

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7394-TU

Loan Agreement

(Programmatic Public Sector Development Policy Loan)

between

REPUBLIC OF TURKEY

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated July 7, 2006

LOAN NUMBER 7394-TU

LOAN AGREEMENT

Agreement dated July 7, 2006, entered into between REPUBLIC OF TURKEY (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of the Schedule to this Agreement; and (b) the Borrower’s maintenance of an appropriate macro-economic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Loan Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of four hundred three million Euro (€403,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement (“Loan”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of the Schedule to this Agreement.
- 2.03. The Commitment Charge payable by the Borrower shall be equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which the Commitment Charge commences to accrue, in accordance with the provisions of Section 3.01 of the General Conditions, to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter;, subject in either case to any waiver of a portion of such charge as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be

determined by the Bank from time to time. The Borrower shall pay the Front-end Fee not later than sixty (60) days after the Effective Date.

- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time, provided that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions.
- 2.06. The Payment Dates are March 15 and September 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in full on March 15, 2016.
- 2.08. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions.
- 2.09. Without limitation upon the provisions of paragraph (a) of Section 2.08 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed

Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

- 2.10 Without limitation upon the provisions of Section 5.10 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III - PROGRAM

- 3.01 The Borrower declares its commitment to the Program and its implementation. To this end:
- (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;
 - (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; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) 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 Section I of the Schedule to this Agreement.

ARTICLE IV - REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V - EFFECTIVENESS

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that the macroeconomic policy framework of the Borrower is consistent with the objectives of the Program.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

6.01. The Borrower's Representative is the Undersecretary of Treasury.

6.02. The Borrower's Address is:

Basbakanlik
Hazine Mustesarligi
Inonu Bulvari
Emek – Ankara
Republic of Turkey

Facsimile:

(312) 212-8550

6.03. The Bank's Address is:

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) or
64145(MCI)

1-202-477-6391

AGREED at Ankara, Turkey, as of the day and year first above written.

REPUBLIC OF TURKEY

By /s/ Ibrahim Canakci
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Andrew N. Vorkink

Director
Turkey Country Unit
Europe and Central
Asia

SCHEDULE

Program Actions; Availability of Loan Proceeds

Section I. Actions Taken Under the Program

The actions taken by the Borrower under the Program include the following:

1. The Social Security and Universal Health Insurance Law has been adopted by the Parliament including: (i) the parametric reform for the pension system that will ensure the system's long term sustainability; and (ii) the establishment of a universal health insurance system which will provide access to health insurance for all citizens.
2. The Social Security Administration Law aimed at reforming the administrative dimensions of social security by unifying the existing three social security schemes has been enacted.
3. The Public Financial Management and Control Law has been implemented in key areas, including comprehensive budget coverage, abolishment of central ex-ante controls, and accountability in public expenditure management.
4. The Central Government Budget Law consistent with the medium term fiscal plan has been enacted and is being implemented.
5. Local administration laws have been enacted, including: (i) Metropolitan Municipalities Law, (ii) Special Provincial Administrations Law, and (iii) Municipalities Law.
6. The draft law on special provincial administration and municipality revenues has been prepared.

Section II. Availability of Loan Proceeds

- A. **General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section.
- B. **Allocation of Loan Amounts.** The Loan shall be withdrawn in a single tranche.
- C. **Payment of Front-end Fee.** No withdrawal shall be made from the Loan Account until the Bank has received payment in full of the Front-end Fee.
- D. **Deposits of Loan Amounts.** Except as the Bank may otherwise agree:

1. the withdrawal from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and
2. the Borrower shall ensure that upon deposit of the amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.

E. Excluded Expenditures. The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

F. Closing Date. The Closing Date is September 30, 2007.

APPENDIX

Section I. Definitions

1. “Central Government Budget Law” means the Borrower’s Law No. 5437 dated December 27, 2005 and published in the Official Gazette dated December 31, 2005.
2. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
 - (b) 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 subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, 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), non-irradiated, 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)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous 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;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) under a contract with respect to which the Bank determines that an event has occurred under Section 7.03(c)(i) of the General Conditions.
3. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 with the modifications set forth in Section II of this Appendix.
 4. “Metropolitan Municipalities Law” means the Borrower’s Law No. 5216 dated July 10, 2004 and published in the Official Gazette dated July 23, 2004.
 5. “Municipalities Law” means the Borrower’s Law No. 5393 dated July 3, 2005 and published in the Official Gazette dated July 13, 2005.
 6. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated June 5, 2006, from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
 7. “Public Finance Management and Control Law” means the Borrower’s Law No. 5018 dated December 10, 2003 and published in the Official Gazette dated December 24, 2003.
 8. “Single Tranche” means the amount of the Loan set forth in Section 2.01 of this Agreement.
 9. “Social Security Administration Law” means the Borrower’s Law No. 5502 dated May 16, 2006 and published in the Official Gazette dated May 20, 2006.
 10. “Social Security and Universal Health Insurance Law” means the Borrower’s Law No. 5510 dated May 31, 2006.

11. “Special Provincial Administration Law” means the Borrower’s Law No. 5302 dated February 22, 2005 and published in the Official Gazette dated March 4, 2005.

Section II. Modifications to the General Conditions

The modifications to the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.
4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.06. Plans; Documents; Records

(c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

6. Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 5.07. Program Monitoring and Evaluation

(c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:
- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”
 - (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.
 - (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.