

EUROPEAN INVESTMENT BANK



ANNUAL REPORT 1971

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Department for Italy
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Representative Office in Brussels
Rue Royale, 60
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For its accounts and balance sheet, the European Investment Bank uses the unit of account as defined in Article 4, paragraph 1, of its Statute. The value of this unit of account is 0.88867088 gramme of fine gold.

The conversion of national currencies has been effected on the basis of the official parities at 31st December, 1971 ⁽¹⁾.

On 31st December, 1971, the official parities between the unit of account and the currencies which are most important for the Bank's activities were as follows :

1 unit of account (u.a.) =	{	3.66	Deutsche Mark
		5.55419	French francs
		625	Italian lire
		3.62	Netherlands guilders
		50	Belgian francs
		50	Luxembourg francs
		1	United States dollar
		4.0841	Swiss francs ⁽²⁾
		30	Greek drachmae
		15	Turkish pounds.

⁽¹⁾ The new exchange rate relationships (central rates) adopted in December 1971 in Washington had not yet been declared as official parities at the end of the year.

⁽²⁾ Until 10th May, 1971, inclusive : 1 unit of account = 4.37282 Swiss francs.

BOARD OF GOVERNORS

Chairman : Valéry GISCARD d'ESTAING (France)

Belgium : Baron SNOY et d'OPPUERS, Minister of Finance, Brussels
until January 1972;

André VLERICK, Minister of Finance, Brussels,
from January 1972;

Germany : Alex MÖLLER, Minister of Finance, Bonn,
until May 1971;

Karl SCHILLER, Minister of Economy and Finance, Bonn,
from May 1971,
Chairman until 15th June, 1971;

France : Valéry GISCARD d'ESTAING, Minister of Economy and Finance, Paris;

Italy : Mario FERRARI AGGRADI, Minister of the Treasury, Rome,
until February 1972;

Emilio COLOMBO, Minister of the Treasury, Rome,
from February 1972;

Luxembourg : Pierre WERNER, Minister of State, Prime Minister, Minister of Finance, Luxembourg;

Netherlands : Hendrikus Johannes WITTEVEEN, Minister of Finance, The Hague,
until July 1971;

Roelof J. NELISSEN, Minister of Finance, The Hague,
from July 1971.

BOARD OF DIRECTORS

Chairman : Yves LE PORTZ

Vice-Chairmen : Ulrich MEYER-CORDING ⁽¹⁾

Sjoerd BOOMSTRA

Luca ROSANIA

Directors :

Daniel DEGUEN, Head of the International Affairs Department, Directorate of the Treasury, Ministry of Economy and Finance, Paris;
(until May 1971)

Jacques de LAROSIÈRE de CHAMPFEU, Head of the International Affairs Department, Directorate of the Treasury, Ministry of Economy and Finance, Paris;
(from 15th June, 1971)

Raymond DENUCÉ, Honorary General Manager, Crédit Communal de Belgique, Brussels;

Salvatore GUIDOTTI, General Manager of the Banco di Napoli, Naples;

Anthony J. A. LOOIJEN, Director of External Financial Relations, Ministry of Finance, The Hague;

Herbert MARTINI, Vice-Chairman of the Board of Directors of the Kreditanstalt für Wiederaufbau, Frankfurt-on-Main;

Gastone MICONI, Director General of the Treasury, Ministry of the Treasury, Rome;

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

Alternates :

Jacques FRIEDMANN, Chef du Service de l'Inspection Générale des Finances, Chef du Corps de l'Inspection Générale de l'Économie Nationale, Ministry of Economy and Finance, Paris;

Paul GAUDY, Inspecteur Général at the Ministry of Finance, Brussels;

Lionello FRONZONI, Director, Bank of Italy, Perugia;

Pierre GUILL, General Manager, Caisse d'Épargne de l'État, Luxembourg;

Alfred KUBEL, Prime Minister of the Land of Lower Saxony, Hanover;

Aldo BALDARI, Inspector General of the Treasury, Ispettorato Generale per i Rapporti Finanziari con l'Estero, Ministry of the Treasury, Rome;

Frédéric BOYER de la GIRODAY, Director, Directorate General of Economic and Financial Affairs, Commission of the European Communities, Brussels;

⁽¹⁾ Mr. Ulrich MEYER-CORDING exercised the functions of Vice-Chairman until 30th April, 1972 and was appointed Honorary Vice-President.
Mr. Horst-Otto STEFFE was appointed Vice-Chairman as from 16th May, 1972.

Directors :

Alfred MÜLLER-ARMACK, Former State Secretary, Cologne;

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

André POSTEL-VINAY, General Manager, Caisse Centrale de Coopération Économique, Paris;

Stefano SIGLIENTI, President, Istituto Mobiliare Italiano, Chairman, Associazione Bancaria Italiana, Rome;
(deceased 5th April, 1971)

Giorgio CAPPON, General Manager, Istituto Mobiliare Italiano, Rome;
(from 1st February, 1972)

Hans-Herbert WEBER, Ministerialdirektor, Federal Ministry of Economy and Finance, Bonn;

Alternates :

Waldemar MÜLLER-ENDERS, Ministerialdirigent, Federal Ministry of Economy and Finance, Bonn;

Antoine DUPONT - FAUVILLE, Manager, Crédit National, Paris;

Michel CAMDESSUS, in charge of the Sub-Directorate for Investments, Directorate of the Treasury, Ministry of Economy and Finance, Paris;
(from 15th June, 1971)

Ugo MORABITO, Minister Plenipotentiary, Ministry of Foreign Affairs, Rome;

Friedrich BERNARD, Ministerialrat, Federal Ministry of Economy and Finance, Bonn.

MANAGEMENT COMMITTEE

Yves LE PORTZ, *President*

Ulrich MEYER-CORDING, *Vice-President* ⁽¹⁾

Sjoerd BOOMSTRA, *Vice-President*

Luca ROSANIA, *Vice-President*

AUDIT COMMITTEE

Chairman

Roger LÉONARD, First Honorary President of the Cour des Comptes, Paris;

Members

Hans-Georg DAHLGRÜN, Professor, Former President of the Landeszentralbank in Rhineland-Palatinate;

Emile RAUS, Counsellor of State, Honorary Director General of the Postal and Telecommunications Department, Luxembourg.

⁽¹⁾ Mr. Ulrich MEYER-CORDING exercised the functions of Vice-President until 30th April, 1972 and was appointed Honorary Vice-President.
Mr. Horst-Otto STEFFE was appointed Vice-President as from 16th May, 1972.

DEPARTMENTS

General Affairs Department : Henri LENAERT, Secretary General, Manager
Hans HITZLBERGER, Deputy Manager,
Head of Personnel

*Department for Loans
in Member Countries :* Armel BELLEC, Manager ⁽¹⁾
Romeo dalla CHIESA, Associate Manager,
Department for Italy, Rome
Helmuth CRAMER, Deputy Manager

*Department for Loans
in Associated Countries :* Karl-Heinz DRECHSLER, Manager
Eugenio GREPPI, Deputy Manager
Jacques SILVAIN, Deputy Manager

*Finance and Treasury
Department :* Louis CASSAGNES, Manager ⁽²⁾

Research Department : Horst-Otto STEFFE, Manager ⁽³⁾
Henri LEROUX, Deputy Manager ⁽⁴⁾

Legal Department : J. Nicolaas van den HOUTEN, Manager

*Department
for Technical Advisers :* Marcello GOFFI, Manager ⁽⁵⁾
Eugenio COMBONI † ⁽⁶⁾
Hellmuth BERGMANN
Jacques FAUDON
Robert LECLERCQ
Ernst-Helmut LINDER
Robert VERMEERSCH

⁽¹⁾ Guy TRANCART, until 31st December, 1971.

⁽²⁾ Luciano MIURIN, until 31st December, 1971.

⁽³⁾ Appointed Vice-President as from 16th May, 1972.

⁽⁴⁾ Louis CASSAGNES, until 31st December, 1971.

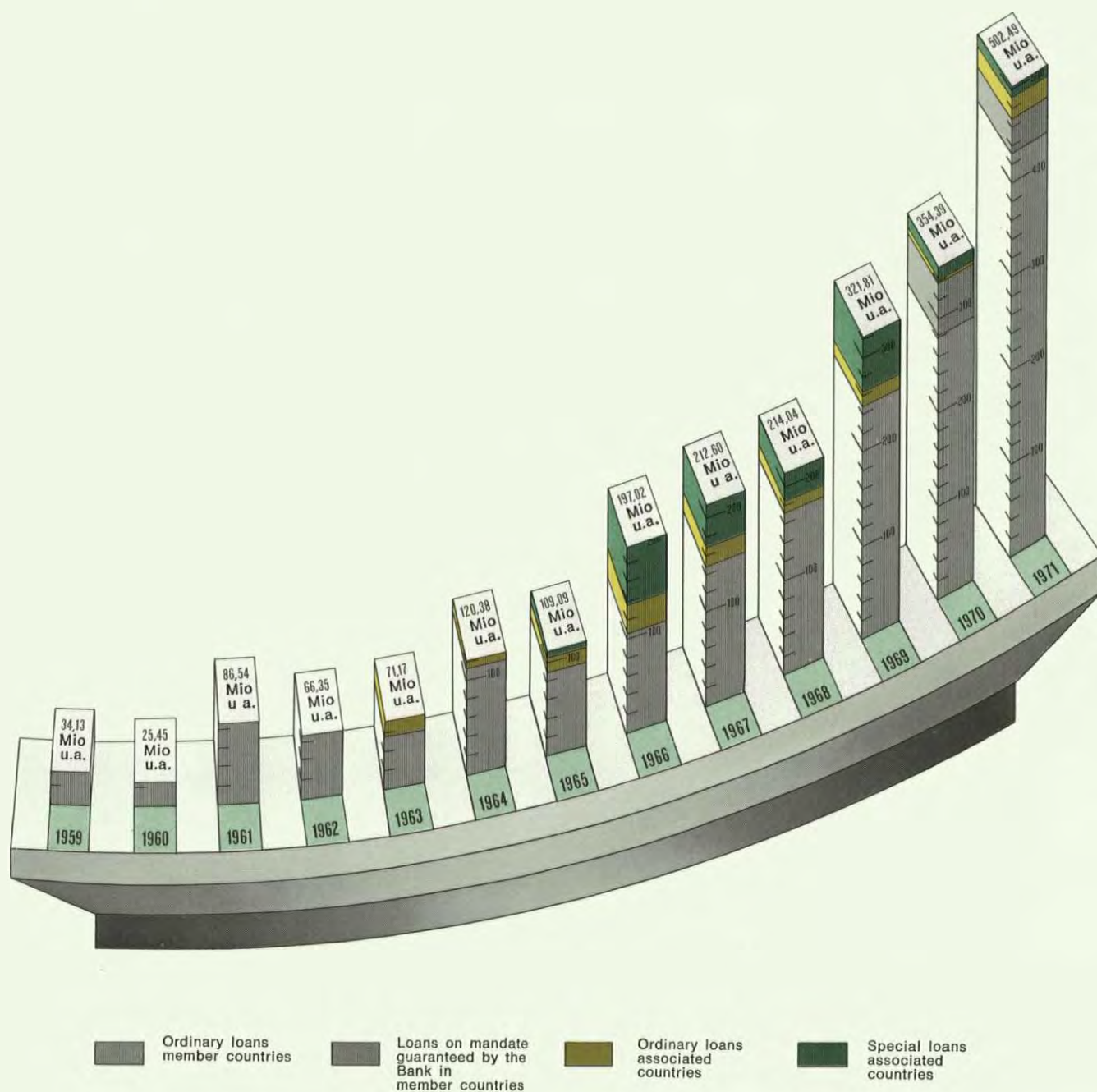
⁽⁵⁾ Since 1st January, 1972.

⁽⁶⁾ Deceased 3rd November, 1971.

CONTENTS

	<i>Page</i>
I. INTRODUCTION	9
The economic and monetary situation	9
The Bank and the development of Community policies	13
Accession of new members	16
II. ACTIVITIES OF THE BANK	19
LOANS AND GUARANTEES	19
Loans and guarantees in the Community	22
Loans in the associated countries	35
<i>Associated African States and Madagascar,</i> <i>and Overseas Countries and Territories</i>	35
<i>Ordinary loans</i>	37
<i>Special operations</i>	38
<i>Turkey</i>	39
Contracts signed from 1958 to 1971	41
RESOURCES	53
Borrowed funds	53
Capital appropriated to guaranteed loans on mandate	58
Accrued profits	59
III. BALANCE SHEET AND PROFIT AND LOSS ACCOUNT	61
IV. ADMINISTRATION OF THE BANK	77
V. APPENDIX :	
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT	79
* * *	
INVESTMENTS IN THE COMMUNITY IN 1971 AND THEIR FINANCING	89

ANNUAL ACTIVITY OF THE BANK (contracts signed)



I

INTRODUCTION

THE ECONOMIC AND MONETARY SITUATION

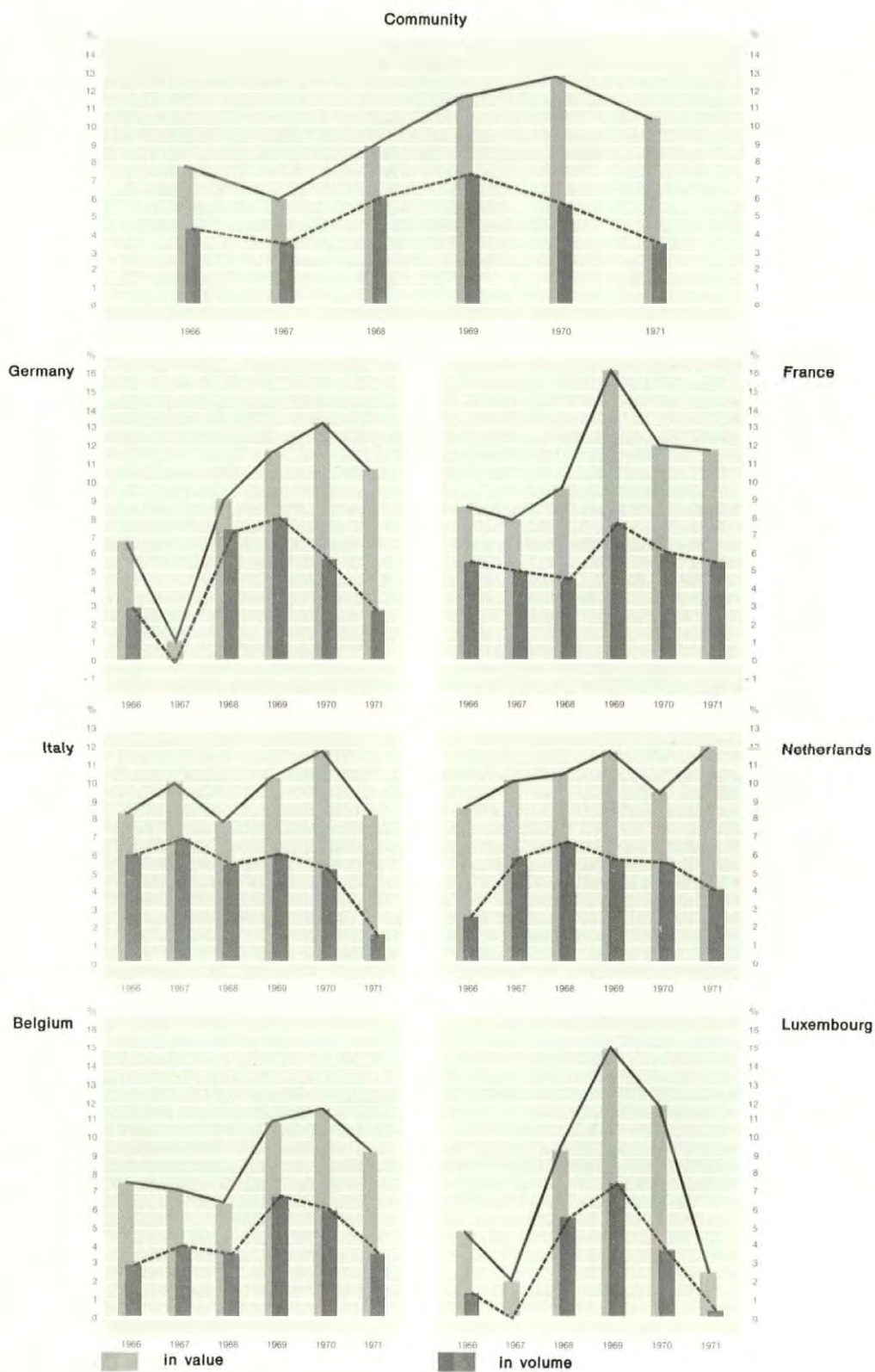
Despite the international monetary situation, the Bank was able to maintain and even to accelerate the pace of its expansion in 1971. To a large extent, this must be ascribed to the specific ways in which the economic situation developed in the course of the year. External borrowing by enterprises for the financing of their investment expenditure, which increased despite the slowdown in the economy, was on an increasingly larger scale. The requirements of the public investment budgets continued to grow. Lastly, the situation improved on most of the capital markets of the member countries as well as on the Eurobond market, which allowed the Bank to increase its borrowings to a considerable extent.

The particular trends resulting from the development of the general economic situation were also affected by the monetary events. Whereas in the United States, the United Kingdom and Japan, despite an economic policy increasingly directed toward expansion, recovery was extremely hesitant, the business situation in the Community remained stationary at a high level.

Indeed, the gross national product in real terms in the Community showed almost no further increase from the spring of 1971 onwards. The growth rate of 3.5% obtained for the whole year by comparison with the previous year, against 5.6% from 1969 to 1970, is an overall result which calls for qualification in so far as the growth actually continued between the last quarter of 1970 and the first of 1971, but subsequently came to a halt.

Developments in member countries were not uniform. The conjunctural situation was worst in Italy, where social disputes continued to hamper production. It was most favourable in France where budgetary policy was redirected sufficiently soon towards stimulation of expansion. In addition, French exports responded to the impetus, at times very strong, of the maintenance of the gold parity of the franc for commercial transactions, whereas there was a *de facto* revaluation of the currencies of major countries which are France's customers and competitors.

GROSS NATIONAL PRODUCT IN THE COMMUNITY (% variations by comparison with previous year)



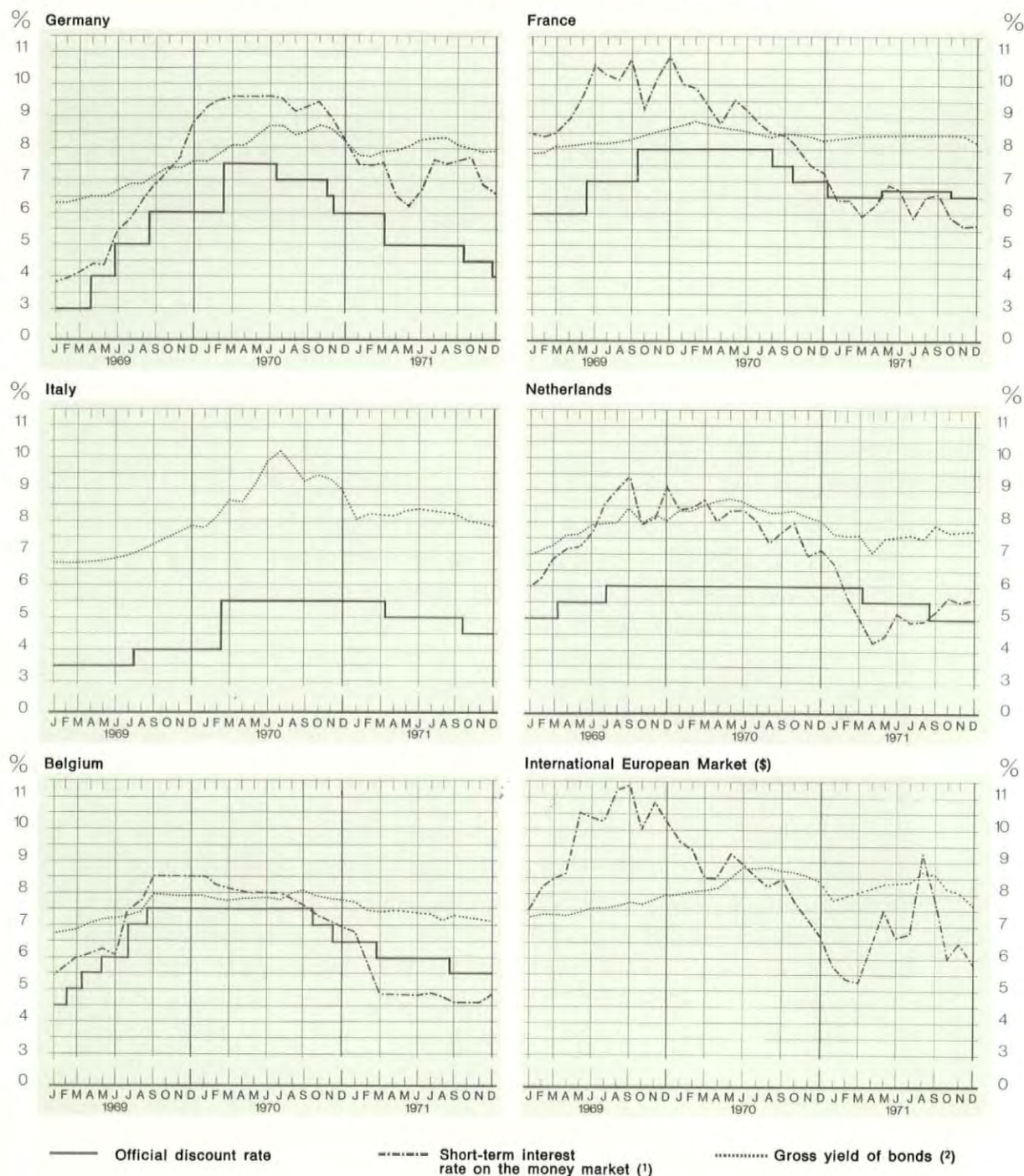
Generally speaking, the rise in costs and prices continued in the Community, and even accelerated until the autumn. The cost pressure remained stronger than the price-push, resulting in a marked narrowing of profit margins, a development characteristic of a cyclical phase of cost inflation. As, furthermore, the industrial sales prospects became gloomier in most of the member countries owing to the evolution of the monetary situation, the investment propensity of enterprises showed a distinct slackening. Business outlay on investments already under construction or definitively planned certainly continued to increase, although at a slower pace, but as self-financing possibilities of enterprises were limited, requirements for external resources increased sharply. Owing to the uncertainties of the further economic development greater efforts were also made to consolidate the short-term indebtedness, which until then had been rising steeply. Lastly, the public sector's long-term borrowing requirements also grew considerably : as current expenditures increased more rapidly than ordinary receipts, public savings did not keep pace with the advance in investment expenditure.

One consequence of the slower economic growth was the emergence of fairly clear tendencies towards an easier situation of the employment markets. At the same time, the very rapid pace of wage expansion reached its peak and began to slacken off somewhat. This evolution led not only to a brisk rise in private consumer expenditure, but also, and despite the extent of the erosion of purchasing power, to an even more marked increase in private savings. To this were added the effects on internal liquidity of the large-scale inflow of capital which the Community had to absorb as a result of the monetary crisis. No notable reflux has yet occurred, despite the Washington agreements reached in December.

Under the influence of these various conjunctural and monetary factors, the improvement of the situation on the capital market made itself more clearly felt in 1971, with some interludes, it is true. However, this trend was initially still thwarted by public authorities : indeed, from the point of view of the liquidity of the domestic market, treasury operations had a less expansionary influence than in the previous year, while the monetary authorities of certain Community countries, because of the persistent price and cost rises, hesitated to relax significantly their still so far highly restrictive credit policy.

However, the capital inflow was further stimulated by the monetary policy of the United States, which was strongly directed towards expansion and lower interest rates. It had also become clear that the national economies needed some measure of support. The monetary authorities of the Community, therefore, finally adopted an increasingly flexible policy and agreed to reduce interest rates.

SHORT AND LONG-TERM INTEREST RATES



(1) The short-term interest rates are, according to the countries concerned, the following:
 Germany: rate for 3-month interbank loans.
 France: rate for 3-month interbank loans against private bonds.
 Italy: no representative data available.
 Netherlands: rate for 3-month bank loans to local authorities.

Belgium: rate for transfer to banks of 3-month cash certificates.
 European International Market: rate for 3-month U.S. dollar deposits with London banks.
 (2) The gross yield rates for bonds are those of bonds quoted on the stock exchange in the different financial markets in the Community, the characteristics of which at issue come closest to those of the Bank's bonds.

By supporting the realization of substantial investment projects and facilitating their long-term financing, the expansion of the Bank's activity was altogether in line, particularly during the second half of the year, with the objectives of the Community's short-term economic policy. This appears in particular from the fact that the growth in the volume of the Bank's loans and guarantees was very much concentrated on Italy, where the investment situation, extremely weak on the whole, called for firm support measures.

As we shall see below, however, the Bank's activity is also assuming ever increasing importance in the field of long-term structural development. For this reason, the Bank is greatly interested by the work concerning the definition and the possible implementation of certain structural policies in the framework of the Community.

THE BANK AND THE DEVELOPMENT OF COMMUNITY POLICIES

Among the Community policies in course of elaboration, that relating to the establishment of the *Economic and Monetary Union* has particular priority. The implementation of the first stage of this union was slowed down and even interrupted by the monetary crisis of 1971. It was on 21st March, 1972 that the policy concerning the establishment of the Economic and Monetary Union was relaunched by a Council resolution providing, inter alia, for :

- Reduction to 2.25% of the margins of fluctuation between the currencies of member countries;
- Reinforcement of the coordination of economic policies within the Community, by the institution of compulsory consultations prior to any measure likely to deviate from the guide-lines laid down by the Council;
- Creation, with the Council, of a Co-ordinating Group for conjunctural policy composed of special representatives of the Minister or Ministers competent in each member country and of the representative of the Commission.

This resolution also confirms the political will of the member countries to take or prepare measures with respect to *regional policy*. Thus it was decided in principle that a part of the resources of the EAGGF could be utilized in favour of regional development activities. Other Community resources could also be appropriated to regional development, either by the creation of a Regional Development Fund, or

by the application of any other system of appropriate Community resources. The Council intends to take the necessary decisions, on proposals from the Commission, before 1st October, 1972.

Furthermore, the Council had ratified on 20th October, 1971, an important resolution on the limitation of aids granted under national regional policy legislations and on the adoption of a Community norm intended to abolish the incentive over-bidding among regions, observed in the past.

In the field of *social policy*, one important fact is to be noted : the renovation of the Social Fund.

The Fund's tasks have been redefined and its resources enlarged. Henceforth, it will be able to grant financial aid to a wider range of operations aimed at the elimination of unemployment and structural under-employment. In this respect, it may prove to be an important supplement to the other activities carried out in regions having particular problems.

The Commission's suggestions concerning *industrial policy* ⁽¹⁾ were examined by a group of high officials of the member countries and of the Commission, created by the Council. In its report dated 30th March, 1971, this Group advocated, inter alia, an intensification of the Bank's operations in favour of the modernization or conversion of enterprises and projects of common interest (Article 130, paragraphs b and c, of the Treaty of Rome), particularly in the case of projects resulting from common initiatives or a thorough co-operation among enterprises of different member countries.

The Commission furthermore proposed on 14th September, 1971, the creation of the status of joint undertakings, outside the nuclear sector for which a framework was already provided by the Treaty establishing the European Atomic Energy Community. These joint undertakings could receive substantial aids from the Community, notably in the form of tax relief, loans at reduced interest rates or guarantees. This status could be granted to enterprises the activities of which have a character of public service of European interest, or present a particular interest for the Community in the field of technological development or supply of raw materials.

Three proposals by the Commission, dated 22nd July, 1971, concern *energy policy*. Two of them aim at improving energy supply situation : one provides for an increase of minimum stocks of oil or oil products, while the other aims to extend

(1) Cf. the Commission's Memorandum "The industrial policy of the Community" (1970), already mentioned in the Annual Report of the Bank for 1970.

the joint undertaking status to certain initiatives of the petroleum industry. The third proposal concerns more particularly the nuclear sector, in respect of which the Commission asked the Council of Ministers for authorization to borrow on financial markets from 1972 onwards, so as to be able to grant long-term loans at market conditions for nuclear power plant projects. It should be noted that the Bank's activity in the nuclear energy sector has acquired a growing importance. This activity will probably continue to expand, as the projects of this sector can henceforth be considered, as a rule, as being of common interest.

Lastly, the Commission published at the end of July 1971 a Memorandum on a *Community policy for co-operation with developing countries*, on which the Council has not yet adopted a position.

For the *Associated African States and Madagascar and Overseas Countries and Territories*, the accession of Great Britain has raised the problem of the relations likely to be established by the enlarged Community with the *developing countries of the Commonwealth*, in Africa, the Pacific and the Caribbean, as well as the Countries and Territories depending on the United Kingdom (with the exception of Hong Kong), which will have the possibility of acceding to an association status in the same capacity as the African States, Madagascar and the Overseas Countries and Territories already associated. It is envisaged that the negotiations on this subject will take place at the same time as the negotiations for the renewal of the second Yaoundé Convention, i.e., from 1st August, 1973 onwards. Assuming that all developing countries and territories of the Commonwealth opt for the association status, they would represent together, in terms of population as well as according to the gross national product, about 1.7 times the whole of the African States, Madagascar and the Overseas Countries and Territories already associated. The Bank's activity in this field is hence likely to be expanded considerably.

As regards the countries of the Mediterranean Basin, the "Memorandum on Community policy towards development countries" points out that it would be advisable to give more homogeneity and efficacy to the existing commitments by supplementing gradually the commercial provisions of the actual agreements by a technical and financial co-operation. The Commission has furthermore established contact with the countries of this region in view of establishing an inventory of the problems raised by the enlargement of the Community. Its report to the Council on this subject comprises, in particular, indications about the prospects for financial co-operation with Greece, Turkey and the Maghreb countries.

The Commission points out that *Greece* would like to conclude with the four new member countries an additional protocol containing all provisions of the Athens Agreement and in particular the general provisions of the financial protocol. However, the credits opened in this respect by the Community expired on 1st November, 1967, and it is obvious that their possible renewal depends on political factors the development of which is very difficult to foresee.

Turkey considers that the enlargement of the Community will compromise the equilibrium of the Association and asks that the new member countries should undertake to provide an additional contribution for the years after accession covered by the second financial protocol. In its report to the Council, the Commission considers such an increase of the financial aid equitable, as it would constitute one of the factors ensuring the general equilibrium of the Agreement and of the additional protocol.

In 1969, association agreements, comprising only provisions of a commercial nature, were signed for a term of five years between the European Economic Community on the one hand *Tunisia* and *Morocco*, on the other. It was provided that, from September 1972 onwards, negotiations can be embarked upon for the conclusion of new agreements on a wider basis. The Community has furthermore agreed to propose to *Algeria* the opening of negotiations with a view to the conclusion of an overall agreement comprising, in addition to a preferential trade system, other measures concerning economic and financial co-operation. The Council is prepared to embark on negotiations for the conclusion of overall agreements with *Morocco* and *Tunisia*, parallel with the negotiations planned with *Algeria*.

ACCESSION OF NEW MEMBERS

The Community scene in 1971 was marked by the negotiations on the accession of the United Kingdom of Great Britain and Northern Ireland, the Kingdom of Denmark, the Kingdom of Norway and Ireland to the European Communities and, consequently, to the Bank (Art. 129 of the Treaty of Rome).

The Bank's Statutes provide that such accession entails an increase of the subscribed capital corresponding to the contribution of the new members (Art. 4). The conditions of admission and the amendments to the Statutes have to form the object of an agreement between the member countries and the applicant countries (Art. 237 of the Treaty of Rome).

The agreement reached concerning the Bank has been annexed as Protocol No. 1 to the "Treaty of Accession" signed in Brussels on 22nd January, 1972. This treaty

is now in process of ratification by each contracting country and is scheduled to come into force on 1st January, 1973.

