32	1.50	1.52	1.28
Italy	3.13	4.40	3.84	4.88
Public sector	1.06	2.52	1.62	2.15
Economy	2.07	1.88	2.22	2.73
Netherlands	0.41	0.45	0.40	0.39
Public sector	0.15	0.18	0.30	0.27
Economy	0.26	0.27	0.10	0.12
Belgium	0.74	0.63	1.06	1.39
Public sector	0.52	0.44	0.67	0.85
Economy	0.22	0.19	0.39	0.54
Luxembourg	0.01	—	0.03	—
Public sector	0.01	—	0.03	—
Economy	—	—	—	—
Total Community	8.84	8.59	10.80	12.26
Public sector	3.25	4.18	5.16	5.88
Economy	5.59	4.41	5.64	6.38

- (1) The issues entered under "Public sector" include all the issues by the Government and public institutions, although the proceeds of these issues may in part make it possible to grant loans to the economy.

At the beginning of the year, the market already widened under the influence of favourable seasonal circumstances such as the settlement of coupons and dividends. The relaxation persisted throughout the first quarter, encouraged by the continued flow of support purchases emanating from the Central Bank. After a pause lasting some weeks, the easiness became accentuated early in May and gathered strength until mid-October. From the end of May onwards, it was reflected in an initial decrease in the yields at issue, which – as regards securities of the public sector – moved from approximately 6.80 % to 6.60 %. A month later, the Deutsche Bundesbank practically ceased its purchases on the market. Lastly, on 19th September, a second fall in the yields at issue occurred, bringing them to between 6.30 % and 6.40 % : for the first time since 1965, the nominal rate of the same bonds was reduced to 6 %, with the issue price being fixed at 98 %.

It proved possible to maintain these conditions until the end of the year, but from 15th October onwards, the equilibrium of the market for stock exchange securities necessitated, on the one hand, a resumption of interventions by the Central Bank, and on the other, a halt of new issues until the end of November, as well as a fairly definite slowdown in borrowing operations by non-residents, encouraged with particular vigour by the federal authorities for more than six months. A firmer trend, largely of a seasonal nature, occurred at the end of the year.

In *France*, the volume of net bond issues, already on the decrease in 1967, recorded an even more considerable setback in 1968, of the order of 30 %.

Despite the increased interest shown at various periods by certain institutional investors, and more especially by the investment companies with variable capital, the insurance companies and the retirement and provident institutions, the volume of the supply of capital on the market for fixed-income securities tended to be reduced under the influence of the decline in the rate of savings, as a result of the May events, as well as the anxiety felt by the population in respect of the stability of the purchasing power of the currency. These different factors, together with certain changes made to the financial circuits by new issue techniques,

helped to limit the contribution of households and exerted an influence in the direction of raising the yields, although the demand for capital also slackened, either due to the greater voluntary abstention of the public sector or because the strikes of May-June, then the international monetary crisis in November, quite simply delayed the application of the issue timetable by rendering necessary the material postponement of several operations.

The Government and the public institutions have proceeded to issues in an amount which is less than that of the amortisations on loans which they were required to meet. All the net available resources have thus been collected by specialised credit establishments (60%), industrial companies of the nationalised sector (30%) and by those of the private sector (10%). However, the latter are the only ones to have been able to channel an amount of capital practically equal in net value to that of the previous year.

As early as January 1968, the Government decided, in the framework of the measures it took with a view to stimulating economic activity, to refrain until further notice from making calls on the financial market and to limit recourse to it by the national enterprises. Two months later, new techniques for the issue and placing of bond loans were established with a view to offering subscribers, at the time of issue, a real yield close to that which they could obtain on the stock market, so as to avoid a fall in price at the time of the listing of the securities on the stock exchange and to give an incentive to institutional investors to subscribe to the issue instead of making purchases on the market. The new arrangement extended to France the system, already generalised in the other countries of the European Economic Community, of underwriting the whole of the loan by a guarantee syndicate. It also involved an increase in the remuneration offered to subscribers, of the order of one quarter of a point, which for several weeks gave a definite fillip to investors' interest in the financial market.

The upsurge was interrupted by the fact that confidence in the national currency was shaken a first time on the occasion of the May events. This crisis of confidence was accompanied by large-scale sales of securities, an abrupt fall in prices and a temporary halt in issues. Bond issues were resumed only during the summer, at yields which were 0.15% to 0.20%

higher than the conditions practised just before the strikes. They then continued in fairly large numbers until the new crisis in November led to a further deterioration of the market and a second interruption in issues. This evolution continued throughout December and led, early in January, to a further rise in the yields at issue, which, as regards securities of the public sector, then exceeded 7.90% and, as regards securities of the private sector, 8.20%. At the beginning of 1968, these rates had been, on the average, 6.80% and 7.10%.

In *Italy*, the market for fixed-income securities made it possible to channel resources for a higher amount than in 1967, in the course of which a halt in issues had occurred in the second quarter as the result of certain fears aroused by the future tax system for bond income. Net issues thus show in 1968, by comparison with the previous year, an increase of 27%, whereas they had decreased by 13% from 1966 to 1967.

The calls made by the Treasury or for its account attained higher amounts than in the previous year and acquired added importance in relative value. While continuing to play an essential role as well, the share of the special credit institutions in the total bond issues fell slightly below the 1967 level; the same is true of the share of major public enterprises (ENEL, IRI, IRI Motorway, ENI). Direct issues by private enterprises already rather insignificant, showed a further decline.

While maintaining a high level, household savings allotted to bond investments tended to show, in relative value, a considerable fall by comparison with the previous situation. The fact that Italy did not benefit from an expansion of incomes in real terms which was altogether as considerable as in the previous year, but above all the maintenance of a very wide flow of long-term capital exports sensitive to the attraction of the high rates offered abroad and the influence of other factors, of a fiscal nature in particular, acted as a check in various respects on the volume of capital offered by the public on the new issues market. The new securities were therefore kept, for a larger proportion than in the past, in the portfolio of the banking system.

The issue activity was particularly brisk at the beginning of the year. Subsequently, it continued to be easy until the end of the summer, widening out in certain periods such as May and July. During the third quarter, the Banca d'Italia however had to step up its interventions somewhat, but by its action, always attentive and very flexible, it nevertheless succeeded in preserving remarkably the overall stability of interest rates, both at issue and on the stock exchange. On 31st December, 1968, these rates were at the same level as twelve months earlier : the yields of listed bonds of credit establishments, for example, which are particularly representative of the state of the market, stood at 6.65 %, against 6.66 %.

In the *Netherlands*, the amount of public issues of fixed-income securities was appreciably the same as in 1967.

The extent of issues by the private sector progressed slightly by comparison with 1967, but the industrial and commercial enterprises continued to finance their investments, which showed a considerable recovery owing to the cyclical evolution, mainly by substantial recourse to private borrowings from institutional investors and to bank credit.

The N.V. Bank voor Nederlandsche Gemeenten and the Dutch Government were, as in previous years, the principal borrowers on the market : the former absorbed half the available capital, and the latter nearly 20 %.

Influenced by the scope of these issues, as well as by the development of the international situation and the general uptrend in world interest rates, the stock exchange prices of securities tended to sag. The yields of these securities therefore rose slowly in the course of the first seven months of the year. After a definite relaxation of an essentially seasonal nature during the summer, the upward movement was resumed in October, becoming accentuated in December and bringing the rates to a level about one quarter of a point higher than that of the beginning of the year.

Issuers had to take account of this evolution and to offer more attractive conditions. Thus, the N.V. Bank voor Nederlandsche Gemeenten raised its yield at issue, as far back as December 1967, from 6.50 % to 6.60 %,

subsequently maintaining it at almost the same level until August 1968. A new stage in the uptrend was reached at the end of the summer, thus facilitating the placing of a substantial volume of bonds. In November, however, the Bank temporarily reduced its rate from 6.78% to 6.67%.

In *Belgium*, the capital collected on the occasion of public issues of fixed-income securities attained a volume which was 31% higher by comparison with 1967.

As in the previous year, the calls by the Government, autonomous funds and local authorities represented over 60% of the net issues on the market. However, the share of financial institutions and enterprises showed a slight increase, although private enterprises made a wider call on share issues for their financing.

During the first half-year, recourse to long-term borrowing was relatively moderate by comparison with the corresponding period of the previous year. During this period, indeed, the cyclical recovery became perceptible only slowly and in these circumstances the monetary market remained sufficiently wide to enable the Government to find, in issues of Treasury certificates, a large part of the resources necessary for the financing of its operations. In the light of these circumstances, a slight downtrend in the yield of bonds at issue and on the stock exchange, which had begun in July 1967, continued until June 1968.

The increased recourse to the capital market from September onwards, on the occasion of a double Government loan, caused a reversal of this trend. By contributing simultaneously to the tightening of the monetary market, the acceleration of expansion and the differences in interest rates between the domestic market and foreign markets acted in turn in the direction of an increase in interest rates within the country. This in fact materialised in December, when the official discount rate was raised, but the expectation of this measure led savers and institutional investors to show a greater reserve towards fixed-income securities, to such an extent that the market thus gradually became tighter. At the end of the year, the yield on the stock exchange of Government bonds, and bonds issued

by municipalities and semi-official institutions amounted to 6.67 %, against 6.63 % in December 1967 and 6.52 % in June 1968.

In *Luxembourg*, the Government – contrary to what had happened the previous year – refrained from recourse to long-term borrowing. Only one public issue, of a relatively modest amount, was made in the course of the year by the City of Luxembourg, at a yield of the order of 6.65 %.

Issues of foreign securities.

Bond issues by international institutions and non-residents.

In 1968, the markets of member countries were called on to a much wider extent than in previous years, in the shape of public issues, by international institutions not forming an integral part of the European Economic Community. These issues attained 175 million units of account, against 6 million in 1967, whereas in 1966 they had been non-existent.

The International Bank for Reconstruction and Development was the principal borrower : operations attained 130 million units of account in Germany (1) and just over 11 million in the Netherlands. The Inter-American Development Bank also called on the German market to the extent of 25 million units of account and on the Netherlands market for 8.5 million. These borrowings on the European continent, much more substantial than in previous years, were due, to a fairly large degree, to the increasingly great difficulties encountered by the institutions in question in procuring on the United States capital market the resources necessary for the development of their activities. Rendered possible by the great liquidity observed in a number of Community countries and by the very favourable evolution of the German balance of payments, placing of these loans was in line with the efforts of the Community, as a whole, to contribute on the one hand to the improved equilibrium of

(1) Furthermore, the World Bank placed in Germany 137.5 million units of account in the form of private loans with institutional investors.

international monetary relations by exports of capital and on the other, to the expansion of aid to the developing countries. In future, the pursuit of expansion aims of the major international development institutions would nevertheless run the risk of meeting with certain obstacles if the cyclical evolution were to lead, within the Community, to a shortage of available capital, either by reason of a possible decline in the rate of savings, or because of an intensification in demands for funds by European borrowers.

Table 7 – GROSS ISSUES OF FOREIGN SECURITIES
ON THE MARKETS OF MEMBER COUNTRIES
Bond issues by international institutions and non-residents

(million units of account)

Country	1966	1967	1968
Germany (1)	—	—	225
France	41	41	—
Italy	48	24	72
Netherlands	—	14	30
Belgium	10	21	30
Luxembourg	—	—	—
Total	99	100	357
of which European Investment Bank	75	80	75
Commission of the European Communities (Coal and Steel Community)	24	—	63
Others	—	20	219

- (1) Bond issues in Deutsche Marks, accompanied in 1966 and nearly the whole of 1967 by a yield below that of the bonds issued by residents on the domestic market, which were floated in Germany by non-residents during this period, could offer no attraction for resident investors : all of them were therefore placed by international syndicates of banks on the "European international market" (see Table, page 66). This de facto situation changed in 1968, when a large part of the foreign bonds issued in Germany were subscribed by resident investors : this was the case, inter alia, with the bonds placed by exclusively German syndicates which have therefore been classified in the table above, among the bond issues on the markets of member countries. On the other hand, the bonds placed by international syndicates have continued to be entered among the issues floated on the "European international market", although part of their proceeds — of the order of two thirds — was also subscribed by German investors.

Calls by international European institutions on the markets of member countries, in the form of public issues, attained 138 million units of account.

The Commission of the European Communities (European Coal and Steel Community) which had refrained from calling on the European domestic markets in 1967, stepped up its borrowings to 63 million in 1968, collecting 48 million in Italy and 15 million in Belgium.

The European Investment Bank maintained its public calls on European savings within limits comparable to those of the previous years by procuring by means of private loans ⁽¹⁾ the essential part of the resources required by the very brisk expansion of its activities : its calls on the public amounted to 25 million units of account in Germany, 24 million in Italy, 15 million in Belgium and 11 million in the Netherlands.

II. *Security issues on the "European" international market.*

In 1968, the European international market again developed apace. The overall volume of bonds issued in the course of the year indeed exceeded 3 milliard units of account, against 1.8 milliard in 1967, thus showing an increase of 70%. The amount indicated above covers the whole of the bond loans :

- which are issued on a given market but which are not denominated in the currency of that market (e.g., bonds in dollars or French francs in Luxembourg);
- which, issued on a given market and denominated in the currency of that market, are expressly reserved for subscription by non-residents (e.g., portions of loans floated in the Netherlands by Dutch enterprises but for placing abroad);
- which, issued on a given market by non-residents and denominated in the currency of that market, are placed in several countries through

(1) Cf. p. 97.

the intermediary of international consortia (e.g., non-American dollar bonds subject to Interest Equalization Tax, bonds in Deutsche Marks issued by non-residents);

- which are issued with special monetary clauses (units of account, multiple currency clause).

Table 8 – GROSS SECURITY ISSUES
ON THE "EUROPEAN" INTERNATIONAL MARKET

(millions of units of account)

	1966	1967	1968
CONVERTIBLE BONDS	197 (1)	227	1,710
Dollars	197	227	1,710
BONDS WITH GUARANTEES	45	33	83
Dollars	20	20	83
DM (*)	25	13	—
CLASSIC BONDS	854	1,552	1,277
Dollars	626	1,342	465
Units of account	74	19	57
Sterling / DM option	20	20	29
DM (*)	121	159	706
Florins	13	—	—
French francs	—	12	20
Total	1,096	1,812	3,070
of which Community borrowers (2)	350	529	404
— European Investment Bank	40	70	25
— Commission of the European Communities (Coal and Steel Community)	55	45	—
— Others	255	414	379
American borrowers	439	527	1,877
Scandinavian borrowers	100	204	146
Sterling area borrowers	120	216	196
Japanese borrowers	—	—	170
Other borrowers	87	336	277

(1) These figures do not include two operations whereby American companies which already owned a participation in two German companies acquired almost the whole of the latter's capital by offering the other shareholders an exchange of their rights for convertible bonds issued or guaranteed by the parent companies, denominated in Deutsche Mark and for an overall amount of 182 million units of account.

(2) The criterion selected for appreciating the geographical origin of borrowers is that of the nationality — and hence of the registered office — of the issuers, except as regards holding companies, subsidiaries of parent companies of American nationality and benefiting from a total guarantee by the latter: these companies are included under the line "American borrowers", to the exclusion of the other subsidiaries of American companies exercising their activities abroad.

(*) see section "Issues of foreign bonds on the markets of member countries".

The steps taken in the United States in January 1968 to reduce the balance of payments deficit, as well as the international economic and monetary evolution had direct repercussions on the growth in the volume and the change in the form of calls on the international financial market.

Obligated to finance their investments abroad with capital collected outside the United States, the American companies, convinced that there was a risk of the decisions taken being further aggravated, hastened to proceed, directly or via their subsidiaries, to borrowings which, in other periods, would probably have been much more widely spaced out. Independently of this factor, the demand for capital underwent the effects of the acceleration of the economic upsurge, an acceleration which was felt almost generally in all the industrial countries.

At the same time, the stresses exerted on the dollar at the beginning of the year, then the monetary crisis in the autumn deeply influenced the behaviour of investors on the market and increasingly oriented the supply of capital towards subscription to types of bonds appearing to be best guaranteed against the risks of monetary depreciation.

This evolution was marked by two successive stages :

Apart from a few weeks in March and April during which an intense gold speculation developed as the result of a further access of weakness in the reserve currencies, the first seven months of the year were characterised by great activity on the Eurobond market. More than two thirds of the bonds issued during the year were offered during that period. The demand for capital emanated mainly from American private borrowers, offering to subscribers, in nearly all cases, bonds convertible into shares and thus meeting perfectly the wishes of investors who were anxious to ensure the maintenance of the value of their claims in constant currency. The attraction of these securities, and the extent of the borrowings in this form rendered very difficult the issues of classic securities, the stock exchange prices of which tended to fall, while their rates at issue tended to climb.

From the middle of the summer onwards, however, a change in trend gradually became perceptible. The capital requirements of American

companies, satisfied to a very wide extent, indeed began to level off. At the same time, the less impressive evolution of the American market for variable-income securities rendered convertible bonds a little less attractive in subscribers' eyes. The market was then again characterised by the development of classic bond issues, mainly in the form of securities denominated in Deutsche Marks, the placing of which the German monetary authorities endeavoured to encourage with a view to contributing, by exports of capital, to the restoration of a better international monetary equilibrium. At the very moment when the German national currency was regarded as a haven, these securities met with great success. The resumption of a considerable flow of classic bond issues enabled the public and semi-public sector to have wide access to the market once again. However, in the last quarter, the multiplication of issues in Deutsche Marks, made by non-residents who were attracted by a lower cost than that of dollar issues, temporarily stepped up the pressure on the German financial market. The federal authorities then endeavoured to moderate a little, for some weeks, the borrowings by foreign issuers.

In all, the amount of convertible bond issues in the course of the year exceeded 1.7 milliard units of account, against 0.2 milliard in 1966 and 1967; 57 operations were recorded. The year 1968 was also characterised by three issues of bonds with guarantees, which made it possible to channel a little over 80 million units of account, whereas these operations had attained only half this amount in previous years. In 1968, these two different types of issue were based exclusively on the dollar. The resources thus collected represented nearly 60% of the contributions by the European international market, instead of only 14% in the previous year.

