Loan Agreement

(First Programmatic Development Policy Loan)

between

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated December 7, 2005
LOAN AGREEMENT

AGREEMENT, dated December 7, 2005, between the Borrower and the Bank.

WHEREAS (A) the Bank has received from the Borrower a letter, dated September 20, 2005, describing a program of actions, objectives, and policies designed to promote growth and achieve sustainable reductions in poverty (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;

(B) the Borrower has carried out the measures and taken the actions described in Schedule 3 to this Agreement to the satisfaction of the Bank and has maintained a macroeconomic policy framework satisfactory to the Bank; and

(C) 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 in a single tranche 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 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) Section 2.01, paragraph 21, 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.”

(c) 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withdrawn from the Loan Account such currencies as shall be required to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.”;

(d) 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.

(e) 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”;

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

(g) Section 9.07 (c) is 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 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

(h) Section 9.05 is deleted in its entirety 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.

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 term has the following meaning:
(a) “Health Insurance Law” means the Borrower’s Law for Health Insurance published in the Official Gazette No. 25/2000, as amended as at the date of this Agreement.

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 twenty-four million four hundred thousand Euro (€24,400,000).

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 twenty-four million three hundred thirty-nine thousand Euro (€24,339,000) from the Loan Account in support 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 June 30, 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%) 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%) per annum on the principal amount of the Loan not withdrawn from time to time, subject to any waiver of a portion of such charge as may be determined by the Bank 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 single currency 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%); and (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 commitment 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.

(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

Termination

Section 5.01. 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 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
Dame Gruev 14
1000 Skopje

Cable address: Telex: Facsimile:

51119 (389-2) 311-7280

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 248423 (MCI) or (202) 477-6391
Washington, D.C. 64145 (MCI)
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 city of Skopje, as of the day and year first above written.

BORROWER

By /s/ Nikola Popovski
Authorized Representative

BANK

By /s/ Sandra Bloemenkamp
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, credit, or grant;

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:

<table>
<thead>
<tr>
<th>Group</th>
<th>Subgroup</th>
<th>Description of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td>-</td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td>-</td>
<td>Tobacco, unmanufac-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>tured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td>-</td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td>-</td>
<td>Radioactive and associ-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ated materials</td>
</tr>
<tr>
<td>667</td>
<td>-</td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>Group</td>
<td>Subgroup</td>
<td>Description of Items</td>
</tr>
<tr>
<td>-------</td>
<td>----------</td>
<td>----------------------</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td>-</td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>

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);

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, fraudulent, collusive or coercive 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

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Payment of Principal (Expressed in Euro)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each April 15 and October 15</td>
<td></td>
</tr>
<tr>
<td>beginning April 15, 2011 through April 15, 2022</td>
<td>1,015,000</td>
</tr>
<tr>
<td>On October 15, 2022</td>
<td>1,055,000</td>
</tr>
</tbody>
</table>

* The figures in this column represent the amount in [insert name of single Currency] 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

1. The Borrower has promulgated a new Law on Civil Procedure (Law on Litigation).

2. The Borrower has promulgated a new Law on Enforcement.

3. The Borrower has promulgated a new General Administrative Procedure Law.

4. The Borrower has promulgated a new Labor Law.

5. The Borrower has promulgated a new Audit Law.

6. The Government of the Borrower has approved and submitted to Parliament draft amendments to the Health Insurance Law.