

DOCUMENT OF INTERNATIONAL MONETARY FUND
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FOR
AGENDA

EBS/84/142
Supplement 1

CONFIDENTIAL

July 25, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Viet Nam - Overdue Financial Obligations to the Fund -
Report and Complaints Under Rules K-1 and S-1 and
Notice of Failure to Settle Trust Fund Obligations

The attached supplement to the paper on the overdue financial obligations of Viet Nam to the Fund has been prepared on the basis of additional information.

This subject has been scheduled for discussion on Friday, July 27, 1984.

Att: (1)

INTERNATIONAL MONETARY FUND

Viet Nam - Overdue Financial Obligations to the Fund - Report
and Complaints under Rules K-1 and S-1 and Notice of
Failure to Settle Trust Fund Obligations

Prepared by the Treasurer's and Legal Departments
(in consultation with the Asian Department)

Approved by David Williams and G.P. Nicoletopoulos

July 25, 1984

1. As was reported to Members of the Executive Board on June 29, 1984, Viet Nam is at present overdue in discharging several payments to the Fund. Since the staff memorandum on this matter was issued two further obligations totaling SDR 3,700,648 have become overdue to the Fund, i.e., a Trust Fund interest payment of SDR 150,648 due June 29, 1984 and a credit tranche repurchase obligation of SDR 3,550,000 in the General Resources Account due July 11, 1984. A revised table of Viet Nam's overdue obligations as of July 24, 1984 is presented in Attachment I, showing total overdue payments to the Fund of SDR 13,905,741.

2. A revised memorandum by the Managing Director to the Executive Board that takes into account the newly overdue credit tranche repurchase obligation and unpaid Trust Fund interest is appended as Attachment II.

Also attached for the information of Executive Directors is a telex dated July 17, 1984 (Attachment III) received from Mr. Nguyen Duy Gia, Minister-Governor of Viet Nam regarding Viet Nam's non-payment of overdue obligations to the Fund, and a reply (Attachment IV) sent by the Managing Director on July 23, 1984.

Attachments

Viet Nam - Overdue Payments to the Fund

<u>Type of Obligation</u>	<u>Date of Purchase</u>	<u>Due Date</u>	<u>SDR Amount</u>
<u>General Department</u>			
Quarterly charges		February 6, 1984	471,934
Repurchase *	January 12, 1981	April 11, 1984	3,550,000
Quarterly charges		May 7, 1984	460,837
Repurchase *	January 12, 1981	July 11, 1984	3,550,000
Subtotal			<u>8,032,771</u>
<u>SDR Department</u>			
Net SDR charges		February 1, 1984	1,037,692
Assessment		April 30, 1984	6,671
Net SDR charges		May 1, 1984	2,108,218 1/
Subtotal			<u>3,152,581</u>
<u>Trust Fund</u>			
	<u>Date of Loan</u>		
Repayment *	August 15, 1978	February 14, 1984	2,569,741
Interest		June 29, 1984	150,648
Subtotal			<u>2,720,389</u>
Total			13,905,741

* Note The repurchase that is overdue is still within the period of 5 years from the date of the purchase. The Trust Fund loan repayment that is overdue is still within the period of 10 years from the date of the disbursement.

1/ The amount due is in respect of charges for the financial quarters ended July 31, 1983 and April 30, 1984.

July 25, 1984

To: Members of the Executive Board

From: The Managing Director

Subject: Viet Nam - Overdue Financial Obligations to the Fund - Report and Complaints under Rule K-1 and Rule S-1 and Notice of Failure to Settle Trust Fund Obligations

1. Repeated communications have been addressed by the International Monetary Fund to Viet Nam, and repeated contacts have taken place with the Vietnamese authorities concerning the nonobservance of certain obligations under the Articles of Agreement of the Fund. The communications and contacts have not resulted in a resumption of the observance of such obligations.