Classic bond issues, numbering 64, reached in volume 1.3 milliard units of account. Despite the progress made during the last quarter of the year, this amount is definitely less than that for 1967 (1.6 milliard); it is nonetheless unquestionably significant, by comparison with those of 1966, vis-à-vis which it marks an increase of 50%. The monetary base of these issues was the Deutsche Mark, as to 55%, and the dollar, as to 36%, whereas in the previous year 87% of them had been denominated in United States

currency and only 10% in German currency. As regards the other operations, five were in units of account, two in sterling with option in Deutsche Marks, and one in French francs.

The operations related to higher unit amounts than in the past : over 25 million units of account. In the summer, Philips even proceeded to a convertible bond loan of 100 million dollars, a figure which had never before been reached on this market.

The reception accorded to the issues of convertible securities definitely favoured the calls for funds by the private sector. The bond loans by Governments and public institutions however also attained an amount exceeding that for 1967.

It was the big American companies which, either directly, or through the intermediary of their subsidiaries, unconditionally guaranteed, were best able to benefit from this situation. Their international reputé, together with the behaviour of their shares on the stock market until the summer, indeed conferred upon their convertible bonds a special cachet : the operations by major oil companies, corporations specialising in the electronics industry, and automobile manufacturers were particularly significant.

Participation by European borrowers – including American subsidiaries other than the holding companies referred to previously – showed a steep decline, on the other hand, falling from 53% to 23%.

British issuers definitely stepped up their participation, although it barely exceeded 3%. The extent of calls by the Scandinavian countries, traditionally very considerable, was reduced. Lastly, the borrowers of the European Economic Community absorbed only about 13% of the available resources, instead of 30% in the previous year. Bond issues of Netherlands origin however doubled in amount, but the German enterprises did not have to procure resources on the market, owing to the financing facilities from which they benefited through other channels. As for the French enterprises, their borrowings were held in check by the monetary and financial consequences of the Spring crisis : they were able to resume only

in October with the issue, in Deutsche Marks, of two loans with particularly favourable conditions, which were of a nature to facilitate the execution of the financing programmes of the Railways and Telecommunications.

Apart from the European continent and the United States, the most substantial borrowings were recorded on the part of Japan, which had ceased to issue on the market since 1965 but which the restrictions in the United States quite naturally led to seek resources in Europe, mainly in the form of medium-term loans. Japan was followed by Mexico, South Africa and Argentina.

The yields at issue of bonds denominated in Deutsche Marks and those of bonds denominated in dollars, comparable at the beginning of the year, subsequently diverged markedly from each other. The former fell by more than half a point; the latter, on the contrary, moved up by quarter of a point.

The rise in yields at issue of dollar bonds was particularly steep in the course of the first half-year; observable from mid-January onwards, it greatly accelerated in March during the period of difficulties for sterling and the dollar; the rates applicable to long-term bonds of American corporations in the international class then progressed from 7.20% to over 7.50%; the tensions became even more acute in May and June. Subsequently, a very pronounced relaxation brought these rates down to a level between 7.30% and 7.40%, but the upward movement was resumed in attenuated form from October onwards, owing to the resumption of a larger number of operations and also to the international monetary crisis in November. At the end of the year, the yields at issue were nevertheless maintained below 7.50% for first-class enterprises. They ranged up to 8.10%, depending upon the category of the borrowers. The stock market yields of listed securities showed a fairly parallel evolution.

By way of exception to this general upward movement, the yields at issue of bonds in Deutsche Marks showed a remarkable stability during the first half-year then, under the influence of favourable circumstances, fell steeply during the summer. Of the order of 7.20% at the beginning

of 1968, they fluctuated at the end of September around 6.65% for first-class issues. Subsequently, a certain stability prevailed until the end of the year.

The conditions applicable to convertible bond issues varied several times during the year. After having continued, in January and February, to render more attractive the conversion conditions of their securities, the American companies, in view of the success of their issues, changed their attitude during the second quarter. They then gradually stiffened the conversion terms and at the same time imposed reductions of nominal rates of the order of half a point. In June and July, some very substantial bond loans were offered at the nominal rate of 4.50%. From the last weeks of August onwards, with a single exception, no bond issue was floated at a rate below 5.25%.

*
* * *

In all, public and private borrowers in the Community covered their investments by recourse to public issues on the financial markets, to the extent of 15.7 milliard units of account, against 13.6 milliard in 1967.

Almost the whole of these resources were procured by them on their own markets.

Table 9

(milliards of units of account)

	1967	1968
— Net issues on the domestic markets of member countries	12.99	15.28
— Issues on the European international market (1)	0.53	0.40
— Issues on the other domestic markets	0.03	0.01
	13.55	15.69

(1) Although these figures relate to gross amounts, they may be approximated to the net amount of issues effected on the domestic markets owing to the very small present volume of amortizations on the Eurobonds in circulation. These amortizations, taking into account the deferment periods, will acquire a certain significance only after 1970.

Indeed, the markets outside the Community were practically closed to them, with a single exception which concerns a public issue in Switzerland of an amount barely exceeding 10 million units of account.

OTHER EXTERNAL RESOURCES AVAILABLE FOR FINANCING THE ECONOMY

As is the case each year, the public issues of securities provided the private borrowers of the Community with only a fraction of the outside capital enabling them to cover the financing of their investments; the largest part of their resources was supplied to them by the intermediary of financial institutions, in the form of medium- and long-term loans, and also of short-term credits.

I. Medium- and long-term credits to the economy.

The table below shows the increase, in the course of the last four years, in the medium- and long-term credits granted to the enterprises and private individuals of member countries by banks and specialised credit institutions. The figures selected also take into account loans granted directly by institutional investors. In Germany and the Netherlands, these credit operations play an essential role in the financing of the economy : the savings banks, retirement and provident funds and insurance companies usually grant private loans, inter alia to enterprises and credit institutions, at a cost which is generally lower than that of a public issue of securities. In Belgium, the Caisse Nationale d'Épargne et de Retraite takes an essential part in the financing of investments. The contribution by insurance institutions is much smaller in France, where the marked predominance of the system of distribution over that of capitalisation limits the volume of capital available. Furthermore, the public Treasuries also facilitate the execution of the investments of the economy, first of all by assuming the burden of financing a large share of the housing construction, and also by granting equipment loans to the enterprises themselves, either directly or through the intermediary of the credit institutions.

Table 10 – MEDIUM- AND LONG-TERM CREDITS TO THE ECONOMY
(Variations by comparison with the previous year)

(in milliards of units of account)

Country	1965	1966	1967	1968
Germany	7.02	6.27	5.74	6.58
France	3.51	3.94	5.68	6.44
Italy	2.36	2.71	3.64	4.05
Netherlands	1.52	1.85	1.97	2.29
Belgium	0.64	0.92	0.93	1.03
Total Community	15.05	15.69	17.96	20.39

In 1968, the general expansion of investments in the Community led to an appreciable widening of the calls by the economy on medium- and long-term credits.

The increase in these credits attained 17% in France. Assistance granted in favour of housing construction showed definite progress under the influence, *inter alia*, of the widening of loans eligible on the mortgage market. As for the enterprises, they experienced a slowdown in the granting of medium-term bank credit in their favour, but on the other hand, they benefited from a big increase in long-term equipment loans from the specialised institutions. In September, the long-term loan conditions of the Crédit National and the Caisse Centrale de Crédit Hôtelier, Commercial et Industriel were made cheaper for borrowers, to the extent of half a point.

The distribution of medium- and long-term credits also continued at a rapid pace in Italy. Building loans and export credits showed a particularly marked expansion. Equipment credit recorded a more modest – but by no means negligible – growth.

Notable progress was also recorded in Belgium, where reductions in interest rates by one quarter of a point were applied from 15th March onwards to the loans of the Société Nationale de Crédit à l'Industrie and the Caisse Générale d'Épargne et de Retraite.

Lastly, the intensification of calls on medium- and long-term credit even made itself felt in countries such as Germany and the Netherlands, where the enterprises nevertheless recorded a big increase in their self-financing capacities.

Part of the capital thus made available to the economy is derived from savings collected on the securities markets, the evolution of which was analysed previously. It is advisable to eliminate the duplication resulting from the call made on these markets in order to determine the role of the other resources collected by the financial intermediaries and redistributed in the form of medium- and long-term loans. The collection of savings in a liquid and short-term form constitutes the main source of these availabilities; however, the granting of medium-term equipment loans by the banks may also be based on the creation of additional monetary units instead of on savings resources.

After deduction of the resources derived from the capital markets, the increase in the medium- and long-term credits distributed to the economy in the Community countries remains very significant.

*Table 11 – MEDIUM- AND LONG-TERM CREDITS TO THE ECONOMY
AFTER DEDUCTION OF RESOURCES DERIVED FROM THE CAPITAL MARKETS
(Variations by comparison with the previous year)*

(in milliards of units of account)

<i>Country</i>	1965	1966	1967	1968
Germany	5.54	5.57	4.75	5.15
France	2.76	2.96	4.78	5.52
Italy	1.33	1.33	2.06	2.15
Netherlands	1.31	1.62	1.72	2.05
Belgium	0.47	0.76	0.60	0.62
Total Community	11.41	12.24	13.91	15.49

This very marked expansion in capital thus made available to the economy, for the financing of investments, without passing via the public issues market, has its source in the great liquidity observed within the Community in 1968. Indeed, whether it is a question of the very flexible

credit policy applied in general by the central banks of member countries, the increased recourse to the financing of budgetary deficits by monetary means, the more active formation of savings in the member countries, and finally the public's preference for liquidity, just as pronounced now as it was previously, all these factors have, in various ways, contributed to the rapid development of the liquid and short-term resources of the banks and institutional investors.

In Germany, the savings and time deposits increased by 17 %, against 15 % in 1967.

In France itself, despite the crisis of confidence into which the national currency was suddenly plunged, the increase attained 14 %, a percentage which is much lower than that of the preceding year (23 %), but still comparable to those usually observed in the other countries of the Community.

In Belgium, the progress was by 13 % while in the Netherlands and Italy it was 11 %.

II. *Short-term credits to the economy.*

In 1968, short-term credits to the economy increased in the Community as a whole by approximately 12.5 %, as in the two previous years. However, the year closed with a more or less general tendency to the rapid development of these credits and with the introduction by a number of member countries of arrangements aimed at checking this trend.

In the Netherlands, the increase – although less marked than in 1967 – remained very brisk, attaining 20 %. The development of consumer loans was even more rapid. In view of the tensions which the maintenance of such a rate of growth threatened to bring about, the monetary authorities decided at the end of December to re-establish – at the same time as they raised the discount rate from 4 1/2 % to 5 % – the framework system for credits, which had been abolished in June 1967. Inter alia, the progress of short-term bank credits was pegged, for the first four months of 1969, at 6 % of the average credit outstanding in the last four months of 1968.

Table 12 — SHORT-TERM CREDITS TO THE ECONOMY
(Variations by comparison with the previous year)

(in milliards of units of account)

Country	1965	1966	1967	1968
Germany	1.83	1.28	0.48	1.69
France	2.07	2.90	3.61	3.93
Italy	1.12	2.77	3.52	2.74
Netherlands	0.18	0.15	0.59	0.59
Belgium	0.19	0.31	0.27	0.28
Total Community	5.39	7.41	8.47	9.23

In France, the distribution of short-term credits also continued at a rapid pace; for the third year in succession, the annual rate of increase was indeed maintained in the region of 16%. In their anxiety to attenuate the repercussions on industrial and commercial liquidities of the interruption in economic activity during the Spring strikes, the public authorities were led to encourage, until the Autumn, the grant of considerable exceptional advances to enterprises by the banks. Obviously, the progress in consumer expenditure during the second half-year, the slowdown in sales abroad, the fact of importing more, and sometimes even certain speculative attitudes at the time of the November monetary crisis, also contributed to increasing the recourse to credit establishments. Thus, once the cyclical recovery appeared to have gained sufficient strength, the monetary authorities endeavoured to revert to a more restrictive policy, by raising on 12th November the discount rate of the Banque de France and that of compulsory reserves, and above all by themselves re-establishing a direct limitation of the outstanding short-term credits, the maximum progress of which was fixed at 4% for the period 30th September - 31st December, 1968.

In Belgium, the annual rate of progress of short-term credits was slightly lower in 1968 than that of previous years. However, a very definite tendency towards acceleration was perceptible in the course of the last quarter of the year under the effect of the general improvement of the

cyclical climate and the expansion of private consumption. In this case too, the monetary authorities showed that they were anxious to check this evolution at the end of the year, by raising the discount rate by three-quarters of a point and adopting certain restrictive measures with respect to recourse by the commercial banks to the monetary market. The trend towards acceleration was also felt in Germany, especially in the course of the closing months of the year. The annual rate of growth there, sustained by the brisk cyclical upswing, increased from 2.7% in 1967 to 9.3% in 1968.

The same could not be said of Italy, however, where a little less satisfactory cyclical evolution in the first part of the year was reflected by a fairly notable slowdown in the distribution of short-term credits. Although in the last quarter this distribution recovered appreciably, the annual rate of expansion fell from 15.4% to 10.4% between 1967 and 1968.

II

ACTIVITIES OF THE BANK

LOANS

CONTRACTS SIGNED

In 1968, the Bank signed 40 loan contracts, for a total amount of 204.1 million units of account ⁽¹⁾, of which :

- 31 loans in respect of ordinary operations, for a total amount of 175 million, and
- 9 loans coming under the Special Section, for a total amount of 29.1 million.

LOANS APPROVED

In 1968, the Bank approved a total – ordinary and special operations together – of 51 loans for specific projects for an overall amount of 289 million, compared to 41 loans totalling 232.8 million in the previous year.

These loans apply to projects the total cost of which in fixed investments is estimated at approximately 1.25 milliard. The Bank's average participation therefore amounted, as in previous years, to 23% of the cost of the projects.

In the course of the financial year, the Bank furthermore approved, for the first time, two overall loans intended for the financing of small and medium-sized industrial enterprises, for a total amount of 13 million units of account : one, for 10 million, was granted through the inter-

(1) It is recalled that, unless otherwise stated, the figures given in this Report are expressed in units of account (see definition page 2).

mediary of the Cassa per il Mezzogiorno, to the Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER), regional credit institution responsible for promoting the development of mainland Southern Italy. The other, of 3 million, was granted to the Türkiye Sinaî Kalkınma Bankası (T.S.K.B.). The granting of these loans to ISVEIMER and the T.S.K.B., with which moreover the Bank has for long closely collaborated, will enable them to amplify their aid in favour of projects which are frequently of too small dimensions to be directly financed by the Bank. The financing institutions which ensure the relay will proceed to a large extent to the study of the projects financed in the framework of the overall loans, but each loan will, as always, be submitted for the Bank's approval.

We should note the economic interest of the financing operations carried out in accordance with this procedure; the development of the small and medium-sized enterprises is an important factor of regional policies in the Community, or of development policies in the associated countries : it is an indispensable complement of the vast achievements in the field of infrastructure and large-scale industry. Furthermore, these enterprises offer an excellent field of activity to the spirit of initiative, and the most favourable conditions for a rapid development. The experience of recent years shows that the creation of a large number of small enterprises can change fundamentally the economic structure of a region and that furthermore, they can rapidly acquire a certain scope.

Thus, the promotion of these projects widens the Bank's field of intervention and makes possible rapid and effective action which facilitates industrialisation.

ORDINARY LOANS

Under this heading, the Bank approved 39 loans for a total of 250.7 million : 25 loans, totalling 122.5 million, for projects carried out in Italy, 3 loans totalling 49.6 million for projects located in France, 2 loans totalling 30.2 million for projects executed in Germany, 3 loans for projects located respectively in the Netherlands (10 million), Belgium (10 million) and Luxembourg (4 million), as well as 6 loans, totalling 24.3 million, for projects executed in the Associated African States.

