EUROPEAN INVESTMENT BANK

ANNUAL REPORT 1965

EUROPEAN

INVESTMENT BANK

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

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

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

EUROPEAN INVESTMENT BANK

ANNUAL REPORT 1965

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(1) VALÉRY GISCARD D'ESTAING, until 7th January, 1966.

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GASTON EYSKENS, until 19th March, 1966.

(3) HENDRIKUS JOHANNES WITTEVEEN, until 5th May, 1965.

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

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JEAN SALTES, Chairman and General Manager, Crédit National, Paris;

JEAN RIPERT, Deputy Commissioner-General of the Plan d'Équipement et de la Productivité, Paris;

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

ALDO BALDARI, Inspector General of the Treasury, Inspectorate General for External Finance, Ministry of the Treasury, Rome.

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YVES LE PORTZ, *Vice President*
ULRICH MEYER-CORDING, *Vice President*

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Loans in Member Countries :	HANS WERNER VON LINDEINER-WILDAU, Manager. ROMEO DALLA CHIESA, Deputy Manager. ARMEL BELLEC, Deputy Manager. (1)
Loans in Associated Countries :	GUY TRANCART, Manager. KARL-HEINZ DRECHSLER, Deputy Manager. GUIDO MARTELLI, Deputy Manager.
Finance and Treasury Department :	GIANDOMENICO SERTOLI, Manager.
Research Department :	PIERRE BARRE, Manager. (2)
Legal Department :	J. NICOLAAS VAN DEN HOUTEN, Manager.

Technical Advisers :	HENRI JEANDET. HELLMUTH BERGMANN. MARCELLO GOFFI. EUGENIO COMBONI.

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(1) MICHEL ALBERT, until 21st April, 1966.
(2) ALBERTO CAMPOLONGO, until 15th October, 1965.

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Chairman

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

Members

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

CONTENTS

	Page
I. THE ECONOMIC EVOLUTION IN THE COMMUNITY AND THE ASSOCIATED COUNTRIES	17
Investments in the Community	24
Investment financing in the Community	29
External resources available for the financing of the economy and the capital markets	32
Capital movements within the Community and between the Community and non-Member countries	45
II. ACTIVITIES OF THE BANK	49
Loans	49
Ordinary loans	49
Special loans	54
Loan operations from 1958 to 1965	55
Origin and employment of resources	58
III. ANALYSIS OF THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT	61
SPECIAL STUDY : THE PROBLEMS OF INDUSTRIAL DEVELOPMENT IN TURKEY	70

As is the practice each year, the first part of the Annual Report surveys the activity of the Bank in 1965 against the background of the general economic evolution of the Community and the associated countries, stressing more particularly the problem of investments and their financing.

The second part gives an account of the activity of the Bank and deals with loans and borrowings in the past financial year, as well as with operations carried out since its foundation.

In the third part, an analysis is made of the main items of the balance sheet and profit and loss account.

The report concludes with a study of industrial development in Turkey.

ANNUAL REPORT 1965

I

THE ECONOMIC EVOLUTION IN THE COMMUNITY AND THE ASSOCIATED COUNTRIES

The Community.

Although the economic expansion of the six countries of the Community continued in 1965, the growth of the gross national product at constant prices was less rapid than it had been in the previous year in all the countries except Italy.

The slackening-off was most marked in the Grand Duchy of Luxembourg (growth of 1.5% compared to 6.5% in the previous year), France (3.4% as against 5.9%) and Belgium (3% compared to 5.2%). However, it was also appreciable in the countries where economic growth continued to be most rapid : the Federal Republic of Germany and the Netherlands (4.4% and 5%, compared to 6.6% and 8.2% respectively). In Italy, the rate of growth (3.4%) slightly exceeded that for the previous year (2.7%) as a result of a certain acceleration in the course of the year. In the Community as a whole, the gross national product at market prices increased by approximately 4% in real terms, compared to 5.6% in 1964, reaching some 290 milliard units of account (1), or about 1,600 u.a. per inhabitant.

In the majority of the Member Countries, the slowing-down in expansion is due in part to the slackening in the rate of growth in investments. While showing a decline in Luxembourg and Italy, investments in capital goods remained stationary in Belgium and – in the private

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

industrial sector – in France. The low level of demand was the main factor responsible for the decrease in the rate of growth in building for the Community as a whole.

As regards external demand and consumption expenditure, there was hardly any fall in the rate of growth. In Germany and Belgium, the expansion of public consumption expenditure was even more rapid than in 1964. In Italy, the marked increase in external demand explains, inter alia, why the decline in investments did not result in a diminution of the overall economic expansion.

* * *

Measured in terms of gross national product and investment, economic expansion has continued in the Community as a whole in the course of the past three years, although with divergent conjunctural trends among the Member Countries. As regards the stability of costs and prices and, in certain countries, as regards investment decisions, this situation gave rise to problems which threaten in the long run to make it more difficult for the Common Market to develop along balanced lines.

In the course of recent years, intra-Community trade has proved a factor of equilibrium for the development of Member Countries by alleviating the tensions caused in some countries by excessive demand and by enabling the others to participate – sometimes even to a greater extent than would have been desirable – in the expansion of countries with a high development rate. The present disequilibrium and major fluctuations in trade among the Member Countries, if continued, would however have serious consequences and might create tensions throughout the Community. More particularly, the temporary alleviations which intra-Community trade brings about in the supply and price situation in certain countries cannot replace the stabilisation measures called for by the particular cyclical situation of a given country. This fact gives added interest to a closer co-ordination of economic policies at the Community level.

Hitherto, this co-ordination has chiefly taken the form of a common effort to stabilise costs and prices. This problem has proved especially difficult in the Netherlands and the Federal Republic of Germany, where the labour shortage has so far been barely relieved by the steady influx of

foreign workers and where, in view of the constant pressure of demand, the growing rigidity of supply due to saturation of production capacity is resulting in higher prices. The recommendations made by the Council of the European Economic Community in April 1964, aimed at checking public expenditure, have not always been applied in an altogether satisfactory way. The Committee on Short-Term Economic Policy therefore again advocated, on 8th July, 1965, a wider intervention through budgetary policies in order to curtail directly the expansion of overall demand. This is the only way to avoid a policy based too exclusively on money and credit control which entails the risk, as the Committee emphasises, of adding to the difficulties and cost of financing to such an extent as to jeopardise the expansion of investment and subsequently the expansion of the economy as a whole.

The heightening of cyclical divergencies among the Member Countries has also made it necessary for the Council to phrase its recommendations in more selective terms. On 8th April, 1965, the Council adopted a proposal of the Commission recommending, for Italy, a moderate stimulation of domestic demand, based essentially on investment expenditure, for France, the encouragement of investments in private industry, and for Belgium and Luxembourg, some relaxation in the measures for holding investments in check.

* * *

Experience in recent years has also shown the difficulty of maintaining simultaneously and over a longer period monetary stability, a high level of employment and balanced economic growth of the different Member Countries solely by means of cyclical policy measures. Indeed, owing to technical progress but also because of the great strides made by interpenetration, the economies of Member Countries have entered a period of structural change which concerns both the regional and sectorial distribution of activities. Steps need to be taken to ensure that unexpected or over-abrupt changes, which are the inevitable penalty for the progress of technical development, do not result in excessively harmful economic and social consequences.

In the general field, the Committee on Medium-Term Economic Policy, which was set up by the Council of the European Economic

Community on 15th April, 1964, is being called upon, for the first time in 1966, to outline the main trends in growth for the next five years, to set forth the major features of the economic policies of Member Countries, to examine these policies from the point of view of coherence and, if need be, to propose to the Council appropriate measures for their co-ordination.

More specifically, the Commission of the European Economic Community has taken a number of steps in recent months to propose various co-ordinated actions at Community level. In May 1965, it submitted to the Council a first memorandum on regional policy in the Community, with a view to defining the measures to be taken at the regional, national and Community levels in order to speed up the implementation, as provided for by the Treaty, of the harmonious development of different regions by reducing disparities among them and helping the less-developed to catch up with the others. The Commission recommended Member Countries, in September 1965, to make arrangements and to take concrete action with a view to improving the housing conditions of workers and their families who move from one place to another within the Community. Lastly, the Commission distributed, in the early months of 1966, two working documents on the situation of shipyards and the textile industry, in which ways and means were considered with a view to giving a common orientation to the policies of Member Countries with respect to these sectors. In each case, the problems arising include those of financing activity in favour of development, rationalisation or reconversion in the common interest of the Member Countries. The Bank may, in certain cases, be able to contribute towards the solution of these problems.

Associated Countries.

In *Greece*, the year 1965 was characterised by a growth in the volume of the gross national product by 7%, only slightly less than the 8% increase in the previous year. In particular, industrial production went up by 10%. Industrial employment is increasing only slowly from year to year and the alleviation of unemployment is partly due to accelerated emigration.

As in 1964, demand climbed steeply in 1965. Private investment – housing to a large extent, but also industrial investments – showed a

growth of 10%, private consumption 9% and public consumption 12%. The only sector to record no marked increase was public investment, hampered by financing difficulties some of which could only be overcome thanks to action by the Bank of Greece.

The pressure of demand led to a rise in prices averaging nearly 4%. Nominal incomes showed a marked increase, but the advance in monetary circulation was less rapid than previously owing to the balance of payments deficit and a slower rate of growth in credits.

The balance of payments again deteriorated. Imports went up by nearly 150 million dollars (18%), while exports advanced by only about 30 million dollars and invisible transactions and private transfers by 50 million dollars, so that current payments showed a deficit of 240 million dollars. Imports of private and public capital were again considerable (about 150 million and 60 million dollars respectively). Just under 40 million dollars were withdrawn from the monetary reserves to meet the final deficit.

With a view to alleviating internal monetary tensions and improving the external situation, the responsible authorities submitted to Parliament a stabilisation programme the main features of which are a vigorous budgetary effort and domestic reorganisation measures. Greece is endeavouring to supplement this programme by greater recourse to external financing. As regards medium- and long-term development, the Government intends to define the guide-lines for future economic policy in a new Plan which is expected to come into force in the course of 1966.

In *Turkey*, the resumption of economic expansion, which had begun in the autumn of 1964, continued in 1965. In particular, production and investments in the private sector made great strides. Public undertakings also increased their production, but their investments remained well below the targets of the Plan and were hardly greater than in the previous year.

The expansion of private consumption was favoured by the wage increases in 1964 and 1965. Public consumption and investments, the expansion of which had been checked during the first six months by the delay in voting the budget, subsequently picked up and public expenditure was an expansionary factor.

The growth in the gross national product in real terms is estimated to be at least 5% by comparison with 1964, as against 4% in the previous year. Agricultural production increased only slightly (approx. 1%), whereas the rate of growth in industrial production, building and services was of the order of 6 to 7%.

The impetus given to the economy by a more flexible monetary policy from July - August 1964 onwards led to a rapid growth in commercial bank credits (+ 36% from mid-1964 to the end of 1965) and monetary circulation (+ 30%). Increasing demand resulted in certain price rises : the wholesale prices' index climbed by more than 9% and the cost of living index went up by about 6% in the course of the year. In order to counteract these trends, the Central Bank took certain restrictive measures at the end of 1965.

The balance of payments further improved in 1965. Exports of goods increased by 12%, reaching a total of 459 million dollars, the highest level since the war. Imports (572 million dollars) went up by 6.5% in comparison with the previous year. Remittances by Turkish workers employed abroad, amounting to 70 million in 1965, as against 9 million in 1964, greatly contributed towards improving the foreign exchange receipts. The deficit in the current balance of payments was reduced to 78 million, as against 100 million in 1964 and 280 million in 1963.

The *Eighteen Associated African Countries and Madagascar*, with an area nearly ten times that of the six Common Market countries and only one third of their population, have a gross domestic product in the region of 6.5 milliard u.a. The gross domestic product per capita, which however varies considerably among these Associated Countries, thus averages about 100 u.a., or only one sixteenth of that for the Community. The real growth of the overall gross domestic product probably exceeds 3% per annum in volume for only half of these Associated Countries, whereas the natural population growth in very often 2% or more.

Owing to the primary importance of the export of raw materials and tropical commodities for the economies of these countries, it is observable in general, after the very widespread and definite improvement in the

terms of trade and the trade balances which had occurred in 1964, that a deterioration in the international market situation for various main export commodities started early in 1965 and continued throughout the year.

The Bank's first operations have been carried out in the Ivory Coast and Cameroon.

The *Republic of the Ivory Coast* has been characterised in recent years by exceptional prosperity, a high rate of growth, a sustained effort in the field of public and private investment and a continuous trade balance surplus. The value added of the secondary sector nearly doubled between 1960 and 1964.