2. The following complaint is made in accordance with Rule K-1 of the Fund's Rules and Regulations. It appears to me that Viet Nam is not fulfilling obligations under the Articles of Agreement relating to repurchases and charges in the General Department. As of July 24, 1984 these obligations were as follows:

(a) To repurchase the equivalent of SDR 7,100,000 of which SDR 3,550,000 was due April 11, 1984 and SDR 3,550,000 due on July 11, 1984 in respect of a purchase made in the first credit tranche on January 12, 1981.

(b) To pay charges of SDR 932,771, of which SDR 471,934 was due on February 6, 1984, and SDR 460,837 was due on May 7, 1984, under Article V, Section 8(b).

3. The following complaint is made in accordance with Rule S-1 of the Fund's Rules and Regulations. The complaint is that it appears to me that Viet Nam is not fulfilling the obligation under Article XX, Section 2 of the Articles of Agreement referred to in Rule S-1, to pay charges in the SDR Department. As of July 24, 1984, this obligation is as follows: to pay charges of SDR 3,152,581, of which SDR 1,037,692 was due on February 1, 1984, SDR 6,671 was due on April 30, 1984, and SDR 2,108,218 was due on May 1, 1984.

4. The following notice is provided in accordance with the Fund's responsibility as Trustee of the Trust Fund established by Executive Board Decision No. 5069-(76/72). It appears to me that Viet Nam is not fulfilling the obligations under Section II, paragraphs 4(a) and 4(b) of that decision to repay a disbursement and to pay interest under its Trust Fund loan. As of July 24, 1984, these obligations were to repay SDR 2,569,741 due on February 14, 1984 and to pay Trust Fund interest of SDR 150,648 due on June 29, 1984.

4504-VCB HN VT
HANOI 17/7/84

MR. J. DE LAROSIERE
MANAGING DIRECTOR
INTERFUND WASHINGTON DC

REF FUND'S CABLE OF JULY 3, 1984 REGARDING YOUR COMPLAINTS TO VIET NAM'S NON PAYMENTS OF OVERDUE FINANCIAL OBLIGATIONS TO THE FUND. PLEASE COPY TO MR. J.E. ISMAIL, EXECUTIVE DIRECTOR. DURING RECENT YEARS, VIET NAM ECONOMY HAS UNDERGONE WEAKNESSES AND IMBALANCES IN MANY ASPECTS. PRODUCTION HAS BEEN IMPROVED BUT THE GROWTH RATE IS LOW TO RESPOND TO THE NEED OF REHABILITATION FROM THIRTY YEARS OF DESTRUCTIVE WARS AND SUCCESSIVE CALAMITIES. THIS SITUATION TO CERTAIN EXTENT HAS AFFECTED THE GOVERNMENT BUDGET, MONETARY, AND BALANCE OF PAYMENTS OF VIET NAM.

THESE CONSECUTIVE DIFFICULTIES HAVE WEAKENED OUR CAPACITY OF EXTERNAL DEBT SERVICE INCLUDING OUR FINANCIAL OBLIGATION TO THE FUND. IN THE CIRCUMSTANCES VIET NAM HAS ANNUAL CONSULTATION WITH VARIOUS FUND MISSIONS AND ALTERNATELY INTRODUCED NECESSARY ECONOMIC ADJUSTMENT MEASURES TO GRADUALLY REMOVE THESE WEAKNESSES WITH A VIEW TO BOOST UP PRODUCTION AND EXPORT AND ON THAT BASIS TO ACHIEVE A STABILIZED BUDGET, MONETARY AND A VIABLE BALANCE OF PAYMENTS. THESE MEASURES WILL TAKE TIME BEFORE THEY BRING ABOUT THE DESIRED EFFECTS AND REQUIRE ADDITIONAL EXTERNAL ASSISTANCES OF WHICH FUND ASSISTANCE IS NO LESS IMPORTANT. OUR EFFORTS TO THIS END HAVE BEEN RECOGNIZED BY VARIOUS FUND MISSIONS TO VIET NAM AND YOUR GOODSELF IN EXECUTIVE BOARD DISCUSSION OF 1984 ARTICLE IV CONSULTATION REPORT ON VIET NAM.