The Bank participated, on the questions concerning it, in the negotiations at all levels with the applicant countries.

The Parties agreed in substance on the following conditions :

The United Kingdom, Denmark, Norway and Ireland subscribe to the capital of the Bank for 450, 60, 45 and 15 million units of account respectively. As a result, the Bank will have a capital of 2,070 million units of account, distributed as follows among the member countries :

Germany	450	million
France	450	million
United Kingdom	450	million
Italy	360	million
Belgium	118.5	million
Netherlands	118.5	million
Denmark	60	million
Norway	45	million
Ireland	15	million
Luxembourg	3	million

The entry of the new member countries provided the opportunity to equalize the shares of Belgium and the Netherlands in the capital, to which Belgium had initially contributed a higher amount than the Netherlands.

The part of the subscribed capital to be paid up by the new member countries is determined on the basis of the percentage valid for the original member countries, i.e., 20 % (25 % of the initial capital of 1,000 million and 10 % of the capital increase of 500 million decided in April 1971). One fifth of the payment will be made in national currency, in the two months following accession, and the balance in treasury bonds not yielding interest, maturing in four equal instalments, at respectively 9 months, 16 months, 23 months and 30 months, i.e., within two and a half years from the date of accession. These treasury bonds may be redeemed, in whole or in part, prior to their maturity after agreement between the Bank and the new member country concerned. The cash payments, as well as the proceeds of the redemption of the treasury bonds, will be freely convertible.

Pursuant to the Statutes, the Board of Governors may decide an increase of the subscribed capital; a new provision specifies that it shall also fix the percentage of the capital to be paid up as well as the methods of payment.

The new member countries contribute *to the statutory reserve and to the provisions equivalent to reserves*, as shown in the balance sheet of the Bank, established on 31st December of the year preceding the entry into force of the Treaty of Accession. Their contributions correspond to the following percentages of these reserves : United Kingdom : 30 %; Denmark : 4 %; Norway : 3 %; Ireland : 1 %.

These contributions, calculated in units of account, shall be paid in freely convertible national currency, in five equal instalments maturing at the same dates as the payments of capital.

Each member country is to be represented on the *Board of Governors*, which will thus comprise 10 members.

The *Board of Directors* will comprise 19 directors and 10 alternates, with the following distribution :

Germany	3 directors	2 alternates
France	3 directors	2 alternates
Italy	3 directors	2 alternates
United Kingdom	3 directors	2 alternates
Belgium	1 director	1 alternate appointed jointly by the Benelux countries
Luxembourg	1 director	
Netherlands	1 director	
Denmark	1 director	
Ireland	1 director	
Norway	1 director	
Commission of the European Communities	1 director	1 alternate

As not all the directors are assisted by an alternate, a new arrangement permits each director to delegate his vote.

The *Management Committee* will be made up of 5 members : the President and four Vice-Presidents. The Board of Governors, deciding unanimously, may henceforth modify the number of members of the Management Committee.

The Bank has started the necessary preparatory work for fulfilling its mission in the new member countries and for ensuring the opening-up of their capital markets; it thus expects to be in a position to commence its operations in the new member countries as soon as their accession has become effective.

II

ACTIVITIES OF THE BANK

LOANS AND GUARANTEES ⁽¹⁾

In 1971, the growth of the Bank's activities was particularly vigorous : for the first time, new operations aggregated over 500 million units of account.

This expansion is due exclusively to the steep rise in *ordinary loans*, i.e., those loans which the Bank grants from its own resources and at its own risk. The volume of ordinary loans, indeed, increased significantly in both member countries and the associated countries (Table 1).

Table 1 — THE BANK'S ACTIVITIES IN 1970 AND 1971
(contracts signed)

	1970		1971		Variation 1971 by comparison with 1970	
	Number	Million u.a.	Number	Million u.a.	Million u.a.	in %
Ordinary operations	50	340.8	50	491.8	+ 151.0	+ 44
of which :						
• loans	45	284.8	47	454.9	+ 170.1	+ 60
• guarantees	5	56.0	3	36.9	— 19.1	— 34
Special operations	4	13.6	2	10.7	— 2.9	— 21
Total	54	354.4	52	502.5	+ 148.1	+ 42

(1) Unless otherwise indicated, all the amounts shown are in units of account (cf. definition, page 2). Differences between the totals indicated and those obtained by adding individual amounts are due to rounding.

As in 1970, but to a lesser extent, the Bank effected *guarantee operations* for loans concerning projects in Italy, under mandate from and for the account of German financial institutions operating in the municipal credit field.

The amount of *loans granted on special conditions* through the Bank's Special Section from budgetary funds of the member countries or of the Community again decreased slightly compared with the previous year. The lower figure for Turkey is

Table 2 — LOANS AND GUARANTEES BY THE BANK
(contracts signed in 1971)

Breakdown by type of financing and by country

Country	Number of projects	Amount (million u.a.)	% of total
I. ORDINARY OPERATIONS			
<i>Member countries :</i>			
Germany	6	61.9	12.3
France	12	124.5	24.8
Italy	27	274.9	54.7
Netherlands	1	8.0	1.6
Total ⁽¹⁾			
<i>of which : guarantees ⁽²⁾</i>	3	36.9	7.3
<i>Associated countries :</i>			
A.A.S.M. and O.C.T.			
Cameroon	1	3.5	0.7
Senegal	1	1.4	0.3
Zaire	2	17.6	3.5
Total	4	22.5	4.5
Total of ordinary operations	50	491.8	97.9
II. SPECIAL OPERATIONS			
Turkey	1	10.0	2.0
Reunion (Overseas Department) ⁽³⁾	1	0.7	0.1
Total	2	10.7	2.1
Grand total	52	502.5	100.0

(1) Including the following overall loans :

- France : SODERO (Société de Développement Régional de l'Ouest), 1.98 million units of account;
- Italy : CASSA-CIS II, 5 million units of account;
CASSA-ISVEIMER II, 15 million units of account.

(2) In 1971, concerns *Italy* only.

(3) Loans granted on special conditions from the resources of the European Development Fund following a favourable opinion by the Bank, for which the financing decision of the Commission of the European Communities has been taken.

explained by the fact that the amount of aid provided for under the first financial protocol is exhausted, and that the second protocol has not yet been ratified by all countries concerned. Furthermore, the second Yaoundé Convention, signed between the Community and the Associated African States and Madagascar, has been in force since 1st January, 1971, but contracts for several projects which were examined during this initial period could not yet be signed before the end of the financial year.

Table 3 — LOANS AND GUARANTEES BY THE BANK
(contracts signed in 1971) ⁽¹⁾

Breakdown by sector

Sectors	Number of projects		Amount (million u.a.)	% of total
I. INFRASTRUCTURE WORKS	18		227.9	45.3
Agricultural development	1		0.7	0.1
Energy (electricity production and transmission)	4		34.9	7.0
Transport	9		131.3	26.1
— Railways	1		21.9	4.3
— Roads and bridges	6		99.5	19.8
— Gas pipelines	2		9.9	2.0
Telecommunications	4		61.0	12.1
II. INDUSTRY, TRADE AND SERVICES	31		252.6	50.3
Industry	30		251.2	50.0
— Extractive industries	1		16.0	3.2
— Iron and steel, basic metal processing	7		77.2	15.4
— Construction materials	1		4.8	1.0
— Chemical industry	7		56.6	11.3
— Metal working and engineering	3		19.0	3.8
— Motor vehicles, transport equipment	2		39.4	7.8
— Electrical engineering, electronics	3		12.2	2.4
— Food products	2		5.3	1.0
— Textiles and leather	1		1.6	0.3
— Manufacture of rubber and plastics	3		19.1	3.8
Trade and services	1		1.4	0.3
— Tourism	1		1.4	0.3
Overall loans	3		22.0	4.4
Grand total	52		502.5	100.0

(1) Including loans on special conditions from the resources of the European Development Fund (cf. footnote 3 to Table 2).

The *total cost in fixed investments* of the projects, for which loan and guarantee contracts were signed by the Bank in 1971, is approximately 3,000 million units of account, a figure considerably higher than that for the previous year (1,600 million); the Bank's average share in the financing of total project cost fell from 23 % in 1970 to 16 % in 1971. However, leaving aside one major project, the SOLMER steel plant at Fos, which alone involves particularly high investments, the total cost in fixed investments is 2,100 million and the Bank's average share then rises to 22 % (18 % for infrastructure projects and 27 % for industrial projects), an average very close to that of the previous years (23 %).

The breakdown of the Bank's activity by country and sector (cf. Tables 2 and 3), will be commented on in detail in the following chapters.

Loans and guarantees in the Community

In 1971, the Bank signed 46 loan and guarantee contracts, totalling 469.3 million, for projects located in the member countries of the Community. In comparison with the previous year (48 contracts, totalling 338.5 million), this represents an increase of 130.8 million, or 39 %, in the amount of assistance granted.

The contracts signed in 1971 are broken down as follows :

- 43 ordinary loans, totalling 432.4 million, against 43, for a total of 282.5 million, in 1970;
- 3 guarantees, totalling 36.9 million, against 5, for an amount of 56 million, in 1970.

The average amount per operation was substantially higher than the previous year : 1970, 7.1 million; 1971, 10.2 million. The increase is even more marked in the case of industrial projects, where the average contribution by the Bank rose from 4.9 million in 1970 to 8.2 million in 1971. The average contribution to infrastructure projects increased from 13.6 to 14.2 million.

As in previous years, the Bank helped in 1971 to finance investments of small and medium dimensions through appropriations from overall loans, moreover increasing substantially its activity in this field. Whereas in 1970, 14 enterprises had benefited for a total amount of 7 million, in 1971 43 enterprises were involved and

the total amount was 16.4 million. In line with the objectives which the Bank had set for this form of financing, the average amount of the appropriations lies at a very low level : 0.38 million (1970 : 0.50 million).

The contracts signed in 1971 relating to ordinary operations in the Community were for the following projects ⁽¹⁾ :

(million u.a.)

Germany :

- | | |
|---|------|
| 1. Base load thermal power unit at Lichterfelde (West Berlin)
Promoter : <i>Berliner Kraft- und Licht (Bewag)-Aktiengesellschaft</i> | 5.5 |
| 2. Electrification of the Koblenz-Völklingen railway line (Rhineland-Palatinate) and its branches towards Luxembourg and France.
Promoter : <i>Deutsche Bundesbahn</i> | 21.9 |
| 3. Gas pipelines for the supply of ethylene to several petrochemical plants in Federal Republic of Germany, the Netherlands and Belgium.
Promoter : <i>Aethylen-Rohrleitungs - GmbH & Co. KG</i> | 4.9 |
| 4. Aluminium plant at Essen-Borbeck (North Rhine - Westphalia).
Promoter : <i>Leichtmetall-Gesellschaft mbH</i> | 16.0 |
| 5. Heavy sheet rolling mill at Dillingen (Saar).
Promoter : <i>Dillinger Hüttenwerke AG</i> | 8.2 |
| 6. Tyre factory at St. Ingbert (Saar).
Promoter : <i>Kleber-Colombes Reifen und Technische Gummi-waren AG</i> | 5.5 |

France :

- | | |
|---|------|
| 7. Power transfer pumping station at Revin (Champagne).
Promoter : <i>Électricité de France (E.D.F.), Service National</i> | 16.0 |
| 8. Combles-Hordain section of the A 2 motorway, Paris-Brussels-Ruhr (between Combles and the Franco-Belgian border).
Promoter : <i>Société des Autoroutes du Nord et de l'Est de la France (SANEF)</i> | 12.6 |

(1) The guarantee contracts are marked with an asterisk.

(million u.a.)

9. Reinforcement and modernization of the telephone equipment in Brittany.
Promoter : *Administration des Postes et Télécommunications* 16.0
10. Modernization and extension of telecommunications in the Loire region.
Promoter : *Administration des Postes et Télécommunications* 10.0
11. Modernization and extension of telecommunications in the Limoges area.
Promoter : *Administration des Postes et Télécommunications* 15.0
12. Extension of a ferromanganese plant at Boulogne-sur-Mer (Northern France).
Promoter : *Société des Aciéries de Paris et d'Outreau* 5.4
13. Steel plant at Fos (Provence - Côte d'Azur).
Promoter : *Société Lorraine et Méridionale de Laminage Continu - SOLMER* 25.0
14. Extension of a polypropylene plant at Lillebonne (Upper Normandy).
Promoter : *Société Normande de Matières Plastiques* 3.6
15. Restructuring and enlargement of production units for ball and roller bearings at Annecy (Rhône - Alpes).
Promoter : *Société Nouvelle de Roulements, S.A.* 3.6
16. Equipment of factories at Toulouse (Midi-Pyrenees) and Nantes-Saint-Nazaire (Loire region) for the construction of the Airbus A 300 B.
Promoter : *Société Nationale Industrielle Aérospatiale, S.A.* 14.4
17. Sausage and meat preserves factory at Morlaix (Brittany).
Promoter : *Société GEO, S.A.* 0.9
18. Overall loan for the financing of small and medium-sized initiatives in the Loire region, granted to the Société de Développement Régional de l'Ouest - SODERO. 2.0

Italy :

- | | |
|--|--------|
| 19. Sestri Levante - Borghetto and Carrara - Viareggio sections of the Sestri Levante - Livorno motorway.
Promoter : <i>Autostrada Ligure Toscana S.p.A.</i> | 6.8 * |
| 20. Motorway section around Naples (Campania).
Promoter : <i>INFRASUD S.p.A.</i> | 13.7 * |
| 21. Porto d'Ascoli - Pescara section of the Adriatic motorway.
Promoter : <i>Autostrade-Concessioni e Costruzioni Autostrade S.p.A.</i> | 16.4 * |
| 22. Vasto-Canosa section of the Adriatic motorway.
Promoter : <i>Autostrade-Concessioni e Costruzioni Autostrade S.p.A.</i> | 25.0 |
| 23. Caserta-Salerno (Mercato S. Severino) motorway (Campania).
Promoter : <i>Autostrade-Concessioni e Costruzioni Autostrade S.p.A.</i> | 25.0 |
| 24. Methane pipelines in Southern Italy.
Promoter : <i>SNAM S.p.A.</i> | 5.0 |
| 25. Reinforcement of the telephone equipment in Sicily and Calabria.
Promoter : <i>S.I.P. - Società Italiana per l'Esercizio Telefonico p.A.</i> | 20.0 |
| 26. Extension of an electrolytic zinc plant and construction of a germanium oxide production unit at Crotone (Calabria).
Promoter : <i>Società Mineraria e Metallurgica di Pertusola p.A.</i> | 14.0 |
| 27. Steel plant at Catania (Sicily).
Promoter : <i>Acciaierie Megara S.p.A.</i> | 4.0 |
| 28. Tyre cord factory at Cagliari (Sardinia).
Promoter : <i>General Cable - Riva Steel Products S.p.A.</i> | 4.6 |
| 29. Modernisation and enlargement of a cement factory at Tarento (Puglia).
Promoter : <i>Cementir - Cementerie del Tirreno S.p.A.</i> | 4.8 |
| 30. Paint and varnish factory at Caivano (Campania).
Promoter : <i>IVI SUD - Industria Vernici e Affini S.p.A.</i> | 4.0 |

(million u.a.)

- | | |
|--|------|
| 31. Enlargement of a plant for extracting magnesium oxide from sea water at Sant'Antioco (Sardinia).
Promoter : <i>SARDAMAG - Sarda Magnesite S.p.A.</i> | 6.0 |
| 32. Caprolactam factory at Monte Sant'Angelo (Puglia).
Promoter : <i>Chimica Dauna S.p.A.</i> | 25.0 |
| 33. Enlargement of installations for the production of continuous polyester yarn in Naples (Campania).
Promoter : <i>SNIA VISCOSA - Società Nazionale Industria Applicazioni Viscosa S.p.A.</i> | 7.2 |
| 34. Enlargement of installations for texturing polyester yarns at Salerno (Campania).
Promoter : <i>SNIA VISCOSA - Società Nazionale Industria Applicazioni Viscosa S.p.A.</i> | 2.8 |
| 35. Earth-moving equipment plant at Lecce (Puglia).
Promoter : <i>FIAT - Macchine Movimento Terra S.p.A.</i> | 12.0 |
| 36. Enlargement and modernization of a ball and roller bearing factory at Casoria (Campania).
Promoter : <i>FAG ITALIANA S.p.A.</i> | 3.4 |
| 37. Motor vehicle assembly plant at Cassino (Latium).
Promoter : <i>FIAT S.p.A.</i> | 25.0 |
| 38. Establishment for the manufacture of fluorescent tubes and mercury vapour lamps, at Bari (Puglia).
Promoter : <i>OSRAM SUD S.p.A.</i> | 3.0 |
| 39. Telecommunications apparatus factories at Aquila (Abruzzi) and S. Maria Capua Vetere (Campania).
Promoter : <i>Società Italiana Telecomunicazioni Siemens S.p.A.</i> | 4.8 |
| 40. Car accumulator factory at San Salvo (Abruzzi).
Promoter : <i>Fabbrica Italiana Magneti Marelli S.p.A.</i> | 4.4 |
| 41. Ice-cream factory at Ferentino (Latium).
Promoter : <i>MOTTA S.p.A.</i> | 4.4 |

(million u.a.)

42. Factory for motor vehicle accessories at Battipaglia (Campania).
Promoter : S.M.A.E. - Società Meridionale Accessori Elastomerici S.p.A. 4.0
43. Production unit for radial tyres for lorries in the plant at Villafranca Tirrena (Sicily).
Promoter : Industrie Pirelli S.p.A. 9.6
44. Overall loan for financing small and medium-sized industrial investments in Sardinia, granted through the intermediary of the Cassa per il Mezzogiorno to the Credito Industriale Sardo - CIS. 5.0
45. Overall loan for financing small and medium-sized industrial investments in Southern Italy, granted through the intermediary of the Cassa per il Mezzogiorno to the Istituto per lo Sviluppo Economico dell'Italia Meridionale - ISVEIMER. 15.0

Netherlands :

46. Extension of production units for producing chlorine and sodium salts, at Delfzijl (Groningen).
Promoter : N.V. Koninklijke Nederlandse Zoutindustrie 8.0

* * *

A breakdown of the Bank's operations in member countries by type of financing shows that ordinary loans granted directly to the final beneficiary represented 44 %

Table 4 — BREAKDOWN OF ORDINARY OPERATIONS IN MEMBER COUNTRIES IN 1971
BY TYPE OF FINANCING

	Direct loans		Indirect loans		Overall loans		Guarantees		Total	
	Number	Million u.a.	Number	Million u.a.	Number	Million u.a.	Number	Million u.a.	Number	Million u.a.
Germany	6	61.9	—	—	—	—	—	—	6	61.9
France	7	68.9	4	53.6	1	2.0	—	—	12	124.5
Italy	3	70.0	19	148.0	2	20.0	3	36.9	27	274.9
Netherlands	1	8.0	—	—	—	—	—	—	1	8.0
Total	17	208.8	23	201.6	3	22.0	3	36.9	46	469.3

of the assistance granted in these countries in 1971, loans granted indirectly for a specific project through the intermediary of a financial institute 43%, overall loans granted to a financial institute and likely to form the object of subsequent appropriations in favour of industrial initiatives 5%, and guarantees 8%.

As in past years the relative importance of the various types of financing differed very greatly from one country to another. As regards individual *ordinary loans*, it will be noted that in Germany and the Netherlands, such loans were always granted directly to the enterprises or authorities responsible for the projects; in France, seven loans were granted directly and four indirectly through the Caisse Nationale des Autoroutes (one) and the Caisse Nationale des Télécommunications (three). In Italy, on the contrary, direct loans were made for only three projects, for motorway construction and telecommunications, whereas 19 loans were granted indirectly, through financial establishments: the Cassa per il Mezzogiorno received 13 loans (94.8 million), which were disbursed to the final beneficiary through the Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER) in nine cases, the Istituto Regionale per il Finanziamento alle Industrie in Sicilia (IRFIS) in two cases, and the Credito Industriale Sardo (CIS) in two cases; six indirect loans, totalling 53.2 million, were granted through the Istituto Mobiliare Italiano (IMI).

The Bank again granted its *guarantee* in 1971 for loans in favour of projects in Italy, on mandate and for the account of German financial institutions. It will be recalled that it was deemed opportune, in view of the serious tightening of the capital market recorded in 1970, to make use for the first time of this form of financing; without reverting to the details already given in the 1970 Annual Report, it will be remembered that, by granting its guarantee in this way, the Bank enabled several German financial institutions, exercising their activity in the municipal credit field, to make loans available to promoters in France and Italy. Under the terms of German legislation on refinancing by the issue of municipal bonds, these operations would not have been possible without the Bank's guarantee. In 1971, the easier situation on the capital markets reduced the interest for this form of financing. The Bank therefore concluded only three guarantee contracts (36.9 million) during the year under review, compared to five in 1970 (56 million). The funds corresponding to the guarantee contracts signed in 1971 were paid to the borrowers directly, in one case, and through the intermediary of the Consorzio di Credito per le Opere Pubbliche (CREDIOP) and the Istituto di Credito per le Imprese di Pubblica Utilità (ICIPU), in the other two cases.

In 1971, the Bank granted three new *overall loans*, totalling 22 million, for the financing of projects of small and medium-sized industries in Sardinia, in Southern Italy and in the Loire region. These operations were concluded respectively with

the Credito Industriale Sardo (CIS), the Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER) and the Société de Développement Régional de l'Ouest (SODERO), which arrange for the appropriation of the funds to the final beneficiaries.

The Bank attaches great importance to this form of financing which makes it possible to contribute, through intermediate regional institutes, to the financing of

Table 5 – OVERALL LOANS IN THE COMMUNITY

Breakdown of the sums appropriated in 1971 by regions and by sectors of activity

Regions / Sectors	Number of investments	Amount of appropriations	
		in million u.a.	% of total amount appropriated
I. REGIONS			
Germany	12	6.89	42.1
– Lower Saxony	2	1.19	7.3
– Hesse	1	0.82	5.0
– Rhineland-Palatinate	2	1.26	7.7
– North Rhine-Westphalia	7	3.62	22.1
France	19	4.32	26.4
– Alsace	18	4.05	24.8
– Loire region	1	0.27	1.6
Italy	12	5.14	31.5
– Sardinia	6	1.90	11.6
– Sicily	6	3.24	19.9
Total	43	16.35	100.0
II. SECTORS OF ACTIVITY			
– Extractive industries	3	0.61	3.7
– Iron and steel, basic metal processing	1	0.82	5.0
– Construction materials	3	1.23	7.5
– Wood industry	1	0.26	1.6
– Glass and ceramics	2	0.41	2.5
– Metal working and engineering	14	5.90	36.1
– Motor vehicles, transport equipment	1	0.44	2.6
– Electrical engineering, electronics	1	0.14	0.9
– Food products	5	1.72	10.5
– Textiles and leather	2	0.91	5.6
– Paperpulp and paper	2	0.39	2.4
– Manufacture of rubber and plastics	7	3.20	19.6
– Other industries	1	0.32	2.0
Total	43	16.35	100.0

projects, too small for direct intervention of the Bank but of very great interest for a balanced development or conversion of certain regions.

As indicated above, appropriations under the overall loans reached 16.35 million in 1971. A detailed breakdown of these appropriations by country and by sector is given in Table 5. All projects financed in this way are located in less developed regions or in reconversion areas. The financing operations in 1971 applied mainly to projects in the engineering and metal manufacturing sectors, the rubber, plastics and food industries.

* * *

Tables 6 and 7 show the distribution of the projects financed by the Bank in the Community in 1971, according to the *economic policy objectives* corresponding to the tasks defined in Article 130 of the Treaty of Rome. These tables show that :

- *Loans in favour of economically backward or reconversion areas continue to play a predominant part in the Bank's activity.* In 1971, operations in favour of regional development, showing a definite increase over the previous year, represent about four-fifths of the total assistance granted by the Bank in the Community. They relate more to investments in the less developed regions in the narrow sense of the term, mainly those in Southern Italy, than to investments in regions faced with industrial reconversion problems.
- The Bank nevertheless made also significant contributions to *projects of common interest* to several member countries, including not only *industrial co-operation* projects, but also – and for substantial amounts – *infrastructure projects of common interest*.

Table 6 – LOANS AND GUARANTEES BY THE BANK IN THE COMMUNITY
(contracts signed in 1971)

Breakdown according to dominant objectives ⁽¹⁾

	<i>In million units of account</i>	
1. Regional development (130 a and b)	380.0	
2. Modernization and conversion of enterprises (creation of new activities, new technologies, etc.) (130 b)	3.6	
3. Common interest (130 c)	80.2	
• Industrial co-operation; research and development		38.9
• Infrastructure of European interest		41.3
4. Special directive (West Berlin)	5.5	
Total	469.3	

(1) Breakdown of projects according to the objectives of economic policy assigned to the Bank by Article 130 of the Treaty of Rome, classified according to the dominant objective only.

Table 7 — LOANS AND GUARANTEES BY THE BANK IN THE COMMUNITY
(contracts signed in 1971)

Breakdown according to all objectives of Article 130 ⁽¹⁾
(in million u.a.)

Country	Number of projects	Loans and guarantees	of which :						
			Regional development			Modernisation and conversion of enterprises (creation of new activities and new technologies, etc.) (130 b)	Common interest to several member countries (130 c)		Special directive (West Berlin)
			Promotion of less-developed regions (130 a)	Conversion (130 b)	Total		Industrial co-operation and research/development (130 c)	Infrastructure of European interest (130 c)	
Germany *	6	61.9	30.0	21.5	51.5	—	4.9	26.8	5.5
France	12	124.5	58.3	30.4	88.7	3.6	37.6	12.6	—
Italy	27	274.9	274.9	—	274.9	—	—	48.2	—
Netherlands	1	8.0	8.0	—	8.0	—	—	—	—
Total member countries	46	469.3	371.2	51.9	423.1	3.6	42.5	87.6	5.5

(1) Breakdown of projects according to the objectives of economic policy pursuant to Article 130 of the Treaty of Rome fixing the tasks of the Bank. Certain projects correspond to several objectives : in such cases they are listed, with their total amount, under the different categories. Therefore the figures indicated for the various categories of projects cannot be grossed up.

With regard to the *geographical distribution* of loan and guarantee operations, Italy remained the main beneficiary of the Bank's assistance in 1971. The reason was not only the economic backwardness of certain regions – in particular, Southern Italy, Sicily and Sardinia – but also the particularly weak investment activity in Italy in 1971. The Bank therefore intensified its action in Italy during 1971, granting a total of 274.9 million for 27 operations, as against 205.2 million for 26 operations in 1970, an increase of 69.7 million (34%).

The amounts granted for financing *infrastructure projects* in Italy increased only slightly – from 104.5 to 111.9 million – so that their share in the Bank's total operations in Italy decreased from 51% in 1970 to 41% in 1971.

Of the seven infrastructure projects financed in 1971, six are for regional development and one for the improvement of European infrastructure :

- Reinforcement of the telephone system of Calabria and Sicily, a project which forms part of the public development programme for these regions, and which benefits for the second time from an intervention of the Bank;
- Construction of two sections of the Adriatic motorway, which will contribute, on the one hand, to the development of the economically backward regions through which it passes and will, on the other link the new industrial centres established along the coast to the Italian and European transport networks;
- Construction of the east-west Naples motorway and the Caserta-Salerno motorway, both of which will help relieve traffic congestion in the Naples area and encourage suburban industrial settlement;
- Construction of methane pipelines in Southern Italy, which will help to facilitate industrialization;
- Furthermore, by contributing to the financing of the Liguria-Tuscany motorway, the Bank again intervened in Italy in favour of the development of the international transport network in the Community, as this motorway forms a section of the E-1 itinerary : London-Paris-Nice-Genoa-Rome-Palermo.

As in 1970, the Bank participated in the financing of 20 projects in *Italian industry*; the total amount (163 million) involved, however, was much higher than in the previous year (100.7 million). This meant a substantial increase in the average amount per loan, owing to the fact that the Bank has provided assistance for a

number of major projects in Southern Italy and in the islands, forming part of the concerted action followed by the State and the private sector. Special mention should be made of an earth-moving equipment plant at Lecce (Puglia), a motor vehicle assembly plant at Piedimonte San Germano (Latium) and a tyre factory at Villafranca Tirrena (Sicily). Mention, too, should be made of a caprolactam plant at Monte Sant'Angelo (Puglia), which forms part of the programme to provide the Mezzogiorno with a large-scale basic chemicals industry, and the extension of an electrolytic zinc plant at Crotone, which forms an essential part of the industrialization programme for Calabria.

Lastly, the Bank granted, in the course of the financial year, two new overall loans in Italy, totalling 20 million, for the financing of small and medium size investments in Southern Italy. Out of a total of 43 appropriations on overall loans by the Bank in 1971, 12, totalling 5.1 million, went to Italy.

* * *

In *other member countries of the Community* the Bank granted loans for a total of 194.4 million, corresponding to 41 % of the sums committed by the Bank in 1971. Of this amount, 101.9 million were for infrastructure projects and 92.5 million for industrial projects. Loans granted by the Bank in these countries were intended for the major part for the development of regions that are economically backward or are faced with structural difficulties, as well as for the implementation of projects of common interest for several member countries.

In *Germany*, although the number of contracts signed fell from 8 in 1970 to 6 in 1971, the total credit amount, on the other hand, increased by 15.8 million, or 34 %, rising from 46.1 million in 1970 to 61.9 million in 1971. About half this sum – 32.3 million – was for the financing of three major *infrastructure projects* :

- the electrification of the Koblenz-Völklingen railway line and its branch lines to Luxembourg and France will contribute to the development of the intra-Community communications network by improving passenger and goods traffic on these major railway lines;
- the construction of ethylene pipelines for the supply of various petrochemical plants in Germany, the Netherlands and Belgium is a project promoting the industrial co-operation among enterprises of several member countries. The establishment of an interconnected European system makes possible a capacity compensation between the different plants served, thus ensuring them of a regular ethylene supply;

- lastly, the intervention in favour of the construction of a new base load power unit in Berlin was prompted by the special situation of this city, and in particular by the fact that it is not linked to the European interconnected electricity system.

Furthermore, the Bank has participated in Germany in the financing of three *industrial projects*. Two projects, located in the Saar, are designed to aid reconversion of this region particularly affected by the gradual closure of the collieries : the construction of a heavy sheet rolling mill at Dillingen, and of a tyre factory at St. Ingbert. The third project, located in the Ruhr, meets the same reconversion aim; it concerns the construction, at Essen-Borbeck, of an aluminium plant which also benefited from a loan by the Commission of the European Communities from funds of the European Coal and Steel Community.

Under the overall loan granted in 1970 to the Industriekreditbank for the financing of small and medium-scale industrial projects, the Bank authorized 12 appropriations in 1971, totalling 6.9 million.

* * *

Total loans granted for projects located in *France* doubled by comparison with the previous year : 124.5 million for 12 loan contracts, against 61.4 million, for 10 contracts, in 1970.

Of this total, 69.6 million, or 56%, were for the financing of five *infrastructure* projects :

- Three loans, totalling 41 million, were for the benefit of projects concerning the reinforcement and modernization of the telecommunications networks in Brittany, the Loire region and the Limoges area. These interventions meet the requirements of regional development by making it possible, by the installation of modern communication media, to reduce the isolation of the regions concerned;
- The other two interventions concern projects of common interest to several member countries. The construction, at Revin, of a power transfer pumping station will contribute to meeting the peak load requirements of several countries and will supplement the Franco-Belgian nuclear power station project at Tihange, financed by the Bank in 1970. The loan for the construction of the Combles-Hordain section of the Paris-Brussels motorway is the third intervention of the Bank in favour of this major intra-Community arterial road with extensions towards the Ruhr and the Netherlands.

