

NEWS letter

Centre International
pour le Crédit Communal

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The Newsletter contains important information about the affiliated institutions. Among other items, Newsletter contains articles on interesting developments, new products, cooperative ventures and summaries of annual reports. Contributions to the Newsletter are very welcome and should be submitted on disk (preferably in Word for Windows), by e-mail or by fax. Please direct questions and comments regarding the Newsletter to the secretariat.

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Restyled Newsletter to strengthen ties between member institutions

By Pim Vermeulen, Secretary General of the Centre International pour le Crédit Communal

The Newsletter has for many years provided Centre members with a forum for keeping each other abreast of events concerning them and their sphere of activity. The 79 previous issues have reviewed a wide range of subjects: many high-quality contributions have shared with readers the findings of in-depth research into and opinions on economic developments, European affairs, customer developments and, last but not least, developments affecting members themselves.

However, the Executive Committee became increasingly aware that, over time, the underlying aim of the Newsletter, namely to encourage communication between member institutions, had taken something of a back seat. That's why, at the latest meeting, it was decided to restyle both the content and the lay-out of the Newsletter, which for the time being will be published twice yearly but may even appear more frequently. Issue 80 marks the dividing line: here you will see both the traditional newsletter and the version as it will appear in future.

In cosmetic terms, this means a professional design, with more room for photos and illustrations. In terms of content, there will be more attention to issues that give a greater insight into members' daily activities. The Executive Committee hopes that this will strengthen ties between members.

So does this mean an end to the extensive, in-depth analyses? On the contrary – but they will take a different form. And the Centre's website (www.centre-international.com) will play an important role in this. In the past, this site only contained information about members and some details about conference topics.

The aim is to breathe new life into this site, transforming it into an information centre for conference presentations and staff meetings. The new Newsletter will contain a comprehensive summary of the debates and opinions that used to be published in detail in the old style Newsletter and, with the author's permission, the full text will appear on the website. This means that anyone who is interested will be able

access the expertise that we have accumulated as institutions for local credit. And as familiarity with the Centre and its members increases, so the role that we as members can play in solving problems and supplying needs will inevitably be enhanced – not just on the local market, but regionally and even nationally.

The content of this Newsletter is merely the first step on this new road. Much depends on the enthusiastic support of members: the editorial office is counting on all members to submit plenty of short items and pictures about the latest developments concerning both themselves and their customers.

I would also like to take this opportunity to draw to your attention the forthcoming conference that will take place in Vienna in May 2005. You will find more information about this in this Newsletter. Prior to this, in February 2005, a Staff Meeting will be organised for experts in the field to discuss the effects of Basel II. Shortly you will be sent an invitation to this meeting. We hope to see you there!



Pim Vermeulen

Vienna hosts XXXIVth conference of the International Centre for Local Credit

May 18 – 21, 2005



Dr. Reinhard Platzer
Chairman of the Board of
Directors of Kommunalkredit
Austria AG

sion will be dedicated to non-accounted forms of financing in Social Housing, Health Sector and Universities, and the opportunities in this area for banks for local credit.

In the afternoon, the first year of the expanded European Union will be evaluated. Representatives from the acceding countries will be invited to give their opinion on the issue of the expectations, the 'new members' had when they decided to join, are met so far.

After this substantial daytime programme, the evening is intended to take advantage of

the host city's attractions. Participants will be invited to the town hall to meet the Mayor of Vienna, and for an official dinner in that hall.

On Friday, the Stability Pact will then be subject of discussion. A member of the executive board of the European Central Bank is invited to discuss the role of the modified Stability Pact for the capital markets. Next, the opportunities that the Stability Pact offers for local authority banks will be brought out into the limelight. An considerable part of the day, the impact of the Stability Pact

on the financing of large-scale projects will be discussed.

Within this framework, the non-accounted funding of infrastructure is expected to be presented, including practical examples like Europass and the Northern Highway, whose projects came to be realised through Public-private-partnerships.

Finally, the Austrian Minister of Finance, mr. Karl Heinz Grasser, is invited to give insight in the way Austria handles the Stability Pact and how it will ensure future infrastructural investments. After his presentation, there will be time to discuss his points of view.