The projects are :

Italy :

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

- | | |
|---|------|
| 1. Construction of the last section of the L'Aquila-Villa Vomano motorway, including the Gran Sasso tunnel in the Abruzzi.
Promoter : <i>Società Autostrade Romane e Abruzzesi S.A.R.A. p.A.</i> | 24.0 |
| 2. Construction of the Messina-Patti section of the Messina-Palermo motorway (Sicily).
Promoter : <i>Consorzio per l'Autostrada Messina-Patti.</i> | 16.0 |
| 3. Construction of a 225-km aqueduct for the water supply of Southern Puglia.
Promoter : <i>Cassa per il Mezzogiorno.</i> | 24.0 |
| 4. Reinforcement and modernisation of the telephone equipment in Campania and Basilicata.
Promoter : <i>S.I.P. - Società Italiana per l'Esercizio Telefonico p.A.</i> | 20.0 |
| 5. Reinforcement of infrastructures of tourist interest in Calabria.
Promoter : <i>Cassa per il Mezzogiorno.</i> | 10.0 |
| 6. Enlargement and modernisation of a cement works at Scafa (Abruzzi).
Promoter : <i>Società Italiana per Azioni per la Produzione di Calci e Cementi di Segni.</i> | 2.0 |
| 7. Enlargement and modernisation of a bottle factory at Cagliari (Sardinia).
Promoter : <i>Vetroceramica Turritana S.p.A.</i> | 0.2 |
| 8. Extension of production and research media of a company manufacturing electronic components at Catania (Sicily).
Promoter : <i>ATES - Componenti Elettronici S.p.A.</i> | 4.0 |
| 9. Construction of a compressor factory at Bari (Puglia).
Promoter : <i>Radaelli Sud S.p.A.</i> | 1.6 |

- | | |
|---|-----|
| 10. Construction of a factory for the manufacture of materials for ground boring and drilling at Cagliari (Sardinia).
Promoter : <i>Atlas Copco Italia S.p.A.</i> | 0.2 |
| 11. Enlargement of an establishment for the production of antibiotics at Capua (Campania).
Promoter : <i>A.V.I.M. - Antibiotici e Vitamine per l'Industria Mangimistica S.p.A.</i> | 0.7 |
| 12. Enlargement of an establishment producing basic synthetic materials for the pharmaceutical industry at Campoverde d'Aprilia (Latium).
Promoter : <i>S.a.S. Recordati Industria Chimica e Farmaceutica.</i> | 0.6 |
| 13. Construction of a polyester yarn factory at Naples (Campania).
Promoter : <i>Snia-Viscosa S.p.A.</i> | 4.4 |
| 14. Construction of an establishment for the texturisation of polyester yarns at Salerno (Campania).
Promoter : <i>IN. TE. NA. - Industrie Tessili Napoletane S.p.A.</i> | 3.2 |
| 15. Enlargement and modernisation of a spun cotton mill at Piedimonte d'Alife (Campania).
Promoter : <i>S.a.S. Figli di Luigi Radice.</i> | 0.4 |
| 16. Construction of a ready-made clothing factory at Montesilvano (Abruzzi).
Promoter : <i>Monti Mec S.p.A.</i> | 1.2 |
| 17. Enlargement of a brewery in mainland Southern Italy. | 2.0 |
| 18. Enlargement and modernisation of a sugar factory at Villasor (Sardinia).
Promoter : <i>Eridania - Zuccherifici Nazionali S.p.A.</i> | 2.0 |

19. Enlargement and modernisation of a sugar factory at Rendina-Melfi (Basilicata).
Promoter : *Società Italiana per l'Industria degli Zuccheri S.p.A.* 1.6
20. Construction of a food preserves factory at Bari (Puglia).
Promoter : *AL. CO. - Alimentari Conservati S.p.A.* 1.6
21. Enlargement and modernisation of a macaroni and spaghetti factory at Foggia (Puglia).
Promoter : *S.p.A. Gio e F.lli Buitoni Sansepolcro.* 0.9
22. Enlargement and modernisation of an establishment for the collection and bottling of mineral water and the production of non-alcoholic beverages at Riardo (Campania).
Promoter : *S.p.A. Dell'Acqua Minerale di Sangemini.* 0.9
23. Construction of an establishment for the collection and bottling of mineral water in the Province of Cagliari (Sardinia).
Promoter : *Idroterme di Villasor S.p.A.* 0.2
24. Construction of a factory for thermal insulation panels at Ascoli Piceno (Marche).
Promoter : *IS. PRE. - Isolanti Prefabbricati S.p.A.* 0.4
25. Construction of an establishment for the production of articles for para-surgical use at Pomezia (Latium).
Promoter : *ETHICON S.p.A.* 0.4

France :

26. Construction of the first 600 MW group of a new thermal power station at Cordemais (Loire-Atlantique).
Promoter : *Electricité de France.* 18.2

	Loans by the Bank (million u.a.)
27. Extension of the natural gas transport system in South-Western France. Promoter : <i>Société Nationale des Gaz du Sud-Ouest.</i>	16.2
28. Modernisation and rationalisation of the potash mines in the Mulhouse basin (Haut-Rhin). Promoter : <i>Mines de Potasse d'Alsace S.A.</i>	15.2
<i>Germany :</i>	
29. Construction of a 300-MW nuclear power station at Obrigheim (Baden-Württemberg). Promoter : <i>Kernkraftwerk Obrigheim GmbH.</i>	6.2
30. Construction of the Bamberg-Nuremberg section of the Rhine-Main-Danube Canal. Promoter : <i>Rhein-Main-Donau AG.</i>	24.0
<i>Belgium :</i>	
31. Construction of a motorway between Antwerp and the Belgo-Netherlands border. Promoter : <i>Fonds des Routes.</i>	10.0
<i>Netherlands :</i>	
32. Construction of plant for the production of chlorine, chlorinated hydrocarbons and methylamines at Delfzijl (Province of Groningen). Promoter : <i>N.V. Koninklijke Nederlandsche Zout-industrie.</i>	10.0
<i>Luxembourg :</i>	
33. Reinforcement of the water supply of the Grand Duchy on the basis of the Esch-sur-Sûre reservoir. Promoter : <i>Syndicat des Eaux du Barrage d'Esch-sur-Sûre (S.E.B.E.S.).</i>	4.0

ASSOCIATED AFRICAN STATES :

Loans by the Bank
(million u.a.)

Ivory Coast :

- | | |
|--|-----|
| 34. Execution of an industrial complex for the production of palm and palm-kernel oils.
Promoter : <i>PALMINDUSTRIE</i> . | 9.1 |
| 35. Extension of a pineapple canning factory located at Ono.
Promoter : <i>Société des Ananas de la Côte-d'Ivoire (SALCI)</i> . | 1.0 |

Gaboon Republic :

- | | |
|--|-----|
| 36. Construction of a road linking Basse Obiga (Mikongo) to the river Wagny.
Promoter : <i>Gaboon Republic</i> . | 2.3 |
| 37. Construction of a printed fabric factory at Libreville.
Promoter : <i>Société Industrielle Textile du Gabon (SOTEGA)</i> . | 0.4 |
| 38. Installation of a flourmill and a poultry-farm at Libreville.
Promoter : <i>Société Meunière et Avicole du Gabon (S.M.A.G.)</i> . | 0.5 |

Islamic Republic of Mauritania :

- | | |
|---|------|
| 39. Working of the copper ore deposit at Akjoujt.
Promoter : <i>Société Minière de Mauritanie (SOMIMA)</i> . | 11.0 |
|---|------|

Eighteen of the twenty loans in favour of industrial projects in Southern Italy were granted, in accordance with the procedure applied up to the present, to the Cassa per il Mezzogiorno, which relents the amount to the ultimate beneficiaries through the intermediary of the competent regional financing institutes : Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER) for the mainland of Southern Italy, Credito Industriale Sardo (CIS) for Sardinia. The other two were granted for the first time through the intermediary of the Istituto Mobiliare Italiano (IMI), an Italian supraregional financing institute.

The loan for the reinforcement and modernisation of telephone equipment in Campania and Basilicata passed through the Cassa per il Mezzogiorno : the loans intended for the reinforcement of infrastructures of tourist interest in Calabria and the construction of an aqueduct in Puglia were granted to the Cassa per il Mezzogiorno for projects which it executes under State supervision.

The loans in favour of projects carried out in Southern Italy in the roads sector and projects located in the other member countries, as well as in the Associated African States, were granted directly to the promoters.

* * *

In 1968, the Bank stepped up its activity in Italy considerably. The number and overall amount of the loans granted there almost doubled by comparison with the previous year. All these loans aimed at the development of the backward regions of Southern Italy and Sardinia. Industry – building materials, glass, mechanical and electrical engineering, pharmaceutical products, textiles and apparel, food and beverages – benefited from about one quarter of the resources thus made available to Italy; the remainder served to finance a series of quite large infrastructure projects : construction of motorways, telecommunications, water supply and tourism.

The greater part of the loans granted by the Bank in the other member countries were also devoted to the financing of infrastructure projects. The latter, consisting of six out of a total of eight projects financed, received approximately 76% of the funds made available to France, Germany and the Benelux countries.

Three of these eight loans concern the development of backward areas of the Community. One is a project for the Netherlands chemical industry. The other two are intended to improve the energy equipment of France; they relate to the construction of a thermal power station in the department of Loire-Atlantique and the extension, in South-Western France, of the system of gas pipelines intended for the transport of natural gas. These two schemes concern peripheral areas of the Common Market, in which the Bank has already financed several projects aimed at over-

coming the difficulties created by the geographical situation. The loan granted to the Netherlands is the first by the Bank in this member country. The project financed will be carried out at Delfzijl, a development pole which benefits in this capacity from assistance measures; it will contribute to improving the economic structure of the province of Groningen and to solving certain employment problems there.

Two loans were approved in favour of conversion and modernisation projects : on the one hand, for the rationalisation and modernisation of the potash mines in the Mulhouse basin, and on the other, for the development of the water supply system in the Grand Duchy of Luxembourg. In the first case, the improvements financed will serve to confirm, vis-à-vis imports from certain non-Community countries, the competitiveness of an industry which is very important for the economy of the region. In the second case, the improvement of the industrial water distribution system, a long-term pledge for the establishment of new industries, will accelerate the structural change of a country whose economy is still based to an overgreat extent on the iron and steel industry.

Lastly, the other three loans concern projects of common interest for several member countries. The loan granted in Belgium contributes to the financing of the Antwerp-Dutch border motorway, an important section linking the Netherlands motorways with the Belgian and French systems. In Germany, the Bank granted a credit for the construction of the Bamberg-Nuremberg section of the large-width Rhine-Main-Danube canal, and a credit for the construction of a nuclear power station.

In the Associated African States, the Bank granted in 1968 6 ordinary loans, 5 of which for industrial projects and the sixth for a road project.

The two projects financed in the Ivory Coast relate to industrial plant for the processing of agricultural products. The extension of the pineapple canning factory will reinforce the world competitive position of an important export product. The second project is a supplementary industrial investment in the framework of the plan to create oil-palm plantations launched in 1962. This „Oil-palm Plan”, which as regards agricultural diversification is one of the essential factors of the general development

plan of the Ivory Coast, has already received, in the course of preceding years, considerable financial aid from the Community.

In Gaboon as well, the two industrial projects will contribute towards diversifying production further. Lastly, the execution of the road project will make it possible to intensify the development of the up-country forests. As for the mining project located in Mauritania, it has to be executed with priority, in the framework of that country's new Development Plan, inter alia because of the growth in export receipts which it is expected to bring about.

* * *

On 31st December, 1968, 13 contracts relating to ordinary loans already approved, for a total amount of 117.5 million, remained to be signed.

SPECIAL OPERATIONS.

In the framework of its Special Section, the Bank approved seven operations of a total amount of 27.2 million for investment projects in Turkey :

These projects are as follows :

	<i>Loans by the Bank</i> (million u.a.)
1. Construction of a 380 kV high-tension line Gökçekaya-Seyitömer-Izmir. Promoter : <i>Etibank.</i>	7.6
2. Partial dieselisation of the Turkish railway system. Promoter : <i>Türkiye Cumhuriyeti Devlet Demir Yollari - T.C.D.D. (Railways Operating Board in the Republic of Turkey).</i>	11.0
3. Construction of a cement mill in the vicinity of Istanbul. Promoter : <i>Akçimento Ticaret A.Ş.</i>	0.7 (1)

(1) At the promoter's request, the loan, initially approved for 0.95 million, was reduced, after the conclusion of the loan contract, to 0.7 million.

	Loans by the Bank (million u.a.)
4. Construction at Izmit of a board factory. Promoter : <i>Kartonsan, Karton Sanayii ve Ticaret A.Ş.</i>	1.4
5. Construction near Izmit of an acrylic fibre factory. Promoter : <i>Aksa, Akrilik Kimya Sanayii A.Ş.</i>	5.0
6. Construction at Izmit of a factory for electric lamps and semi-finished materials entering into their manu- facture. Promoter : <i>Birleşik Aydınlatma Sanayii A.Ş.</i>	0.8
7. Construction near Istanbul of a pencil factory. Promoter : <i>Adel Kalemcilik Ticaret ve Sanayi A.Ş.</i>	0.6

The Bank's loans in Turkey were granted through the intermediary of the Turkish Government according to the system described in the 1964 report. Of the loans approved in 1968, two concerned infrastructure projects in the transport and energy sectors and five were for industrial projects.

The project financed in the transport sector is aimed at the partial dieselisation of the Turkish railway system and in particular the trans-Tauric line Adana-Malatya and the Edirne-Istanbul-Ankara-Sivas-Kars line which traverses the whole country and carries a fairly dense traffic. The replacement of steam traction, which is technically outdated, by Diesel electric locomotives, will make it possible to cut the operating charges and to reduce the travelling time, thus ensuring a better rotation of the rolling stock.

The execution of the 380 kV electricity transport line on the Gökçekaya-Izmir section, by which Western Anatolia will be linked to the Turkish interconnection system, will enable this region to use the cheap energy to be produced by the hydroelectric power stations at Keban and Gökçekaya, the construction of which, now in progress, also benefits from the Bank's financial assistance.

The loans granted to industrial projects concern investments of the private sector. All these projects are located in the Istanbul-Izmit area, where the industrial development efforts of the private sector continue to be concentrated. The loans granted by the Bank last year in favour of

two cement mills in this region and both located in Anatolia, on the Gulf of Izmit, were supplemented in 1968 by a loan intended for a third cement mill erected in the European part of the country to the south of Istanbul. The construction of a factory for the production of certain special qualities of board, which Turkey does not manufacture, will contribute to completing the range of packaging materials offered on the market. The project for the construction of an electric lamp factory will be carried out, in the framework of the Turkish law aimed at promoting direct foreign investments, with the participation of an important Community group which will also provide the know-how. The pencil factory will also base itself on the experience of a well-known company in the Common Market for the development of its manufacturing programme. The synthetic fibres factory will be the first acrylic fibres factory; it will expand the choice of basic materials made available to the textile industry. Various projects have already been carried out, in the course of recent years, in the polyester and nylon fibres manufacturing and processing sector; the Bank participated in the financing of several of them.

These loans to industrial projects of the private sector were granted, as in the past, through the intermediary of the T.S.K.B. (Türkiye Sınai Kalkınma Bankası - Turkish Industrial Development Bank), in application of the framework contract between the Bank and the Turkish Government concerning such financing. The amount of the framework contract which, taking into account the planned operations, had been increased from 5 to 15 million in the course of 1967 (cf. Annual Report 1967, p. 99), was exhausted in 1968. A further framework contract, relating to an amount equivalent to 7.5 million units of account and accompanied by the same provisions as the previous contract, has been concluded with the Turkish Government.

In application of this new framework contract, an overall loan of the order of 3 million units of account was approved in 1968, which will enable the T.S.K.B. to finance on a larger scale, according to a simplified procedure, small and medium-sized industrial projects.

* * *

At the request of the Commission of the European Communities, the Bank again examined several projects eligible for financing by loans under special conditions from the resources of the European Development

Fund, in the Associated African States and the Associated Overseas Countries and Territories. Five operations totalling 11.2 million, concerning which the Bank issued a favourable opinion, were approved by the Commission. The Bank has received and accepted mandates from the European Communities for the management of these loans.

The latter concern the following projects :

Associated African States

Federal Republic of Cameroon :

*Loans under special
conditions
(million u.a.)*

- | | |
|---|-----|
| 1. Construction of the second section of the trans-Cameroon railway, from Belabo to Ngaoundéré.
Promoter : <i>Federal Republic of Cameroon.</i> | 5.0 |
| 2. Execution of an investment programme in rolling stock and modernisation of the railway maintenance and repair workshops.
Promoter : <i>Régie des Chemins de Fer du Cameroun (REGIFERCAM).</i> | 1.4 |

Central African Republic :

- | | |
|---|-----|
| 3. Execution of a 100-hectare pepper-tree plantation at Boubatiki.
Promoter : <i>Central African Republic.</i> | 0.2 |
|---|-----|

Islamic Republic of Mauritania :

- | | |
|---|-----|
| 4. Extension of the wharf at Nouakchott.
Promoter : <i>Islamic Republic of Mauritania.</i> | 2.8 |
|---|-----|

Associated Overseas Countries and Territories

Surinam :

- | | |
|--|-----|
| 5. Construction of warehouses in the new port of Paramaribo.
Promoter : <i>Surinam.</i> | 1.9 |
|--|-----|

The two Cameroon railway projects will have durable effects on the country's economic development. The construction of the trans-Cameroon railway and the modernisation of the rolling stock will constitute an important development factor, in particular for regions which are still poorly served, the development of which has been hampered so far by the high cost of transport, and will improve communications with the neighbour countries.

The project concerning the Central African Republic will contribute to diversifying this country's agricultural production.

In Mauritania, the extension of the Nouakchott wharf installations will result in higher loading capacities for the copper ores from the Akjoujt deposit intended for export. This deposit will moreover be operated in the framework of a project which was also financed by the Bank in 1968 (cf. page 85). The project concerning Surinam forms one of the last stages in the execution of the new port at Paramaribo, constructed in order to cope with the rapid expansion of shipping traffic.

With the exception of the loan granted directly to the Régie des Chemins de Fer du Cameroun, the loans under special conditions approved in 1968 were granted to the States in which the different projects are being executed.

Loans granted by the Bank from 1958 to 1968.

In the course of the period extending from its creation to the end of 1968, the Bank approved a total of 240 loans, three of which were subsequently cancelled. The remaining 237 loans relate to an overall amount of 1,263 million. The average amount of the loans granted was 5.3 million. 30% of the 237 loans related to amounts below 1 million, while loans the equivalent of which was equal to or less than 3 million represented 59% of the total interventions by the Bank.

The total cost in fixed investments of the projects towards the financing of which the Bank contributed is estimated at 5.7 thousand million. The Bank's participation averaged approximately 22%.

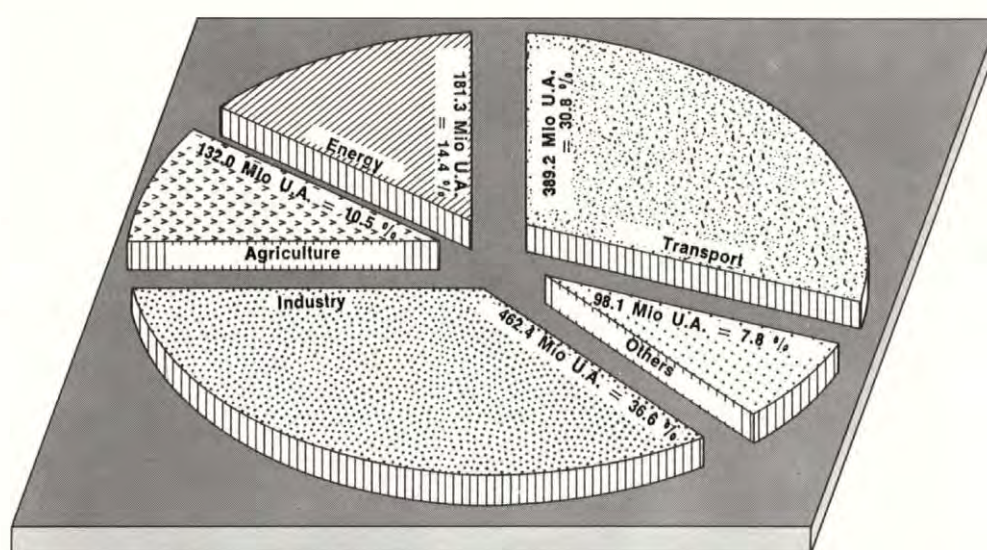
The two tables given below show the breakdown from a threefold point of view : by type of loans, by country and by sector financed, of the loans approved by the Bank since its creation.

