

CONFORMED COPY

LOAN NUMBERS 3975 - 0 RO
3975 - 1 RO
3975 - 2 RO

Loan Agreement

(Financial and Enterprise Sector Adjustment Loan)

between

ROMANIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated January 19, 1996

LOAN NUMBERS 3975 - 0 RO
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LOAN AGREEMENT

AGREEMENT, dated January 19, 1996, between ROMANIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) the Bank has received a letter dated November 30, 1995, from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the financial and enterprise sectors of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in the financing of urgently needed imports required during such execution; 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 four portions as hereinafter provided, consisting of three portions out of the Category A Proceeds of the Loan (as hereinafter defined) and a single portion out of the Category B Proceeds of the Loan (as hereinafter defined);

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, with the modifications thereto set forth below (the General Conditions) constitute an integral part of this Agreement:

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

"'Project' means the imports and other activities that may be financed out of the proceeds of the Loan pursuant to the provisions of Schedule 1 to the Loan Agreement."; and

(b) 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.".

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) "CC" or "CCs" means an enterprise or the enterprises which were corporatized during 1990-91, with the State Ownership Fund holding 70% and one of the private ownership funds 30% of the shares of such enterprises;

(b) "Core Group of CCs" means a group of 13 CCs, agreed upon by the Borrower and the Bank, consisting of CCs which are the largest loss-makers and which have accumulated substantial payment arrears;

(c) "Core Group of RAs" means a group of 6 regies autonomes, agreed upon by the Borrower and the Bank;

(d) "SITC" means 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);

(e) "SOF" means the Borrower's State Ownership Fund;

(f) "Special Account" means any of the accounts referred to in Section 2.02 (b) of this Agreement; and "USD Special Account", "DEM Special Account", and "FRF Special Account" mean the Special Accounts to be maintained in Dollars, Deutsche Marks, and French Francs, respectively;

(g) "NBR" means the National Bank of Romania;

(h) "Category A Proceeds" means an amount out of the proceeds of the Loan equivalent to \$240,000,000 to be made available in three portions subject to the provisions of paragraph 4 (A) of Schedule 1 to this Agreement;

(i) "Category B Proceeds" means an amount out of the proceeds of the Loan equivalent to \$40,000,000 to be made available in a single portion subject to the provisions of paragraph 4 (B) of Schedule 1 to this Agreement;

(j) "Financial Recovery Fund" means the fund of the Borrower established pursuant to Government Decision 372, issued on June 5, 1995;

(k) "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;

(l) "Loan Tranche" means any of the USD Loan Tranche, the DEM Loan Tranche, or the FRF Loan Tranche;

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

(n) "French Franc" and "FRF" each means the lawful currency of the Republic of France;

(o) "USD Loan Tranche" means the amount of the Loan specified in Section 2.01 (a) of this Agreement;

(p) "DEM Loan Tranche" means the amount of the Loan specified in Section 2.01 (b) of this Agreement; and

(q) "FRF Loan Tranche" means the amount of the Loan specified in Section 2.01 (c) of this Agreement.

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, the following amounts:

(a) an amount equal to one hundred seventy million dollars (\$170,000,000);

(b) an amount equal to one hundred thirty-five million Deutsche Marks (DEM 135,000,000); and

(c) an amount equal to one hundred million French Francs (FRF 100,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement.

(b) The Borrower may, for the purposes of the Program, open and maintain in the Single Currency of each Loan Tranche a special deposit account, each in a commercial bank acceptable to the Bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1997 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: (i) the USD Loan Tranche withdrawn and outstanding from time to time, at a rate for each Interest Period equal to USD LIBOR Base Rate plus USD LIBOR Total Spread; (ii) the DEM Loan Tranche withdrawn and outstanding from time to time, at a rate for each Interest Period equal to DEM LIBOR Base Rate plus DEM LIBOR Total Spread; and (iii) the FRF Loan Tranche withdrawn and outstanding from time to time, at a rate for each Interest Period equal to PIBOR Base Rate plus PIBOR 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 Interest Payment Date.