Then it is time for the internal affairs of the Centre. In the afternoon, the participants and their partners (who had their own programme so far) will join for a special social programme. The meeting will be concluded with a dinner that evening.

From 18 till 21 May 2005, the International Centre for Local Credit and Vienna will convene. It is the fourth time that the ICLC-conference will be held in Vienna. The first conference in Vienna, in 1959, marked the beginning of the activities of the ICLC. In 1969 and 1990 the other two conferences took place.

The month of May marks the first anniversary of the expanded European Union. The main part of the conference will be dedicated to this topic, and to topics related to the problems the EU faces.

On the first day, participants will gather at Hotel Bristol, to renew contacts, to exchange information and experiences (and perhaps the latest news). At a typical Viennese 'Heuriger', they will have dinner.

For the next day, Thursday, an intensive seminar programme is planned. In the provisional programme, the morning ses-

Welcome to Vienna!



Approaches to interest rate forecasting

By Karsten Junius, Jens-Uwe Wächter and Ph.D. Guido Zimmermann

The development of interest rates has far-reaching implications for the financial situation of all economic entities. Interest rates are very important to banks and investment funds, businesses, government authorities and private households alike. The decisions made by all economic entities are affected by changes in interest rates, hence the very keen interest in interest rate forecasts.

The assessment of the current level of interest and the expectation of the development in the future is one of the key factors in financial decisions. If a private builder has the opinion that current levels are low and will rise in future, he will seek a mortgage with a longer-term fixed rate. When levels are high at the other hand, and are expected to fall, the same builder will be more inclined to choose a short term fixed rate or a variable rate mortgage. A person who is saving for his pension, will be inclined to step into equities as interest rates are expected to rise, as rising rates cause the price of bonds and debentures to fall.

Another crucial factor in investment and financing decisions is the length of the decision-making horizon. The builder usually plans for some decades, while the investor is more inclined to make decisions for the next couple of years, even if the principle goal is a long term one.

These simple examples indicate that the potential profit of correct forecasts is great and justifies the high cost of research. However, as information efficiency on the capital market is very high, market participants have less advance information and are less able to make sys-

tematic profit on the markets. This is an interesting paradox: the keen interest in rate forecasts and the associated research expenditure increases the efficiency in the financial markets, thereby making it harder to achieve a return, better than the market average.

So, how exactly are interest rates forecasts and what part does DeKaBank's Economics Department play? In this article we discuss our forecasts according to the horizon they cover, i.e. short, medium and long-term forecasts.

FORECASTING INTEREST RATES IN THE SHORT TERM

Some market participants have a maximum horizon, varying from weeks to even minutes. Not only professional traders, but also players who exploit the smallest misvaluations and the day traders. They all need an accurate assessment of short-term interest rates trends. Usually models based on macro-economics are ill-suited to such a short term investment horizon, mainly because short-term interest rates depend among others on lots of minor and major shocks which cannot be forecasted, such as natural disasters, attacks as well as unpredictable statements by politicians.

But macro-economic data have an influence on the short-term developments on the bond market. There are a number of empirical studies, which look at the development on the markets in the minutes and hours after the economic data are published. DeKaBank takes advantage of these empirical observations and tries to establish the

macroeconomic determinants of the development of interest rates in the short term by forecasting the weekly market movers. The weekly interest rate forecast is obtained by aggregating the difference between the department's own forecasts and the survey findings. The main function of the forecasts is to give the correct direction in which rates will move.

INTEREST RATE FORECASTS IN THE LONG TERM

Participants like managers of real estate funds, private builders and long-term investors, who look at long-term rate forecasts, need information that extends well beyond the current economic cycle and are more concerned with the long term course an economy can take. For DeKaBank long-term forecasts are neutral interest rates which prevail in an economy of normal conditions. Point of departure is an analysis of the nominal rate of interest, using the Fisher equation. For the inflation component, the inflation target of the Central banks serves as the 'grab handle'.