Table 13 — LOANS BY THE BANK (1)
Breakdown by type of loans and by country on 31st December, 1968
(Ordinary and special operations)

Country	Number of projects	Amount (million u. a.)	Share of each country in relation to the whole (%)
I. ORDINARY OPERATIONS			
<i>Member countries :</i>			
Belgium	3	30.8	2.4
Germany	17	105.1	8.3
France	23	187.4	14.8
Italy	123	646.2	51.2
Luxembourg	2	8.0	0.6
Netherlands	1	10.0	0.8
Total	169	987.5	78.2
<i>Associated countries :</i>			
Greece	15	68.9	5.5
Ivory Coast	3	10.9	0.9
Gaboon	3	3.2	0.3
Cameroon	4	8.5	0.7
Congo-Brazzaville	1	9.0	0.7
Mauritania	1	11.0	0.9
Senegal	1	2.4	0.2
Total	28	114.0	9.0
Total of ordinary operations	197	1,101.4	87.2
II. SPECIAL OPERATIONS			
Turkey	29	130.3	10.3
Ivory Coast (2)	2	9.6	0.8
Cameroon (2)	4	14.5	1.1
Mauritania (2)	1	2.8	0.2
Chad (2)	1	1.2	0.1
Central African Republic (2)	1	0.2	—
New Caledonia (2)	1	1.0	0.1
Surinam (2)	1	1.9	0.2
Total	40	161.5	12.8
Grand total	237	1,263.0	100.0

- (1) Loans approved, minus three loans cancelled after approval and, as regards the amounts, the cancelled part of approved loans.
- (2) Loans on E.D.F. resources having formed the object of a favourable opinion by the E.I.B. and for which the financing decision of the Commission of the European Communities has been taken.

DISTRIBUTION PER SECTOR OF APPROVED LOANS OF THE E.I.B.



Note : Loans in the member countries and associated countries, approved as at 31 December 1968, including the special loans from EDF resources.

Table 14 — LOANS BY THE BANK (1)
Breakdown by sector on 31st December, 1968
(Ordinary and special operations)

Sector	Number of projects	Amount (million u.a.)	Share of each sector in relation to the whole (%)
AGRICULTURAL DEVELOPMENT	13	132.0	10.5
ENERGY	21	181.3	14.4
TRANSPORT	33	389.2	30.8
of which :			
— Railways	11	130.6	10.3
— Roads	15	191.6	15.2
— Waterways	1	24.0	1.9
— Port installations	3	5.6	0.4
— Gas pipe-lines	3	37.4	3.0
TELECOMMUNICATIONS	4	60.1	4.8
WATER SUPPLY AND DISTRIBUTION	2	28.0	2.2
TOURIST INFRASTRUCTURE	1	10.0	0.8
INDUSTRY	163	462.4	36.6
of which :			
— Extractive industries	5	37.2	2.9
— Iron and steel	3	48.9	3.9
— Non-ferrous metals	4	14.2	1.1
— Construction materials	17	26.4	2.1
— Glass and ceramics	8	10.6	0.8
— Pulp - paper	9	45.1	3.6
— Engineering industry	30	68.4	5.4
— Chemical industry	31	132.4	10.5
— Textiles and clothing	19	26.6	2.1
— Food industry	27	46.3	3.7
— Other industries	10	6.3	0.5
Total	237	1,263.0	100.0

(1) Loans approved, minus three loans cancelled after approval and, as regards the amounts, the cancelled part of approved loans.

ORIGIN AND EMPLOYMENT OF RESOURCES

ORIGIN OF RESOURCES

On 31st December, 1968, the Bank's combined resources, derived from paid-up capital, borrowings and accrued profit, amounted to 1,075.1 million units of account, against 876.4 million on 31st December, 1967, thus showing in the course of the year a growth of 198.7 million in absolute figures and 22.7% in relative value.

This progress in the Bank's resources has its origin, to the extent of 189.1 million, in the net growth of borrowed funds and, for the balance, in the increase in reserves and provisions.

Borrowed funds.

The Bank's calls on the financial markets in 1968 exceeded those of previous years, amounting to 212.5 million units of account, compared to 194.5 million in 1967.

Table 15 — BORROWINGS BY THE BANK

<i>Financial year</i>	<i>Number</i>	<i>Amount (million u.a.)</i>
1961	3	21.4
1962	2	32.3
1963	3	35.2
1964	5	66.8
1965	4	65.0
1966	6	138.5
1967	8	194.5
1968	13	212.5
1961-1968	44	766.2

Before the uptrend in interest rates, which was to affect the European international market in 1968 and thus to lead to a temporary halt in issue

operations, became even more clear-cut, the Bank – which in 1967 had acquired a front-ranking position among borrowers on this market – floated a public loan of a nominal amount of 25 million dollars in Luxembourg in February 1968.

The Bank's close and effective collaboration with the monetary authorities of the member countries enabled it, subsequently, to bring its resources up to the level of its requirements without further recourse to the European international market, while at the same time refraining from contributing to aggravate by its borrowings the tense situation on the French market, which had been widely open to it in 1966 and 1967, but where the real rates reached in 1968 would in any case have rendered very expensive a call on domestic savings there.

More than half the borrowed funds collected by the Bank in 1968 (137.5 million) originated from issues denominated in Deutsche Marks : 25 million units of account were collected in the form of a loan offered to the public; the balance was derived from private loans placed solely with institutional investors. By assisting the German monetary authorities, by means of exports of capital, to achieve a more satisfactory equilibrium in external payments, the Bank also participated in the stabilisation efforts made at the international monetary level, while at the same time benefiting from a cyclical situation characterised by abundant liquidities and a downturn in interest rates.

The Bank also made calls, for amounts of the same order as in previous years, on the Italian (24 million units of account) and Belgian (15 million) financial markets.

Lastly, after two years' abstention, it again had recourse to the Netherlands market, to the extent of 11 million units of account.

The details of the borrowing operations concluded in the course of the financial year are given in the table below

In the course of 1967, the Bank had concluded with the Federal Republic of Germany, in connection with the latter's contribution in the framework of the agreement of 9th July, 1961 on the Financial Protocol appended to the agreement creating an association between the European

Economic Community and Greece, a loan of an overall amount of 80 million Deutsche Marks, on which 20 million had been paid in 1967.

Owing to the fact that the Bank has for the moment ceased activity in Greece – the Financial Protocol having expired on 31st October, 1967 –, it waived the disbursement of the 60 million Deutsche Marks until such time as a decision is taken by the Council of Ministers of the European Communities with respect to the balance of the amount of unutilised aid on 31st October, 1967 (55.8 million out of a total of 125 million dollars).

The nominal amount of this loan was therefore reduced for the time being to 20 million Deutsche Marks. The 60 million Deutsche Marks which will possibly be paid in future in exchange for delivery of registered bonds have been included in the Memorandum Accounts, separate from the Balance Sheet of the Bank.

Owing to these various operations, the overall amount of funds borrowed increased from 553.6 to 766.2 million units of account between

Table 16 – BONDS ISSUED IN 1968

<i>Date of issue</i>	<i>Place of issue</i>	<i>Nature of loan</i>	<i>Subscription currency</i>	<i>Amount in national currencies (million)</i>	<i>Amount in u.a. (million)</i>	<i>Term of loan (1)</i>	<i>Nominal rate</i>	<i>Placing</i>
Feb. 1968	Luxembourg	public	US \$	25	25.00	12 years	6.75 %	Underwritten by a syndicate composed of the Banca Commerciale Italiana, Lazard Frères et Co., La Banque de Paris et des Pays-Bas pour le Grand-Duché de Luxembourg S.A. and the Banque Internationale à Luxembourg - Offered for public subscription at 98 %.
Feb. 1968	Fed. Rep. Germany	private	DM	100	25.00	12 years	6.50 %	Underwriting and placing by the Bankhaus Heinz Ansmann at Dusseldorf.
May 1968	Netherlands	public	Florins	40	11.10	20 years	6.75 %	Underwritten by a syndicate of Netherlands banks under the management of the Amsterdam-Rotterdam Bank N.V. - Offered for public subscription at 98.25 %.

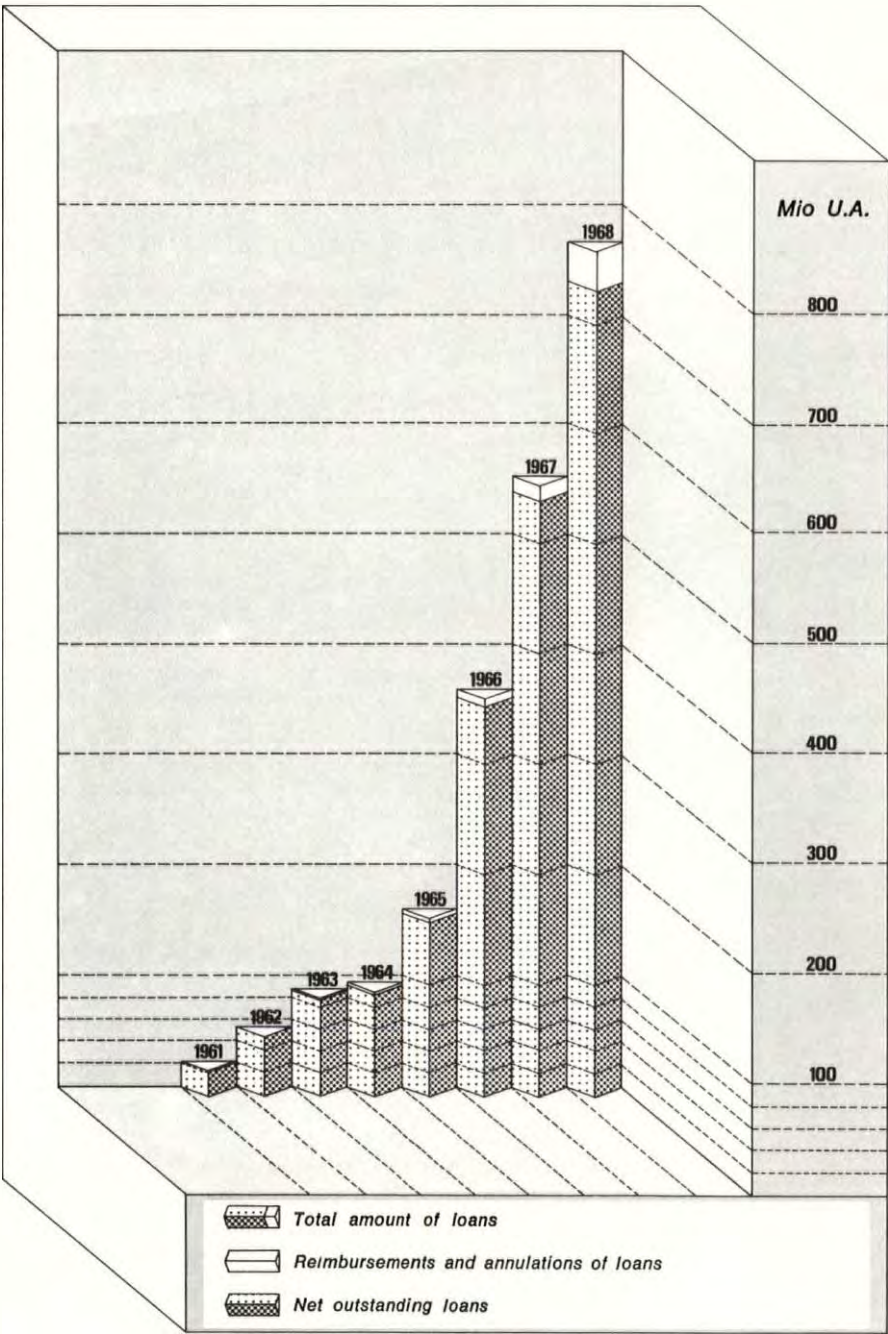
Table 16 — BONDS ISSUED IN 1968
(continued)

<i>Date of issue</i>	<i>Place of issue</i>	<i>Nature of loan</i>	<i>Subscription currency</i>	<i>Amount in national currencies (million)</i>	<i>Amount in u.a. (million)</i>	<i>Term of loan (1)</i>	<i>Nominal rate</i>	<i>Placing</i>
June 1968	Fed. Rep. Germany	public	DM	100	25.00	10 years	6.50 %	Underwritten by a syndicate of German banks under the management of the Deutsche Bank A.G. and the Dresdner Bank A.G. - Offered for public subscription at 99 %.
June 1968	Fed. Rep. Germany	private	DM	50	12.50	6 years	6.25 %	Placed with the Deutsche Girozentrale - Deutsche Kommunalbank at Frankfurt.
June 1968	Fed. Rep. Germany	private	DM	50	12.50	15 years	6.75 %	Placed with the Deutsche Girozentrale - Deutsche Kommunalbank at Frankfurt.
June 1968	Fed. Rep. Germany	private	DM	50	12.50	15 years	6.50 %	Underwriting and placing by the Bankhaus C.G. Trinkaus at Dusseldorf.
Aug. 1968	Fed. Rep. Germany	private	DM	50	12.50	10 years	6.25 %	Placed with the Rheinische Girozentrale und Provinzialbank at Dusseldorf.
Aug. 1968	Fed. Rep. Germany	private	DM	25	6.25	15 years	6.25 %	Underwriting and placing by the Dresdner Bank A.G. at Frankfurt.
Aug. 1968	Fed. Rep. Germany	private	DM	25	6.25	15 years	6.25 %	Underwriting and placing by the Bankhaus Heinz Ansmann at Dusseldorf.
Nov. 1968	Belgium	public	BF	750	15.00	14 years	6.75 %	Underwriting by a syndicate of banks composed of the Société Générale de Banque, the Banque de Bruxelles, the Kredietbank, the Banque de Paris et des Pays-Bas, Belgique and the Banque Lambert - Offered for public subscription at 99 %.
Dec. 1968	Italy	public	Lit.	15,000	24.00	20 years	6.00 %	Underwriting by a syndicate of Italian banks under the management of Mediobanca - Offered for public subscription at 96.5 %.
Dec. 1968	Fed. Rep. Germany	private	DM	100	25.00	15 years	6.50 %	Underwriting and placing by the Westfalenbank A.G. at Bochum.

(1) For the terms and conditions with respect to redemption, cf. page 109.

MEDIUM AND LONG TERM LOANS RAISED BY THE E.I.B.

Cumulative amounts



31st December, 1967 and 31st December, 1968. After deduction of repayments made, the funded debt amounted to 729.9 million at the latter date, against 540.9 million one year previously.

The graph reflects the expansion of the Bank's borrowing operations in the course of recent years.

Accrued profit.

In accordance with the rule adopted in previous financial years, the Bank fully amortized the charges and issue expenses of loans incurred in the course of the year by debiting them to the Profit and Loss Account. These amortizations amounted to 5.9 million. The balance of the Profit and Loss Account before appropriation to the statutory reserve and to provisions thus amounted to 9.7 million, as against 10.5 million in the previous year.

Of this amount, 5 million were appropriated to provisions and the balance to the statutory reserve.

On 31st December, 1968, the overall amount of reserves and provisions was 95.2 million, of which 46.2 million for the statutory reserve.

EMPLOYMENT OF RESOURCES

After deduction of repayments (78.7 million, of which 26.4 million for the financial year) and taking into account exchange adjustments and cancellations, the overall amount of effective loans reached 905.2 million at the end of 1968, as against 757.3 million at the end of 1967, thus showing a progress of nearly 20%.

Disbursements made in 1968 amounted to 175.7 million, against 138.6 million in 1967. The outstanding amount of loans disbursed thus reached 698.2 million on 31st December, 1968.

From one year to the next, the disbursements still to be made on effective loans remained practically stable, passing from 208.4 million to 207 million.

* * *

Taking into account, inter alia, the favourable borrowing conditions accorded it on the German market, where interest rates moved downwards during the year, the Bank on two occasions lowered the current interest rate for its ordinary operations.

First of all, from 24th April, 1968, it reduced from 7% to 6.75% the rate applied to loans not exceeding 12 years, while maintaining unchanged at 7% the rate applicable to loans of a longer duration.

Subsequently, it decided that from 30th July its interest rates would be lowered to 6 1/2% per annum, when the term of the loan does not exceed 12 years, and 6 7/8% when the term of the loan is greater than 12 years.

III

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

The balance sheet and profit and loss account are enclosed with this Report (cf. page 118 et seqq.).

Their main items are analysed below :

BALANCE SHEET

The balance sheet total as at 31st December, 1968, amounts to 1,318,808,320 u.a. On 31st December, 1967, this total was 1,110,334,698 u.a.

ASSETS

Cash and banks, gold assets and investments.

The total of these three items amounts to 316,765,874 u.a., as against 317,151,271 u.a. on 31st December, 1967, as can be seen from the detailed breakdown hereunder :

	on 31st December, 1967	on 31st December, 1968
– Cash in hand and banks	226,372,564	230,183,980
– Gold assets	8,653,086	8,669,918
– Investments	82,125,621	77,911,976

The treasury bonds, bonds and notes to the value of 57,238,582 u.a. forming part of the “ Investments ” item, have been valued at cost price or at market quotation as at 31st December, 1968, if the latter were below cost price, with a maximum of 100 %.

The “ Investments ” heading further includes 1,621,088 u.a. of the Bank's own bonds which have been purchased by it (par value of 1,655,099 u.a.).

The total of these three items, according to currencies, is made up as follows :

– Currencies of Member Countries	190,830,206 u.a.
– Other currencies	117,265,750 u.a.
– Gold	8,669,918 u.a.

The breakdown by maturities is :

– At call	36,018,410 u.a.
– Not exceeding 3 months	95,561,431 u.a.
– Exceeding 3 months but not exceeding 6 months	75,004,466 u.a.
– Exceeding 6 months but not exceeding 1 year	59,065,749 u.a.
– Exceeding 1 year	51,115,818 u.a.

Receivable on proceeds of loans.