In 1965, however, there was a slight fall in the rate of growth, as well as a reduction in the surplus of the current balance of payments. This was due to a less favourable trend on the market for the four main products which account for 9/10ths of the Ivory Coast's exports : coffee, cocoa, rough timber and bananas. However, this trend was not general, as exports of manganese, sawn timber, pineapples, cola nuts and even rubber continued to show progress. Lastly, economic activity was sustained by the persistently high level of public and private investment and the further development of the industrial sector.

Since 1961-1962, the *Federal Republic of Cameroon* has been experiencing a definite economic recovery, although at a slower pace in the agricultural than in the industrial sector.

In 1965, marketing difficulties and unfavourable prices adversely affected the chief export products, i.e., cocoa, coffee and bananas. This could lead to a slowing-down in expansion and a reduction in the trade balance surplus. This reduction would be accentuated by the fact that imports – and more precisely imports of capital goods – are increasing continuously. Nevertheless, the Cameroon economy is relatively diversified and this temporarily unfavourable situation is seemingly bound to be offset by the more satisfactory trend in other sectors, such as cotton, palm-kernels and palm oil, groundnuts and even timber, owing to the orders for sleepers to be supplied to the Trans-Cameroon Railways.

The gross fixed capital formation, which has remained inadequate in recent years, is slowly improving. A contributory factor in this respect is the regular advance in private investment, especially in the industrial sector where several projects are now under way.

INVESTMENTS IN THE COMMUNITY

According to provisional estimates, investment (1) amounted in 1965 to some 67 milliard units of account for the Community as a whole, compared to 63 milliard in 1964, or an increase of about 6%. In real terms, the growth may be estimated to be some 3%.

In value as well as in volume, the rate of growth in investments in 1965 was the lowest since 1958. Investment expenditure increased slightly less than the national product, thus reducing somewhat its share in the latter (23.3% in 1964). Nevertheless, the share of investment remains much higher than in the other industrial countries, such as the United States and Great Britain (18 and 17% in 1964). It is above average in Germany, the Netherlands and Luxembourg (25 to 26%). In Italy, where it had formerly been one of the highest in the Community (averaging 23.5% from 1961 to 1963), it fell, after an initial setback in 1964, to 18% in 1965. The figure for Belgium is 19% and for France 21%.

Investment expansion has slowed down in all the countries of the Community. However, the rates of growth still remained comparatively high in Germany, France and the Netherlands, both in value and in volume. In Belgium, investment expenditure has hardly increased at all in value and may have decreased slightly in volume. A marked decline was recorded in Italy and Luxembourg.

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

GROWTH OF INVESTMENT IN THE COMMUNITY

(% by comparison with previous year)

	Value				*Volume*			
	1962	1963	1964	1965	1962	1963	1964	1965
Germany	11.8	5.7	14.5	8.8	5.9	2.9	11.9	6.6
France	11.6	12.7	15.9	8.5	7.9	6.8	11.8	5.3
Italy	14.6	11.8	0.7	– 6.8	8.8	7.3	– 6.5	– 8.2
Netherlands	6.4	6.5	23.6	10	4.4	2	16.5	6
Belgium	7.4	5.7	13.6	3	2.9	1.9	7.6	– 1
Luxembourg	12.7	23.8	6	–11.5	..	..	1	–14
The Community	11.6	8.7	11.9	6	6.5	4.2	7.3	3

As shown in the table below, investment by enterprises in the Community amounted to some 39 milliard u.a. in 1965. By comparison with the previous year, the increase was only 4.5% in value and barely 2% in volume. Expenditure on housing construction and public investment probably increased by 7 to 8%, which is appreciably less than in 1964, when the figures were 21 and 15% respectively.

INVESTMENTS IN THE COMMUNITY

	Milliards of units of account at current prices				*% of total*			
	1962	1963	1964	1965	1962	1963	1964	1965
Investment by enterprises	32.8	34.9	37.5	39.3	63.0	61.5	59.0	58.5
Housing	12.0	13.6	16.5	17.7	23.1	24.0	26.0	26.3
Public investment	7.2	8.3	9.5	10.2	13.8	14.5	14.9	15.2
Total	52.0	56.8	63.5	67.2	100.0	100.0	100.0	100.0

In *Germany*, the marked expansion in gross fixed capital formation which had been the salient feature of the economic situation in 1964 continued in 1965, although at a slower rate, owing essentially to the considerable decline in the rate of growth in construction, especially in public works. On the other hand, the expansion of investment in equipment continued, despite the slackening-off in the course of the year due to longer delivery periods and growing financing difficulties.

In *France*, the rate of investment growth fell by nearly half. Productive investment by private enterprises is reported to have remained stationary throughout the year, although some signs of recovery were observable during the last months of 1965. This situation was partially attenuated by an extension of the investment programmes by public enterprises, a slight increase in the rate of government investment and a further rise in housing construction, thus making France henceforth one of the countries of the Community where the share of residential construction in total investment is the highest.

In *Italy*, enterprises showed little inclination to invest and housing construction recorded another setback. Steps taken to remedy this situation included the establishment of a special fund for granting credit to small and medium-sized enterprises in the manufacturing sector, an increase in the funds intended for the less-developed regions, tax concessions and financing facilities in favour of housing construction in general, higher subsidies for social housing and special measures for the textile industry, shipbuilding and agriculture.

Reports concerning the development of orders for and production of capital goods, as well as new industrial construction projects, point to a slight improvement in the investment climate towards the end of 1965.

In the *Netherlands*, the growth of investment remained relatively high, despite a very considerable slackening by comparison with the exceptional results in 1964. Investments by enterprises were more severely affected than investment in the public sector or housing construction. This was partially the result of taxation measures and the restrictive credit policy, but was also influenced by the narrowing of profit margins due to the continuous rise in unit costs and government intervention in the field

of prices. However, investment continues to be encouraged by the high utilisation of production capacities, the growing need for rationalisation measures and the preparations for the marketing and distribution of natural gas deposits.

In *Belgium*, investment tended to stagnate. Even though the investment activity of foreign firms, relating to new projects as well as to the completion of projects started in earlier years, remained high and despite improved investments in the service sector, investments by enterprises increased only slightly on the whole. This was due to the increased pressure on profit margins and, to a lesser degree, to the credit restriction policy which was applied until mid-1965. Higher costs of building sites and construction, as well as credit restrictions, were responsible for the decline in residential construction. The limitation of public expenditure, which had been decided in 1964 in conjunction with the stabilisation policy, still slowed down public investment in the course of the first six months of 1965.

In the *Grand Duchy of Luxembourg*, investment by enterprises decreased considerably after the completion of the construction work on various new factories and the investment programmes of public utility companies.

* * *

The following table shows, for each of the Member Countries, the average proportion of the national product devoted to fixed capital formation, by main investment sectors, in the three years 1962 to 1964.

The balanced development of the economies of Member Countries would call for an exceptional investment effort in Italy, where the Community's least developed regions are concentrated, and to a lesser degree in France, where the disappearance of trade barriers after a long tradition of protectionism now necessitates a rapid structural adjustment of several sectors.

However, since mid-1963, these two countries have had to combat the tensions which have arisen in their economies by the introduction of stabilisation programmes. Apart from Belgium, they are the countries

FIXED CAPITAL FORMATION PER SECTOR

(annual average 1962-1964)

(% of gross national product)

	Germany	*France*	*Italy*	*Netherlands*	*Belgium*
Investment by enterprises (excluding housing and stocks)	15.7	12.3	13.6	15.6	12.6
Housing	5.7	5.4	6.7	4.2	4.7
Public investment	4.3	2.6	2.4	4.5	2.5
Total investment	25.7	20.3	22.7	24.3	19.8

in which the overall investment rate has been the lowest, especially in so far as productive investments are concerned.

The differences observed in the relative level and structure of investment by comparison with the gross national product become even more significant when the absolute value of investment per inhabitant in each of the Member Countries is taken into account.

PER CAPITA INVESTMENT

(annual average 1962-1964)

(units of account)

	Germany	*France*	*Italy*	*Netherlands*	*Belgium*
Investment by enterprises	259	204	118	193	190
Housing	94	90	58	52	71
Public investment	71	43	21	56	38
Total investment	424	337	197	301	299

Owing to the lower level of the gross national product in Italy by comparison with that of the other Member Countries, it becomes even clearer that investment – in particular, productive investment – is lagging behind in that country. This brings out the extent of the problem yet to

be solved, despite the considerable investments made since the creation of the Common Market. The investment effort to be made by the Netherlands in connection with the rapid increase in the population is also quite obvious. The position of France, on the other hand, proves to be less unfavourable.

INVESTMENT FINANCING IN THE COMMUNITY

The table below shows the breakdown of investments (including variations in stocks) and savings, according to statistics published by the Member Countries, in the course of the three years 1962-1964.

INVESTMENT AND SAVINGS

(annual average 1962-1964)

(in milliards of units of account)

	Germany	%	*France*	%	*Italy*	%	*Nether-lands*	%	*Belgium*	%
I. *Public sector*										
Investment	4.13	16	2.07	12	1.05	10	0.68	17	0.35	12
Public saving	7.37	29	3.03	18	1.72	17	0.72	18	0.12	4
Financing surplus (+) or deficit (–)	+ 3.24	13	+ 0.96	6	+ 0.67	7	+ 0.04	1	– 0.23	8
II. *Economy*										
Investment by enterprises	21.28	84	15.27	88	9.45	90	3.25	83	2.48	88
of which housing	*5.43*	*21*	*4.28*	*25*	*3.00*	*29*	*0.62*	*16*	*0.66*	*23*
Saving by enterprises	12.31	49	8.75	50	8.86	84	1.90	48	1.59	56
Individual savings	5.88	23	4.85	28			1.32	34	1.12	40
Financing surplus (+) or deficit (–)	– 3.09	12	– 1.67	10	– 0.59	6	– 0.03	1	+ 0.23	8
III. *External balance*										
Financing surplus (+) or deficit (–)	+ 0.15	1	– 0.71	4	+ 0.08	1	+ 0.01	–	–	–

NOTE : The percentages show the contribution to total gross capital formation (including stocks) or to its financing,

A direct comparison of the different statistics used is not always possible as they do not enable us to distinguish between financing of enter-

prises and households. Except for Germany and France, the savings of non-incorporated enterprises are shown together with those of households, whereas their investments are grouped with those of other enterprises. In Italy, no separate figures are yet available for savings by enterprises and by households.

An examination of this table nevertheless suggests the following comments :

– Germany is characterised by a high level of public saving, due partly to the surpluses of the social security institutions. Although the rate of public savings has somewhat decreased by comparison with previous years, there was still a considerable financing surplus in the public sector which contributes largely to meeting the needs of the other sectors of the economy. In France, Italy and the Netherlands, a certain financing surplus of the public sector does exist, but to a lesser extent.

– Conversely, in Belgium public savings are less than public investment.

– France alone had recourse during this period to foreign savings for the financing of investment (to the extent of 4% of total investment). In fact, part of the investments in Italy were also financed through foreign capital sources, but this contribution seems to have been offset, at least during the period under review, by an export of domestic savings. On the other hand, part of the net national savings in Germany have been exported, inter alia in the form of public credits to the developing countries.

– Lastly, while the share of public investment in the formation of capital is relatively low in Belgium, France and Italy, it appears also that investment in housing in the last two countries – undoubtedly justified for social reasons – has been high in comparison with productive investments by enterprises, especially as the latter experienced a certain stagnation towards the end of the period under review.

It is indeed difficult to conceive that residential construction and public investments, in view of their influence on living conditions, social progress and productivity, can be constantly maintained at a relatively low level without causing serious repercussions on economic progress.

Over a more limited period, the dynamism of an economy nevertheless depends to a greater extent on the level of productive investment. An observation of the facts seems to point to the conclusion that in an economy such as that of the Community the investment propensity of enterprises may depend upon their capacity to finance, by their own resources, a high proportion of their investment and research efforts.

On the whole, however, enterprises in the Community have not the same self-financing capacity as some of their foreign competitors, either because of the efforts they have had to make to reconstruct and modernise or because they are on too small a scale to attain an optimum level of productivity. Furthermore, there are disparities among them with respect to their self-financing possibilities which could prove harmful to the harmonious development of the Community as a whole.

Owing to the diversity of the sources used, the following attempted approximation with respect to the structure of investment financing in the enterprise sector in Member Countries is intended solely to bring out the magnitude of the problem existing in each country.

STRUCTURE OF INVESTMENT FINANCING BY ENTERPRISES

(annual average 1962-1964)

	Germany	*France*	*Italy* (1)	*Nether-lands* (1)	*Belgium* (1)
	%	%	%	%	%
Investment in the form of fixed capital and stocks	100	100	100	100	100
Gross saving (incl. net balance of capital transfers)	79	61	63 (2)	80	68
Financing needs (net borrowing from other sectors)	21	39	37	20	32

(1) Estimates.