When discussing the real interest rate, a distinction must be made between the money and capital markets. Normally the spread between them can be interpreted as risk premium. This premium not just takes account of negative surprises as regards to the future course of inflation, but also of aspects such as liquidity and default risks. For the money market, the nominal interest rate, or the central bank's base rate can be defined as the sum of the real base rate and the inflation target. For the determination of

the real base rate a number of approaches are relevant.

From here, a forecast of capital market yields can be prepared. The theoretical link between the money market and capital market rates is the expectations theory of the term structure of interest rates, which tell us that the long term interest rate should prove to be the average of the expected future short term investments. The neutral capital market rate can be defined as the sum of the neutral base rate and the interest rate spread between the short end and the long end of the yield curve. In our opinion, the average spread for the period 1999-2003 is the most meaningful with regard to forecasting future spreads, as it covers various phases of expansive and restrictive monetary policy. When we add this spread to the result of the different approaches for estimating the real base rate, we get a – indicative! – range for the neutral capital market yields.

Medium term interest rate forecasting inhabits the interesting area in which the factors that dominate the development of short term rates conflict with those for long term rates. This conflicting situation makes this medium-term forecast the most interesting topic for discussion. The forecast is based on the consideration that an economy is not necessarily in long-term equilibrium. The combination of cyclical inflationary pressure on the one hand and the cyclical level of real interest rates on the other replaces the equilibrium level of real interest rate and inflationary expectations, calculated when forecasting long-term interest rates.

Research about the output

gap and research about the future course of inflation – components of the Taylor rule – will give a good indication for the trend the base rate will follow. But Central bank's decisions are also influenced by other factors than those, covered by the Taylor rate.

To take these other factors into account, DeKaBank prefers to use the so called Scoring Models. This type of model enables the consistent appraisal and simple depiction of a central bank's monetary policy course. DeKaBank has devel-

oped separate models for the European Central Bank and the US Federal Reserve. The models aim to replicate the decision making environment of both Banks, combining several relevant factors in a score, which indicate a tightening, neutral or expansive monetary strategy for the future.

Interest rate forecast forecast is both an 'objective' science and an art. The 'objective' science comes into play not just through the use of the body of economic theory, e.g. when calculating the long-term neutral

rate of interest on the money and capital market, but also through the chosen mathematical/quantitative methods for the medium-term interest rate forecasts. The art lies in forming an opinion and the subjective assessment of the analysts concerning the likely course of interest rates. Besides the analysts' experience, factors such as a feel for certain market trends and the relevance of the many influencing factors play an important role in this.

Forecasting financial market variables is a tricky business

– as has been proved by many empirical studies. The reliable forecasting of economic and inflationary trends is vital to medium-term interest rate forecasting. However, forecasting economic indicators is not an end in itself: rather, these provide an input for interest rate forecasting. We believe that we not only have superior instruments for forecasting the fundamental determinants, but also superior instruments for transforming these forecasts into a successful interest rate forecast.

DEXIA-group posts higher half year results, is confident about future

Dexia announced its half-year results in the beginning of september. Net profit of the Dexia Group rose 29 % and amounted EUR 981 million. The net profit per share rose even more, with 33 % to EUR 0,87 per share, due to the ongoing programme of sale back of its shares. The results could be achieved thanks to higher income, while costs remained relative stable. Total assets grew slightly to EUR 365 bln. Tier 1 ratio amounted to 9,9 %, as it was in December 2003.

Dexia reported higher credit activity in France, thanks to higher demand of the municipalities, which returned to the market after the elections, and other public local institutions. Furthermore, there was a demand for more advanced products, which Dexia could provide.

In Belgium, Dexia contracted substantially more loans thanks to higher demands of the regional governments, which are responsible now for the social housing in Belgium.

In Italy, Dexia Crediop realised a rise of granted new loans of 72 %, thanks to its know how in restructuring local authorities' debt. Crediop also consolidated its position in structured and project financing, by organising the issue of large debt programs for corporate clients.

In the United Kingdom Dexia realised a limited number of large transactions, which contributed largely to the reported rise of

the amount of new loans with 46 procent.

Financial Securities Assurance Inc, which guarantees principal and interest of municipal and public infrastructure bonds and asset-backed securities, saw its outstanding secured amount rise to USD 307 billion.

Concerning the retail activities, a moderate growth was realised. The rentability improved thanks to a better product mix and a higher productivity.