The amount under this heading – 66,062,562 u.a. – represents the proceeds of bonds in Lire issued in 1968 but not yet paid up at the end of the financial year, as well as the proceeds of three private loans in Deutsche Mark concluded in 1968, but not yet paid up at 31st December, 1968.

Effective loans.

The amount of 905,205,616 u.a. represents the total amount of the loans for which agreements had been signed by 31st December, 1968, less repayments, which totalled 26,381,392 u.a. during the year, and cancellations. Of this total, the amount actually paid out to borrowers by that date is 698,164,198 u.a.

Amounts owing to the Bank as a result of these payments are made up as follows, according to currencies :

– Currencies of Member States	525,149,834 u.a.
– Currency of any Member State at the Bank's option	26,460,200 u.a.
– Other currencies	146,554,164 u.a.

The undisbursed amounts, viz. 207,041,418 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, 1967	on 31st December, 1968
– Amounts disbursed	548,867,911	698,164,198
– Amounts undisbursed	208,393,033	207,041,418
Total of loans	757,260,944	905,205,616

The breakdown by country of effective loans is as follows :

<i>Country</i>	<i>Amounts disbursed</i>	<i>Amounts undisbursed</i>	<i>Total</i>
Belgium	16,840,000	13,000,000	29,840,000
Germany	78,871,827	19,500,000	98,371,827
France	108,000,995	29,268,431	137,269,426
Italy	421,847,079	111,160,000	533,007,079
Luxembourg	6,906,822	–	6,906,822
Greece	53,199,263	13,766,136	66,965,399
Ivory Coast	548,195	1,000,000	1,548,195
Cameroon	4,411,868	4,050,000	8,461,868
Senegal	1,930,000	500,000	2,430,000
Congo-Brazzaville	5,608,149	3,391,851	9,000,000
Gabon	–	405,000	405,000
Mauritania	–	11,000,000	11,000,000
	698,164,198	207,041,418	905,205,616

The breakdown of effective loans according to the principal guarantee covering them shows that, of the total amount of 905,205,616 u.a., loans

granted to Member States or benefiting from their guarantee amount to 769,861,928 u.a.; loans granted to governmental institutions of Member States or guaranteed by governmental institutions amount to 82,052,090 u.a.; loans assisted by the guarantee of Associated Countries amount to 12,845,063 u.a.; the balance of 40,446,535 u.a. is 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, 1968, amounting to 15,444,825 u.a.

Unamortized redemption premiums.

The amount of 5,870,579 u.a. represents the part not yet amortized of the redemption premiums due on bonds issued by the Bank. The amortization is effected annually over the entire life of the bonds.

Special deposits for service of loans.

This heading has been listed for the first time separately in the balance sheet. It comprises deposits constituted with a view to payment of coupons and bonds due but not yet paid, also appearing for the first time separately on the liabilities side of the balance sheet.

LIABILITIES

Subscribed 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 of 41,529,913 u.a. at the beginning of the year has been increased to 46,239,513 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 36,000,000 u.a. at the end of the previous financial year, is increased to 41,000,000 u.a.

Total provisions therefore amount to 49,000,000 u.a., as against 44,000,000 u.a. at the end of the previous financial year.

Staff pension fund.

The amount appearing under this heading is 1,405,111 u.a., as against 1,167,596 u.a. on 31st December, 1967.

Amounts due under Article 7 (2) of the Statutes.

The amount appearing under this heading is 243,328 u.a., as against 301,169 u.a. at the close of the previous financial year.

Medium and long term debt.

The figure of 736,808,884 u.a. under this heading represents the Bank's current borrowings as at 31st December, 1968, as well as the redemption premiums relating thereto.

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 1/2 %	Bonds of 1961	Fls.	43.3 million	11,961,326	1981 in 13 substantially equal annual instalments 1969-1981.
5 %	Bonds of 1962	Lit.	15,000.0 million	24,000,000	1977 at maturity.
4 3/4 %	Bonds of 1962	Fls.	30.0 million	8,287,293	1982 in 10 equal annual instalments 1973-1982.
5 1/2 %	Bonds of 1963	DM	60.0 million	15,000,000	1970 at maturity.
6 %	Bonds of 1963	Belg. fr.	400.0 million	8,000,000	1987 in 19 annuities 1969-1987 (*).
5 %	Bonds of 1963	FF	45.0 million	9,114,736	1983 1/3 of the nominal value of each bond at the end of the 10th, 15th, and 20th years.
5 1/2 %	Bonds of 1964	DM	80.0 million	20,000,000	1974 at maturity.
5 %	Bank loan of 1964	Lux. fr.	43.9 million	877,180	1974 in 6 annuities 1969-1974 (*).
5 3/4 %	Bonds of 1964	Fls.	30.0 million	8,287,293	1984 in 10 equal annual instalments 1975-1984.
5-5 1/4 %	Bonds of 1964 (Serial Bonds)	DM	25.1 million	6,275,000	1971 in 3 substantially equal annual instalments 1969-1971.
5 1/2 %	Bonds of 1964	US \$	25.0 million	25,000,000	1984 in 15 substantially equal annual instalments 1970-1984.
5 3/4 %	Bonds of 1965	Fls.	40.0 million	11,049,724	1990 in 15 substantially equal annual instalments 1976-1990.
6 %	Bonds of 1965	US \$	20.0 million	20,000,000	1985 in 15 substantially equal annual instalments 1971-1985.
6 %	Bonds of 1965	Lit.	15,000.0 million	24,000,000	1985 in 17 annuities 1969-1985 (*).
6 1/2 %	Bonds of 1965	Belg. fr.	500.0 million	10,000,000	1977 in 9 annuities 1969-1977 (*).
6 1/2 %	Bonds of 1966	US \$	22.5 million	22,500,000	1976 in 8 increasing annual instalments 1969-1976.
6 %	Bonds of 1966	Lit.	15,000.0 million	24,000,000	1986 in 17 annuities 1970-1986 (*).
6 1/4 %	Bonds of 1966	FF	200.0 million	40,509,939	1981 in 5 equal three-yearly instalments 1969-1981 with increasing redemption premium.
6 1/2 %	Bonds of 1966	US \$	15.0 million	15,000,000	1986 in 15 equal annual instalments 1972-1986.
6 %	Bonds of 1966	Lit.	15,000.0 million	24,000,000	1986 in 15 equal annual instalments 1972-1986.
7 %	Bonds of 1966	Belg. fr.	500.0 million	10,000,000	1978 in 6 annual instalments of Belg. fr. 30,000,000 1972-1977 and one instalment of Belg. fr. 320,000,000 at maturity.
6 1/2 %	Bonds of 1967	US \$	25.0 million	25,000,000	1982 in 5 annual instalments of \$ 1,250,000 1973-1977 and 5 annual instalments of \$ 3,750,000 1978-1982.
6 1/2 %	Bonds of 1967	US \$	25.0 million	25,000,000	1987 in 15 substantially equal annual instalments 1973-1987.
6 %	Bonds of 1967	US \$	20.0 million	20,000,000	1972 at maturity.

(*) in capital and interest.

		<i>Principal outstanding</i>		<i>Final</i>	<i>Amortization</i>
		<i>in local currencies</i>	<i>in u.a.</i>	<i>matu- rity</i>	
6 1/2%	Bonds of 1967	US \$	25.0 million	25,000,000	1982 in 5 annual instalments of \$ 1,250,000 1973-1977 and 5 annual instalments of \$ 3,750,000 1978-1982.
6 1/2%	Bonds of 1967	DM	20.0 million	5,000,000	1977 in 1 instalment of DM 20,000,000 in 1977.
6 1/4%	Bonds of 1967	FF	200.0 million	40,509,939	1985 in 6 substantially equal three-yearly instalments 1970-1985 at increasing redemption prices.
7%	Bonds of 1967	Belg. fr.	750.0 million	15,000,000	1982 in 5 annual instalments of Belg. fr. 22,500,000 1973-1977, 4 annual instalments of Belg. fr. 37,500,000 1978-1981 and 1 instalment of Belg. fr. 487,500,000 at maturity.
6%	Bonds of 1967	Lit.	15,000.0 million	24,000,000	1987 in 17 annuities 1971-1987 (*).
6 1/2%	Private loan of 1968	DM	100.0 million	25,000,000	1980 in 10 equal annual instalments 1971-1980.
6 3/4%	Bonds of 1968	US \$	25.0 million	25,000,000	1980 in 8 equal annual instalments of \$ 1,000,000 1971-1978 and 2 equal annual instalments of \$ 8,500,000 1979-1980.
6 3/4%	Bonds of 1968	Fls.	40.0 million	11,049,724	1988 in 10 equal annual instalments 1979-1988.
6 1/2%	Bonds of 1968	DM	100.0 million	25,000,000	1978 wholly at maturity.
6 1/4%	Private loan of 1968	DM	50.0 million	12,500,000	1974 wholly at maturity.
6 3/4%	Private loan of 1968	DM	50.0 million	12,500,000	1983 in 10 equal annual instalments 1974-1983.
6 1/2%	Private loan of 1968	DM	50.0 million	12,500,000	1983 in 10 equal annual instalments 1974-1983.
6 1/4%	Private loan of 1968	DM	50.0 million	12,500,000	1978 wholly at maturity.
6 1/4%	Private loan of 1968	DM	25.0 million	6,250,000	1983 in 10 equal annual instalments 1974-1983.
6 1/4%	Private loan of 1968	DM	25.0 million	6,250,000	1984 in 6 annual instalments of DM 2,000,000 1973-1978, in 1 instalment of DM 3,000,000 1979 and 5 instalments of DM 2,000,000 1980-1984.
6 3/4%	Bonds of 1968	Belg. fr.	750.0 million	15,000,000	1982 in 8 annual instalments of 37,500,000 Belg. fr. 1974-1981 and 1 instalment of 450,000,000 Belg. fr. at maturity.
6%	Bonds of 1968	Lit.	15,000.0 million	24,000,000	1988 in 17 annuities 1972-1988 (*).
6 1/2%	Private loan of 1968	DM	100.0 million	25,000,000	1984 in 10 equal annual instalments 1975-1985.
Redemption premiums				729,922,154	
				6,886,730	
				736,808,884	

(*) in capital and interest.

During the financial year the funded debt of the Bank, broken down by currencies, developed as follows :

	<i>Principal outstanding at 31 Decem- ber, 1967</i>	<i>Operations during the financial year</i>		<i>Receivable on bonds to be delivered</i>	<i>Principal outstanding at 31 Decem- ber, 1968</i>
		<i>Borrowings</i>	<i>Repayments</i>		
in DM	63,350,000	137,500,000	2,075,000	15,000,000 *	183,775,000
in FF	93,172,860	—	3,038,246	—	90,134,615
in Lit.	120,000,000	24,000,000	—	—	144,000,000
in Belg. fr.	43,000,000	15,000,000	—	—	58,000,000
in Fls.	41,616,022	11,049,724	2,030,386	—	50,635,359
in Lux. fr.	1,000,000	—	122,820	—	877,180
in US \$	178,750,000	25,000,000	1,250,000	—	202,500,000
Total	540,888,882	212,549,724	8,516,452	15,000,000	729,922,154
Redemption premiums	6,886,730	—	—	—	6,886,730
	547,775,612	212,549,724	8,516,452	15,000,000	736,808,884

* Amount which the Bank has temporarily waived owing to the fact that for the time being it has ceased its activity in Greece.

The amount of funded debt due within the financial year 1969 is 14,648,023 u.a.

Undisbursed balance of effective loans.

The amount of 207,041,418 u.a. entered under this heading represents the payment commitments still to be executed by the Bank in favour of its borrowers under contracts signed prior to 31st December, 1968.

Accrued interest payable and interest received in advance.

The amount of 15,167,547 u.a. appearing under this heading represents 15,137,721 u.a. accrued interest not yet paid and 29,826 u.a. interest received in advance for periods subsequent to 31st December, 1968.

Miscellaneous.

The amount of 3,704,510 u.a. under this heading includes various expenses remaining to be paid at the end of the financial year as well as other administrative charges incurred or foreseen for later payment, and sundry creditors.

MEMORANDUM ACCOUNTS

Receivable on bonds to be delivered.

The amount of 15 million u.a. represents the equivalent of nom. DM 60 million, 6 1/2% bonds of 1967 at 10 years to be issued in the framework of a loan of DM 80 million concluded with the Federal Republic of Germany in connection with the latter's contribution to the financial assistance to Greece. This amount appeared on the assets side of the balance sheet as at 31st December, 1967 under the heading "Receivable on bonds to be delivered"; on the liabilities side, it was included in the amount of medium and long term debt.

Overall loans granted but not yet appropriated.

The amount represents the equivalent of an overall loan signed and intended for the financing of industrial initiatives on a small and medium scale in southern mainland Italy. The amounts appropriated will be deducted from this heading and listed in the balance sheet under the heading "Effective loans".

SPECIAL SECTION

The item of 140,061,210 u.a. represents the total amount of loan agreements signed by the Bank in the framework of its Special Section at 31st December, 1968 :

- a) for the financing of projects located in Turkey, for the account and on mandate of the Member States 121,845,246 u.a.

- b) for the financing of projects located in the Associated African Countries and Madagascar (A.A.S.M.) for the account and on mandate of the European Economic Community 18,215,964 u.a.

Of these amounts, respectively 59,451,224 u.a. and 1,373,365 u.a. had been disbursed.

The detailed situation in respect of the Special Section appears on page 122 of the present Report.

PROFIT AND LOSS ACCOUNT

DEBIT

Administrative expenses and charges.

The administrative expenses and charges amounted to 3,212,116 u.a., as against 2,604,190 u.a. for the previous year.

They are made up as follows :

– Staff expenses	2,149,850 u.a.
– General expenses	772,141 u.a.
– Expenses relating to the transfer of the provisional headquarters of the Bank from Brussels to Luxembourg	290,125 u.a.

The increase in staff expenses is mainly due to the adaptation of salaries in 1968 in relation with the rise in the cost of living the previous year, staff expansion and contractual salary increases.

The staff of the Bank totalled 162 persons on 31st December, 1968, 105 of whom were employed in the translation, administrative, equipment and maintenance services.

Interest and charges on borrowings.

This item, amounting to 43,788,396 u.a., represents interest on borrowings and other debit interests as well as sundry charges and expenses connected with borrowing operations, which have been amortized by debiting the profit and loss account.

Amortization of furniture and equipment.

Net payments for furniture and equipment, made during the year and fully amortized, amounted to 62,125 u.a., as against 28,668 u.a. for the previous year.

CREDIT

Interest and commission from loans.

This item amounts to 37,824,683 u.a., as against 27,976,460 u.a. for the previous year. The increase is in proportion to the increase in amounts paid out on effective loans.

Interest and commission from investments.

The amount of income from investments of available funds is 18,651,681 u.a., as against 15,347,055 u.a. for the previous year.

Other income net.

This item represents the balance of other income and other expenses. It includes, furthermore, the differences resulting from valuation of the Portfolio and management commissions.

IV

ADMINISTRATION OF THE BANK

At the Annual Meeting on 27th May, 1968, the Board of Governors proceeded to the general renewal of the Board of Directors for a period of five years. On that occasion, Messrs. GIUSEPPE DI NARDI, ROBERTO DUCCI, JEAN SALTES, directors, and Messrs. ROGER BOYER, ALBERTO CAPANNA, WALTER DUDEK, alternates, did not stand for re-election.

They were replaced by Messrs. LUDOVICO NUVOLONI, SALVATORE GUIDOTTI, directors, and by Messrs. PIERRE ESTEVA, JEAN-PIERRE METTAS, GIROLAMO TROTTA, ALFRED KUBEL, alternates. Mr. ANDRÉ POSTEL-VINAY, formerly alternate, became titular director.

We thank Messrs. DI NARDI, DUCCI, SALTES, BOYER, CAPANNA and DUDEK for the valuable and competent collaboration they have given the Bank, in the majority of cases since its creation.

Since 1st September, 1968, the Bank has been established in Luxembourg, by application of the "Decision of the representatives of the Governments of the member countries relating to the provisional installation of certain institutions and services of the Communities" (Article 5), a decision supplementing the Treaty establishing a single Council and a single Commission of the European Communities which came into force on 1st July, 1967.

The departments were transferred, in the course of the summer, to the building which had previously been occupied by the High Authority of the E.C.S.C., 2, place de Metz.

This transfer was not carried out without appreciably influencing the Bank's functioning, and giving rise to notable changes in the composition of the staff.

The Bank has retained in Brussels a representative Office to provide there, on the spot, the necessary contacts, inter alia with the institutions of the European Communities, the Permanent Representatives of the Member Countries, the Missions of the Associated Countries, as well as with the press.

It has opened an operational Office in Rome to facilitate the examination of the files relating to the financing of investment projects located in Italy.

* * *

Luxembourg, 29th April, 1969.

The Chairman, Board of Directors,
PARIDE FORMENTINI.

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

REPORT OF PRICE WATERHOUSE & Co.

60, rue Ravenstein
Brussels

The President,
EUROPEAN INVESTMENT BANK
LUXEMBOURG

In our opinion, the accompanying Balance Sheet and related Profit and Loss Account, together with the information contained in Part III of the « Annual Report 1968 » of the European Investment Bank, present fairly the financial position of the European Investment Bank at December 31, 1968 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.

March 24, 1969.

