
LOAN NUMBER 4785-0 BUL

Loan Agreement

(Third Programmatic Adjustment Loan)

between

REPUBLIC OF BULGARIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 6, 2005

LOAN NUMBER 4785-0 BUL

LOAN AGREEMENT

AGREEMENT, dated June 6, 2005 between REPUBLIC OF BULGARIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) pursuant to the Loan Agreement dated February 21, 2003 (the First Programmatic Adjustment Loan No. 7158-BUL) and the Loan Agreement dated June 17, 2004 (the Second Programmatic Adjustment Loan No. 4743-BUL), the Bank has provided assistance to the Borrower in support of the first and second phases of the Borrower's program of actions, objectives and policies designed to achieve and sustain structural adjustment of the Borrower's economy during the period of 2002-2005 (the Program) as such program was described in the letters from the Borrower to the Bank, dated December 20, 2002 and May 3, 2004, respectively;

(B) the Bank has received from the Borrower a letter, dated May 3, 2005: (i) describing its macro-economic framework and the third phase of the Program, as referred to in (A) above, which Program consists of actions taken under the Loans No. 7158-BUL and No. 4743-BUL referred to in (A) above, and actions and policies that the Borrower has already taken and adopted, in a satisfactory manner, as described in Schedule 3 to this Agreement (the Third Phase of the Program); (ii) declaring the Borrower's commitment to the execution of the Program; and (iii) requesting assistance from the Bank in support of the Program during the execution thereof;

(C) on the basis, *inter alia*, of the foregoing, the Bank has decided in support of the Third Phase 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 May 1, 2004), with the modifications set forth in Schedule 4 to this 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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Bulstat Register Law" means the Borrower's law on business registration adopted on May 10, 2005 (State Gazette No. 39/05/10.2005);

(b) "National Health Map" means the Borrower's health map approved on June 12, 2003 (Decision No. 429 of the Council of Ministers) and updated on January 4, 2005 (Decision No. 225 of the Ministry of Health's Management Council); and

(c) "Social Security Code" means the Borrower's Code adopted on July 23, 2003 (State Gazette No. 67 of July 29, 2003).

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 this Agreement, an amount equal to one hundred sixteen million one hundred thousand Euro (€ 116,100,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall be entitled to withdraw the amount of € 115,519,500 from the Loan Account in support of the Third Phase of the Program.

(b) Except as the Bank may otherwise agree: (i) 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 (ii) the Borrower shall ensure that upon each deposit of an amount of the Loan into said account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.

(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 determines at any time that an amount of the Loan was used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of said payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

Section 2.03. The Closing Date shall be March 31, 2006, 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 front-end fee in an amount equal to one percent (1.00%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. 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 such 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 1.00%) 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 Euro 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 1.00%); (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 the LIBOR Base Rate and the 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 2.06, 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 new 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. Without limitation upon the provisions of Section 9.01 (a) of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of Article II of this Agreement as the Bank may, from time to time, reasonably request.

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

Section 5.01. The date one hundred twenty (120) 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 Minister of Finance 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:

Ministry of Finance
102 Rakovski Street
Sofia, 1040
Republic of Bulgaria

Cable address:	Telex:	Facsimile:
Ministry of Finance Sofia	22727	(359)2-9806863

For the Bank:

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)	(202) 477-6391

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

REPUBLIC OF BULGARIA

By



Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By



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 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;
2. 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:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
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)

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
971	-	Gold, non-monetary (excluding gold ores and concentrates)

3. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
4. 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, and any other goods designated as environmentally hazardous by agreement between the Borrower and the Bank);
5. expenditures 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
6. 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

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Euro)*</u>
On each April 15 and October 15	
beginning on October 15, 2010 through October 15, 2021	4,840,000
on April 15, 2022	4,780,000

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

SCHEDULE 3

Actions Referred to in Recital (B) of the Preamble to this Agreement

Macroeconomic Framework

1. The Borrower has implemented prudent macroeconomic policy centered on the currency board arrangement and contributing to solid growth performance, and has maintained a satisfactory macroeconomic framework, consistent with the core objectives of the Program, including: (a) an estimated fiscal surplus of 1.8 percent of the Gross Domestic Product (GDP) for calendar year 2004; (b) satisfactory income policy; (c) a 12-month inflation rate, as of December 31, 2004, of 4.0 percent; (d) an estimated external current account deficit of less than 8 percent of GDP in calendar year 2004; and (e) public debt to GDP of 40.9 percent, as of December 31, 2004.

Structural Reforms

2. The Borrower has completed privatization or liquidation of large state owned enterprises agreed with the Bank.

3. The Borrower has: (i) substantially implemented the Government's Decision No. 921, dated November 24, 2004, providing for the termination of service on and closing of 250 km of non-economic railway lines; (ii) terminated nine percent (9%) of passenger services; (iii) reduced the staff of the railway operating company BDZ, bringing cumulative total reduction in staff to 13% as of end-2004 compared with end-2001, and resulting in achievement of subsidy of 0.2% of GDP and financial working ratio of 100% in 2004.

Business Environment

4. The Borrower has: (i) enacted amendments, satisfactory to the Bank, to the Bulstat Register Law, providing for a single identification number; (ii) adopted the Government's Decision (Protocol No. 17, dated April 28, 2005) on approval of a strategy to transfer the business registration function from courts to non-judicial administrative bodies; and (iii) adopted COM Decision No. 419, dated May 10, 2005 on establishment of a working group, including representatives of the business community, to prepare draft regulations required for implementation of the strategy.