Among the seven loans (including one overall loan) granted by the Bank in the *industrial sector*, two deserve special attention : first, the construction at Fos (Provence - Côte d'Azur region) of the first section of a steel plant, which forms part of a vast development pole created, on the initiative of the French government, on the Mediterranean coast of France; and second, the construction of the Airbus A 300 B, a short and medium-haul aircraft, is being carried out in close collaboration among different European companies which have united their efforts to gain a foothold on the market for aircraft with a large payload. In 1971, the Bank also granted an overall loan of 2 million to the Société de Développement Régional de l'Ouest – SODERO – in favour of small and medium-scale industrial projects in the Loire region.

In respect of this new overall loan operation and that concluded last year, 19 appropriations were made in the course of the financial year, totalling 4.3 million.

* * *

In the *Netherlands*, the Bank granted a loan of 8 million for the extension of a chemical plant which had already benefited from a first intervention in 1969; the Bank has thus contributed to the consolidation of the principal regional development pole in the province of Groningen.

Loans in the associated countries

Associated African States and Madagascar and Overseas Countries and Territories

In 1971, the Associated African States and Madagascar (A.A.S.M.) could not escape from the adverse influences of the international economic situation. The aggravation of the international monetary crisis was a source of additional uncertainty and apprehension for the developing countries.

The fall in commodity prices, which had started in 1970, was accentuated in 1971, as regards non-ferrous metals, particularly copper, and tropical commodities, especially cocoa. Exceptions to this trend were cotton, for which prices remained high, and sugar, where production was insufficient and prices were pushed up to reach their peak level of the past eight years.

Local factors and climatic hazards affected each of the 18 A.A.S.M. differently. On the whole, the slight growth slowdown noted in 1970 seems to have been accentuated in 1971, including now also the Ivory Coast, Cameroon and Zaïre.

The foreign trade statistics, at present available only for trade with the E.E.C., show clearly a further slowdown in the growth of imports and, for the first time after several years, a notable decrease of exports with, consequently, a marked fall in the foreign trade surplus.

The expansion of the monetary volume continued in general at a firm pace. In Zaïre, it originated mainly from a very steep increase of claims on the State and, secondarily, in credits to the economy, offset in part by the decrease in net external assets. Elsewhere, it was most frequently the consequence of further increases in credit to the economy and the increase of net external assets, whereas the public treasuries remained net creditors of the banking systems, except in Mali, Rwanda, Burundi and Somalia. The upward movement of prices accelerated in general, without however exceeding notably that which prevailed in the majority of the industrial countries.

The tendency towards a curtailment of budgetary savings and, in certain cases, the appearance of a current deficit, was accentuated in several countries by the consequences of price decreases for major export products, whereas the expansion of current expenditure and in particular staff expenditure remained difficult to curb.

On the whole, the difficulties resulting from a less favourable economic situation were however fairly well borne, thanks notably to the very substantial net flow of public aid. By way of illustration, the latter were estimated at about 644 million units of account for 1970, or an average of about 8.5 units of account per inhabitant. About four fifths of this flow originates in the E.E.C., either in the form of bilateral aid (58%), or as Community aid (21%). This aid is in general granted under favourable conditions : calculated on the average for the years 1968 to 1970, the gift element is comprised between 52% and 67% for the Congo, the Ivory Coast and Mauritania, between 76% and 87% for Gabon, Cameroon, Senegal and Zaïre, and over 90% for the other eleven countries. Nevertheless, the external indebtedness of the A.A.S.M. is growing rapidly; at the end of 1969, it was estimated at nearly 2,000 million units of account. Although, in 1969, the debt service still absorbed, for ten of these countries, less than 5% of receipts from exports of goods and services, this ratio was between 5 and 10% for six others, and already exceeded 20% for the two most heavily indebted countries.

* * *

The second Association Convention between the Community and the Associated African States and Madagascar, signed at Yaoundé on 29th July, 1969, and which has already been commented on in detail in the annual reports for 1969 and 1970, entered into force.

Ordinary loans

Under the provisions of the new Yaoundé Convention, 4 loan contracts totalling 22.5 million were signed in 1971 for projects located in the Associated African States :

(million u.a.)

Federal Republic of Cameroon :

- Extension of the Edéa hydro-electric power development.
Promoter : *Énergie Électrique du Cameroun (ENELCAM)* 3.5

Republic of Senegal :

- Construction of a first class category hotel.
Promoter : *Société Propriétaire de l'Hôtel de l'Union (SPHU)* 1.4

Republic of Zaïre :

- Extension of mining and industrial installations in the province of Shaba for increasing the copper and cobalt production capacity.
Promoter : *Générale des Carrières et des Mines du Zaïre (GECAMINES)* 16.0
- Loan to the Société Financière de Développement (SOFIDE) for financing the extension of a synthetic textiles-plant at Kinshasa. 1.6

The project financed in the *Republic of Cameroon* will contribute to the development of the production of hydro-electricity. The company ENELCAM had already benefited from a loan by the Bank in 1967. The new project provides for raising the Mbakaou flood control dam and the construction of the Bamendjin storage dam, as well as the installation of three additional units in the EDEA III plant, which will bring the total capacity of the EDEA hydro-electric complex to 263 MW. The execution of this project meets the increased electrical energy requirements of the "Électricité du Cameroun" company, which is responsible for supplying the main centres including Douala, Yaoundé and Edéa.

The financing of a hotel in the *Republic of Senegal* represents the Bank's first operation in the field of tourism in Africa. The hotel, to be named "Teranga", will be located in the center of Dakar and have 264 rooms. It will alleviate the present shortage of hotel accommodation in the capital of Senegal and will form a pivot for the organization of tourist circuits covering the whole country. A 3% interest subsidy has been granted for this loan from the resources of the European Development Fund.

The two projects financed in the *Republic of Zaïre* are of very great importance for the country's development. The mining project should make it possible to increase by about 25% the production capacity of the principal Zaïre enterprise which already provides the country with two thirds of its export receipts and about half of its budgetary resources. Its execution will make possible the creation of 4,700 new jobs and its effects will also be very considerable in terms of value-added, tax receipts and net foreign exchange earnings. The second loan is intended for financing, through the intermediary of SOFIDE, the extension of a synthetic textiles factory at Kinshasa, which too will have considerable effects on employment, value-added and the balance of payments. This is the Bank's first indirect loan operation in the A.A.S.M.; as indirect loan operation it benefits of a 2% interest subsidy from the resources of the European Development Fund.

Special operations

In 1971, one loan operation under special conditions was effected from the resources of the European Development Fund, using remaining funds from the first period of association. The loan, for an equivalent of 673,000 units of account, was approved by the Commission of the European Communities after a favourable opinion from the Bank. The latter received and accepted the mandate for management of this loan, and signed the financing contract jointly with the Commission.

The project, executed by the French overseas *Département de la Réunion*, consists in the construction of fixed installations for the irrigation by spraying of an area of 895 hectares, in the agricultural perimeter of the "Bras de la Plaine". These installations supplement those which had been constructed by means of two subsidies granted in 1961 and 1966 from the resources of the European Development Fund. They will make it possible to extend the area under cultivation and to diversify agricultural production. Furthermore the hydraulic installations of the perimeter will supply water to the neighbouring and rural centres and will also provide extra electric power.

* * *

At the end of 1971, the Bank had not yet signed contracts for loans under special conditions from the resources of the European Development Fund in respect of the second Yaoundé Convention. During the financial year, it nevertheless participated, jointly with the departments of the Commission of the European Communities, in the study of several projects in Africa. Four operations, totalling 7.1 million, were approved before the end of the financial year by the Commission, after a favourable opinion by the Bank. The financing contracts are to be signed in the course of 1972.

Turkey

For Turkey, 1971 was a difficult year, marked by a slower progress towards the achievement of the objectives pursued via the devaluation of the Turkish pound and the implementation of an economic stabilization programme in the autumn of 1970. The disequilibrium between monetary demand and real supply persisted and increases of prices and costs were accelerated considerably. Nevertheless, the national product in real terms increased by 9%, notably because of an exceptional harvest.

The expansion of gross fixed capital formation slowed down markedly, owing to a decrease of investments in the public sector, while consumption rose notably, under the effect, inter alia, of salary increases for civil servants, and higher agricultural incomes, sustained by large-scale purchases by the State, at higher guaranteed prices.

The marked expansion of public expenditure resulted in a larger budget deficit during 1971, forcing the government to have again recourse to short-term credits from the Central Bank.

All these factors provoked an acceleration of the upward movement of prices : in December 1971 the general index of wholesale prices and the cost of living index in Ankara and Istanbul were about 23% higher than one year earlier.

The devaluation in August 1970 had made it possible to eliminate the waiting period for the supply of foreign exchange to importers, to liberalize imports again and to increase exports. But as imports increased faster than exports, the deficit on the trade balance again became larger. However, increased remittance by Turkish workers employed abroad made it possible to reduce the deficit on the balance of current payments. The redemptions of external debts amounted to slightly less than

in the previous year. Thanks to the important inflow of foreign capital – due in part to support credits granted as part of the international action which followed the devaluation of the Turkish pound – the overall balance showed a surplus, so that the gold and exchange reserves of the Central Bank have increased.

As in previous years, the major part of the financial aid to Turkey was supplied by the member countries of the O.E.C.D. Aid to Turkey Consortium, as well as by multilateral financing institutions.

* * *

The second financial protocol between the European Economic Community and Turkey, signed on 23rd November, 1970 ⁽¹⁾, did not come into force in 1971, as the ratification procedures were still pending.

In 1971, the Bank's activity in Turkey was therefore, as in 1970, essentially limited to the implementation of loans granted on mandate of the member countries under the first financial protocol, the amount of which (175 million) has now been entirely utilized as a result of the signature in May 1971 of the contract for an additional loan of 10 million for the construction of the Keban dam.

The Bank has however continued to examine projects suitable for financing under the second financial protocol, in order to ensure that financial aid can be provided as soon as possible after the protocol enters into force.

It was also in 1971 that the re-employment-of-funds operations began. It should be recalled that the Turkish Government grants, on the very long-term loans which it receives from the Bank, credits of much shorter duration for financing industrial projects. Thus, sums repaid in local currency by the enterprises, repayment of which is not yet due by the Turkish Government, are available to the Turkish Government for granting, with the Bank's agreement, new loans in favour of industrial projects : this is the object of the re-employment operations. The first operation of this type was an overall loan of 45 million Turkish pounds (equivalent to 3 million units of account) to the Türkiye Sinaî Kalkınma Bankası - T.S.K.B. (Turkish Industrial Development Bank) for the financing, in 1971-1972, of industrial projects in the private sector.

(1) See E.I.B. Annual Report for 1970, page 25.

CONTRACTS SIGNED FROM 1958 TO 1971

Since its creation until the end of 1971, the Bank has signed a total of 369 contracts, for an overall amount of 2,315.5 million units of account. These contracts relate to :

- 309 ordinary loans, totalling 1,999.8 million;
- 8 guarantees for loans on mandate and for the account of third parties, totalling 92.9 million;
- 52 loans on special conditions ⁽¹⁾, totalling 222.8 million.

The total cost in fixed investments of the projects to which the Bank has thus lent its support amounts to approximately 11 milliards ⁽²⁾; which means that the Bank's average participation is about 21 %.

The graph p. 44, the map p. 46 and Tables 8 to 15 show the breakdown of loans and guarantees signed since the Bank's creation, by type of financing, by country, by region, by sector as well as by objective pursuant to Article 130 of the Treaty of Rome.

Most of the Bank's activity during the period 1958-1971 was concentrated in member countries. *Projects located in the Community* obtained 1,949.8 million (ordinary loans 1,856.9 million; guarantees 92.9 million), or approximately 84% of the total sums provided by the Bank during the period considered. Italy received over 60% of this amount – 1,196.3 million – in accordance with the specific task assigned to the Bank in the field of regional development and taking account of the economic backwardness of Southern Italy. Then come France, with 22%, Germany, with 11% and the Benelux countries, with 5%.

Of the total of the Bank's operations in member countries, 56.9 million, or 2.9%, took the form of *overall loans*, to be allocated, through the intermediary of financial institutions, to small and medium-scale industrial projects. On 31st December, 1971, 77 appropriations had thus been effected, for a total of approximately 30 million units of account, in Italy, France and Germany. Details of these operations will be found in Tables 11 and 12.

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

(2) This is the total of investments for civil engineering works and installations of all projects to which the Bank lent its aid, as obtained from the data which served as basis for the financing plans of the promoters on the date of approval of the Bank's intervention by the Board of Directors.

As regards the *economic objectives*, pursuant to Article 130 of the Treaty of Rome, it emerges from Tables 14 and 15 that, for the project financed, about three quarters of the total sums committed by the Bank in the Community were granted for regional development or reconversion. Next in importance are projects of common interest to several member countries, mainly concerning the improvement of European infrastructures, but also including industrial co-operation or research and development projects. Projects aimed at modernization or conversion of enterprises still account for only a small share of the Bank's activity.

Associated countries received approximately 16% of the funds provided by or through the Bank during the period 1958-1971. This share would doubtless have been higher if the Bank's activity in these countries had not been considerably curbed during the past two years by the lengthy negotiations and ratification procedures for the second Yaoundé Convention and the second Financial Protocol for Turkey. During the period considered, the associated countries received 89 loans, for an overall amount of 365.7 million units of account (ordinary loans : 142.9 million; loans on special conditions ⁽¹⁾ : 222.8 million). Turkey received 175 million (48%), the A.A.S.M.-O.C.T. 121.5 million (33%) and Greece 69.2 million (19%). Among these financing operations are two overall loans to Turkey, for an amount of 3.77 million, allocated in full on 31st December, 1971 (Table 13).

* * *

The distribution of projects financed by *economic sector* shows that about 56% of the total amount of funds committed by the Bank were for infrastructure projects. Among the latter, transport infrastructure leads with 28%, followed by energy (12%), telecommunications (8%) and agricultural development (6%) (Table 9).

Industry and services obtained together some 41% of the total financing, with a notable predominance of projects in the chemical (12%) and iron and steel (9.6%) industries.

Appropriations made from overall loans granted in the Community (Table 12) were concentrated on metal working and engineering (25%), manufacture of rubber and plastics (15%) and the food industry (11%).

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

Table 8 — LOANS AND GUARANTEES BY THE BANK
(contracts signed 1958-1971) ⁽¹⁾

Breakdown by type of financing and by country

Country	Number of projects		Amount (million u.a.)	% of total
I. ORDINARY OPERATIONS				
Member countries :				
Germany	34		223.2	9.6
France	49		425.6	18.4
Italy	184		1,196.3	51.7
Netherlands	5		42.9	1.8
Belgium	5		52.8	2.3
Luxembourg	3		9.0	0.4
Total				
of which, guarantees ⁽²⁾	280		1,949.8	84.2
	8		92.9	4.0
Associated countries :				
Greece	15		69.2	3.0
A.A.S.M. and O.C.T.	22		73.7	3.2
— Cameroon	7		14.8	
— Congo-Brazzaville	1		9.0	
— Ivory Coast	4		11.6	
— Gabon	3		3.2	
— Upper Volta	1		0.5	
— Mauritania	1		11.0	
— Senegal	2		3.9	
— Zaïre	2		17.6	
— New Caledonia	1		2.0	
Total				
	37		142.9	6.2
Total of ordinary operations				
	317		2,092.7	90.4
II. SPECIAL OPERATIONS				
Turkey	36		175.0	7.5
A.A.S.M. and O.C.T. ⁽³⁾	16		47.8	2.1
— Cameroon	4		14.5	
— Ivory Coast	4		12.4	
— Gabon	1		2.5	
— Madagascar	1		1.9	
— Mauritania	1		2.7	
— Chad	1		1.2	
— Zaïre	1		9.0	
— New Caledonia	1		1.0	
— Surinam	1		1.9	
— Réunion (Overseas Department)	1		0.7	
Total				
	52		222.8	9.6
Grand total				
	369		2,315.5	100.0

(1) Including overall loans.

(2) Of which, Italy : 90.2 million units of account; France : 2.7 million units of account.

(3) Loans on special conditions from the resources of the European Development Fund having formed the subject 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.

BREAKDOWN OF LOANS AND GUARANTEES BY SECTOR
(contracts signed 1958-1971)

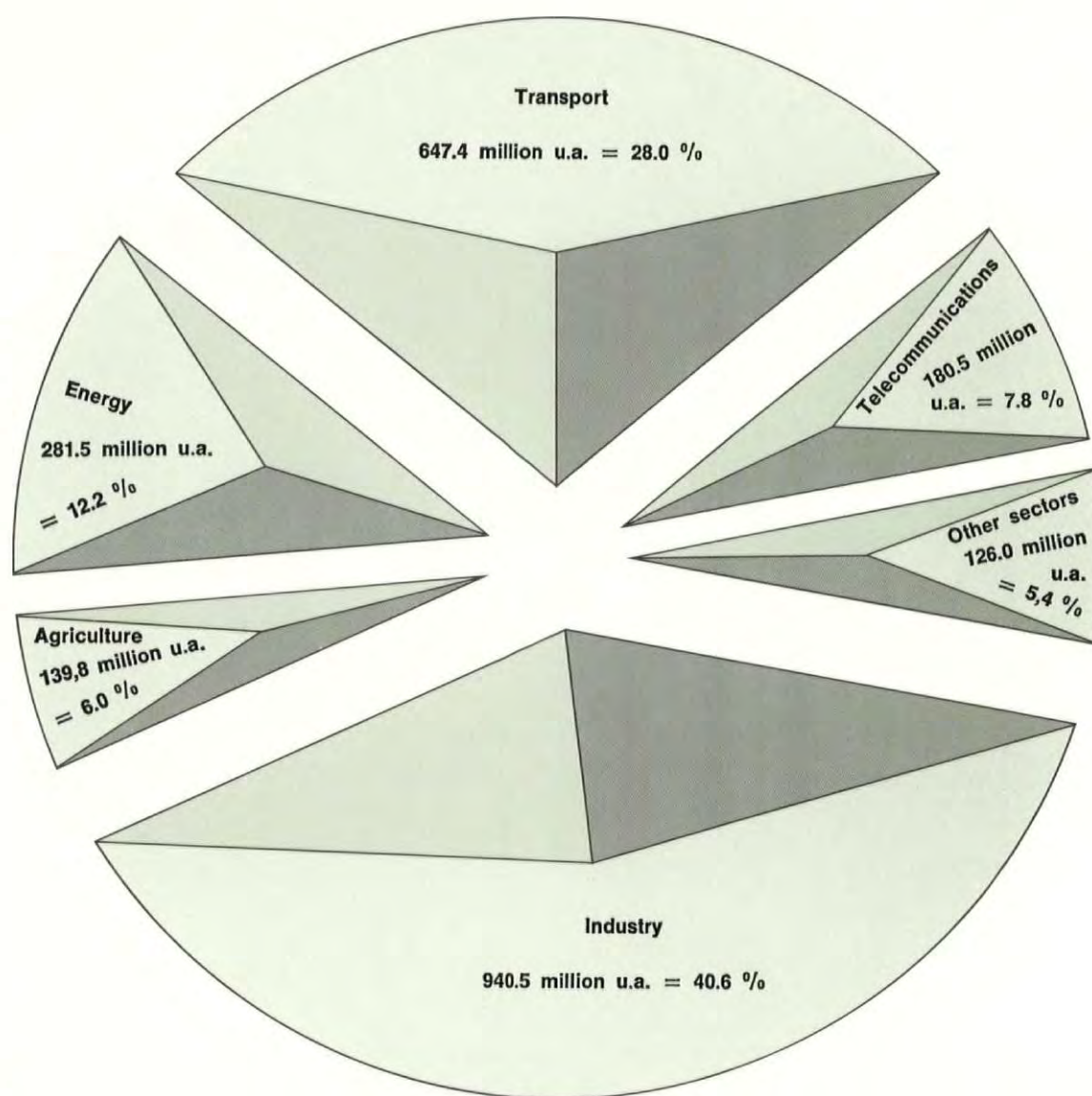


Table 9 — LOANS AND GUARANTEES BY THE BANK
(contracts signed 1958-1971) ⁽¹⁾

Breakdown by sectors

Sectors	Number of projects	Amount (million u.a.)	% of total
I. INFRASTRUCTURE WORKS	110	1,303.3	56.3
Agricultural development	12	139.8	6.0
Energy (electricity production and transmission)	30	281.3	12.2
Water supply and distribution	2	28.0	1.2
Transport	52	647.4	28.0
— Railways	11	151.1	6.5
— Roads and bridges	29	394.6	17.0
— Waterways	1	24.0	1.0
— Port installations	4	6.7	0.3
— Gas pipelines	7	71.0	3.1
Telecommunications	11	180.5	7.8
Tourism infrastructure	1	10.0	0.4
Other	2	16.3	0.7
II. INDUSTRY, TRADE AND SERVICES	249	951.5	41.1
Industry	246	940.5	40.6
— Extractive industries	5	36.6	1.6
— Iron and steel, basic metal processing	26	220.8	9.6
— Construction materials	20	42.3	1.8
— Wood industry	3	5.4	0.2
— Glass and ceramics	10	16.4	0.7
— Chemical industry	64	283.0	12.2
— Metal working and engineering	24	79.1	3.4
— Motor vehicles, transport equipment	7	61.1	2.7
— Electrical engineering, electronics	10	27.4	1.2
— Food products	34	65.0	2.8
— Textiles and leather	24	25.0	1.1
— Paperpulp and paper	8	42.1	1.8
— Manufacture of rubber and plastics	8	33.3	1.4
— Other industries	3	3.0	0.1
Trade and services	3	11.0	0.5
— Tourism	2	8.3	0.4
— Research and development	1	2.7	0.1
Overall loans	10	60.7	2.6
Grand total	369	2,315.5	100.0

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

GEOGRAPHICAL DISTRIBUTION OF PROJECTS IN MEMBER COUNTRIES,
FINANCED BY THE BANK

1958-1971

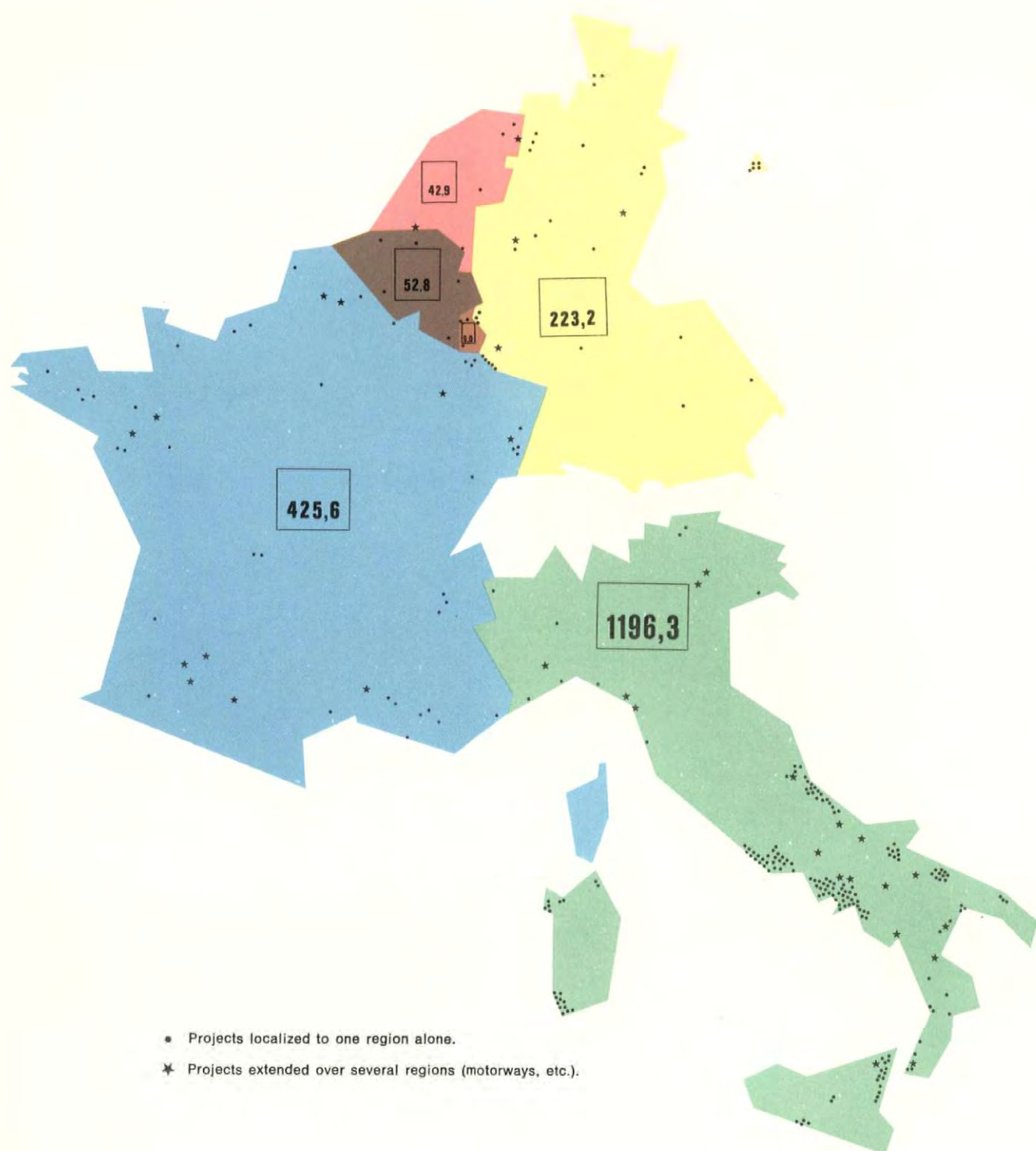


Table 10 — LOANS AND GUARANTEES BY THE BANK IN THE COMMUNITY
(contracts signed 1958-1971)

Breakdown by regions ⁽¹⁾

Regions	Number of projects	Amount in million u.a.	% of country	% of total
GERMANY (Länder)				
Schleswig-Holstein	3	10.0	4.5	0.5
Lower Saxony	6	27.2	12.2	1.4
North Rhine-Westphalia	3	27.9	12.5	1.5
Hessen	1	0.9	0.4	—
Rhineland-Palatinate	3	15.7	7.0	0.8
Baden-Württemberg	1	6.2	2.8	0.3
Bavaria	3	26.9	12.0	1.3
Saar	5	26.3	11.8	1.4
Berlin (West)	5	20.3	9.1	1.0
Multi-regional projects :				
Lower Saxony/Hessen	1	25.0	11.2	1.3
Rhineland-Palatinate/Saar	1	21.9	9.8	1.1
Overall loan Industriekreditbank	1	10.0	4.5	0.5
Germany/Netherlands	1	4.9	2.2	0.3
<i>Total Germany</i>	<i>34</i>	<i>223.2</i>	<i>100.0</i>	<i>11.4</i>
FRANCE (Regions)				
North	2	7.2	1.7	0.4
Paris region	1	15.3	3.6	0.8
Upper Normandy	2	8.1	1.9	0.4
Lower Normandy	1	8.1	1.9	0.4
Brittany	5	23.6	5.5	1.2
Loire region	3	15.0	3.5	0.7
Limoges region	2	16.3	3.8	0.8
Aquitaine	2	7.1	1.7	0.4
Champagne-Ardenne	1	16.0	3.8	0.8
Lorraine	3	21.3	5.0	1.1
Alsace	4	30.1	7.1	1.5
Franche-Comté	1	3.6	0.8	0.2
Rhône-Alps	3	9.6	2.3	0.5
Languedoc-Roussillon	1	9.5	2.2	0.5
Provence-Côte d'Azur	7	106.5	25.0	5.5
Multi-regional projects :				
North/Picardy	2	15.3	3.6	0.8
North/Paris region/Lorraine	1	16.2	3.8	0.8
Brittany/Loire region	2	34.4	8.1	1.8
Brittany/Alsace	1	9.9	2.3	0.5
South-Pyrenees/Loire region	1	14.4	3.4	0.7
Aquitaine/South-Pyrenees	3	29.1	6.8	1.5
Provence-Côte d'Azur/Languedoc-Roussillon	1	9.0	2.1	0.5
<i>Total France</i>	<i>49</i>	<i>425.6</i>	<i>100.0</i>	<i>21.8</i>

(1) All projects financed by the Bank, including projects of common interest to several member countries and projects for the modernization and conversion of enterprises, are classified in this table according to their place of establishment.

<i>Regions</i>	<i>Number of projects</i>	<i>Amount in million u.a.</i>	<i>% of country</i>	<i>% of total</i>
ITALY (Regions)				
<i>1. Northern and Central Italy :</i>				
Piedmont	1	4.0	0.3	0.2
Valle d'Aosta	1	24.0	2.0	1.2
Liguria	3	44.7	3.7	2.3
Trentino-Alto Adige	2	29.0	2.4	1.5
Friuli-Venezia Giulia	1	10.0	0.8	0.5
Tuscany	1	4.8	0.4	0.3
<i>Multi-regional projects :</i>				
Piedmont/Liguria	1	21.0	1.8	1.1
Liguria/Tuscany	2	31.8	2.7	1.6
Veneto/Trentino-Alto Adige	2	41.4	3.5	2.1
<i>Total Northern Italy</i>	<i>14</i>	<i>210.7</i>	<i>17.6</i>	<i>10.8</i>
<i>2. Southern Italy (Mainland and Islands)</i>				
Marche	4	9.8	0.8	0.5
Lazio	21	50.8	4.2	2.6
Campania	40	161.0	13.5	8.3
Abruzzi	17	42.3	3.5	2.2
Puglia	24	171.2	14.3	8.8
Basilicata	2	10.6	0.9	0.6
Calabria	9	64.2	5.4	3.3
Sicily	20	121.2	10.1	6.2
Sardinia	19	131.5	11.0	6.7
<i>Multi-regional projects :</i>				
Campania/Calabria	1	20.0	1.7	1.0
Campania/Basilicata	1	20.0	1.7	1.0
Marche/Abruzzi	1	16.4	1.4	0.8
Abruzzi/Campania	1	4.8	0.4	0.3
Abruzzi/Molise	1	16.4	1.4	0.8
Abruzzi/Calabria	1	5.0	0.4	0.3
Puglia/Basilicata	2	48.0	4.0	2.5
Puglia/Molise	1	25.0	2.1	1.3
Puglia/Calabria	1	6.4	0.5	0.3
Calabria/Sicily	2	36.0	3.0	1.8
Mainland Southern Italy (overall loans)	2	25.0	2.1	1.3
<i>Total Southern Italy</i>	<i>170</i>	<i>985.6</i>	<i>82.4</i>	<i>50.6</i>
<i>Total Italy</i>	<i>184</i>	<i>1,196.3</i>	<i>100.0</i>	<i>61.4</i>
NETHERLANDS (Provinces)				
Groningen	2	18.0	42.0	0.9
Gelderland	1	2.8	6.5	0.1
Limburg	1	8.3	19.3	0.4
<i>Multi-regional project :</i>				
North Brabant/Overijssel/Limburg	1	13.8	32.2	0.7
<i>Total Netherlands</i>	<i>5</i>	<i>42.9</i>	<i>100.0</i>	<i>2.2</i>

<i>Regions</i>	<i>Number of projects</i>	<i>Amount in million u.a.</i>	<i>% of country</i>	<i>% of total</i>
BELGIUM (Provinces)				
Antwerp	1	10.0	18.9	0.5
Limburg	1	6.0	11.4	0.3
Hainaut	1	16.0	30.3	0.8
Liège	1	16.0	30.3	0.8
Luxembourg	1	4.8	9.1	0.2
<i>Total Belgium</i>	<i>5</i>	<i>52.8</i>	<i>100.0</i>	<i>2.7</i>
LUXEMBOURG	3	9.0	100.0	0.5
TOTAL MEMBER COUNTRIES	280	1,949.8	—	100.0

Table 11 — OVERALL LOANS IN THE COMMUNITY
1968-1971

<i>Overall loan (contracts signed)</i>		<i>Appropriations 1969-1971</i>		<i>Balance to be appropriated</i>
<i>Intermediate Institutes</i>	<i>Amount (million u.a.)</i>	<i>Number</i>	<i>Million u.a.</i>	<i>Million u.a.</i>
ISVEIMER ⁽¹⁾	10.00	27	10.00	—
C I S ⁽²⁾	3.60	7	3.60	—
IKB ⁽³⁾	10.00	12	6.89	3.11
SADE ⁽⁴⁾	6.30	18	4.05	2.25
IRFIS ⁽⁵⁾	5.00	6	3.24	1.76
C I S II ⁽²⁾	5.00	6	1.90	3.10
SODERO ⁽⁶⁾	1.98	1	0.27	1.71
ISVEIMER II ⁽¹⁾	15.00	—	—	15.00
TOTAL	56.88	77	29.95	26.93

(1) Istituto per lo Sviluppo Economico dell'Italia Meridionale, Naples.

