

CONFORMED COPY

LOAN NUMBER 3264 HU

(Second Telecommunications Project)

between

REPUBLIC OF HUNGARY

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated October 29, 1990

LOAN NUMBER 3264 HU

GUARANTEE AGREEMENT

AGREEMENT, dated October 29, 1990, between REPUBLIC OF HUNGARY (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Guarantor and the Hungarian Telecommunications Company (the Borrower), having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to the Loan Agreement, have requested the Bank to assist in the financing of the Project; and

(B) by the Loan Agreement of even date herewith between the Bank and the Borrower, the Bank has agreed to extend to the Borrower a loan in various currencies equivalent to one hundred fifty million dollars (\$150,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as provided in this Agreement; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower;

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" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms in the General Conditions and in the Preamble to and Section 1.02 of the Loan Agreement have the respective meanings therein set forth.

#### ARTICLE II

##### Guarantee; Provision of Funds

Section 2.01. The Guarantor declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, without limitation or restriction upon any of its other obligations under the Guarantee Agreement, hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan, and the premium, if any, on the prepayment of the Loan, and the punctual performance of all the other obligations of the Borrower, all as set forth in the Loan Agreement.

Section 2.02. Without limitation or restriction upon the provisions of Section 2.01 of this Agreement, the Guarantor specifically undertakes, whenever there is reasonable cause to believe that the funds available to the Borrower will be inadequate to meet the estimated expenditures required for the carrying out of the Project, to make arrangements, satisfactory to the Bank, promptly to provide the Borrower or cause the Borrower to be provided with such funds as are needed to meet such expenditures.

#### ARTICLE III

##### Other Covenants

Section 3.01. In accordance with its policy to rationalize and improve the operations and financing of its telecommunications subsector, the Guarantor shall:

(a) (i) develop, under terms of reference satisfactory to the Bank, and furnish to the Bank, for review and comments, by March 31, 1991, its proposed program of objectives and actions and the time-schedule for the implementation thereof designed to rationalize tariffs applicable within, and to strengthen the institutional and regulatory framework of, its telecommunications subsector in order to facilitate the restructuring of said subsector and the operation thereof on a competitive commercial basis, (ii) review with the Bank the objectives and actions contemplated to be achieved and undertaken under the said program, and take into consideration the Bank's views in finalizing and approving the same, and (iii) initiate the implementation of the said program, within a period not exceeding three months of its review, finalization and approval pursuant to subparagraph (ii) hereof, and thereafter implement the same in accordance with the time schedule for its implementation; and

(b) without limitation on the provisions of paragraph (a) of this Section, adjust, by June 30, 1991, the aggregate level of tariffs applicable within its telecommunications subsector, on the

basis of a formula acceptable to the Bank, so as to reflect in said level the aggregate increase, during the period between December 31, 1989 and the date upon which such adjustment is made, in the Retail Price Index published quarterly by the Central Statistical Office of the Guarantor.

#### ARTICLE IV

##### Representatives of the Guarantor; Addresses

Section 4.01. The First Deputy President or General Manager of the National Bank of Hungary is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.

Section 4.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

National Bank of Hungary  
Department for International  
Development Institutions  
H-1850 Budapest  
Szabadsag ter 8-9  
Republic of Hungary

Cable address:

BANKO  
Budapest

Telex:

227267 SMAFU-H,  
225755 BANKO-H or  
227028 BANKO-H

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.

REPUBLIC OF HUNGARY

By /s/ Bela Doros

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Eugenio F. Lari

Acting Regional Vice President

Europe, Middle East and North Africa