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

CASH AND BANKS		
At call or not exceeding one year	224,143,980	
Over one year	6,040,000	
		230,183,980
GOLD ASSETS		8,669,918
INVESTMENTS		
Not exceeding one year	32,836,158	
Over one year	45,075,818	
		77,911,976
RECEIVABLE ON PROCEEDS OF LOANS		66,062,562
EFFECTIVE LOANS		
Of which :		
Disbursed	698,164,198	
Undisbursed balance	207,041,418	
		905,205,616
FURNITURE AND EQUIPMENT		1
ACCRUED INTEREST AND COMMISSION		15,444,825
UNAMORTIZED REDEMPTION PREMIUMS		5,870,579
SPECIAL DEPOSITS FOR SERVICE OF LOANS		9,198,009
MISCELLANEOUS		260,854
	Total Assets : u.a.	1,318,808,320

MEMORANDUM

RECEIVABLE ON BONDS TO BE DELIVERED	15,000,000
OVERALL LOANS GRANTED BUT NOT YET APPROPRIATED	10,000,000

SPECIAL SECTION

Effective loans for the account of and on mandate
 (of which : disbursed :
 undisbursed balance :

DECEMBER 31, 1968

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	
of which paid up in accordance with Art. 5 (1) of the Statutes		250,000,000
STATUTORY RESERVE.		46,239,513
PROVISIONS		
– for risks on loans and guarantees	41,000,000	
– for equalization of interest on borrowings and for issuing charges	6,000,000	
– for monetary risks not covered under Art. 7 of the Statutes	2,000,000	
		49,000,000
STAFF PENSION FUND.		1,405,111
AMOUNTS DUE UNDER ART. 7 (2) OF THE STATUTES		243,328
MEDIUM AND LONG TERM DEBT	729,922,154	
REDEMPTION PREMIUMS	6,886,730	
		736,808,884
UNDISBURSED BALANCE OF EFFECTIVE LOANS		207,041,418
ACCRUED INTEREST PAYABLE AND INTEREST RECEIVED IN ADVANCE		15,167,547
COUPONS AND BONDS DUE – NOT YET PAID		9,198,009
MISCELLANEOUS		3,704,510
<i>Total Liabilities : u.a.</i>		1,318,808,320

ACCOUNTS

BONDS TO BE DELIVERED	15,000,000
COMMITMENTS ON OVERALL LOANS GRANTED BUT NOT YET APPROPRIATED	10,000,000

from third parties . u.a. 140,061,210
. . . u.a. 60,824,589
. . . u.a. 79,236,621)

PROFIT AND LOSS ACCOUNT FOR THE

(in units of account of 0.88867088 g

DEBIT

ADMINISTRATIVE EXPENSES	3,212,116
INTEREST AND CHARGES ON BORROWINGS	43,788,396
AMORTIZATION OF FURNITURE AND EQUIPMENT	62,125
PROVISION FOR RISKS ON LOANS AND GUARANTEES	5,000,000
BALANCE APPROPRIATED TO THE STATUTORY RESERVE	4,709,600
<i>Total : u.a.</i>	<u>56,772,237</u>

FINANCIAL YEAR ENDED DECEMBER 31, 1968

fine gold – Art. 4 of the Statutes)

	CREDIT
INTEREST AND COMMISSION FROM LOANS	37,824,683
INTEREST AND COMMISSION FROM INVESTMENTS	18,651,681
EXCHANGE DIFFERENCES	40,547
OTHER INCOME-NET	255,326
Total : u.a.	56,772,237

SPECIAL
STATEMENT OF CONDITION

(in units of account of

ASSETS

(I) TURKEY			
RECEIVABLE FROM MEMBER COUNTRIES			
for effective loans			62,394,022
EFFECTIVE LOANS			
of which :			
disbursed	59,451,224		
undisbursed balance	62,394,022		
			<hr/> 121,845,246
(II) ASSOCIATED AFRICAN AND MALAGASY STATES AND OVERSEAS COUNTRIES AND TERRITORIES			
RECEIVABLE FROM EUROPEAN ECONOMIC COMMUNITY			
for effective loans			16,842,599
EFFECTIVE LOANS			
of which :			
disbursed	1,373,365		
undisbursed balance	16,842,599		
			<hr/> 18,215,964
		<i>Total Assets : u.a</i>	<hr/> 219,297,831 <hr/>

SECTION

AT DECEMBER 31, 1968

0.88867088 g fine gold)

LIABILITIES

(I) TURKEY	
MEMBER COUNTRIES FOR EFFECTIVE LOANS	121,845,246
UNDISBURSED BALANCE OF EFFECTIVE LOANS	62,394,022
(II) ASSOCIATED AFRICAN AND MALAGASY STATES AND OVERSEAS COUNTRIES AND TERRITORIES	
EUROPEAN ECONOMIC COMMUNITY FOR EFFECTIVE LOANS	18,215,964
UNDISBURSED BALANCE OF EFFECTIVE LOANS	16,842,599
<i>Total Liabilities : u.a.</i>	219,297,831

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 1968 Annual Report and the balance sheet of the Bank as at December 31, 1968 and the profit and loss account for the financial year ending on that date, as drawn up by the Board of Directors at their meeting of April 29, 1969,

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

hereby certifies :

that the Bank's operations during the 1968 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.

Luxembourg, 7th May, 1969.

The Audit Committee,

R. BRESSON

K. BERNARD

A. M. DE JONG

THE BANK AND THE ASSOCIATIONS OF THE EUROPEAN ECONOMIC COMMUNITY WITH GREECE, TURKEY AND THE AFRICAN STATES AND MADAGASCAR

The year 1969 marks both the term of the first phase of the Association Agreement between the Community and Turkey and the end of the financial protocol appended to that Agreement. It also marks the expiry of the Association Convention with the seventeen African States and Madagascar. Negotiations for the renewal of the latter and for the transition to the second phase of the Agreement with Turkey are in progress. As for Greece, she has been associated since the end of 1962 : the financial protocol appended to the Association Agreement had a validity of five years and the new orientations relating to financial assistance in the framework of the Association have not yet been defined.

The texts governing the association relationships accorded the Bank an important place in the granting of the financial assistance open to the associated countries. It is advisable, at a time when the member countries, the Commission and the Associated States are examining the experience already acquired in order to prepare the future, to give a general picture of the action of the Bank : the institutional provisions governing this action, the economic conditions into which it fits and the interventions themselves. This overall view, by stressing the utility of the Bank's action in the associated countries, will make it possible to suggest, by way of conclusion, some views for the future.

The Financial Provisions of the Association Agreements.

The problem of granting financial aid to the overseas countries and territories which, at the time of the Treaty of Rome, were not independent,

arose as soon as the Treaty was negotiated. The negotiators chose to confirm the preferential links maintained by Belgium, France, Italy and the Netherlands with these countries and territories by extending these links to the Six as a whole, without indeed integrating them into the Community but by associating them with it.

The Treaty conferred two objectives on the association : the stimulation of economic and social development and the establishment of close economic relations. An appended convention granted the associated countries and territories a non-repayable financial aid, to be shared out by a "Development Fund for the Overseas Countries and Territories", created for this purpose and having at its disposal a budget of 581 million units of account, financed by the six member countries and managed by the Commission. When the African countries in question and Madagascar had acceded to independence, a convention was concluded in 1963 at Yaoundé between the Community and the new States; this convention was supplemented, as regards the overseas countries and territories, by a decision of the Council of the Community on 25th February, 1964. These texts brought the aggregate of the financial aids to 800 million units of account, of which 680 million in non-repayable aid and 50 million in loans under special conditions from the resources of a second fund, the "European Development Fund" (E.D.F.), on the one hand, and 70 million in ordinary loans by the Bank from its own resources, on the other.

No function was attributed to the Bank in the financing effort provided for by the Treaty of Rome in favour of countries situated outside the territorial limits of the Common Market. However, as early as 1960, the negotiations with Greece pointed to a new role for the Bank and in 1962 the decision was taken on the basis of Article 18 of its Statute to widen its field of action by giving it a mandate to intervene in Greece. The agreements signed the following year conferred upon it an active part in the aid to Turkey and the African countries and Madagascar.

The widening of the Bank's activity was in fact only the logical culmination of a certain specialisation of financing schemes within the Communities. The Bank had acquired experience in the member countries, both for the financing of major infrastructures and for that of industry, on which it was natural to call and which straight away qualified the

Bank to take its place, whether it is a question, as in Africa, of supplementing the existing interventions so as to contribute more effectively, thanks to a diversification of the aid, to the industrialisation effort or, as in Greece, then in Turkey, so as to finance yielding investments forming part of the development programmes.

Once the Bank's intervention in the associated countries was admitted, there remained the task of outlining its legal framework. Indeed, the Bank is endowed by the Treaty of Rome with a legal personality distinct from that of the other institutions of the Community and the member countries; a banking institution, it obtains the essential part of its resources by issues on the financial markets; it therefore has to accompany its loans with unquestionable guarantees so as to maintain its credit, and to practise rates of interest close to those prevalent on the capital markets and, by this very fact, relatively high for interventions in the developing countries.

The arrangements adopted in order to take these different aspects into account vary according to the Association Agreements (see Table A). With regard to guarantees, in particular, the member countries have sometimes agreed to grant their guarantee to the Bank, and sometimes even to procure it the necessary resources at their own risk.

With respect to rates of interest, the member countries have decided either to lend budgetary funds at special conditions through the intermediary of the Bank, or to enable the Bank's borrowers to benefit from interest bonuses.

In the case of Greece, the financial provisions are contained in a protocol appended to the Association Agreement, signed in Athens on 9th July, 1961, which came into force on 1st November, 1962. The overall amount of the Bank's loans, at first limited to 50 million dollars for two years, was subsequently increased in 1966 to 125 million dollars for five years. An internal agreement of the European Economic Community for the application of the financial protocol stipulates an essential characteristic of the Bank's intervention, i.e., that the Bank acts in execution of a credit mandate from the member countries who act as sureties vis-à-vis the Bank for the commitments resulting from loan contracts concluded in application of this mandate.

Table A — PRINCIPAL PROVISIONS OF INTEREST FOR THE BANK
CONTAINED IN THE ASSOCIATION AGREEMENTS (AND DOCUMENTS RELATING THERETO)

Provisions	Greece	Turkey	A.A.S.M./O.C.T.
<div>— Date of signature of agreement</div> <div>— Place of signature</div> <div>— Entry into force</div>	<div>9.7.1961</div> <div>ATHENS</div> <div>1.11.1962</div>	<div>12.9.1963</div> <div>ANKARA</div> <div>1.12.1964</div>	<div><div>A.A.S.M.</div><div>O.C.T.</div></div> <div><div>20.7.1963</div><div>25.2.1964</div></div> <div><div>YAOUNDE</div><div>(Decision by Council of the E.E.C.)</div></div> <div><div>1.6.1964</div><div>1.6.1964</div></div>
Duration of agreement	1.11.1962 to 31.10.1967	1.12.1964 to 30.11.1969 ("preparatory stage")	1.6.1964 to 31.5.1969
Amount of financial assistance	125 M US dollars	175 M u.a.	<div><div>A.A.S.M.</div><div>O.C.T.</div></div> <div><div>730 M u.a.</div><div>70 M u.a.</div></div>
Bank's contribution to financing schemes provided for	125 M US dollars from own resources with guarantee of member countries : <div>— First tranche : 50 M for 2 years (decision of 24.10.1962);</div> <div>— Second tranche : 75 M (decision of 28.7.1966).</div>	175 M u.a. on mandate and resources of member countries (5.11.1963).	<div>1) 70 M u.a. (64 M : A.A.S.M. 6 M : O.C.T.) from own resources;</div> <div>2) 50 M u.a. (46 M : A.A.S.M. 4 M : O.C.T.) loans under special conditions from the E.D.F.; in accordance with terms and conditions of co-operation with the Commission.</div>
Special mechanisms	—	Special Section (created on 27.5.1963).	For the loans from E.D.F. resources : Special Section (created on 27.5.1963).

<ul style="list-style-type: none"> — Rate of interest — Term of loans and period of grace — Interest bonuses 	<p>Rate of interest : identical with that of the Bank's ordinary operations.</p> <p>Term : maximum 25 years.</p> <p>Bonuses : granted for diffuse- and remote-rentability projects in specific sectors (improvement of land, roads, energy) and at the fixed rate of 3% per annum; ceiling : two thirds of the amount of the loans granted.</p>	<ul style="list-style-type: none"> — Normal-rentability projects : rate of interest : 4.5%; term : maximum 30 years; period of grace : maximum 7 years. — Diffuse- or remote-rentability projects : rate of interest : 3%; term : 20 - 30 years; period of grace : 5 - 7 years. 	<ol style="list-style-type: none"> 1) Rate of interest : rate for ordinary loans : term : maximum 25 years; possibility of interest bonuses, case by case, up to 3% for a maximum term of 25 years. 2) Loans from E.D.F. resources : favourable rates of interest (in fact generally comprised between 1% and 3%) : term : maximum 40 years; period of grace : maximum 10 years.
Provisions relating to sectoral allocation of loans	See "interest bonuses".	Loans to the "industrial sector" cannot be less than 30% of the annual amount of the assistance.	—
Supplementary procedures	Interest bonuses granted by decision of the member countries.	Committee of the member countries may decide on acceptability of loan applications.	<ol style="list-style-type: none"> 1) Loans from the Bank's resources : grant of interest bonuses decided by the Commission after advice by the E.D.F. Committee. 2) Loans from E.D.F. resources : the Commission, after advice of the Bank and the E.D.F. Committee, decides on the granting of loans; it grants the Bank a mandate for the management and recovery of loans.
Special arrangements	—	<ul style="list-style-type: none"> — So-called „two-tier” procedure for loans to the industrial sector. — Framework financing contracts : (5 M u.a., on 2.2.1967, increased to 15 M on 29.11.1967; 7.5 M u.a. on 15.10.1968). 	—
State of progress for renewal on 1st March, 1969	—	Negotiations in progress.	Negotiations in progress.

The loans were granted to Greece by the Bank from its own resources and were subject to the conditions applied by the Bank in the member countries. It was provided, however, that bearing in mind the priority which the Greek investment programme allots to projects with diffuse and remote rentability, "in particular in the sectors of the improvement of land, roads and energy", the loans shall benefit from interest bonuses at the rate of 3% per annum, these bonuses – financed by the member countries – only being applicable to a maximum of two thirds of the total amount of the financial aid.

For Turkey, a different solution was selected. On 27th May, 1963, the Board of Governors decided to create a Special Section within the Bank so as to enable the latter to have at its disposal an appropriate instrument to intervene in the Community's interest whenever the nature of the projects to be financed, or a disequilibrium in the balance of payments of an associated country might justify the grant of financial aid in the form of loans accompanied by preferential conditions. The operations performed by the Bank in the framework of the Special Section would be financed by special resources supplied directly or indirectly by the member countries and managed separately, and they would be carried out on the basis of mandates given to the Bank by the Community or the member countries at the exclusive risk of the principals.

This mechanism found an initial application precisely in the framework of the Association Agreement signed with Turkey on 12th December, 1963, in Ankara, which came into force on 1st December, 1964. The Agreement was accompanied by a financial protocol by the terms of which a total amount of loans of 175 million units of account could be granted to Turkey in the course of the first five years of the Association. It was decided that these loans would be granted by the Bank by virtue of a mandate from the member countries supplemented by directives of the Board of Governors providing for a maximum term of thirty years with a period of grace ranging up to seven years at a rate of interest of 3% for the diffuse-rentability projects and 4 1/2% for normal-rentability projects. As regards the latter projects belonging to the production field, the Bank adopted a special two-tier procedure, according to which the loans are granted in the first place to the Turkish Government under the flexible conditions referred to above, and the Government then relends the

amounts in question to the enterprises, directly or through the intermediary of credit institutions, but at rates and conditions normally practised in Turkey for the financing of investment projects in the sector of private or public industry.

Lastly, a mixed solution was adopted in the Yaoundé Convention, signed on 20th July, 1963, which came into force on 1st June, 1964 and was subsequently extended to the Overseas countries and territories. On 27th May, 1963, the Board of Governors authorised the Bank to grant, from its own resources and at its own risk, ordinary loans, under ordinary conditions, up to an amount of 70 million units of account (64 million for the A.A.S.M. and 6 million for the Overseas countries, territories and départements): these loans may be accompanied by interest bonuses granted case by case by the Commission from resources of the European Development Fund up to 3%.

Apart from these ordinary loans, the Bank received the mission of intervening, for an amount of 50 million units of account (46 million for the A.A.S.M. and 4 million for the O.C.T.), in the examination and management of special loans granted from the resources of the second European Development Fund under very flexible conditions so as to diversify as widely as possible an aid which, until then, had consisted exclusively of subsidies. The member countries considered, indeed, that the time had come, with the Yaoundé Convention, to introduce this new category of operations under conditions which take into account both the capacity for indebtedness of the country concerned and the nature of the projects in question. The management of these operations was allocated to the Bank's Special Section, like the operations in Turkey, from which however they are distinguished by important differences of procedure.

The characteristics of the economy of the associated countries and their consequences on the Bank's financing schemes.

The account given above has shown how the Bank's initial action widened according as association agreements or conventions were signed. The Bank's primary mission is indeed, by the terms of Article 130 of the Treaty of Rome, to finance investment projects in the member countries for specific purposes: developing less developed regions, conversion and

modernisation of enterprises and creation of new activities in regions in difficulties, and projects of common interest to several member countries.

It is quite obvious that these lines of action could not be applied as they stood to financing schemes in the associated countries. The definition of the financial objectives was therefore much more general. For Greece, the financing schemes aim at "increasing productivity" and "the achievement of the goals of the Association Agreement". For Turkey, the same objectives are defined in the financial protocol, but this protocol further makes reference to the long-term development plan which, since 1963, has guided the country's economic policy: the projects financed have to fit into the framework of this plan. For the A.A.S.M. and the O.C.T., the text of the Yaoundé Convention specified, in Title II, that "the Community participates... in the measures suitable for promoting the economic and social development of the Associated States by an effort supplementary to those made by these States".

The difference which emerges in the definition of the general objectives of the interventions is explained by the very characteristics of the economy of the associated countries; it was bound to have implications in respect of the organisation of the financing schemes.

1. *The characteristics of the economy of the associated countries.*

From the point of view of the average income level or even of the structure of economic activities, certain regions of Greece and Turkey – and even certain zones of the Ivory Coast, Senegal, the Congo or Gaboon – do not show any great deviations by comparison with the less favoured regions of the Community, certain of which, such as Calabria or Basilicata, at present have a per capita income which is hardly more than 500 units of account, a figure which is less, for example, than the Greek national average and only slightly higher than the national average in Gaboon. The share of agriculture in the gross domestic product is nearly 30% in the Italian region of Molise, i.e., a few points less than in Turkey or the Ivory Coast and a few points more than in Gaboon and Greece.

But comparisons of this sort are illusory. There is not much sense in comparing, for example, the developed urban areas of the associated countries

with the predominantly rural zones still existing in certain points of the Community, nor in putting on a same footing structures as different as those of the Greek and Turkish economies, on the one hand, and the African economy, on the other.