(2) This percentage is probably too high as it includes the variations in the net balance of operations by enterprises with credit institutions.

EXTERNAL RESOURCES AVAILABLE FOR THE FINANCING OF THE ECONOMY AND THE CAPITAL MARKETS

In order to meet its external capital requirements, mainly linked with the financing of investment, the sector of the economy – enterprises and households – has had recourse, as in previous years, to :

- medium- and long-term credits granted by banks and specialised credit institutions, institutional investors and, in some cases, by the Treasury;
- the public issue of securities on the capital markets, mainly the markets of Member Countries, but to a very minor extent also on foreign markets and the international " European " market.

1. *Medium- and long-term credits to the economy.*

The following table shows the increase, over the past four years, in medium- and long-term credits granted to enterprises and individuals in the Community by banks and specialised credit institutions, as well as – in so far as statistics are available – in loans granted directly by institutional investors (insurance companies, pension funds, etc.) and by the public sector in Germany, France, Italy and the Netherlands.

It has not been possible to take into consideration loans granted directly by private individuals nor advances made to companies by their shareholders, although these are factors of considerable importance in some countries.

Medium- and long-term credits to the economy thus showed a more substantial increase in Germany and the Netherlands, where economic growth has been most rapid. On the other hand, the rate of increase was lower in Belgium, France and especially in Italy, where productive investments and housing construction both recorded a decline.

Public treasuries intervene to a large extent in favour of housing construction. In Germany, the Netherlands and to a lesser extent in Belgium, a large part of the credits was granted by institutional investors.

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

(milliards of units of account)

Country	1962	1963	1964	1965
Germany	6.21	6.21	6.82	7.12
France	2.79	2.84	3.63	3.41
Italy	2.29	2.77	2.72	2.25
Netherlands	1.05	1.06	1.33	1.54
Belgium	0.40 (1)	0.49 (1)	0.65 (1)	0.58 (1)
Total Community	12.74	13.37	15.15	14.90

(1) Estimate.

Other credits resulted from the action of banks and specialised credit institutions which make use of two types of resources for this purpose :

- resources obtained by the issue of medium- or long-term notes or bonds;
- resources deposited with them either in the form of demand deposits or in savings accounts, or for a term which is shorter than that applicable to the credits granted.

In the latter case, the intervention of the banks and specialised credit establishments renders possible, at the cost of a risk for themselves and a reduction in the market for public issues, a lengthening of the period of availability of the resources in question, or a " transformation " thereof. The operation and the limits of this mechanism deserve the fullest attention, especially as the general public in the majority of the Member Countries shows a marked preference for investments in cash or relatively short-term deposits.

In order to determine the *net contribution* to the economy by banks and specialised credit institutions, institutional investors and other lending agencies in the form of medium- and long-term credits, it is necessary to

eliminate the duplication resulting from the calls made on the market by these different institutions in the form of the issue of notes or bonds. These issues of bonds are included in the next heading among resources from the capital markets.

In this way, the following table is obtained :

INCREASE IN MEDIUM- AND LONG-TERM CREDITS TO THE ECONOMY
(after deduction of resources obtained from the capital markets)

(milliards of units of account)

Country	1962	1963	1964	1965
Germany	5.02	4.75	5.11	5.70
France	2.43	2.40	3.04	2.80
Italy	1.14	1.53	1.58	1.26
Netherlands	0.98	0.94	1.24	1.38
Belgium	0.32 (1)	0.40 (1)	0.63 (1)	0.43 (1)
Total Community	9.89	10.02	11.60	11.57

(1) Estimate.

This net contribution is still substantial. During the past four years, it has constantly exceeded the amounts obtained directly through public issues on the capital markets of the Member Countries, except in the case of Italy, where a very rapid expansion of the capital market has taken place. In the Netherlands, where private loan contracts have largely taken the place of public bond issues, it practically covers the total needs of the economy sector, while in Germany it represents about two thirds of the medium- and long-term borrowings of this sector, and 60% in Belgium and France.

2. *Issues of securities on the capital markets of Member Countries.*

The public issues of securities in the Community increased by 10% in 1965, compared to 16% in the previous year.

NET SECURITY ISSUES

(milliards of units of account)

Types of securities	1962	1963	1964	1965
Shares	2.84	2.05	2.83	2.86
Public loans (State or local authorities)	1.48	2.35	2.54	3.42
Borrowing by the economy (enterprises and credit institutions)	3.99	4.48	4.94	5.11
Total Community	8.31	8.88	10.31	11.39

This increase related almost exclusively to public loans (+ 35 %).

SHARE ISSUES

(milliards of units of account)

Country	1962	1963	1964	1965
Germany	0.55	0.33	0.56	0.99
France	0.81	0.84	1.01	1.02
Italy	1.14	0.64	0.89	0.58
Netherlands	0.13	0.02	0.06	0.03
Belgium	0.16	0.13	0.22	0.13
Luxembourg	0.05	0.09	0.09	0.11
Total Community	2.84	2.05	2.83	2.86

The resources which enterprises obtained from the capital markets of the Community by the issue of shares in 1965 were about the same as those for the previous year, despite the considerable and practically general decline in stock exchange quotations.

The amounts obtained showed progress only in Germany where, however, nearly half the increase was due to the transfer to private

ownership of the capital of the Vereinigte Elektrizitäts- und Bergwerks A.G. (VEBA). On the contrary in Italy, which was the only country showing favourable market trends in 1965, after a period of serious disequilibrium, issues of new shares decreased. However, the amortisation over ten years of the bonds issued to the former owners of the nationalised electricity plants, as well as advances against these bonds, indirectly provide a continuous increase of capital funds in this country. As a consequence, calls on the market in the form of shares are being replaced, in due proportion, by calls on the market in the form of bonds.

NET ISSUES OF BONDS IN THE COMMUNITY

(milliards of units of account)

Country	1962	1963	1964	1965
Germany	2.36	3.00	3.32	3.01
Public sector (1)	*1.02*	*1.46*	*1.53*	*1.50*
Economy	*1.34*	*1.54*	*1.79*	*1.51*
France	0.70	1.45	1.25	1.42
Public sector	*– 0.14*	*0.49*	*0.17*	*0.13*
Economy	*0.84*	*0.96*	*1.08*	*1.29*
Italy	1.67	1.72	2.32	3.09
Public sector	*0.10*	*– 0.11*	*0.37*	*1.06*
Economy	*1.57*	*1.83*	*1.95*	*2.03*
Netherlands	0.11	0.27	0.17	0.32
Public sector	*0.03*	*0.28*	*0.13*	*0.15*
Economy	*0.08*	*– 0.01*	*0.04*	*0.17*
Belgium	0.61	0.39	0.42	0.68
Public sector	*0.46*	*0.23*	*0.34*	*0.57*
Economy	*0.15*	*0.16*	*0.08*	*0.11*
Luxembourg	0.02	–	–	0.01
Public sector	*0.01*	–	–	*0.01*
Economy	*0.01*	–	–	–
Total for the Community	5.47	6.83	7.48	8.53
Public sector	*1.48*	*2.35*	*2.54*	*3.42*
Economy	*3.99*	*4.48*	*4.94*	*5.11*

(1) Including issues of bonds used to refinance loans to the Economy sector,

In *Germany*, despite a further increase in savings, the amounts collected by the issue of bonds were slightly less by comparison with the

previous year : whereas public sector demand remained stable, the narrowing of the market mainly reduced the amounts available to mortgage financing institutions and specialised credit institutions.

However, this overall view does not reflect the upheavals which occurred in the course of the year, leading to a marked increase in interest rates : the nominal rate for new loans rose from 6% at the end of 1964 to 7% from June 1965 onwards, while the actual yield for subscribers moved up gradually from 6.3 to 7.6%. Yields calculated on the basis of stock exchange quotations rose from 6.3 to 7.4%.

During an initial period, the market had to contend with reluctance on the part of investors, whose calculations took into account several factors, i.e. : the increasing capital requirements of the local authorities owing to the relatively small growth in their tax revenues, the pressure on liquidity exerted by a restrictive monetary policy and a certain deterioration in the balance of payments, the lack of interest by foreign investors in German fixed-interest securities since the application of a 25% withholding tax on the proceeds of these securities. After various adjustments, and then a period without new issues in August and September, the organisation of the market was improved by a more judicious spreading of public sector issues, thus making it possible to place a number of new issues during the last few months of the year on the basis of the rates quoted above.

In *France*, the market was a little wider. The Treasury made only limited calls on the market, the proceeds of these loans being intended for transfer to various sectors of the economy which had been granted priority for the development of their equipment. Issues by other public authorities showed a slight increase but were rather modest by comparison with those of the principal borrowers, which are the specialised credit institutions and nationalised undertakings. Issues of bonds by private industry remained at the same level as in 1964.

Owing to the standardisation of tax rates applied to the yields of fixed-interest securities from 1st January, 1965 onwards (10% deduction at source as an advance tax payment which cannot be assumed by the borrower), the actual yields to subscribers were 6.25% for public sector issues and

6.50 % for the others, or only slightly higher than those practised previously. These rates are close to the yields calculated on the basis of stock exchange quotations for public sector loans, but they are still about 0.5 % below the yields for other issues.

In *Italy*, a further widening of the market was rendered possible by the very liquid position of the economy, resulting from a large balance of payments surplus, the low level of private investment and the continued development of savings. The Treasury benefited greatly from the wider market and, for the first time in several years, resumed its role as one of the principal borrowers. In addition to this, the demand from national enterprises (IRI, ENI, ENEL) remained very active, whereas the share of the market set aside for specialised credit institutions showed a certain narrowing in absolute terms (by 160 million units of account) and more especially in relative terms (32 % by comparison with 49 % in the previous year). More than half the resources were made available by the banks, but private investors also provided about 1,280 million units of account, compared to only 480 million u.a. in 1964.

This favourable situation moreover led to a fall in rates which, calculated on the basis of stock exchange quotations, declined – in the case of bonds issued by specialised credit institutions, which are the most representative of the market – from 7.1 % at the end of 1964 to 6.6 % at the end of 1965. The yield offered to subscribers of new issues fell from 7 % to approx. 6.5 % during the same period.

In the *Netherlands*, the abundant liquidity observable on the market early in 1965, due mainly to the interest shown by foreign investors in bonds expressed in florins, gradually gave way to a tighter situation, resulting from an increase in issues by local authorities (in some cases through the N.V. Bank voor Nederlandsche Gemeenten and sometimes directly) and by the sector of the economy. This occurred despite the fact that the State had less recourse to the capital market in the form of public issues.

It sometimes proved difficult to place loans, in spite of continual adjustments in the yields offered to subscribers by the principal borrower, the N.V. Bank voor Nederlandsche Gemeenten, from 5.5 % at the beginning

of 1965 to 6.4% in January 1966, a record level for the Dutch market. The central government was obliged to prohibit direct issues by local authorities for terms exceeding one year, to fix quotas for guarantees which local authorities can grant for issues by third parties and to limit interest rates for these operations.

In *Belgium*, the bond market became considerably wider. Although the rising yields in a number of foreign countries aroused renewed – though limited – interest on the part of private Belgian bondholders in investments on foreign financial markets, the banks, savings banks and public credit institutions very appreciably stepped up their holdings of public securities and thus largely offset the former trend. A certain lengthening of amortisation periods was obtained without an increase in rates : the yield offered to subscribers at the end of 1965 was just over 6.5% for loans of approximately 15 years.

The Treasury remained the principal borrower without, however, increasing its demand by comparison with 1964. This made it possible to meet the increasing requirements of local authorities and semi-public organisations.

In *Luxembourg*, the State was the principal borrower, offering yields of 4.5% for medium-term operations and 5% for long-term issues.

At the end of 1965, the yields offered to subscribers in the different Member Countries thus appeared to be more or less grouped around the level of 6.5%, with the sole exception of Germany, where they were nearly 1% higher.

* * *

It cannot be said, however, that this already constitutes a decisive step towards the unification of the markets of the Community, as the levelling of the rates appears indeed to result less from an increasing interpenetration of these markets than from the accidental convergence of various factors inherent in the characteristics peculiar to certain of them or from the influence exerted on the other markets by major financial centres outside the Community. Indeed, unification would imply the existence of a common currency or at least the establishment of particularly rigid links among the currencies of the six countries. However, it could

be preceded by a phase of progressive integration, thanks to the liberalisation of long-term capital movements, the harmonisation of tax treatment of investment yields and an improved organisation of the markets. While private investors are now free to subscribe to or, at least, to acquire foreign securities, the regulations governing the placing of funds by institutional investors very often still restrict the acquisition of foreign securities by such institutions. Similarly, security issues by a borrower of a given country on the other markets of the Community still present a number of difficulties, even in the absence of legal restrictions. With a view to the implementation of Article 67 of the Treaty concerning the progressive abolition of restrictions on capital movements, the Commission proposed to the Council of Ministers the adoption of a directive aimed at eliminating certain disparities and discriminatory practices, so as to facilitate interpenetration among the markets of the Member Countries.