In his commentary on the results, mr. Pierre Richard underlined the dynamics and the resilience of Dexia despite an environment, which is still unclear for banking

industry. He is confident that Dexia will realise a double-digit growth in 2004.

	<i>June 30, 2003</i>	<i>June 30, 2004</i>
Total Assets	353,4 bln.	365.1 bln.
Tier 1 ratio	9.9 %	9.9 %
Net profit	761 mln.	981 mln.
Profit per share	0.66	0.87
Return on equity	17.8 %	22.0 %

Nederlandse Waterschapsbank N.V. (NWB) realises significant profit increase for first half of 2004

In 2004, NWB celebrates its 50th anniversary, and this happy occasion is accompanied by a satisfactory development of the results.

The impact on the interest margin due to the maturing of high-interest loans felt by NWB in the past two years has been completely neutralised. Furthermore, the steep interest curve and the bank's asset and liability management had a significant posi-

tive effect on the interest margin. As a result, net interest income grew by more than 35% from EUR 41.0 million to EUR 55.5 million.

The modest rise in the volume of new loans by some EUR 1.5 billion was due to lower funding requirements of local authorities and housing corporations. The portfolio of long-term loans and advances grew on balance by more than 6%

from EUR 22.0 billion at the end of 2003 to EUR 23.4 billion.

As from 2004, NWB discontinued the additions to the Fund for general banking risks. Since the bank has never incurred any losses on its lending operations since its incorporation, and is not expected to do so in the longer term, it considers any further additions to the Fund to be superfluous.

NWB is committed to ensuring that operating expenses will increase only very slightly or not at all in 2004. For the first six months they were fractionally lower compared with last year.

Total expenses amounted to EUR 4.9 million, a fall of 11% on the same period in 2003.

Net profit after tax for the first six

months of 2004 amounted to EUR 51 million, a rise of 42% compared with the same period in 2003.

The prospects for the second half of 2004 are not unfavourable.

Based on the above, NWB expects that, barring unforeseen circumstances, the slight increase in profit for 2004 as a whole as announced earlier will in fact be exceeded.

Positive first half year 2004 for Kommunalkredit Austria

Kommunalkredit sustainable growth has been continued also during the first six month of 2004. In the international market as well as in Austria, Kommunalkredit was able to further consolidate its market position as a specialist bank for public finance. With a capital increase and the issue of both supplementary and subordinated capital in the first half of 2004 Kommunalkredit added a total of EUR 135 million to the Bank's capital base and prepared the ground for its future growth.

THE RESULTS

Kommunalkredit's total assets grew by 27% to EUR 12.4 billion in comparison to 31-12-2003. As of mid 2004, the net after-tax profit for the year already amounted to 65% of the previous year's final result; the re-

turn on equity is high by international comparison, standing at 20.7% before taxes and 17.1% after taxes despite the capital increase. The cost/income ratio remains below 50%.

BUSINESS DEVELOPMENT

Structured products continued to be in high demand both for new loans and for debt rescheduling schemes in the domestic financing market. Moreover, the Bank's business potential in the field of public finance has been widened continuously through the introduction of innovative products and the exploration of new customer groups. The first transaction for the purchase of housing loans concluded in Germany at the beginning of 2004 marked a special success in the field of residential finance.

In February, Kommunalkredit issued its second Jumbo Covered Bond. This AAA-rated issue with a total volume of EUR 1 billion and a five-year maturity had been oversubscribed by 1.6 times within two days. 10% of the issue volume were placed with central banks. In addition, more than 60 structured private placements were made in the period under review, above all in the Asian capital market.

INTERNATIONAL ACTIVITIES

Kommunalkredit's holdings in the new EU Member States are taking a highly satisfactory development. In these countries, Kommunalkredit acts as the strategic partner of Dexia Crédit Local, the world market leader in public finance. Together, the two institutions intend to further pursue their ex-

pansive course in Central and Eastern Europe. As a first step, Dexia Kommunalkredit Polska has been transformed into a bank.