(2) Credito Industriale Sardo, Cagliari.

(3) Industriekreditbank AG, Dusseldorf.

(4) Société Alsacienne de Développement et d'Expansion, Strasbourg.

(5) Istituto Regionale per il Finanziamento alle Industrie in Sicilia, Palermo.

(6) Société de Développement Régional de l'Ouest, Nantes.

Table 12 — OVERALL LOANS IN THE COMMUNITY
Breakdown of appropriations in 1969, 1970 and 1971 by regions and by sectors

Regions / Sectors	Number of investments	Amount of appropriations	
		in million u.a.	% of total amount appropriated
I. REGIONS			
GERMANY	12	6.89	23.0
— Hessen	1	0.82	2.7
— Lower Saxony	2	1.19	4.0
— North Rhine-Westphalia	7	3.62	12.1
— Rhineland-Palatinate	2	1.26	4.2
FRANCE	19	4.32	14.4
— Alsace	18	4.05	13.5
— Loire region	1	0.27	0.9
ITALY	46	18.74	62.6
— Abruzzi	3	1.44	4.8
— Basilicata	1	0.64	2.1
— Calabria	1	0.24	0.8
— Campania	10	3.32	11.1
— Latium	7	2.04	6.8
— Marche	1	0.56	1.9
— Puglia	4	1.76	5.9
— Sardinia	13	5.50	18.4
— Sicily	6	3.24	10.8
Total	77	29.95	100.0
II. SECTORS			
— Extractive industries	7	2.29	7.6
— Iron and steel, basic metal processing	4	2.06	6.9
— Construction materials	5	2.36	7.9
— Wood industry	3	0.54	1.8
— Glass and ceramics	3	1.13	3.8
— Chemical industry	2	0.76	2.5
— Metal working and engineering	19	7.62	25.4
— Motor vehicles, transport equipment	1	0.44	1.5
— Electrical engineering, electronics	2	0.30	1.0
— Food products	9	3.28	11.0
— Textiles and leather	4	1.22	4.1
— Paperpulp and paper	5	2.19	7.3
— Manufacture of rubber and plastics	10	4.52	15.1
— Other industries	3	1.24	4.1
Total	77	29.95	100.0

Table 13 — OVERALL LOANS IN TURKEY ⁽¹⁾
Breakdown of appropriations in 1969 and 1970 by industrial sector

Sectors	Number of investments	Appropriations	
		in million u.a.	in % of total amount
Iron and steel, basic metal processing	1	0.49	13.00
Wood industry	1	0.36	9.55
Chemical industry	4	1.51	40.05
Metal working and engineering	2	0.67	17.77
Electrical engineering, electronics	1	0.30	7.96
Food products	1	0.44	11.67
Total	10	3.77	100.00

(1) Two overall loans totalling 3.77 million were granted by the Bank through the intermediary of the Türkiye Sınai Kalkınma Bankası — T.S.K.B. (Turkish Industrial Development Bank) for the financing of small and medium-scale private industry. The total amount has been appropriated.

Table 14 — LOANS AND GUARANTEES BY THE BANK
(contracts signed 1958-1971)

Breakdown according to dominant objectives ⁽¹⁾

In million units of account

A. ORDINARY OPERATIONS (ordinary loans and guarantees)	2,092.7	
I. Member countries	1,949.8	
1. Regional development (130 a and 130 b)		1,484.1
2. Modernization and conversion of enterprises (creation of new activities and technologies, etc.) (130 b)		46.4
3. Common interest to several member countries (130 c)		399.0
• Industrial co-operation; research and development		69.8
• Infrastructure of European interest		329.2
4. Special directives (West Berlin)		20.3
II. Associated countries	142.9	
B. SPECIAL OPERATIONS (Associated countries)	222.8	
Total Ordinary operations and Special operations	2,315.5	

(1) Breakdown of projects in member countries according to the objectives of economic policy assigned to the Bank by Article 130 of the Treaty of Rome, taking as criterion the dominant objective. For the associated countries, only the overall amounts have been listed, as the financial agreements specify only the general objectives of economic and social development.

Table 15 — LOANS AND GUARANTEES BY THE BANK
(contracts signed 1958-1971)

Breakdown according to all objectives of Article 130 ⁽¹⁾
(in million u.a.)

Country	Number of projects	Loans and guarantees	of which :							
			Regional development			Modernisation and conversion of enterprises (creation of new activities and new technologies, etc.) (130 b)	Common interest to several member countries (130 c)		Special directive (West Berlin)	Associated countries
			Promotion of less-developed regions (130 a)	Conversion (130 b)	Total		Industrial co-operation, research and development	Infrastructure of European interest		
I. ORDINARY OPERATIONS (Ordinary loans and guarantees)										
1. Member countries :										
Germany	34	223.2	128.5	46.0	174.5	21.7	28.3	93.3	20.3	—
France	49	425.6	246.7	103.4	350.1	6.6	57.3	81.0	—	—
Italy	184	1,196.3	1,056.5	4.8	1,061.3	17.6	41.8	208.3	—	—
Netherlands	5	42.9	18.0	22.1	40.1	—	2.8	24.9	—	—
Belgium	5	52.8	4.8	22.0	26.8	16.0	22.0	16.0	—	—
Luxembourg	3	9.0	—	4.0	4.0	—	—	5.0	—	—
Total	280	1,949.8	1,454.5	202.3	1,656.8	61.9	152.2	428.5	20.3	—
2. Associated countries :										
Total	37	142.9	—	—	—	—	—	—	—	142.9
Total ordinary operations	317	2,092.7	1,454.5	202.3	1,656.8	61.9	152.2	428.5	20.3	142.9
II. SPECIAL OPERATIONS ⁽²⁾ (Associated countries)										
Total	52	222.8	—	—	—	—	—	—	—	222.8
Grand total	369	2,315.5	1,454.5	202.3	1,656.8	61.9	152.2	428.5	20.3	365.7

(1) Breakdown of projects in the member countries according to the objectives of economic policy pursuant to Article 130 of the Treaty of Rome fixing the tasks of the Bank. Certain projects correspond to several objectives : in such cases they are listed, with their total amount, under the different categories. The figures indicated for the various categories therefore cannot be grossed up. For the associated countries, only the overall amounts have been listed, as the financial agreements specify only the general objectives of economic and social development.

(2) Including loans under special conditions from resources of the European Development Fund.

RESOURCES

First of all, it should be recalled that the Board of Governors of the European Investment Bank decided, at its meeting on 26th April, 1971, to increase the subscribed capital from 1,000 million to 1,500 million units of account. The member countries will pay up 10 % of the increase decided upon only in 1973 and 1974.

In 1971, the capital available to the Bank, apart from that appropriated to the Special Section, had a twofold origin.

The Bank continued, firstly, to expand its usual resources and principally its borrowings. The aggregate of funds originating from its paid-up capital, borrowings and accrued profits appropriated to reserves and provisions, reached 1,812.7 million units of account on 31st December, 1971, against 1,393.3 millions on 31st December, 1970, an increase of 419.4 million or 30 %. This increase results, to the extent of 398.9 million, from a net increase in borrowings and to the extent of 20.5 million, from accrued profits for the year appropriated to reserves and provisions.

Secondly, the Bank also continued to intervene as already mentioned earlier, through loan operations on mandate, guaranteed by the Bank, and financed by German financial institutions issuing municipal bonds; such operations attained 92.9 million units of account on 31st December, 1971, against 56 million on 31st December, 1970.

Borrowed funds

In order to meet the expansion of its lending activity, the Bank in 1971 had a much more extensive recourse to the financial markets; the amount of its bond issues was 412.9 million units of account, a considerably higher figure than in previous years.

The Bank has used widely the possibilities offered by the national long-term capital markets of the Community countries, obtained access to new markets outside the Community and continued to call on the international capital market.

Table 16 — BORROWINGS BY THE BANK

<i>Financial year</i>	<i>Number</i>	<i>Amount ⁽¹⁾ (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
1969	9	146.0
1970	7	168.9
1971	20	412.9
1961-1971	80	1,494.0 ⁽²⁾

(1) In units of account on the basis of the parities valid at the date of signature of the operation.

(2) The total of the Bank's borrowings in the period 1961-1971 amounts, after adjustment to the official parities on 31st December, 1971, to 1,511.7 million instead of 1,494 million units of account.

Calls on the financial markets of Community countries have more than trebled in volume, from 62.3 million units of account in 1970 to 208.8 million in 1971.

The Bank took advantage of the more relaxed situation of the European financial markets, and in particular of the German market, since the very beginning of 1971, in order to reconstitute its resources in Deutsche Mark by effecting successively two borrowing operations in the Federal Republic of Germany. The first issue took place in January, for a term of 10 years and at a nominal interest rate of 7.75%, at a time when seasonal payments of dividends and interest on savings accounts accentuated the improvement of issuing conditions by an average of one point. This first issue was followed in February, just before the large number of new issues on the market led to a slight deterioration of long-term interest rates, by a public issue, for a term of 15 years, with a nominal rate of 7.50% and an issue price of 98.5%. The Bank subsequently benefited on four occasions from the relaxation of long-term rates which continued to prevail on the Benelux markets under the influence of substantial foreign capital inflows. After having issued publicly bonds at par for a term of

15 years, with a nominal rate of 7.75 % in the Netherlands at the end of February, of which 25 million guilders were reserved for Netherlands residents, two private medium-term placings were made in March, each of 300 million Luxembourg francs, at a nominal rate of approximately 7.9 %. Shortly afterwards, the Bank then launched on the Belgian market a public bond issue of 1,000 million Belgian francs, with a term of 12 years, a nominal rate of 7.75 % and an issue price of 99.5 %.

The tightening of a number of financial markets during the monetary crisis in the spring, led the Bank to limit subsequently its issues, firstly, to a private placing of 300 million Luxembourg francs in May, which benefited from a still low nominal interest rate of 7.75 %, and, secondly, a public bond issue of 20 milliard lire in June, as soon as the Italian authorities considered that the market could accommodate an issue by the European Bank : this operation was effected at the nominal rate of 7 % and an issue price of 96 %.

The Bank's calls on the national markets of Community countries widened again in the last quarter, when the slowdown in investments, the increase in private savings and new inflows of foreign exchange contributed once more to an improvement of the liquidity of these markets. After having launched, for the first time, a public bond issue in Luxembourg, with a term of 15 years and for an amount of 400 million Luxembourg francs, at a nominal rate of 7 % and an issue price of 98 %, the Bank called in October on the German financial market to the extent of 100 million Deutsche Mark at the nominal rate of 7.75 % and at par, and proceeded in November with two private placings, one of 500 million Belgian francs at the nominal rate of 8 % and another of 20 milliard lire at the nominal rate of 7 % : each of these four successive borrowings was made for a term of 15 years.

The total amounts obtained during the year represented the equivalent of 81.9 million units of account in Germany, 64 million in Italy, 30 million in Belgium, 26 million in Luxembourg and 6.9 million in the Netherlands.

Benefiting from the very favourable conditions outside the Community, the Bank furthermore *called on the Swiss capital market*, on which it had previously borrowed only once, in 1961, at the time of its first operations. Thanks to the favourable attitude of the Federal authorities and the co-operation of the Swiss banks, it was able to make a 6-year private placing of 100 million Swiss francs on the Swiss market, at the nominal rate of 7.5 %, and then in September, a first public bond issue of 80 million Swiss francs for 15 years, at nominal rate of 6.5 % and at par, followed in November by another private placing of 40 million Swiss francs for 7 years and

Table 17 — BORROWINGS IN 1971

<i>Date of contract</i>	<i>Month of issue</i>	<i>Place of issue</i>	<i>Sub- scription currency</i>	<i>Amount in national currency (million)</i>	<i>Amount in unit of account (million)</i>	<i>Term of loan</i>	<i>Nominal rate</i>	<i>Type of issue</i>
12. 1.1971	January	Fed. Rep. Germany	DM	100	27.3	10 years	7.75 %	Private placing.
25. 1.1971	January	Luxembourg	US \$	20	20	6 years	variable	Private placing.
27. 1.1971	January	Switzerland	FS	100	22.9	6 years	7.5 %	Private placing.
1. 2.1971	February	Fed. Rep. Germany	DM	100	27.3	15 years	7.5 %	Public placing (underwritten by a syndicate of banks under the management of the Deutsche Bank and the co-management of the Dresdner Bank, Commerzbank and Westdeutsche Landesbank Girozentrale, offered for public subscription at 98.5 %).
26. 2.1971	February	Netherlands	Fl.	75	20.7	15 years	7.75 %	Public placing (underwritten by a banking syndicate composed of the Amsterdam Rotterdam Bank N.V., Algemene Bank Nederland N.V., Bank Mees and Hope, Pierson, Heldring and Pierson, offered for public subscription at 100 %).
10. 3.1971	March	Luxembourg	Flux.	300	6	7 years	7.9 %	Private placing.
18. 3.1971	March	Luxembourg	Flux.	300	6	8 years	7.85 %	Private placing.
30. 3.1971	April	Belgium	FB	1,000	20	12 years	7.75 %	Public placing (underwritten by a banking syndicate composed of the Société Générale de Banque, Banque de Bruxelles, Kredietbank, Banque de Paris et des Pays-Bas Belgique and the Banque Lambert, offered for public subscription at 99.5 %).

Table 17 — BORROWINGS IN 1971 (continued)

<i>Date of contract</i>	<i>Month of issue</i>	<i>Place of issue</i>	<i>Subscription currency</i>	<i>Amount in national currency (million)</i>	<i>Amount in unit of account (million)</i>	<i>Term of loan</i>	<i>Nominal rate</i>	<i>Type of issue</i>
3. 5.1971	May	Luxembourg	US \$ US \$	25 25	25 25	15 years 7 years	8.50 % 7.75 %	Public placings (underwritten by a banking syndicate composed of the Banca Commerciale Italiana, Lazard Frères and Co., Amsterdam Rotterdam Bank N.V., Banque de Paris et des Pays-Bas, Deutsche Bank, Société Générale de Banque, Union Bank of Switzerland (Underwriters) Limited and the Banque Internationale à Luxembourg, offered for public subscription at 100 %).
11. 5.1971	May	Luxembourg	Flux.	300	6	10 years	7.75 %	Private placing.
4. 6.1971	June	Italy	Lit.	20,000	32	15 years	7 %	Public placing (underwritten by a syndicate of Italian banks headed by the Mediobanca, Milan, offered for public subscription at 96 %).
28. 6.1971	June	Luxembourg	US \$	50	50	5 years	variable	Private placing.
14. 9.1971	September	Switzerland	FS	80	19.6	15 years	6.5 %	Public placing (underwritten by a banking syndicate composed of the Société de Banque Suisse, Crédit Suisse and Union de Banques Suisses offered for public subscription at 100 %).
23. 9.1971	September	Luxembourg	Flux.	400	8	15 years	7 %	Public placing (underwritten by a banking syndicate headed by the Kredietbank, Luxembourg, offered for public subscription at 98 %).
30. 9.1971	October	Fed. Rep. Germany	DM	100	27.3	15 years	7.75 %	Public placing. (underwritten by a syndicate of banks under the management of Deutsche Bank, Dresdner Bank, Commerzbank, Westdeutsche Landesbank Girozentrale, offered for public subscription at 100 %).
22.10.1971	October	Belgium	FB	500	10	15 years	8 %	Private placing.
11.11.1971	November	Switzerland	FS	40	9.8	7 years	7 %	Private placing.
15.11.1971	November	Italy	Lit.	20,000	32	15 years	7 %	Private placing.
6.12.1971	December	Luxembourg	FF	100	18	10 years	7.75 %	Private placing.

at a nominal rate of 7%. Thus the Bank collected an equivalent of approximately 52 million units of account in Switzerland.

Lastly, the *international market* remained an important source of funds for the Bank. Borrowings on this market reached the equivalent of 151.8 million units of account, as against 106.6 million in 1970. Types of borrowing, however, were more diversified than in previous years.

As rates of yield remained high for classic long-term dollar bonds, the Bank floated only one issue of this nature. This issue, with a term of 15 years and for an amount of 25 million dollars, was made early in May, at the nominal rate of 8.50% and at par, just before the beginning of the monetary crisis which gave rise to new tensions. Three further dollar borrowings were arranged by the Bank, on the other hand, for medium-term periods of five to seven years, awaiting a reduction of interest rates; one was made jointly with the 15-year operation described above; the other two were effected at variable rates.

The Bank also called on other sectors of the international market, whenever they seemed to offer suitable conditions. Thus, part of the bond issue floated in the Netherlands in February, already mentioned above, was offered to non-residents, to the extent of 50 million guilders, at the nominal rate of 7.75% and at par. As the market again showed keen interest for this type of operation, a bond issue denominated in Euro-francs was placed, early in December, in Luxembourg for an amount of 100 million French francs for a term of 10 years, at the nominal rate of 7.75% at par.

Table 17 gives details of the borrowings effected in the course of the financial year. As a result of these issues, the overall amount of borrowings rose from 1,097.2 million units of account at 31st December, 1970 to 1,511.7 million at 31st December, 1971. After deducting repayments, the outstanding net funded debt reached 1,412.9 million units of account at the end of 1971, compared to 1,014 million one year earlier, an increase of 398.9 million units of account.

Capital appropriated to guaranteed loans on mandate

As guarantee operations, the Bank agreed to manage for the account of three German financial institutions an amount of 135 million Deutsche Mark, corresponding to 36.9 million units of account under the heading of loans on mandate granted to borrowers in other member countries.

The institutions having provided funds for the financing of the loans were :

	<i>In million</i>	
	<i>DM</i>	<i>u.a.</i>
– Deutsche Girozentrale - Deutsche Kommunalbank -, Frankfurt	50.0	13.7
– Bayerische Vereinsbank, Munich	25.0	6.8
– Deutsche Centralbodenkredit - AG, Cologne	60.0	16.4
	<hr/> 135.0	<hr/> 36.9

As a result of these operations, the overall amount of capital appropriated to guaranteed loans on mandate increased from 56 million units of account on 31st December, 1970 to 92.9 million on 31st December, 1971, and the number of German institutions having supplied funds for these financing operations rose to six at the end of 1971 : the Frankfurter Hypothekenbank, Frankfurt (18.4 million u.a.), the Rheinische Hypothekenbank, Mannheim (18.4 million u.a.), the Deutsche Girozentrale - Deutsche Kommunalbank -, Frankfurt (30.1 million u.a.), the Bayerische Hypotheken- und Wechsel-Bank, Munich (2.8 million u.a.), the Bayerische Vereinsbank, Munich (6.8 million u.a.) and the Deutsche Centralbodenkredit - AG, Cologne (16.4 million u.a.).

Accrued profits

While it felt the backlash of the general fall in the spot and short-term interest rates on the money markets and was faced with the need to reduce the term of its deposits under the general policy of accelerated disbursements which it applied in the course of the year with a view to limiting the volume of liquidities to be placed, the Bank was still able to increase slightly in 1971 the amount of its accrued profits before amortization of the bond issue charges and the redemption premiums. This amount was 24.7 million units of account in 1971 as against 24.3 million in 1970. After amortization of the issuing charges and the redemption premiums, calculated according to the method adopted this year ⁽¹⁾ and amounting to 4.2 million in 1971,

(1) See comments on Balance Sheet, page 66.

the balance of the profit and loss account available for appropriation to reserves and provisions amounted to 20.5 million in 1971. Of this surplus an amount of 6.4 million units of account was appropriated to the statutory reserve and the remainder to provisions.

On 31st December, 1971, the overall amount of reserves and provisions was thus 149.8 million units of account, including 63.7 million for the statutory reserve.

III

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

The Bank's financial situation at the end of the 1971 financial year appears from the Balance Sheet appended to the present report, the main items of which are analysed below.

Receivable by member States on account of called capital

The amount of 50 million u.a. entered under this heading represents the amount of payments to be made by the member countries (see pages 53 and 67).

Cash and Banks

The total of these assets amounts to 226,601,674 u.a., as against 235,547,330 u.a. on 31st December, 1970.

Investments

The gold assets, included under this heading on 31st December, 1970, were sold in the course of the financial year 1971.

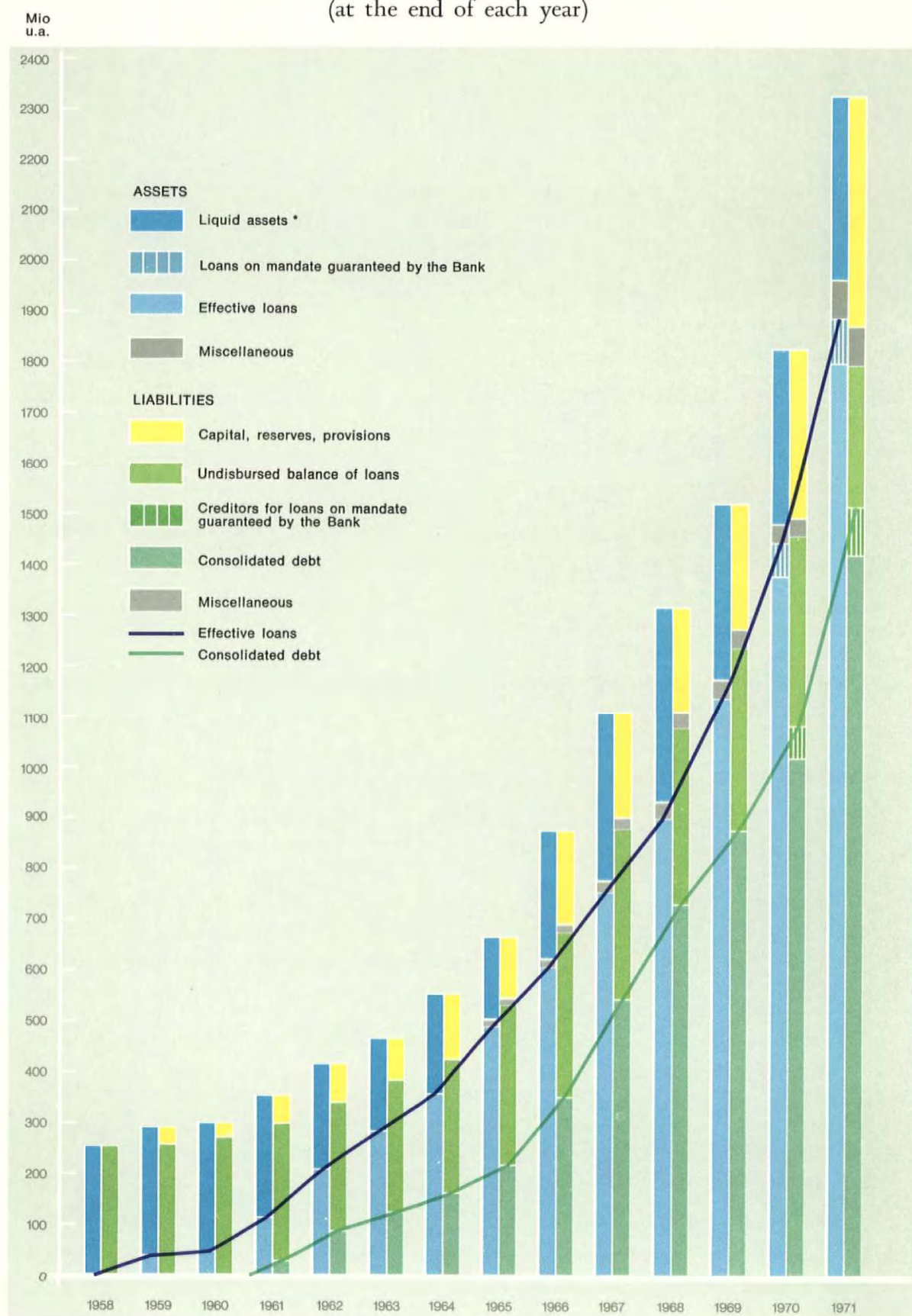
The treasury bonds, bonds and notes, which appear under this heading for an amount of 48,252,733 u.a., have been valued at cost price or at market quotation as at 31st December, 1971, if the latter was below cost price, with a maximum of 100 %. The bank bills, amounting to 4,906,206 u.a., have been listed at their nominal value.

The "Investments" heading further includes, at repurchase price, the Bank's own bonds which have been purchased by it, i.e., 7,842,381 u.a. (nominal value of 8,689,956 u.a.).

The total of the items "Cash and Banks" and "Investments", i.e., 287,602,994 u.a., is broken down, according to currencies, as follows :

— currencies of member countries	u.a.	189,721,774
— U.S. dollars	u.a.	97,294,661
— Swiss francs	u.a.	586,559

THE BALANCE SHEET OF THE BANK (at the end of each year)



* « Cash and Banks », « Investments », « Receivable on bonds to be delivered ».

The breakdown by maturities is :

– at call	u.a.	30,896,506
– not exceeding 3 months	u.a.	121,658,106
– exceeding 3 months but not exceeding 6 months	u.a.	66,751,161
– exceeding 6 months but not exceeding 1 year	u.a.	22,245,007
– exceeding 1 year	u.a.	46,052,214

Receivable on bonds to be delivered

The amount under this heading, i.e., 25,000,000 u.a., represents the proceeds of bonds in U.S. dollars issued in 1971 but not yet paid up at the end of the financial year.

Receivable from member States for adjustment of capital

Under this heading figure the amounts yet to be paid by France as adjustment payments following the devaluation of the French franc in 1969.

Effective loans

– *Ordinary loans*

On 31st December, 1971, the amount of ordinary loans signed was, on the basis of the official parities in force on the date of signature of the contracts, the equivalent of

u.a. 1,999,802,855

minus exchange adjustments on the amounts not yet disbursed at the dates of change of parities

– u.a. 4,029,051

the amounts of credits open was

u.a. 1,995,773,804

After deduction of terminations and cancellations

u.a. 6,047,522

and of capital redemptions

u.a. 201,658,572

– u.a. 207,706,094

u.a. 1,788,067,710

and taking account of the exchange adjustments on the amounts disbursed

+ u.a. 8,593,664

the amount of ordinary effective loans appearing in the balance sheet is

u.a. 1,796,661,374

Of this total, the funds disbursed to the borrowers amounted, at the same date, to 1,516,261,204 u.a.

The claims resulting for the Bank from these disbursements are broken down by currencies as follows :

– currencies of member countries	u.a.	1,046,419,765
– currency of any member country at the Bank's option	u.a.	20,330,828
– other currencies	u.a.	449,510,611

The undisbursed amount, i.e., 280,400,170 u.a., which also includes the portion of the overall loans granted but not yet appropriated, appears as a contra item in the liabilities under the heading “ Undisbursed balance of ordinary loans ”.

Disbursement figures concerning ordinary loans compare as follows :

	on 31st December, 1970	on 31st December, 1971
– amount disbursed	1,058,841,753	1,516,261,204
– amount undisbursed	334,124,719	280,400,170
	<hr/> 1,392,966,472	<hr/> 1,796,661,374

The breakdown of effective ordinary loans by country is as follows :

<i>Country</i>	<i>Amount disbursed</i>	<i>Amount undisbursed</i>	<i>Total</i>
Belgium	44,705,332	6,000,000	50,705,332
Germany	179,057,348	25,983,607	205,040,955
France	346,612,730	38,556,477	385,169,207
Italy	804,013,133	171,180,000	975,193,133
Luxembourg	7,052,332	–	7,052,332
Netherlands	40,796,201	2,071,823	42,868,024
Greece	51,635,381	7,809,702	59,445,083
Cameroon	9,788,190	4,311,585	14,099,775
Congo	8,785,635	–	8,785,635
Ivory Coast	4,864,204	5,813,108	10,677,312
Gabon	740,866	2,330,000	3,070,866
Upper Volta	450,000	–	450,000
Mauritania	11,118,907	–	11,118,907
Senegal	2,157,677	1,440,000	3,597,677
Zaire	2,458,268	14,903,868	17,362,136
New Caledonia	2,025,000	–	2,025,000
	<hr/> 1,516,261,204	<hr/> 280,400,170	<hr/> 1,796,661,374

The breakdown of effective loans according to the principal guarantee covering them is as follows :

– loans granted to member countries or benefiting from their guarantee	u.a.	1,221,507,022
– loans granted to public institutions of member countries or guaranteed by these institutions	u.a.	285,203,359
– loans granted to associated countries or benefiting from their guarantee	u.a.	49,257,766
– loans covered by other usual long term financial securities	u.a.	240,693,227
	u.a.	<u>1,796,661,374</u>

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

– *Loans on mandate guaranteed by the Bank*

Under this heading appear the loans guaranteed by the Bank granted on mandate from and for account of German credit institutions, the contracts for which had been signed by 31st December, 1971.

The overall amount of 92,896,175 u.a. appears as a contra item in the liabilities under the heading “Creditors for loans on mandate guaranteed by the Bank”.

Real estate, furniture and equipment

On the real estate acquisitions effected in 1970, a depreciation of 100,000 u.a. has been made, thus leaving a balance of 200,000 u.a. in the balance sheet.

The furniture and equipment purchased in 1971, amounting to 67,450 u.a. net, have been fully amortized.

Unamortized issuing charges and redemption premiums

The Bank has changed the method of amortization of the issuing charges of loans, in order to avoid excessive variations from one financial year to the next of the surplus available for appropriation to reserves and provisions following from

the application of the former method⁽¹⁾, and to render homogeneous the elements appearing in the profit and loss account in respect of interest and charges on borrowings.

Until the financial year 1970 inclusive, the issuing charges were amortized immediately in full at the end of the year of issue of the loan in respect of which they had been incurred.

The new system adopted from this year onwards, in accordance with the practice followed by several other international development institutions, consists in spreading the amortization of these charges over the whole life period of the borrowing, proportionately to the amount outstanding each year.

Furthermore, at the time when the Bank's balance sheet is to undergo an important change, because of the incorporation of the contributions of the new member countries, it has seemed opportune to re-include in the assets and liabilities of the balance sheet the amount of the immediate amortizations effected prior to 1971.

The asset item "Unamortized issuing charges and redemption premiums" is broken down as follows :

Total amount of issuing charges in respect of financial years prior to 1971, the equivalent of which is shown as a liability contra item under the heading "Write-back of issuing charges previously amortized" :	u.a.	23,127,079
(of which, in respect of the financial year 1970 : u.a. 1,079,218)		
Issuing charges in respect of the financial year 1971 :	u.a.	6,749,110
	u.a.	29,876,189

(1) The table below makes it possible to compare, for the years 1963 to 1971, the amortization of the issuing charges and redemption premiums, as well as the surplus available for appropriation to reserves and provisions, calculated according to the former and the new method of amortization :

(in million u.a.)

	1963	1964	1965	1966	1967	1968	1969	1970	1971
a) <i>Former method</i> :									
— Amortization of issuing charges on borrowings and redemption premiums	1.3	2.0	2.7	5.9	6.1	6.5	5.5	4.3	11.0
— Surplus available for appropriation to reserves and provisions	10.4	10.6	11.0	9.4	10.5	9.7	14.0	20.0	13.7
b) <i>New method</i> :									
— Amortization of issuing charges on borrowings and redemption premiums	0.1	0.2	0.4	0.8	1.6	2.6	3.0	3.4	4.2
— Surplus available for appropriation to reserves and provisions	11.6	12.4	13.3	14.5	15.0	13.6	16.5	20.9	20.5

This amount has been entered on the asset side of the Balance Sheet and merged, under the heading "Unamortized issuing charges and redemption premiums" with the former item "Unamortized redemption premiums", the amount of which was, on 31st December, 1971

u.a.	7,691,473
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The amount of the new item as at 31st December, 1971 is thus

u.a.	37,567,662
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Special deposits for service of loans

This item, which appears as a contra item in the liabilities under the heading "Matured coupons and bonds – not yet paid", represents the amount of coupons and bonds due but not yet presented for payment. It amounts to 11,585,312 u.a.