- (ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.
- (iii) "USD LIBOR Base Rate" means for each Interest Period the London interbank offered rate for six-months deposits in Dollars 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) "USD LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent (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 USD Loan Tranche; as reasonably determined by the Bank and expressed as a percentage per annum.
- (v) "DEM LIBOR Base Rate" means for each Interest Period the London interbank offered rate for six-months 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.
- (vi) "DEM LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent (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 DEM Loan Tranche; as reasonably determined by the Bank and expressed as a percentage per annum.
- (vii) "PIBOR Base Rate" means for each Interest Period the Paris interbank offered rate for six-months deposits in French Francs 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.
- (viii) "PIBOR Total Spread" means, for each Interest Period: (A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the Paris 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 FRF Loan Tranche; as reasonably determined by the Bank and expressed as a percentage per annum.

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

(d) Whenever, in light of 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 amounts of the Loan not yet withdrawn 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 on April 15 and October 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 4 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 4 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the expenditures financed out of the proceeds of the Loan.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Accounts for each fiscal year audited, in accordance with appropriate

auditing principles consistently applied, by independent auditors acceptable to the Bank;

- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, 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
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audits referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

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
17, Apolodor Str.
Sector 5 - Bucharest
Romania

Telex:

11239

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 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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.

ROMANIA

By /s/ Ion Gorita

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Kenneth G. Lay

Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. Subject to the provisions set forth or referred to in this Schedule, the proceeds of the Loan may be withdrawn from the Loan Account for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods required during the execution of the Program and to be financed out of such proceeds.

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) expenditures for goods included in the following SITC groups or subgroups, or any successor groups or subgroups 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 semi-precious stones, unworked or worked
718	718.1	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)

(b) expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower;

(c) payments made prior to the date of this Agreement for expenditures except that withdrawals in an aggregate amount not exceeding the equivalent of \$55,000,000 may be made on account of payments made for such expenditures before that date but after September 15, 1995;

(d) expenditures for goods procured under contracts costing less than the equivalent of \$250,000;

(e) expenditures for goods supplied under a contract which any national or international financing institution or agency other than the Bank shall have financed or agreed to finance;

(f) expenditures for goods intended for a military or para-military purpose or for luxury consumption; and

(g) expenditures for Environmentally Hazardous Goods.

3. Withdrawals for expenditures under contracts for the procurement of goods estimated to cost less than the equivalent of \$10,000,000 may be permitted by the Bank upon the basis of statements of expenditure under such terms and conditions as the Bank shall specify.

4. No withdrawal shall be made and no commitment shall be entered into to pay amounts to or on the order of the Borrower in respect of expenditures to be financed out of the:

(A) Category A Proceeds of the Loan after the aggregate of the Category A Proceeds of the Loan withdrawn from the Loan Account and the total amount of such commitments shall have reached:

- (a) the equivalent of \$60,000,000 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) that the macroeconomic framework of the Borrower is consistent with the Program as determined on the basis of indicators agreed upon by the Borrower and the Bank; (ii) with the progress achieved by the Borrower in the carrying out of the Program; and (iii) that the actions described in Section I of Schedule 4 to this Agreement have been taken; and
- (b) thereafter, the equivalent of \$140,000,000 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) that the macro-economic framework of the Borrower is consistent with the Program as determined on the basis of indicators agreed upon by the Borrower and the Bank; (ii) with the progress achieved by the Borrower in the carrying out of the Program; and (iii) that the actions described in Sections II and III of Schedule 4 to this Agreement have been taken.

(B) Category B Proceeds of the Loan unless the Bank shall be satisfied, after an exchange of views described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank: (i) that the macro-economic framework of the Borrower is consistent with the Program as determined on the basis of indicators agreed upon by the Borrower and the Bank; (ii) with the progress achieved by the Borrower in the carrying out of the Program; and (iii) that the actions described in Section III of Schedule 4 to this Agreement have been taken.

5. If, after the exchange of views described in paragraph 4 above, 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.