NEW BUSINESS AREAS

The two new subsidiaries, Kommunalkredit Dexia Asset Management and Kommunalkredit Depotbank, which offer asset-management services for public and institutional investors, started their operations in the first half of 2004.

Together with the Association of Austrian Municipalities as the new co-owner, Kommunalkredit founded Kommunalkredit E-Government Solutions GmbH. The new Intranet platform will provide access for Austrian local authorities to all e-government applications.

Basel II Main Theme of staffmeeting in Frankfurt: February 4, 2005

The Basel Committee on Banking Supervision released the final version of the new Basel II framework at the end of June 2004. The official title *International Convergence of Capital Measurement and Capital Standards – A Revised Framework* reflects the central themes of the accord. The term International underscores the global ambition; Convergence the fact that the relevant

approaches for risk and capital measurement and management have become more and more alike; and Measurement reflects the importance of the process of calculation and weighting of risks. Expectations are that the Basel II framework will come into effect from 2007, depending on the pace of implementation in national legislation of the

individual countries.

The framework itself and the consequences of the framework for the administrative organisation of the member institutions will be discussed at the staff meeting, which will be hosted by DeKaBank in Frankfurt on January 28, 2005. Member institutions will receive an invitation for this meeting shortly.

Bank Nederlandse Gemeenten: half year results meet expectations

The result for the first half of 2004 was in line with the previously announced expectation. Net Profit rose by EUR 7 million to EUR 159 million compared to the same period last year. Total Income amounted to EUR 185 million.

Long-term lending lagged considerably in the first half of 2004. In the two previous years turnover was historically very high. The primary long-term lending turnover contracted to EUR 3.9 billion (2003: EUR 6.8 billion). Lending to housing associations in particular was much lower, mainly due to a decline in credit demand from the sector. In addition, BNG is contending with slightly more competition from other suppli-

ers in this sector. In the reporting period the primary lending to municipalities and healthcare institutions remained at the same level, both in absolute terms and in terms of market share.

Another reason for the lower turnover is the sharp decrease in loans taken over from other financial institutions. Due to the substantial activities in this secondary market in the past years, there is virtually no supply at the present moment.

The extension of credit through Medium Term Notes and bonds remained limited to EUR 0.3 billion (2003: EUR 1.1 billion).

The demand for short-term credit was higher in virtually all sectors. Short-term lending aver-

aged EUR 5.7 billion as opposed to EUR 5.1 billion in the same period of the previous year.

Total Assets amounted to EUR 85.5 billion, rising fractionally compared to 31 December 2003. The Loans and Advances item remained virtually unchanged at EUR 61.4 billion.

On the liabilities side of the balance sheet the Debt Securities item rose EUR 4.3 billion to EUR 63.1 billion. In the reporting period, long-term funding raised through the issuance of bonds, totalled EUR 7.6 billion, compared to EUR 8.5 billion in the first half of last year.

The bank maintained its excellent creditworthiness. The risk-weighted solvency, expressed in the BIS-ratio, remained un-

changed at 27%, compared to 31 December 2003.

In the reporting period the bank was notified of the Ministry of Finance's plan to abolish BNG's exemption from corporation tax effective 1 January 2005. The bank has no intention of changing its mission or strategy based upon this development. The triple-A ratings of the bonds issued by BNG remained unchanged.

The result forecast for the current year is unchanged compared to the expectations indicated in the 2003 annual report.

The forecast for this year is that, barring special circumstances, the result for 2004 will not diverge more than slightly from the result for 2003.

Members International Centre for Local Credit in comparison

Our International Centre for Local Credit has now 21 member institutions in 16 countries. The member institutions are representative for providing local credit and credit to the public sector with a large range of different financial products and services.

The secretariat of the Centre has conducted a general inventory of the represented financial institutions in order to give a more detailed idea of the composition of this group. The analysis is based on information compiled by Bank Scope.

It is interesting to notice that the members of the Centre differ greatly in size, whether this is measured considering the financial data or the number of employees.