Capital

Pursuant to the decision by the Board of Governors on 26th April, 1971, the capital of the Bank has been changed as follows :

	on 31st December, 1970	on 31st December, 1971
Subscribed capital	u.a. 1,000,000,000	u.a. 1,500,000,000
Uncalled capital	u.a. 750,000,000	u.a. 1,200,000,000
Called capital	u.a. 250,000,000	u.a. 300,000,000

After entering the necessary amounts in their budgets, the member countries will pay the increase relating to the called capital, i.e., 50,000,000 u.a., in two equal instalments in 1973 and 1974. This amount is shown in the assets under the heading "Receivable from member States on account of called capital".

Statutory reserve

The balance of the profit and loss account to be appropriated to reserves and provisions, after depreciation of the issuing charges and the redemption premiums (cf. p. 74), amounts to 20,515,308 u.a. in 1971, compared to 20,006,126 u.a. in 1970.

After appropriation of 6,411,308 u.a. to the statutory reserve, the balance of the profit and loss account, i.e. 14,104,000 u.a., was appropriated to provisions. The statutory reserve amounts to 63,673,089 u.a., against 57,261,781 u.a. at the end of the previous financial year.

Provisions

The provision for risks on loans and guarantees, which amounted to 56,000,000 u.a. at the end of the previous financial year, has been increased to 64,000,000 u.a.

The title of the provision for "Equalization of interest on borrowings and for issuing charges" has been changed following the implementation of the new system for amortizing issuing charges. Henceforth, this provision, entitled "Provision for equalization of interest", is intended solely to enable a possible equalization of differences between the yield of loans and the cost of borrowings. Its amount, which was 9,000,000 u.a. at the end of the previous financial year, has remained unchanged.

The provision for monetary risks, which amounted to 5,000,000 u.a. at the end of the previous financial year, has also remained unchanged.

The provision for building – intended to make it possible to meet the costs foreseen for the construction of the Bank's new building – which amounted to 2,000,000 u.a. at the end of the previous financial year, has been increased to 4,000,000 u.a.

The overall amount of the provisions thus reaches 82,000,000 u.a., as against 72,000,000 u.a. at the end of the previous financial year.

Special provision

This special provision of 4,104,000 u.a. is intended to enable the Bank to cover the loss on assets in the balance sheet as at 31st December, 1971 which will result in 1972 from the final adoption of new monetary parities calculated on the basis of the gold fineness of the currencies resulting from their central rates in terms of United States dollars, as notified to the International Monetary Fund in December 1971.

Write-back of issuing charges previously amortized

This item amounts to 23,127,079 u.a.

Staff pension fund

The amount entered under this heading is 2,630,863 u.a., as against 2,138,372 u.a. on 31st December, 1970.

Payable to member countries for adjustment of capital

The liabilities entered under this heading, amounting to 1,095,830 u.a., as against 2,274,270 u.a. at the end of the previous financial year, represent the sums yet to be paid to the Federal Republic of Germany and to the Netherlands following the revaluation of the Deutsche Mark and the florin.

Borrowings

The amount of 1,423,330,977 u.a. entered under this heading represents the borrowings contracted by the Bank and effective on 31st December, 1971, as well as the redemption premiums relating thereto.

Details of the outstanding debt are given below :

I. BONDS AND NOTES

	<i>In national currency</i>	<i>In u.a.</i>	<i>Final maturity</i>	<i>Terms and conditions of redemption</i>
<i>Deutsche Mark</i>	<i>(million)</i>			
5 1/2 % bonds 1964	80.0	21,857,924	1974	at final maturity.
6 1/2 % bonds 1967	20.0	5,464,481	1977	at final maturity.
6 1/2 % bonds 1968	100.0	27,322,404	1978	at final maturity.
6 % bonds 1969	120.0	32,786,886	1984	in 10 equal annual instalments 1975-1984.
7 % bonds 1969	100.0	27,322,404	1984	in 10 equal annual instalments 1975-1984.
8 % bonds 1970	100.0	27,322,404	1980	at final maturity.
7 1/2 % bonds 1971	100.0	27,322,404	1986	in 10 equal annual instalments 1977-1986.
7 3/4 % bonds 1971	100.0	27,322,404	1986	in 10 equal annual instalments 1977-1986.
	DM 720.0	196,721,311		
<i>French francs</i>	<i>(million)</i>			
5 % bonds 1963	45.0	8,101,991	1983	1/3 of the nominal amount of each bond at the end of the 10th, 15th and 20th year.
6 1/4 % bonds 1966	160.0	28,807,081	1981	in 4 equal triennial instalments 1972-1981, with increasing redemption premium.
6 1/4 % bonds 1967	166.667	30,007,436	1985	in 5 approximately equal triennial instalments 1973-1985, with increasing redemption premium.
8 1/2 % bonds 1970	108.177	19,476,647	1988	in 17 constant annual instalments * 1972-1988 (R ¹).
7 3/4 % bonds 1971	100.0	18,004,426	1981	in 8 annual instalments of FF 4.0 million 1972-1979 and 2 instalments of FF 34.0 million 1980-1981 (R ²).
	FF 579.844	104,397,581		

* In capital and interest.

(R¹) = 50 % of the bonds for redemption may be purchased at prices not exceeding par.

(R²) = the bonds for redemption may be purchased at prices not exceeding par.

		<i>In national currency</i>	<i>In u.a.</i>	<i>Final maturity</i>	<i>Terms and conditions of redemption</i>
<i>Italian lire</i>		<i>(milliard)</i>			
5%	bonds 1962	15.0	24,000,000	1977	at final maturity.
6%	bonds 1965	13.308	21,292,800	1985	in 14 constant annual instalments * 1972-1985.
6%	bonds 1966	14.0	22,400,000	1986	in 15 constant annual instalments * 1972-1986.
6%	bonds 1966	15.0	24,000,000	1986	in 15 equal annual instalments 1972-1986.
6%	bonds 1967	14.5	23,200,000	1987	in 16 constant annual instalments * 1972-1987.
6%	bonds 1968	15.0	24,000,000	1988	in 17 constant annual instalments * 1972-1988 (R ²).
7%	bonds 1971	20.0	32,000,000	1986	in 12 growing annual instalments 1975-1986, with increasing redemption premium (R ²).
7%	bonds 1971	20.0	32,000,000	1986	in 10 equal annual instalments 1977-1986, with increasing redemption premium.
		Lit. 126.808	202,892,800		
<i>Luxembourg francs</i>		<i>(million)</i>			
7 3/4%	bonds 1971	300.0	6,000,000	1981	in 5 equal annual instalments 1977-1981.
7%	bonds 1971	400.0	8,000,000	1986	in 10 equal annual instalments 1977-1986.
		LuxF 700.0	14,000,000		
<i>Belgian francs</i>		<i>(million)</i>			
6%	bonds 1963	361.6	7,232,000	1987	in 16 constant annual instalments * 1972-1987.
6 1/2%	bonds 1965	363.5	7,270,000	1977	in 6 constant annual instalments * 1972-1977 (R ²).
7%	bonds 1966	500.0	10,000,000	1978	in 6 annual instalments of BF 30.0 million 1972-1977 (R ²) and 1 instalment of BF 320.0 million at final maturity.
7%	bonds 1967	750.0	15,000,000	1982	in 5 annual instalments of BF 22.5 million 1973-1977 (R ²), 4 annual instalments of BF 37.5 million 1978-1981 and 1 instalment of BF 487.5 million at final maturity.
6 3/4%	bonds 1968	750.0	15,000,000	1982	in 8 annual instalments of BF 37.5 million 1974-1981 (R ²) and 1 instalment of BF 450.0 million in 1982.
8 1/2%	bonds 1970	750.0	15,000,000	1982	in 8 annual instalments of BF 30.0 million 1974-1981 (R ²) and 1 instalment of BF 510.0 million in 1982.
7 3/4%	bonds 1971	1,000.0	20,000,000	1983	in 8 annual instalments of BF 40.0 million 1975-1982 (R ²) and 1 instalment of BF 680.0 million in 1983.
8%	bonds 1971	500.0	10,000,000	1986	in 6 annual instalments of BF 40.0 million 1977-1982, 3 annual instalments of BF 60.0 million 1983-1985 and 1 instalment of BF 80.0 million in 1986.
		BF 4,975.1	99,502,000		
<i>Dutch florins</i>		<i>(million)</i>			
4 1/2%	bonds 1961	33.25	9,185,083	1981	in 10 approximately equal annual instalments 1972-1981.
4 3/4%	bonds 1962	30.0	8,287,293	1982	in 10 equal annual instalments 1973-1982.
5 3/4%	bonds 1964	30.0	8,287,293	1984	in 10 equal annual instalments 1975-1984.
5 3/4%	bonds 1965	40.0	11,049,724	1990	in 15 approximately equal annual instalments 1976-1990.
6 3/4%	bonds 1968	40.0	11,049,724	1988	in 10 equal annual instalments 1979-1988.
8 1/4%	bonds 1970 (notes)	60.0	16,574,585	1975	at final maturity.
7 3/4%	bonds 1971	75.0	20,718,232	1986	in 10 approximately equal annual instalments 1977-1986.
		Fl. 308.25	85,151,934		
<i>US dollars</i>		<i>(million)</i>			
5 1/2%	bonds 1964	21.666	21,666,000	1984	in 13 approximately equal annual instalments 1972-1984 (R ³).
6%	bonds 1965	18.666	18,666,000	1985	in 14 approximately equal annual instalments 1972-1985 (R ³).

(R³) = repurchased bonds may be set off against the nominal amount of bonds to be redeemed contractually.

	<i>In national currency</i>	<i>In u.a.</i>	<i>Final maturity</i>	<i>Terms and conditions of redemption</i>
6 1/2% bonds 1966	18.75	18,750,000	1976	in 5 increasing annual instalments 1972-1976 (R ³).
6 1/2% bonds 1966	15.0	15,000,000	1986	in 15 equal annual instalments 1972-1986 (R ³).
6 1/2% bonds 1967	25.0	25,000,000	1982	in 5 annual instalments of \$ 1.25 million 1973-1977 and 5 annual instalments of \$ 3.75 million 1978-1982 (R ³).
6 1/2% bonds 1967	25.0	25,000,000	1987	in 15 approximately equal annual instalments 1973-1987 (R ³).
6% bonds 1967	20.0	20,000,000	1972	at final maturity.
6 1/2% bonds 1967	25.0	25,000,000	1982	in 5 annual instalments of \$ 1.25 million 1973-1977 and 5 annual instalments of \$ 3.75 million 1978-1982 (R ³).
6 3/4% bonds 1968	24.0	24,000,000	1980	in 7 annual instalments of \$ 1.0 million 1972-1978 and 2 annual instalments of \$ 8.5 million 1979-1980 (R ³).
7 1/2% bonds 1969	25.0	25,000,000	1984	in 8 annual instalments of \$ 0.5 million 1972-1979 and 5 annual instalments of \$ 4.2 million 1980-1984 (R ³).
8 3/4% bonds 1970	30.0	30,000,000	1975	at final maturity.
8 3/4% bonds 1971	30.0	30,000,000	1986	in 8 annual instalments of \$ 1.5 million 1974-1981 and 5 annual instalments of \$ 3.6 million 1982-1986 (R ³).
8 1/2% bonds 1971	25.0	25,000,000	1986	in 8 annual instalments of \$ 1.0 million 1974-1981, 3 instalments of \$ 3.0 million 1982-1984 and 2 instalments of \$ 4.0 million 1985-1986 (R ³).
7 3/4% notes 1971	25.0	25,000,000	1978	at final maturity.
Floating rate : bonds 1970	15.0	15,000,000	1975	at final maturity.
bonds 1970	15.0	15,000,000	1976	at final maturity.
bonds 1971	25.0	25,000,000	1976	at final maturity.
notes 1971	25.0	25,000,000	1977	at final maturity.
	\$ 408.082	408,082,000		
<i>Swiss francs</i>	(million)			
7 1/2% notes 1971	100.0	24,485,199	1977	at final maturity.
6 1/2% bonds 1971	80.0	19,588,159	1986	by repurchases below par 1982-1986 up to SwF 16.0 million annually (R ⁴).
7% bonds 1971	40.0	9,794,079	1978	at final maturity.
	SwF 220.0	53,867,437		
Total bonds and notes		1,164,615,063		

II. OTHER MEDIUM AND LONG-TERM BORROWINGS

<i>US dollars</i>	(million)			
Floating rate :				
private loan 1971	20.0	20,000,000	1977	at final maturity.
<i>Deutsche Mark</i>	(million)			
6 1/2% private loan 1968	90.0	24,590,164	1980	in 9 equal annual instalments 1972-1980.
6 1/4% private loan 1968	50.0	13,661,202	1974	at final maturity.
6 1/2% private loan 1968	50.0	13,661,202	1983	in 10 equal annual instalments 1974-1983.
6 3/4% private loan 1968	50.0	13,661,202	1983	in 10 equal annual instalments 1974-1983.
6 1/4% private loan 1968	25.0	6,830,601	1983	in 10 equal annual instalments 1974-1983.
6 1/4% private loan 1968	50.0	13,661,202	1978	at final maturity.
6 1/4% private loan 1968	25.0	6,830,601	1984	in 6 annual instalments of DM 2.0 million 1973-1978, 1 instalment of DM 3.0 million 1979 and 5 instalments of DM 2.0 million 1980-1984.

(R⁴) = unredeemed bonds will be repaid at par in 1986.

		<i>In national currency</i>	<i>In u.a.</i>	<i>Final maturity</i>	<i>Terms and conditions of redemption</i>
6 1/2 %	private loan 1968	100.0	27,322,405	1984	in 10 equal annual instalments 1975-1984.
6 3/4 %	private loan 1969	25.0	6,830,601	1984	in 10 equal annual instalments 1975-1984.
6 3/4 %	private loan 1969	25.0	6,830,601	1984	in 10 equal annual instalments 1975-1984.
6 1/2 %	private loan 1969	30.0	8,196,721	1984	in 10 equal annual instalments 1975-1984.
6 1/2 %	private loan 1969	20.0	5,464,481	1984	in 10 equal annual instalments 1975-1984.
6 1/2 %	private loan 1969	100.0	27,322,405	1981	in 10 equal annual instalments 1972-1981.
7 %	private loan 1969	50.0	13,661,202	1984	in 10 equal annual instalments 1975-1984.
7 3/4 %	private loan 1971	100.0	27,322,405	1981	at final maturity.
	DM 790.0		215,846,995		
<i>Luxembourg francs (million)</i>					
5 %	bank credit 1964	23.5	470,631	1974	in 3 constant annual instalments 1972-1974.
7.9 %	bank credit 1971	300.0	6,000,000	1978	at final maturity.
7.85 %	bank credit 1971	300.0	6,000,000	1979	at final maturity.
	LuxF 623.5		12,470,631		
	Total other medium and long-term borrowings		248,317,626		

III. REDEMPTION PREMIUMS

		<i>In national currency</i>	<i>In u.a.</i>	<i>Final maturity</i>
<i>French francs (million)</i>				
6 1/4 %	bonds 1966	12.8	2,304,567	1981
6 1/4 %	bonds 1967	20.0	3,600,921	1985
	FF 32,8		5,905,488	
<i>Italian lire (million)</i>				
7 %	bonds 1971	1,482.0	2,371,200	1986
7 %	bonds 1971	1,326.0	2,121,600	1986
	Lit. 2,808.0		4,492,800	
			10,398,288	
	GRAND TOTAL		1,423,330,977	

The evolution of the Bank's consolidated debt, broken down by currencies, was as follows in the course of the financial year (in units of account) :

	<i>Effective debt on 31st Decem- ber, 1970</i>	<i>Operations of the financial year</i>		<i>Exchange adjustment</i>	<i>Effective debt on 31st Decem- ber, 1971</i>
		<i>Borrowings</i>	<i>Redemptions</i>		
in DM	335,655,737	81,967,213	5,054,644	—	412,568,306
in FF	86,901,420	18,004,425	508,264	—	104,397,581
in Lit.	141,448,000	64,000,000	2,555,200	—	202,892,800
in Belg. fr.	70,760,000	30,000,000	1,258,000	—	99,502,000
in Fls.	65,359,116	20,718,232	925,414	—	85,151,934
in Lux. fr.	612,811	26,000,000	142,180	—	26,470,631
in US \$	313,333,000	120,000,000	5,251,000	—	428,082,000
in Sw. fr.	—	52,250,776	—	+ 1,616,661	53,867,437
Total	1,014,070,084	412,940,646	15,694,702	+ 1,616,661	1,412,932,689
Redemption premiums	5,905,488	4,492,800	—	—	10,398,288
	1,019,975,572	417,433,446	15,694,702	+ 1,616,661	1,423,330,977

Miscellaneous

The amount of 9,226,468 u.a. entered under this heading includes sundry expenditure unpaid at the end of the financial year and other administrative charges incurred or foreseen, for deferred settlement, as well as sundry creditors.

* * *

The result of the Bank's activity emerges from the Profit and Loss Account appended hereto, the main items of which are commented on below.

Administrative expenses and charges

The administrative expenses and charges amounted to 5,356,214 u.a., as against 4,660,394 u.a. for the previous financial year.

They are made up as follows :

— Staff expenses	u.a.	4,080,264
— Overhead expenses and provisions for other possible charges	u.a.	1,275,950

The increase in staff expenses, i.e., 778,129 u.a., is due to the increase in the number of staff employed and to the upward adjustment of salaries in 1971 in relation, notably, with the trend in the cost of living during the previous year.

On 31st December, 1971, the staff of the Bank totalled 211 persons, 137 of whom were employed in the translation, administrative, equipment and maintenance services.

Interest and charges on borrowings

The amount of 82,183,528 u.a. represents interest and commission on borrowings and other debit interest.

Taking account of the new system of amortization applied in 1971, this amount compares as follows to that of the previous year :

	1970		1971	
– Interest and commission on borrowings and other debit interest (including for 1970, the issuing charges and amortization on redemption premiums)	u.a.	62,834,868	u.a.	82,183,528
– Amortizations effected in 1970 on the basis of the old immediate amortization system	u.a.	4,313,551 ⁽¹⁾		–
	u.a.	58,521,317	u.a.	82,183,528

Amortizations on issuing charges for borrowings and on redemption premiums

This item, which appears for the first time in the profit and loss account, henceforth individualizes the amortizations on issuing charges for borrowings and on redemption premiums which were added in the profit and loss accounts of previous years to the interest and charges on loans. These amounts compare to those of the previous year as follows :

	1970		1971	
– Amortizations calculated on the basis of the deferred amortization system introduced in 1971	u.a.	3,404,465 ⁽¹⁾	u.a.	4,239,837
– Other amortizations effected in 1970 and reactivated in 1971	u.a.	909,086		–
	u.c.	4,313,551	u.c.	4,239,837

(1) See footnote on page 66.

Interest and commission from loans

This item amounts to 83,318,923 u.a., as against 62,936,153 u.a. for the previous year. The increase results from the growth of the amounts disbursed on effective loans and from the rise in the rate of average yield of effective loans.

Interest and commission from investments

The income derived from investments of liquidities amounts to 24,370,849 u.a., as against 23,382,700 u.a. for the previous financial year.

Management commission

This item, amounting to 1,149,014 u.a., represents the remuneration for the management of loans for the account of and on mandate from member countries and the E.E.C.

Exchange differences

Nearly the whole of this item represents the profits resulting from the service of the loans in respect of which the Bank can opt among the currencies of member countries after the changes in monetary parities of 1961 and 1969.

Financial proceeds and other receipts

The amount of 1,661,891 u.a. almost entirely results from the profits arising out of valuation of the investments and other income from securities.

* * *

SPECIAL SECTION

The amount of 222,652,605 u.a. represents the overall amount of the effective loans in the framework of the Special Section on 31st December, 1971, viz. :

a) for the financing of projects located in Turkey for the account of and on mandate from the member countries :			
– loans granted at 31st December, 1971	u.a.	175,000,000	
– exchange adjustments on the amounts disbursed	– u.a.	329,185	
		<hr/>	u.a. 174,670,815

b) for the financing of projects in the Associated African States and Madagascar and in the Overseas Countries and Territories (A.A.S.M.-O.C.T.) for the account of and on mandate from the European Economic Community :

– loans granted on 31st December, 1971	u.a.	47,790,781	
– plus capitalised interest	+ u.a.	190,090	
– and exchange adjustments on the amounts disbursed	+ u.a.	919	
		<hr/>	u.a. 47,981,790

Of these amounts, the funds disbursed amount respectively to 145,680,619 u.a. and 27,634,893 u.a.

IV

ADMINISTRATION OF THE BANK

The following changes have occurred in the composition of the Board of Directors :

The Board of Governors has appointed Mr. GIORGIO CAPPON to succeed the late Mr. STEFANO SIGLIENTI, Director, who deceased in April 1971.

Mr. DANIEL DEGUEN resigned as the result of a change of functions and has been replaced by Mr. JACQUES DE LAROSIÈRE DE CHAMPFEU; Mr. MICHEL CAMDESSUS was appointed Alternate to Mr. ANDRÉ POSTEL-VINAY, a post which had become vacant as a result of the resignation of Mr. JEAN-PIERRE METTAS in January 1971.

We wish to thank Mr. DANIEL DEGUEN for his valuable and competent collaboration within the Board of Directors.

Mr. ULRICH MEYER-CORDING, Vice-President of the Bank, has expressed the wish to relinquish his post with effect from 30th April, 1972, in order to become President of the Vorstand of the Westdeutsche Bodenkreditanstalt.

We have pleasure in recording here the feelings of sincere gratitude which the Board of Directors and the Management Committee conveyed to Mr. ULRICH MEYER-CORDING for the extremely important contribution he has made to the Bank's development since 1964.

The Board of Directors, at its meeting on 28th April, 1972, has proposed to the Board of Governors that Mr. HORST-OTTO STEFFE, previously Manager of the Research Department of the European Investment Bank, should be appointed as successor to Mr. MEYER-CORDING.

The very remarkable expansion of the Bank's activities in 1971 was achieved with a staff of just over two hundred. The Board of Directors wishes to convey to the staff of the Bank its sincere thanks for the extent and quality of the work devotedly performed in the course of the year.

Luxembourg, 28th April, 1972.

The Chairman of the Board of Directors,

YVES LE PORTZ.

BALANCE SHEET,
PROFIT AND LOSS ACCOUNT,
SPECIAL SECTION
AND
STATEMENT BY THE AUDIT COMMITTEE

BALANCE SHEET AT

(in units of account of

ASSETS

RECEIVABLE FROM MEMBER STATES ON ACCOUNT OF CALLED CAPITAL		50,000,000
CASH AND BANKS		
At call or not exceeding one year	222,514,228	
Over one year	4,087,446	
		226,601,674
INVESTMENTS		
Not exceeding one year	19,051,897	
Over one year	41,949,423	
		61,001,320
RECEIVABLE ON BONDS TO BE DELIVERED		25,000,000
RECEIVABLE FROM MEMBER STATES FOR ADJUSTMENT OF CAPITAL		209,323
EFFECTIVE LOANS		
Ordinary loans	1,796,661,374	
(of which 280,400,170 u.a. undisbursed)		
Loans on mandate guaranteed by the Bank	92,896,175	
		1,889,557,549
REAL ESTATE, FURNITURE AND EQUIPMENT		200,000
ACCRUED INTEREST AND COMMISSION		24,927,782
UNAMORTISED ISSUING CHARGES AND REDEMPTION PREMIUMS		37,567,662
SPECIAL DEPOSITS FOR SERVICE OF LOANS		11,585,312
MISCELLANEOUS		1,053,469
	<i>Total : u.a.</i>	<u>2,327,704,091</u>

MEMORANDUM

SECURITIES RECEIVED AS GUARANTEE FOR LOANS ON
SECURITIES RECEIVED IN DEPOSIT

DECEMBER 31, 1971

0.88867088 g fine gold)

LIABILITIES

CAPITAL		
Subscribed	1,500,000,000	
Not called	1,200,000,000	
		300,000,000
STATUTORY RESERVE		63,673,089
PROVISIONS		
For risks on loans and guarantees	64,000,000	
For equalization of interest on borrowings	9,000,000	
For monetary risks	5,000,000	
For building	4,000,000	
		82,000,000
SPECIAL PROVISION		4,104,000
WRITE-BACK OF ISSUING CHARGES PREVIOUSLY AMORTISED		23,127,079
STAFF PENSION FUND		2,630,863
OWING TO MEMBER STATES		
FOR ADJUSTMENT OF CAPITAL		1,095,830
BORROWINGS (of which 49,233,055 u.a. due within one year)		
Bonds and notes	1,164,615,063	
Other medium and long-term borrowings	248,317,626	
	1,412,932,689	
Redemption premiums on bonds	10,398,288	
		1,423,330,977
CREDITORS FOR LOANS ON MANDATE GUARANTEED BY THE BANK		92,896,175
UNDISBURSED BALANCE OF ORDINARY LOANS		280,400,170
ACCRUED INTEREST AND COMMISSION AND INTEREST RECEIVED IN ADVANCE		33,634,128
MATURED COUPONS AND BONDS - NOT YET PAID		11,585,312
MISCELLANEOUS		9,226,468
	<i>Total : u.a.</i>	<u>2,327,704,091</u>

ACCOUNTS

MANDATE	u.a.	23,224,044
.	u.a.	75,000,000

PROFIT AND LOSS ACCOUNT FOR THE

(in units of account of

DEBIT

ADMINISTRATIVE EXPENSES AND CHARGES	5,356,214
INTEREST AND CHARGES ON BORROWINGS	82,183,528
AMORTIZATION OF ISSUING CHARGES AND REDEMPTION PREMIUMS	4,239,837
FINANCIAL CHARGES	4,267
AMORTIZATION	
Of real estate 100,000	
Of net purchases of furniture and equipment 67,450	
	167,450
PROVISION FOR RISKS ON LOANS AND GUARANTEES	8,000,000
PROVISION FOR BUILDING	2,000,000
SPECIAL PROVISION	4,104,000
BALANCE APPROPRIATED TO THE STATUTORY RESERVE	6,411,308
<i>Total : u.a.</i>	112,466,604

FINANCIAL YEAR ENDED DECEMBER 31, 1971

0.88867088 g fine gold)

CREDIT

INTEREST AND COMMISSION FROM LOANS.	83,318,923
INTEREST AND COMMISSION FROM INVESTMENTS.	24,370,849
MANAGEMENT COMMISSIONS.	1,149,014
EXCHANGE DIFFERENCES	344,633
PROFIT ON THE SALE OF GOLD.	1,410,925
FINANCIAL PROCEEDS AND OTHER RECEIPTS	1,661,891
NET PROCEEDS ON THE CHANGE OF THE PARITY OF THE SWISS FRANC OF 10.5.1971	210,369
<i>Total : u.a.</i>	112,466,604

SPECIAL
STATEMENT OF CONDITION
(in units of account of

ASSETS

	TUR
Loans	145,680,619
Undisbursed loans	28,990,196
Total	174,670,815

ASSOCIATED AFRICAN AND MALAGASY STATES

Loans	27,634,893
Undisbursed loans	20,346,897
Total	47,981,790

	SUM
Loans	173,315,512
Undisbursed loans	49,337,093
<i>Grand total : u.a.</i>	222,652,605

SECTION
 AT DECEMBER 31, 1971

0.88867088 g fine gold)

LIABILITIES

KEY

MEMBER STATES

- Funds in trust management	145,680,619
- Undisbursed funds	28,990,196
Total	174,670,815

AND OVERSEAS COUNTRIES AND TERRITORIES

EUROPEAN ECONOMIC COMMUNITY

- Funds in trust management.	27,634,893
- Undisbursed funds	20,346,897
Total	47,981,790

MARY

Funds in trust management	173,315,512
Undisbursed funds	49,337,093
Grand total : u.a.	222,652,605

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,

- having examined the books, accounting vouchers and documents which it deemed necessary in the exercise of its task,
- having examined the reports drawn up by Messrs. Price Waterhouse & Co., the conclusions of which are given hereinafter,

Considering the 1971 Annual Report as well as the balance sheet of the Bank as at 31st December, 1971, 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 28th April, 1972,

Considering Articles 22, 23 and 24 of the Rules of Procedure,

hereby certifies :

that the Bank's operations during the 1971 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, 16th May, 1972.

The Audit Committee,

R. LÉONARD H.G. DAHLGRÜN E. RAUS

REPORT OF MESSRS. PRICE WATERHOUSE & Co.

The President,
EUROPEAN INVESTMENT BANK
LUXEMBOURG

Rue Ravenstein 60
B – 1000 Brussels

We have examined the balance sheet of the European Investment Bank at December 31, 1971 and its profit and loss account for 1971. Our examination 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.

1. The accounts are expressed in units of account using the official parity rates of the various currencies; however, the loss which will result from the formal adoption of the new monetary parities calculated on the basis of the equivalent in gold of their central rates in terms of United States dollars as notified to the International Monetary Fund in December 1971, is covered by a Special Provision of 4,104,000 u.a.
2. Investments include (a) Treasury bonds, notes and bonds at the lowest of cost, nominal or market value : 48,252,734 u.a., (b) the Bank's own bonds at their repurchase cost : 7,842,381 u.a. and (c) bank bills at their nominal value : 4,906,206 u.a.
3. As from 1971, issuing charges are amortised in proportion to the principal amount outstanding during the year in respect of each borrowing, whereas, formerly, these charges were written off entirely in the year of issue. This change in accounting procedure has been given retroactive effect and the adjustment to prior years, being 23,127,079 u.a., is disclosed on the balance sheet as " Write-back of issuing charges previously amortised ". As a result of this change in accounting procedure, which we approve, the amount available for appropriation to the reserves and provisions is 20,215,308 u.a. instead of 13,766,198 u.a.

In our opinion, taking into account the information contained in paragraphs 1 and 2 above, the balance sheet and the profit and loss account attached hereto present fairly the financial position of the European Investment Bank at December 31, 1971 and the results of its operations for the year in conformity with generally accepted accounting principles applied, except for the change explained in paragraph 3 above, on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & Co.

20th March, 1972.

INVESTMENTS IN THE COMMUNITY
IN 1971 AND THEIR FINANCING

INVESTMENTS IN THE COMMUNITY IN 1971 AND THEIR FINANCING

CONTENTS

	<i>Page</i>
1. INVESTMENTS	91
1.1. Conjunctural factors and the overall development	91
1.2. Investments by enterprises	94
1.3. Housing construction	98
1.4. Public investments	99
2. INVESTMENT FINANCING	100
2.1. Conjunctural factors and the evolution of savings	100
2.2. The market for public issues of securities	107
2.2.1. Issues on the markets of member countries	107
2.2.1.1. Domestic securities	108
– <i>Shares</i>	108
– <i>Bonds</i>	110
2.2.1.2. Foreign securities	121
2.2.2. Issues on the European international market	123
2.3. Other external resources available for financing the economy	129
2.3.1. Credits by national financial institutions	129
2.3.1.1. Medium and long-term credits to the economy	129
2.3.1.2. Short-term credits to the economy	134
2.3.2. International medium-term credits	136

INVESTMENTS IN THE COMMUNITY IN 1971 AND THEIR FINANCING

1. INVESTMENTS

1.1. *Conjunctural factors and the overall development*

The growth of gross fixed capital formation in the Community, which had been particularly rapid in 1969 and 1970, slowed down considerably in 1971. This trend, already perceptible at the end of 1970, was continually reinforced as the year went by, reflecting a definite decline of the propensity of enterprises to invest. It stems mainly from the following factors :

- The persistence of a marked rise in costs, which put growing pressure on profit margins and reduced the self-financing possibilities of enterprises. It was chiefly provoked by an increase in wages charges, incompletely offset by the reduced advance in productivity linked with the slowdown of production expansion. According to provisional estimates by the departments of the Commission of the European Communities, the increase in wage costs (in national currency) per gross added-value unit in industry from 1970 to 1971 was 14.5 % in Italy, 9 % in Belgium, 8 % in Germany, 7.5 % in the Netherlands and 6 % in France. To this was added the fact that in Germany, the Netherlands and the Belgo-Luxembourg Economic Union, additional pressure was exerted on profit margins, more particularly those of exporting firms, by the *de facto* revaluation of the currencies in the course of the year.
- Slower economic growth resulted in a lower utilisation of capacities in numerous sectors. Its effect on investment decisions was all the more marked as new capacities – frequently very substantial – had been commissioned in the course of previous years and again in 1971. In fact, even without a cyclical slowdown, they could have attained a proper rate of utilisation only after a certain lapse of time.
- The pessimism concerning their sales prospects, shown by businessmen in the first half of the year, was further accentuated by the uncertainty which hung over the currencies and international trade in the second half of the year.

