

Changeover to the €uro: what changes for outstanding EIB loans ?

The introduction of the euro by eleven Member States of the European Union (1), following the decisions taken by the European Council in Brussels in early May 1998, will create a new currency expected to play a major global role.

The EIB has already contributed towards the establishment of the euro in a number of ways, not least through its funding strategy designed to create a deep and liquid market in euro-denominated debt instruments on the capital markets. By virtue of its experience as well as its commitment to the establishment of the euro, the EIB has been and will continue to be a significant player in the single currency market.

In preparation for the start of the 3rd stage of Economic and Monetary Union (EMU) and the introduction of the single currency on 1 January 1999, the Bank considers it useful to inform its borrowers and guarantors about the changes to its existing lending operations resulting from the introduction of the euro (EUR).

These steps take account of the full rights of the parties concerned (see box).

The main effects on outstanding EIB loans are set out below:

(1) The 11 European Union Member States participating in the 3rd stage of Economic and Monetary Union as designated by the European Council in Brussels on 2-3 May 1998 are: Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, Austria, Netherlands, Portugal and Finland.

VALIDITY OF CONTRACTS

All EIB loan contracts and guarantee agreements signed before the introduction of the euro, whatever the currency in which they are denominated, will remain valid after 01.01.1999. Interest rates and all terms and conditions, including commitment arrangements, maturities, amortisation schedules and prepayment options will remain unchanged.

OPENING OF CREDIT

- All credit opened in national currency units of the participating Member States and/or other currencies will remain unchanged.

- All credit opened in ECU will automatically be replaced by the EUR on 01.01.1999, on a one-to-one basis: 1 ECU = 1 EUR.

DENOMINATION AND DISBURSEMENT OF LOANS

- Loans disbursed in national currency units of participating Member States: these will remain denominated in the currency originally provided for, unless redenomination is agreed between the parties. In such cases, the final reconciliation between amounts to be amortised in national currency units and their equivalent in EUR will be made on the last instalment.

- Loans disbursed in ECU: the ECU will be automatically replaced by the EUR on 01.01.1999, on a one-to-one basis: 1 ECU = 1 EUR.

- Loans disbursed in other currencies: these will remain denominated in the



currency originally provided for in the contract.

REPAYMENT AND SERVICING OF LOANS

Payments linked to loan contracts, including annual instalments of principal and interest, prepayments, penalties and any other expenses, will be made as follows:

- Loans disbursed in ECU: to be made in EUR, as the ECU will automatically be replaced by the EUR on 01.01.1999 on a one-to-one basis: 1 ECU = 1 EUR.

- Loans disbursed in the national currency unit of a participating Member State:

- during the transitional period up to 31.12.2001:

in EUR or in the national currency unit of the participating Member State in which the loan was disbursed, depending on the borrower's preference, it being understood that the Bank will in any case accept repayment in EUR.

- after the transitional period as from 01.01.2002:

in EUR, as the loan contracts will have to be read as being in EUR.

- Loans disbursed in other currencies: in the same currencies as those disbursed.

INTEREST RATES

The rate or rates charged are those in force at the time of contract signature or, in the case of open-rate contracts, at the time of each disbursement, whether fixed, fixed revisable, variable or convertible rates.

- *Fixed-rate loans* (including fixed revisable and convertible if already converted): the interest rate will remain that originally provided for in the contract, irrespective of the currency involved.

- *Variable-rate loans* (including convertible if not already converted):

- Variable spread: the reference rate will continue to be the EIB's specific variable rate with a cap expressed in basis points above the relevant reference rate.

- Fixed spread: direct pricing based on the reference rate originally provided for or its established successor.

Reference rates

- Loans disbursed in ECU or in national currency units of participating Member States: as from 01.01.1999, the reference rate will be the successor reference rate, EURIBOR or EURO-LIBOR (2) as the case may be.

- Loans disbursed in national currencies of non-participating Member States: these will follow the reference rate provided for in the contract (e.g. GBP - LIBOR, GRD - ATHIBOR, DKK - CIBOR and SEK - STIBOR).



PRINCIPLES AND KEY CONSIDERATIONS GUIDING LENDING AND BORROWING ASPECTS DURING THE CHANGEOVER TO THE EURO

As from 1 January 1999, the ECU will automatically be replaced by the euro (EUR) in all legal instruments at the conversion rate of 1 : 1. The euro will become the single currency of the Member States participating in the 3rd stage of Economic and Monetary Union, their national currency units continuing to be used as sub-divisions of the euro.

