

CONFORMED COPY

LOAN NUMBER 4641 HR

Loan Agreement

(Structural Adjustment Loan)

between

REPUBLIC OF CROATIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 5, 2001

LOAN NUMBER 4641 HR

LOAN AGREEMENT

AGREEMENT dated, December 5, 2001, 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 October 23, 2001 from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment 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 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 (as amended through October 6, 1999), with modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 18, 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) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions.";

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

(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) "Budget Law" means the Borrower's Budget law (Official Gazette No. 92/94);

(b) "Bankruptcy Law" means the Borrower's law on Bankruptcy (Official Gazette Nos. 44/96, 27/99, and 129/00);

(c) "Company Law" means the Borrower's Company law (Official Gazette Nos. 111/93, 34/99, 121/99, and 52/00);

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

(e) "Employment Law" means the Borrower's law on Employment (Official Gazette No. 59/96);

(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) "HS" means Hrvatske Sume, Croatian Forestry Company, established pursuant to the Law on Forests of 1990 (Official Gazette No. 41/90);

(h) "Homeland War Veterans" means the war veterans referred to in the law on the Rights of Croatian Homeland War Veterans and their Family Members (Official Gazette Nos. 108/96 and 23/01);

(i) "Household Budget Survey" means the regular annual statistical survey carried out by the Central Bureau of Statistics and defined to the "Program of Statistical Research in the Republic of Croatia for 2000-2002" (Official Gazette No. 66/00);

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

(k) "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);

(l) "Insurance Company" means the Croatian Insurance Company established pursuant to the Law on Transforming of Capital of Insurance and Reinsurance Companies in the Republic of Croatia of 1992 (Official Gazette No. 69/92);

(m) "Jadrolinija" means the Croatian Shipping Company engaged in coastal liner transportation, established pursuant to the Law on Foundation of the Public Enterprise Jadrolinija of 1991 (Official Gazette No. 27/91);

(n) "Labor Law" means the Borrower's law on Labor (Official Gazette Nos. 38/95, 54/95, 65/95, and 17/01);

(o) "Narodne Novine" means the Croatian Official Gazette, established pursuant to the Law on Transforming Public Enterprise Narodne Novine p.o. of 1999 (Official Gazette No. 128/99);

(p) "National Program for the Reduction of Poverty" means the program for the reduction of poverty which is being prepared by the Ministry of Labor and Social Welfare, satisfactory to the Bank;

(q) "Pension Insurance Contribution Payment Law" means the Borrower's law on Pension Insurance Contribution Payment (Official Gazette No. 127/00);

(r) "Pension Insurance Law" means the Borrower's law on Pension Insurance (Official Gazette Nos. 102/98 and 127/00);

(s) "Plovput" means the Croatian Lighthouses Company established pursuant to the Law on Plovput of 1991 (Official Gazette No. 73/97);

(t) "Postal Services Company" means the Croatian Postal Service Company established pursuant to the Law on Splitting in Croatian Post and Telecom Company on Croatian Post Company and Croatian Telecommunication Company of 1998 (Official Gazette No. 101/98);

(u) "Protection of Market Competition Law" means the Borrower's law on the Protection of Market Competition (Official Gazette Nos. 48/95, 52/97, and 89/98);

(v) "Regular Support Benefits" means the regular support benefit as defined in the Law on Social Care (Official Gazette, article 15 in No. 73/97 and article 20 in No. 27/01);

(w) "Takeover Procedure of Joint Stock Companies Law" means the Borrower law on Takeover Procedure of Joint Stock Companies (Official Gazette No. 124/97); and

(x) "Telecommunications Company" means the Croatian Telecommunication Company established pursuant to the Law on Splitting in Croatian Post and Telecom Company on Croatian Post Company and Croatian Telecommunications Company of 1998 (Official Gazette No.101/98).

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 two hundred and two million Dollars (US\$202,000,000).

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 Dollars 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 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 \$102,000,000 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:

- (A) with the progress achieved by the Borrower in the carrying out of the Program;
- (B) that the Borrower's macroeconomic policy framework is satisfactory, as measured on the basis of indicators agreed between the Borrower and the Bank; and
- (C) that the actions described in Schedule 3 to this Agreement have been taken.

