

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 8112-RO

Loan Agreement

(Third Development Policy Loan)

between

ROMANIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 20, 2011

LOAN AGREEMENT

Agreement dated December 20, 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 adequate 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 four hundred million Euro (EUR 400,000,000), 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead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 Spread; 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, namely that 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 of one hundred and fifty (150) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is the Borrower's Minister of Public Finance or whomever the minister delegates to.
- 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/ Catalin Pauna
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 Borrower has approved the MTEF 2012-2014.
2. The Borrower has enacted Law No. 285/2010 on pay in the public sector for the Fiscal Year 2011.
3. The Parliament has adopted a law amending Law No. 95/2006 on the reform in the health sector which introduces co-payment and exemption mechanisms and said law has been promulgated.
4. The Borrower has approved a new Framework for Electronic Prescription Management.
5. The Borrower has enacted the Law No. 1/2011 on national education, as amended allowing all schools in Romania to receive their budgets according to a per capita finance formula.
6. The Borrower has enacted Law No. 276/2010 amending the Law No. 416/2001 on the guaranteed minimum income transferring the programming of budget for guaranteed minimum income to the Ministry of Labor, Family and Social Protection and transferring the attributions related to benefits payments from local governments to the National Agency for Social Benefits, while keeping the entitlement and recertification attributions with the local governments.
7. The Borrower has enacted Law No. 277/2010 on the family benefits, as amended, regulating income-tested family benefits and reducing the maximum eligibility threshold from 470 RON to 370 RON per month per capita and offering higher benefits to households earning less than 200 RON and single parent families.
8. The Borrower has reviewed the adequacy of supervisory arrangements in the Memorandum of Understanding among the financial regulators of financial groups operating in Romania.

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 withdrawals 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	400,000,000
TOTAL AMOUNT	400,000,000

- 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 adequacy of the Borrower's macroeconomic policy framework.

- E. Deposits of Loan Amounts.** Except as the Bank may otherwise agree:
1. all withdrawals 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 each deposit of an 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 December 31, 2012.

SCHEDULE 2

Amortization Schedule

The Borrower shall repay the principal amount of the Loan in full on September 1, 2023.

APPENDIX

Section I. Definitions

1. “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.
2. “Framework for Electronic Prescription Management” means the Borrower’s action plan for the implementation of electronic prescription as set forth in the Borrower’s joint Order signed by the Minister of Health and the President of the National Health Insurance House No.1520/893 and dated November 3, 2011.
 3. “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.
 4. “Insurance Supervision Commission” means the Borrower’s autonomous administrative body functioning according to the law on the insurance activity and the supervision of insurances, No. 32 dated April 3, 2000, as amended.
 5. “Law No. 1/2011” means the Borrower’s national education law No. 1 dated January 5, 2011, as amended (Published in the Borrower’s Official Gazette No. 18 dated January 10, 2011)
 6. “Law No. 285/2010” means the Borrower’s law regarding pay in the public sector for 2011, No. 285 dated December 28, 2010 (Published in the Borrower’s Official Gazette No. 878 dated December 28, 2010).

7. “Law No. 95/2006” means the Borrower’s law regarding the reform in the health sector No. 95 dated April 14, 2006, as amended (published in the Borrower’s Official Gazette No. 372 of April 28, 2006).
8. “Law No. 276/2010” means the Borrower’s law No. 276 amending the Law No. 416/2001 on the guaranteed minimum income, dated December 24, 2010 (Published in the Borrower’s Official Gazette No. 888 dated of December 30, 2010).
9. “Law No. 416/2001” means the Borrower’s law No. 416 on guaranteed minimum income dated July 18, 2001, as amended (Published in the Borrower’s Official Gazette No. 401 dated July 20, 2001).
10. “Law No. 277/2010” means the Borrower’s law No. 277 on family benefits dated December 24, 2010, as amended (Published in the Borrower’s Official Gazette No. 889 dated December 30, 2010).
11. “MTEF” means the Borrower’s Medium Term Expenditure Framework approved by the Borrower on August 10, 2011.
12. “Memorandum of Understanding” means the memorandum on cooperation in the field of financial stability and financial crisis management entered into by the Ministry of Public Finance, the National Bank of Romania, the National Securities Commission, the Insurance Supervision Commission and the Private Pension System Supervisory Commission dated July 31, 2007.
13. “Ministry of Labor, Family and Social Protection” means the Borrower’s ministry in charge of labor, family and social protection or any successor thereto.
14. “Ministry of Public Finance” means the Borrower’s ministry of public finance or any successor thereto.
15. “National Agency for Social Benefits” means the Borrower’s agency subordinated to the Ministry of Labor, Family and Social Protection and established pursuant to the Borrower’s Emergency Ordinance No. 116/2007 regarding the establishment and functioning of the National Agency for Social Benefits, as amended, or any successor thereto.
16. “National Bank of Romania” means the Borrower’s National Bank.
17. “National Securities Commission” means the Borrower’s autonomous administrative body functioning according to the Emergency Ordinance regarding the approval of the National Securities Commission By-Law, No. 25 dated March 13, 2002, as amended.

18. “Private Pension System Supervisory Commission” means the Borrower’s autonomous administrative body established pursuant to the Emergency Ordinance regarding the establishment, organization and functioning of the Private Pension System Supervisory Commission, No. 50 dated June 9, 2005 as amended.
19. “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 November 25, 2011 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.
20. “RON” means the Borrower’s local currency.
21. “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 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 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."