During the transitional period (01.01.1999 - 31.12.2001), the two main principles applicable to EIB lending and borrowing operations will be:

"The continuity of contracts" (Article 3 of Council Regulation (EC) N° 1103/97 1): in accordance with this Article, the introduction of the euro shall not have the effect of altering any term of a legal instrument, subject to anything which the parties may have agreed.

"No compulsion, no prohibition" (Article 8 of Council Regulation (EC) N° 974/98 2): a party may use the euro but cannot be compelled to do so. An amount denominated either in euro or in a national currency unit of a participating Member State and payable in that Member State can be paid either in euro or in that national currency unit.

As from 01.01.2002, the currencies of the 11 European Union Member States participating in the 3rd stage of Economic and Monetary Union will no longer be used in book entry transactions. By mid-2002 at the latest, these currencies will cease to have legal tender status, being fully replaced by the euro. National currency unit notes and coins will be withdrawn from circulation at the same time.

(1) OJEC, L 162, dated 19.06.1997

(2) OJEC, L 139, dated 11.05.1998

- Loans disbursed in other major currencies (USD, JPY, CHF, etc): the reference rate applied will be that provided for in the contract.

(2) EURIBOR will be the floating reference rate for the euro sponsored by the Banking Federation of the European Union and the ACI (Association Cambiste Internationale). It will be officially displayed to all principal information services for the first time by Dow Jones Market Ltd on 04.01.1999, at 11h00, Brussels time. EURO-LIBOR will be a floating reference rate sponsored by the British Bankers' Association; it will be displayed in London.

reference rate applied will be that provided for in the contract.

FINANCIAL INFORMATION (AMORTISATION SCHEDULES, REPAYMENT NOTICES, ETC.)

The financial information provided to borrowers or guarantors by the EIB concerning loan contracts will be as follows:

- In national currency units of participating Member States: as originally

provided for in the contract together with the equivalent in EUR.

- Directly in EUR if the loan is redenominated or was denominated in ECU, as the ECU will automatically be replaced by the EUR on a one-to-one basis.
- In national currencies of non-participating Member States as well as loans in other major currencies traded inter-

nationally: in the same currency or currencies as provided for in the contract.

SECURITY FOR LOANS

The underlying security will need to be denominated in the same currency as the loan.

More details about the changeover to the euro, covering EIB lending and borrowing operations, are included in

the brochure "EIB lending and borrowing during the changeover to the euro: an operational guide" available in 11 languages.



The European Challenge: Investing for Jobs

The European Investment Bank organised its fourth EIB Forum (1) on 22 and 23 October in London on the role investment plays in job creation. The Forum brought together some 350 delegates from banks and other financial institutions, industry, trade unions, national, regional and local public bodies, international organisations, academic circles and the media. On the first day, the plenary session tackled the more general issues of what instruments could be used for enhancing employment and what would be the appropriate social model to develop. The second day's programme was more technical, addressing the opportunities for fostering growth through stock market investment financing in a large unified euro capital market as well as the availability of venture capital for innovative SMEs.

A KEY EUROPEAN ISSUE

The aim of the EIB's annual Forum is to gather together experts on key European issues discussing past and future trends regarding these topics. In this, the

Bank can draw inter alia on its many contacts in the market, including the banking sector, industry and public authorities, its position within the EU's institutional set-up, and its cooperation with other international financial institutions. This year's Forum reflected both the European Union's and the EIB's prime concern for job creation, a crucial issue on which the success of Economic and Monetary Union and the European Union's future enlargement will largely have to be built. The significance of the link between investment and job creation has been underlined by successive European Council meetings, starting with the Amsterdam Summit in June 1997 when the EU's Heads of State or Government pledged to address the structural problems underlying unemployment. In response to their request to the EIB to support their Resolution on Growth and Employment, the Bank launched its Amsterdam Special Action Programme (ASAP) to step up lending for investment to encourage job creation within the European Union.

THE GLOBAL FRAMEWORK

The Forum's topic has to be viewed within a global context, as underlined by EIB President Sir Brian Unwin in his opening speech: the European Union would have to reduce the excessive level of unemployment, against the background of the current global financial and economic crisis from which the Union could not escape completely unscathed. Within such a volatile environment, the role of Economic and Monetary Union in establishing an area of stability with a robust single currency was even more crucial for the capital and financial markets of Europe and the whole world. Its

Sir Brian Unwin, President of the EIB



(1) See also EIB Information N°97, page 15.