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 March 31, 2003 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 fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. 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 2.06. (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 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) "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 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 2.06, 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 2.07. Interest and other charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.08. 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 (p) 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
Katanđiđeva 5
10000 Zagreb
Republic of Croatia

Telex:

Facsimile:

862-21215
862-28133

385-1-492-2583

For the Bank:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C. 248423 (MCI)
64145 (MCI)

(202)477-6391

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

REPUBLIC OF CROATIA

By /s/ Mato Crkvenac

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Andrew N. Vorkink

Director
South Central Europe Country Unit
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 paramilitary purpose or for luxury consumption;

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;

6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

SCHEDULE 2

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
beginning on April 15, 2007	10,100,000
through October 15, 2016	10,100,000
TOTAL	20,200,000

* The figures in this column represent the amount in Dollars 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. The Borrower has enacted amendments to the Budget Law and adopted a new Budget Execution Law for the year 2002, satisfactory to the Bank.
2. The Borrower has launched the implementation of the action plan, agreed with the Bank, for reducing of direct subsidies in the Borrower's economy, through inclusion of said action plan in the Borrower's budget for the year 2002.
3. The Borrower has: (a) adopted regulations, satisfactory to the Bank, for revised price and co-payment schedules for pharmaceuticals; (b) initiated implementation of the revised co-payment schedules for pharmaceuticals and for selected health services; and (c) reduced exemptions on co-payments for pharmaceuticals and selected health services.
4. The Borrower has amended the Pension Insurance Contribution Payment Law and adopted a new Health Insurance Contribution Payment Law to ensure that non-wage labor incomes, excluding capital income, are taken into account for the purposes of calculating the employers, employees, and other physical persons' contributions to their pension and health plans.
5. The Borrower has enacted amendments to the Pension Insurance Law, satisfactory to the Bank.
6. The Borrower has furnished to the Bank satisfactory evidence that, with respect to the ten (10) public enterprises, i.e. INA, HEP, Postal Service Company, HZ, Telecommunications Company, HS, Narodne Novine, Jadrolinija, Plovput, and Insurance Company: (a) their accounts receivable and payable with respect to all enterprises and Government agencies/institutions accumulated since December 31, 2001 have been current under the contract terms; (b) their arrears accumulated since January 1, 2001, have been cleared through appropriate cash mechanisms; and (c) the Borrower's arrears due to the above listed enterprises and accumulated since July 1, 2001, have been cleared through appropriate cash mechanisms.
7. The Borrower has enacted amendments to the Bankruptcy Law, satisfactory to the Bank.
8. The Borrower has enacted amendments to the Law on the Protection of Market Competition, satisfactory to the Bank.
9. The Borrower has furnished to the Bank satisfactory evidence on implementation of new licensing and registration procedures for companies, small- and medium-size enterprises, cooperatives, and craftsmen, including the establishment of a new business licensing entity, satisfactory to the Bank.
10. The Borrower has enacted amendments to the Company Law and the Law on Takeover Procedure of Joint Stock Companies, as well as other relevant laws, all satisfactory to the Bank.
11. The Borrower has submitted evidence to the Bank on satisfactory progress made in the implementation of a program to reduce administrative barriers for domestic and

foreign investors, as such program had been agreed with the Bank.

12. The Borrower has enacted amendments, satisfactory to the Bank, to the Labor Law aimed at promoting market flexibility.

13. The Borrower has enacted amendments, satisfactory to the Bank, to the Employment Law to: (a) remove existing restrictions on the delivery of private employment services; and (b) adjust the length of service of dismissed employees eligible for open-ended unemployment benefits from 30 to 35 years for men, and from 25 to 30 years for women.

14. The Borrower has submitted to the Bank a National Program for the Reduction of Poverty approved by the Government, satisfactory to the Bank.

15. The Borrower has submitted to the Bank a document on the methodology used for the creation of a nationally representative random sample for Household Budget Survey, satisfactory to the Bank.

16. The Borrower has submitted satisfactory evidence to the Bank that it has remained current with all payments due on account of Regular Support Benefits.

17. The Borrower has submitted to the Bank: (a) satisfactory evidence that adequate measures have been taken to harmonize the tax allowances of Homeland War Veterans (excluding surviving family members of veterans and disabled veterans) with that of the rest of the population; and (b) an action plan, satisfactory to the Bank for improving the targeting effectiveness of child allowances.