SCHEDULE 2

Amortization Schedule

Date Payment Due	Payment of Principal expressed in		
	Dollars	Deutsche Marks	French Francs
April 15, 2001	3,580,000	3,145,000	2,020,000
October 15, 2001	3,690,000	3,220,000	2,085,000
April 15, 2002	3,800,000	3,295,000	2,155,000
October 15, 2002	3,910,000	3,370,000	2,225,000
April 15, 2003	4,030,000	3,450,000	2,295,000
October 15, 2003	4,150,000	3,535,000	2,370,000
April 15, 2004	4,275,000	3,615,000	2,450,000
October 15, 2004	4,400,000	3,700,000	2,525,000
April 15, 2005	4,530,000	3,790,000	2,610,000
October 15, 2005	4,670,000	3,880,000	2,695,000
April 15, 2006	4,805,000	3,970,000	2,780,000
October 15, 2006	4,950,000	4,065,000	2,870,000
April 15, 2007	5,100,000	4,160,000	2,965,000
October 15, 2007	5,250,000	4,260,000	3,060,000
April 15, 2008	5,405,000	4,360,000	3,160,000
October 15, 2008	5,570,000	4,460,000	3,260,000
April 15, 2009	5,735,000	4,565,000	3,365,000
October 15, 2009	5,905,000	4,675,000	3,475,000
April 15, 2010	6,080,000	4,785,000	3,590,000
October 15, 2010	6,265,000	4,900,000	3,705,000
April 15, 2011	6,450,000	5,015,000	3,825,000
October 15, 2011	6,645,000	5,130,000	3,950,000

April 15, 2012	6,840,000	5,255,000	4,075,000
October 15, 2012	7,045,000	5,375,000	4,210,000
April 15, 2013	7,255,000	5,505,000	4,345,000
October 15, 2013	7,475,000	5,635,000	4,485,000
April 15, 2014	7,695,000	5,765,000	4,630,000
October 15, 2014	7,925,000	5,900,000	4,780,000
April 15, 2015	8,160,000	6,040,000	4,935,000
October 15, 2015	8,410,000	6,180,000	5,105,000

SCHEDULE 3

Procurement

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines, subject to the provisions of paragraphs 2.63, 2.64 and 2.65 thereof.

Part C: Other Procurement Procedures

1. Goods estimated to cost less than the equivalent of \$3,000,000 per contract may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. In the circumstances described in paragraph 3.7 of the Guidelines, goods may be procured, with the Bank's prior agreement, under direct contracting procedures in accordance with the provisions of said paragraph of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Prior Review

With respect to each contract estimated to cost more than the equivalent of \$10,000,000, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

2. Post Review

With respect to each contract not governed by paragraph 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

SCHEDULE 4

Section I. Actions Referred to in Paragraph 4 (A) (a) (iii) of Schedule 1 to this Agreement

1. Achievement of numeric privatization targets for CCs as agreed with the Bank.

2. Establishment and activation of a system for the registration and trading in shares of CCs.

3. Establishment of a simplified procedure, agreed with the Bank, for the registration of new enterprises.

4. The Government of the Borrower to submit a report to the

Bank, demonstrating in a manner acceptable to the Bank that substantial progress has been made in implementing the financial recovery plans of the Core Group of CCs, including meeting the aggregate and specific benchmarks agreed with the Bank.

5. Exit of at least fifty (50) CCs from the surveillance program established by Government Decision 212/95, out of which at least twenty (20) CCs, which have not been placed in isolation under Government Decision 301/93, have been privatized or liquidated, while the remainder of the fifty (50) CCs have re-established, to the satisfaction of the Borrower and the Bank, a positive cash flow.

6. Completion of an additional five (5) privatizations or liquidations out of the group of CCs placed in isolation under Government Decision 301/93.

7. The Borrower has submitted a report to the Bank, demonstrating with respect to the Core Group of RAs substantial progress measured against detailed benchmarks as agreed with the Bank in the implementation of their financial recovery programs.

8. Substantial progress in the implementation of the mechanism to forestall future build up of arrears in the energy sector, as measured against benchmarks agreed upon with the Bank.

9. Observance of the limits on financial support by the Government of the Borrower, the Financial Recovery Fund and SOF to state-owned enterprises as agreed upon by the Borrower and the Bank.

10. Submission to the Bank of a report prepared by NBR, demonstrating the compliance of the banks under NBR's supervision with its circulars and prudential regulations, relating to loss provisioning, capital adequacy and the distribution of net profits, and describing the measures taken by NBR against non-complying banks.

11. Implementation of the privatization action plan of the Romanian Bank for Development, as agreed with the Bank and as adjusted, if necessary, in order to reflect the mandatory provisions of the new bank privatization law, if enacted.

12. Finalization of a privatization action plan, satisfactory to the Bank, for a second bank to be privatized, and approval by the general assembly of shareholders, the Government of the Borrower, and the NBR, of such privatization action plan.