BECAUSE OF THIS SPECIAL CIRCUMSTANCE VIET NAM IS UNABLE TO MAKE TIMELY DISCHARGE OF OUR FINANCIAL OBLIGATION TO THE FUND AND OBLIGATIONS IN A REASONABLE PERIOD OF TIME IN ORDER TO HELP US TO RESTORE AND ABLE TO FULFIL OUR FINANCIAL OBLIGATION TO THE FUND IN NOT A DISTANT FUTURE. TO THIS END, HIGHLY APPRECIATE IT IF YOU COULD DESPATCH A FUND MISSION TO HANOI SO THAT WE COULD HAVE AN OPPORTUNITY TO DISCUSS THE NEWLY INTRODUCED POLICIES AND MEASURES, VIET NAM'S RIGHTS AND OBLIGATIONS TO THE FUND WITH FUND'S AUTHORIZED REPRESENTATIVES. IN CASE YOU ARE NOT NOW ABLE TO SEND MISSION TO VIET NAM WE ARE READY TO SEND OUR DELEGATION TO WASHINGTON TO NEGOTIATE WITH FUND THE RESOLUTION FOR OUR PURCHASE AND REPURCHASE OF VIET NAM'S OVERDUE PAYMENTS TO THE FUND. I WILL SEND YOU AN OFFICIAL LETTER ON THIS MATTER BETTER THROUGH MR. J.E. ISMAEL EXECUTIVE DIRECTOR DURING HIS PARTICIPATION TO THE 18TH SEA GROUP MEETING IN SINGAPORE IN EARLY AUGUST 1984.

I AM LOOKING FORWARD TO RECEIVING YOUR EARLY COMMENTS.
MY BEST REGARDS.

DOCTOR NGUYEN DUY GIA
MINISTER-GOVERNOR OF VIET NAM IN THE FUND

Received in Cable Room: July 18, 1984

HON. NGUYEN DUY GIA
MINISTER, DIRECTOR GENERAL
STATE BANK OF VIET NAM
HANOI (VIET NAM)