3. *Bond issues by international institutions and foreign borrowers on the markets of Member Countries.*

In 1965, several countries of the Community reserved a place on their national markets for some issues by Community institutions or by borrowers from other Member Countries. The following table summarises these operations; the Bank thus issued bonds for 10 million units of account on the Belgian market, 24 million in Italy and 11 million in the Netherlands.

	1964	1965
	(millions of units of account)	
Belgium	—	10
France	30	25
Italy	—	24
Netherlands	15	29
Total	45	88
of which European Investment Bank	8	45
European Coal and Steel Community	37	11
borrowers from Member Countries	—	32

4. *Bond issues by residents of Member Countries on foreign markets.*

In 1965, the borrowers of the Community had recourse only to the Swiss market, to the extent of 20 million units of account.

5. *" European " international market.*

In the course of 1965, issues of ordinary or convertible bonds which cannot be considered as being attached to any one national market became increasingly numerous. The role played in the placing of these issues by the financial institutions of the Community and the Scandinavian countries, in close collaboration with those of New York and London, acquired ever greater importance, to such an extent that this market is now often termed the " European market " or the " European issue market ".

It is by no means an easy matter, however, to define this market, as the statistical estimates put forward as a basis for appreciating its scope sometimes differ very greatly.

Indeed, some estimates allocate to the " European " market all loans which are not expressed in the national currency of the borrower, all issues which, even if expressed in the borrower's national currency, are in fact offered for subscription abroad, as well as the so-called " parallel " issues, formed of several portions each expressed in a different currency and offered simultaneously on several different markets. Other estimates include furthermore the foreign issues which have always been placed on national markets traditionally open to them, and even certain issues expressed in the borrower's national currency and floated on his own market (e.g., the portion in Lire of the ENEL-Europe 1965 issue).

It seems advisable to adopt a somewhat more restrictive definition and to include as transactions of the " European " market only the following types of issues :

– loans which, expressed in a given currency, cannot interest subscribers residing in the country whose currency is concerned, owing to the tax regulations applicable to them. To this group belong the non-American bond issues in dollars which are liable to the Interest Equalization Tax

and which offer little or no attraction for U.S. residents; likewise, the non-German bond issues in DM, which are exempt from the Kuponsteuer and therefore issued under special conditions, are uninteresting to German investors as they do not offer yields comparable with those of the domestic German capital market since the recent rise in interest rates there;

– loans issued with special monetary clauses (e.g., issues expressed in units of account, or with a multiple currency clause;

– loans issued on a given market and expressed in the currency of that market but nevertheless reserved for non-resident subscribers (e.g., portions of loans issued in the Netherlands by Dutch enterprises, but for placement abroad).

On the other hand, foreign loans in Swiss francs issued in Switzerland should not be considered as transactions of the "European" market. Indeed, although these issues are finally subscribed, probably to a very large extent, by foreign investors, they have to be considered as issues on the Swiss market since there are no legal or other restrictions preventing Swiss investors from participating in them. Likewise, the loans expressed in florins, lire, Belgian francs and French francs, such as those issued by the European Investment Bank or the European Coal and Steel Community, or the different portions of the ENEL-Europe issue, are considered as being floated on the different national markets, with the sole exception – for the reasons set forth above – of the DM portion of the ENEL-Europe loan.

This "European" market, as defined in the foregoing, has gradually developed since the reintroduction of convertibility for the principal European currencies at the end of 1958. It started out with a limited number of issues with special monetary clauses and then developed rapidly in the course of the past few years under the pressure of various external events, despite the barriers which still exist between the different national capital markets.

In the United States, the application of the Interest Equalization Tax to the income from bonds issued by foreigners has in practice made the enormous capital resources of American institutional investors inaccessible to borrowers of the Community and the Scandinavian countries. In addition, the U.S. Government has encouraged American enterprises to

seek to a greater extent outside the country the resources for financing their investments abroad. German investors, for their part, are less interested in subscriptions to foreign loans because the rates of interest are lower than those obtainable in their own country. Lastly, the restrictions imposed in Switzerland on foreign issues have halted the traditional flow of international long-term capital.

At the same time, the capital available for long-term investment outside its country of origin appears to have increased considerably. Although the origin of this capital is in practice very difficult to ascertain, its growth is partly due to the fact that subscribers wish to remain anonymous vis-à-vis taxation systems which have become harsher, as well as to large accumulations of funds in countries where investment possibilities are limited, and sometimes to a lack of confidence in the national currency. There seems also to be a greater desire to arrive at a better distribution of monetary risks for the increasing savings.

The international banking system has adapted itself to this new situation and has rapidly developed new techniques for bringing together, outside traditional market channels, the unsatisfied demand and the considerable supply of funds available. While the future development of this market must remain a matter of speculation, either because some of the factors favouring its development may change or disappear, or because its structure has suffered hitherto from the absence of large-scale institutional investors, it must be pointed out that the mere fact of having brought the financial institutions of several countries to work in close collaboration and to master well-tried techniques is bound to have beneficial effects in the longer run when the progress of integration makes it possible to create a genuine European capital market.

The public issues floated on this "European" market amounted to 939 million units of account in 1965, and were mainly expressed in dollars and DM.

The yield rose from 5 1/2% to more than 6 1/2% in the course of the year, in line with the general upward trend on the principal markets, and as a result of the increased demand for capital, more particularly by American companies operating through the intermediary of subsidiaries

especially created for that purpose and established in the Community and in third countries. This rise in interest rates, moreover, induced several borrowers for the account of American companies to have recourse to the issue of bonds convertible at favourable terms into shares of the parent companies. In the case of issues by first class companies, it was thus possible to reduce the yield rates offered to 4 1/2 %.

PUBLIC BOND ISSUES ON THE « EUROPEAN » MARKET

(millions of units of account)

	1964	1965
DM or DM option	249	384
Dollars	437	531
Florins (portions reserved for non-residents)	—	24
Units of account	10	—
Total	696	939
of which Community borrowers	149	190
American companies	—	297
of which convertible bonds	—	*110*
Scandinavian borrowers	326	223
Japanese borrowers	145	25
Others	76	204

It will be seen that the principal beneficiaries of these operations were American companies, followed by Scandinavian and Community borrowers (of which 20 for the European Investment Bank and 38 for the European Coal and Steel Community). There was a decrease in issues for the account of Japanese borrowers and an increase in issues by borrowers of the Sterling area.

CAPITAL MOVEMENTS WITHIN THE COMMUNITY AND BETWEEN THE COMMUNITY AND NON-MEMBER COUNTRIES

In respect to aid to the developing countries, the Member Countries of the Community were all net exporters of public capital in the course of 1964 (1.5 milliard dollars, or the same as in 1963).

This public aid was supplemented by guaranteed private export credits in a net amount of about 500 million dollars, of which 230 million were for terms of more than 5 years.

During the same period, however, the movements of long-term private capital (direct and portfolio investments, loans other than commercial credits, real estate operations, etc.) showed a surplus in favour of all Member Countries; the surplus was relatively higher for France and probably also for Italy than for Germany and the Netherlands. These net private capital imports played an important part in the financing of investment.

Direct investments by Member Countries in other countries of the Community still remained at a relatively low level, although there was a slight increase by comparison with 1963. The high level of E.E.C. investments in Italy was largely influenced by a transaction under the heading of "investments of Netherlands' origin" connected with a participation in the capital increase of a leading Italian oil company; the funds transferred from the Netherlands were, however, actually of British origin.

In addition to these direct investments, there was a certain amount of security purchases, principally in France and the Netherlands, for German and also – to a lesser extent than in 1963 – for Belgian account.

Direct American investments increased in Germany, the Netherlands and to an even greater extent in Italy and France, where they more than doubled by comparison with 1963. They seem to have lost some of their

MOVEMENT OF LONG-TERM PRIVATE CAPITAL
CONCERNING THE MEMBER COUNTRIES IN 1964

(millions of units of account)

I. *Net foreign investments :*

Origin	*Germany*	*France*	*Italy*	*Netherlands*	*B.L.E.U.*
E.E.C.	123	139	282	80	
Direct	*38*	*87*	*234*	*17*	*49 %*
Portfolio	*– 1*	*32*	*10*	*52*	
Others	*86*	*20*	*38*	*11*	
U.S.A.	234	141	374	8	
Direct	*99*	*109*	*127*	*50*	*38 %*
Portfolio	*13*	*5*	*2*	*– 72*	
Others	*122*	*27*	*245*	*30*	
Other O.E.C.D. countries	124	273	334	156	
Direct	*37*	*121*	*164*	*21*	*12 %*
Portfolio	*55*	*98*	*– 3*	*87*	
Others	*32*	*54*	*173*	*48*	
Other countries	84	50	83	52	
Direct	*7*	*10*	*10*	*2*	*1 %*
Portfolio	*61*	*3*	*– 6*	*23*	
Others	*16*	*37*	*79*	*27*	
Total	565	603	1,073	296	

II. *Net investments abroad by residents :*

Destination	*Germany*	*France*	*Italy*	*Netherlands*	*B.L.E.U.*
E.E.C.	190	60	53	97	
Direct	*42*	*62*	*25*	*74*	
Portfolio	*79*	*– 3*	*3*	*– 12*	*22*
Others	*69*	*1*	*25*	*35*	
U.S.A.	1	– 57	56	– 2	
Direct	*4*	*2*	*72*	*10*	
Portfolio	*– 6*	*– 49*	*5*	*– 14*	*4*
Others	*3*	*– 10*	*– 21*	*2*	
Other O.E.C.D. countries	125	39	11	37	
Direct	*46*	*84*	*11*	*36*	
Portfolio	*33*	*– 62*	*4*	*9*	*– 6*
Others	*46*	*17*	*– 4*	*– 8*	
Other countries	138	34	50	49	
Direct	*17*	*14*	*45*	*29*	
Portfolio	*102*	*36*	*2*	*3*	
Others	*19*	*– 16*	*3*	*17*	
Total	454	76	170	181	

NOTES : *For Italy*, foreign investments of Swiss origin were partially the counterpart of exports of Italian banknotes by residents. These banknote exports, which reached 580 million units of account in 1964, i.e., considerably less than in 1963, have not been included under the heading of Italian investments abroad in the above table.
For Belgium, only the percentage distribution of *estimated* new foreign investments and the amounts of purchases of foreign securities by residents in 1964 are shown.

importance in Belgium. American portfolio investments in Europe were reduced by heavy selling of Dutch securities, while there were only insignificant net purchases in other countries.

The amounts of direct investment by the countries of the Community in the United States remain very small, except in the case of Italy. German, French and Dutch investors further reduced their holdings of American securities.

" Other O.E.C.D. countries ", in particular the United Kingdom, stepped up the volume of their direct investments in Member Countries with the exception of Germany and Italy. Purchases of German and Italian securities fell off, especially in the case of Switzerland, while the figures for purchases of French and Dutch securities rose slightly.

Germany, France and the Netherlands increased their direct investments in the " other O.E.C.D. countries ". Only Germany continued at the same time to build up portfolio holdings in these countries, while French holdings, on the contrary, were further reduced.

Lastly, transfers of capital to " other countries " from the Community were chiefly confined to Germany in so far as direct and portfolio investments were concerned and, to a lesser extent, to Italy and the Netherlands, where they mainly assumed the form of direct investment.

II

ACTIVITIES OF THE BANK

LOANS

Apart from the ordinary operations carried out in 1965, as in the past, with the aid of its own resources, the Bank also developed its operations within the framework of the " Special Section ".

ORDINARY LOANS

Under this heading, the Bank approved 25 ordinary loans for a total of 102 million units of account (1). Seventeen of these loans, totalling 80.9 million units of account, were for projects in Italy, two loans totalling 8.9 million for projects located in France, three loans totalling 8.8 million for projects in Germany and three loans totalling 3.4 million were granted for projects in the Associated African States, which thus benefited for the first time from the Bank's operations.