* * *

According to provisional estimates, gross fixed capital formation in the Community rose from about 121 milliards units of account in 1970 to 133 milliards

in 1971. The increase in 1971 was much less than that of the previous year : in value 9.9% instead of 19%, and in volume 3.2% against 8.5% ⁽¹⁾.

As Table I shows, the evolution was very different from one member country to another.

Next to Italy, to which we shall refer later, it was *Germany* which experienced the most marked slowdown of investment growth. In the spring, the restoration of the degressive depreciation system and the cut in the "investment tax" had temporarily contributed to a recovery in orders for equipment goods, whereas the real estate investments were favoured by exceptional weather conditions. But in the course of the subsequent months, the flagging expansion of investments was confirmed, in particular after the floating of the Deutsche Mark, its *de facto* revaluation and the application of measures aimed at checking the growth of federal government expenditure. Only the residential building demand showed a brisk advance until the end of the year.

Table I – GROSS FIXED CAPITAL FORMATION IN THE COMMUNITY ⁽²⁾
(% variation by comparison with the previous year)

	In value						In volume					
	1966	1967	1968	1969	1970	1971	1966	1967	1968	1969	1970	1971
Germany	3.3	-9.4	9.0	17.2	23.9	11.7	0.9	-8.4	8.0	12.1	11.5	4.0
France	10.6	8.9	8.9	17.3	14.9	11.5	8.4	6.2	5.9	11.0	7.4	6.0
Italy	5.5	14.3	12.0	14.8	15.0	1.6	4.0	11.8	9.7	8.1	3.4	-4.9
Netherlands	14.0	10.2	12.8	7.2	15.3	12.3	8.7	7.9	11.0	0.5	7.2	1.5
Belgium	10.2	6.9	0.0	10.1	17.0	13.0	6.4	2.6	-2.4	5.6	7.0	5.0
Luxembourg	-0.3	-9.5	0.9	16.7	22.9	18.8	-2.1	-9.5	-5.7	7.7	11.3	8.0
The Community	7.1	2.3	9.3	14.4	19.1	9.9	4.6	1.0	7.2	9.8	8.5	3.2

(2) For 1971, the percentages were calculated on the basis of order of magnitude estimates.

In *France*, on the other hand, where business activity was more expansive than in the other member countries, the growth of gross fixed capital formation continued at a rate almost as high as in 1970. This relatively favourable evolution

(1) Unless otherwise indicated, all percentages appearing in the text relate to the previous year.

was influenced both by the countercyclical investment policy of the public sector and by the persistence among businessmen of an attitude favourable to investment. It was supported by the investment incentives given by the government early in the year, then by the good earning forecasts, the high level of capacity utilization, the rationalisation measures dictated by the steep rise in wages, as well as by the increased financing possibilities thanks to the great liquidity of the economy. Owing to the relatively modest place occupied by the American market in French exports, the steps taken by the United States in August in an endeavour to reduce the balance of payments deficit did not result in France as much as in the other countries in a slowdown in the propensity to invest. On the contrary, the modifications in the rates on the international exchange markets contributed, on the whole, to reinforcing the competitive position of France and had a rather stimulating effect.

In *Italy*, the exceptional weak economic development led to a stagnation in the gross fixed capital formation in value and, in real terms, a decrease of 4.9% by comparison with 1970. Although the government endeavoured to introduce a countercyclical investment policy and took various stimulating measures, the propensity to invest on the part of private industry remained modest. Various causes contributed to this reserved attitude : labour disputes, poor sales prospects, steep rise in costs, disappointing business results and, finally, the generally unfavourable psychological climate. The relatively good evolution of exports did not suffice to change this situation.

In the *Netherlands*, the growth of investments showed a considerable slowdown in 1971. Although gross capital formation further increased by 10% in value, it remained practically constant in volume, owing to the steep rise in prices. After a certain expansion at the beginning of the year when the climatic conditions allowed a marked growth in construction, the investment propensity on the part of businessmen flagged persistently in the course of the year. Domestic demand declined and the cyclical slowdown in other member countries, in particular Germany, began to have repercussions on external demand and on the sales prospects of numerous Dutch businesses. Furthermore, the *de facto* revaluation of the guilder sapped the competitive position of Dutch firms on a number of foreign markets. The utilization of capacities was lower and the growth of productivity slowed down. The continuing steep uptrend in costs caused corporate profit margins to shrink further. The steps taken in the second half-year to check the growth of expenditure in the public sector also contributed to reduction of total investment expenditure.

In *Belgium*, the growth of gross capital formation was a little less marked than in the previous year. However, the increase of 5% in real terms was higher than

the Community average. That is doubtless the result of the vigorous counter-cyclical expenditure policy in the public sector, the investments of which were considerably stepped up by comparison with the previous year. There was, however, a definite decline in residential construction, but investments by enterprises continued to expand at a rate which was hardly less than that of the previous year. It is obvious, that the annual result could be obtained only because of the very great dynamism which characterised the first months of the year. During the second half of the year, indeed, the retarding factors already referred to in the other countries made themselves definitely felt in Belgium as well.

In *Luxembourg*, a comparison of annual results shows that the gross investment increased faster than in all the other member countries, although the situation was also influenced by the slackening of the business cycle in the second half of the year. A slower growth of corporate investments and residential construction seems to have been offset by an expansion in public investments.

* * *

1.2. Investments by enterprises

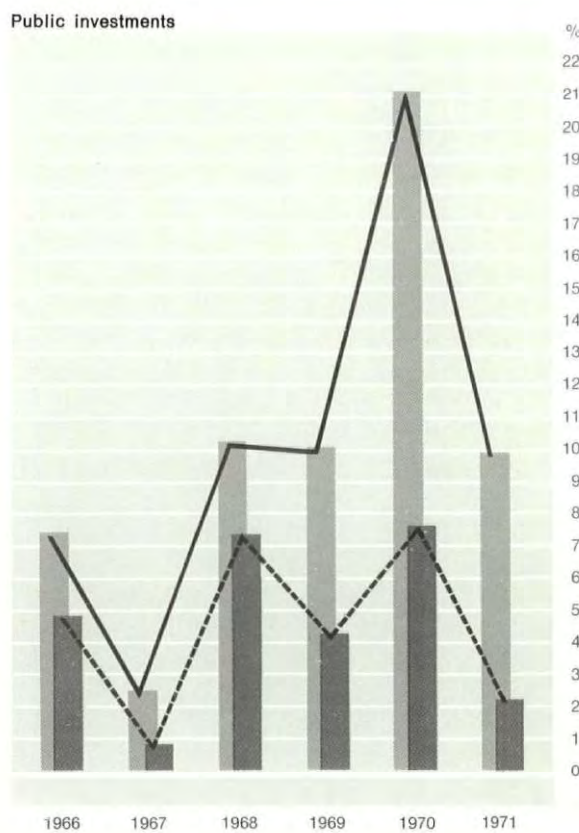
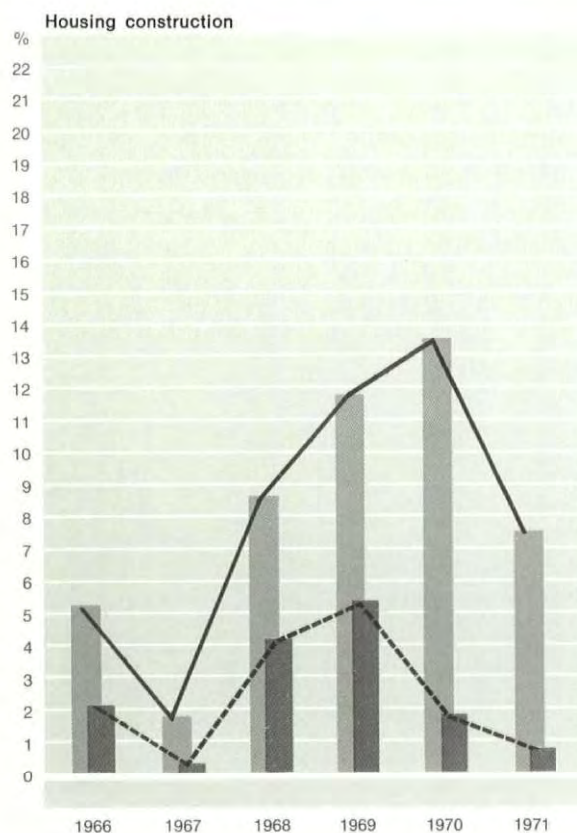
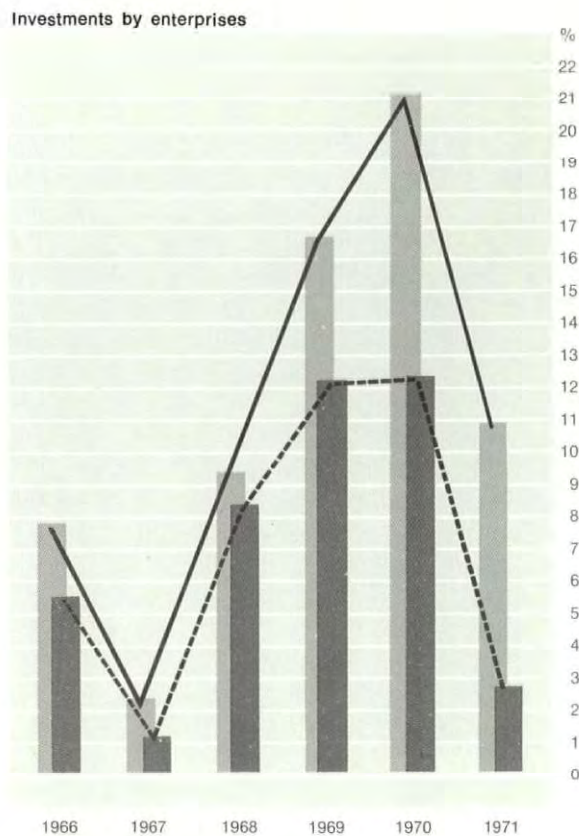
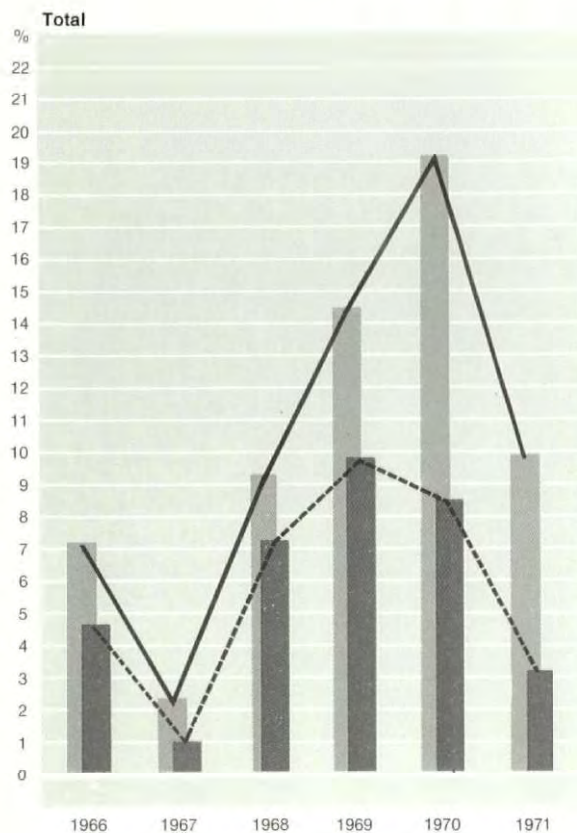
The investment expenditure by enterprises in the Community increased in 1971 at a less rapid pace : 11% as against 21% in 1970. Bearing in mind the steep rise in prices, the growth is about 3.5 - 4% in volume only, as against 12% in the previous year (Tables II and III; graph).

Table II — GROSS FIXED CAPITAL FORMATION IN THE COMMUNITY ⁽¹⁾

	In milliards of units of account at current prices						% of total					
	1966	1967	1968	1969	1970	1971	1966	1967	1968	1969	1970	1971
Investments by enterprises	46.9	48.0	52.5	61.2	74.1	82.1	58.8	58.9	58.9	60.1	61.0	61.5
Housing construction	21.4	21.8	23.7	26.5	30.1	32.4	26.9	26.7	26.6	26.0	24.8	24.3
Public investments	11.4	11.7	12.9	14.2	17.2	18.9	14.3	14.4	14.5	13.9	14.2	14.2
Total	79.7	81.5	89.1	101.9	121.4	133.4	100.0	100.0	100.0	100.0	100.0	100.0

(1) For 1971, the data are estimated orders of magnitude, converted on the basis of official parities as at 31st December, 1971.

GROSS FIXED CAPITAL FORMATION IN THE COMMUNITY (% variation by comparison with the previous year)



in value

in volume

In *Germany*, the expansion in business investments slowed down, falling from approximately 25% in 1970 to 10% in 1971 and, in volume, from about 16% to 4%. The climatic conditions favoured building in the spring, so that investments of this type showed a more pronounced growth, while equipment purchases were almost stationary. Whereas, in previous years, enterprises mainly endeavoured to increase production capacities, investments in 1971 were increasingly for rationalisation. The evolution of investment expenditure varied greatly from one branch of industry to another. In the mining and metallurgical industries (iron, steel and non-ferrous metals), the rates of growth still seem to have exceeded 10% in value. The investments of the non-ferrous metal industries showed a particularly brisk expansion. Despite signs of cyclical weakening, especially pronounced in this branch, the enterprises have apparently not abandoned the implementation of their long-term investment programmes already embarked on to a large extent in previous years. In the food industry, on the whole less sensitive than others to conjunctural effects, investment expenditure also increased. On the other hand, investment expenditure seems to have in engineering, in the motor vehicle and the electrotechnical industries; it even declined in the basic product industries as well as in various manufacturing industries. For public enterprise sector, we may note in particular the continuing and accelerated expansion of investments in the electricity sector : 30% in value as against 25% in 1970.

In *France*, for the reasons already referred to, the corporate propensity to invest remained relatively high, as in 1970. With a nominal rate of growth of 14% and a growth in real terms of 7%, the gross fixed capital formation of enterprises showed a definitely more rapid increase than in the other Community countries, with the exception of Luxembourg. These growth rates were only slightly less than those of the previous year (16% and 8%). It seems that in France too, investments related much more to rationalisation than to extensions of capacity. Expansion appears to have been more marked in the basic product industries and in iron and steel, whereas in the other branches it barely exceeded 10%.

In *Italy*, enterprises further stepped up their gross fixed investment in 1971 by approximately 6% in value, compared to 19% in 1970. However, it fell by 2% in volume. This decline particularly affected equipment purchases. It was very appreciable in the private sector, despite various encouragement measures taken by the government. On the other hand, the State-controlled enterprises greatly increased their investment expenditure (25%). Investments by the basic product, iron and steel, and non-ferrous metal industries doubtless continued to show a brisk expansion; in the majority of the other industrial branches, they either stagnated or showed a decrease by comparison with 1970.

Table III – GROSS FIXED CAPITAL FORMATION IN THE COMMUNITY ⁽¹⁾

		Gross national product (at current prices) in milliards	Gross fixed capital formation ⁽¹⁾				
			In % of gross national product	distribution by sector, in %			
				Investments by enterprises	Housing construction	Public investments	Total
Germany	1970	682.8 DM	27	63	21	16	100
	1971	756.1 DM	27	62	22	16	100
France	1970	819.6 FF	26	60	27	13	100
	1971	916.3 FF	26	61	26	13	100
Italy	1970	58,212.0 Lit.	21	60	31	9	100
	1971	62,913.0 Lit.	20	62	29	9	100
Netherlands	1970	113.1 Fls.	26	61	20	19	100
	1971	126.7 Fls.	26	58	22	20	100
Belgium	1970	1,284.9 BF	22	58	26	16	100
	1971	1,403.1 BF	23	59	23	18	100
The Community	1970	485.1 u.a.	25	61	25	14	100
	1971	536.0 u.a.	25	62	24	14	100

(1) Owing to the differing definition and delimitation of gross fixed capital formation in the member countries, the figures in this table are not entirely comparable from one country to another. The percentages were calculated on the basis of the gross fixed capital formation at current prices. For 1971, they are based on estimated orders of magnitude; for the Community, the figures are established on the basis of the official parities as at 31st December, 1971.

In the *Netherlands*, investments of enterprises were 2% less in real terms than that of the previous year, despite an increase in value by about 7%. The overall result would have been even more mediocre had not large-scale investments in the transport sector, in particular purchases of aircraft, partially offset the decline in equipment and construction investments in other sectors.

In *Belgium*, the slowdown in expansion of investments by enterprises seems to have been less marked : 14% in value, in 1971, as against 16% in 1970; 5 to 5.5% in volume in 1971 as against 6% in 1970. However this country as well showed a definite tendency towards slackening-off in the second half-year.

The same applies to *Luxembourg*, where the expansion of gross fixed capital formation was weaker than in 1970, although it nevertheless seems to have reached 15 to 20% in value. Investments in the iron and steel, chemical and metal working industries seem to have exceeded those of the previous year.

1.3. *Housing construction*

The construction of housing in the Community hardly increased in real terms from 1970 to 1971. In value, the rate of expansion, which had already been lower in 1970 than in 1969, was only approximately 8%, as against 14% in the previous year. This increase reflects to a large extent the rise in prices in the sector : real growth amounted to only 0.5 - 1 %. This general evolution, however, conceals a great diversity among the member countries.

In *Germany* and the *Netherlands*, the expansion in housing construction was even brisker than in the previous year, reaching 20 - 21 % in terms of value and 8 - 8.5 % in real terms. This expansion seems to have been determined, on the one hand, by the improved financing possibilities and on the other, by making up the leeway of the previous year, in the course of which housing construction in both countries developed only very little. In the spring, these expansion factors were enhanced by extremely favourable climatic conditions, as well as by a growing fear of inflation which acted as a big incentive to construction investments. Furthermore, in the Netherlands an increase in the building premiums, decided on at the end of 1970, contributed to stimulate this category of investments.

On the other hand, in *Italy* and *Belgium*, housing construction showed a very definite slackening. The downturn which had started in Italy in 1970 was accelerated in 1971 : in value - 7 % as against + 7 % in 1970; in volume - 12 % as against - 7 %. Special measures to encourage the construction of moderate-priced and of private dwellings were taken in the second half of 1971 in order to counteract this trend. In Belgium, on the other hand, the sharp downturn noted in 1971 (+ 2 % in value, but - 5 % in volume) had been preceded in 1970 by a marked expansion in housing construction (17 % in value, 9 % in volume). The fact that conditions were not very favourable for housing construction also led the Belgian government to expand the programme of moderate-priced dwellings.

In *France* and *Luxembourg*, lastly, the growth rates for housing construction in 1971 did not attain those of the previous year. An increase of expenditure by 7 to 10 % in comparison with 1970 was recorded, but the increase in real terms must have been only very limited. The evolution was however not uniform throughout the year. In France, the encouragement measures adopted at the beginning of 1971 for the construction of moderate-priced dwellings, as well as the improvement in the course of the second half-year in the financing possibilities for the private sector seem to have led to a very appreciable revival. On the other hand, in Luxembourg,

steps taken in favour of savings for building purposes and the creation of a "Fund to encourage the construction of moderate-priced dwellings" seem likely to bear fruit only in the long run and were not yet able to have any perceptible repercussion on investments in 1971.

1.4. Public investments

The growth of public investments in the Community from 1970 to 1971 seems to have been about 10% in value and approximately 2% in volume, as against 21% and 8% respectively from 1969 to 1970.

In Germany, in particular, the expansion of public investments was affected by price increases and the measures aimed at reducing the expansion of public expenditure. The growth public investment expenditure indeed declined, from 27% in 1970 to about 6% in 1971; in volume, public investments even seem to have diminished considerably from 1970 to 1971.

Although the Netherlands government also made efforts to limit the growth of current public expenditures, the 1971 results again reveal a considerable rise in public investments (19% in value and 7% in volume). It was only during the second half of the year that public investments started to slow down.

The governments of the other member countries attempted to counteract, with varying degrees of success, the general economic weakening by practising a counter-cyclical public investment policy. In Belgium and Luxembourg, public investments seem to have increased in value by 30 to 35%. In France, they increased by 9 to 10%. They went up by only about 3.5% in Italy. In the latter country, it is obviously again a question of delays which occurred in the execution of certain investments. It should be recalled, however, that it was mainly by reinforcing the investments of enterprises under State control that the government endeavoured to influence the conjunctural situation.

2. INVESTMENT FINANCING ⁽¹⁾

In 1971, investment financing again met with certain difficulties in the Community, but they were not of the same nature as in previous years.

Whereas the pace of equipment and construction expenditure slowed down greatly, private savings continued to record a very favourable trend in the Community in 1971.

The conditions in which equilibrium was reached between financing needs and available resources on the markets therefore tended to improve, as witnessed by the considerable reduction of long-term interest rates in the course of the year.

Two factors, however, tended to check the relaxation on the long-term capital markets.

Public savings decreased by comparison with the previous year, although the public sector's needs for funds remained substantial. Corporate savings, for their part, showed a notable reduction, linked with the gradual narrowing of profit margins.

Recourse to borrowings once again steeply increased, not — as in previous years — because an increasing investment volume necessitated larger recourse to outside resources but because the rise in costs weighed more heavily on the self-financing capacity.

This trend gives cause for some concern. Although the cost of credit tended to diminish, the financial structure of the enterprises in the Community indeed continued to become more onerous.

2.1. *Conjunctural factors and the evolution of savings*

According to provisional estimates, *total net savings in the Community* reached in 1971 the figure, as yet unequalled, of some 86 milliards units of account.

(1) All statistical data published in the tables and the text of the part of the Report concerning "Investment Financing" are provisional for 1971 and often for 1970 as well.

Furthermore, the equivalent in units of account of the statistics published in this part of the Report is calculated at the parities in force on the date when the operations in question were effected.

For technical reasons, the conversions applied to the figures for 1969 were effected :

- as regards operations in French francs, at the old parity for the data relating to the first seven months of the year, and at the new parity for the data of the last five months;
- as regards operations in Deutsche Mark, at the old parity for the data relating to the first ten months of the year, and at the new parity for the data concerning the last two months.

Differences existing between certain data appearing in the present analysis and data used in other studies on the same subject are due to the use of different statistical series.

Measured as a percentage of the gross national product, the net savings rate of the economy, considered as a whole, thus remained almost at the exceptionally high level which it had attained in previous years. In fact, it slightly exceeded 16% in 1971, as against 17% in 1970, 16.5% in 1969 and 15.5% in 1968.

This overall evolution however reflects situations which are very divergent depending upon the type of savings concerned.

In all Community countries, *households* made a great savings effort in 1971; their total net savings may be estimated at nearly 55 milliards units of account, as against 50 milliards in 1970 and 40 milliards in 1969.

The progress was particularly marked in Italy; despite the steep rise in incomes, private consumer expenditure showed only a slight increase, as the uncertain employment situation had led private households to effect safeguard investments. In Germany and Belgium, the uncertain prospects of economic development also led the public to show greater caution in their expenditure. The same held true for the Netherlands; having anticipated certain of their purchases at the end of 1970 in view of the forthcoming increase in value-added tax, households reduced the share of their income devoted to consumption in 1971 and thus had at their disposal more substantial resources for investment purposes. Even in France, where the growth in savings was a little less marked than in the other Community countries, private savings recorded a significant further expansion by comparison with the previous year, although the big expansion in consumption continued throughout the year, linked with the increase in incomes.

The saving capacity of the *public sector*, on the other hand, diminished quite considerably in the course of the year. While a small increase was still recorded in Germany and the Netherlands, net public savings did not reach their previous year's level in France and Belgium and even were negative in Italy, where the current expenditure of public departments recorded an exceptionally big increase.

It was however the *enterprises* which encountered most difficulties with respect to self-financing. Their net savings fell by comparison with the previous year for the whole of the Community. In France and Belgium, where the conjunctural situation was still relatively favourable, corporate savings increased slightly but in proportions which were not sufficient to prevent the self-financing rate from falling. In the Netherlands, Germany and much more in Italy, the slower expansion of sales, on

the one hand, and the persistently strong cost-push, on the other, led to a marked narrowing of profit margins and, thus, reduced corporate savings.

As they were unable to increase their own resources satisfactorily, the enterprises of the Community once again had to make large-scale calls on borrowings.

This necessity was all the more imperative since the calls on shareholders, for amounts as large as in 1970, proved a delicate matter in a situation characterised by a considerable narrowing of profit margins.

Recourse to the financial intermediaries for medium and long-term credits and bond issues therefore played an essential role in the financing of the economy, especially when the downtrend in long-term rates led to a certain consolidation of the prefinancing arrangements made on the domestic markets or on the international credit markets in the course of the two previous years.

An analysis of the financial situation of the enterprises necessarily entails a considerable amount of approximation, owing to the absence of statistical data on certain categories of resources and the uncertain and provisional character of the information available. However, the application of the same method from year to year and for all the countries makes it possible to identify the most significant trends.

This holds true of the calculations which are to permit to compare the amount of the investments effected in the economic sector in the course of recent years and the large volumes of capital having served to finance them : resources appropriated to depreciations, net proceeds of the issues of securities on the market by enterprises and credit institutions, medium and long-term credits by financial intermediaries not derived from the issue of securities, and lastly – this figure being arrived at as residual – the overall amount of calls on short-term bank credit and other external resources, of financial assets of private households devoted directly to housing construction and of undistributed net profits of 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.

Subject to this reservation, it is clear that in the *Federal Republic of Germany* the profit and loss accounts of numerous enterprises showed in 1971 a further

Table IV — METHODS OF FINANCING FIXED INVESTMENTS OF THE SECTOR
OF THE ECONOMY IN THE COMMUNITY

— provisional —

(percentage)

	1967	1968	1969	1970	1971	Annual average 1967-1971
I. Depreciations	48.7	47.9	46.0	45.2	46.5	46.8
II. Long and medium-term external resources collect- ed on the national mar- kets	31.7	32.6	33.3	30.2	38.0	33.2
— Shares	3.0	3.6	4.2	4.4	4.0	3.8
— Medium and long- term borrowings	28.7	29.0	29.1	25.8	34.0	29.4
. Bonds	9.9	11.0	9.3	8.9	12.2	10.3
. Credits	18.8	18.0	19.8	16.9	21.8	19.1
III. Other external resources including short-term bank credits ⁽¹⁾ and net self- financing	19.6	19.5	20.7	24.6	15.5	20.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

(1) In the present state of 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.

deterioration by comparison with 1970, when profits already showed a definitely sagging tendency. Over the first half of the year, there seemed to be signs of improvement, as the uptrend in production costs had then slowed down a little whereas the advance in selling prices continued to be very rapid. The introduction of floating exchange rates and the *de facto* revaluation of the Deutsche Mark in May however rapidly exerted pressure on profits again. The enterprises frequently had to reduce their profit margins so as to maintain the access of their products, which had become more expensive, to foreign markets or to cope on their domestic market with the competition from imported materials, which on the contrary had become cheaper. They thus recorded a notable reduction in their undistributed profits, although the degree of utilisation of available capacities did not greatly diminish by comparison with the previous year, despite the unfavourable trend of the business cycle, and although productivity, thanks to a certain reduction in personnel and the adoption of short-time working, improved in the course of the closing months of the year in the industrial sector. Notwithstanding the slowdown in their investments, they thus found it necessary to step up by nearly 30% their borrowings by comparison with 1970. Induced to limit their recourse to foreign credit, firstly by the evolution

of interest rates, and above all by the measures taken by the monetary authorities with a view to deterring them from adding to their external indebtedness, the enterprises turned to the domestic market in order to meet their capital requirements. Thus, they made a much greater call on medium and long-term credit by banks and financial institutions, as well as, at the end of the year, on short-term bank credit. They also proceeded to much larger share and bond issues than in 1970.

In *France*, the enterprises had to continue to cope with a rapid rise in their production costs. The increase in wages charges the steep rise in energy prices weighed heavily on operating costs. The maintenance of relatively high long-term interest rates also contributed to stepping up the financial charges, while the pressure exerted by foreign competition was accentuated. Productivity gains nevertheless remained high, so that the enterprises again showed an increase in their gross incomes, although at a rate that was a little less rapid than in previous years. This growth obviously conceals divergent trends according to the categories of enterprises and proved beneficial mainly to the private companies, which did very well because of their foreign sales. Individual enterprises, in particular the agricultural enterprises, recorded much more limited progress and the results of public enterprises were even rather unsatisfactory. On the whole, nevertheless, the non-financial enterprises succeeded in financing from their own resources a considerable share of their gross fixed capital formation. The self-financing rate of private non-agricultural enterprises declined by comparison with 1970, although very little, from 87% to 86% according to first estimates. The enterprises met their external financing requirements under conditions somewhat different from those of the previous years. They greatly stepped up their calls on the bond market and long-term credit but, on the other hand, they limited their share issues by comparison with 1970 and engaged in less short-term prefinancing, partially consolidating, on the contrary, their previous debts.

In *Italy*, the growth of wage costs, while remaining very considerable, was a little less rapid than in the previous year. Wage costs per unit of production also advanced a little less than in 1970 while wholesale prices showed only a rather slight increase. Despite this evolution, the enterprises had to cope with added difficulties, because productivity gains were far from offsetting the heavy cost increase. The so far available data even permit the assumption that the fall in the rate of growth of productivity per person employed might have been very considerable by comparison with 1970, not only in the agricultural sector also in industry, and more particularly in the manufacturing industry, where it could have become negative for the first time for many years. Furthermore, the slowdown in private demand did not allow enterprises to raise their selling prices as easily as they had done in previous years in order to pass on to their customers the increases in their manufacturing cost. Gross

corporate income therefore diminished in perceptible proportions and the self-financing rate showed a sharp downturn. This trend seems to have affected mainly the small and medium-sized enterprises, which felt the full weight of competition and which suffered most from the decrease in the degree of utilisation of available capacities. Although large companies doubtless resisted this trend rather better owing to their strong position on the domestic market, their operating accounts also deteriorated greatly, especially in certain sectors such as metallurgy where, once more, the self-financing rate was probably negative. Calls by the Italian economy on external financing sources became much more intensive in these conditions. The increase was all the greater because, from the summer onwards, big companies frequently proceeded to redeem part of the medium-term international loans contracted by them in previous years; furthermore many firms, for instance in the engineering and chemical industries, profited from the absence of credit restrictions in order to reconstruct the liquidities which they had had to reduce in previous years. Recourse to medium and long-term credit thus reached a hitherto unequalled volume. Likewise, the issues by public enterprises on the financial market were more substantial than in 1970 and would have been even more so had not the Treasury contributed to their financing by raising the capital funds considerably. Share issues almost reached the high level of the previous year.