1. I HAVE RECEIVED YOUR TELEX OF JULY 17, 1984 REGARDING VIET NAM'S OVERDUE PAYMENTS TO THE FUND AND YOUR SUGGESTION OF FURTHER DISCUSSION OF THIS MATTER. I AM DEEPLY CONCERNED THAT VIET NAM FEELS AT PRESENT UNABLE TO MAKE TIMELY DISCHARGE OF ITS FINANCIAL OBLIGATIONS TO THE FUND, AND I WOULD URGE YOU TO MAKE EVERY EFFORT TO DISCHARGE THESE OVERDUE OBLIGATIONS PROMPTLY.
2. AS REGARDS YOUR SUGGESTION TO HOLD DISCUSSIONS, AND FOR SUCH DISCUSSIONS TO BE USEFUL, I WISH TO EXPLAIN THE LEGAL AND POLICY FRAMEWORK IN WHICH THEY WOULD NEED TO BE HELD, PARTICULARLY IN LIGHT OF RECENT EXECUTIVE BOARD DISCUSSIONS OF OVERDUE PAYMENTS TO THE FUND.
3. YOU WILL RECALL THAT IN A MESSAGE DATED MARCH 26, 1984, I EXPLAINED THE FUND'S LAW AND PRACTICE WITH RESPECT TO RESCHEDULING OF PAYMENTS DUE TO THE FUND, AND INDICATED THAT I WAS NOT IN A POSITION TO RECOMMEND EXECUTIVE BOARD APPROVAL OF A REQUEST FOR RESCHEDULING OF REPURCHASES OR OF REPAYMENTS OF TRUST FUND LOANS BY VIET NAM. SINCE THAT TIME, THE EXECUTIVE BOARD HAS CONSIDERED THE MATTER OF RESCHEDULING OR POSTPONEMENT OF PAYMENTS DUE IN THE SDR AND GENERAL DEPARTMENTS OF THE FUND. PART OF THE CONCLUSION OF THAT DISCUSSION WAS RECORDED AS FOLLOWS: QUOTE. THE EXECUTIVE BOARD CLEARLY DOES NOT WISH TO OPEN THE WAY FOR RESCHEDULING OF OBLIGATIONS. THE STAFF ARGUMENTS ON THE POINT WERE CLEARLY FOUND CONVINCING AND WERE SUPPORTED BY THE BOARD. THIS DOES NOT MEAN THAT THE RELEVANT ARTICLES, AND PARTICULARLY ARTICLE V, SECTION 7(G) CANNOT BE RESORTED TO IN EXCEPTIONAL CASES IF THE BOARD SO DECIDES. BUT WHILE THE BOARD WOULD HAVE TO SATISFY ITSELF THAT DISCHARGE ON THE DUE DATE WOULD RESULT IN EXCEPTIONAL HARDSHIP, THE BURDEN OF PROOF THAT SUCH HARDSHIP WOULD RESULT MUST BE ON THE COUNTRY, AND I DID NOT SENSE MUCH SUPPORT IN THE BOARD FOR THE USE OF THIS PROVISION. THERE IS A VERY STRONG SENTIMENT AGAINST THE IDEA THAT THE FUND SHOULD MATCH THE RESCHEDULING OPERATIONS OF THE PARIS CLUB OR ANY OTHER GROUP, AND IT IS USEFUL THAT THE BOARD WAS SO CLEAR ON THIS POINT. THE FUND COULD CERTAINLY NOT ADOPT SUCH A COURSE. UNQUOTE.
4. WHILE OBLIGATIONS TO THE TRUST FUND, WHICH CONSTITUTE A PART OF VIET NAM'S OVERDUE PAYMENTS TO THE FUND, ARE NOT SUBJECT TO THE PROVISION OF THE ARTICLES CITED ABOVE, THEY ARE SUBJECT TO A COMPARABLE PROVISION IN THE TRUST FUND INSTRUMENT REGARDING SERIOUS HARDSHIP. PARTICULARLY IN VIEW OF THE FUND'S RESPONSIBILITIES AS TRUSTEE, IT IS MY VIEW THAT WITH RESPECT TO RESCHEDULING OF TRUST FUND OBLIGATIONS, THE EXECUTIVE BOARD WOULD ADOPT A POSITION SIMILAR TO THE ONE EXPRESSED ABOVE.
5. IT MAY ALSO BE IMPORTANT FOR YOU TO BE AWARE THAT IT IS THE FUND'S POLICY NOT TO ENGAGE IN DISCUSSIONS WITH A MEMBER ON THE POSSIBLE USE OF FUND RESOURCES WHILE THE MEMBER IS IN ARREARS TO THE FUND. THE FUND HAS REFRAINED FROM ENTERING INTO SUCH DISCUSSIONS IN THOSE CIRCUMSTANCES,

AND DISCUSSIONS ALREADY IN PROGRESS HAVE HAD TO BE INTERRUPTED ON OCCASION UNTIL OVERDUE PAYMENTS WERE SETTLED. THIS GENERAL POLICY, AS WELL AS THAT EXPLAINED ABOVE REGARDING RESCHEDULING, HAS BEEN DISCUSSED AND FIRMLY ENDORSED BY THE EXECUTIVE BOARD.