The projects are :

	Loans by the Bank (million u.a.)
Italy :	
1. Enlargement of a factory for the extraction and refining of vegetable oils at Taranto (Puglia). Promoter : *Giacomo Costa fu Andrea S.n.c.*	0.7
2. Construction of a factory for the production of caprolactam at Porto Torres (Sardinia). Promoter : *Siram S.p.A.*	3.2

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

	Loans by the Bank (million u.a.)
3. Construction of a factory for the manufacture of electromechanical appliances at Aversa (Campania). Promoter : *Texas Instruments Italia S.p.A.*	0.6
4. Construction of a motorway between Quincinetto and Aosta. Promoter : *Società Autostrade Valdostane - S.A.V. S.p.A.*	24.0
5. Enlargement of a factory for the manufacture of typewriters and calculating machines at Puzzuoli-Naples (Campania). Promoter : *Ing. C. Olivetti & C., S.p.A.*	1.5
6. Enlargement of a tannery at Pescara (Abruzzi). Promoter : *C.I.R. - Concerie Italiane Riunite S.p.A.*	0.1
7. Enlargement of polyethylene production plant at Priolo (Sicily). Promoter : *S.p.A. Celene.*	1.0
8. Modernisation and enlargement of an electrolytic zinc foundry at Crotone (Calabria). Promoter : *Società Mineraria e Metallurgica di Pertusola S.p.A.*	2.9
9. Construction of a factory for the calcination of gypsum and production of all types of plaster at San Salvo (Abruzzi). Promoter : *Gessi San Salvo S.p.A.*	0.2
10. Construction of a factory for the production of synthetic detergents at Pontinia (Latium). Promoter : *Mira Lanza S.p.A.*	1.8
11. Irrigation and development of the Metaponto Plain (Basilicata-Puglia). Promoter : *Cassa per il Mezzogiorno.*	24.0
12. Construction and operation of a plant for drying and crushing of silica sand at Sessa Aurunca (Campania). Promoter : *Sibelco Italiana S.p.A.*	0.2
13. Construction of a fertiliser production plant at Crotone (Calabria). Promoter : *S.p.A. Montecatini - Società Generale per l'Industria Mineraria e Chimica.*	3.2

	Loans by the Bank (million u.a.)
14. Construction of a paint production plant at Aprilia (Latium). Promoter : *Aziende Chimiche Riunite Angelini Francesco - A.C.R.A.F. S.n.c.*	0.6
15. Construction of a plant for the production of basic pharmaceutical materials at Aprilia (Latium). Promoter : *Aziende Chimiche Riunite Angelini Francesco - A.C.R.A.F. S.n.c.*	0.4
16. Construction and operation of a telephone cable factory at Airola (Campania). Promoter : *Alfacavi S.p.A.*	1.5
17. Construction of a thermal power station at Salerno (Campania). Promoter : *ENEL - Ente Nazionale per l'Energia Elettrica.*	15.0
France :	
18. Extension and modernisation of the equipment of an agricultural cooperative in Brittany. Promoter : *Coopérative des Agriculteurs des Côtes-du-Nord et du Finistère.*	0.8
19. Extension of the collecting and processing equipment of a group of nine dairy cooperatives in Lower Normandy. Promoter : *Union Laitière Normande* and its nine member Cooperatives.	8.1
Germany :	
20. Modernisation and extension of a fertiliser plant at Brunsbüttelkoog (Schleswig-Holstein). Promoter : *Kali-Chemie A.G.*	1.3
21. Enlargement of a synthetic fibre production plant at Neumünster (Schleswig-Holstein). Promoter : *Phrix-Werke A.G.*	2.5

	Loans by the Bank (million u.a.)
22. Extension of the natural gas supply system in the north of the Land of Lower Saxony. Promoter : *Energieversorgung Weser-Ems A.G. (E.W.E.).*	5.0

Associated African States

Republic of the Ivory Coast :

23. Establishment of a group of industiral plants for the packaging and export of bananas in card-board containers. Promoter : *Société Nationale de Conditionnement (SONACO).*	1.0

Federal Republic of Cameroon :

24. Establishment of textile mills at Garoua and Douala. Promoter : *Cotonnière Industrielle du Cameroun (CICAM).*	1.2
25. Establishment of an aluminium rolling mill at Edea. Promoter : *SOCATRAL, Société Camerounaise de Transformation de l'Aluminium.*	1.2

* * *

The loans in Germany, France and the Associated African States were granted directly by the Bank to the enterprises or institutions carrying out the projects. The same applies to Italy, for the loan to the Società Autostrade Valdostane S.p.A. and for the loan for the irrigation of the Metaponto plain; in the latter case, the Cassa per il Mezzogiorno has to utilise the funds lent to it to complete the public works scheduled in the plans for the overall amelioration of the plain.

The other loans concern projects coming within the Cassa's sphere of activities and were, as in the past, granted to this institution, which then relends the respective amounts, either directly (ENEL-Salerno), or through the competent regional financing institutions. In 1965, these were the Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER), for the mainland Mezzogiorno, the Credito Industriale Sardo

(C.I.S.), for Sardinia and the Istituto Regionale per il Finanziamento alle Industrie in Sicilia (IRFIS), for Sicily.

By granting nearly 80% of its ordinary loans for projects located in Italy, and more particularly Southern Italy, the Bank has continued to perform its mission of aiding the less-developed regions of the European Economic Community, while at the same time helping to support the efforts of the public authorities to give new impetus to the Italian economy and contributing to the improvement of communications between Italy and the other countries of the Community. The major portion of the loans for projects in Italy, i.e., 63 million, related to power equipment (ENEL-Salerno), road infrastructure (Val d'Aosta motorway) and agricultural infrastructure (Metaponto). The latter loan represents the Bank's first intervention in favour of agricultural development in the Mezzogiorno. The Val d'Aosta motorway provides a rapid and permanent link between Italy and France on the one hand and between Italy, Switzerland and Germany, on the other.

The two projects financed in France are especially concerned with the modernisation of the dairy industry. The larger of the two projects was carried out in collaboration with the Caisse Nationale de Crédit Agricole.

The projects financed in Germany are located in Schleswig-Holstein and Lower Saxony, where the economy is suffering from structural deficiencies. They have been guaranteed by the Länder or their public credit institutions.

The Bank's first operations in favour of the Associated African States relate to the Ivory Coast and Cameroon. They are concerned with the execution of three industrial projects in sectors which are of great interest for the development of these countries : modernisation of methods of packaging agricultural products so as to facilitate their export, and establishment of a textile industry intended to replace imports by locally manufactured goods, as well as the development of a metallurgical industry which will process part of the aluminium of first smelting, that had previously been exported, with a view to its utilisation on the domestic market and its export to other African countries. French and German promoters are associated in the textile industry project.

SPECIAL LOANS

Within the framework of its Special Section – the characteristics of which were described in the 1964 Annual Report – the Bank approved 7 loans totalling 48.8 million in favour of projects located in Turkey in the course of the financial year.

The projects approved were :	*Loans by the Bank* (million u.a.)
1. Construction of a wire-drawing and cable mill at Izmit. Promoter : *Çelik Halat ve Tel Sanayii A.Ş.*	1.5
2. Modernisation of a textile factory at Izmir. Promoter : *Tac Sanayi ve Ticaret A.Ş.*	0.2
3. Enlargement of a tyre factory at Izmit. Promoter : *Türk Pirelli Lästikleri A.Ş.*	0.5
4. Irrigation and development of the Gediz valley in Western Anatolia. Promoters : *D.S.I. - Devlet Su Işleri Genel Müdürlüğü (Directorate-General of State Hydraulic Works, Ministry of Energy and Natural Resources)* and *TOPRAKSU - Toprak Muhafaza ve Zirai Sulama Işleri Genel Müdürlüğü (Directorate-General for Soil Conservation and Irrigation, Ministry of Rural Affairs).*	15.0
5. Construction of a dam on the Euphrates, a hydroelectric power station at Keban (Eastern Anatolia) and transmission lines making it possible to transport the power produced to Ankara and Istanbul. Promoter : *D.S.I. - Devlet Su Işleri Genel Müdürlüğü (Directorate-General of State Hydraulic Works)* and *Etibank.*	30.0
6. Enlargement of a nylon spinning mill at Bursa. Promoter : *Sentetik Iplik Fabrikalari A.Ş. (SIFAŞ).*	1.3
7. Construction of an enamelling plant in a factory producing electric domestic appliances near Istanbul. Promoter : *Arçelik A.Ş.*	0.3

The Bank's operations in Turkey, carried out in accordance with the system described in the previous Annual Report, took into account the priorities laid down in the development plan. In the course of the financial year, corresponding for the first time with a full year's operation of the Agreement of Association which came into force on 1st December, 1964, the Bank approved two loans, totalling 45 million u.a., for infrastructure (agricultural development and hydroelectric energy) and five loans, totalling 3.8 million u.a., for industrial projects.

Among these projects, special mention should be made of the construction of the hydroelectric power station at Keban. The foreign exchange expenditure for this project, amounting to 135 million u.a. out of a total investment of 340 million u.a., is being financed at the international level by the World Bank, the European Investment Bank and the governments of the United States of America, Germany, France and Italy. A consortium has been set up for the organisation of this financing and the finalisation of the project, and co-ordination within this consortium has been arranged by the European Investment Bank, the World Bank and the U.S. Aid Administration.

* * *

In the course of the past financial year, the Bank approved, for ordinary and special operations together, 32 loans totalling 150.8 million, as against 106.8 million in the previous year.

These loans cover projects involving an estimated total cost in fixed assets of 804.6 million. The Bank has therefore intervened for an average of 19% in the total cost of the projects.

THE LOAN OPERATIONS OF THE BANK FROM 1958 TO 1965

Since its foundation and until the end of 1965, the Bank has approved 117 loans, two of which were cancelled after approval. The total number of operations was therefore 115, totalling 613.8 million, or an average of about 5.3 million per loan. Nearly a third of these 115 operations were

for an amount of one million or less, while the number of loans for amounts of 3 million or less represented 60% of the total.

The investments in which the Bank participated amounted in all to approx. 2.8 milliard : the Bank's share in their financing averaged 22%, varying considerably according to the nature and size of the projects.

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

BREAKDOWN BY COUNTRY
at 31st December, 1965
(Ordinary and Special loans)

Countries	*Number of projects*	*E.I.B. loans (million u.a.)*	*Each country's share in the total (%)*
I. Ordinary loans			
Member countries :			
Belgium	1	4.8	1
Germany	6	41.2	7
France	13	79.8	13
Italy	74	389.6	63
Luxembourg	1	4.0	1
	95	519.4	85
Associated countries :			
Greece	8	36.8	6
Ivory Coast	1	1.0	—
Cameroon	2	2.4	—
	11	40.2	6
Total	106	559.6	91
II. Special loans			
Turkey	9	54.2	9
Grand total	115	613.8	100

BREAKDOWN BY ECONOMIC SECTOR
at 31st December, 1965

(Ordinary and Special loans)

Sectors	*Number of projects*	*E.I.B. loans (million u.a.)*	*Each sector's share in the total (%)*
AGRICULTURAL IMPROVEMENTS	6	72.8	12
TRANSPORT	12	156.2	25
POWER	14	129.6	21
TELECOMMUNICATIONS	1	16.0	3
INDUSTRY	82	239.2	39
of which :			
– Mining	2	2.0	
– Iron and steel	3	48.9	
– Non-ferrous metals	2	4.1	
– Building materials	8	13.7	
– Glass and pottery	4	6.4	
– Paper pulp and paper	4	17.5	
– Mechanical engineering	17	30.8	
– Chemicals	18	86.6	
– Textiles and clothing	7	7.2	
– Food	13	20.9	
– Other manufacturing industries	4	1.1	
Total	115	613.8	100

As regards the terms of loans, taking into account the general evolution of financial markets, the interest rates to be applied for ordinary operations were fixed as follows on 20th December, 1965 :

Duration of loan	*Rate*
up to 7 years	6 1/4%
over 7 but not exceeding 12 years	6 1/2%
over 12 but not exceeding 20 years	6 3/4%.

ORIGIN AND EMPLOYMENT OF RESOURCES

At the beginning of the financial year 1965, the Bank's combined resources amounted to 458.3 million units of account, derived from paid-up capital, borrowings and accrued profit. At the same date, effective loans amounted to a total of 394.5 million, of which 273.7 million had been disbursed.

During the financial year, the Bank continued its borrowing activities and concluded four new operations for a total of 65 million.

In April, the Bank floated a new public loan in the Netherlands for a nominal amount of 40 million florins (approx. 11 million u.a.), at 5 3/4%. The loan was taken up by a syndicate of Dutch banks under the management of the Amsterdam-Rotterdam Bank, and offered for public subscription at 100%. The bonds run for 25 years and are redeemable at par in 15 substantially equal annual instalments as from May 1976.

In September, a new public loan was floated in New York for a nominal amount of 20 million U.S. $ (20 million u.a.) at 6%. It was taken up by an international consortium of 66 banks (48 of them European), under the management of Kuhn, Loeb & Co., Inc., The First Boston Corporation, Lazard Frères & Co., and a group of European banks composed of the Amsterdam-Rotterdam Bank N.V., the Banca Commerciale Italiana, the Banque de la Société Générale de Belgique, the Banque de Paris et des Pays-Bas, the Deutsche Bank A.G. and the Caisse d'Épargne de l'État, Luxembourg. This formula, whereby financial institutions in New York and the Member Countries are associated with the management of the syndicate, opens the way to new and ever closer forms of collaboration which are bound to be helpful in improving the organisation of the international capital market. The bonds were offered to the public at 99.5% of their nominal value, although this rate was raised to 108.33% for United States' subscribers, owing to the incidence of the Interest Equalization Tax. The bonds run for 20 years and are redeemable at par in 15 substantially equal annual instalments from September 1971 onwards.