Improving Governance

5. The Borrower has submitted satisfactory evidence that the majority of new vacancies for civil service positions have been filled through external competitive recruitment in the calendar year of 2004.

6. The Borrower has completed thirteen (13) functional reviews of the state administrative structures, has prepared a satisfactory report for reorganization of the said structures, including reorganization action plans, and has initiated such reorganization in a selected number of administrative agencies.

7. The Borrower has prepared program budgets for selected pilot ministries, which include performance indicators and targets, and has identified organizational objectives for all first level spending units, included in an appendix to the 2005 state budget report.

Investing in Human Capital and Strengthening Social Protection

8. The Borrower has: (i) made satisfactory progress in implementing actions to promote equitable access to quality education for children from low-income households and ethnic minorities; and (ii) adopted a National Program for the Modernization of Education, satisfactory to the Bank.

9. The Borrower has: (i) expanded output-based payment for inpatient care services to cover more than fifty percent (50%) of all hospital expenditures in the calendar year 2005; (ii) initiated restructuring of the Ministry of Health and of municipal hospitals; and (iii) developed a National Health Map, satisfactory to the Bank.

10. The Borrower has enacted amendments to the Social Security Code, satisfactory to the Bank.

SCHEDULE 4

Modifications of General Conditions

For purposes of this Agreement, the provisions of the General Conditions are modified as follows:

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

“‘Project’ means the Third Phase of the Program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made”;
- (b) A new definition of “Derivatives Agreement” is inserted in Section 2.01:

“‘Derivatives Agreement’ means any derivatives agreement entered into between the Bank and the Borrower or the Guarantor for the purpose of documenting and confirming one or more derivatives transactions between the Bank and the Borrower or the Guarantor, as such agreement may be amended from time to time. Derivatives Agreement includes all schedules, annexes and agreements supplemental to the Derivatives Agreement.”
- (c) Section 2.01, paragraph 19, is modified to read:

“‘Single Currency’ means the currency in which the Loan is denominated, which term shall, in the case of a Loan denominated in more than one currency, apply separately to each of such currencies.”
- (d) Section 4.01 is modified to read:

“Each withdrawal of an amount of the Loan from the Loan Account shall be made in the Single Currency. The Bank, at the request and acting as an agent of the Borrower, shall purchase with the Single Currency withdrawn from the Loan Account such currencies as shall be required to meet payments to be financed out of the proceeds of the Loan.”;
- (e) Section 4.02 is deleted in its entirety, and Sections 4.03, 4.04, 4.05, 4.06, and 4.07 (as well as references to such Sections) are renumbered, respectively, Sections 4.02, 4.03, 4.04, 4.05, and 4.06.
- (f) 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”;

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

(h) Section 6.02, sub-paragraphs (a), (b) and (c) are amended as follows:

“(a) The Borrower shall have failed to make payment (notwithstanding the fact that such payment may have been made by the Guarantor or a third party) of principal or interest or any other amount due to the Bank or the Association: (i) under the Loan Agreement, or (ii) under any other loan or guarantee agreement between the Bank and the Borrower, or (iii) under any Derivatives Agreement, or (iv) in consequence of any guarantee or other financial obligation of any kind extended by the Bank to any third party with the agreement of the Borrower, or (v) under any development credit agreement between the Borrower and the Association.

(b) The Guarantor shall have failed to make payment of principal or interest or any other amount due to the Bank or the Association: (i) under the Guarantee Agreement, or (ii) under any other loan or guarantee agreement between the Guarantor and the Bank, or (iii) under any Derivatives Agreement, or (iv) in consequence of any guarantee or other financial obligation of any kind extended by the Bank to any third party with the agreement of the Guarantor, or (v) under any development credit agreement between the Guarantor and the Association.

(c) The Borrower or the Guarantor shall have failed to perform any other obligation under the Loan Agreement, the Guarantee Agreement or any Derivatives Agreement.”

(i) Section 7.01, sub-paragraphs (c), (d) and (e) are amended to read as follows:

“(c) A default shall occur in the payment by the Borrower of principal or interest or any other amount due to the Bank or the Association: (i) under any other loan or guarantee agreement between the Bank and the Borrower, or (ii) under any Derivatives Agreement, or (iii) in consequence of any guarantee or other financial obligation of any kind extended by the Bank to any third party with the agreement of the Borrower, or (iv) under any development credit agreement between the

Borrower and the Association, and such default shall continue for a period of thirty days.

(d) A default shall occur in the payment by the Guarantor of principal or interest or any other amount due to the Bank or the Association: (i) under any loan or guarantee agreement between the Guarantor and the Bank, or (ii) under any Derivatives Agreement, or (iii) in consequence of any guarantee or other financial obligation of any kind extended by the Bank to any third party with the agreement of the Guarantor, or (iv) under any development credit agreement between the Guarantor and the Association, under circumstances which would make it unlikely that the Guarantor would meet its obligations under the Guarantee Agreement, and such default shall continue for a period of thirty days.

(e) A default shall occur in the performance of any other obligation on the part of the Borrower or the Guarantor under the Loan Agreement, the Guarantee Agreement or any Derivatives Agreement, and such default shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower and the Guarantor.”

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

“(c) Not later than six (6) 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 part 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.”; and

(k) 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.