

**CONFORMED COPY**

---

---

**LOAN NUMBER 7469 TU**

# **Loan Agreement**

**(Competitiveness and Employment Development Policy Loan)**

**between**

**REPUBLIC OF TURKEY**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated June 29, 2007**

---

---

**LOAN AGREEMENT**

Agreement dated June 29, 2007, entered into between REPUBLIC OF TURKEY (“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 the Schedule to this Agreement; and (b) the Borrower’s maintenance of an appropriate macro-economic 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 the Loan 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 sixty-seven million and three hundred thousand Euro (€367,300,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 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 the Schedule to this Agreement.
- 2.03. The Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent (3/4 of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.

- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time, 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.
- 2.06. The Payment Dates are March 15 and September 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in full on September 15, 2017.
- 2.08. (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 from a Variable Rate to a Fixed Rate, or vice versa; 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.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions.
- 2.09. Without limitation upon the provisions of paragraph (a) of Section 2.08 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

- 2.10 Without limitation upon the provisions of Section 5.10 of the General Conditions, 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:
- (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;
  - (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 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 Section I of the Schedule 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**

- 5.01. The Effectiveness Deadline is the date one hundred twenty (120) days after the date of this Agreement.

**ARTICLE VI - REPRESENTATIVE; ADDRESSES**

6.01. The Borrower's Representative is the Undersecretary of Treasury.

6.02. The Borrower's Address is:

Basbakanlik  
Hazine Mustesarligi  
Inonu Bulvari  
Emek – Ankara  
Republic of Turkey

Facsimile:

(312) 212-8550

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 District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF TURKEY

By: /s/ Mehmet Ali Ertunç

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Ulrich Zachau

Authorized Representative

## SCHEDULE

### Program Actions; Availability of Loan Proceeds

#### **Section I. Actions Taken Under the Program**

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

1. The Borrower has privatized state owned companies and sold state-owned assets with total privatization revenues amounting to the equivalent of \$17,700,000,000 in the years 2005 and 2006, under transparent competitive process acceptable to the Bank and with due regard to applicable environmental regulations.
2. The Borrower has reduced a corporate income tax from thirty percent (30%) to twenty percent (20%) of taxable profits and has eliminated corporate income tax allowances.
3. The Borrower has carried out a functional restructuring of the tax administration, including: (a) reform of the local tax offices; (b) establishment of the Revenue Administration responsible for tax collection and with direct authority over provincial and local collection offices; and (c) reforms to the Large Tax Payer Unit of the Ministry of Finance aimed at improving collection efficiency while reducing compliance costs for the targeted firms.
4. The Borrower has completed an initial public offering for about twenty-five percent (25%) of the shares of Halk Bank.
5. The Borrower has enacted a new Law on Residential Real Estate Mortgaging.
6. The Borrower has enacted a Law on Adoption of the Agreement on Amendment to the European Patent Convention of October 5, 1973.
7. TURKAK has become a signatory of the European Co-operation for Accreditation-Multilateral Agreement (EA-MLA) in the areas of testing and calibration (ISO/IEC 17025, ISO 15189); certification of quality management system (EN 45012 ISO/IEC Guide 62); and inspection (ISO/IEC 17020), and a signatory of the International Laboratory Accreditation Cooperation -- Mutual Agreement (ILAC-MRA) of November 2, 2000 in the areas of testing and calibration.

#### **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.

**B. Allocation of Loan Amounts**

The Loan shall be withdrawn in a single tranche.

**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. Deposits of Loan Amounts**

Except as the Bank may otherwise agree:

1. 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
2. the Borrower shall ensure that upon 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.

**E. 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.

**F. Closing Date**

The Closing Date is September 30, 2008.



## 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) under a contract with respect to which the Bank determines that an event has occurred under Section 7.03(c)(i) of the General Conditions.
2. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 15, 2006) with the modifications set forth in Section II of this Appendix.
  3. “Law on Residential Real Estate Mortgaging” means the Borrower’s Law No. 5582 dated February 21, 2007 and published in the Official Gazette dated March 6, 2007.
  4. “Law on Adoption of the Agreement on Amendment to the European Patent Convention of October 5, 1973” means the Borrower’s Law No. 5598 dated March 13, 2007 and published in the Official Gazette dated March 17, 2007.
  5. “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 June 1, 2007, 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.
  6. “Single Tranche” means the amount of the Loan set forth in Section 2.01 of this Agreement.
  7. “Halk Bank” means Turkiye Halk Bankasi A.S., a joint-stock company operating pursuant to Law No. 4603 dated November 15, 2000.
  8. “TURKAK” means Turkish Accreditation Agency established pursuant to Law No. 4457 dated October 27, 1999.
  9. “Revenue Administration” means the tax administration body established pursuant to the Law No.5345 on Establishment of the Revenue Administration dated May 5, 2005 and published in the Official Gazette dated May 16, 2005.

## **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. 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 as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.