

CONFORMED COPY

LOAN NUMBER 4159 HR

Loan Agreement

(Enterprise and Financial Sector Adjustment Loan)

between

REPUBLIC OF CROATIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated June 4, 1997

LOAN NUMBER 4159 HR

LOAN AGREEMENT

AGREEMENT, dated June 4, 1997, between the REPUBLIC OF CROATIA (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) the Bank has received a letter dated March 17, 1997 from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's enterprise and financial sectors (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof; and

(B) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in two tranches as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 11, shall be modified to read:

"'Project' means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.";

(b) Section 4.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, withdrawals from the Loan Account shall be made in the currency of the deposit account specified in Section 2.02 of the Loan Agreement."

(c) The last sentence of Section 5.03 is deleted;

(d) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Bank. If: (a) the right of the borrower to make withdrawals from the Deposit Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days; or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Projects' costs to be financed out of the proceeds of the Loan; or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan; or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan; or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, the Bank may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon giving such notice, such amount of the Loan shall be canceled."

(e) Section 9.07 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan"; and

(f) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "BRA" means the Bank Rehabilitation Agency, established pursuant to the Law on the State Agency for Savings Deposit Insurance and Bank Rehabilitation of June 3, 1994 (Official Gazette, 44/94);

(b) "CPF" means the Croatian Privatization Fund, established pursuant to the Law on Croatian Privatization Fund of December 4, 1992 (Official Gazette, 84/92);

(c) "Deutsche Mark" and "DEM" each means the lawful currency of the Federal Republic of Germany;

(d) "Deposit Account" means a deposit account referred to in Section 2.02 (b) of this Agreement;

(e) "FSOEs" means formerly socially-owned enterprises as this term is defined in the Law on Transformation of Socially-Owned Enterprises, dated February 5, 1991 (Official Gazette, Nos. 19/91, 83/92, 94/93, 2/94, 9/95);

(f) "HEP" means the Croatian Electricity Company established pursuant to the Law on Electricity of 1990 (Official Gazette, Nos. 31/90, 47/90, 61/91, 26/93, 78/94);

(g) "HPT" means the Croatian Post and Telecommunications Company established pursuant to the Law on Foundation of the Public Enterprise for Post and Telecommunications Sectors of 1990 (Official Gazette, Nos. 42/90, 57/90, 61/91, 54/92, 109/93);

(h) "H(" means the Croatian Railways Company established pursuant to the Law on Croatian Railways of 1994 (Official Gazette, No. 53/94);

(i) "INA" means the Croatian Petroleum Company established pursuant to the Law on Foundation of the Public Enterprise INA - Industry of Oil of 1990 (Official Gazette, Nos. 42/90, 61/91) and reorganized pursuant to the Law on Abolishing the Law on Foundation of INA - Industry of Oil of 1990 (Official Gazette, No. 60/93);

(j) "NBC" means the National Bank of Croatia, established pursuant to the Law on the National Bank of Croatia of November 4, 1992 (Official Gazette, Nos. 74/92, 26/93, 79/93);

(k) "Public Enterprises" means large infrastructure and utilities companies with the direct state ownership, which include: INA, HEP, HPT, H(, HRT (Croatian Radio-Television Company), HC (Croatian Roads Company), H( (Croatian Forests Company), Narodne Novine (Croatian Official Gazette), Jadrolinija (Croatian Shipping Company) and Plovput (Lighthouses Company).

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to one hundred sixty million Deutsche Marks (DEM 160,000,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain in its central bank, a deposit account in Deutsche Marks on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account shall be deposited by the Bank into such Deposit account.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure excluded pursuant to the provisions of said Schedule 1, the Borrower shall, promptly upon notice from the Bank, (i) deposit into the Deposit Account referred to in paragraph (b) of this Section an amount equal to the amount of said payment, or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

(d) No withdrawal shall be made from the Loan Account after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the equivalent of DEM 80,000,000 unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank: (i) with the progress achieved by the Borrower in the carrying out of the Program; (ii) that the actions described in Schedule 3 to this Agreement have been taken; and (iii) that the Borrower's macroeconomic policy framework is consistent with the objectives of the Program. If, after said exchange of views, the Bank shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Bank, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

Section 2.03. The Closing Date shall be June 30, 1999 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate

of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest period, the London interbank offered rate for six-month deposits in Deutsche Marks for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period, as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one per cent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of the changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable semiannually on December 15 and June 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

### ARTICLE III

#### Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 3 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken

after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 3 to this Agreement.