In October, the Bank issued a new public loan in Italy for 15 milliard lire (24 million u.a.) at 6%. This loan was taken up by a syndicate of Italian banks under the management of Mediobanca and offered for public subscription at 96%. The bonds which run for 20 years are redeemable at par, in interest and principal, in 17 equal annual instalments from October 1969 onwards.

In the same month, the Bank issued a public loan in Belgium in the amount of 500 million Belgian francs (10 million u.a.) at 6.5%. This loan was taken up by a syndicate of Belgian banks under the management of the Banque de la Société Générale de Belgique. The bonds, which run for 12 years, were offered for public subscription at 99%. They are redeemable at par, in interest and principal, in 9 equal annual instalments from November 1969 onwards.

Taking all these operations into account, the overall amount of funds borrowed by the Bank thus amounted to 220.7 million on 31st December, 1965. After deduction of repayments made, the funded debt, at this date, amounts to 217.2 million. Detailed tables concerning the loans issued by the Bank will be found in Part III of the present Report, with the comments on the balance sheet.

New loan agreements signed during the financial year brought the total amount of loans granted to 508.1 million as at 31st December, 1965. After deduction of repayments made, amounting to a total of 18 million, of which 8.7 million were repaid during the financial year, and taking into account exchange adjustments and cancellations, total effective loans amounted to 488.5 million, of which 365.6 million had been disbursed. Disbursements made during the financial year 1965 amounted to 100.7 million.

* * *

The balance of the Profit and Loss Account, before appropriations to the statutory reserve and to provisions, amounted to 11 million, as against 10.6 million in the previous financial year. This amount was distributed as follows : 5.5 million for provisions and the balance to the statutory reserve.

On 31st December, 1965, the total of reserves and provisions was 65.7 million, of which 32.2 million units of account in the statutory reserve.

At the end of the financial year, the Bank's total resources – paid-up capital, borrowings and accrued profit – amounted to approximately 532.9 million units of account.

III

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

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

Their main items are analysed below :

BALANCE SHEET

The balance sheet total as at 31st December, 1965, amounts to 665,207,321.33 u.a. On 31st December, 1964, this total was 584,968,287.59 u.a.

ASSETS

Cash and banks, gold assets and investments.

The total of these assets on 31st December, 1965, amounts to 168,532,193.98 u.a., as against 186,122,632.93 u.a., on 31st December, 1964, as follows :

	on 31st December, 1964	on 31st December, 1965
– Cash in hand and banks	155,596,714.43	132,011,948.73
– Gold assets	8,602,167.25	8,618,999.49
– Investments	21,923,751.25	27,901,245.76

The treasury bonds, bonds and notes to the value of 24,212,909.63 u.a., have been valued at cost price or at market quotation as at 31st December, 1965, if the latter were below cost price, with a maximum of 100%.

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

– Currencies of Member Countries	125,546,256.41 u.a.
– Other currencies	34,366,938.08 u.a.
– Gold	8,618,999.49 u.a.

The break-up by maturities is :

– At call	23,163,583.50 u.a.
– Not exceeding 3 months	42,071,469.12 u.a.
– Exceeding 3 months but not exceeding 6 months	31,987,818.02 u.a.
– Exceeding 6 months but not exceeding 1 year	51,441,756.57 u.a.
– Exceeding 1 year	19,867,566.77 u.a.

Effective loans.

The amount of loans is 488,478,962.11 u.a. and represents the total amount of the loans for which agreements had been signed by 31st December, 1965, less repayments during the year amounting to 8,709,624.12 u.a. and cancellations amounting to 1,440,000.– u.a. Of this total, the amount actually paid out to borrowers by that date is 365,598,626.24 u.a.

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

– Currencies of Member Countries	266,985,839.42 u.a.
– Currency of any Member State at the Bank's option	32,069,570.66 u.a.
– Other currencies	66,543,216.16 u.a.

The undisbursed amounts viz. 122,880,335.87 u.a. appear as a contra item in the liabilities under the heading " undisbursed balance of effective loans ".

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

	on 31st December, 1964	on 31st December, 1965
– Amounts disbursed	273,654,577.49	365,598,626.24
– Amounts undisbursed	120,881,822.14	122,880,335.87
Total of loans	394,536,399.63	488,478,962.11

With the following breakdown by country of current loans :

Country	*Amounts disbursed*	*Amounts undisbursed*	*Total*
Belgium	4,800,000.–	–	4,800,000.–
Germany	32,805,238.11	1,500,000.–	34,305,238.11
France	62,645,455.93	12,720,120.87	75,365,576.80
Italy	244,055,580.70	87,452,000.–	331,507,580.70
Luxembourg	3,470,566.50	–	3,470,566.50
Greece	17,505,333.–	19,294,667.–	36,800,000.–
Ivory Coast	316,452.–	698,548.–	1,015,000.–
Cameroon	–	1,215,000.–	1,215,000.–
	365,598,626.24	122,880,335.87	488,478,962.11

Of this total of 488,478,962.11 u.a., loans guaranteed by Member Countries directly concerned amount to 398,040,696.11 u.a.; loans granted to Associated Countries and guaranteed by them amount to 35,530,000.– u.a., the balance of 54,908,266.– u.a. being composed of loans covered by usual long term financial security.

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

Furniture and equipment.

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

Accrued interest and commission.

Under this heading are shown interest and commissions accrued but not yet due for payment as at 31st December, 1965; they amount to 5,832,240.34.

Miscellaneous.

The total shown under this heading viz. 2,363,923.90 u.a., includes 2,312,508.32 u.a. representing deposits constitued to cover the payment of coupons due but not yet paid.

LIABILITIES

Capital.

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

Statutory Reserve.

The statutory reserve which amounted to 26,615,682.53 u.a. at the beginning of the year is increased to 32,150,155.18 u.a. by the transfer to this reserve of the balance of the Profit and Loss account.

Provisions.

The provision for risks on loans and guarantees, which stood at 20,000,000.– u.a. at the close of the previous financial year, is increased to 25,500,000.– u.a.

Total provisions therefore amount to 33,500,000.– u.a., as against 28,000,000.– u.a. at the close of the previous financial year.

Staff pension fund.

The amount appearing under this heading is 776,337.04 u.a. as against 607,501.84 u.a. on 31st December, 1964.

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

The amount appearing under this heading is 385,339.27 u.a. as against 424,249.06 u.a. at the close of the previous financial year.

Medium and long term debt.

The figure of 217,227,630.31 u.a. under this heading represents the Bank's current borrowings as at 31st December, 1965.

The breakdown of the funded debt is as follows :

		Principal outstanding			*Final maturity*	*Amortization*
		in local currencies		*in u.a.*		
4 3/4 %	Bank loan of 1961	Sw. fr.	3.6 million	823,267.36	1967	in equal annual instalments.
4 1/2 %	Bonds of 1961	Fls.	12.0 million	3,314,917.12	1968	in equal annual instalments.
4 1/2 %	Bonds of 1961	Fls.	50.0 million	13,812,154.70	1981	in 15 substantially equal annual instalments 1967-1981.
5 %	Bonds of 1962	Lit.	15,000.0 million	24,000,000.00	1977	redeemable by anticipation, as a whole or in part, at par as from 1967.
4 3/4 %	Bonds of 1962	Fls.	30.0 million	8,287,292.82	1982	in 10 equal annual instalments 1973-1982.
5 1/2 %	Bonds of 1963	DM	60.0 million	15,000,000.00	1970	at maturity.
6 %	Bonds of 1963	Belg. fr.	400.0 million	8,000,000.00	1987	in 19 annuities* 1969-1987.
5 %	Bonds of 1963	FF	60.0 million	12,152,981.73	1983	1/4 of the nominal value of each bond at the end of the 5th, 10th, 15th and 20th year.
5 1/2 %	Bonds of 1964	DM	80.0 million	20,000,000.00	1974	at maturity.
5 %	Bank loan of 1964	Lux. fr.	50.0 million	1,000,000.00	1974	in 7 annuities* 1968-1974.
5 3/4 %	Bonds of 1964	Fls.	30.0 million	8,287,292.82	1984	in 10 equal annual instalments 1975-1984.
5-5 1/4 %	Bonds of 1964 (Serial Bonds)	DM	50.0 million	12,500,000.00	1971	in 6 substantially equal annual instalments 1966-1971.
5 1/2 %	Bonds of 1964	US $	25.0 million	25,000,000.00	1984	in 15 substantially equal annual instalments 1970-1984.
5 3/4 %	Bonds of 1965	Fls.	40.0 million	11,049,723.76	1990	in 15 substantially equal annual instalments 1976-199.
6 %	Bonds of 1965	US $	20.0 million	20,000,000.00	1985	in 15 substantially equal annual instalments 1971-1985.
6 %	Bonds of 1965	Lit.	15,000.0 million	24,000,000.00	1985	in 17 annuities* 1969-1985.
6 1/2 %	Bonds of 1965	Belg. fr.	500.0 million	10,000,000.00	1977	in 9 annuities* 1969-1977.
				217,227,630.31		

* in capital and interest.

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

	Principal outstanding at 31st December, 1964	*Operations during the financial year*		*Principal outstanding at 31st December, 1965*
		Borrowing	*Repayments*	
in DM	47,500,000.–	–	–	47,500,000.–
in FF	12,152,981.73	–	–	12,152,981.73
in Lit.	24,000,000.–	24,000,000.–	–	48,000,000.–
in Belg. fr.	8,000,000.–	10,000,000.–	–	18,000,000.–
in Fls.	34,806,629.84	11,049,723.76	1,104,972.38	44,751,381.22
in Lux. fr.	1,000,000.–	–	–	1,000,000.–
in Sw. fr.	1,234,901.04	–	411,633.68	823,267.36
in US $	25,000,000.–	20,000,000.–	–	45,000,000.–
Total	153,694,512.61	65,049,723.76	1,516,606.06	217,227,630.31

The amount of funded debt due within the financial year 1966 is 3,591,606.06 u.a.

Undisbursed balance of effective loans.

The amount of 122,880,335.87 u.a. represents payments due by the Bank to its borrowers under contracts signed prior to 31st December, 1965.

Accrued interest payable and interest received in advance.

The amount of 3,386,279.93 u.a. appearing under this heading represents 3,308,210.52 u.a. accrued interest not yet paid and 78,069.41 u.a. interest received in advance for periods subsequent to 31st December, 1965.

Miscellaneous.

The amount of 4,901,243.73 u.a. under this heading includes 2,312,508.32 u.a. for coupons due but not yet paid and the balance represents various expenses remaining to be paid at the end of the financial year and administrative charges incurred or foreseen for later payment.

MEMORANDUM ACCOUNTS

SPECIAL SECTION

At 31st December, 1965, the amount of loan agreements signed by the Bank in the framework of its Special Section for the account and on mandate of the Member States, represents one loan to Turkey totalling 5,000,000.– u.a. on which 208,344.– u.a. had been disbursed.

PROFIT AND LOSS ACCOUNT

DEBIT

Administrative expenses.

These expenses amount to 2,570,202.85 u.a. as against 2,369,680.50 u.a. for the previous year.

They are made up as follows :

– Staff expenses	1,547,672.20 u.a.
– General expenses and provisions for possible other charges	1,022,530.65 u.a.

The increase in administrative expenses is mainly due to the adaptation of salaries which took place in 1965, in relation with the rise in the cost of living the previous year, staff expansion, contractual seniority advancements, promotions, and expenses resulting from the extension of the activity of the Special Section.

The staff of the Bank totalled 139 persons on 31st December, 1965, of which 87 were employed in the translation, administrative, and maintenance services.

Interest and charges on borrowings.

This item, amounting to 11,697,695.25 u.a., represents interest on borrowings and other debit interest as well as sundry charges and expenses connected with borrowings.

Financial expenses.

The amount of 444,676.95 u.a. under this heading consists almost entirely of the differences in the valuation of investments at 31st December, 1965.

Amortization of furniture and equipment.

Expenditure on furniture and equipment, made during the year and fully amortized, was 64,465.26 u.a., as against 29,069.19 u.a. for the previous year.

CREDIT

Interest and commission from loans.

This item amounts to 18,598,803.82 u.a., as against 13,308,365.15 u.a. for the previous year. The increase is in proportion to the increase in amounts paid out.

Interest and commission from investments.

The amount of interest from investments of available funds is 7,167,090.17 u.a., as against 7,102,286.11 u.a. for the previous year.

* * *

Brussels, 4th May, 1966.