In the *Netherlands*, the accelerated increase in wage incomes contributed to stepping up greatly production costs. Although the enterprises, under strong cost pressure, continued to make appreciable rationalisation efforts, their profits suffered increasingly. Although some sectors were still able to proceed to readjustments of their selling prices on the domestic market, as is shown by the sharp rise in the cost of living, enterprises were led on the other hand, as in Germany, after the *de facto* revaluation of the national currency, to reduce their profit margins on exported products so that the latter could remain competitive abroad. Undistributed profits therefore recorded a less marked expansion than in 1970 and, despite the slowdown in the gross fixed capital formation, the self-financing rate diminished. Calls on external financing sources greatly progressed : medium and long-term bank credits, in particular, showed a notable expansion.

In *Belgium*, the situation of the enterprises continued to deteriorate in 1971. The pace of wage increases further accelerated, exerting pressure on profit margins at a time when sales were tending to slow down under the effect of the persistent stagnation of activity, though at a high level, and when the conjunctural situation no longer made it possible to pass on easily the increase in operating costs to the selling prices. Obviously, this evolution did not affect the different sectors of the economy to the same extent. The electricity, glass and oil industries, as well as the

building companies and the department stores still recorded notable productivity gains and were able to maintain appreciable profit margins. But the iron and steel, chemicals, textiles, food and paper sectors were more seriously affected. On the whole it seems clear that the net yield of risk capital decreased. As in France, however, the gross corporate savings again appear to have increased slightly and the decline in the self-financing rate was therefore much more moderate than in other Community countries. Nevertheless, enterprises had to step up their borrowings greatly. Bond issues by the private sector, in particular, showed an exceptional progress.

* * *

The increased indebtedness of enterprises in the Community in the course of recent years is a factor giving cause for concern. Although the recent relaxation in interest rates and the monetary erosion are likely to alleviate the borrowing charges in future, it is clear that the chances for the European enterprises to remain competitive depend not only on the fixing of realistic exchange rates, but also on the capacity of industry to maintain a satisfactory self-financing rate. Their financial structure, which is often already heavy by comparison with that of American enterprises, indeed sustains with ever greater difficulty the weight of a continuous and rapid increase of commitments towards external financing resources. It is therefore more than ever necessary to check the rise in operating costs. Such a result could only be obtained in exchange for a greater moderation in the wage and price increases.

The maintenance of the savings rate in the Community at a satisfactory level and the lasting stabilization of long-term interest rates at the more moderate present level are also subordinated to the results achieved by the measures taken by the public authorities with a view to checking inflation. This points to the importance that should be attached to the success of the policies applied in this respect in the different countries of the Community.

In the next part of the present chapter, we analyse in a more detailed manner the evolution, in the Community, of the markets for public issues of securities and the economy's other external financing sources.

2.2. The market for public issues of securities

In 1971, the resources collected in the Community from *public issues of securities* ⁽¹⁾ increased considerably. Compared with the preceding year the increase

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

was 46% in 1971, whereas it had not exceeded 7% in 1970 and had been nil in 1969. This is even higher than the growth rates observed in 1968 (24%) and 1967 (22%).

On the capital markets of member countries, considered as a whole, issues showed a steep increase in volume. The contribution of the European international market was also much more substantial than in 1970. The intense activity observed in the course of the year was accompanied by a definite lowering of yield rates.

2.2.1. Issues on the markets of member countries

The expansion of public issues of securities was very marked in all the Community countries. Particularly notable in Italy and Belgium, where the rate of growth from one year to the next exceeded 60%, it was also very important in Germany and France and rose above 10% in the Netherlands.

The progress was spaced out over the whole year but was particularly pronounced in the first few months and the last quarter. The persistent capital inflows into the Community and the continuing slowdown of economic activity in Europe went on increasing the volume of available long-term capital. Despite the slackening of gross fixed capital formation, demand for capital remained high, emanating either from the public authorities, always a prey to internal financing difficulties, or from private enterprises, whose own resources available for investment showed a tendency to shrink.

The ample capital supply reinforced the tendency towards a reduction of yield rates which was notably strong in the course of the first four months of the year and then, again, from September onwards.

The financial markets thus reached equilibrium in 1971 in improved conditions. The activities of institutions which, like the Bank, derive almost the whole of their resources from borrowings on these markets was thereby rendered much smoother.

2.2.1.1. Domestic securities

Net public issues of domestic securities, after deduction of amortizations, effected in 1971 increased by over 45% by comparison with 1970. The increase had been only 11% in 1970 and 3% in 1969.

From one year to the next, the ratio between these operations and the Community's gross national product rose from 3.5% to 4.6%. Such a high ratio had not been attained for many years.

Calls by the public authorities on the financial markets, which had persistently slowed down since 1967, doubled from 1970 to 1971.

Non-financial enterprises and credit institutions stepped up their issues by one third: while net borrowings advanced by nearly 50%, share placings remained practically stable.

Table V — NET DOMESTIC PUBLIC ISSUES OF SECURITIES

(milliard units of account) ⁽¹⁾

<i>Type of securities</i>	1968	1969	1970	1971
Shares	2.73	3.70	4.53	4.63
Borrowing by public authorities (Governments and local authorities)	3.75	3.40	3.00	6.14
Borrowing by enterprises (including financial institutions)	8.34	8.10	9.28	13.91
Total Community	14.82	15.20	16.81	24.68

(1) Cf. footnote page 100.

Shares

For the first time for four years, the share issues recorded in the Community hardly progressed and remained at about the high level reached in 1970. Most of the European stock markets continued to record, for a large part of the year, a rather unfavourable evolution, due mainly to the slowdown of economic activity and the less rapid advance of corporate profits, which itself was rather closely linked with the very brisk increase in wages. Furthermore, as long as the yield of fixed-interest securities remained high, the public gave preference to bonds, which did not facilitate the placing of new shares.

Germany was the only member country where new issues were more substantial than in 1970, in particular in the second and fourth quarters. It is true that the share prices there recorded gains of about 9% for the year, whereas they had shown

Table VI — SHARE ISSUES

(milliard units of account) ⁽¹⁾

Country	1968	1969	1970	1971
Germany	0.79	0.71	0.98	1.29
France	0.74	1.45	1.56	1.45
Italy	0.72	1.08	1.55	1.51
Netherlands	0.07	0.06	0.06	0.04
Belgium	0.41	0.40	0.38	0.34
Luxembourg	n.d.	0.00	—	0.00
Total Community	2.73	3.70	4.53	4.63

(1) Cf. footnote page 100.

a big downturn in the previous year. Under the influence of large foreign purchases effected in the hope of a revaluation of the Deutsche Mark, the behaviour of variable-yield securities improved until April. However, the announcement by enterprises of diminished financial results, owing to the uptrend in cost and the narrower profit margins, contributed, with the more hesitant evolution of economic activity and the uncertainties connected with the floating of the national currency, to the subsequent fall in stock quotations. A further uptrend began to emerge only in December, at the time of the relaxation in the international monetary crisis.

In *Luxembourg*, the index of share prices progressed by 12% in 1971. No issue of shares was made by enterprises established in the Grand Duchy but the volume of participation certificates in mutual funds issued during the year remained considerable.

In *Belgium*, as in Germany, the share market showed a favourable trend in the early months of the year. The reduction of long-term interest rates and the abundance of available liquidities as well as the hope for a gradual relaxation of monetary policy in Western Europe, contributed to the improvement of prices until July. The announcement of the steps taken by the U.S. government, the aggravation of

the monetary crisis and the uncertainties as to the further economic development then led to notable falls in prices. The recovery in November and December enabled the index to rise at the end of the year to 3% above its end-1970 level; but this evolution did not encourage share issues, the amount of which was, for the third year in succession, lower than that of the previous year.

In the *Netherlands*, the volume of share issues, already very small, was further reduced. The very substantial fall in prices between August and November wiped out the gains made at the beginning of the year and could not be offset by the recovery which occurred in December, so that the losses for the year finally reached 7%.

In *France*, share subscriptions were slightly below the high level attained in 1970. While realizing the utility of reinforcing their own resources at a time when profits and self-financing possibilities were exposed to a slightly less favourable trend, certain enterprises, and more particularly listed companies, considered that the stock market climate was not of a nature to favour the placing of their securities and preferred to call on the credit markets, which were more accessible than in previous years, for obtaining investment finance. The attraction of bond investments offering high interest rates, the uncertainties linked with the economic development, the gloomy international monetary climate, the exchange restrictions applied to check the speculative inflow of capital, certainly did not encourage investors and savers to buy French variable-income securities. The quotations of listed shares, fairly stable in the first half-year, recorded a fall of nearly 15% from August to November. The recovery in December did not make it possible to offset this and the decline in prices in the course of the year finally exceeded 6%.

It is in *Italy* that the fall in share prices, from one year to the next, has been most marked : about 18%. As in 1970, the governmental crises and the tendency of reduced profits, with which the extension of labour conflicts was doubtless not unconnected, exerted an unfavourable influence on the listed securities for nearly the whole of the financial year. Share issues felt the repercussions of this evolution and did not keep the level reached in 1970, when they had been encouraged by the tax measures in their favour taken by the authorities.

Bonds

The year was marked by a general widening of the bond markets of the Community countries. This orientation was especially pronounced in the opening and closing months of 1971.

The volume of issues developed very considerably; the movement was particularly strong in Italy and Belgium, but was also brisk in France, Germany and, to a lesser extent, the Netherlands.

The long-term interest rates at the same time moved downwards in all countries, except France. Belgium is the only country where the relaxation was continuous. After a period of downtrend lasting two months in Germany and four months in the Netherlands and Italy, the rates indeed showed a tendency to increase again in these countries until the middle or end of the summer, before taking another downturn later in the year.

At the end of 1971, leaving aside effects of taxation on interest payments, the Community countries were divided into three groups : Belgium had the lowest gross yields in the Community, with those for bonds of the public sector being slightly below 7 1/4%. In France, on the contrary, rates continued to be high, exceeding 8 1/4%. In Italy, Germany and the Netherlands, rates remained halfway between these limits exceeding only slightly 7 3/4%. Furthermore, the issue conditions showed in nearly all these countries a tendency to further improvements.

Although fundamental differences still separate the financial circuits of member countries and therefore limit the significance of this type of comparison, it should be noted that within the Community, Italy has regained first place as regards the volume of net issues of domestic public bond loans, the share of which in the total issues, which had fallen from 46% to 34% in 1970, climbed back to nearly 40%. However, it is in Belgium that the ratio between these issues and the gross national product reached the highest percentage : 9.8% as against 8.0% in Italy, 2.7% in Germany, 2.2% in the Netherlands and 1.8% in France (Table VII).

In Germany, the capital market was very liquid. Issues recorded a remarkable expansion, which slowed down only for a fairly short period in the spring : net issues of fixed-income domestic securities (in Deutsche Marks) thus increased by 37% in 1971, compared with an expansion of only 12% in the previous year.

Bond subscriptions by credit institutions, which had decreased in 1970, took an upturn in 1971. The development of saving deposits and the Central Bank's policy of monetary relaxation contributing to widening considerably the liquidity of these institutions, which thus increased their demand for securities on several occasions.

The share of households among the domestic bond subscribers diminished a little, but remained predominant. Although saving deposits continued to enjoy

great favour with the public, individual savings continued to turn largely towards subscription to fixed-income securities, rendered attractive by the offer of relatively high rates on the bond market and the prospect of capital gains in the fairly near

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

(milliards of units of account) ⁽¹⁾

Country ⁽²⁾	1968		1969		1970		1971	
Germany	4.24		3.30		4.03		5.55	
Public sector		0.63		— 0.05		0.14		0.33
Economy		3.61		3.35		3.89		5.22
France	1.16		1.25		1.88		2.94	
Public sector		— 0.12		— 0.14		— 0.05		— 0.04
Economy		1.28		1.39		1.93		2.98
Italy	4.92		5.34		4.23		8.01	
Public sector		2.15		2.48		1.74		3.62
Economy		2.77		2.86		2.49		4.39
Netherlands	0.39		0.53		0.67		0.78	
Public sector		0.27		0.41		0.36		0.37
Economy		0.12		0.12		0.31		0.41
Belgium	1.38		1.07		1.46		2.76	
Public sector		0.82		0.69		0.80		1.85
Economy		0.56		0.38		0.66		0.91
Luxembourg	0.00		0.01		0.01		0.01	
Public sector		0.00		0.01		0.01		0.01
Economy		0.00		0.00		0.00		0.00
Total Community	12.09		11.50		12.28		20.05	
Public sector		3.75		3.40		3.00		6.14
Economy		8.34		8.10		9.28		13.91

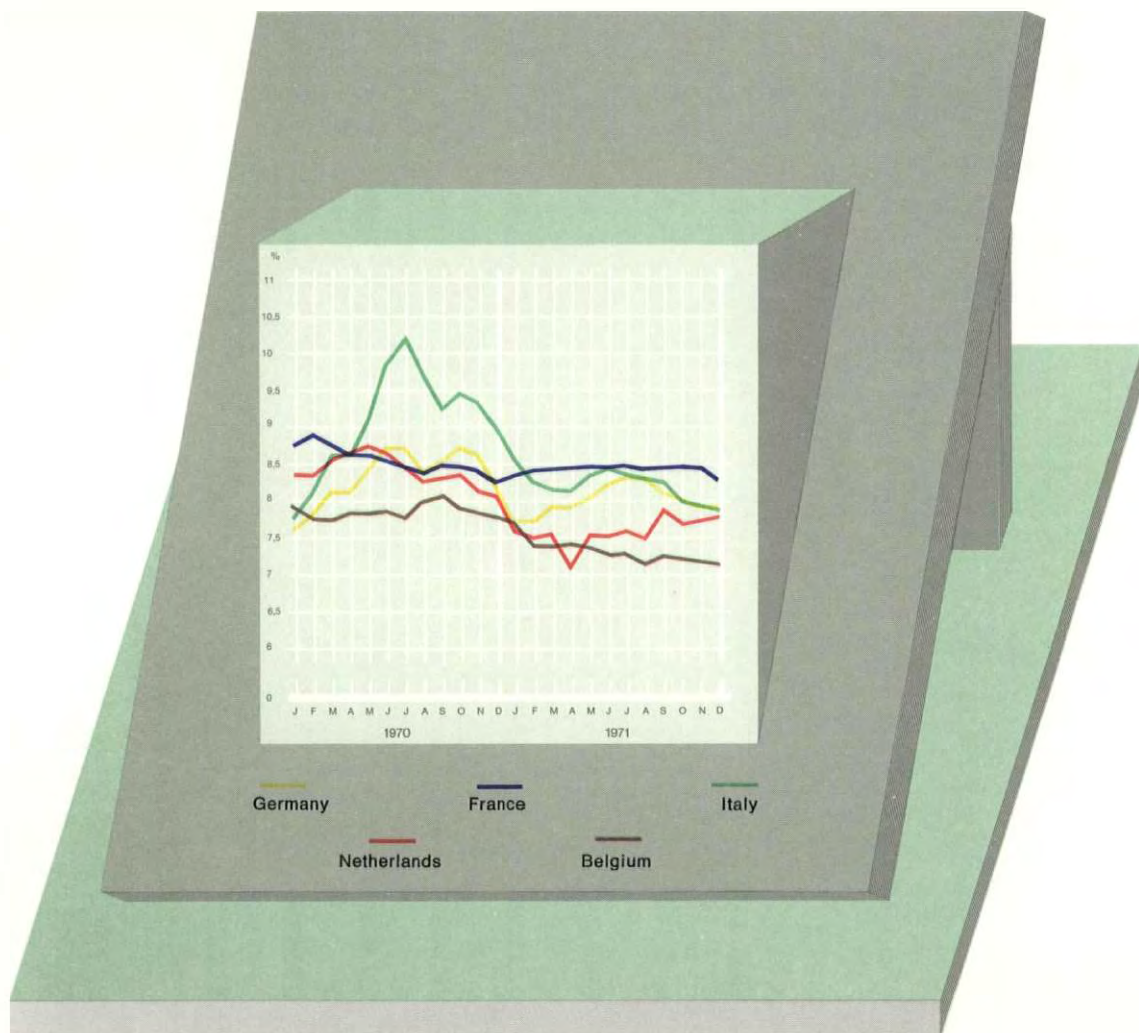
(1) Cf. footnote page 100.

(2) The issues entered under "Public sector" include all issues by the Government and public institutions, although the proceeds of these issues may sometimes make it possible to grant loans to the economy. The issues entered under "Economy" include all issues by non-financial enterprises, whether national or private, and all issues by credit institutions whose main activity is granting credit to the economy.

future. Households showed a very clear tendency to reinvest the interest from their securities on the bond market, the self-financing potential of which is thus constantly developing. In the course of the year, the attraction exerted on foreign savings by German bonds offered for subscription was also greatly reinforced. Lastly, institutional investors, and more particularly the insurance companies and social security institutions, seem to have substantially intensified their subscriptions to fixed-income

GROSS YIELD OF BONDS

In circulation in the Community issued under conditions similar to those of the loans raised by the Bank.



securities on the public market in the last quarter, whereas they had apparently continued to give preference to private placings in the preceding months.

For the second consecutive year, the direct calls on the market by the Federal Government, the Länder and other public authorities remained fairly limited, absorbing only 6% of the available resources. It was the sector of the economy which, once again, was the major beneficiary of the market. Anxious to consolidate certain short-term borrowings contracted when the interest rates were still very high and faced, on the other hand, by self-financing difficulties, enterprises greatly stepped up their direct calls on borrowings and absorbed 18% of the funds, as against 10% in the previous year. The financial institutions nonetheless remained the chief borrowers, once again absorbing three quarters of the capital offered. Although issues of municipal bonds showed a notable fall, the calls by mortgage banks were very buoyant, under the influence of the resumption of activities in the housing sector where the maintenance of relatively high interest rates no longer contributed to checking building projects.

The market, which had begun to show signs of relaxation at the close of 1970, continued to improve rapidly in January under the influence of new inflows of foreign capital and favourable seasonal circumstances, such as payments of dividends and interest. Very substantial capital demands could be met without preventing the nominal rate of the bonds offered for subscription to fall from 8% to 7.5%. These conditions merely followed the tendency of the stock market yields, which moved down from 8.3% to 7.7% for securities of the public sector.

However, the situation rapidly deteriorated following the revival of calls on the market, motivated by the attractive level of the new issue conditions and by a simultaneous reduction in the capital offered, as private individuals preferred to orient their investments towards more liquid forms while awaiting the improvement of the conjunctural climate.

The restrictive monetary measures taken in May after the decision to allow the Deutsche Mark to float also contributed to reduce the volume of funds available. The difficulties in placing bonds then led to the halt of issues in June. Operations recommenced in July at the nominal rate of 8% as against 7.5% previously. The tightening of the market was accompanied, from February to August, by a gradual rise in the stock market yields which, as regards securities of the public sector, moved up in seven months from 7.7% to 8.3%. From September onwards, however, the conjunctural slowdown within the country, the relaxation of credit policy and the

desire of investors to benefit from the high interest rates still in force, finally led to a new relaxation. The nominal rates for new issues fell from 8% to 7 3/4%, at the same time as the stock market yields moved down by nearly half a point, reaching 7.9% in December.

In *France*, the amount of net bond issues recorded for the second consecutive year an increase of nearly 60%. From the beginning of the year onwards, institutional investors showed a tendency to reduce greatly the volume of short-term investments they had made on the monetary and mortgage markets when the rates there were high, and to increase their bond subscriptions substantially. The insurance companies, for their part, intervened actively in subscribing first-class securities which their investment regulations require them to hold; their demands were met on a priority basis by banks and numerous operations were carried out in the form of issues reserved for them. Likewise, the variable-capital investment companies, still anxious to limit their share investments, because of the unfavourable evolution of quotations, subscribed a considerable part of the bonds issued by the private sector.

At the same time, the reluctance of private investors vis-à-vis bond issues diminished. While showing, as in 1970, a marked propensity to save, they doubtless continued to orientate a large share of their investments towards liquid forms. However, the policy of the French authorities concerning the remuneration of savings also contributed to encourage bond investments by the general public. The maintenance of high interest rates, intended to protect savings against the monetary erosion inherent in persistent price increases, unquestionably bore fruit, to such an extent that at certain times banks had to resort again, after a long interruption, to quota arrangements, for placing their securities with the public. This occurred, *inter alia*, in the opening and closing weeks of the year, when the prospect, which had not yet become effective, of a downturn in yields offered at issue led to a revival in private subscriptions. The exchange regulations and a number of psychological factors, on the other hand, caused foreign investors to run away from subscriptions to French bonds, despite the gap between the rates practised on the domestic market and those in force on the foreign markets.

For the fourth year in succession, the Government and public authorities proceeded to security issues in an amount below that of the amortizations on borrowings which they had to meet. All net resources available therefore benefited the sector of the economy. The credit establishments specializing in long-term loans collected an amount nearly 20% higher than in the previous year; their share in the total resources supplied by the market nevertheless fell from 52% in 1970 to 39% in

1971. The enterprises of the private sector, on the other hand, became the principal beneficiaries of the bond market; indeed, they collected 42 % of the capital offered, against 33 % in the previous year, and doubled the volume of their calls. The development of their issues is the outstanding phenomenon of the year. The public enterprises and the industrial enterprises of the nationalized sector also made larger calls on bond issues in order to finance their activities, while continuing to ensure the cover of a large part of their investments by substantial calls on sources of capital outside France, such as the European international market or international institutions such as the European Investment Bank.

The French financial market, which remained relatively sheltered against the speculative short term capital movements because of the existence of exchange restrictions, escaped from any serious disequilibrium between capital supply and demand, so that the conditions offered remained very stable. Stock market yields of securities of the public sector, which had decreased in January because of the pressure exerted by unfounded anticipations of the general public and institutional investors, reached in April nearly 8.5 % and remained practically at that level until December, when further speculations brought them to about 8.3 %.

Likewise, the yield of bonds in the private sector, of the order of 8.8 % at the end of 1970, hardly varied until the last quarter, when they moved down to 8.6 % in December. Issue conditions for bond loans remained unchanged and nominal rates offered continued to be fixed, thanks to a selective timing of borrowings, at 8.5 % for the public sector and 8 3/4 % for the private sector. Issues were accelerated at the beginning and the end of the year, so as to check the reduction of yields observed on the stock market; on the contrary, issues were slightly slowed down in the third quarter in order to avoid a certain glut on the industrial securities market.

Together with Belgium, *Italy* is the Community country which experienced the strongest expansion in issue activity. The net resources obtained from the market nearly doubled and the yields fell steeply.

Borrowings made by the Treasury or for its account doubled in volume and relatively regained in importance : they corresponded to 45 % of the available capital, compared to a little over 40 % in 1970. They were particularly high in the last quarter, when they made it possible to appropriate additional capital funds to public enterprises, to ensure the financing of investments by the State Railways and to facilitate the latter's redemption of international loans contracted in previous years.

The special credit institutions increased the volume of their issues by 50%; their calls on the market represented a larger share than, on an average, from 1966 to 1969; influenced by the slowdown of housing construction, the issues of mortgage certificates effected by real estate credit establishments barely progressed. On the other hand, the credit institutes stepped up quite considerably the volume of their borrowings; the advance was very marked in February after the banks had been urged to include in their assets, under the heading of free reserves, the certificates of institutes; it was again marked in the second half-year, when the Government wanted to facilitate the recovery of investments by increasing the share borne by the State for the service of interest on loans granted to enterprises in development zones.

The big public enterprises (ENEL, IRI, IRI Motorways, ENI), which had been hardest hit in 1970 by the halt in public issues, also took advantage of the widening of the market by making many calls again, absorbing 11% of the available funds, compared to 3% in 1970. If they did not increase their participation to the high level it had shown until 1969, it is because their financing was largely ensured in 1971 by the Treasury, which greatly increased their appropriation funds thanks to the resources which it drew itself from the capital market.

The financing of industrial investments continued to be fairly widely ensured, over the first half of 1971, by substantial borrowings on the foreign and international markets. But this source of capital was scarcely used at all subsequently and the authorities even encouraged, in the closing months of the year, the redemption of a part of the medium-term variable-rate loans, contracted previously, mainly by public enterprises and special credit institutes. The easy situation of the domestic financial market then facilitated the reduction of the external indebtedness.

Compared with the previous years, the credit establishments greatly developed their participation in the financing of net issues by raising it from 29% to 45%; the capital inflow and the relaxation of monetary policy, as well as two reductions of the discount rate, were accompanied by a rapid widening of the liquidities of the banks, at the very time when the weakness of credit demands led to a reduction in the possibilities of using their liquidities. At the same time, the interest of private individuals for bond investments became stronger. The slowdown in private consumption enabled private savings to continue to record a favourable evolution. While still steering a large part of these savings towards liquid forms of investment, the general public again began to increase their long-term investments, in the hope

of benefiting, in future, from price rises likely to make up somewhat for past disappointments.

In the framework of its policy of harmonization of domestic and foreign rates, the Bank of Italy intervened on the market to sell or purchase securities whenever it proved necessary to avoid abrupt variations of quotations. Although it allowed its securities portfolio to expand at the end of the year so as to permit the Treasury, directly or indirectly, to obtain the appropriate resources for the implementation of its intervention plans, its participation in the financing of net issues, in absolute term about on the level of 1970, declined relatively, from 41 % in 1970 to 19 %.

The issue activity was buoyant throughout the year. In the very first months, the stock market for fixed-income securities firmed up in rather a spectacular way until April. But the volume of new issues and the reversal of the trend in long-term rates on the foreign markets, again upset by the recrudescence of the international monetary crisis, were accompanied in May and June by renewed tension. The monetary authorities then decided to curb public issues and, on the contrary, to encourage private placings with the banks. Under the effect of the implementation of this policy, the market became stabilized at the beginning of the summer and thereafter continued to improve. The evolution of the stock market yields clearly reflects this trend; the yield of the bonds of credit institutions, particularly representative of the market, which still attained 9 % at the beginning of January, sagged to about 8 1/2 % in January and then fell gradually to 8.1 % in April, moved up to 8.4 % in June and then fell gradually to 7.9 % until December. The yields offered at issue remained more stable; the monetary authorities indeed maintained them around 8 1/4 % throughout the year, with the twofold aim of avoiding an over-pronounced gap with foreign rates and offering attractive remuneration conditions to private investors.

In the *Netherlands*, the net amount of public issues of fixed-income securities increased by 16 %.

These figures reflect only imperfectly the situation which prevailed during the year on the capital market, for they do not include the private placings, exceptionally substantial in 1971.

The supply of capital came to a very large extent, throughout the first part of the year, from foreign savings; indeed, for several months, the Netherlands experienced an exceptional inflow of foreign capital anxious to invest in securities denominated

in guilders. Despite the persistence of steep rises in prices and wages, the national currency continued to enjoy a special prestige with foreign subscribers, who were all the more inclined to channel their available capital towards Dutch securities because, independently of a rate of interest that was still very attractive, the latter are not liable to a tax when held by non-residents, unlike German securities. In view of this influx of capital which thwarted their efforts to check the expansion of bank liquidity, the Dutch authorities decided, early in September, that non-residents could henceforth purchase bonds only by procuring guilders resulting from the sale of Dutch bonds by non-residents to residents.

Domestic subscribers, already quite active in the previous months, took over from foreign investors, whose role was reduced to almost nil. Despite the expansion of consumption, still very rapid, the private individuals, owing to the very steep rise in their incomes, develop their savings in 1971 considerably; the evolution of interest rates abroad, the prospects of an imminent reduction of interest rates on the domestic market, the attraction of the yields still offered by bond loans, then seem to have encouraged them, at the same time as the institutional investors, to take an increasingly active share in supplying funds to the capital market. Benefiting from a fairly marked expansion of their liquidities, despite the energetic steps taken by the monetary authorities with a view to checking this development, the banks themselves showed a greater interest in certain bond issues offered in the course of the year, notably by the Government.

The Government remained the largest borrower on the market, absorbing more than a quarter of the available resources, if necessary by proceeding to calls which were not immediately justified by the budgetary situation but which were intended to mop up the supply of available capital.

The Bank voor Nederlandsche Gemeenten, disposing of very abundant funds on the private placing market, reduced the volume of its calls on public borrowings, so that its share in the collection of resources through this channel fell from 25 to 21 %.

The volume of borrowings by the private sector, which had already considerably expanded in the previous year, increased further. The charitable institutions took advantage of the possibilities offered by the market by placing a much larger number of thirty-year bond loans to finance their equipment; likewise, the mortgage credit institutions had very wide recourse to the tap issue of securities to meet the capital

demands which followed the favourable trend in the building sector. On the other hand, while still at a high level, the volume of resources collected by other financial institutions increased but little; the same held true for the direct public issues by large enterprises on the market, because of the slowdown in industrial investment and the abundance of other resources available on the market.

Following the large-scale influx of foreign capital, the downturn in the stock market yields, which had started in the second half of 1970, accelerated in the course of the first four months of 1971. The situation was reversed in the period immediately after the monetary crisis in May. The rates then resumed their uptrend under the influence of the restrictive policy applied by the monetary authorities and this upturn was further accentuated by the measures ordered at the beginning of September to limit the purchases of bonds by non-residents. The fall in rates abroad, in the last quarter, encouraged a return to a more relaxed situation. The yields of the listed securities of the Bank voor Nederlandsche Gemeenten well reflect this evolution, whether on the stock exchange, where – after having fallen from 8% to 7% from end December 1970 to end April 1971 – they climbed again to nearly 8% at the end of September, and then declined to 7 3/4% at the end of December, or at issue where they fell gradually from 8 1/4% at the end of 1970 to 7 1/2% in April, then moving up to 8 1/4% in the autumn and returning to 8% at the end of the year.

In *Belgium*, net resources collected by public issues of fixed-income securities reached a record volume, 90% higher than in the previous year.

Throughout 1971, the inflow of private capital from abroad contributed to widening the liquidity of the economy and to supplying the financial market with resources. Banks and institutional investors were thus able to acquire a large volume of fixed-income securities than in the previous year; they did so all the more readily since saving deposits also increased considerably and were another abundant source of funds for them and the outlook as to the future trend of interest rates encouraged them to consolidate these funds in long-term uses. At the same time, the general public stepped up its subscriptions; although private consumption marked a more rapid expansion than the gross national product and although prices rose steeply, the rapid increase of earnings enabled private individuals to develop their savings; less anxious to channel the latter towards housing construction, private households used available capital funds to reinforce their portfolios, and at the same time kept important liquid holdings for reasons linked, inter alia, to the greater uncertainties of employment.

The Government took advantage of the liquid market situation to obtain, at falling rates of interest, a considerable amount of long-term funds, which made it possible to reduce, despite an increased budgetary deficit, substantially its foreign exchange debt. This policy permitted, to a large extent, to attenuate the effects of the substantial influx of foreign exchange on domestic liquidities. Borrowings by local authorities were also particularly large and were mainly to cover the financing of their investments expenditure for equipment. In all, the share of capital collected by the public authorities progressed from 55% in 1970 to 67% in 1971.

Supplied with funds from other sources, the financial institutions reduced relatively their calls on the market. On the other hand, enterprises increased their calls, although their propensity to invest showed a flagging tendency.

The adjustment of these demands for funds to supply occurred without strain and, throughout the year, the yields in force on the market moved downwards, gradually and continuously. The yields of securities of the public sector at issue fell from 8.6% in December 1970 to 7 1/4% one year later. On the stock market, they moved down from 7.8% to 7.1%.

In *Luxembourg*, the public issue market was called upon three times, for fairly large amounts. The Government collected over 80% of the gross available resources, at a yield of 6.7%, unchanged by comparison with the previous year. A large share of the funds collected were used to consolidate previous debts, so that the net capital supply from public market issues was somewhat below the figure for 1970.

2.2.1.2. Foreign fixed-income securities

The general economic development and more particularly the reduction of tensions on the national capital markets of the member countries permitted that these markets were opened up much more widely in 1971 than in previous years for public issues of foreign fixed-income securities. Nineteen bond issues, as against seven in the previous year, were placed, through the intermediary of national placing syndicates : they totalled 388 million units of account, as against 223 million units of account in 1970 and 196 million in 1969.

