

CONFORMED COPY

LOAN NUMBER 4153 MK

Loan Agreement

(Structural Adjustment Loan)

between

FORMER YUGOSLAV REPUBLIC OF MACEDONIA (THE BORROWER)

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT (THE BANK)

Dated May 12, 1997

LOAN NUMBER 4153 MK

LOAN AGREEMENT

AGREEMENT, dated May 12, 1997, between the Borrower and the Bank.

WHEREAS: (A) the Bank has received a letter dated April 2, 1997, 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;

(B) The Borrower has also requested the International Development Association (the Association), to provide additional assistance in support of the Program, and by an agreement of even date herewith between the Borrower and the Association (the Development Credit Agreement), the Association is agreeing to provide such assistance in an aggregate principal amount equivalent to twenty million six hundred thousand Special Drawing Rights (SDR 20,600,000) (the Credit); and

(C) 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.

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) "agro-kombinat" means an agricultural enterprise or cooperative established under the laws of the Borrower;

(b) "Agency for Strategic Reserves" means the Agency for Strategic Reserves within the Borrower's Ministry of Economy;

(c) "Customs Tariff" means the customs tariff adopted by the Parliament of the Borrower and published in the Borrower's Official Gazette on July 1, 1996;

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

(e) "Deutsche Mark" and "DEM" mean the lawful currency of the Federal Republic of Germany, but if such currency shall be replaced with the "Euro" then "Deutsche Mark" and "DEM" shall be replaced by "Euro" for the purposes of the Loan, at the ratio in effect as of the date of such replacement; and

(f) "SRP Enterprises" means enterprises earmarked for privatization in accordance with the Special Restructuring Program adopted by the Parliament of the Borrower on January 17, 1995.

## 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 forty four million four hundred thousand Deutsche Marks (DEM44,400,000).

Section 2.02. (a) 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 the Deposit Account.

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

(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 so excluded, 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 withdrawals 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 twenty two million two hundred thousand Deutsche Marks (DEM22,200,000) 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 as determined on the basis of indicators acceptable to the Borrower and Bank. 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, 1998, 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 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 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 February 15 and August 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

##### Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that all conditions precedent to the effectiveness of the Development Credit Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 5.02. 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  
Dame Gruev 14  
91000 Skopje

Telex:

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.

THE BORROWER

By /s/ Ljubica Z. Acevska

Authorized Representative

THE BANK

By /s/ Christiaan J. Poortman

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 or the Association shall have financed or agreed to finance, or which the Bank or the Association 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, or worked
unworked			
718	718.7		Nuclear reactors, and parts thereof, fuel (cartridges), non-irradiated for nuclear reactors
728	728.43		Tobacco processing machinery
897	897.3		Jewelry of gold, silver or platinum (except watches and watch cases) and silversmiths' wares
group metals			
goldsmiths' or (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;

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); and

6. in furtherance of the purposes of Section 5.01 of the General Conditions, 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.

#### SCHEDULE 2

##### Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Deutsche Marks)*
August 15, 2002	1,130,000
February 15, 2003	1,150,000
August 15, 2003	1,170,000
February 15, 2004	1,195,000
August 15, 2004	1,215,000
February 15, 2005	1,235,000
August 15, 2005	1,260,000
February 15, 2006	1,280,000
August 15, 2006	1,305,000
February 15, 2007	1,325,000
August 15, 2007	1,350,000
February 15, 2008	1,375,000
August 15, 2008	1,400,000
February 15, 2009	1,425,000
August 15, 2009	1,450,000
February 15, 2010	1,475,000
August 15, 2010	1,500,000
February 15, 2011	1,530,000
August 15, 2011	1,555,000
February 15, 2012	1,585,000
August 15, 2012	1,615,000

February 15, 2013	1,640,000
August 15, 2013	1,670,000
February 15, 2014	1,700,000
August 15, 2014	1,730,000
February 15, 2015	1,760,000
August 15, 2015	1,795,000
February 15, 2016	1,825,000
August 15, 2016	1,860,000
February 15, 2017	1,895,000

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\* The figures in this column represent 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. Implementation of the new customs tariff with no exemptions except those established: (i) by international treaties; and (ii) for imports of goods for humanitarian purposes.
2. Implementation of the first stage of the program for liberalization of tariffs and/or surcharges on items which were previously subject to quotas and/or special levies, which the Borrower shall have prepared based on guidelines agreed with the Bank.
3. Establishment of a trade policy unit within a central economic Ministry of the Borrower.
4. Adoption of a formula, satisfactory to the Bank, linking guaranteed base prices for wheat and tobacco to world market prices so that such prices shall not exceed 100 percent of the world market prices in 1997 and 70 percent thereafter.
5. Elimination of guaranteed base prices for sugar beet and sunflower.
6. Submission to the Bank of evidence, satisfactory to the Bank, that the Borrower is under no legal obligation to award price premia for sugar beet, sunflower, other oilseeds and milk, and that all necessary measures shall have been taken to ensure that such payments are ceased, effective May 1, 1997.
7. Submission to the Bank of a plan, satisfactory to the Bank, for the security operations for food, fuel and pharmaceuticals of the Agency for Strategic Reserves.
8. Submission to the Parliament of the Borrower for final reading of a draft Law on Land Use, satisfactory to the Bank.
9. Signing of contracts for privatization, or cessation of operations and initiation of liquidation proceedings, of at least 70 percent of enterprises eligible for privatization in accordance with the Law on Privatization of Agricultural Enterprises, dated April 12, 1996; provided, however, that such enterprises shall include at least three (3) agro-kombinats with more than 1,000 employees and at least an additional seventeen (17) agro-kombinats with more than 200 employees.
10. Signing of contracts for privatization, or cessation of operations and initiation of liquidation proceedings, of a cumulative total of at least 110 business units derived from SRP Enterprises; provided, that this total shall include at least 9 of the 10 enterprises determined by agreement between the Borrower and the Bank, as the Borrower's largest loss-making enterprises.
11. Adoption by the Parliament of the Borrower of (i) a new Bankruptcy Law; and (ii) a new Collateral Law, in each case satisfactory to the Bank.