As we have noticed, there is great interest under the mem-

ber institutions in the activities of their colleagues. Therefore we invite you all to provide us with some data, concerning your activities in the public sector, like: amount of loans granted to local and regional authorities in a specific year (2003/-2004), the total portfolio of loans to that sector, the amount of short-term credit etc. We also would be glad to learn more about the activities of local and regional authorities, like the amount of investments, balance data etc. It gives us the opportunity to compare the activities in the different countries in a next issue of the Newsletter. We will send you a letter on this matter within a couple of weeks with more detailed questions.

<i>Bank Name</i>	<i>Total Assets in millions EUR</i>	<i>Number of Employees</i>
Dexia	161,400	15,350
Japan Finance Corporation for Municipal Enterprises	204,301	88
Dexia Crédit Local SA	174,164	3,082
Depfa Bank	173,965	349
DekaBank Deutsche Girozentrale	94,726	3,180
Bank Nederlandse Gemeenten	83,905	413
Caixa Geral de Depositos	74,172	18,481
AB Spintab	47,300	19
Nederlandse Waterschapsbank	25,729	36
Dexia CREDIOP SpA	21,182	231
KommuneKredit (Denmark)	10,660	44
Kommunalkredit Austria AG	9,755	163
Kommunalbanken AS	8,474	33
Kommuninvest i Sverige AB	6,746	32
Kuntarahoitus-Municipality Finance	4,643	29
Kommunekredit Norge AS	3,905	9
Dexia banka Slovensko a.s.	661	660
Alberta Capital Finance Authority	2,620	n.a.
Municipal Finance Authority of British Columbia	3,096	n.a.
Kommunal Landpensionkasse - KLP	15,359	469
Otzar Hashilton Hamekomi Ltd.	456	26

Victoria in retrospect

Theme of the conference was: *After the bourse crash of 2001/2002/2003 and Funding the funders of local government*

The steep fall of bourse-indices and repeated turmoil in the international financial system has had significant impact on the major players in the capital markets in the world. The Argentina crisis brought an end to an dollar-peg of many years and the IT and Telecom bubble bursted with unexpected violence.

Traditional institutional investors (insurance companies and pension funds) and asset managers have been hammered by melting valuations. Banks have been confronted with huge amounts of loan losses. Supervisors have been unprecedentedly concerned. In addition to the ENRON and Worldcom bankruptcies totalling unprecedented large financial losses, the distribution of these losses throughout the world makes this damage felt almost in every part of the world's financial system. In connection to this, the relative young credit default derivative market has been tested to its limits. It is no wonder that the economies in most of the developed nations suffered severely.

In the financial markets these factors have led to credit crunches, very low interest rates in some regions, flights to quality, but also very high volatility in prices and credit spreads.

At the same time, governments were forced to face less favorable economic developments, implying lower tax revenues, higher expenditure, and in turn larger deficits. No longer easy surplusses in the budget and balance of payment.

Here, too, the relative posi-

tions were tested to its limits, resulting in changing market perception on economic strength and financial health of individual nations.

One can say that the currency market even looked relatively stable against this background. Now it is even more important to rethink basic strategies of operation. Key to the position of the institutions for local credit is the funding side. Are there structural changes in the way financial markets operate? Are risks appropriately perceived and managed? These and other questions were addressed from various perspectives during this conference.

The asset management perspective was discussed by Mr Paul Spijkers of ABP Investments in New York.

He focused to the strategic factors that lead to buying or selling of bonds of local authorities or member institutions by investors/asset managers.

Mr Carl Norrey, Managing Director of JP Morgan, London presented the syndicate perspective. He discussed the strategic factors for the syndicating investment bank and explained the vision of the syndicate on the role of the raters and thus, the vision of the raters.

The client's perspective was discussed by Mr Gérard Bayol, Chief Executive Officer of Dexia Crédit Local, Paris and Mr Reinhard Platzer, Chairman of the Board of Directors of Kommunalkredit Austria AG, Vienna. The following questions are just some of the issued that were raised: What are the

developments concerning the clients of the member institutions? What about the local authorities in the European Union? What about the new members of the European Union. What were the effects of the introduction of the EURO for the local authorities?

The inspired panel discussion afterwards concentrated on the experience of institutions with the rater's points of view concerning issuing collateralized bonds on the rating of an institution, restructuring the financing of municipalities with financial problems and the expansion of institutions in the new member states of the European Union.

