

CONFORMED COPY

LOAN NUMBER 2834 HU

(Second Industrial Restructuring Project)

between

HUNGARIAN PEOPLE'S REPUBLIC

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated August 31, 1987

LOAN NUMBER 2834 HU

GUARANTEE AGREEMENT

AGREEMENT, dated August 31, 1987, between HUNGARIAN PEOPLE'S REPUBLIC (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Guarantor hereby declares its commitment to the execution of the program (the Program) referred to in Recital (A) of the Preamble to the loan agreement (the Loan Agreement) of even date herewith between the Bank and the National Bank of Hungary (the Borrower);

(B) the Guarantor and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to the Loan Agreement, have requested the Bank to assist in the financing of the Project;

(C) by the Loan Agreement, the Bank has agreed to extend to the Borrower a loan in various currencies equivalent to one hundred and fifty million dollars (\$150,000,000), 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 and to undertake such other obligations as provided in this Agreement;

(D) by an agreement (the Subsidiary Loan Agreement) to be entered into between the Borrower and the Guarantor, part of the proceeds of the loan provided under the Loan Agreement will be made available to the Guarantor on the terms and conditions set forth in the Subsidiary Loan Agreement; and

WHEREAS the Guarantor, in consideration of the Bank's support of the Program and entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower and to undertake such other obligations;

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, as modified 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, and Section 1.02 of, the Loan Agreement have the respective meanings therein set forth.

ARTICLE II

Guarantee; Provision of Funds

Section 2.01. The Guarantor declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, without limitation or restriction upon any of its other obligations under the Guarantee Agreement, 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, and the punctual performance of all the other obligations of the Borrower, all as set forth in the Loan Agreement.

Section 2.02. Without limitation or restriction upon the provisions of Section 2.01 of this Agreement, the Guarantor specifically undertakes, whenever there is reasonable cause to believe that the funds available to the Borrower will be inadequate to meet the estimated expenditures required for the carrying out of Parts B through F of the Project, to make arrangements, satisfactory to the Bank, promptly to provide the Borrower or cause the Borrower to be provided with such funds as are needed to meet such expenditures.

ARTICLE III

Execution of Part A of the Project

Section 3.01. The Guarantor shall carry out, or cause to be carried out, Part A of the Project with due diligence and efficiency and in conformity with appropriate practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and services required for Part A of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Section 3.03. In order to:

(a) assist the Guarantor in carrying out Part A of the Project, the Guarantor shall employ consultants with qualifications and experience and under terms of reference satisfactory to

the Bank; and

(b) facilitate the carrying out of Part A of the Project, the Guarantor shall maintain the Restructuring Council, the Steering Committee and the Restructuring Program Office in accordance with the provisions of Section 4.02 of this Agreement.

Section 3.04. The Guarantor shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports and maintenance, respectively) in respect of Part A of the Project.

Section 3.05. The Guarantor shall: (a) furnish to the Bank, for its review and comments, a copy of the study referred to under Part A (2) (a) of the Project upon its preparation; and (b) promptly thereafter develop and carry out a program for the further development of feeder industries within its territory based on the results and conclusions of the said study, taking into consideration the Bank's comments thereon.

Section 3.06. The Guarantor shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, the Guarantor shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 3.07. (a) The Guarantor shall, at the request of the Bank, exchange views with the Bank with regard to progress of Part A of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of Part A of the Project.

(b) The Guarantor shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Part A of the Project, the accomplishment of the purposes thereof or the performance by the Guarantor of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE IV

Other Covenants

Section 4.01. (a) the Guarantor shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part A of the Project of the departments, agencies, institutions and other entities of the Guarantor responsible for the carrying out thereof.

(b) The Guarantor shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than five months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.02. In order to: (a) facilitate the carrying out of the Guarantor's obligations pursuant to Sections 3.03 (b) and 4.03

of this Agreement; and (b) assist the Borrower and the Participating Banks in carrying out the tasks, in accordance with the arrangements, referred to in Section 3.03 (b) of, and Part B.5 of Schedule 7 to, the Loan Agreement, the Guarantor shall maintain the Restructuring Council, the Steering Committee and the Restructuring Program Office with composition and terms of reference, satisfactory to the Bank.

Section 4.03. (a) The Guarantor and the Bank shall from time to time, at the request of either party, exchange views, through the Restructuring Council, on the progress achieved in carrying out the Program.

(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.

ARTICLE V

Representatives of the Guarantor; Addresses

Section 5.01. The Deputy Chairman of the Guarantor's National Planning Office or the Deputy Minister of Foreign Trade of the Guarantor's Ministry of Foreign Trade or the Managing Director of the Borrower is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

National Bank of Hungary
International Monetary Department
H-1850 Budapest
Szabadsag ter 8-9
Hungary People's Republic

Cable address:

BANKO
Budapest

Telex:

227267 SMAFU-H
275755 BANKO-H

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:

440098 (ITT),
248423 (RCA) or
64145 (WUI)

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.

HUNGARIAN PEOPLE'S REPUBLIC

By /s/ Andras Patko
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Eugenio F. Lari
Acting Regional Vice President
Europe, Middle East and North Africa