Section 3.02. Upon the Bank's request, the Borrower shall:

(a) have the Deposit Account audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than six months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning said Deposit Account and the audit thereof as the Bank shall have reasonably requested.

#### ARTICLE IV

##### Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

#### ARTICLE V

##### Termination

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VI

##### Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
Katan(i)eva 5  
10000 Zagreb  
Croatia

Telex:

862-21215  
862-28133

For the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI)  
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF CROATIA

By /s/ Miomir

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Hans Apitz

Acting Regional Vice President  
Europe and Central Asia

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02(c) of this Agreement, the proceeds of the Loan shall not be used to finance the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank shall have financed or agreed to finance, or which the Bank shall have financed or agreed to finance under another loan;
3. expenditures for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or sub-groups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Subgroup	Description of Items
112	--	Alcoholic beverages
121	--	Tobacco, unmanufactured, tobacco refuse
122	--	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	--	Radioactive and associated materials
667	--	Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including

set gems)

971                    --                    Gold, non-monetary (excluding  
gold ores and concentrates)

4. expenditures for goods intended for a military or para-military purpose or for luxury consumption; and

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party.

#### SCHEDULE 2

##### Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Deutsche Marks)*
On each December 15 and June 15 beginning December 15, 2002 through December 15, 2011	8,000,000
on June 15, 2012	8,000,000

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\* The amount in Deutsche Marks to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

#### SCHEDULE 3

##### Actions Referred to in Section 2.02 (d) of this Agreement

1. Privatization of at least 50 (fifty) percent of FSOEs' share capital owned by CPF as of December 31, 1994.

2. Appointment of advisors for privatization of INA, HEP and HPT; and privatization of at least 20 (twenty) percent of the aggregate share capital of INA, HEP and HPT.

3. Satisfactory implementation of the mass privatization program.

4. Privatization of 13 (thirteen) enterprises restructured under the provisions of the Borrower's Law on the Rehabilitation of Selected Enterprises of August 7, 1995

(Official Gazette, 56/95).

5. Enactment of regulations providing an adequate regulatory framework for provision of public services in the electricity and telecommunications sectors by private entities; and establishment of a regulatory authority in these sectors.
  6. Submission to the Bank of satisfactory evidence that: (i) restructuring of INA has been substantially completed; (ii) reorganization of HEP and HPT has been completed; and (iii) a restructuring plan for H(, satisfactory to the Bank, has started to be implemented.
  7. Substantial completion of privatization of the non-core activities of Public Enterprises.
  8. Submission to the Bank of satisfactory evidence that the operating cash losses of Public Enterprises have been limited to one (1) percent of the Borrower's gross national product (GNP) and have been financed from the Borrower's budget.
  9. Submission to the Bank of satisfactory evidence that adequate allocations have been made in the Borrower's 1998 budget in support of the Program.
  10. Issuance of the tender for privatization of Privredna Banka Zagreb and privatization of at least one-third of the aggregate share capital of the commercial banks owned by BRA as of December 31, 1996.
  11. Submission to the Bank of satisfactory evidence that BRA and three major commercial banks: Privredna Banka Zagreb, Splitska Banka and Rijecka Banka, have effectively resolved their non-performing loans .
  12. Submission to the Bank of satisfactory evidence that, upon carrying out of an external audit of Rijecka Banka, Splitska Banka and Privredna Banka Zagreb in accordance with the terms of reference agreed with the Bank, their operational restructuring has been substantially completed.
  13. Carrying out of an external audit of Istarska Banka in accordance with the terms of reference agreed with the Bank and reaching an agreement with the Bank on a restructuring plan for Istarska Banka, if such a plan is requested by the Bank upon review of the audit report.
  14. Submission to the Bank of satisfactory evidence that commercial banks have effectively implemented the NBC regulations on interest suspension and reversal, determination of bank capital and debt classification and provisioning; and issuance by NBC of prudential and accounting regulations satisfactory to the Bank.
  15. Completion of a joint review with the Bank of the supervisory capacity of NBC and, if requested by the Bank after said review, submission to the Bank of an action plan to reflect the recommendations of said review.
  16. Submission to the Bank of an action plan, satisfactory to the Bank, regarding the introduction of deposit insurance in the banking sector.
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