Even if their income level is very low, the less developed regions of the Community are no longer genuinely isolated from the economic space into which they fit. The proximity of more prosperous areas generally enables them, in the framework of new policies, to benefit from the momentum effect provoked in the long run by overall expansion; they can now rely on assistance and stimulation measures, in particular with respect to new industrial establishments; lastly, they have no "balance of payments problem" – at least in the classic form. The difficulties which concern them are really "regional problems", objects of "regional policies" or, to use a better expression, of "growth policy". On the contrary, for the associated countries, even the most advanced, the problems and policies remain of those "development", i.e., the accelerated conversion of structures, taking account of the peculiarities of each of these countries or territories.

Development problems and policies do not present themselves in the same way for the associated countries. A first distinction has to be made between the Mediterranean countries, in this case Greece and Turkey, and the African States and Madagascar. Big differences indeed separate even the former countries, as regards inter alia the level of per capita income (for which the ratio is 1:2 in favour of Greece), the structure of activities (the importance of agriculture remains predominant in Turkey and services play a very big role in the economy of Greece) and lastly the relative weakness of the external situation (the amount of the contributions of external public capital was of the order of 200 to 300 million units of account per annum over the last three years for Turkey, against only some 50 million units of account for Greece) (1).

But, despite these differences, and by opposition to the African problem, a common feature brings Greece and Turkey closer together from the Bank's

(1) In order to facilitate the survey, the figures concerning aid to Greece will be expressed in units of account, although the amount of the loans, according to the financial protocol, was expressed in United States dollars.

point of view : for these two associated countries and whatever may be the diversity of methods, the objective of the development policy is almost identical, especially when it is considered from the point of view of the associations. It is indeed a question for these two countries of crossing – in one or more stages – the threshold which still separates them from the level of the major industrial countries of Europe. The distance is indeed very great in respect of productivity, organisation and income; but it is indispensable to cover it if they are to be enabled, subject to the solution of certain particular problems, and subject also to the necessary time and adjustments, to contemplate an adequate integration of their economies with that of the member countries of the European Community.

In the case of the African countries, the economic context is different. These countries, ten times greater in area than the six member countries together, nearly three times less populated than the Community, compartmentalised in numerous markets, have an average per capita product which classifies them among the least favoured countries of the world. The level of local savings is low; the public finances are quite often in disequilibrium and only three of these countries can appropriate more than 10% of the current budgetary receipts to capital expenditure. Growth is slow : in recent years, the rate of growth of the gross domestic product probably exceeded 4% in volume only for four of them, and it should further be recalled that the annual demographic growth exceeds 2% in the majority of these African countries.

From the external point of view, the contributions of public funds to these countries exceeded 500 million units of account per annum, or some 8% of the gross domestic product. Exports are recording only slight progress and moreover nearly 70% of these exports are based, for ten of the States, on only two products, one of which is sometimes a mining product, such as copper or iron, and the other of agricultural and tropical nature, the outlets for which are growing only slowly. This situation has led to an increase in the foreign debt, the burden of which – still moderate in certain relatively favoured countries – is however tending to rise. The tendency towards erosion of their repayment capacity entails the risk in the long term of facing the States with an additional difficulty in the search for traditional international financing.

This further explains why the path followed was different from that which had been chosen for Greece and Turkey. Far from representing, as for these two countries, almost the whole of the Community financial effort, the Bank's financing schemes in the Associated African States and Madagascar constitute only a fraction of the overall aid of the Community and, above all, this aid is much more diversified and the role of the Bank is more specialised.

It should be stressed, however, that although the difference in the initial situations among the associated countries motivated the diversity of the Bank's methods of intervention (origin of financing resources, loan conditions), it scarcely affected the other aspects of the credit policy. This is reflected in the fact that a single operational directorate of the Bank, that of loans in the associated countries, manages the aggregate of the loan operations linked with the three association agreements, without the existence of the special loans having raised special administrative problems.

2. The consequences on the financing schemes.

The Bank's interventions are reserved to specific projects : neither in the associated countries nor in the member countries does it finance programmes or grant aids to the budgets; the projects concern either major basic equipment schemes, "the infrastructure", or investments in the production field.

If we consider the aggregate of the loans approved by the Bank on 31st December, 1968 ⁽¹⁾, i.e., 237 projects for 1,263 million units of account, we find that the share of financing schemes in favour of the associated countries amounts to one fifth of the total financing. Of the sixty-eight projects financed (275.5 million), twenty-five (163.6 million) concern infrastructure and forty-three (111.9 million) the production sector. The proportion of infrastructure projects vis-à-vis those of the production sector is 59 to 41, in value, for the associated countries, or a proportion almost

(1) Including the special loans from the resources of the European Development Fund.

identical with that which is applied to loans in the member countries (64 : 36); it is definitely lower for the African States and Madagascar than for Turkey and above all Greece. This situation is explained inter alia by the fact that the A.A.S.M. are in a position to finance a large share of their infrastructure projects by means of the bilateral Community aids which are granted to them in the form of gifts.

Infrastructure financing schemes.

Experience has shown the need for a sufficient "quantum" of basic equipment to provoke the intensification of economic development : the role of cheap power supplies, appropriate means of communications irrigation in respect of agricultural development, is henceforth recognized as of prime importance in development policies. In the Turkish Second Plan (1968-1972), investments of no less than 26.9 thousand million Turkish pounds are provided for in the two sectors of energy and transport and communications alone, out of a total of 111.5 milliard, for the gross formation of fixed capital. In Greece, the Economic Development Plan 1968-1972 provides that, of fixed investments amounting to 211.5 milliard drachmas, 35 milliard will be allotted to public utilities (electricity, water) and 33 milliard to transport and communications infrastructure. In Africa, and taking only the example of the Federal Republic of Cameroon, the amount provided for the two items "energy" and „means of communication and transport" represents 39% of the total investment provided for by the Development Plan for the period 1966-1971.

From 1963 to 1968, the Bank financed infrastructures amounting to over 160 million units of account in the aggregate of the associated countries. Its interventions were divided almost equally among energy projects, transport and agricultural development schemes. The energy projects were especially considerable in Turkey and the communications projects in the A.A.S.M. and the O.C.T. The agricultural development projects were most important in Greece. They were also in the forefront of the Bank's ordinary loans in favour of the A.A.S.M. in the form of financing schemes relating to the development of large plantations and the agro-industrial complexes.

As regards infrastructure, the Bank did not finance a project for the sole reason that it was inserted in the Plan. By the choice of projects and the clauses of its contracts, with regard to period of execution for example, it sought to favour projects which are particularly important for the future of industrial and agricultural development. It thus laid stress on the need for avoiding a dispersion of efforts which could have led to an excessive spreading of expenditure or to inadequacy at a certain time or place, of the technical or financial media necessary for the rapid completion of the projects and their effective commissioning, as is shown by the examples given below.

For the major electricity projects, the Bank accorded just as much importance to the transport of the current as to its production, by demanding that the execution programmes should respect a principle of complementarity. For the road projects, it laid stress on the traffic forecasts and the coefficient of utilisation of capacities; it took into account not only the economies made on the transport cost but also the possibilities opened up for the development of new activities. For the agricultural development projects, finally, it endeavoured to encourage the operating companies to make provision for the inclusion in the overall project of supplementary equipment in respect of manufacture, packaging, marketing, etc.; it also attached great importance to the problems of productivity and improvement of structures and outlets, by affirming its preference for projects (irrigation, plantations) relating to new types of production and contributing to the improvement of the production cost, quality and more generally the competitiveness of products.

In a word, with regard to infrastructure, the Bank intended to promote, according to the terms of the agreements, the "productivity of the economy", thanks to investments of a remote rentability in time and perhaps quite frequently diffuse in effects, but providing the certainty of a substantial contribution to the development of the productive sector, taking into account the direct effects just as much as the indirect repercussions.

Industrial financing schemes.

The Bank considered that its real mission was in the actual productive field. It so happens that in this field the economic characteristics of the

associated countries faced the Bank with certain problems. Two of the most considerable of these problems were the relative lack of bankable projects and the need for demanding a satisfactory level of rentability.

In general (and although the situation in this respect is rather different between the two Mediterranean countries and the African group), the Bank was bound to observe that the number of applications submitted to it which fulfilled the criteria of long-term yield financing at the market conditions (1) was insufficient to attain in the periods laid down the objectives defined in the agreements for industrial financing schemes. This was the case in the A.A.S.M. For Greece, the problems were genuine, but seemed to be in course of solution. Turkey however forms an exception.

As regards Turkey, the minimum percentage for industrial interventions, fixed at 30% by the directives of the Board of Governors, was definitely exceeded : on 31st December, 1968, the Bank's loans in this sector represented 42% of the total. Several factors made it possible to attain this result. First of all, the high rate of growth of the GNP (7% per annum since 1963) led to the expansion of the market for certain industrial products, in particular by the replacement of imports by local products. This gave rise to a fairly brisk demand for financing schemes both in the sector of intermediate goods (paper pulp, paper and board; fertilisers; metal working; cement; glass and ceramics) and in that of final demand (synthetic fibres, traditional textiles, tyres, etc.). In the second place, the interest shown in the country's industrial development, in accordance with the orientations of the plan, led the Turkish Government to seek the Bank's co-operation for considerable projects in the public sector and to lend support, by its favourable opinion, to the financing applications emanating from private enterprises. Lastly, the development of operations in favour of the private sector was facilitated by the co-operation which was established between the Bank and the Turkish Industrial Development Bank (T.S.K.B.). This institution, very active in the industrial field, has played the role of effective intermediary in the "two-tier" procedure referred to above.

(1) Which is obviously necessary by the terms of the Bank's Statute and the provisions of the agreements apart from the case of special financing schemes from the resources of the European Development Fund. As regards Turkey, it should be recalled here that, thanks to the so-called two-tier procedure, the industrial loans do not form an exception to the banking rule.

In Greece, the Bank had approved in November 1967, date of expiry of the financial protocol, an amount of 15.9 million units of account for loans to industry. Two thirds of this amount represent a loan to "Aluminium de Grèce". Indeed, the effective demand for industrial loans capable of being financed at the Bank's conditions was inadequate. The absence, at the beginning of the period, of an appropriate financial intermediary probably did not facilitate the situation in this respect; the negotiations carried on with the Greek Industrial Development Bank (E.T.B.A.), of a State character, and with the National Investment Bank for Industrial Development (N.I.B.I.D.), of a private character, gave grounds for hope that a solution could be found in the future for this initial difficulty. Another obstacle nevertheless exists : Greece still seems to be seeking for the optimum conditions for favouring the rapid industrialisation of its economy. Despite considerable results obtained in various branches such as aluminium, fertilisers, shipbuilding and petrochemicals, difficulties appear to be retarding the emergence and still more the successful culmination of private initiatives in respect of medium-sized diversified industrial projects, intended, in particular, for the export trade.

As regards the A.A.S.M., the amount of ordinary loans approved on 31st December, 1968 was 45.1 million units of account. The financeable applications came under three well-defined groups of projects : major industrial or agro-industrial complexes based on the development of mining or agricultural resources and which represented the predominant share of the financing schemes; projects aiming at the replacement of imports of intermediate products, for example, fertilisers; lastly, – in still more limited numbers and of a modest scope at the international level – projects relating to the production of manufactured goods or to that of food products, both being intended for local consumption and for export to other countries of Africa (textiles sector, for example).

Such a structure is the sign of an industrial development which is still in its early stages. In its present phase, the industrialisation of Africa is furthermore marked by the narrowness of the markets (which it has not yet proved possible to remedy by a valid plurinational integration), the handicap of distance, the inadequacy of energy production and of the other basic

equipments, and the absence of industrial traditions and qualifications. These factors hamper the creation of industrial initiatives, as they lead to an increase in risks and, by this very fact, to hesitation on the part of investors.

The inadequacy of the promoters' own resources also checks the Bank's action in certain cases. The same holds true of the fact that in places where the establishment of new industries comes up against special obstacles, the rates of interest imposed on the Bank by the origin of its resources are considered to be too high both by comparison with the rates practised by other bilateral and multilateral institutions and to render possible a collaboration with the national development banks in favour of small and medium-sized enterprises. Interest bonuses have indeed been provided for, case by case, but the relative complexity of the procedure for granting them and, in particular, the absence of all-in character, in practice prevent this provision from being effective.

In order to select the industrial projects with a view to its financing schemes, the Bank has not sought to establish rigid criteria based on a theory of industrialisation. On the contrary, it has shown a very open-minded approach to the choice of industrial strategies applied by the different countries. Experience shows that the associated countries or groups of countries tend to base their industrial development on the search for types of production founded either on the development, on a large scale if possible, of local resources, or on the gradual replacement of imports by national products. These orientations take account of certain factual data. But it is clear that the expansion phase based on productions of this type is already encountering, or will encounter sooner or later, limits once the easiest and even the most obvious possibilities have been exhausted. It will then be a question of according more importance to the export products by taking into account, in particular, the need for obtaining cost and prices which are competitive at the international level.

Apart from the relative shortage of bankable projects, the second major problem in the industrial field has been the need for financing only projects which are economically and financially sound, not only in a short-term perspective but above all in relation to a more distant horizon. This problem, which is in fact that of the contribution of the financing schemes to the

reinforcement of the competitiveness of the economies of the associated countries, extended to the three cases of association although, there again, the generality of the principles was able to dissimulate the variety of experiences.

For the African group, the contribution of the projects to reinforcing the competitive nature of the economy had to be appreciated in a rather wide manner, taking account of the fact that the central problem remains that of going beyond a critical mass of infrastructures and industrial achievements forming a break-even point at which the external economies will start to exert their full effect.

For Greece and Turkey, the Bank was sometimes faced with projects the financial rentability of which appeared satisfactory and yet whose real productivity, and consequently the competitiveness at the international level, threatened to be inadequate. This paradoxical result is explained by a highly protective system which, by dissociating the national and international costs, masked the genuine weaknesses of the operating conditions of the enterprises. Such a protection was imposed both by the need for protecting infant industries within the country and by the weakness of the trade balance. The Bank, aware of these difficulties, considered that a reasonable protection may indeed be justified by balance of payments reasons and by the relatively disadvantageous situation of industry in the first phase of its development. But in the examination of the projects, it was bound to make reserves whenever the satisfactory level of financial rentability was in fact due only to an excessive isolation of the market by comparison with world competition. It was therefore led to require specific efforts in respect of productivity by subordinating its intervention in such cases to recourse to a technical assistance for the design, execution and even operation of the projects.

Lastly, the Bank was able to observe that a peculiar problem was added to the two previous ones : this is the abnormally high cost of the capital goods imported on the occasion of an investment, which is translated, in economic terms, by a high marginal capital coefficient and, in financial terms, by a rentability the level of which becomes satisfactory only by reason of a generalised protection which, paradoxically, the investment itself tends to reinforce. The Bank therefore declared itself to be in favour of a reduction in the import charges on capital goods and raw materials – when

these charges are particularly high and when the production of the goods in question does not seem likely in the near future in the countries concerned.

The Bank's activity in the associated countries has therefore led it to take an interest in certain general problems which go beyond the framework of the projects to be financed and form the actual economic context of the countries. The Bank has found that in these countries it was impossible to dissociate financing problems from environment problems. It has thus been led to adapt its action constantly to the peculiar problems which arose in each of these countries. Moreover, this is shown by a rather more detailed recapitulation of the Bank's interventions in the three associated countries or groups of countries.

The Bank's interventions in the associated countries.

The financial provisions of the association agreements had fixed, in each case, and for a definite period, the amount of the loans which the Community, through the intermediary of the Bank (from the latter's own resources or from the resources of the member countries), was prepared to grant to the associated countries. It was a question of 125 million units of account, in five years, in the case of Greece; of 175 million – also in five years – for Turkey; 70 million units of account for the ordinary loans and 50 million units of account for the special loans (in co-operation with the Commission) in the case of the A.A.S.M./O.C.T., for the duration of the Yaoundé Convention.

The Bank endeavoured to base its activity in the associated countries on this time-table, but – apart from the initial problems – it has had to take account of certain special factors which, as in the case of Greece, delayed or limited its action. Finally, the Bank, on 31st December, 1968 – i.e., before the termination, except in the case of Greece, of the periods provided for in the agreements – was able to approve financing schemes totalling 275.5 million units of account, of which 130.3 for Turkey, 68.9 for Greece and 76.3 for the A.A.S.M./O.C.T. (1).

(1) 45.1 by way of ordinary loans and 31.2 by way of special operations.

Turkey.

The Bank's interventions in Turkey were carried out largely according to plan. Moreover, it may be expected that the aid committed at the expiry of the five-year period may attain almost the whole of the amount provided for in the financial protocol appended to the Ankara agreement. Among the numerous factors which have contributed to this result, we should recall the flexibility of the procedures, in particular the mechanism of the "so-called two-tier procedure" established as the result of the directives of the Board of Governors of 10th February, 1964 and the recourse to "framework financing contracts" (agreements of 1967 and 1968 relating to 22.5 million units of account), thanks to which a notable simplification of the procedures was obtained.

From the point of view of the distribution of interventions in Turkey, the most striking fact is probably the number and diversity of the loans for industrial projects (see Table B). While it is true that the loans to the cellulose and paper branch have played an important role in the total (the corresponding projects benefited from the Bank's support by reason of the importance of the forest resources in the north and south-west of the country and the interest which these projects presented from the balance of payments point of view), we should note the variety of the range of the other projects financed, which were aimed both at the modernisation or extension of classic branches (textiles, fertilisers, cement) and at the promotion of new industries (synthetic fibres, tyres, wire-drawing, etc.).

