Loan Agreement

(Second Economic Recovery Development Policy Loan)

between

REPUBLIC OF CROATIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 30, 2014
LOAN AGREEMENT

Agreement dated April 30, 2014, entered into between the REPUBLIC OF CROATIA ("Borrower") and the 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 Schedule 1 to this Agreement, and (b) the Borrower's maintenance of an adequate macroeconomic 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 this 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 one hundred and fifty million Euro (EUR 150,000,000) ("Loan").

2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.

2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%). The Borrower shall pay the Front-end Fee not later than sixty days after the Effective Date.

2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Fixed Spread; 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. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the
Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

2.05. The Payment Dates are May 15 and November 15 in each year.

2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

2.07. (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: a change of the interest rate basis applicable to: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread.

(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.

ARTICLE III — PROGRAM

3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.08 of the General Conditions:

(a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower’s macroeconomic policy framework and 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 promptly inform the Bank of any situation that 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 Schedule 1 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; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely that the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower’s macroeconomic policy framework.

5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower’s Representative is its Minister of Finance.

6.02. The Borrower’s Address is:

Ministry of Finance
Katančićeva 5
10000 Zagreb
Republic of Croatia

Telex: 862-21215
Facsimile: (385-1) 4922-598
862-21833

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: INTBAFRAD
Telex: 248423(MCI) or 64145(MCI)
Facsimile: 1-202-477-6391
AGREED at Zagreb, Republic of Croatia, as of the day and year first above written.

REPUBLIC OF CROATIA

By ___________________________
Authorized Representative

Name: SLAVKO LINIC

Title: MINISTER

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By ___________________________
Authorized Representative

Name: HONGJOO HAHM

Title: COUNTRY MANAGER
SCHEDULE I

Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

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

1. The Borrower has strengthened the role and independence of the Fiscal Board through adoption of the Decision on the Establishment of the Fiscal Policy Committee by the Parliament of December 23, 2013 (Official Gazette 156/13).

2. The Borrower has harmonized wage systems of government agencies, civil and public services through adoption of the Decree on Job Classifications and Coefficients in Public Service of February 28, 2013 (Official Gazette 25/13, 72/13, 151/13 and 9/14).

3. The Borrower has (a) rationalized health expenditures through the national implementation of e-prescriptions by adopting the Bylaw on Criteria for Distribution of Pharmaceuticals and Prescription Issuance of July 1, 2013 (Official Gazette 83/13); (b) standardized medical technology and orthopedic devices through enactment of the Bylaw on Amendments to the Bylaw on Criteria for Inclusion of Orthopedic and Other Medical Devices on the List of Supplies of the Croatian Health Insurance Fund, of April 12, 2013 (Official Gazette 43/13); and (c) centralized procurement for hospitals through the Ministry of Health’s Decisions on the Mandatory Implementation of Central Procurement by Public Institutions of March 4, 2013.

4. The Borrower has: (a) introduced the Management Information System in social welfare; and (b) applied the means-tested targeting to several social benefit programs, through enactment of the Social Welfare Act of December 24, 2013 (Official Gazette 157/13).

5. The Borrower: has (a) abolished Government Officials’ Pensions, through the enactment of the Act on Amendment to the Law on Rights and Duties of the Members of the Croatian Parliament of January 26, 2012 (Official Gazette 12/12); (b) rationalized military pensions, through the Act on the Amendment to the Law on the Pension Insurance Rights of Military, Police and Other Authorized Persons of October 26, 2012, (Official Gazette 118/12); and (c) introduced a ten (10) percent cut in Privileged Pensions, through enactment of the Act on the Amendment to the Law on Reduction of Special Pensions of December 24, 2013 (Official Gazette 157/13).

6. The Borrower has: (a) reduced administrative costs in funded pension pillars through enactment of the Act on Obligatory Pension Funds of February 12, 2014
(Official Gazette 19/14); and (b) increased the retirement age through enactment of the Law on Obligatory Pension Insurance Act of December 24, 2013 (Official Gazette 157/13).

7. The Borrower has increased the flexibility of collective agreement negotiations and hiring flexibility through the enactment of: (a) the Law on Criteria of Participation in tripartite Bodies and Representativeness for Collective Bargaining of July 20, 2012 (Official Gazette 82/12); (b) the Law on Employment Incentives of May 23, 2012 (Official Gazette 57/12); and (c) the Law on Amendments to the Labor Law of June 18, 2013 (Official Gazette 73/13).

8. The Borrower has: (a) reduced business registration costs through enactment of the Law on Amendments to the Company Act of October 12, 2012 (Official Gazette 111/12); and (b) introduced a single electronic permit for construction through enactment of the Law on Construction and Law on Spatial Planning of December 18, 2013 (Official Gazette 153/13).

9. The Borrower has liquidated or sold government shares and stakes in two hundred (200) state-owned companies to reduce state involvement in the enterprise sector.


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 and such additional instructions as the Bank may specify by notice to the Borrower.

B. Allocation of Loan Amounts. The Loan is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Loan Allocated (expressed in Euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Withdrawal Tranche</td>
<td>150,000,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>150,000,000</td>
</tr>
</tbody>
</table>
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. **Withdrawal Tranche Release Conditions.**

No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program being carried out by the Borrower; and (b) with the adequacy of the Borrower's macroeconomic policy framework.

E. **Deposits of Loan Amounts.** Except as the Bank may otherwise agree:

1. 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

2. the Borrower shall ensure that upon each deposit of an 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.

F. **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.

G. **Closing Date.** The Closing Date is August 31, 2014.
SCHEDULE 2

Amortization Schedule

The Borrower shall repay the principal amount of the Loan in full on November 15, 2028.
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:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, 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 associated 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>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>
(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) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.


3. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated March 12, 2012 with the modifications set forth in Section II of this Appendix.

4. “Government Officials” means officials in positions defined under the Law on State Officials of July 28, 1998 (Official Gazette 101/98) and judges of the Borrower’s constitutional court.

5. “Government Officials’ Pensions” means pensions as set forth in the Law on Rights and Duties of the Members of the Croatian Parliament (Official Gazette 55/00), as amended.

6. “Privileged Pensions” means the special pensions defined under the Act on the Amendment to the Law on Reduction of Special Pensions of December 24, 2013, (Official Gazette 157/13).

7. “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 March 28, 2014 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.
8. “Single Withdrawal Tranche” means the amount of the Loan allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

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. Paragraph (c) of 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 are deleted in their entirety.

(c) The term “Project” is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):

“Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.”