

Guarantee Agreement

(Second Structural Adjustment Loan)

between

SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated May 4, 1990

GUARANTEE AGREEMENT

AGREEMENT, dated May 4, 1990 between SOCIALIST FEDERAL REPUBLIC OF YUGOSLAV (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated March 11, 1990 from the Guarantor describing a program of actions, objectives and policies designed to achieve structural adjustment of the Guarantor's economy (the Program) declaring the Guarantor's commitment to the execution of the Program, and requesting assistance from the Bank in the financing of urgently needed imports required during such execution;

(B) by the Loan Agreement of even date herewith between the Bank and the Borrower, the Bank has agreed in support of the Program to extend to the Borrower a loan in various currencies equivalent to four hundred million dollars (\$400,000,000), 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 modifications set forth in Section 1.01 of the Loan Agreement (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 and in the Preamble to and Section 1.02 of the Loan Agreement have the respective meanings therein set forth and the following

additional term has the following meaning, namely, "Uniform Methodology" means the methodology for appraisal of investment projects set forth in the "Guidelines for Application of Common Methodology for Appraising Social and Economic Justification and Efficiency of Investments in Yugoslavia" published by the Guarantor on July 31, 1987.

ARTICLE II

Guarantee

Section 2.01. The Guarantor declares its commitment to the Program and, to this end, without limitation or restriction upon any of its other obligations under the Guarantee Agreement, the Guarantor 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, all as set forth in the Loan Agreement.

ARTICLE III

Other Covenants

Section 3.01. (a) The Guarantor 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 the Schedule to this Agreement.

(b) Prior to each such exchange of views, the Guarantor 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.

Section 3.02. The Guarantor covenants that it shall not take, or cause or permit to be taken, any action which would prevent or interfere with the performance by the Borrower of its obligations contained in the Loan Agreement and that it will take or cause to be taken all reasonable action necessary or appropriate to enable the Borrower to perform its obligations under the Loan Agreement.

Section 3.03. (a) The Guarantor shall take all measures necessary or appropriate on its part to ensure that the Yugoslav Banking Association, in conjunction with the Social Accounting Service: (i) review with the Bank the application of the Uniform Methodology at least once each year, with the first such review to be completed by August 31, 1990; and (ii) taking into consideration the recommendations arising from each such review, promptly thereafter implement revisions to such Uniform Methodology.

(b) The Guarantor shall take all measures necessary or appropriate on its part to: (i) review with the Bank the investment programs in the energy and road and rail transport sectors at least once a year, with the first series of such reviews to be completed by August 31, 1990; and (ii) taking into consideration the recommendations arising from each such review, promptly thereafter implement revisions to such investment programs.

ARTICLE IV

Representative of the Guarantor; Addresses

Section 4.01. The Federal Secretary of Finance of the Guarantor 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:

Savezni Sekretarijat za Finansije
Omladinskih Brigada 1
11070 Belgrade Yugoslavia

Cable address:

SAVEZNI SEKRETARIJAT
ZA FINANZIJE
Belgrade

Telex:

12804 SIV

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

197688 (TRT)
248423 (RCA)
64145 (WUI)
82987 (FTCC)

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.

SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA

By /s/ Branimir Zekan
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Barber Conable
President

SCHEDULE

Actions Referred to in Paragraph 4 (b)
of Schedule 1 to the Loan Agreement

1. Macroeconomic Program

Achievement of progress by the Guarantor, satisfactory to the Bank, in carrying out its medium-term macroeconomic program.

2. Foreign Exchange Allocation

Continued operation of the inter bank foreign exchange market in a manner, satisfactory to the Bank, to ensure adequate competition.

3. Trade Liberalization

Continued liberalization of imports in accordance with targets agreed with the Bank.

4. Price Reform

(a) Continued implementation by the Guarantor of measures to liberalize prices of items covered by the Industrial Producer Price Index in accordance with targets agreed with the Bank.

(b) Adoption of action programs, satisfactory to the Bank, on railway tariffs and electricity prices.

5. Financial Discipline

(a) Continued implementation by the Guarantor of the policy of positive real interest rates through, inter alia, elimination of all interest rate subsidies provided through the Borrower and the banking system.

(b) Adoption and initial implementation by the Guarantor of a program, satisfactory to the Bank, to revise the accounting standards and audit procedures of enterprises and banks in accordance with international standards and practices and to strengthen audit capabilities in Yugoslavia.

6. Investment Allocation

Completion of the first reviews referred to in Section 3.03 (a) and (b) of this Agreement, which reviews are to take into consideration, in a manner satisfactory to the Bank, the recommendations of the Bank.

7. Reforms in the Enterprise Sector

(a) Establishment of adequate institutional arrangements with appropriate authority, under the coordination of the Guarantor, to provide at the republican and provincial level the rehabilitation, liquidation or restructuring of selected enter

(b) Adoption by the Guarantor of programs satisfactory to: (i) reduce the losses, calculated as of January 1, 1990, of a number of the twenty largest loss makers to a target level and on a schedule satisfactory to the Bank; and (ii) provide the rehabilitation or liquidation framework to be followed in five of the twenty enterprises.

(c) Adoption by the Guarantor of a program, including adequate institutional arrangements and incentives, satisfactory to the Bank, to encourage the formation and further development of small-and medium-size enterprises.

8. Reforms in the Banking Sector

(a) Achievement of progress by the Borrower, satisfactory to the Bank, for:

- (i) developing adequate supervisory functions and capacities;
- (ii) finalizing appropriate regulations pursuant to the Law on the National Bank of Yugoslavia, the Banking Law, and the Law on the Rehabilitation, Bankruptcy and Liquidation of Banks and Other Financial Organizations; and
- (iii) assessing and/or auditing the banks (including audit of loan portfolios and contingent commitments) in accordance with international standards and practices.

(b) Submission by the Borrower to the Bank of the results of audits of bank portfolios and adoption by the Borrower of a program, satisfactory to the Bank, to restructure the banks to enable them to function as effective financial intermediaries.

9. Social Costs of Adjustment

(a) Adoption and initial implementation by the Guarantor, or

republican or provincial authorities, as appropriate, of a program and financing measures, satisfactory to the Bank, to alleviate the social costs of adjustment, including unemployment relief measures, such as retraining of displaced workers, provision of assistance in obtaining new employment and provision of unemployment compensation.

(b) Submission by the Guarantor to the Bank of a report on the existing assistance delivery and retraining system.