Chairman, Board of Directors,

PARIDE FORMENTINI.

THE PROBLEMS OF INDUSTRIAL DEVELOPMENT IN TURKEY

Industrialisation holds an important place in the long-term Development Plan which has formed the basis for the economic policy of Turkey since 1963. It is the driving force of the country's economic growth and aims to confer a more balanced structure on the Turkish economy, in which agriculture still plays a preponderant role, to create employment opportunities for the unused reserves of manpower and to ensure an improved utilisation of the country's natural resources. Lastly, the new production capacities of a judiciously oriented industry are bound to make a large contribution towards solving the balance of payments problems.

In the longer term, industrialisation is also one of the means of arriving at the customs union which is to be gradually established between the Member Countries of the Community and Turkey. Hence, a considerable share of the financial aid granted within the framework of the Association Treaty to this country through the European Investment Bank is to be reserved for the financing of industrial projects which, when the time comes, will be able to withstand the competition of enterprises in the Common Market, thus setting the seal on the lasting improvement of the Turkish economic structure.

1. *The structure of Turkish industry.*

Turkey's industrial development is still limited, despite the efforts to encourage it which have been made in the past : value-added in industry including mining, amounting to about 1,000 million dollars in 1963, represents only 16% of the national revenue, while industrial employment is estimated at 1.1 million, or only 8.5% of the active population.

A census of the manufacturing industry in 1963 showed that there were some 163,000 industrial or craft enterprises, only 4% of which employed at least five workers and used motive power, or at least ten workers without use of motive power. This category of enterprise, which is the sole constituent of industry in the strict sense of the term, employs half

the workers and provides nearly three quarters of the production of the sector.

The Turkish economy is a " mixed economy ", in which public and private enterprises coexist. This situation originated in the active industrialisation policy pursued by the State from 1933 onwards, as a result of the disequilibrium in payments brought about by the worldwide depression. Two State holding companies were then set up to remedy the inadequate initiative and resources of the private sector, which had been slow in setting up industries producing goods that could replace imports : the Sümerbank, which aimed to establish basic industries (iron and steel, paper, chemicals, cement, etc.), and the Etibank, for the development of the country's mineral deposits. Subsequently, some of these industrial enterprises became autonomous, while other independent undertakings were set up by the State, either directly or with the aid of State banks or enterprises already in existence. In the post-war years, the development possibilities of the private sector attracted the attention of the authorities. Indeed, import licences with a view to investment were granted more freely to private enterprises, while the Industrial Development Bank was founded to facilitate the financing of private projects by granting long-term funds and various steps were taken which contributed towards defining more precisely the bonds of foreign investments.

In whatever direction they were made, the industrialisation efforts – which often had to compete with large-scale investments in agriculture and the infrastructure – have had to be kept within the limits of available resources. In this way, they have had only a restricted scope, or have all too soon been slowed down by the emergence of tensions in the economy.

Light industry is preponderant : food, tobacco, textiles and clothing account for two thirds of overall industrial production and employ 55 % of the labour force. The advance of the private sector has continued more especially in these traditional branches.

The industry of basic and semi-finished products (iron and steel, cement and building materials, paper, basic chemicals, fertilisers, etc.) has nevertheless already made considerable progress. Factories turning out simple finished products (cables, electric cables, card-board, electrical equipment, tyres, glass) and some assembly plants have also been set up in Turkey.

The mines play an important part as a source of raw materials, both for export and for the domestic industry. The subsoil of Turkey is relatively rich, but on the whole still unexploited. Among some 30 mineral products being extracted, the most important are coal, lignite, oil, iron, chromium, copper and manganese.

The industry of basic and semi-finished products is dominated by the State industrial enterprises : in 1961, there were about 200 of these establishments in Turkey, representing 40% of the value-added in industry, one third of the industrial employment and half the overall fixed investment in the sector. The State enterprises controlled about 75% of the total mining production.

Industrial development has been very unequally spread over the different parts of the country. About two thirds of private industries (on the basis of employment and turnover) are concentrated in North-West Turkey, where the purchasing power is highest. Whereas industrial diversification has become more and more pronounced in the Istanbul area, with a consequent increase in the advantages offered to private investors there, the other regions have failed to arouse the latter's interest. The State therefore applied a policy aimed at ensuring a better geographical distribution of investments by public enterprises, with a view to creating bridgeheads for new industrial centres. If it is carried out consistently, this policy could lead to a genuine decentralisation of industry.

Turkey is already able to cover its requirements, in whole or in part, for a limited number of basic products and certain simple manufactured goods. On the other hand, the country still depends largely on imports for machinery, capital goods and the more complicated industrial products. Imports of mineral products are small, except for oil, the local production of which has nevertheless made considerable progress in recent years and already covers one third of the requirements.

From 1960 to 1962, industrial exports reached an annual average of approx. 80 million dollars, or one fifth of Turkey's total exports. Mineral products, especially chrome ore and copper, represented more than a third, foodstuffs (sugar, olive oil, etc.) about a third, while the remainder was made up of sundry manufactured articles.

2. *The industrialisation policy of the first Five-Year Plan (1963-1967).*

The attainment of the quantitative targets of the Development Plan presupposes rapid progress of industrialisation. As a growth rate of only 4% was deemed possible for the value-added of agriculture, which is still the predominant sector, the expansion rate of 7% fixed by the Plan as a target for the economy as a whole therefore implies above-average growth rates for the secondary and tertiary sectors, and industry in particular.

The annual growth in net industrial production laid down by the Plan is 11.6%. The contribution of the manufacturing and mining industries to the national product will thus increase from 16% to at least 20% in five years.

The efforts to increase production and investments in the manufacturing industries have to be concentrated on heavy industry : the net production of light industry has to increase by only one third during the five years of the Plan, whereas the value-added should rise by 166% in heavy industry, representing an annual average of 22%; 81% of the investments in the manufacturing industry are intended for heavy industry.

The table below shows the main quantitative targets of the Plan for the industrial sector.

INDUSTRIAL TARGETS OF THE TURKISH DEVELOPMENT PLAN, 1963-1967

Gross value added

	In milliards of £ T (1961 prices)			*Index 1967 (1962 = 100)*	*Rate of growth in % 1963-1967*	*% share*	
	1962	*1963*	*1967*			*1962*	*1967*
Light industry	4.41	4.52	6.17	140	7	65	50
Heavy industry	2.34	3.15	6.22	266	22	35	50
I. Manufacturing industry	6.75	7.67	12.39	184	13	100	100
Mines (excl. oil)	0.93	1.02	1.33	143	7.5	54	50
Oil extraction and refining	0.78	0.87	1.34	172	11.5	46	50
II. Total mining industry	1.71	1.89	2.67	156	9.3	100	100
III. Total industry (I + II)	8.46	9.56	15.06	178	11.6		

Fixed investments

	1963-1967 in milliards of £ T (1961 prices)		*% share*	
Light industry	1.94		19	
Food industry		1.03		10
Textiles and clothing		0.91		9
Heavy industry	8.15		81	
Chemicals		2.74		27
Metallurgy		2.37		23.5
Engineering		1.31		13
Paper		0.55		5.5
Transport equipment		0.42		4
Cement and building materials		0.30		3
Sundry		0.46		4.5
I. Manufacturing industry	10.09		100	
Mines (excl. oil)	1.51		47	
Oil extraction and refining	1.72		53	
II. Total mining industry	3.23		100	
III. Total industry (I + II)	13.32			
Industrial investments in % of total investments :	*22.3*			

The preponderance accorded to heavy industry by the Plan may be explained by Turkey's efforts to replace imports by locally produced goods. The execution of the major projects which are to provide the framework for this new development rests mainly with the State enterprises. These projects include a petrochemical plant, industrial chemicals and fertiliser factories, three large pulp and paper mills and a number of factories producing machinery and capital goods, etc., which, however, were still at an early planning stage at the end of 1962. Furthermore, thanks to the Ereğli steel works, commissioned early in 1965, it seems that Turkey will very soon be able to meet the whole of its iron and steel requirements.

In the first years of the Plan, the production targets have mainly to be reached by means of improved productivity and the start-up of installations under construction. In subsequent years, the attainment of the targets depends upon the commissioning of new factories and especially several of the major projects referred to above.

Apart from these key projects to be carried out by State enterprises, the Plan does not fix the breakdown of investments between the private and public sectors for the different branches of industry. It acknowledges that about 60% of investments in the manufacturing industry and one third of those in the mining sector have to be made by private enterprise.

The Plan is indeed based on the principle that development opportunities should be the same for public and private enterprises; the latter have to orient their investments and production-programmes freely, depending upon the possibilities indicated and upon the recommendations made by the Plan in the light of the general development targets.

By relying on general policy guidance and indirect measures for the private sector, the State has accepted the existence of a factor of uncertainty : the place occupied by the private sector in the Turkish economy will be proportionate to the dynamism shown by entrepreneurs and to their awareness of the opportunities offered them, which in turn call for considerable efforts on their part.

Lastly, the Plan relies on foreign initiatives for part of the development. In this respect, it provides for direct foreign investment of some 25 million dollars annually, representing over five years an import of capital corresponding to one sixth of the total private investments in industry. Furthermore, the Plan attaches importance to the contribution of technical experience and the introduction of new processes which are very often linked with direct investments by foreign firms.

* * *

In addition to the quantitative targets, the Plan lays down – in order to remedy certain of the shortcomings observed in the past – the broad outlines of a new development policy aimed in particular at encouraging industrialisation.

The Plan defines, inter alia, the guide-lines with respect to foreign trade policy, development of the infrastructure, reorganisation of State enterprises, and encouragement to private initiative and foreign investments.

As regards foreign trade, the general principles laid down by the Plan stem from the idea that a general and reasonable protection of the Turkish economy is necessary in order to offset certain cost disadvantages that place the domestic industry, which is not yet sufficiently developed, in a position of inferiority by comparison with the industrial countries. The establishment of new industries to which the Plan gives priority is, if necessary, to be encouraged by special measures. These exceptional tariff protections can hardly be abolished, in the opinion of the Turkish experts, until such time as the present drawbacks with respect to productivity disappear.

The Turkish Government, deeming that the customs tariffs in force at the beginning of the Plan were rather low for a developing country and provided a customs protection lower than that which GATT had accepted in other cases, appreciably increased them by Law 474 of May 1964. This law provides the government with extensive means of bringing the tariff arrangements into line at all times with the requirements of development policy, inter alia by increasing by 50% the customs duties for all goods which can be supplied by local industry in sufficient quantities and under satisfactory quality and price conditions. Furthermore, in application of the principles contained in the Plan, the Turkish government may fix quotas for, and even prohibit, the import of these goods. On the other hand, the government has been authorized – in favour of selected priority industrial projects – to spread the payment of import duties over five years or even to reduce or abolish import duties on capital goods and raw materials for such projects.

If this policy of protection for infant industries is to yield lasting results, it has to be accompanied by measures to create the right conditions for eliminating any obstacles to productivity. In this respect, the development and improvement of the infrastructure are bound to play a role of capital importance. The Plan therefore makes provision for large-scale investments to modernise the transport system in order to reduce transportation cost and at the same time to improve the access to raw-material

sources and the markets, as well as to ensure the economical production and transport of sufficient quantities of power and to train qualified labour. These infrastructure investments – which amount to a total of some £T 15 milliards – represent one quarter of the total investment of the Five-Year Plan.

The development of the State economic enterprises, which had served to promote industrialisation in the majority of the sectors, has for some time been raising serious problems for the economy. Inadequately adapted financing methods had exerted in the past a certain influence on the emergence of inflation and balance of payments difficulties. Political considerations in the field of prices, employment and investment by State enterprises had distorted their economic rôle and obliged a good many of them to run at a loss or prevented them from attaining a profitability proportionate to the capital invested. The need for carrying out a thorough-going reorganisation of these enterprises, in order to eliminate these weaknesses, was widely recognised.

A number of measures have been included in the Plan with a view to improving the economic and financial structure of these enterprises : granting them a greater degree of autonomy so as to enable them to practise a more flexible marketing policy, to increase their profitability and their self-financing potential; simplification of the links among themselves or with private enterprises; revaluation of their past investments so as to place their price and cost calculations on a more rational basis. Finally, the Plan provided for the establishment of an investment bank to co-ordinate their investments and align them with the priorities laid down in the Plan.

The reorganisation of public enterprises and the establishment of the State Investment Bank were the object of Laws 440 and 441 enacted in March 1964. The Reorganisation Committee, set up by the terms of Law 440, is examining, with the aid of groups of experts, the problems of enterprises and preparing concrete measures. In accordance with the recommendations of the Plan, the review of the price policy of State enterprises has begun and an improvement – although still only slight – in profit-making capacity has proved possible. The Investment Bank started operations in 1964.

