

CONFORMED COPY

LOAN NUMBER 4549 TU

Loan Agreement

(Economic Reform Loan)

between

REPUBLIC OF TURKEY

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated May 27, 2000

LOAN NUMBER 4549 TU

LOAN AGREEMENT

AGREEMENT, dated May 27, 2000, between REPUBLIC OF TURKEY (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower a letter, dated March 10, 2000, describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof; and

(B) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the

Borrower by making the Loan as hereinafter provided;

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 for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 18, is modified to read:

"'Project' means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.";

(b) A new paragraph (d) is added to Section 3.04 to read:

"If the Bank shall at any time receive less than the full amount then due and payable to it under the Loan Agreement, the Bank shall have the right to allocate and apply the amount so received in any manner and for such purposes under the Loan Agreement as the Bank shall in its sole discretion determine."

(c) Section 4.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, withdrawals from the Loan Account shall be made in the currency of the deposit account specified in Section 2.02 of the Loan Agreement.";

(d) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions";

(e) The last sentence of Section 5.03 is deleted;

(f) Section 9.07 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan";

(g) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08; and

(h) Section 11.01 is modified by replacing, in the second sentence, the word "radiogram" with the word "facsimile" and adding a new

sentence at the end of the said Section to read:

"Deliveries made by facsimile transmission shall also be confirmed by mail."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Deposit Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "TZDA^a" means Türkiye Zirai Donatım A.^a of the Borrower;

(c) "TEA^a" means Türkiye Elektrik Üretim ve İletim A.^a. of the Borrower; and

(d) "Türk Telekom A.^a" means the telecommunications company of the Borrower.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to seven hundred fifty nine million six hundred thousand Dollars (\$759,600,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain in its central bank, a deposit account in Dollars on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

(d) No withdrawals shall be made from the Loan Account after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the equivalent of \$384,600,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank:

(A) with the progress achieved by the Borrower in the carrying out of the Program;

(B) that the macroeconomic policy framework of the

Borrower is satisfactory, as _____ measured on the basis of indicators agreed between the Borrower and the Bank; and

(C) that the actions described in Schedule 3 to this Agreement have been taken.

If, after said exchange of views, the progress achieved by the Borrower in respect of sub-paragraphs (A), (B), and (C) above is not acceptable to the Bank, the Bank may give notice to the Borrower to that effect and, if within 90 days after such notice, the Borrower shall not have taken steps acceptable to the Bank, in respect of said sub-paragraphs (A), (B), and (C) above, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

Section 2.03. The Closing Date shall be September 30, 2001 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this _____ Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an _____ Interest Payment Date to, but excluding the next following Interest Payment _____ Date.

(ii) "Interest Payment Date" means any date specified in Section 2.07 of this _____ Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank _____ offered rate for six-month deposits in Dollars for value the first day of such _____ Interest Period (or, in the case of the initial Interest Period, for value the _____ Interest Payment Date occurring on or next preceding the first day of such _____ Interest Period), as reasonably determined by the Bank and expressed as a _____ percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one _____ percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such _____ Interest Period, below (or above) the London interbank offered rates, or other _____ reference rates, for six-month deposits, in respect of the Bank's outstanding _____ borrowings or portions thereof allocated by the Bank to fund single currency _____ loans or portions thereof made by it that include the Loan;

as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on April 15 and October 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

ARTICLE III

Particular Covenants

Section 3.01. (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 and the actions specified in Schedule 3 to this Agreement.

(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.

(c) Without limitation upon the provisions of paragraph (a) 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 Schedule 3 to this Agreement.

Section 3.02. Upon the Bank's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than four months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning the Deposit Account and the audit thereof as the Bank shall have reasonably

requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely, that the law on agriculture sales cooperative unions (ASCUs), satisfactory to the Bank, shall have been enacted.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Undersecretary of Treasury of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Basbakanlik
Hazine Mustesarligi
Inonu Bulvari
Emek - Ankara
Republic of Turkey

Facsimile:

Cable address:

Telex:

212-8550

MALIYE

821-42285
Hazine, Ankara

(312)
(MLYE-TR)

For the Bank:

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

Facsimile:

Cable address:

Telex:

477-6391

INTBAFRAD

Washington, D.C.