The second day of the conference was dedicated to themes, concerning the country of the organising member institution and the institution itself.

Steve Berna explained the structure and the activities of MFABC. As managing director, Mrs Deanna Hamilton gave insight in the activities of First

Nation Finance Authority.

The economic situation of Canada and British Columbia were discussed by respectively Mr Butler, Director Government Finance of Royal Bank Canada Capital Markets and Mr Pastrick, Chief Economist of British Columbia Central Credit Union. Finally, Mr Larry Blain, President & CEO of Partnerships BC, gave some examples van Public Private Partnerships in British Columbia.

In the general meeting note was made of the resigning secretary-general, Mr Pieter-Paul van Besouw. Mr Pim Vermeulen, the present president of the managing board of Bank Nederlandse Gemeenten, was appointed as his successor.

Fairmont Empress Hotel
location of the conference



Record deficits for German towns and municipalities in 2003, gloomy expectations for 2004 and later

According to data of the Deutscher Städtetag, the German Communities faced a record deficit in 2003 of EUR 8.5 billion, almost twice the amount of 2002. For 2004 the deficit is estimated at EUR 8.25 billion. Although spending stabilised in 2003, a drop in received taxes and transfers from the Federal Government and the Länder led to this result. The short-term debt of the communities rose to EUR 16.25 billion at the end of 2003 (2002: EUR 11 billion), and the first quarter of 2004 showed no improvement. The investments declined more than 9 percent and amounted to EUR 21.4 billion.

Although all parties involved recognized the necessity of a fundamental improvement of the municipal financial situation, the results of the negotiations on this theme at the end of 2003, were very disappointing for the towns and municipalities, according to Deutsche Städtetag. Especially the outcome of the discussions concerning the two main themes of the financial reform, the business tax and the social welfare, didn't meet the expectations. In the eyes of Deutsche Städtetag, without fundamental measures the future will show a great number of municipalities incapable of acting, a decline in quality of local infrastructure and a negative outlook for the local labour markets.

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TWO NEW MEMBERS

ALBERTA CAPITAL FINANCE AUTHORITY

The Alberta Capital Finance Authority (formerly the Alberta Municipal Financing Corporation) is a non-profit Authority established in 1956 under the Authority of the Alberta Capital Finance Authority Act. The mission of the Alberta Capital Finance Authority is to provide local authorities within the Province of Alberta with flexible funding for capital projects at the lowest possible cost, consistent with the viability of the Alberta Capital Finance Authority.

The Authority issues various debt obligations to obtain the funds necessary to finance loan requirements. These obligations of the Authority carry the unconditioned guarantee of the Province of Alberta.

There are five classes of shareholders. Shareholders are the Crown, Municipal Authorities, Cities, Towns and Villages and Educational Authorities. The business of the Authorities is administered by a Board of Directors.

The Lieutenant Governor in Council appoints up to five directors to represent the Crown. Each of the other four classes of shareholders elects one director to the Board.

The Chair of the Board is Mr. G.H. Sherwin. Mr. T.S. Stroich is President and Treasurer.

DEPFA BANK

The bank was established in 1922 in Berlin as a government agency bank. Privatisation took place in 1991.

In the years afterwards several subsidiaries were established to pursue international expanses, to expand business activities and to expand into infrastructure financing.

In 2001/2002 there was a reorganization of the group.

Depfa Bank Plc. is a major provider of financial services to public sector clients worldwide. Since the completion of its re-organisation in June 2002, Depfa exclusively serves public sector authorities by providing for their financial needs with a broad range of products and services. It is a Dublin-based public limited company, incorporated under Irish law, with a network of subsidiaries and branch offices across Europe, as well as in the US, Japan and Hong Kong. Its shares are listed on the Frankfurt Stock Exchange, and with a market capitalization of more than EUR 4 billion and a free float of 100% it is among the top 30 companies on the German stock market and is the largest member of the M-DAX.

The Bank is regulated by the Irish Financial Services Regulatory Authority.

The Bank's senior debt ratings stand at AA-, Aa3, AA- (Fitch, Moody's, S&P) with stable outlook.

Chairman and CEO is Mr. Gerhard Bruckermann.