

CONFORMED COPY

LOAN NUMBER 8006-RO

Loan Agreement

(Second Development Policy Loan)

between

ROMANIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated February 2, 2011

LOAN AGREEMENT

Agreement dated February 2, 2011, entered into between ROMANIA (“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 Schedule 1 to this Agreement, and (b) the Borrower’s maintenance of an appropriate macroeconomic 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 this 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 three hundred million Euro (EUR 300,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 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 Schedule 1 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%), of the Loan amount. The Borrower shall pay the Front-end Fee not later than sixty days after the Effective Date.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Fixed Spread; 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. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

- 2.05. The Payment Dates are March 1 and September 1 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 2 to this Agreement.
- 2.07. (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 withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa, or from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Rate; 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.
- 2.08. Without limitation upon the provisions of Section 5.08 of the General Conditions (renumbered as such pursuant to paragraph 3 of Section II of the Appendix to this Agreement and relating to *Cooperation and Consultation*), 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, and further to Section 5.08 of the General Conditions:
- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower’s macroeconomic policy framework and 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 promptly inform the Bank of any situation that 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 Schedule 1 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; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following:

The Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower's macroeconomic policy framework.

- 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 Ministry of Public Finance.
- 6.02. The Borrower's Address is:

Ministry of Public Finance
17, Apolodor Street
Bucharest
Romania

Telex:

11239

Facsimile:

4021 312 6792

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 Bucharest, Romania, as of the day and year first above written.

ROMANIA

By /s/ Gheorghe Ialomitanu
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Francois Rantrua
Authorized Representative

SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

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

1. The Government has submitted MTEF 2010-2012 to the European Commission through the Convergence Program 2009-2010, including fiscal risks analysis and has incorporated provisions on MTEF into the Law No. 69/2010 on Fiscal Responsibility including the binding aggregate expenditure limits.
2. The Borrower has enacted Law No. 330/2009 on the Unitary Pay that sets out the principles and timetable for the introduction of subsidiary legislation for a reformed pay system.
3. The Borrower has: (i) enacted Law No. 4/2010 regarding the approval of the Emergency Ordinance 57/2009 for the modification of Law No. 416/2001 on GMI, and (ii) submitted to the Parliament amendments to the Law No. 416/2001 on GMI in order to transfer the program budget to the Ministry of Labor, Family and Social Protection and transfer the benefits payments attributions from local governments to the NASB while keeping the entitlement and recertification attributions with the local governments.
4. The Government has: (i) submitted to the Parliament the draft law regulating the income-tested family allowances that reduce the maximum eligibility threshold from 470 RON per month per person to 370 RON and offers higher benefits to households earning below 200 RON per month and to single-parent families; and (ii) maintained the nominal value of the universal child allowance benefit in 2010 at the same level as in 2009 as stipulated in the Governmental Decision No. 1662/2008.
5. The Borrower has enacted Law No. 263/2010 on public pensions unitary system which gradually links pension benefits adjustments to inflation, maintains the existing wage valorization and increases retirement age for women in a manner satisfactory to the Bank.
6. The Borrower has: (i) enacted Law No. 169/2010 amending the Insolvency Law No. 87/2006; (ii) published, through MoPF and NBR, the Mortgage Debt Restructuring Guidelines as issued by the MoPF; and (iii) issued and published, through MoPF, MoJ and NBR, the Corporate Debt Restructuring Guidelines.
7. NBR has adopted the following two internal Regulations governing decision making process and methods for Basel II implementation: (i) Regulation on the

organization of the validation process of internal models within NBR, through NBR Note II/6105/28.06.2010, and (ii) Regulation on the internal capital adequacy assessment process of credit institutions reviewed by NBR, through NBR Note IV/10639/01.07.2010.

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 and such additional instructions as the Bank may specify by notice to the Borrower.
- B. Allocation of Loan Amounts.** The Loan is allocated in a single withdrawal tranche, from which the Borrower may make withdrawal of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

Allocations	Amount of the Loan Tranche Allocated (expressed in Euro)
Single Withdrawal Tranche	300,000,000
TOTAL AMOUNT	300,000,000

- 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. Withdrawal Tranche Release Conditions**
- No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied (a) with the Program being carried out by the Borrower, and (b) with the appropriateness of the Borrower's macroeconomic policy framework.
- E. Deposits of Loan Amounts.** Except as the Bank may otherwise agree:
- 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
 - the Borrower shall ensure that upon the 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.
- F. 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.

G. Closing Date. The Closing Date is June 30, 2011.

SCHEDULE 2

Amortization Schedule

The Borrower shall repay the principal amount of the Loan in full on September 1, 2022.

APPENDIX

Section I. Definitions

1. “EO” means the Borrower’s Emergency Ordinance.
2. “EC” means the European Commission.
3. “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) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.
4. "Convergence Program 2009-2010" means the Borrower's document prepared in accordance with the provisions of the Council Regulation (EC) No. 1055/2005 dated June 27, 2005 amending Regulation (EC) No. 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.
 5. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated July 31, 2010 with the modifications set forth in Section II of this Appendix.
 6. "GMI" means Guaranteed Minimum Income.
 7. "Law No. 69/2010 on Fiscal Responsibility" means the Law No. 69 dated April 16, 2010, published in the Official Gazette No. 252 dated April 20, 2010.
 8. "MoJ" means the Borrower's Ministry of Justice or any successor thereto.
 9. "MoPF" means the Borrower's Ministry of Public Finance or any successor thereto.

10. “MTEF” means Medium Term Expenditure Framework as defined in Law No. 69/2010 on Fiscal Responsibility.
11. “NASB” means the Borrower’s National Agency for Social Benefits or any successor thereto.
12. “NBR” means the National Bank of Romania.
13. “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 September 22, 2010 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.
14. “RON” means the currency of the Borrower.
15. “Single Withdrawal Tranche” means the amount of the Loan allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions 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. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 4 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 are deleted in their entirety.

- (c) The term "Project" is modified to read "Program" and its definition is modified to read as follows (and all references to "Project" throughout these General Conditions are deemed to be references to "Program"):

"'Program' means the program referred to in the Loan Agreement in support of which the Loan is made."