13. Submission to the Bank of a report prepared by NBR demonstrating progress satisfactory to the Bank in the implementation of Regulation No. 3/95, issued by NBR in respect of collateralization of NBR's refinancing credits to banks.

14. NBR has: (i) increased the staff of its banking supervision department to its full complement; (ii) provided a report demonstrating that on-site inspections of banks have been carried out in accordance with the inspection program as agreed upon with the Bank; and (iii) issued a regulation requiring mandatory audits of banks by independent external auditors.

15. Endorsement by the Government of the Borrower and NBR of a detailed proposal for a deposit insurance scheme, agreed with the Bank.

16. Issuance of a regulation by NBR introducing a uniform chart of accounts for banks in accordance with internationally accepted accounting standards.

17. The Government of the Borrower has prepared a report

demonstrating that it is current with all its payment obligations to banks, including in respect of principal and interest due to banks in accordance with Law 7/92 and Ordinance 1/94.

Section II. Actions referred to in Paragraph 4 (A) (b) (iii) of Schedule 1 to this Agreement

1. Achievement of further numeric privatization targets for CCs as agreed with the Bank.
2. Exit of all CCs placed under surveillance according to Government Decision 212/95, except for those agreed upon by the Government of the Borrower and the Bank, from the surveillance program through: (i) privatization; (ii) re-establishment, to the satisfaction of the Government of the Borrower and the Bank, of a positive net-cash flow; or (iii) liquidation.
3. Completion of a total of at least ten (10) additional privatizations or liquidations out of the group of CCs placed in isolation according to the provisions of Government Decision 301/93.
4. With respect to the Core Group of RAs, substantial progress towards phasing out uneconomic activities and improvement of their cash flows.
5. Substantial progress in the implementation of the mechanism to forestall future build up of arrears in the energy sector, as measured against benchmarks agreed upon with the Bank.
6. Observance of the limits on financial support by the Government of the Borrower, the Financial Recovery Fund and SOF to state owned enterprise, as agreed upon by the Borrower and the Bank.
7. Submission to the Bank of a report prepared by NBR demonstrating the compliance of the banks under NBR's supervision with the circular on prudential regulations, relating to loan loss provisioning, capital adequacy and the distribution of net profits, and describing the measures taken by NBR against non-complying banks.
8. Implementation of the privatization action plan referred to in paragraph 12 of Section I of this Schedule 4.
9. Submission to the Bank of a report demonstrating full implementation of the provisions of Regulation 3/95, issued by NBR in respect of collateralization of NBR's refinancing credits to banks.
10. Submission to the Bank of a report from NBR demonstrating that: (i) on-site inspections of banks have been carried out in accordance with an inspection program agreed with the Bank; and (ii) banks are in compliance with the regulation issued by NBR in respect of mandatory audits of banks to be carried out by independent external auditors.
11. Establishment of the deposit insurance scheme referred to in paragraph 15 of Section I of this Schedule 4.
12. The Government of the Borrower has furnished a report demonstrating that it is current in all its payment obligations to banks, including principal and interest due to banks in accordance with Law 7/92 and Ordinance 1/94.

Section III. Actions Referred to in Paragraph 4 (A) (b) (iii) and Paragraph 4 (B) (iii) of Schedule 1 to this Agreement

The Borrower has implemented the employment adjustment program in its enterprises placed under surveillance under Government Decision 212/95, as agreed with the Bank.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods required during the execution of the Program and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 1 to this Agreement; and

(b) the term "Authorized Allocation" means an amount equal to: for the USD Special Account, \$17,000,000; for the DEM Special Account, DEM 13,500,000; and for the FRF Special Account, FRF 10,000,000 to be withdrawn from the Loan Account and deposited into a Special Account pursuant to paragraph 3 (a).

2. Payments out of the Special Accounts shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish such Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into such Special Account of an amount or amounts which does or do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into such Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of such Special Account, the Borrower shall furnish to the Bank requests for deposits into such Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into such Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of such Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of any Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this

Schedule, the Bank shall not be required to make further deposits into a Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 3.03 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for such Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of any Loan Tranche, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to such Loan Tranche, shall equal the equivalent of twice the amount of the corresponding Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the respective Loan Tranche shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in such Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of any Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into such Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into such Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in any Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in any Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.