Calls on the German market remained considerable and made it possible to collect 205 million units of account, as against 191 million in 1970. The volume of

capital collected on the financial markets of other member countries however progressed even more markedly from one year to the next. Indeed, these markets handled fourteen bond loans, compared to two in the previous year.

Particular attention was paid to the Benelux countries : issues of fixed-income foreign securities doubled in the Netherlands, where they rose from 17 million units of account in 1970 to 33 million in 1971, and quadrupled in Belgium, where they reached 65 million units of account as against 15 million in the previous year; for the first time since 1965, the Luxembourg authorities permitted foreign public bond loans, totalling 16 million units of account in 1971. The French and Italian capital markets contributed, to the extent of 45 million and 24 million units of account respectively, to the financing of calls for funds emanating, in the form of public issues, from non-nationals, whereas in 1970 such issues had not been possible.

International borrowers from outside the European Economic Community collected a large part of the available capital : 198 million units of account in 1971,

Table VIII — GROSS ISSUES OF FOREIGN SECURITIES
ON THE MARKETS OF MEMBER COUNTRIES ⁽¹⁾
BOND ISSUES BY INTERNATIONAL INSTITUTIONS AND NON-RESIDENTS

(millions of units of account) ⁽²⁾

Country	1969	1970	1971
Germany	172	191	205
France	—	—	45
Italy	24	—	24
Netherlands	—	17	33
Belgium	—	15	65
Luxembourg	—	—	16
Total	196	223	388
of which European Investment Bank	57	42	114
Commission of the European Communities (European Coal and Steel Community)	—	—	76
Others	139	181	198

(1) This table includes only foreign bond issues placed in a given country by a syndicate composed exclusively of national institutions. Foreign bond issues placed in several countries by international syndicates are registered as issues floated on "the European international market", even if a part of their proceeds is subscribed by the investors of the country in whose currency they are issued.

(2) Cf. footnote page 100.

as against 140 million in 1970. The International Bank for Reconstruction and Development continued to be the main borrower, with 138 million units of account, as against 113 million in the previous year. The Inter-American Development Bank, borrowed 36 million units of account, as against 27 million in 1970. Lastly, the Netherlands Antilles and the Asian Development Bank issued bonds for amounts of 16 million and 8 million units of account, respectively.

Nevertheless, calls on the markets of member countries by European international institutions showed the most important advance, rising from 42 million units of account in 1970 to 190 million in 1971. The Commission of the European Communities, for the account of the European Coal and Steel Community, floated five bond loans, totalling 76 million units of account, whereas it had refrained from issues on the financial markets of member countries in the previous year. Calls by the European Investment Bank almost trebled from one year to the next : six public issues were made on the national markets of the Community, totalling 114 million units of account as against only 42 million in 1970.

The share of public issues by Community institutions on the national markets of the Community thus increased considerably in 1971, as it attained half the resources collected by foreign borrowers and international institutions, instead of only one fifth in 1970. The authorities of the member countries have thus encouraged the development of the activities of these institutions, obviously in line with a development of actions favouring structural changes in accordance with the wishes of the Council of Ministers of the Communities.

2.2.2. Issues on the European international market

The European international market, which had tended to be rather restricted in 1969 and 1970, developed very briskly in 1971. The overall volume of bonds issued in the course of the year shows an advance of 35% compared with the previous year; it exceeded still the record level of 3.1 milliards units of account attained in 1968, reaching 3.3 milliards in 1971, as against 2.4 milliards in 1970 and 2.8 milliards in 1969.

These figures cover the whole of the bonds offered through the intermediary of international placing consortia, including, for example :

- bonds issued in one or more countries by non-residents, but which are not denominated in the currency of this country;

- bonds which, issued in a given country by residents and denominated in the currency of this country, are expressly reserved for subscription by non-residents;
- bonds which, issued in a given country by non-residents and denominated in the currency of this country, are placed in several countries by consortia;
- bonds accompanied by special monetary clauses (units of account, European monetary units, multiple currency clause).

Table IX – GROSS ISSUES OF SECURITIES
ON THE "EUROPEAN" INTERNATIONAL MARKET

(millions of units of account) ⁽¹⁾

	1969	1970	1971
CONVERTIBLE BONDS	825	199	245
Dollars	825	172	245
DM (*)	—	27	—
BONDS WITH WARRANTS	284	50	50
Dollars	284	50	50
CLASSIC BONDS	1,672	2,175	2,972
Dollars	499	1,556	1,798
Dollars / Lux. fr. option	—	—	20
DM (*)	1,113	515	806
French francs	—	—	47
Florins	—	—	14
Sterling / DM option	—	—	36
Units of account	60	54	166
European monetary units	—	50	85
Total	2,781	2,424	3,267
BORROWERS OF EUROPE ⁽²⁾	1,152	1,348	1,517
from the Community	567	794	433
– European Investment Bank	25	60	82
– Commission of the European Communities (European Coal and Steel Community)	—	50	20
– Others	542	684	331
E.F.T.A.	440	463	820
Others	145	91	264
BORROWERS OF THE AMERICAN CONTINENT	1,227	794	1,268
U.S.A.	954	622	1,037
Others	273	172	231
BORROWERS OF JAPAN	246	108	122
MISCELLANEOUS BORROWERS	156	174	360

(1) Cf. footnote page 100.

(2) The criterion selected for appreciating the geographical origin of borrowers is that of the nationality – and hence the registered office – of the issuers, except as regards holding companies which are affiliates of foreign parent companies: these companies are included under the heading of borrowers whose nationality corresponds to that of the parent companies.

(*) See footnote 1 to Table VIII.

The international economic and monetary situation exerted a decisive influence on capital supply and demand as well as on the form of calls on the market.

Directly or through their subsidiaries, the large American corporations again greatly intensified their calls, whereas they had tended to space them out in the previous year. The tightening-up of the exchange regulations to which they are subject in the United States induced them, as in 1968, to arrange for the financing of their foreign investments through collecting an increased volume of capital abroad. As the international monetary uncertainty caused them to limit their calls on the domestic markets of hard-currency countries, they tended to turn towards the international market for placing there classic bonds denominated in dollars, all the more as the gradual reduction of interest rates on this market became an additional factor of attraction.

Demands from European borrowers showed rather divergent trends. In the countries of the European Economic Community, the abundance of capital available on the national markets rendered calls on the international financial market less necessary. For the other countries of Europe, which do not have a very active domestic market, or where the cost of long-term resources remained very high throughout the year, the international financial market constituted an increasingly attractive source of capital.

The behaviour of institutional investors and savers prepared to meet these demands varied in the course of the year; three periods should be distinguished.

In the course of the first quarter of 1971, and more particularly in January and February, the volume of capital collected on the international market was very substantial; the temporary relaxation in the international monetary climate, the prospects of a reversal of the long-term interest rate trend in Europe as a result of the evolution already recorded in the United States, and the abrupt fall of short-term rates greatly influenced the behaviour of investors. The latter, anxious to benefit from the still attractive conditions of dollar issues, made large-scale calls. At the same time, the issues in Deutsche Mark continued to be intensified, especially as the high rates still practised in Europe once again led to abundant transfers of capital.

The situation was reversed from April onwards, when the international monetary difficulties became more serious. The uncertainties concerning the American currency threatened once more by a recrudescence of capital flows to Europe and especially

to Germany, made investors more reserved vis-à-vis long-term dollar investments and induced them to place funds rather in claims which gave them protection against the exchange risk. The revaluation of the Swiss franc and the Austrian schilling, the floating of the Deutsche Mark and the florin, the continuous appreciation of several currencies vis-à-vis the dollar and, finally, the decision to render the dollar inconvertible, accompanied by the introduction of a 10% import surcharge in the United States and the abandonment of other fixed parities in mid-August, contributed to the deterioration of the situation. Until the end of October, the overall activity of the international market therefore deteriorated, declining in volume despite the growing success of bond issues denominated in Deutsche Mark, in units of account and with multiple currency clauses.

The attitude of investors changed only in the closing weeks of the year, when prospects of a lasting settlement of the crisis began to emerge. As soon as the exchange risks seemed to diminish, the high interest rates offered by dollar issues once again constituted an attractive factor for investors in search of remunerative propositions.

The results achieved thanks to this revival of the market finally made it possible for the classic bond issues ⁽¹⁾, launched during the year, to reach nearly 3 milliards units of account, instead of 2.2 milliards in 1970. Such an amount had never yet been attained. There were 131 operations, as against 93 in the previous year. On the whole, they related to average amounts comparable to those of 1969 and 1970 : of the order of 25 million units of account. While losing a little of its relative importance as currency of issue 60% of these bonds were still denominated in dollar, against 70% in the previous year. Nearly all issues were made at a fixed rate of interest; the formula of variable interest rates, linked to the six-month Eurodollar rate, which had been favoured by the market in the previous year, lost its attraction once the downturn in the long-term rates brought them to more reasonable levels. The share of classic bonds denominated in Deutsche Mark, particularly attractive to the public, progressed from 24 to 27% only, because of the restrictions imposed on these operations each month in fixing the time-table of issues. The other operations were effected in units of account. Eleven of them, as against four in 1970, were denominated in the unit of account of the former European Payments Union, accompanied by the conditions traditionally offered for such issues with an exchange guarantee into the most stable currency of the seventeen reference currencies. This formula was chosen particularly in the first half of the year, but was no longer able to meet, from a technical point of view, the difficulties raised by the almost general abandonment of fixed parities from August onwards. Several attempts were also

(1) Issues which are neither convertible bonds nor bonds with warrants (see table page 124).

made in the course of the year to develop issues with multiple-currency clauses, but for obvious reasons, the number of borrowers who had recourse to these formulae remained extremely limited owing to the excessive exchange risks which these formulae imposed on them : thus, only two issues took place in European monetary units, fixed for the entire term of the loan and permitting the redemption, at the holder's discretion, in any of the currencies of the six Community countries at the fixed parity at the time of issue; thus also, the reappearance of issues in sterling with Deutsche Mark option and the introduction of issues denominated in dollars with reference to the Luxembourg franc concerned only individual cases. On the other hand, the international market was opened in the last few months of the year to issues denominated in French francs, which met with a fairly great success.

Whereas the expansion of classic bond issues attained dimensions hitherto unequalled, the issues of convertible bonds or bonds with warrants remained limited, amounting to 0.3 milliard units of account as against 0.2 milliard in 1970. The unfavourable evolution of the main share markets in the course of the year continued, indeed, to render these securities unattractive for investors. Such issues were exclusively denominated in dollar and the resources thus collected represented only 9 % of the total volume of new issues on the European international market, compared to 10 % in 1970, 40 % in 1969 and nearly 60 % in 1968.

On the whole, the distribution of borrowing operations effected in the course of the year between calls emanating from the public sector and private enterprises remained more or less unchanged. The share of issues by governments and public administrations was at the same level as in 1970, i.e., approximately 15 %. Calls by international institutions fell slightly, from 4 % to 3 %, while calls by enterprises of the private sector rose from 81 % to 82 %. Among the latter companies of the energy and mining sectors made the biggest calls on the market : they collected nearly 30 % of the resources as against 25 % in 1970. The manufacturing industries increased their share slightly, to almost 30 %.

Contrary to the previous years, the share of European borrowers, excluding European subsidiaries of American parent companies, fell from 56 % to 46 % by comparison with the previous year, although their issues increased in volume by more than 11 %.

Calls by borrowers from countries of the Community and by European institutions absorbed only 13 % of the available capital, as against 33 % in 1970. Nearly half these funds were collected by French borrowers, who were tempted to call on the international financial market because the conditions offered by the national French

market were much more onerous. The expansion of the domestic market and the interest rate level practised there explain why Italian borrowers greatly reduced their demands for capital on the international market and why there were no calls of German and Dutch origin, either direct or through financial companies.

The stock market yields of classic dollar bonds fell steeply in the opening weeks of the year, from 8.4% to 7.9%. But the uninterrupted uptrend, which subsequently occurred for seven consecutive months, again brought their level to 8.7% at the end of August. Afterwards, they again moved down and lost one point, ending the year at about 7.7%, i.e., nearly three quarters of a point below their level at the beginning of the year.

The yields at issue followed a fairly parallel evolution and also fell by three quarters of a point over the year. Rates for 10 to 20 year bonds of first class American companies, for instance, fell from 8 3/4% to 8 1/4% in January, then climbed back to 8.3% in February, 8.5% in March and 9% at the end of June. After having remained at this level until September, they fell to 8.5% in October and 8% in November.

The stock market yields of bonds denominated in Deutsche Mark were much more stable. After having fallen from 8.5% to 8% in January, they remained around this level for the rest of the year, apart from a temporary fall in April following the massive capital inflow prior to the floating of the Deutsche Mark.

Yields at issue fell in the very early days of 1971 from 9% to 7 3/4% and then, at the beginning of May, to 7 1/2%. After having recovered from June to the end of September to 8%, they again fell to 7 3/4% in mid-October and 7 1/2% at the end of the year.

As for the conditions applicable to issues of convertible bonds denominated in dollars, they corresponded, for first-class borrowers, to an increase from 6% in February to 7% in June. The yields afterwards fell gradually in the second half of the year, returning in December to their level of the beginning of the year.

* * *

In all, the public and private borrowers of the Community covered their investments by recourse to public issues on the financial markets to the extent of 25.3 milliards units of account, as against 17.6 milliards in 1970.

Even more than in the previous year, they obtained the major part of their resources on their own national capital markets. Calls on the international market

fell steeply. Public calls on markets outside the Community, more considerable than the previous year, were limited to Switzerland where they collected about 30% of the resources offered on this market to foreign borrowers.

*Table X – TOTAL CALLS BY COMMUNITY BORROWERS ON PUBLIC ISSUES
ON THE FINANCIAL MARKETS*

(milliard of units of account) ⁽¹⁾

	1970	1971
– Net issues on the national markets of member countries	16.81	24.68
– Issues on the European international market ⁽²⁾	0.79	0.43
– Issues on other national markets	0.03	0.14
	17.63	25.25

(1) Cf. footnote, page 100.

(2) In view of the impossibility of evaluating the volume of redemptions effected on Eurobonds in circulation, the figures given here relate to gross amounts. They should correspond closely to net issues because of the still relatively limited importance of redemptions in relation to the amounts of new issues.

2.3. Other external resources available for financing the economy

Public issues of securities provided the enterprises of the Community, as in previous years, with only a fraction of the external capital necessary for financing their investments. The greater part of their resources was supplied through the intermediary of national financial institutions, in the form of medium and long-term loans, but also of short-term credits. Furthermore, calls on international medium-term credits denominated in Eurodollars remained considerable.

2.3.1. Assistance by national financial institutions

2.3.1.1. Medium and long-term credits to the economy

The table below shows the increase, in the course of the past four years, of medium and long-term credits granted, in member countries, to enterprises and private persons by banks and specialized credit institutions. The figures include also loans granted directly by institutional investors. In Germany and the Netherlands,

credit operations by institutional investors play an essential role for financing the economy : saving banks, retirement and providence funds and insurance companies customarily grant private loans to enterprises and credit institutions, at a cost which is generally lower than that of a public issue of securities. In Belgium, the Caisse Générale d'Épargne et de Retraite plays an essential role in the financing of investments. The contribution by insurance institutions is much smaller in France, where the preponderance of the system of distribution on the capitalization system limits the volume of capital available. Lastly, the Treasury Departments also facilitate the implementation of the economy's investments, first of all by financing of a large share of housing construction, and furthermore by granting equipment loans to enterprises, either directly or through the intermediary of credit institutions.

Despite the slower expansion of investments and although financing costs remained high in several countries, medium and long-term credits increased considerably in the Community as a whole.

Table XI — MEDIUM AND LONG-TERM CREDIT TO THE ECONOMY
(Variations in amounts outstanding during the year)

(in milliard units of account) ⁽¹⁾

Country	1968	1969	1970	1971
Germany	6.99	10.00	12.38	15.79
France	6.76	7.44	5.94	8.17
Italy	4.06	3.83	4.43	8.11
Netherlands	2.23	2.47	2.57	2.87
Belgium	0.96	1.13	0.98	1.03
Total Community	21.00	24.87	26.30	35.97

(1) Cf. footnote page 104.

In *Italy*, the increase in medium and long-term credits was 83% higher than in 1970, a rate of growth much greater than in other Community countries. Total housing loans granted in 1971 however exceeded only slightly the previous year level; the slowdown of residential construction indeed checked the calls for funds by the public on real estate credit institutes : the latter, while having no difficulty in placing their mortgage certificates, always accompanied by attractive rates of remuneration, found that the applications for credit advanced only moderately

compared with 1970. On the other hand, the expansion of equipment credits to industry accelerated very rapidly, despite the very unfavourable evolution recorded by private investments in the course of the year; two factors contributed mainly to this trend : firstly, the curtailment of profits almost completely dried up self-financing possibilities, so that enterprises had no other means of financing equipment expenditure than by recourse to borrowing; secondly, it seems clear that the gradual reduction of long-term interest rates, which emerged in the course of the year, led numerous companies to consolidate part of the substantial short-term debts contracted for financing investments in previous years while interest rates were high. The recourse to loans without interest subsidies therefore accelerated markedly by comparison with 1970 as did the demand for loans with interest subsidies. The steps taken by the Government in the previous year in order to adjust the system of interest subsidies to the changed borrowing conditions on the domestic market exerted their full effect in 1971; because of the large volume of requests presented to the institutes, budgetary funds appropriated for granting interest subsidies were greatly increased in the second half-year; the liquidity of the capital markets facilitated at the same time access by the credit establishments to the resources necessary to meet their customers' demands.

In *France*, too, the demand for medium and long-term credits greatly increased. Exports of capital goods continued to show a marked expansion and led to a further appreciable rise in credits for financing export sales. Recourse by enterprises to equipment credits also increased much more rapidly than in 1970, despite the somewhat slower expansion of gross fixed capital formation and the fact that private and nationalized enterprises made much larger calls on the capital market; as in *Italy*, it seems that the enterprises, which had tended in the previous year to prefinance a considerable share of their investment programmes by short-term credits, were anxious to consolidate these debts partially, once the interest rates applicable to long-term loans started to move downwards; thus non-mobilizable medium and long-term credits were widely utilized; on the other hand, the expansion of mobilizable medium-term credits slackened off further, even though these credits were no longer, as during the previous year, subject to restrictions. Credits for construction also recorded a notable advance following the recovery of the market in 1971; mortgage loans accounted very largely for the progress recorded.

In *Germany*, medium and long-term credits, which had already recorded a very marked increase in 1970, advanced in 1971 further at a rate exceeding largely that of the previous year. Credits granted in favour of housing construction developed considerably; persistent price increases induced private households to increase their demand for real estate and work was started on numerous dwellings which would not have been undertaken in a less inflationary climate. Ordinary savings banks

and real estate credit establishments had more abundant liquidities at their disposal than in 1970, thanks to the development of their deposits and the facilities offered by the capital market, and granted an increased volume of mortgage credits. At the same time, loans extended by credit institutes to enterprises showed a tendency to accelerate, especially in the course of the third quarter. German companies greatly increased their calls on equipment credits, since the evolution of their gross savings was far from favourable and did not allow them to accumulate sufficient own resources to finance investments. Throughout the year, a preference for medium-term financing arrangements was still dominant because of the high level of interest rates but in the second half-year, industry and handicrafts also stepped up their calls on longer-term bank credits, taking advantage of the gradual reduction of rates.

In the *Netherlands*, the resumption of residential construction activity gave rise to more mortgage borrowing and municipal loans in favour of housing. On the other hand, the reduction of industrial investments was accompanied by a slowdown of calls by enterprises on equipment credits. The advance in medium and long-term credits, considered as a whole, therefore exceeded by barely 10% that of 1970.

In *Belgium*, however, the increase in these credits was the least marked, only 5% higher than in 1970. Credits for residential construction still developed somewhat under the effect of a more considerable financing of moderate-priced housing. On the other hand, recourse by enterprises to equipments credits is thought to have shown a slightly less rapid advance, as numerous industrial enterprises still hesitated to contract long-term debts until such time as the interest rates had fallen sufficiently.

Part of the medium and long-term capital made available to the economy in the Community originates from savings collected on the securities markets, the evolution of which has been analysed above. It is necessary to eliminate the duplication resulting from the calls on these markets in order to determine the importance of the other resources collected by financial intermediaries and redistributed in the form of medium and long-term loans. The collection of savings in liquid form and at short term constitutes the principal source of these funds; however, the grant of medium-term equipment loans by the banks may also be based – apart from savings resources – on the creation of additional money.

After deduction of resources originating from the capital markets, we find that the increase in medium and long-term credits distributed to the economy in the Community countries was nearly 40% higher than that of the previous year, whereas the growth had been only 2% from 1969 to 1970.

The expansion of capital resources for investment financing not originating from the public issues market is explained by the general increase of sight and short-term deposits, collected by banks and institutional investors in the Community. This tendency was particularly noticeable in the fourth quarter.

*Table XII – MEDIUM AND LONG-TERM CREDITS TO THE ECONOMY
AFTER DEDUCTION OF RESOURCES ORIGINATING FROM THE CAPITAL MARKETS
(Variations in amounts outstanding during the year)*

(in milliard units of account)⁽¹⁾

Country	1968	1969	1970	1971
Germany	3.47	6.57	8.73	11.34
France	5.79	6.25	4.47	6.46
Italy	2.06	1.62	1.84	4.40
Netherlands	1.97	2.20	2.20	2.46
Belgium	0.43	0.68	0.33	0.24
Total Community	13.72	17.32	17.57	24.90

(1) Cf. footnote page 100.

In *France*, the liquid and short-term savings collected during the year showed a growth of nearly 22% from 1970 to 1971, as against 17% from 1969 to 1970. This brilliant result was achieved although the banks, in order to reduce the cost of their resources, gradually lowered the rates of interest for large and long-term deposits which for some years have fallen outside the regulations of bank conditions. The rate of increase in these savings reached 30% for the banks and 17% for the saving banks' sector. The success of housing-savings formulae, and more particularly housing savings plans, was confirmed.

In the *Netherlands*, the annual rate of growth of savings deposits and time accounts accelerated from 10% to 12%.

In *Belgium*, such savings increased by 15% in 1971 as against 9% in the previous year. The faster growth was due, essentially, to the expansion of savings in the form of ordinary savings deposits at the Caisse Générale d'Épargne et de Retraite, the banks and the private savings banks. Indeed, these deposits continued to benefit from the same remuneration as in 1970, whereas the rates for other categories moved downwards. The less bright employment outlook also led private households to increase their liquid savings by way of precaution.

In *Italy*, total saving book deposits and saving certificates subscribed with the Post Office increased very markedly. Savings deposits with the banks showed a growth of nearly 13%, whereas they had decreased by 3% between the end of 1969 and the end of 1970; these results were achieved although the banks proceeded in March to a general reduction of interest rates paid on their deposits and although the current accounts, while showing a notable slowdown in their pace of expansion, progressed still further by over 20%.

In *Germany*, saving and time deposits also experienced an advance, although private and institutional investors gave priority to longer-term investments because of interest-rate considerations. The growth in these savings reached 14% from 1970 to 1971, as against 12% from 1969 to 1970.

The rapid increase of liquid savings in several member countries of the Community is explained to a fairly large extent by the uncertainties concerning the future economic evolution : numerous investors increased their precautionary investments because of fear of employment difficulties in 1972. The preference for liquid forms of investment was thus reinforced.

2.3.1.2. Short-term credit to the economy

In 1971, the expansion of short-term credits to the economy in the Community showed a tendency to slow down slightly, contrary to that of medium and long-term credits.

Somewhat divergent trends are noted, however, from one country to another; the growth of these credits speeded up in Germany and the Benelux countries, whereas in France and above all in Italy the pace at which they were granted tended to slacken a little.

France is the Community country where the annual rate of expansion of short-term credits remained the highest : 20% in 1971, as against 22% in 1970. The increase during the year was more regular than the previous year. Although a certain slowdown emerged towards the middle of the year, and in particular in the third quarter, it did not persist; the advance was very marked in the closing months, especially in December, when the enterprises tended to improve the presentation of their end-of-year balance sheet by raising the level of their liquidities, often at the instigation

of their banks, which themselves were guided by "window-dressing" considerations. Financing of instalment purchases of consumer durables increased very steeply. The same applied to personal credits to private households, which formed the object of an active advertising campaign by the banks.

Table XIII — SHORT-TERM CREDITS TO THE ECONOMY
(Variations in amounts outstanding during the year)

(in milliard units of account)⁽¹⁾

Country	1968	1969	1970	1971
Germany	1.67	5.56	3.47	5.19
France	3.67	1.06	5.61	6.22
Italy	2.79	4.35	4.40	4.03
Netherlands	0.59	0.33	0.38	0.44
Belgium	0.33	0.15	0.45	0.67
Total Community	9.05	11.45	14.31	16.55

(1) Cf. footnote page 100.

In *Belgium*, the expansion of short-term credits, already quite rapid in the previous year, was further accentuated. The curtailment of bank credits, in force since the end of April 1969, which had been extended for the first nine months of the year, was suspended from 1st October, 1971. Calls on the banks were greatly intensified in the last quarter. The increase in business credit requirements was considerable despite the favourable influence of the transition from the turnover tax system to that of value-added tax on the liquidity situation of enterprises. The financing of stocks of finished products, showing a notable increase, called in particular for much more substantial bank assistance than in 1970. The only short-term credits which increased a little less than in the previous year were those to building enterprises and the loans to private households for the financing of instalment purchases.

In *Germany*, the annual expansion rate of short-term bank credits attained 16% in 1971 as against 12% in 1970. The slowdown in calls by German enterprises on their bankers for the financing of working capital continued until August: the evolution of the business cycle obviously then contributed to reducing the credit requirements of the economy, but above all foreign credits remained very attractive for German residents throughout this period, owing to their lower cost. The

situation was reversed subsequently, and from September to December, short-term credits showed a very definite recovery, which is explained by internal difficulties brought about by the unfavourable evolution of self-financing and the fear that the German authorities would introduce a compulsory deposit on credits contracted abroad.

In *Italy*, the annual rate of increase of the volume of short-term credit fell by comparison with 1970, from 13% to a little under 11%. The lack of dynamism shown by domestic demand partly explains this evolution. But the enterprises also tended, almost throughout the year, to consolidate their short-term debt by more intensive calls on long-term credit, which had become less expensive. The slowdown from one year to the next was especially perceptible in the first half-year. A fairly definite recovery occurred however from the summer onwards and the credit volume increased quite steeply in December, under the influence of window-dressing operations and the important interest payments made by enterprises to banks owing to the high cost of credit. It seems, too, that prospects of an accentuation of the downtrend in long-term rates then led certain big companies to engage in pre-financing again, very temporarily, on a short-term basis.

Only in the *Netherlands* credit curtailment measures were maintained throughout the year. Thanks to these measures, the annual increase of short-term credits was kept at about 10%, as in the previous year, a percentage which exceeds but little the authorized annual growth, which was 9%. The general economic evolution contributed to checking recourse to the banks until August but, in the closing months of the year, credits to enterprises and private households again showed a tendency to increase, under the influence, *inter alia*, of the slowdown of foreign exchange inflows.

2.3.2. *International medium-term credits*

In 1971, the recourse by European enterprises to international medium-term credits in Eurocurrencies lost in importance by comparison with the previous years.

The last years had been marked by large calls on a new type of medium-term credits, known as roll-over credits, of a term generally comprised between three and seven years, with a rate of interest revisable half-yearly and linked to the six-month interbank Eurodollar rate on the London market. These credits gave the borrower the assurance that he would have funds at his disposal for a fairly long period, determined in advance, and offered the lender the advantage of an interest rate adjusted regularly in the light of the market situation. From the borrower's point

of view, however, they presented the drawback of entailing obvious risks inherent in the uncertain evolution of future rates. They owed their success to temporary conjunctural circumstances peculiar to 1969 and 1970, which led enterprises to call often on interim financing arrangements while waiting for the expected downturn in the high long-term interest rates to become a reality.

In the course of the first half of 1971, the volume of roll-over credits increased still further, but the trend was reversed subsequently. The American companies then greatly reduced the amount of their new borrowings on the market; their international medium-term credits effected in Europe are said to have totalled in 1971 barely one quarter of the amount reached in 1970. The relaxation of credit conditions on the British financial market also rendered recourse to this type of credit less attractive for British enterprises.

During the last six months of the year, German companies also tended to proceed, as authorized by their contracts, to the premature redemption of loans contracted by them in foreign countries in previous years. Italian borrowers, who had made even wider use of this technique, also proceeded prematurely to very substantial redemptions of their debts, once the downturn in the long-term interest rate started on their domestic market.

The decrease in calls on medium-term international credits, moreover, did not have as sole reason the reduction of domestic interest rates on the financial markets of the European countries or in the United States and Canada. The slower expansion of investments exerted an influence in the same direction. The reduction of demands for international credits and the existence of substantial liquidities available on the market, in spite of the lesser attraction of the Eurodollar deposits owing to the depreciation risks of the American currency, contributed, especially from the autumn onwards, to the decrease of the interest rate applicable to these credit operations, linked with the fall of the interbank Eurodollar rate. In one year, the rate for these borrowings fell by one point, from 7 3/4% to about 6 3/4% for a first-class borrower.

Despite the existing uncertainties, the financial institutions of the member countries continued to show confidence in the possibilities offered by the medium-term international market. It is said that about fifteen new institutions specialized in arranging such credits were created in 1971. A recent census now lists over thirty international banks specialized in this field. It is quite possible that, under their impetus, these forms of financing might sooner or later acquire rather great importance in the international financial circuits.

* * *

The years 1970 and 1971 definitely provide a striking example of the great mobility of the behaviour of borrowers, tending to adjust themselves constantly to the changing economic and financial situation, to the development of interest rates, as well as to the measures taken, or supposed to be taken by the monetary authorities.

When long-term interest rates exceed the levels deemed to be acceptable, public authorities and enterprises tend to engage widely in prefinancing, either at short term on their domestic market or at medium term on the international market. At such moments considerable reluctance is to be noted to increase long-term engagements at fixed rates, neither in form of classic-type credits or of bond loan issues. Revolving credits and variable-rate loans then are favoured temporarily.

The situation is quite different when the trend in long-term interest rates is reversed and rates decrease steeply. Borrowers then wish to take advantage of the new conditions offered in order to consolidate their earlier commitments, at more satisfactory rates fixed and to redeem debts engaged at a variable rate.

Such an evolution is interesting for various reasons. It shows in particular the deeply noted preference of borrowers for loans with interest rates fixed, without revision clause, at the time of the signature of the contract; this attitude is unlikely to change in the near future.

Fixed interest rates certainly do not constitute a panacea from the monetary point of view. As is stressed by the author of a well-known report on the conditions of balanced growth in the adjustments of savings to investments, "fixed rates, at a high level, contribute to prolong inflation by maintaining operating charges at high levels which become excessive once the price increase tends to slow down; at a low level, they discourage savings as soon as monetary anxiety reappears and then indirectly maintain inflation through the need emerging for exaggerated money creation... In order to obtain improvements in this field, it is necessary to avoid situation where rates determined temporarily for conjunctural or other considerations continue their effects over a long period, at the risk of becoming unsuited to new conditions".

Arguing against variable rates, the advocates of fixed rates point out how important it is for public authorities to be able to control and influence the investment conditions by appropriate adjustments of long-term interest rates in the light of the requirements of conjunctural policy. The variable-rates formula, which is attractive at first sight, seems to them in any case to involve dangers both for the

efficacy of an important instrument of conjunctural policy and because of the uncertainties which would result from its application for the lenders as well as the borrowers.

This debate is not fruitless; it is one example among others of the utility of pursuing ceaselessly the research in the vast domain of investment financing arrangements, not only at the national level but also at the Community level, in order to solve, or at least to attenuate gradually the difficulties of adjusting the economy to sound financing methods.