6. I AM SURE YOU WILL UNDERSTAND IN LIGHT OF THESE EXPLANATIONS THAT NEITHER A RESCHEDULING OF OBLIGATIONS NOR USE OF FUND RESOURCES COULD BE A TOPIC FOR DISCUSSION AT THIS TIME. WE WOULD, ACCORDINGLY, EXPECT THAT ANY DISCUSSIONS WOULD CONCENTRATE ON MEASURES TO ELIMINATE PROMPTLY THE OVERDUE PAYMENTS TO THE FUND.

7. AS YOU KNOW, I HAVE BEEN OBLIGED TO ISSUE TO THE EXECUTIVE BOARD A REPORT AND COMPLAINT REGARDING VIET NAM'S OVERDUE OBLIGATIONS TO THE GENERAL DEPARTMENT OF THE FUND AND A NOTICE OF VIET NAM'S FAILURE TO REPAY TRUST FUND LOANS. THESE MATTERS ARE SCHEDULED FOR INITIAL CONSIDERATION BY THE EXECUTIVE BOARD ON JULY 27, 1984, AND IT IS EXPECTED THAT THE BOARD WILL AT THAT MEETING DETERMINE A DATE IN THE NEAR FUTURE, PROBABLY TOWARD THE END OF AUGUST, FOR SUBSTANTIVE DISCUSSION OF VIET NAM'S FINANCIAL RELATIONS WITH THE FUND. A REPRESENTATIVE OF VIET NAM WOULD BE INVITED TO ATTEND THIS MEETING.

8. THE POLICIES AND PRACTICES OF THE FUND THAT I HAVE OUTLINED REFLECT THE DEPTH OF THE EXECUTIVE BOARD'S CONCERNS ABOUT THE MATTER OF OVERDUE PAYMENTS AND ITS DETERMINATION TO TAKE THE STEPS NECESSARY TO SAFEGUARD THE FUND'S CREDIBILITY AND FINANCIAL STANDING.

9. CONSIDERATION OF THE COMPLAINT VIS-A-VIS VIET NAM COULD RESULT IN A DECISION BY THE EXECUTIVE BOARD TO LIMIT VIET NAM'S RIGHT TO USE THE GENERAL RESOURCES OF THE FUND, OR IN A DECLARATION THAT VIET NAM IS INELIGIBLE TO USE THOSE RESOURCES, PURSUANT TO THE RELEVANT PROVISIONS OF THE FUND'S ARTICLES OF AGREEMENT. VIET NAM'S FAILURE TO REPAY ITS LOANS FROM THE TRUST FUND, WHILE NOT SUBJECT TO THOSE SPECIFIC PROVISIONS, WOULD NOT BE DISREGARDED BY THE FUND IN ANY APPRAISAL OF VIET NAM'S STANDING VIS-A-VIS THE FUND FOR ANY REASON, INCLUDING DECISIONS ON ANY REQUEST TO USE THE FUND'S RESOURCES, AND COULD THEREFORE AFFECT FUTURE RELATIONS BETWEEN THE FUND AND VIET NAM. PROMPT PAYMENT BY VIET NAM OF THE OVERDUE OBLIGATIONS IS NECESSARY TO OBTAIN THE NEED FOR EXECUTIVE BOARD CONSIDERATION OF THE STEPS MENTIONED ABOVE. I THEREFORE REITERATE MOST STRONGLY MY EARLIER ADVICE THAT VIET NAM SHOULD MAKE PROMPT SETTLEMENT OF THE OBLIGATIONS IN QUESTION.

10. IF, IN LIGHT OF THESE EXPLANATIONS OF THE FUND'S POLICIES ON OVERDUE PAYMENTS, YOU FEEL THAT DISCUSSIONS IN THE FRAMEWORK DESCRIBED ABOVE WOULD LEAD TO PROMPT ELIMINATION OF THE ARREARS, I WOULD BE PLEASED TO ARRANGE FOR DISCUSSIONS BETWEEN THE VIETNAMESE AUTHORITIES AND MEMBERS OF THE FUND STAFF AT AN EARLY DATE.

DE LAROSIERE
MANAGING DIRECTOR
INTERFUND