The preponderance in Turkey of small-scale private enterprises with low productivity may be explained on the one hand by the conservative mentality of the entrepreneurs and on the other, by the absence of a capital market sufficiently well organised to permit the formation of large limited companies.

Turkey is also faced with the structural problems which arise in developing countries during the transition phase of industrialisation. These problems are twofold : the absence of a network of interdependent and complementary enterprises, grouped on a geographical basis, and the inadequacy of the economic and social infrastructure, as well as of the marketing system. Lastly, while the labour reserves are abundant, there is a shortage of supervisory staff and skilled workers, which can only be remedied gradually by the development of education and vocational training.

The Plan aims to correct this situation, by providing a wide range of measures to stimulate and give indirect guidance to private action : tax facilities; improvement of the conditions and opportunities for the granting of credit by the setting-up of new medium- and long-term credit institutions; development of the capital market; establishment of industrial zones and extension of the facilities for training skilled workers and supervisory staff. Furthermore, the Plan encourages the reorganisation of small enterprises into larger units and facilitates the orientation of investments in the private sector by means of more rapid publication of fuller information about the evolution of markets and the investment intentions of public enterprises.

Among the fiscal measures introduced since 1963 are the setting-up of investment allowances with tax exemption and the accelerated depreciation of new plants. An export drawback system for taxes influencing production costs was introduced in July 1963.

The possibilities have been explored of widening the system of tax relief, comprising inter alia subsidies and temporary exemptions from profits' tax, more especially for projects executed in the less-developed areas, on the basis of measures applied in Southern Italy and results obtained there.

Fiscal and administrative steps have been taken to combat the marked preference of private saving for real estate investments (in particular, the building of luxury accommodation) rather than for the purchase of securities or participations in industry.

In the field of credit, the fact that the Central Bank has lowered the rate applicable to the refinancing of short-term credits for certain branches of industry and for exporters enables the merchant banks to grant special conditions to the key sectors of the development policy.

The establishment of a medium-term credit institution – the Bank for Credit and Industry – in 1963, on the initiative of several merchant banks, marks an important step forward for the financing of private industry, by filling the gap between the merchant banks and the Industrial Development Bank (T.S.K.B.). The increased resources granted to the latter on external financial credits (loans by the E.I.B., the I.D.A. and the I.F.C.) facilitate the long-term credit operations for private enterprises.

The establishment of the second development bank for the private sector, as envisaged by the Plan, is still under discussion. According to a Bill before Parliament, this bank would devote its activities mainly to the financing of industrial development in the less-developed areas of the country; it would be able to grant long-term investment credits as well as short- and medium-term operational credits.

Direct foreign private investments have benefited since 1954 (Law 6.224), with respect to transfer of capital and profits, from very extensive guarantees which are rather liberal by comparison with those of other developing countries. Experience has shown, however, that the practical application of the provisions of the law gave rise to certain difficulties. Indeed, the administrative procedure for examination and approval of investment applications has, owing to its cumbersome nature, frequently led to considerable delays. Moreover, development planning was rendered difficult because of the fact that, after approval, a number of investment projects were abandoned or executed with great delay; because of the absence of provisions limiting the periods within which projects have to be executed, the Turkish authorities were prevented from replacing them by other projects under consideration.

Fully aware of these difficulties, the Turkish government has simplified the administrative procedure for examination of applications and fixed definite time-limits for the execution of the projects approved. Finally, foreign investments, carried out in accordance with the terms of the law of 1954, are entitled to the same advantages in Turkey as those granted to private Turkish enterprises.

* * *

A succinct survey of the results obtained in the course of the first years of the Plan points to appreciable progress in several fields : increased production in many sectors of heavy industry, buoyancy in private investments and growth in industrial exports. On the whole, however, the results so far fall short of the targets fixed by the Plan.

From 1963 to 1965, value added in industry increased on an average by 8% per annum. This rate is below the figure of 11.6% laid down by the Plan, but it shows a very definite acceleration by comparison with previous years (average for 1957-1962 : 4% per annum).

Data on the actual development of industrial investments – although still very fragmentary – show that, while it did not prove possible to reach the targets laid down by the Plan, more than 70% of the planned volume of investment will in fact be executed. The delay is largely due to the difficulties that have hampered the execution of the major projects by public enterprises. Having been unable to keep to their investment timetable, public enterprises have probably attained only about two thirds of the targets set them.

On the other hand, investments by industrial enterprises of the private sector appear to have reached, on the whole, the order of magnitude laid down by the Plan. Private entrepreneurs seem to be turning their attention increasingly towards branches of production other than those of light industry, and it is to be hoped that this trend will soon assume bigger proportions, in view of the objectives to be attained. Indeed, if the private sector were to miss this opportunity of consolidating and widening its contribution to development, the State enterprises would sooner or later be bound to take on a larger share of investment than had been provided for in the key sectors of industrialisation.

3. *Industrialisation in the light of the Agreement of Association.*

During the next few years, Turkish policy will have to take special account, in orienting and applying industrialisation measures, of the requirements stemming from the establishment of the customs union by the terms of the Agreement of Association between the Community and Turkey.

This agreement, which came into force on 1st December, 1964, indeed lays down that by the end of a preparatory phase of five years, a customs union has to be progressively established during the transition period by elimination of duties and other impediments to trade between the Member Countries of the Community and Turkey, and the adoption by the latter of the common external tariff in its trade with non-Community countries. The implementation of the integration measures provided for by the Agreement has to be flexibly adjusted to the progress made by the Turkish economy; the preparatory phase may be extended by joint agreement should particular circumstances so require; the terms and conditions for the abolition of tariff barriers in the second phase have only to be fixed at the end of the preparatory stage.

The targets fixed by the terms of the Agreement can only be reached if Turkey intensifies its efforts to increase the productivity and competitive capacity of its industry in all fields. It should be noted that the cost of installations still frequently exceeds that for comparable undertakings in Western Europe. The modernisation and rationalisation of existing enterprises, by seeking to develop optimum production capacities, must not be sacrified to the creation of new enterprises. Many signs seem to point to the fact that, at equal cost, the economic advantages of rationalisation and modernisation investments often outweigh the yield of investments in new sectors which require strong protective measures at the outset.

The choice of priorities, which up to the present has been largely governed by the desire to replace imports, will also have to comply increasingly with the criterion of profit-making capacity and long-term competitive possibilities once the present protective measures disappear.

The protection provided for many sectors has in the past exerted an adverse influence on the structure and productivity of Turkish industry.

The limited outlets offered by the domestic market, in view of its low purchasing power, have obliged many enterprises to remain at less than optimum dimensions and to forgo the cost advantages offered by mass production. The larger installations, such as the public enterprises, have suffered from under-utilisation of their production capacity. The investment effort will thus henceforth have to be directed mainly to new branches of industry where the disparities in respect of productivity and cost, offset in the early stages by protective measures, will most likely be of short duration and in respect of which there is reasonable hope that the impediments to competition will be eliminated in a foreseeable period.

The first Plan has proved to be a remarkable means of defining the manifold problems raised by the development of the economy and achieving better co-ordination of the efforts with a view to this development. The Turkish authorities will now be able to prepare, with a much better degree of approximation, a second Five-Year Plan for the years 1968-1972. The new Plan will probably still give a prominent place to investments aimed at enabling local production to replace imports. This trend will need to be accompanied by a policy of competition obliging enterprises to rationalise their production and sales methods so as to improve their productivity. The strengthening of competition on the domestic market should indeed prove, in the course of the next few years, one of the most effective means of preparing Turkish enterprises for the wider competition they will encounter when the customs union comes into being.

BALANCE SHEET
AND PROFIT AND LOSS ACCOUNT

REPORT OF PRICE WATERHOUSE & Co.

60, rue Ravenstein
Brussels

The President,
EUROPEAN INVESTMENT BANK
BRUSSELS

In our opinion, the accompanying Balance Sheet and Profit and Loss Account, together with the information contained in Part III of the « Annual Report 1965 » of the European Investment Bank, present fairly the financial position of the European Investment Bank at December 31, 1965 and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

March 16, 1966.

PRICE WATERHOUSE & Co.

BALANCE SHEET AT

(in units of account of 0.88867088 g
The conversion rates used in the accounts
50 Belg. fr. = 4.00 DM = 4.93706 FF = 625 Lit.

ASSETS

CASH AND BANKS			
Member countries' currencies			
At call or not exceeding one year . .	93,771,824.93		
Over one year	4,581,215.47		
		98,353,040.40	
Other currencies			
At call or not exceeding one year . .		33,658,908.33	
			132,011,948.73
GOLD ASSETS			8,618,999.49
INVESTMENTS			
Member countries' currencies			
Not exceeding one year	11,906,864.71		
Over one year	15,286,351.30		
		27,193,216.01	
Other currencies			
Not exceeding one year		708,029.75	
			27,901,245.76
EFFECTIVE LOANS			
Of which :			
Disbursed :			
In member countries' currencies . .	299,055,410.08		
In other currencies.	66,543,216.16		
		365,598,626.24	
Undisbursed balance		122,880,335.87	
			488,478,962.11
FURNITURE AND EQUIPMENT			1.00
ACCRUED INTEREST AND COMMISSION . .			5,832,240.34
MISCELLANEOUS.			2,363,923.90
		Total Assets : u.a.	665,207,321.33

MEMORANDUM

SPECIAL SECTION

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

DECEMBER 31, 1965

fine gold – Art. 4 of the Statutes)
of the Bank are : 1 unit of account :
= 50 Lux. fr. = 3.62 Fls = 1 US $ = 4.37282 Sw. fr.

LIABILITIES

SUBSCRIBED CAPITAL	1,000,000,000.00	
of which paid up in accordance with Art. 5 (1) of the Statutes		250,000,000.00
STATUTORY RESERVE		32,150,155.18
PROVISIONS		
– for risks on loans and guarantees	25,500,000.00	
– for equalization of interest on borrowings and for issuing charges	6,000,000.00	
– for monetary risks not covered under Art. 7 of the Statutes	2,000,000.00	
		33,500,000.00
STAFF PENSION FUND		776,337.04
AMOUNTS DUE UNDER ART. 7 (2) OF THE STATUTES		385,339.27
MEDIUM AND LONG TERM DEBT		
Member countries' currencies	171,404,362.95	
Other currencies	45,823,267.36	
		217,227,630.31
UNDISBURSED BALANCE OF EFFECTIVE LOANS		122,880,335.87
ACCRUED INTEREST PAYABLE AND INTEREST RECEIVED IN ADVANCE		3,386,279.93
MISCELLANEOUS		4,901,243.73
Total Liabilities : u.a.		665,207,321.33

ACCOUNTS

from third parties . u.a. 5,000,000.00
. . . u.a. 208,344.00
. . . u.a. 4,791.656.00)

PROFIT AD LOSS ACCOUNT FOR THE

(in units of account of 0.88867088 g

DEBIT

ADMINISTRATIVE EXPENSES	2,570,202.85
INTEREST AND CHARGES ON BORROWINGS	11,697,695.25
FINANCIAL EXPENSES	444,676.95
AMORTIZATION OF FURNITURE AND EQUIPMENT	64,465.26
PROVISION FOR RISKS ON LOANS AND GUARANTEES	5,500,000.00
BALANCE APPROPRIATED TO THE STATUTORY RESERVE	5,534,472.65
Total : u.a.	25,811,512.96

FINANCIAL YEAR ENDED DECEMBER 31, 1965

fine gold – Art. 4 of the Statutes)

	CREDIT
INTEREST AND COMMISSION FROM LOANS	18,598,803.82
INTEREST AND COMMISSION FROM INVESTMENTS	7,167,090.17
EXCHANGE DIFFERENCES	45,618.97
Total : u.a.	25,811,512.96

SPECIAL STATEMENT OF CONDITION

(in units of account of

ASSETS

RECEIVABLE FROM MEMBER COUNTRIES		
for effective loans		
Turkey		4,791,656
EFFECTIVE LOANS		
Turkey		
of which :		
disbursed	208,344	
undisbursed balance	4,791,656	
		5,000,000
Total Assets : u.a.		9,791,656

SECTION

AT DECEMBER 31, 1965

0.88867088 g fine gold)

	LIABILITIES
MEMBER COUNTRIES	
for effective loans	
Turkey	5,000,000
UNDISBURSED BALANCE OF EFFECTIVE LOANS	
Turkey	4,791,656
Total Liabilities : u.a.	9,791,656

STATEMENT BY THE AUDIT COMMITTEE

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

considering the 1965 Annual Report and the balance sheet of the Bank as at December 31, 1965 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 May 4, 1966,

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

hereby certifies :

that the Bank's operations during the 1965 financial year were carried out in compliance with the formalities and the procedures laid down by the Statutes and the Rules of Procedure;

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

Brussels, 11th May, 1966.

The Audit Committee,

R. Bresson

K. Bernard

A. M. de Jong

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