The contribution of these industrial financing schemes to the economic development of Turkey may be appreciated from the threefold viewpoint of employment, balance of payments and creation of value-added. Approximately three thousand full-time jobs have been created, half of which in the paper branch. In general, the cost per job was high (often ranging from 25,000 to 75,000 units of account per job), which reflects in part the high import duties and taxes, but above all is justified by the need for recourse to techniques which are rather capital-intensive. Moreover, the creation of value-added was generally quite high and the savings in exchange appreciable. It may thus be estimated that, of the aggregate of fixed industrial investments corresponding to the projects financed, the new value-added, in a normal operating year, will represent about two thirds of the amount which, while

Table B — TURKEY
Loans approved (1) by the Bank on 31st December, 1968

<i>Sector and branch</i>	<i>Number of projects</i>	<i>Amount (in million u.a.)</i>	<i>Share of each sector in relation to the whole</i>
INFRASTRUCTURE	6	75.9	58.2
Agricultural development	1	15.0	11.5
Energy	4	49.9	38.3
Transport	1	11.0	8.4
INDUSTRY	23	54.4	41.8
Engineering industry	4	2.9	2.2
Construction materials	3	5.4	4.1
Glass and ceramics	1	2.1	1.6
Pulp, paper	4	26.4	20.3
Chemical industry	1	5.6	4.3
Synthetic fibres	3	8.3	6.4
Textiles	4	1.8	1.4
Other industries	3	1.9	1.5
Total	29	130.3	100.0

(1) After deduction of cancellations.

being very appreciable, nevertheless means a relatively high marginal capital coefficient. The majority of the Bank's financing activities have therefore related to projects which are quite highly capital-intensive so as to favour the gradual formation of a system of fairly large-scale enterprises with advanced technology, suitable for playing the role of pilot industries which are entirely competitive. However, a reserved tranche in the financing of a framework contract has made it possible, by means of an overall credit, to ensure that the more traditional small industry is not overlooked.

As regards infrastructures, the Bank has concentrated its effort on the financing of the large-scale Keban energy project for the erection of which it provided 30 million units of account in a financing plan which groups around itself and the World Bank considerable bilateral contributions from

Germany, France, Italy and the United States. Furthermore, it has assisted in the financing of two other power stations and a power transport line. In the field of transport, it has participated in financing the partial Dieselisation of the Turkish railways. As regards major agricultural developments, it has contributed to the financing of the Gediz irrigation project, which concerns an area of 103,000 hectares and thanks to which it should be possible to double the per capita agricultural income in the region.

Greece.

The Bank's activity in Greece was marked on the one hand by a certain difficulty in adjusting the pace of financing to the objectives laid down and on the other, by the very definite predominance of infrastructure financing schemes. As regards the former factor, it should be recalled that the period provided for in the protocol expired early in November 1967, at the very moment when decisive factors appeared to have been found for solving the difficulties which had been encountered by the Bank's action, especially in the industrial field.

The Bank's contribution to the financing of industry was mainly marked by the intervention in favour of the "Aluminium de Grèce" project for the construction of a large alumina and aluminium production centre making it possible to develop the local bauxite. One thousand jobs were created and the effect of the centre's production on the balance of payments already contributes some 20 million units of account to the annual value of Greek exports of industrial products. Apart from this intervention, the Bank financed the modernisation of a cement works, where the employment (800 persons) has thus been stabilised, the construction of another cement works of great regional interest (approx. 150 jobs), the construction of a fertiliser factory (approx. 160 jobs) and three minor achievements in textiles, metals and the chemical industry.

In the infrastructure field, the Bank gave special attention to the development by irrigation, and contributed its aid to three major projects in the Salonika region (61,000 hectares), in the Karditsa area (14,000 hectares) and in the Pinios valley (22,500 hectares). The results expected at the level of agricultural income, thanks to the structural changes which irrigation

Table C — GREECE
Loans approved (1) by the Bank on 31st December, 1968

<i>Sector and branch</i>	<i>Number of projects</i>	<i>Amount (in million u.a.)</i>	<i>Share of each sector in relation to the whole</i>
INFRASTRUCTURE	8	52.9	76.9
Agricultural development	3	30.3	44.1
Energy	1	5.6	8.1
Transport	4	17.0	24.7
INDUSTRY	7	15.9	23.1
Non-ferrous metals	2	10.1	14.7
Construction materials	3	3.6	5.2
Chemical industry	1	2.0	2.9
Textiles	1	0.2	0.3
Total	15	68.9	100.0

(1) After deduction of cancellations.

is bound to make possible, are particularly considerable. In the Karditsa plain, it is hoped to increase the per capita agricultural income fivefold in 20 years — starting, it is true, from a particularly low level. The agricultural family income is expected to be doubled around Salonika and trebled in the Pinios plain. The Bank has assisted the Greek programme of roads of international character, for the construction of which it has signed loan contracts for an amount of 17 million units of account, thus contributing to an investment estimated at 46.7 million (for 422 km of roads to be constructed). In the field of energy, lastly, the Bank partially financed the construction of lines intended to transport the energy to be produced by the Kremasta power station on the Acheloos.

A.A.S.M./O.C.T.

The loans approved on 31st December, 1968 are divided almost equally between ordinary and special loans.

Table D – AFRICAN STATES AND MADAGASCAR
 Ordinary loans approved (*) on 31st December, 1968
 Amounts in millions of u.a. and, between brackets, number of loans

STATE	SECTOR							Total	Share of each State in relation to the whole
	Infrastructure		Industries (**)						
	Energy	Transport	Extractive industries	Agricultural and food	Metal-lurgy	Textiles	Fertilisers		
Ivory Coast				10.9				10.9 (3)	24.2
Cameroon	4.0			2.0	1.2	1.2		8.5 (4)	18.8
Congo (Brazzaville)			9.0					9.0 (1)	20.0
Senegal							2.4	2.4 (1)	5.4
Mauritania			11.0					11.0 (1)	24.4
Gaboon		2.3		0.5		0.4		3.2 (3)	7.2
Total	4.0 (1)	2.3 (1)	20.0 (2)	13.5 (5)	1.2 (1)	1.6 (2)	2.4 (1)	45.1 (13)	100.0
Share of each sector in relation to the whole	9.0	5.2	44.3	29.8	2.7	3.6	5.4	100.0	

(*) After deduction of cancellations.

(**) Including, for the agricultural and food industries, the projects for industrial development of agricultural products for export.

Thirteen ordinary loans (see Table D) were granted in six African States : the Republic of the Ivory Coast, the Islamic Republic of Mauritania, the Republic of Congo-Brazzaville, the Federal Republic of Cameroon, the Gaboon Republic and the Republic of Senegal. Of these thirteen loans, two are intended to enable the development of major mine deposits (potash, copper), two relate to energy or road financing schemes and nine, totalling 19 million units of account, contribute to the establishment of manufacturing industries. Among the latter, five concern agricultural and food industries : packaging of bananas in board boxes, pineapple canning factory and palm oil mills in Ivory Coast, a sugar mill in Cameroon, combined flour mill and poultry farm in Gaboon; two loans are intended for the creation of textile

industries : integrated spinning and printing cycle in Cameroon, printing in Gaboon; lastly, two loans concern metallurgy and chemicals : aluminium rolling-mill in Cameroon, fertiliser factory in Senegal.

For the special loans from the EDF resources (see Table E), the Bank rendered a favourable opinion on thirteen projects from July 1965 to end-December 1968; for eleven of them, the financing decision of the Commission has been taken. The territorial range is slightly wider here than in the case of the ordinary loans. Among the beneficiaries are the Central African Republic, the Republic of Chad, New Caledonia and

*Table E — AFRICAN STATES AND MADAGASCAR
AND OVERSEAS COUNTRIES AND TERRITORIES
Special loans from resources of the European Development Fund
on 31st December, 1968
Amounts in millions of u.a. and, between brackets, number of loans*

	<i>Infra- structure (transport)</i>	<i>Agro- industrial complexes</i>	<i>Manu- facturing industries</i>	<i>Total</i>	<i>Share of each State, country or territory in relation to the whole</i>
Ivory Coast	6.0	3.6		9.6 (2)	30.8
Cameroon	6.4	6.5	1.6	14.5 (4)	46.5
Central African Republic		0.2		0.2 (1)	0.6
Chad			1.2	1.2 (1)	3.8
Mauritania	2.8			2.8 (1)	9.0
Total A.A.S.M.	15.2	10.3	2.8	28.3 (9)	90.7
New Caledonia	1.0			1.0 (1)	3.2
Surinam	1.9			1.9 (1)	6.1
Total A.A.S.M. and O.C.T.	18.1 (6)	10.3 (3)	2.8 (2)	31.2 (11)	100.0
Share of each sector in relation to the whole	58.0	33.0	9.0	100.0	

Surinam, to mention only those which were not quoted in respect of the ordinary loans. The financing schemes by special loans mainly concerned infrastructure (communications, energy) and agro-industrial complexes.

The Bank's activity in the A.A.S.M./O.C.T. was led quite naturally by the provisions of the Yaoundé Convention to a certain *de facto* specialisation, both geographical and sectoral. The Bank's ordinary loans were oriented preferably towards the financing of projects presenting a definite financial rentability and in particular towards mining or energy industrial projects, entailing normal risks and located in countries having an adequate capacity for indebtedness. This capacity is moreover appreciated by taking account of the contribution which the project should make to its improvement, *inter alia* by leading to a more rapid growth of the product and savings, a better equilibrium in the balance of payments and public finance. This judgment is tempered, if need be, so as to take account of the quality of the guarantees as well.

As for the loans under special conditions from the resources of the EDF, the particularly favourable conditions at which they can be granted have destined them rather for the financing of projects the financial rentability of which is lower or takes longer to emerge, such as the infrastructure, energy and industrial plantations projects. They also proved to be well adapted to the financing of industrial projects the execution of which met with particular difficulties owing to their location, either in a country with a limited capacity of indebtedness, or in a region whose isolation and remoteness from seaports involve both a limited market and high cost; however, the applications of this type have still been relatively few.

The Bank's activity in the A.A.S.M./O.C.T. may appear modest and undoubtedly remains below what would be justified by the promotion of the industrialisation, in the wide sense, of these countries and territories. However, the amount of the ordinary loans granted gives a partial idea of the real incidence of the financing schemes carried out. The latter form part of projects representing investments five times as large, totalling nearly 230 million units of account. Moreover, they nearly always have a role of "incitement" : by marking its interest in an initiative, the Bank is bound to reinforce the confidence of promoters and lenders, thus contributing, by its example, to rendering possible the financing of the project.

Furthermore, the Bank has favoured, by its action, the diversification of the African economies, and one may even say a higher degree of diversification, since the projects have often made it possible to introduce a new product and even to create a new industrial branch, oriented towards new markets which are often less vulnerable and unstable than the market for the traditional tropical products.

Lastly, the Bank's interventions have contributed to an effect of impetus, the principal signs of which may be estimated in outline form. The aggregate of the thirteen African projects financed from the Bank's ordinary resources will permit the creation of approx. 6,800 jobs (90% of which will be, from the outset, held by Africans, who will – if need be – receive the necessary vocational training). The annual supplement of industrial value added which will result directly from the commissioning of the projects may be estimated at approximately 60 million units of account, or an increase of the order of 12% of the gross value added of the secondary sector of the six States concerned. Making allowance for a cautious estimate of the induced effects, the supplement of value added might even be put at nearly 120 million units of account per annum, or the equivalent of approx. 4% of the present gross domestic product of the aggregate of the six countries concerned. The improvement of the trade balance of the six African States in question – by the replacement of imports and the increase of exports – may be estimated at some 70 to 75 million units of account per annum. After deduction of the foreseeable outgoing transfers, both for the amortization of the loans and for the remuneration of the foreign production factors, the annual saving in exchange will probably exceed 35 million units of account. As regards the incidence of the projects on the public finances, it will be limited on the whole, owing to the fiscal advantages granted in application of the Investment Codes and also by reason of the reduction of customs receipts as a consequence of the implementation of projects which are aimed at replacing imports by local products.

The positive aspect of the financing schemes should not mask the difficulties inherent in industrial investment in the African States. The investment costs are high there : per job created, approx. 33,100 units of account were required on the average (for the aggregate of the thirteen projects), and 14,600 units of account if we consider solely the nine industrial

projects (after deduction of the four mining, energy and road projects). The marginal capital coefficient was therefore high : this observation is not surprising, taking into account the type of projects financed and the general economic environment, and in particular the small dimension of the markets which does not allow, at least in an initial stage, economies to be made by mass production. Furthermore, the payment of interest on foreign capital and loans as well as the remuneration of foreign personnel on whom it will be necessary to call, at least for some time, weigh heavily on the operating cost, going so far as to absorb 40 to 60 % of the value-added. This characteristic, which is also explained by the economic context, obviously decreases the rate of economic rentability of the projects for the countries concerned.

The balance-sheet of the Bank's interventions in the associated countries shows both the amply positive aspect of the operations and the existence of certain problems. The renewal in the near future of the financial provisions in the framework of the associations might thus provide the opportunity for re-examining certain important aspects of the financial assistance granted to the associated countries in the light of the experience acquired in recent years.

The Bank and the renewal of the agreements.

The adjustment of the financial provisions of the Association Agreements necessarily gives rise to delicate problems of amount, financial techniques and procedures. It is therefore by no means surprising that on this occasion the parties concerned may be led, over and above the agreement on aims and general strategy, to express a preference, or even to defend a position of their own, in favour of certain well-defined technical solutions.

On a certain number of specific points, there may thus be a range of possible solutions which are not altogether identical and among which the final choice is fixed only after the conclusion of the agreement. Thanks to the experience it has acquired, the European Investment Bank has thus been led to submit a number of suggestions about the form to be given to the new agreements in the fields of activity which concern it more directly by reason of its character and mission as a lending institution.

These suggestions concern the renewal of the Association Agreements with the A.A.S.M. and the first financial protocol with Turkey, which expire respectively on 31st May, 1969 and 30th November, 1969; in both cases, the Community has declared its willingness to contemplate the renewal of these agreements, again making provision for substantial aid, and negotiations are in progress with the African States and Madagascar and with Turkey on this subject. For Greece, the renewal of the financial protocol appended to the Association Agreement, which expired on 31st October, 1967, depends on purely political factors, so that the moment when its extension would be likely to be envisaged could not be foreseen at the time of drafting this Report.

As regards the renewal of the Yaoundé Convention, there is a harmony of principles between the proposals of the Commission of the European Communities and the Bank's suggestions. Thus, the Commission and the Bank both consider that it is advisable to continue – while further reinforcing it – the aid in favour of development of the industrial sector in the associated African States and Madagascar. Such an orientation implies an intensification of the investments in Africa and the pursuit of action to improve the infrastructures, to develop vocational training and to favour the creation of regional markets. But it also calls for a certain adjustment of the financing techniques.

Thus, a quite wide recourse to the interest bonuses applicable to the Bank's ordinary loans would certainly be likely to favour the development of such aid, in so far as the terms and conditions of granting, based on overall criteria, enable the system to work effectively. An intervention via the regional or national development banks, in cases where the nature of the projects and the degree of organisation of these banks permit, is also desirable with a view to facilitating in certain cases the implementation of loans under special conditions or ordinary loans with interest bonus, thus channelling to a greater extent the Community aid towards projects for small and medium-sized industry, the importance of which for a balanced economic development no longer calls for demonstration.

It also appears desirable that, among the forms of new Community aid, a system should be set up for the purpose of contributing to the rein-

forcement of the resources of enterprises exercising their activity in the associated countries in accordance with industrial and commercial management methods.

At the institutional level and in respect of the grant procedures, no upheaval seems to be necessary. Indeed, the Yaoundé Convention already made provision in this respect for a certain specialisation, which proved essential when the addition of repayable aid to the gifts necessitated the intervention of a specialised banking institution in the circuit of aid-granting. The European Bank, whose capacity to procure funds on the capital market had been widely asserted, was then quite naturally invited to extend to Africa the benefit of its ordinary loans. Furthermore, certain functions were entrusted to it in the preliminary investigation of the loans under special conditions from the resources of the European Development Fund; in the framework of these functions, the Bank examines the projects selected beforehand by the Commission, then gives an opinion, and finally provides the management of the loans granted by the Commission after consultation with the EDF Committee, by virtue of the mandates received from the Community case by case.

The new financial terms and conditions indicated seem to be of a nature to eliminate a number of obstacles which prevent the Bank's action from developing fully. Indeed, they may be expected to yield positive effects both as regards the evolution of the ordinary loans and as regards that of the loans under special conditions. It may also be wondered whether, relying even a little more widely on the principle of specialisation which proved its worth in the last Convention, more responsibility should not be conferred on the Bank in the preliminary investigation and management of Community aid projects more especially aimed at the development of the industrial sector.

The renewal of the financial protocol with Turkey does not give rise to the same problems. Indeed, the Bank has been able to develop its activity in this country without major difficulties, up to the amounts provided for the duration of the first financial protocol (175 million units of account). A number of questions nevertheless arise which it would be as well to take into account when defining the conditions for the future activities of the

Bank in Turkey. Thus, the absence of competition requires specific efforts in the field of productivity and in the introduction of modern technical methods. This effort ought perhaps to be further facilitated by studies the financing of which would be borne, more than in the past, by the Bank in the framework of its Special Section. Likewise, heavy taxes continue to be levied on the imports of capital goods and raw materials. It would be desirable for them to be gradually abolished, in the very interest of the development of competitive Turkish industrial enterprises, capable of asserting themselves one day on the export markets.

The Bank in any case deems it necessary to maintain an adequate flow of external financial aid to Turkey under special conditions, unless we are to see the efforts already made fail to come to full fruition, owing to lack of supplementary investments of a satisfactory volume. On this point as on many others, it therefore agrees with the member countries and the Commission of the European Communities that, on the expiration of the first financial protocol, a Community aid accompanied by favourable conditions should be continued. However, it is important to stress the fact that, so as to enable the aid to attain an optimum result, Turkey needs to follow an economic policy capable of eliminating the inflationary trends which have recently appeared and ensuring an adequate stability on a longer term basis.

* * *

On the whole, the Bank's action in the associated countries has yielded notable successes. The Bank is prepared to continue its activities in these countries and, if need be, to develop them, provided that it is given the possibilities of doing so. If the improvements suggested by its experience in recent years were to be acted upon, they would constitute a decisive step forward.

As regards more particularly African industrialisation, such improvements would obviously contribute towards encouraging it; but they would also

enable the Community institutions to have at their disposal a mechanism which gives them a more active role in the development of financing programmes.

At the time of embarking on a new phase of financial relations with the associated countries, the Bank thus wishes to play a fully effective role of approximation among the possibilities of the member countries, the initiatives of the promoters and the interests of the associated countries themselves.