248423 (MCI) or

64145 (MCI)

(202)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Ankara, Republic of Turkey, as of the day and year first above written.

REPUBLIC OF TURKEY

By /s/ Recep Onal

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ J. D. Wolfensohn

Authorized Representative

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan or a credit;
3. expenditures for goods included in the following groups or subgroups 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	Subgroup	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, 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)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means 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);

6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

SCHEDULE 2

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)**
On each April 15 and October 15	
beginning October 15, 2005 through April 15, 2015	37,980,000

* The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 3

Actions Referred to in Section 2.02 (d)(C) of this Agreement

A. Macroeconomic Sustainability

1. Satisfactory implementation of the macroeconomic framework for calendar year 2000 and adoption of a satisfactory macroeconomic framework for calendar year 2001.

2. Adoption of a satisfactory fiscal package in the framework of the budget for calendar year 2001 designed to replace temporary measures with permanent measures and incorporating expenditure reforms, in accordance with the recommendations of a public expenditure and institutional review to be carried out with the Bank, that encompass:

(a) elimination of at least 25 budgetary funds;

(b) reduction in the number of non-budgetary funds as agreed with the Bank;

(c) limits on the introduction of new projects into the public investment program;

(d) establishment of a public registry of government guarantees and limits on the issuance of new guarantees; and

(e) incorporation of more effective expenditure control mechanisms.

B. Social Security Reform

Satisfactory implementation of the social security reform program encompassing:

(a) implementation of the pay-as-you-go pension reform;

(b) implementation of the administrative and institutional reform program;

(c) implementation of the plan to reduce all contribution arrears;

(d) implementation of the unemployment insurance scheme; and

(e) implementation of the legal and regulatory framework to support supplementary individual pension schemes.

C. Agriculture Reform

1. Satisfactory progress in implementing the direct income support strategy including:

(a) implementation of the pilot program;

(b) preparation of the national farmer registry; and

(c) adoption of a schedule, satisfactory to the Bank, for the initial rollout of the direct income support program at the national level for the 2001 crop season.

2. Satisfactory implementation of the program to phase out price and credit subsidies in agriculture, including:

(a) maintenance of the fertilizer subsidy constant in nominal terms;

(b) implementation of the program to phase out agriculture credit subsidies; and

(c) implementation of the support price reform including announcement of additional measures for 2001, as agreed with the Bank.

3. Satisfactory implementation of the agricultural enterprise restructuring program including:

(a) initiation of privatization proceedings of agricultural state economic enterprises as agreed with the Bank;

(b) complete liquidation of all TZDA^a assets and separation or reassignment of all employees; and

(c) effective autonomy of all agriculture sales cooperative unions (ASCUs) from the budget as agreed with the Bank.

D. Deregulation and Privatization

1. Satisfactory implementation of the energy reform program as agreed with the Bank including:

(a) enactment of an electricity reform law to establish an independent regulatory agency with full authority over tariff policy, further liberalize the electricity sector and ensure an adequate competitive environment;

(b) implementation of the financial recovery plan for TEAS, as agreed with the Bank; and

(c) adoption of a time-bound plan for establishing an independent regulatory authority and de-monopolizing the natural gas sector.

2. Satisfactory implementation of the telecommunications reform program, including:

(a) establishment of the regulatory authority; and

(b) implementation of the action plan for carrying out the conversion of Turk Telekom into a joint-stock company.

3. Satisfactory progress in implementing the privatization program including:

(a) completion of sale of two additional wireless licenses to private investors;

(b) sale of 20% of Turk Telekom to a strategic private

investor;

(c) launch of pre-qualification tenders for the sale of electricity distribution companies as agreed with the Bank; and

(d) privatization of at least three additional major companies by the Privatization Administration of the Borrower.

For the purposes of this Schedule 3, the term "privatization" means that: (i) a contract for the sale of the enterprise has been entered into with private owners; (ii) the purchaser has made the down-payment required under the contract for sale; and (iii) as a result of the contract for sale, majority ownership of the enterprise will be held by private owners.

